Why Commercial Real Estate Lending, and Why Now?

Commercial Real Estate Lending is a resilient investment strategy that offers steady returns, strong principal protections and diversification benefits, making it appealing for investors seeking stable, risk-adjusted returns amid broader market volatility.

Q4 2025

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CRE LENDING: A COMPELLING INVESTMENT STRATEGY AMID MARKET SHIFTS

Commercial Real Estate ("CRE") is entering a new era. After years of rising interest rates, changes in lifestyles, and a surge of new supply pressuring rents, the sector now faces an estimated $2.5 trillion maturity wall through 2027. As regional banks, historically the backbone of CRE financing, pull back, a significant market share shift is emerging. This creates an enormous opportunity for experienced alternative lenders to fill that void, particularly as valuations have now stabilized.

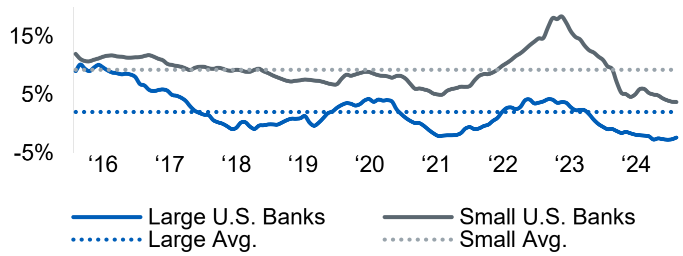
Against this backdrop, CRE debt remains a compelling, resilient investment strategy. Unlike equity investments that heavily depend on asset appreciation, CRE debt can offer steady, predictable returns fueled by monthly cash flows. Strong principal protections in place can help mitigate downside risk amid broader market volatility. Together these points can lead CRE debt to offer investors an appealing combination of risk-adjusted returns while still providing diversification and stability benefits within their broader portfolios.

Today's backdrop has heightened the need for well-positioned alternative lenders with proven credit discipline, deep borrower and bank relationships, and experience navigating past credit cycles. We believe that alternative capital providers, such as Värde, are better positioned to source high-quality opportunities, structure and monitor positions effectively, and protect capital when market conditions change. In this environment, established sourcing, financing, and experience are essential to generating durable, risk-adjusted returns. Värde's 30+ year history of effectively navigating real estate market cycles as well as our leading reputation in real estate lending and relationship with Trimont[1] can allow us to capitalize on this opportunity.

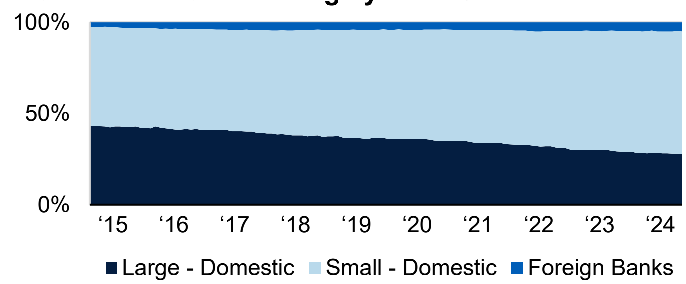
NAVIGATING THE SHIFTING TIDES OF CRE DEBT

The CRE lending market is expansive with approximately $5.8 trillion in debt outstanding. Commercial banks hold the largest share of this debt at approximately 38%, or $1.8 trillion. The majority of this exposure sits within the smaller domestic banks, the regional and community banks, which are reducing their relative amount of CRE exposure as existing loans mature. This is driven by a number of factors ranging from existing asset pressures to a need to secure deposits from other borrowers.

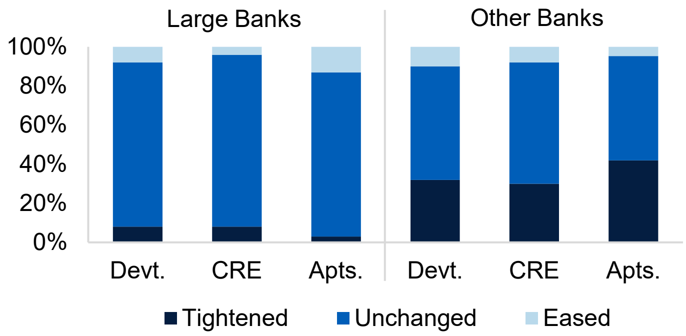
Growth in CRE Loan Portfolios by Bank Size[2]



CRE Loans Outstanding by Bank Size[2]



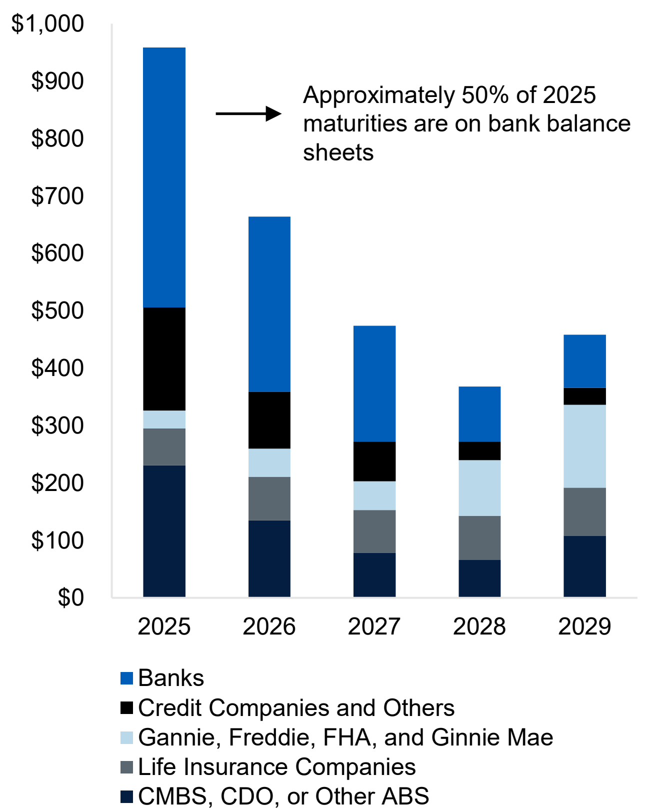
Changes in Lending Standards vs. Q2 2024[2]



While exposure is transitioning from the smaller banks, the larger banks are able to secure CRE exposure by lending to alternative CRE lenders more profitably given regulatory capital rules. These two dynamics are expected to underpin a market share shift from the banking sector to alternative lenders.

As this move in lending capital occurs, owners of CRE continue to deal with the impacts of higher interest rates (both short and long-term) and the related valuation reductions. Given the aforementioned $2.5 trillion of upcoming maturities, the CRE industry effectively needs to be recapitalized over the next few years.

CRE Maturities by Investor Type ($bn)[3]



The combination of banking sector changes, real estate recapitalization needs, and capital required to lease or repurpose assets has created an opportunity for alternative lenders, such as Värde, to increase their market share. Moody's Ratings has detailed this upcoming transition and concluded that over $1 trillion of CRE debt will move to alternative lenders over the next three to five years.

~$1 Trillion of CRE Debt Could Shift to Private Credit[4]

	Non-Private CRE Lenders *Banks, Covered Bonds, GSEs, CMBS* Initial Holdings: $7,778bn	**Private Credit Lending Sources** *Insurance, U.S. CRE CLOs, Mortgage REITs, Private Credit Funds* Initial Holdings: $1,833bn
U.S.	$4,786	$1,598
Europe	$2,992	$235
Shift to Private Credit	*$929*	*$138*

= $1,067bn
Private Credit Fund Increase

~$2.7T
Potential CRE Credit

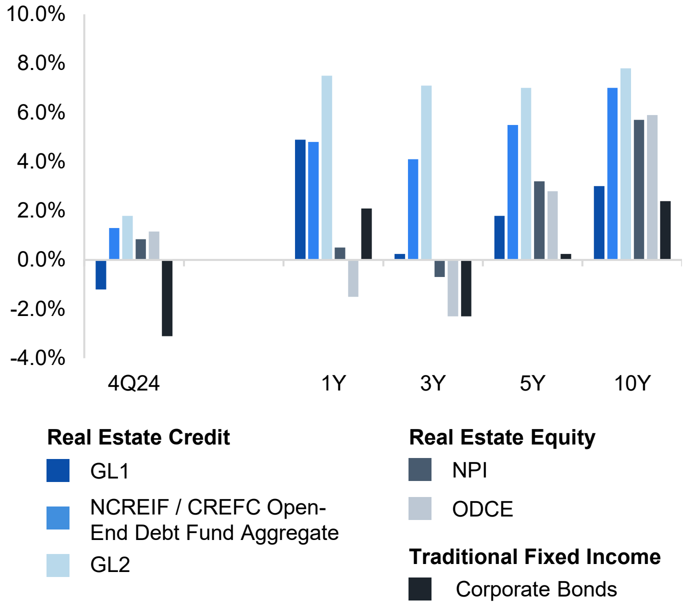
CRE LENDING WITHIN A BROADER PORTFOLIO

Historically, CRE lending has provided investors with strong returns, both from an absolute and relative basis. While history is not always to be repeated, we believe the characteristics of risk and return for CRE lending will continue to drive outperformance relative to higher-volatility real estate equity and lower yielding public fixed income strategies.

CRE debt returns are driven primarily by monthly cash flows rather than accrual or PIK components, which derisk the position by ensuring steady, realized yield over time. Additionally, a cushion of 25 to 35 points of subordinate capital or equity serves to absorb fluctuations in underlying real estate valuations, providing meaningful principal protection. Notably, real estate debt has outperformed both real estate equity and traditional fixed income strategies over the last decade, reflecting the value of income-driven approaches that offer downside protection and capital preservation with lower volatility.

Real Estate Credit Has Outperformed Real Estate Equity and Traditional Fixed Income Over the Last Decade[5]

Historical Total Return (%)



CONCLUSION

Well-positioned alternative capital providers are set to continue benefiting from a market share shift across the industry at a time when strong credit metrics support the performance of underlying loans. While there are a range of potential challenges for real estate owners – from economic concerns, policy changes at all levels of government, and a steepening yield curve – lenders have a 25 to 35 point valuation cushion providing strong downside protection coupled with durable monthly cash flows. We believe that Värde's experience investing across the real estate capital structure and through various market cycles leaves us well-positioned to continue driving strong returns for our CRE Lending Strategy.

Värde's Distinctive Edge

Värde Partners is a recognized leader in CRE lending, offering investors direct access to a dynamic $5.8 trillion U.S. debt market.

- **Robust Platform with Dedicated CRE Lending Strategy**: With over 30 years of experience in alternative credit and asset-based finance, the firm has built a robust real estate lending platform with a dedicated CRE Lending Strategy that launched in December 2016. Since then, we have originated $8.4 billion in first mortgage real estate loans.
- **Relationship-Driven Sourcing & Certainty of Execution**: Värde's CRE Lending Strategy is designed to provide tailored financing solutions while still maintaining strong underwriting and lifecycle control, enhancing certainty for borrowers and investors alike. Unlike many traditional lenders, our approach provides a customized structure for the borrower's business plan and asset level risks – securing full credit approval before issuing term sheets – thereby providing reliable execution, reducing deal fallout, and strengthening our reputation among high-quality borrowers. For investors, this results in efficient and predictable capital deployment. Our reputation is reinforced by a 35% repeat borrower rate, signaling lower acquisition costs, better credit performance, and more stable returns.
- **Proven, Scalable Financing:** Our financing platform, bolstered by our in-house Capital Markets team, is a core differentiator that enables us to lend with speed and efficiency in all market conditions. Värde has developed financing relationships with six different banks, facilitating competitive pricing and execution certainty without rating agency constraints. Värde has also issued eight CRE CLOs which provides an additional source of financing to complement our banking relationships. These relationships and sources of financing allow us to effectively create our own tranches of exposure to the underlying real estate asset driving higher returns than acquiring tranches structured by others. The brand that we have built in both real estate finance and capital markets enhances our ability to effectively asset and liability manage our portfolio to drive returns for investors.
- **Partnership with Trimont[1]:** In 2015, Värde acquired Trimont LLC ("Trimont"), the world's largest servicer of CRE securitized debt with a portfolio of over $750 billion. Trimont offers control over team resources, unparalleled access to data trends, and unique insight into borrower needs. This partnership in conjunction with Värde's broader real estate investing team allows us to leverage expertise across lending and opportunistic credit strategies, supporting repeat business and long-term partnerships.

About Värde Partners

Värde Partners is a leading global investment firm specializing in credit and credit-related assets. Founded in 1993, the firm has invested more than $100 billion across the credit quality and liquidity spectrum and currently manages $16 billion in assets. With local investment teams and partnerships in North America, Europe and Asia Pacific, Värde invests across private and public markets with a focus on real estate, asset-based finance and corporate credit. For more information, please visit www.varde.com.

Disclaimers

Footnotes

1. Trimont is owned indirectly by a fund managed by Värde. The use of affiliated servicing platforms may present certain conflicts of interest. Please see Värde's Form ADV Part 2A and the relevant Fund's offering materials for additional risks and limitations associated with the use of affiliated service providers.
2. Federal Reserve, Green Street as of December 2024.
3. Mortgage Bankers Association as of December 2024.
4. Moody’s Ratings, Federal Reserve, CREFC and ECB reports as of October 2025. Estimated shift to private credit funds selected after considering a variety of rate, value, and bank regulation/risk appetite changes. The actual shift to private credit could range from 0% to 20% of outstanding mortgages depending upon how properties have performed, various institutions’ current targeted LTV and DSCR standards, changes in regulation, bank funding costs, etc. Within securitized products, Moody’s assumes private credit funds hold non-investment-grade bonds that are roughly 9% of CMBS and 19% of CRE CLOs. To convert European currency to U.S. dollars, Moody’s used a 1.14 exchange rate as of May 29, 2025. U.S. and European “other and pension holdings” totaling $22 billion are not shown in this illustration but contribute $2.6 billion to private credit deleveraging.
5. Giliberto-Levy, NCREIF, Bloomberg, PGIM Real Estate as of April 2025. The “GL1” is a fixed-rate, fixed-term senior loan held by institutional lenders like life insurance companies and pension funds. The “NCREIF/CREFC Open-End Debt Fund Aggregate” is an equal weighted composite of fund-level returns from open-ended CRE debt funds with strategies ranging from core to value-add including both fixed and floating-rate loans. “GL2” represents high-yield CRE debt, such as second mortgages, mezzanine loans, and preferred equity. The “NPI” reflects unlevered core CRE equity, primarily in residential, office, industrial, and retail sectors. “ODCE” represents levered, capitalization-weighted, gross-of-fee returns from open-ended core equity CRE funds that use low-leverage strategies. “Corporate Bonds” is reflected by the Bloomberg U.S. Corporate Bond Index which tracks the investment-grade, fixed-rate, taxable corporate bond market, including USD denominated securities issued by U.S. and non-U.S. industrial, utility, and financial issuers.

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