Not All Private Credit Is Equal: Real Estate Credit vs. Corporate Direct Lending

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PRIVATE CREDIT IS BROAD: WHAT ARE WE COMPARING?

Värde has been investing in real estate for decades - up and down the capital structure, through multiple cycles, in both credit and equity. That history gives us a particular vantage point when we look at where we are today. What we see right now is a meaningful divergence in the risk profiles of two income-oriented strategies that often get grouped together under the “private credit” umbrella: real estate credit and corporate direct lending.

Rising defaults, opaque structures, redemption gates, and late-cycle valuations have made the private credit asset class seem less predictable. However, it is important to recognize that these risks are not evenly distributed across strategies. Real estate credit is largely insulated, and this distinction is central to how we are thinking about allocating capital today.

AT A GLANCE: REAL ESTATE CREDIT VS. CORPORATE DIRECT LENDING

Consideration	*Real Estate Credit*	*Corporate Direct Lending*
Collateral	*Physical property (land & buildings)*	*Business value & future profits*
What happens in a default?	*Lender takes & sells the property*	*Depends on whether the business survives*
Protection vs. inflation	*Rents & values tend to rise with costs*	*No direct inflation link*
Structural seniority	*First-lien mortgage + foreclosure*	*Complex intercreditor risk*
Mark-to-market volatility	*Lower (private, unlisted)*	*Higher (spread-sensitive)*
How stable is the income?	*Lease payments (contractual & sticky)*	*Company profits (can fall quickly)*
Valuations today (2026)	*Reset ~20%; often below build cost*	*Near record highs; late-cycle stress signs*

KEY ADVANTAGES OF REAL ESTATE CREDIT

While both real estate credit and corporate direct lending generate regular income and sit higher in the payment priority than equity investors, the differences in how each is protected in a downturn are material.

Hard Asset Collateral

Real estate credit is generally secured by:

- A physical asset in a specific market with verifiable rent rolls
- At a replacement cost we can calculate
- With a legal enforcement path we understand well

The underwriting process is transparent by nature.

Corporate direct lending collateral, by contrast, is:

- Intangible
- Often requires lenders to take a view on management quality, competitive positioning, and forward earnings which are judgments that are harder to verify and easier to obscure
- Enterprise value, customer relationships, intellectual property, and projected EBITDA are all legitimate forms of business value, but none of them can be physically assessed, independently appraised, or seized and sold in the way a building can

This creates a fundamental asymmetry in how lenders can protect themselves.

Income Stability

Property-level cash flows from leases are contractual, sticky, and often long-dated. A first-lien lender benefits from a predictable coverage ratio supported by tenant obligations. In corporate direct lending, EBITDA is inherently more volatile, subject to competitive disruption, management execution risk, and sector cyclicality - all of which can erode debt service coverage rapidly.

Inflation Protection

Real estate credit carries a meaningful inflation hedge that corporate lending cannot usually replicate. Contractual rents tend to reset upward over time and replacement cost appreciation supports collateral values in inflationary environments. Corporate borrowers' asset bases (i.e., intellectual property, goodwill, customer relationships) have no equivalent linkage to rising prices.

Lower Volatility

Real estate credit is substantially more insulated from the kind of geopolitical and macroeconomic noise that can reprice corporate credit quickly. A shift in trade policy, a sector-specific regulatory change, or a repricing of technology multiples can impair corporate loan collateral almost overnight. The value of a well-located multifamily asset in a supply-constrained market moves more slowly and is anchored to fundamentals such as replacement cost, local rents, and occupancy that do not fluctuate as quickly with headlines.

Supply Constraints as a Stabilizing Force

The supply-side dynamic in real estate provides a stabilizing force with no corporate equivalent. When values fall below replacement cost, as they have across many commercial property sectors, new construction becomes economically irrational. That constrains supply, supports existing rents, and protects debt service coverage on existing loans. There is no equivalent mechanism in corporate lending to prevent competitive entry or business model disruption.

WHY 2026 IS A PARTICULARLY IMPORTANT MOMENT

Corporate Lending: Expensive Valuations

U.S. equities are trading at 25–28x trailing earnings, well above the 18–20x historical average. Private corporate credit collateral has entry levels of ~11.8x EV/EBITDA for large-cap buyouts leaving lenders susceptible to corrections in valuation levels similar to what real estate experienced in 2022–2023. Credit quality is also being impacted by PIK income which has doubled to over 8% of total BDC income, non-accruals are sitting at ~1.3% in aggregate but approaching 5% among smaller, lower-middle-market lenders, and $12.7 billion in BDC unsecured debt is maturing in 2026 alone (a 73% increase over 2025) with a further $1.1 trillion maturity wall building through 2029. These portfolios are hard to evaluate from the outside. Collateral selection is opaque, EBITDA adjustments often aggressive, and the thin secondary market means problems stay hidden until redemption pressure forces them into the open. Early 2026 data is already showing elevated withdrawal requests across several large non-traded BDC platforms, with some prorating above their 5% quarterly caps.

CRE has Already Repriced

We believe commercial real estate has already been through its correction. Property values fell ~20% between 2022–2024, driven by the fastest rate-tightening cycle in four decades. For a lender entering today, collateral is priced at or under debt service coverage. Any easing of interest rates adds a further tailwind. Corporate credit has not gone through an equivalent reset.

CONCLUSION

Real estate credit offers the same attractive investment characteristics that are central to private credit investing: yield-oriented, income-driven returns, yet with collateral that has already repriced, a supply environment that supports ongoing income, and underwriting transparency that corporate structures often cannot match.

The relative entry point today favors real estate credit in a way that is difficult to ignore. The reset has already happened. The collateral is visible. Supply is constrained. Income is stable. And a rate tailwind may still be ahead.

KEY TAKEAWAYS

→ What is happening in corporate direct lending today should not be read as a signal about private credit broadly.

→ Real estate credit is backed by hard assets that can be physically assessed, independently appraised, and realized in a default - giving lenders a recovery floor that enterprise value cannot provide.

→ Commercial real estate has already repriced between 2022 and 2024. With values at or below replacement cost, the downside has been absorbed. Corporate credit has not gone through an equivalent reset.

→ Real estate credit provides a natural inflation hedge. Rents reset upward and replacement cost appreciation supports collateral values.

→ The entry point today is compelling. Real estate credit offers yield and income with a better-positioned collateral base and a clearer path through the cycle.

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 in North America, Europe and Asia Pacific, Värde invests across private and public markets with a focus on real estate, asset-based finance, corporate credit and Asia credit. For more information, please visit www.varde.com.

Sources

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