

Collateral Matters

Institutional allocators are increasingly seeking sources of return that provide diversification from traditional corporate credit and broader market exposures. As private credit has matured, yield alone has become a less meaningful differentiator, with investors increasingly focused on collateral quality, downside protection, and return drivers that are influenced by factors distinct from corporate earnings and credit cycles. Today, we believe commercial real estate credit presents a compelling opportunity, as property values have repriced, traditional lenders remain selective, and refinancing needs continue to grow.

Senior commercial real estate bridge lending sits at the intersection of these market dynamics. Returns are primarily supported by underlying real estate values, local market fundamentals, and structured collateral protections rather than company performance. As a result, the strategy may offer attractive current income while providing exposure to a differentiated set of risk and return drivers.

For investors seeking current income, downside protection, and exposure to real assets at a favorable point in the cycle, we believe senior commercial real estate bridge lending warrants consideration as a complementary allocation within a diversified private markets program.

A Market That Has Repriced

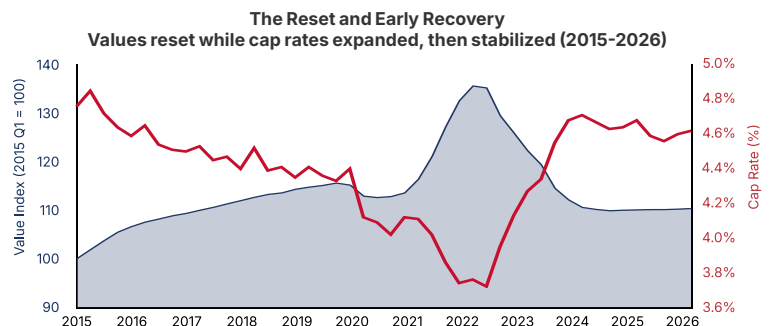
The case for real estate credit today rests in part on where prices already sit. Much of commercial real estate has completed its repricing, and lending into a reset market carries different arithmetic than lending into a peak.

The sequence is familiar. Through 2021 and 2022, transaction volumes and valuations reached highs supported by low interest rates and low capitalization rates. Because value equals net

operating income divided by the capitalization rate, it responds to changes in either one. When interest rates rose, cap rates expanded, and in many markets operating income softened at the same time, so values fell. As of the second quarter of 2026, the NCREIF Property Index sat 18.64% below its second-quarter 2022 peak.¹

That decline reset the risk for lenders. Consider a simplified example: a loan written at 70% of a \$100 million value becomes a \$70 million loan against an \$80 million asset if values fall 20%, an effective loan-to-value near 88%. Much of the distress now working through the market traces to this single mechanic, where leverage that looked conservative at origination became stretched after repricing.

The same asset supports a different loan profile today. A lender originating at 70% of the reset \$80 million value would write a \$56 million loan on a property that recently carried a \$100 million valuation, resulting in a lower loan amount relative to prior market values. At the same time, new supply has moderated as construction activity slowed and market fundamentals have begun to stabilize across certain sectors. These conditions may create opportunities for lenders to originate loans at lower property valuations and with more conservative structures than were generally available earlier in the cycle.



¹) NCREIF Property Index (NPI) appreciation return, National Council of Real Estate Investment Fiduciaries. Decline from Q2 2022 peak through Q2 2026.

A Gap In The Lending Market

The opportunity also reflects a shift in who provides this kind of credit. Banks that once made direct first-mortgage bridge loans have largely moved to a different position in the capital structure, financing other lenders through repo and warehouse lines instead of originating transitional loans on their own books. For private lenders, that shift is a source of support, because the same banks now supply the leverage used to fund direct originations.

The result is a gap between construction and permanent financing that traditional balance-sheet lenders are increasingly stepping back from. The need for bridge capital has not diminished, and properties still require financing through the period between lease-up and stabilization. Where smaller regional banks remain active, they tend to focus on the smallest loans, below the scale that an institutional bridge platform targets. Private lenders with balance sheet and underwriting depth may be well-positioned to meet that demand. With capital for transitional lending in shorter supply, lenders that can fill the gap have generally been able to originate at attractive spreads for a senior position secured by hard assets.

Current demand is reinforced by the volume of loans coming due. The Mortgage Bankers Association estimates that roughly \$875 billion of commercial mortgages is scheduled to mature in 2026 and another \$652 billion in 2027, much of which will need to be refinanced into a market with higher rates and lower values than when it was written.² Borrowers facing that gap often require transitional capital to recapitalize or reposition an asset ahead of a permanent takeout, which is the role senior bridge lending is designed to fill.

The opportunity is also not uniform across commercial real estate. Property-level fundamentals vary meaningfully by sector, and by market within a sector, so selectivity is an important component of bridge lending. Sectors supported by steady, needs-based demand tend to offer more predictable paths to stabilization, while others carry structural questions that are harder to underwrite. Disciplined lenders concentrate where the fundamentals and the exit are clearest.

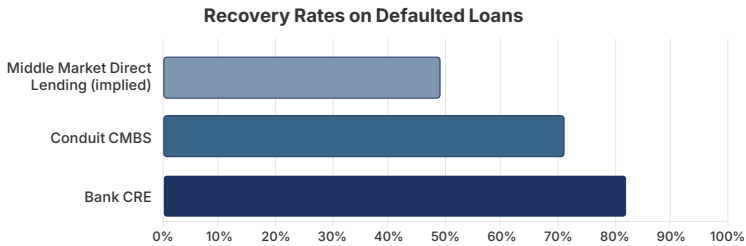
What Happens After A Default

Every credit strategy experiences defaults across a cycle. For investors, a key consideration is how recovery outcomes may differ when a default occurs. Here, the type of collateral supporting a loan can play an important role.

When a corporate borrower fails, recovery depends on the value of a business that may no longer operate, and much of what remains is goodwill. Cliffwater data on U.S. middle market direct lending shows an implied recovery rate of roughly 49% on loans that have stopped paying interest, based on how those loans are currently valued.³

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Real estate credit recovers on a different foundation. The loan is secured by a physical asset that continues to exist and has the ability to produce cash flow. KBRA data on conduit commercial mortgages from 1995 to Q1 2025 shows average loss severity near 29% across resolved loans over nearly three decades, which implies recovery of roughly 71%.⁴ From August 1993 to September 2024, single-borrower mortgages have recovered higher still, with most defaulted loans resolving at minimal loss.⁵ Bank data compiled by Global Credit Data between 2000 and 2021 points in the same direction, with observed real estate recoveries above 80%.⁶



2) Mortgage Bankers Association, 2025 Commercial Real Estate Survey of Loan Maturity Volumes (February 2026). Figures are unpaid principal balances as of December 31, 2025.

3) Cliffwater, “2026 Q2 Report on US Direct Lending.” Implied recovery rate equals the fair value of non-accrual loans divided by their cost (par) value, as of June 30, 2026.

4) KBRA, “Conduit CMBS Default and Loss Study, Update 2.0,” 2025. Recovery shown as the complement of average loss severity across resolved loans.

5) KBRA, “Single-Borrower CMBS Default and Loss Study,” 2025.

6) Global Credit Data, “Real Estate Finance Recovery Rate Report,” 2023. Observed recovery rate across resolved facilities secured by real estate.

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This comparison reframes how allocators weigh spread. Real estate credit is often measured against corporate credit on yield alone, and on yield corporate credit can look competitive. A wider spread often compensates for a riskier position in the capital structure. Two strategies can carry a similar headline return while offering very different structural protections once a loan defaults.

Recovery Depends On The Lender

Higher recoveries are not automatic. They depend on the lender behind the loan, because recovery is a function of both collateral quality and lender control. A single mortgage holder can make workout decisions directly, while club and syndicated structures require coordination across lenders with different priorities.

The difference shows most clearly in how a lender handles a loan that drifts off plan, which calls for two capabilities working together. Portfolio management provides the strategic view, tracking performance across the book and deciding when a credit needs intervention. Asset management works at the property level, engaging the borrower, evaluating operations on the ground, and judging whether an asset can be repositioned or is better resolved through sale. A lender that co-invests

alongside its partners and holds both functions in-house can act on the collateral rather than wait on it. The recovery characteristics associated with hard-asset lending depend in part on a manager's ability to actively manage collateral and workout situations.

A Complement To The Allocation

Corporate private credit remains essential to institutional portfolios, and nothing here suggests reducing it. The point is more specific. A portfolio weighted heavily toward corporate cash-flow lending has a straightforward way to diversify its recovery risk without giving up return, by pairing that exposure with senior credit secured by hard assets and originated into a market that has already repriced. J.P. Morgan's 2026 Long-Term Capital Market Assumptions estimate a correlation of roughly 0.46 between commercial mortgage loans and direct lending, a moderate relationship that suggests the two can play distinct roles within a credit allocation.⁷ The exposure can also be relatively short in duration, which may let an allocator participate in the repricing without committing capital for a long horizon.

For an allocator, the next dollar is a choice. Set corporate and real estate credit side by side, and one is secured by enterprise value while the other is secured by a physical asset that can endure a downturn and produce income through it. We believe both belong in a private markets portfolio. For allocators focused on diversification of collateral exposure and recovery characteristics, hard-asset-backed credit may warrant consideration alongside traditional corporate private credit allocations.

7) J.P. Morgan Asset Management, 2026 Long-Term Capital Market Assumptions. Correlation between Commercial Mortgage Loans and Direct Lending.

CONTACT US

DEAN DULCHINOS
Group Head of Real Estate
dean.dulchinos@orix.com

ALLISON WYLIE
Managing Director
Investment and Capital Strategy
allison.wylie@orix.com

ORIX.COM

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