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SAMPLE REPORT

U.S. Debt Insights: Abundant Liquidity

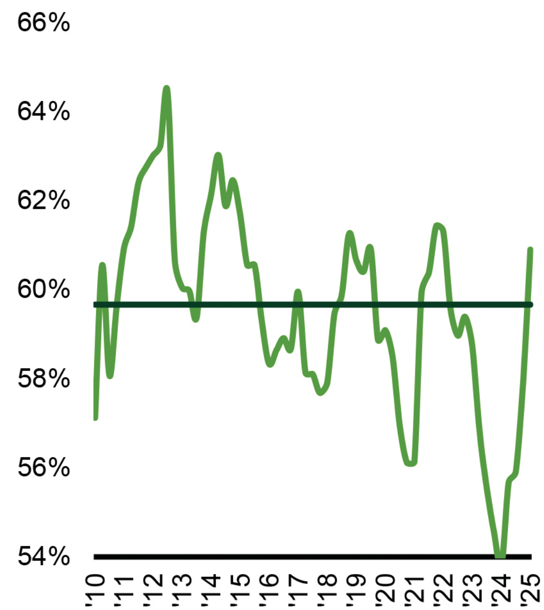
Debt Insights

Green Street

Abundant Liquidity

- Rate volatility and policy uncertainty have contributed to real estate values plateauing
- Yet, stable property values and healthy spreads serve as an attractive lending backdrop
- Liquid lending markets + increasing competition = spread compression should continue
- Refinance demand is high; acquisition and construction loan demand remains muted
- High-quality office liquidity increased significantly; well-located class-B assets could follow
- Debt funds and insurers saw highest CRE loan growth in 1Q25; banks and CMBS trailed
- Large banks positioned to grow CRE loans; small banks managing legacy credit issues
- Delinquencies continue to increase, though the rate of change moderated significantly
- Yet, maturity defaults and extensions remain a fact of life on near-term CMBS maturities
- CRE debt remains attractive vs. direct real estate ownership on a risk-adjusted basis

Underwritten LTV on New Office Loans
(trailing four quarters)



Important disclosure on page 24

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Executive Summary

Macro Backdrop

- Long-end Treasury yields were volatile over 1H25, and the priced in front-end rate cuts did not materialize
- This, coupled with economic and trade policy uncertainty, has resulted in real estate values plateauing
- Stable property values coupled with slightly above-average spreads paint an attractive backdrop for lenders

Debt Market Fundamentals

- Refinance demand has increased sharply since '23; but acquisition and construction loan demand remain muted
- Volatility in base rates keeps borrowers hesitant to lock in long-term debt, leading to more floating rate originations
- Lending markets are highly liquid and competition is increasing; spread compression should persist
- Liquidity is abundant across property types. Office saw the sharpest recovery in 1H25, though low-quality office lags
- LTVs and DSCRs eased in early '25; further moves are expected but at a slower pace vs. the last six months
- Refinancing remains cash flow dilutive for borrowers, though the headwind has shrunk significantly

Lender Review

- Debt funds and insurance companies saw highest CRE loan growth in 1Q25, banks and CMBS trailed
- Large banks are stepping back into CRE lending after net declines in '24; small banks managing legacy credit issues
- Insurer loan growth is strong; secular growth in insurers' CRE loan portfolios expected to continue
- Delinquencies increased through 1H25, though the rate of change has moderated significantly
- The trend of maturity defaults and extensions will [illegible]% through '27)
- Unsecured bond markets are healthy; REITs carry lower leverage and benefit from cheaper costs vs. secured debt
- Lending to traditional sectors is attractive on a risk-adjusted basis; equity premium in the 10th percentile vs. history

Authors: Harsh Hemnani, CFA

*Data on total outstanding mortgages in this report relies on the latest Federal Reserve figures, which are published with a delay after each quarter as the central bank compiles figures from all commercial real estate lenders.

Market Backdrop

Rate Roller Coaster: Long term Treasury yields were volatile over 1H25, but now stand roughly in line with levels from the start of the year. On the other hand, rate cuts on the front end of the curve that were widely expected and priced into futures have not yet materialized. This, coupled with heightened economic and policy uncertainty, have put a lid on real estate values in the near term. Nonetheless, reset valuations and expected declines in interest rates serve as an attractive backdrop for lenders. For more details on CRE fundamentals and valuations see Commercial Property Outlook.

Base Interest Rates

CRE Fundamentals & Valuation

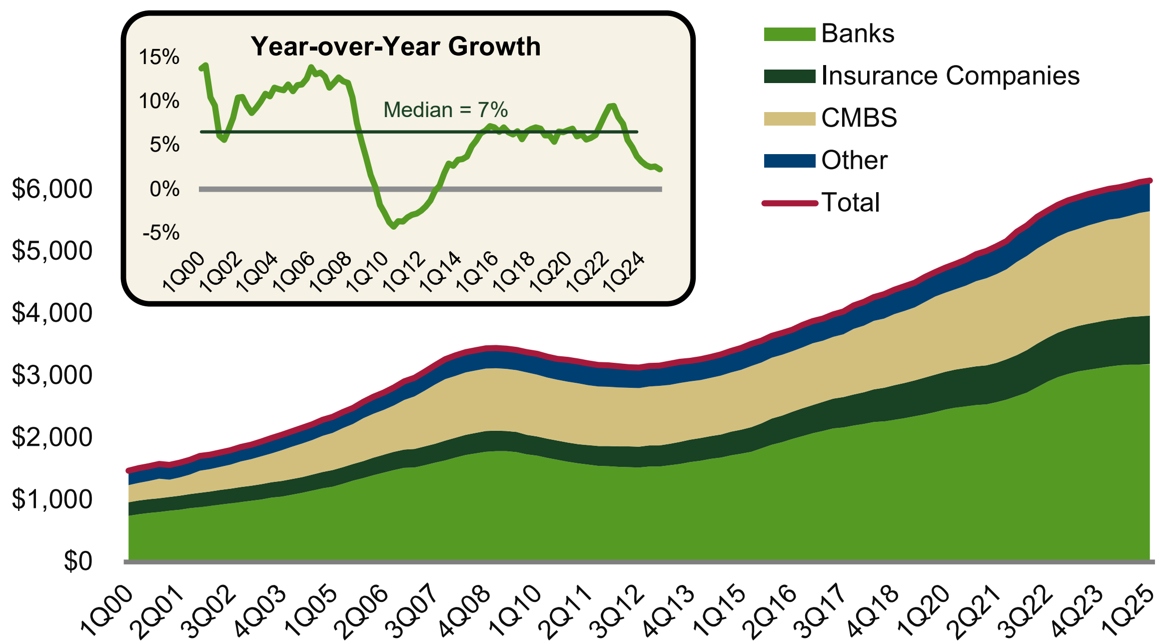
Contact us to uncover more insights.

Source: Federal Reserve, CME, Green Street

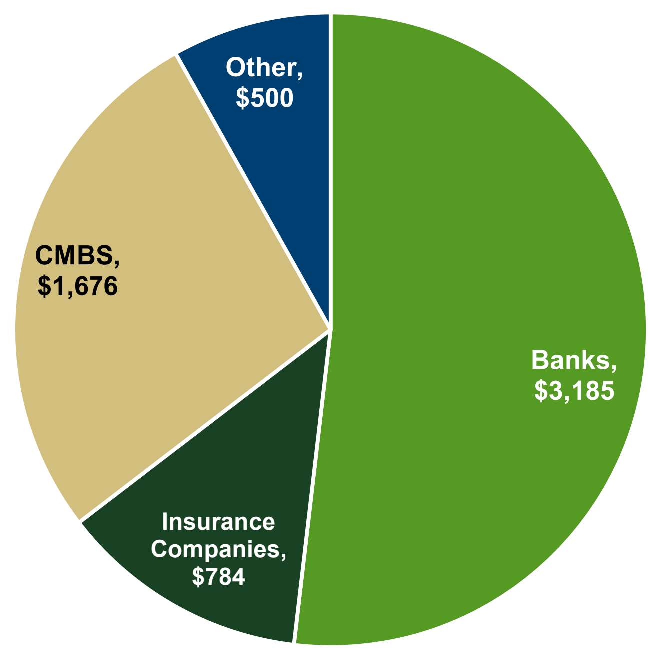
CRE Debt Outstanding

Inflection Point: CRE mortgages outstanding in the U.S. totaled ~$6 trillion in 1Q25, representing a 2% increase over the last year and 0.5% over 4Q24. Debt funds and insurance companies saw the largest expansion in portfolios over the quarter (~0.75%) and loan growth from banks was roughly in-line with the market average (~0.5%). Despite robust issuance over 1Q, CMBS growth lagged, highlighting that much of the issuance in '25 was driven by refinancings.

Commercial & Multifamily Real Estate Loans Outstanding*
(in $B)



CRE Debt Capital Providers*
(in $B, as of 1Q25)



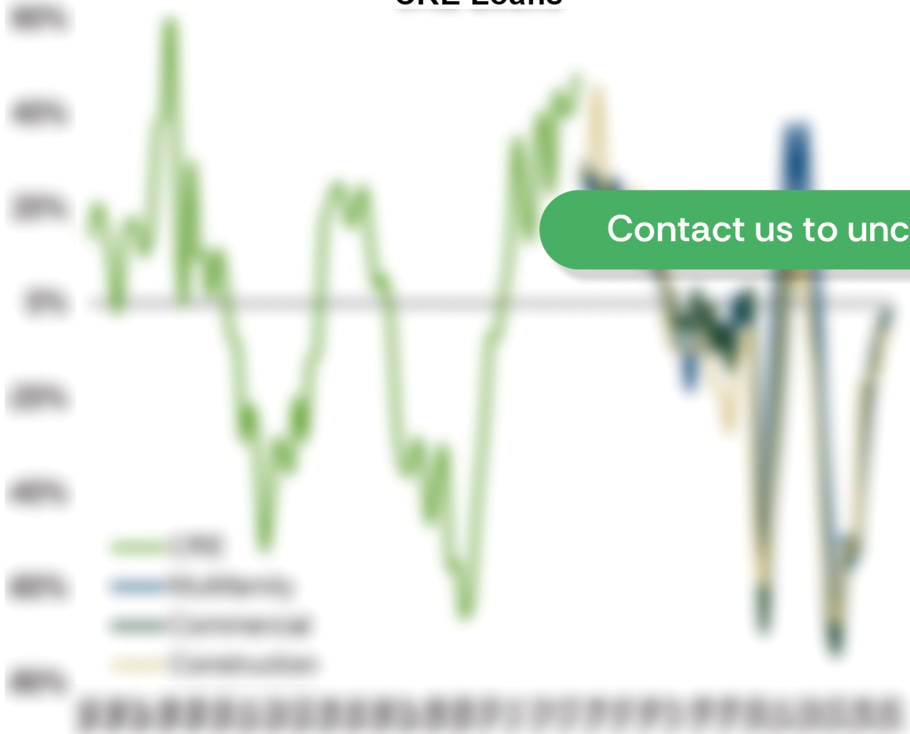
*Includes mortgages backed by construction projects (~$550B) and owner-occupied properties (~$660B). "Other" includes mREITs, finance companies, pension funds, and other businesses. CMBS includes agency portfolios and MBS ($1T) and non-agency CMBS ($0.6T). mREITs holdings are adjusted to exclude CMBS securities owned.

Source: Federal Reserve, Green Street

Demand for Loans

Good, not Great: Demand for CRE loans has improved meaningfully from low levels in '23. Refinancing needs are driving the bulk of loan demand given still pressured transaction markets and elevated construction costs. Looking ahead, a healing transaction market should lead to an increase in acquisition financing. On the residential front, the "lock-in" effect of low rate mortgages will keep loan demand muted for the foreseeable future.

Net Percentage of Banks Reporting Stronger Demand for CRE Loans



MBA Mortgage Applications – Purchase Index (Four-Week Moving Average)

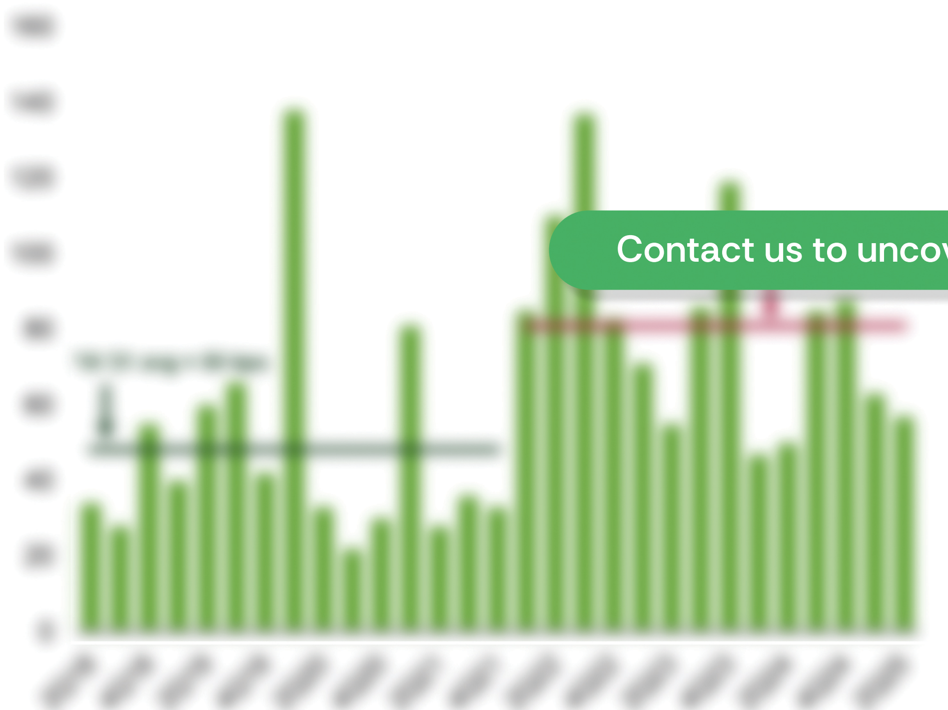
Contact us to uncover more insights.

Source: Federal Reserve, Mortgage Bankers Association, Green Street

Demand for Loans: Variable Rate

Driving the Bus: Volatility in base rates has kept borrowers hesitant to lock-in long term-debt. As such, demand for variable rate loans is elevated vs. history. Floating rate loans accounted for roughly half of year-to-date CMBS issuance, up from ~1/3rd pre-Covid. Stability on long-term rates will be the key factor driving demand for long-term fixed rate loans in the near term.

Intra-Quarter Trading Range of 10-yr Treasury Yields



Variable Rate Loans as a Percent of Gross CMBS Issuance by Year

Contact us to uncover more insights.

Source: Bloomberg, Green Street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