INVESTMENT RESEARCH | MARCH 2025

PRIVATE CREDIT INSIGHTS

Key Themes

- How Will a Higher 10-Year Treasury Yield Affect the Private CRE Credit Landscape?
- How Will Rising Benchmarks Influence the Outlook for Private CRE Credit Returns?
- How Will the Recovery in Real Estate Markets Create New Financing Opportunities?

How Will a Higher 10-Year Treasury Yield Affect the Private CRE Credit Landscape?

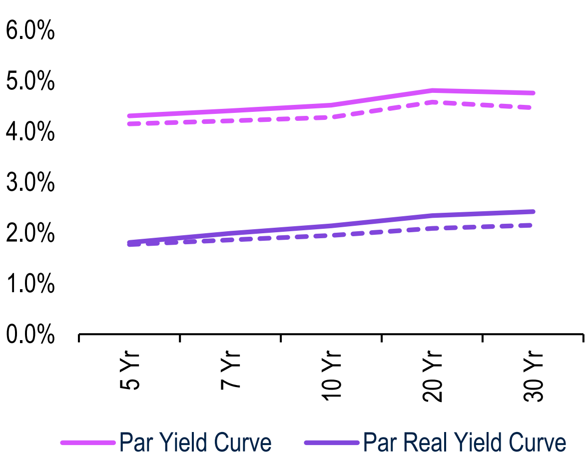
Recent upward revisions to the 10-year Treasury yield forecast, driven by persistent inflation (**Exhibit 1**) and concerns over government debt, indicate a prolonged period of higher borrowing costs. For private credit, this signals an environment of elevated yields and extended opportunities for strong income generation.

Higher borrowing costs translate into higher interest rates on loans and debt instruments, leading to higher potential returns from credit investments. If inflationary pressures persist and push yields up further, private credit investments would benefit from even stronger income generation, offering even more attractive returns.

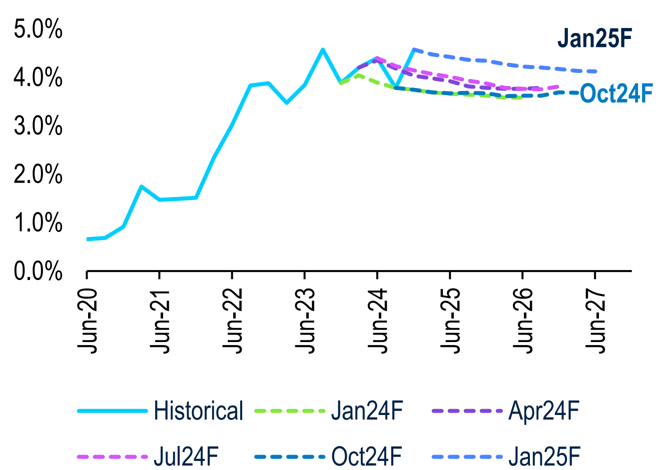
For borrowers navigating this higher rate environment, the impact of rising yields is being offset by tightening

Exhibit 1: 10-Year Treasury Yield Forecast Revised Upwards Fueled by Higher Inflation Expectations

Inflation Expectations: Par Yield Curve vs. Real Par Yield Curve



10-Year Treasury Yields: History and Evolution of Forecasts



Dashed lines refer to previous yield curves as of October 31, 2024. Solid lines refer to current yield curves as of January 30, 2025.
Sources: U.S. Department of the Treasury, Bloomberg, PGIM Real Estate. As of March 2025.
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CRE credit spreads. This is driven by expectations of a real estate market recovery and increased market liquidity, helping to contain debt costs for borrowers.

Private CRE credit markets stand to benefit from this real estate market upswing, as expectations of stronger NOI growth, a rebound in property values and a steady pipeline of transactions and refinancing activity, will improve credit fundamentals and unlock transactions.

In a nutshell, the higher 10-year Treasury yield forecast extends the window of opportunity for stronger income streams from private credit investments, as higher borrowing costs create sustained opportunities for income generation in CRE credit markets.

How Will Rising Benchmarks Influence the Outlook for Private Credit Returns?

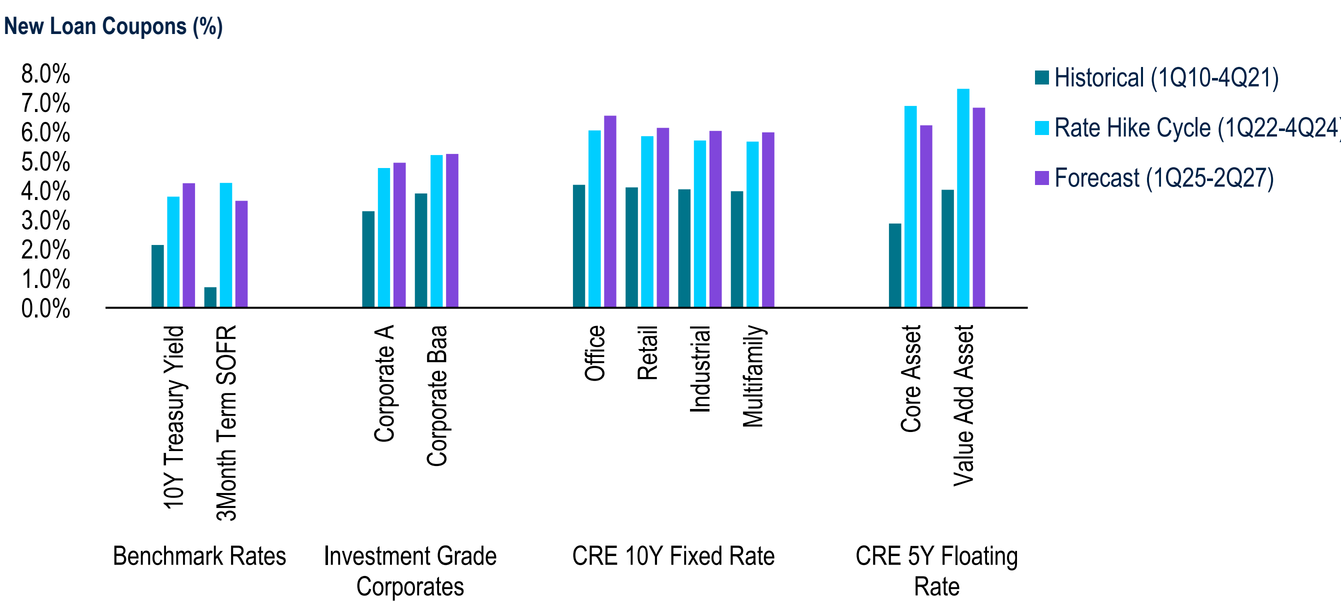
The rise in the 10-year Treasury yield is shifting the risk and reward dynamics in credit markets. While higher yields drive borrowing costs up, they also set the stage for more attractive returns in private CRE credit investments (**Exhibit 2**).

Both public and private credit spreads have been tightening, with private CRE spreads normalizing due to heightened lender competition and expectations of a market rebound. Property values have largely reset, pointing to appreciation in the coming years, while strong economic growth is driving robust NOI projections.

However, lenders are expected to remain cautious in light of ongoing market volatility and uncertainty. Senior lenders, constrained by debt service coverage requirements, will continue to limit leverage levels. This environment benefits alternative debt capital providers, who are well positioned to fill the gap left by traditional lenders.

While higher Treasury yields will keep new loan coupons elevated, conservative underwriting practices will maintain low attachment points, mitigating downside risk. This dynamic enhances the risk-adjusted return potential for private CRE credit investments, particularly as the market moves toward recovery.

Exhibit 2: Higher Treasury Yields Will Keep New Loan Coupons Elevated



Sources: Bloomberg, CREFC, Trepp, Cushman & Wakefield, PGIM Real Estate. As of March 2025.

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Ultimately, the private CRE credit landscape offers attractive opportunities for investors who can balance yield expectations with prudent risk management. As the market stabilizes, those positioned within the alternative credit space stand to benefit from an increasingly favorable risk-return profile.

How Will the Recovery in Real Estate Markets Create New Financing Opportunities?

The recovery in CRE transaction volumes is gaining momentum, supported by improving market fundamentals and increasing debt availability.

Strengthening property cash flows and recovering capital values are setting the stage for renewed investment activity, while rising liquidity is helping to unlock pent-up demand (**Exhibit 3**). As lenders re-engage and pricing expectations stabilize, transaction activity is poised to accelerate.

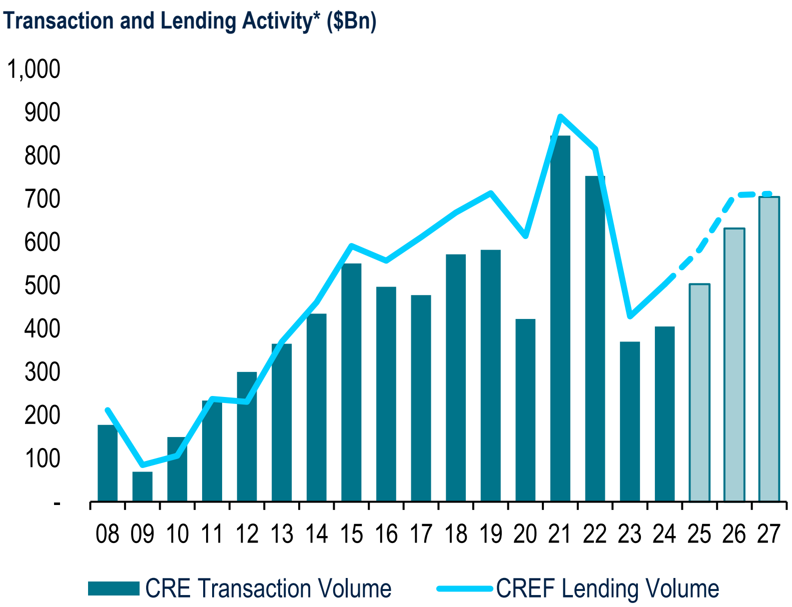
Credit markets are becoming more accommodative, with NOI growth upgrades supporting stronger debt serviceability, and sustained long-term capital appreciation potential.

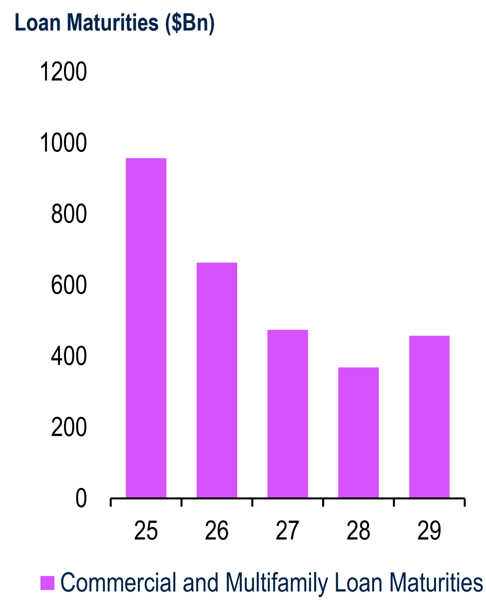
These dynamics are driving lenders to deploy capital more aggressively, particularly in refinancing opportunities as large loan rollovers and delayed maturities come due.

Traditional banks remain selective, but alternative lenders are well positioned to offer flexible capital solutions to meet rising demand. As competition among lenders intensifies, credit spreads will continue to tighten. This increased liquidity will support price discovery and deal execution, further boosting transaction volumes.

As capital flows improve and market fundamentals strengthen, the CRE financing landscape is set to become more dynamic. Investors who can navigate these evolving market conditions will be well placed to capitalize on the next phase of the recovery.

Exhibit 3: Transaction Volumes and Refinancings to Increase Providing More Financing Opportunities





* CREF lending forecast as of February 2025.
Sources: Mortgage Bankers Association, RCA, PGIM Real Estate. As of March 2025

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	② 投資助言・代理業
	③ 第二種金融商品取引業
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