

KEYNOTE INTERVIEW

Capitalizing on market recovery



Acquisition volumes are starting to pick up, creating opportunities for well-capitalized private lenders. But downside mitigation remains crucial in ‘structurally uncertain’ times, say PIMCO’s Roman Kogan and Seray Incoglu

California-headquartered manager PIMCO is best known for fixed income investing, but it is also active in real estate, with a portfolio of private and public equity and debt of over \$170 billion.

The firm’s private debt portfolio – which amounts to \$36 billion – is active across the risk spectrum, focusing mainly on large-ticket transactions of \$100 million-plus.

Roman Kogan and Seray Incoglu, portfolio managers for private real estate debt, take the temperature of US commercial real estate credit markets and issue a cautiously positive prognosis for 2026.

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Q How has the US commercial real estate lending landscape evolved over recent months?

Roman Kogan: Despite an elevated rate environment and uncertainty from tariffs, and persistent geopolitical volatility, we are seeing real estate values and investor confidence begin to increase, with global investment volumes growing year on year. Since the pandemic, some of the other major asset classes – such as public equities and

private credit – have not only recovered but reached arguably questionable heights.

In real estate, the data shows a persistent and steady recovery, but it has a lot more room to grow just to get back to where it was. A notable trend in 2025 is the narrowing of the bid-ask spread, which is generating more acquisition financing requests. That contrasts with the past few years, when we saw mainly refinancings and construction loans.

The two main factors that have caused real estate valuations to correct over the past three years are distress in the office market and the historic rise in interest rates. Real estate is valued

according to cap rates and is acquired for the most part on a leveraged basis – and elevated interest rates have impacted both. But rates are now trending downward, and the Fed’s recent 25 basis point rate cut should boost transaction volumes further.

Q What factors are shaping borrowers’ appetite for bridge lending?

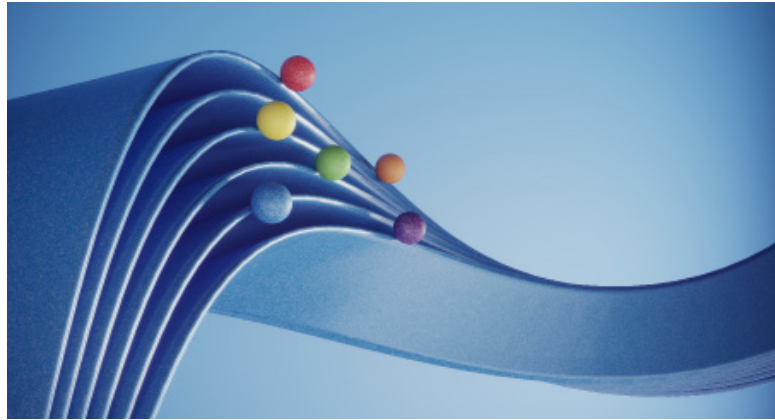
Seray Incoglu: As lenders see interest rates fall and greater liquidity return to the market, they are going to look at their loan books and seek to encourage borrowers with weaker positions to refinance elsewhere and move risk off balance sheets. Over the last few years, lots of lenders have been playing the ‘extend-and-pretend’ game, but as the market recovers, some of them will see an opportunity to push borrowers to act, which will lead to the emergence of more forced sellers.

The much-discussed maturity cliff that has been looming for three years is getting steeper. Close to \$2 trillion of loans will mature by 2027, and lenders are becoming impatient. For bank loans, high risk rated loans require heavy capital reserves.

Likewise, some of the closed-end private debt funds that have held loans for longer than they anticipated will also want to force the issue with their borrowers. Many of those properties won’t have stabilized over the past three years, so they will need bridge financing to take out their existing loans.

Lots of business plans have been delayed while borrowers hesitate to commit capital as they wait to see if rates and markets improve. As conditions improve, they may finally be able to make the numbers work, which could lead to more demand for bridge loans to carry out renovations and execute value-add plans.

RK: Many of the loans that will mature over the next two years were originated in 2021 or 2022 before rates went up and property values corrected. That



Q What trends have you observed in loan pricing?

RK: All credit assets across the spectrum are experiencing spread compression; not just real estate credit, but also corporate credit and asset backed securities. However, those investment strategies that operate on a leveraged basis are less likely to be impacted on an overall returns basis.

Our status as one of the largest fixed-income asset managers enables us to take advantage of competition and liquidity in the back leverage market, where financing spreads have compressed even more materially than whole loan spreads. Even in a spread compression environment, we seek to increase our overall return potential because the cost of our leverage has gone down so materially even though the amount of leverage we are taking has not increased.

SI: The banks are back in the market because there has been a denominator effect in their portfolios. Over the last three years, their good loans on stabilized assets in sectors like multifamily and industrial have been paid off, leaving a higher proportion of office assets and other troubled situations.

They now need to replace the good loans to balance their overall commercial real estate portfolios, which means they are all targeting the same transactions. That competition is causing spreads for senior bank debt to compress far more than whole loan spreads, benefiting the overall yield.

Accessing the most accretive back leverage financing now depends on your track record as a lender and, more particularly, whether you can generate performance even in a down cycle. We are already seeing banks becoming increasingly selective about their counterparts in the private capital space. There will be clear ‘haves’ and ‘have-nots,’ and those with strong track records over this past cycle and access to the best financing will thrive.

will create gaps in some capital structures.

For example, we refinanced a UK multifamily portfolio with nothing particularly value-add or transitional about it. It was stabilized from an occupancy perspective, at 95 percent

occupied. When the sponsor acquired the assets a handful of years ago, they financed the purchase with a bank at a mid-50s LTV. But at maturity, it was around a 70 percent LTV because – even though performance was in line with expectations, cap rates expanded,

value declined and the LTV at the time of refinance exceeded bank risk appetite. More situations like that are likely to arise over the next two years.

Q Where do you expect to see new acquisition financing activity pick up?

RK: The debt investment opportunity is probably as exciting as we have seen in the post-GFC era. That is because we can lend at senior debt LTVs against reset asset values. Meanwhile, rates remain elevated so we can seek to earn historically high returns for what is a historically low entry point.

We have seen acquisition financing requests in all the major asset classes, mainly the multifamily, industrial and hospitality spaces where investor conviction is highest, plus some retail and office activity as well. For office and retail, investors must still be very selective, but those sectors are much more in scope than they were just several years ago.

Bridge loans for acquisitions typically involve some level of further investment in the business plan. Because of our cost of capital, we usually lend to value-add or opportunistic buyers. In the multifamily sector, the most common value-add play is providing construction loan refinancing that offers the sponsor time to lease up and stabilize a newly completed asset.

A common scenario in the industrial space is where there is a short-term lease rollover that, with a bit of capex, could allow the sponsor to take advantage of a mark-to-market releasing opportunity. If it is a hotel acquisition, capex may be needed to upgrade the asset so it achieves a higher daily rate.

Q What can lenders do to reduce risk and protect their investments against potential market volatility?

SI: Past volatility in the commercial real estate sector underscored one critical lesson for all lenders: that active asset management is no longer optional;

“Close to \$2 trillion of loans will mature by 2027, and lenders are becoming impatient”

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it is essential. Traditionally, the origination team closes the deal and it gets handed off to the asset management team. At PIMCO, we take a different approach – the asset management team is fully integrated into the investment underwriting and decision-making process. We are involved in up-front structuring, covenants and especially the legal remedies with downside mitigation in mind.

That is because the upfront structure is so critical to strong workout resolution and recoveries during volatility. Focusing on the downside mitigation up front enables true active monitoring and intervention when needed.

During the past three years,

borrowers and lenders alike have become smarter about what covenants matter. It will be interesting to see where those covenants settle as the market stabilizes.

RK: Reducing risk also comes down to selecting investments in sectors that benefit from secular tailwinds, as well as high-quality assets in strong markets. We continue to focus our activities in our highest conviction sectors: multifamily, industrial and logistics, and hospitality assets in gateway markets with high barriers to entry and a diverse set of demand drivers.

But even within that, it still requires conservative underwriting and stress testing, such that your principal is covered even in an array of downside scenarios, including rental decline and cap rate expansion. Then you structure in early warning mechanisms including extension tests, covenants on NOI, debt yield or debt service coverage.

Q What is the outlook for US commercial real estate lending in 2026?

SI: We expect greater divergence within sectors and submarkets. Historically, there has not been enough differentiation between various asset sectors or asset classes, but that is changing. Investors will focus more on how capital-intensive the business model is and then seek a premium on the cap rate for higher touch assets. In this next phase, expertise and precise market and asset selection will matter more than ever.

RK: I expect further increased transaction volume across the real estate sector. We will continue to see a lot of refinancing, some construction financing and a notable pickup in acquisition activity next year.

A key theme of recent times is that uncertainty has become structural. In that environment, we believe managers with the resources, capabilities, analytical framework and track record to navigate that will outperform. ■

Assets are quoted on Gross Asset Value (GAV basis) and include \$94.1 billion (as of 30 June 2025) in assets managed by PIMCO Prime Real Estate, an affiliate and wholly-owned subsidiary of PIMCO and PIMCO Europe GmbH that includes PIMCO Prime Real Estate GmbH, PIMCO Prime Real Estate LLC and their subsidiaries and affiliates. PIMCO Prime Real Estate LLC investment professionals provide investment management and other services as dual personnel through PIMCO LLC. PIMCO Prime Real Estate GmbH operates separately from PIMCO.