

Global Insurance Group

Value-add real estate lending for insurance companies

A capital-efficient alternative investment

JANUARY 2026



Commercial real estate ("CRE") debt — and in particular, value-add lending — is an asset class that is historically underutilized by insurance companies. But there are compelling reasons for them to reconsider. With a defensive profile, potential to provide meaningful income generation and high capital efficiency, we believe it is an attractive option for insurers as they build an investment portfolio.



Key takeaways:

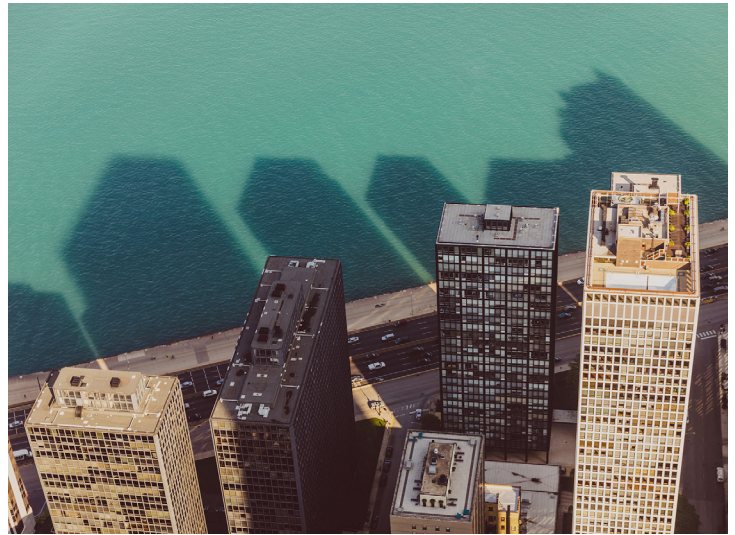
- As CRE is one of the largest investible asset classes in the world, CRE debt is an underutilized yet compelling alternative asset class for insurance portfolios.
- While the asset class spans the risk/reward spectrum, value-add CRE lending can be especially attractive for insurers for its defensive profile (driven largely by growing equity cushions), potential for meaningful income from floating rate loans with interest rate floors and capital efficiency.
- As traditional lenders such as banks have reduced their activity in the asset class, alternative asset managers have gained increased market share, representing more investment opportunities for investors.
- Lower post-2022 property values means that alternative managers are originating loans at entry points we believe to be attractive and that aim to produce strong risk-adjusted returns.
- Value-add CRE lending's blend of income and capital preservation characteristics models well in an insurance portfolio's strategic asset allocation, potentially increasing yield, return and Sharpe ratio while reducing implied volatility.

"Sizing Up the Global-Market Portfolio," MSCI, November 2024.

Overview: The CRE debt landscape

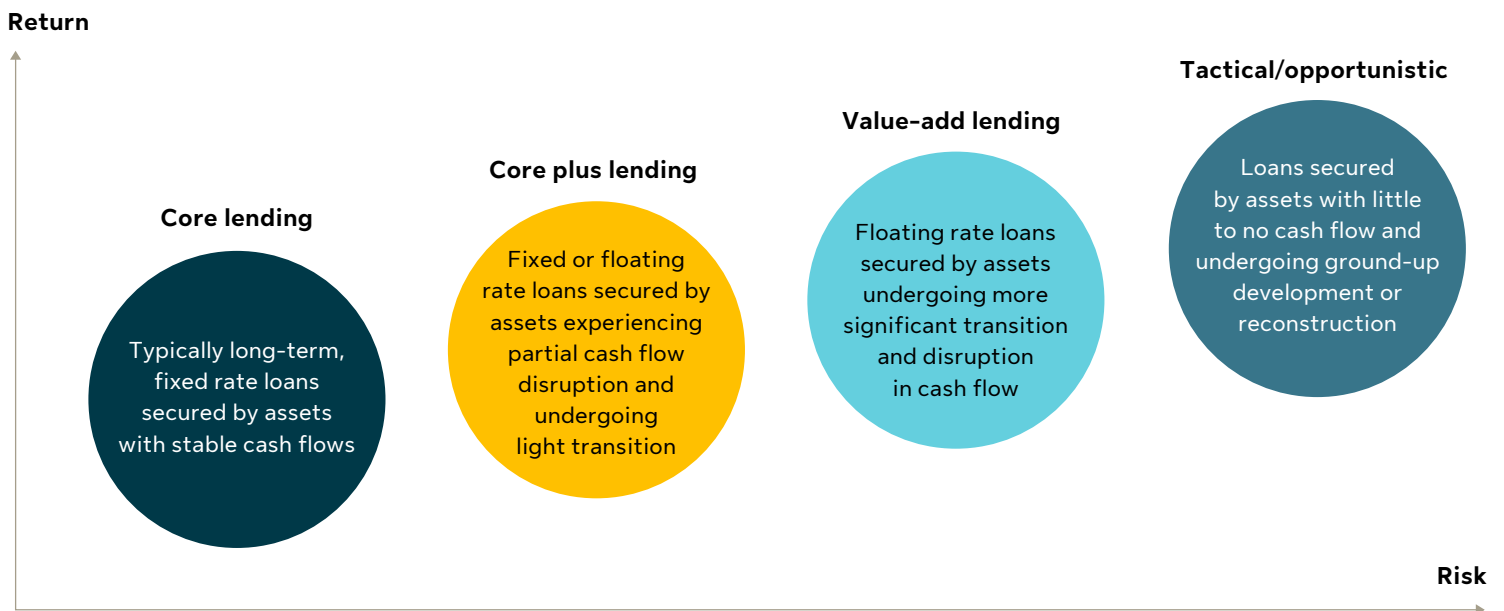
CRE debt refers to loans or financial obligations secured by commercial properties. These generally include apartment/multifamily residential buildings, industrial/logistics facilities, warehouses, office buildings, retail spaces, hotels and other properties intended for business or investment use.

The investable landscape of CRE debt is multifaceted and spans opportunities across the risk/return spectrum. It includes long-term fixed-rate loans secured by assets with stable cash flows (known as Core lending) at the lower end, through loans secured by assets with little to no cash flow that are undergoing transitional business plans such as development or reconstruction initiatives (known as tactical or opportunistic lending) at the higher end.



An expanding universe of opportunities

Risk/return spectrum for performing loans



For illustrative purposes only. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.

In over a decade since the Great Financial Crisis ("GFC"), the CRE debt market that was once dominated by big, traditional balance sheet lenders like banks has seen a variety of alternative lenders gaining market share. This has provided not only a greater variety of capital sources for borrowers but also an increased opportunity for investors to participate in the market.

This market dynamic allows asset managers specializing in CRE debt to help investors consider the right way to build a real estate debt portfolio to meet their needs.

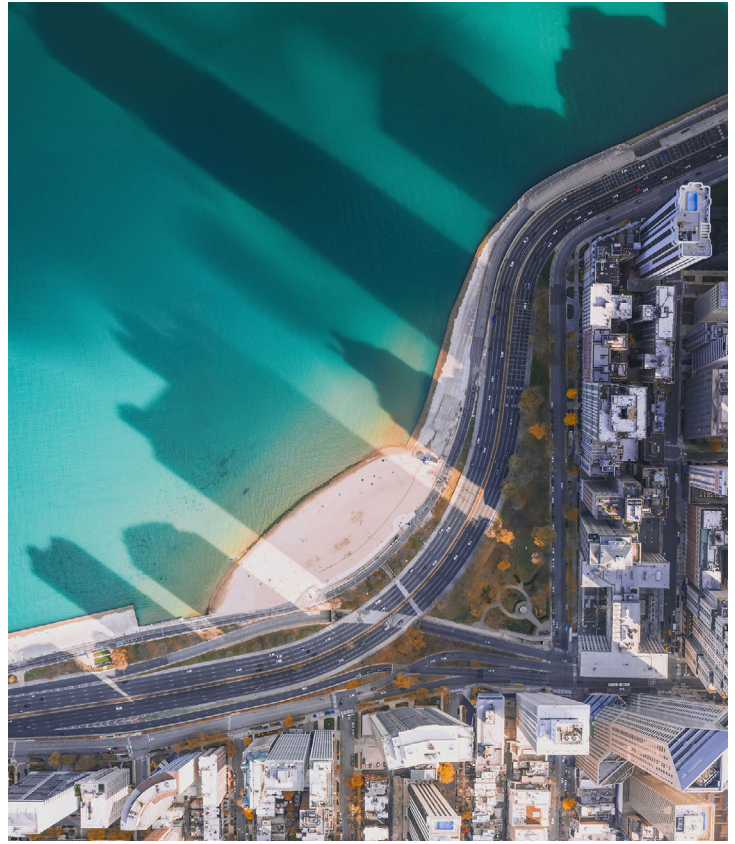
Why value-add CRE lending

Within the CRE debt landscape, the growing market opportunity is leading private managers to focus on value-add lending, which can offer investors access to capital protection, current income and strong diversification.

A defensive strategy

Value-add lenders issue loans secured by properties with business plans focused on improving the underlying asset during the loan term. For example, by lending on assets at an average loan-to-value of 65%-70%, loans benefit from an average 25%-35% equity buffer starting on day one. As borrowers execute their business plans, adding value, they enhance the equity buffer, thereby increasing the downside protection for the lender and their investors.

This type of lending is defensive because the growing equity cushion helps to protect against both any known and unknown market risks that may arise. Focusing on buildings with durable long-term fundamental attributes such as location, asset quality and the overall markets the properties can help mitigate these risks. In addition, careful structuring ensures lenders are well-protected, while asset management expertise helps ensure that borrowers are executing their business plans to deliver the improved property.



Value-add lending: Aiming to generate returns and preserve capital

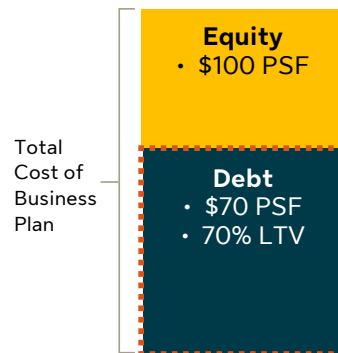
A defensive strategy that aims to provide diversification, medium term liquidity and sizable equity cushions

Loan economics

Components of return

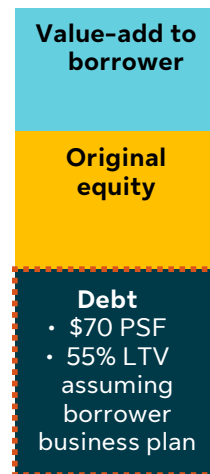
- Variable interest rate
- **Fixed margin:** 3.0%-6.0% over base rates
- **Upfront fees:** 1.0%-2.0% of loan amount at closing
- **Exit fees:** 0.25%-1.5% of loan amount of any repayment (in addition to early repayment fees)
- **Prepayment fees:** minimum interest or yield maintenance

Loan at origination
Total business plan costs financed by debt and equity



Total business plan costs

Loan at maturity
Debt basis improved at maturity



Total business plan costs + value add

PSF = price per square foot LTV = loan-to-value

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Meaningful income generation

Value-add CRE lending may provide stable income to investors, which can be especially useful to insurers that aim to minimize earnings volatility from year-to-year uncertainty. Value-add CRE lending funds make their return through contractual fees and interest, and once portfolios are significantly invested, they can distribute income back to investors on a regular basis. Moreover, loans are typically floating rate, with a spread over the base rate, and structured with interest rate floors. This means investors can benefit from protection against rising interest rates and are protected against declining interest rates.

A growing alternative credit opportunity

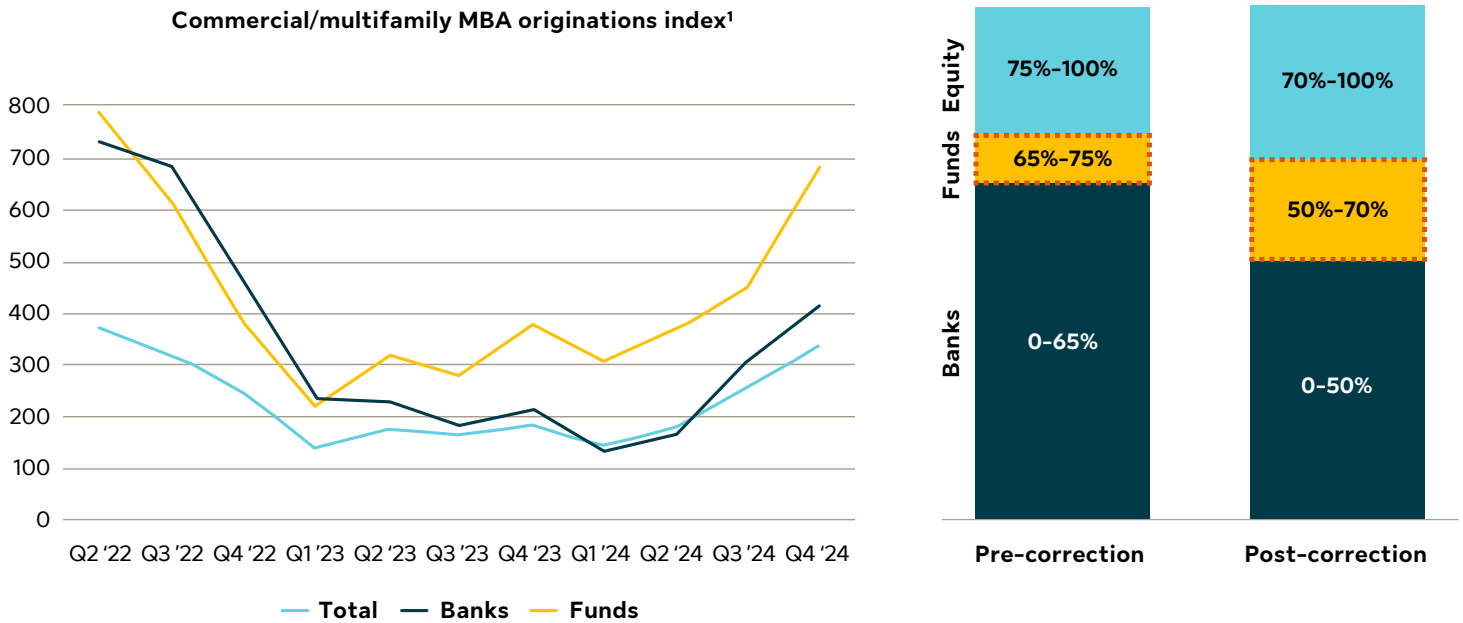
Two notable factors within the value-add CRE debt market can make it especially attractive for investors today: first, the financing gap resulting from traditional lenders reducing their exposure to value-add CRE debt, and second, lower property values coming out of the 2022 market correction.

Since the GFC and now amplified by recent interest rates rises, there has been a retrenchment of bank capital and other traditional financing sources as these players focus on managing their portfolios and dealing with increased regulation and scrutiny. With traditional sources of capital reducing their activity, alternative lenders have gained additional market share by providing reliable sources of financing that borrowers need at a generally more volatile time.



The revised capital stack in US CRE lending

Bank/depositories have given up significant market share to alternative lenders post rate hikes, as they re-enter CRE lending market as lower leverage portion of the capital stack



Alternative Lender origination volume nearly back to pre-rate hike levels, with banks down ~45% as they take lower leverage portion of capital stack.

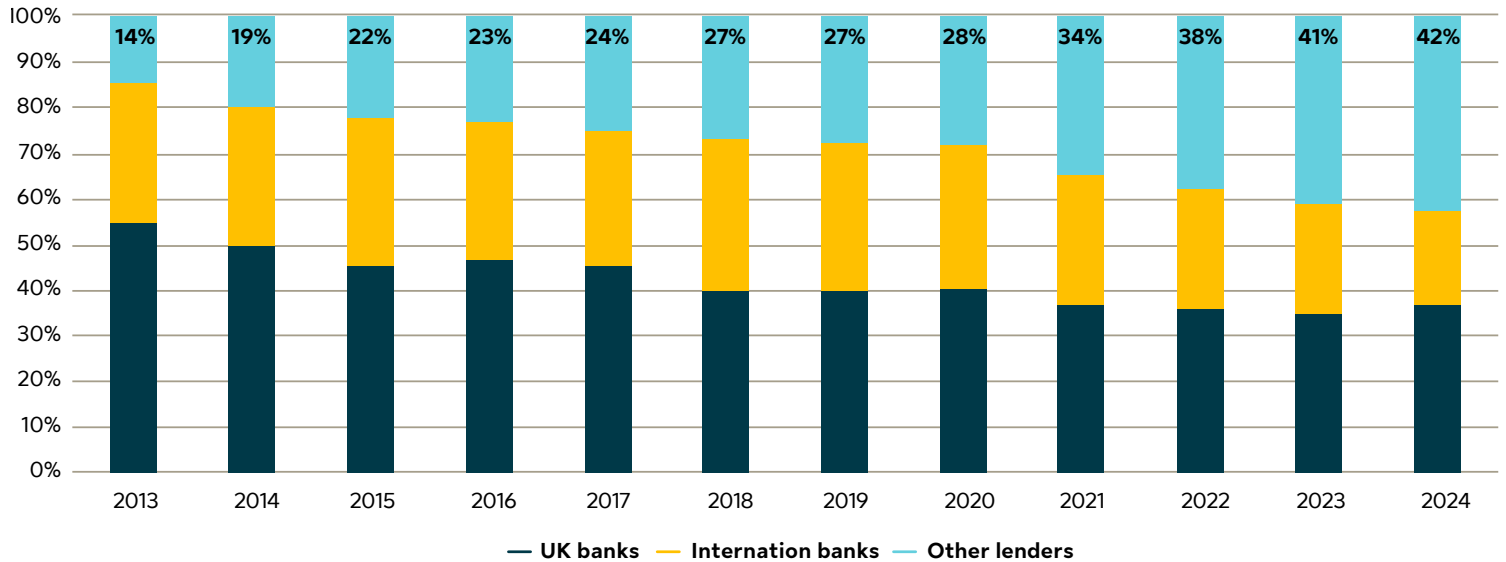
For illustrative purposes only the above does not represent an existing portfolio. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance. It is not possible to invest directly in an index.

¹ Q424 Mortgage Bankers Association Quarterly Survey.

Alternative lenders continue to gain market share in Europe/UK

- **Basel IV tightening the screws:** Stricter capital requirements are holding back banks
- **Legacy loans:** Banks prioritizing resolving existing loans
- **Strategic refocus within capital stack:** Banks lending at lower leverage points
- **Market volatility favors established alternative lenders:** Borrowers are increasingly seeking reliable and flexible lenders that know markets well

Share of outstanding CRE loans by lender type (UK)

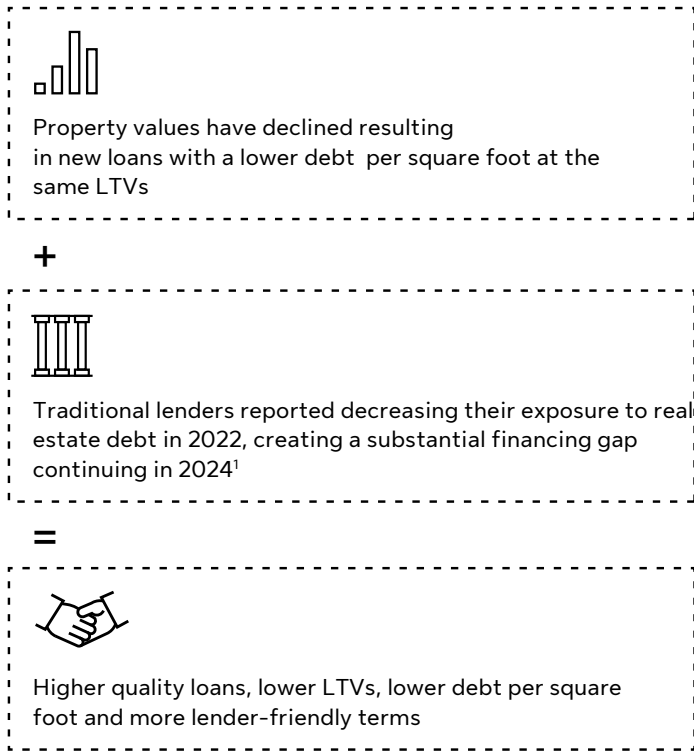


Source: 2024 Bayes Lending Survey

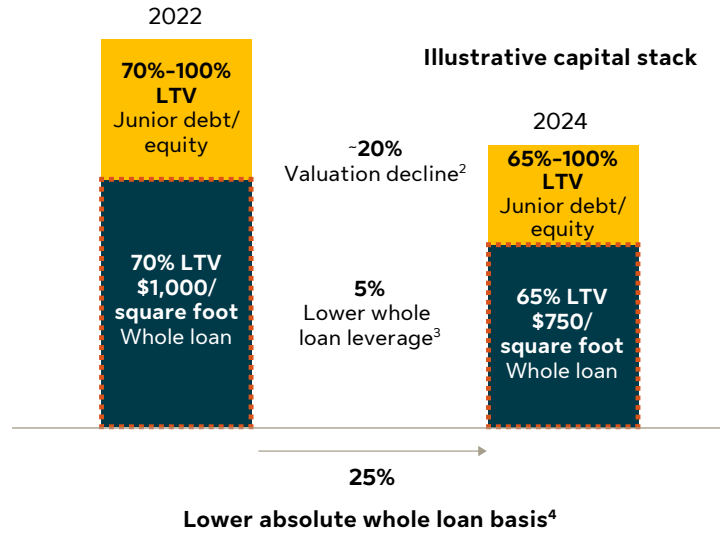
In addition, the CRE market has experienced meaningful value correction. This means loans are now generally originated at a lower basis, translating into lower debt per square foot for the same LTVs. Combining this with less available debt capital means alternative lenders can originate loans at attractive entry points to produce strong risk-adjusted returns. This could be even more compelling in value-add CRE lending as borrowers are further derisking loans with their value-add business plan initiatives.



Market correction provides enhanced credit

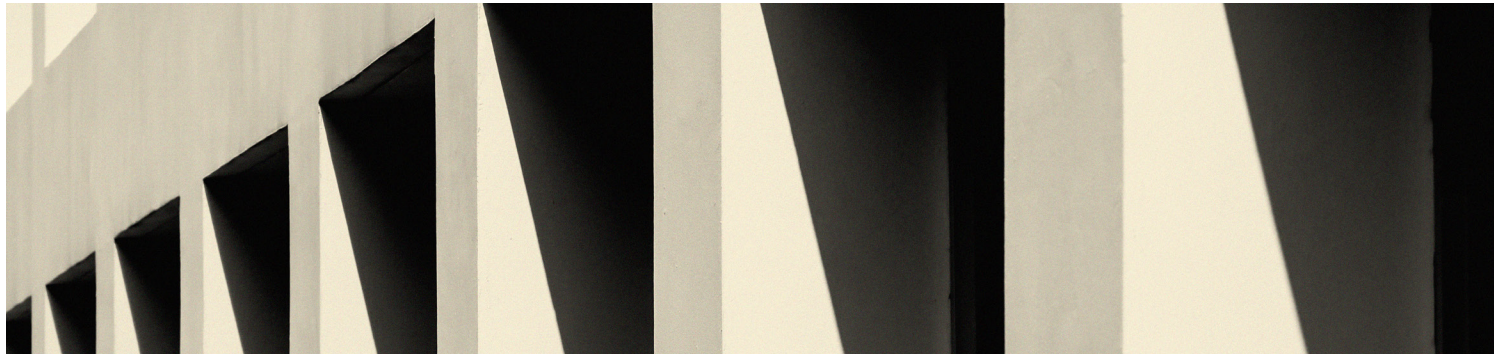


Illustrative capital stack



¹ Real Estate Capital Europe, MBA Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations as of 2024.
² Average European prime yield shift between Q2 2022 and Q1 2024 (Abrdn Real Estate). US yield shift between Q2 2022 and Q1 2024 (MSCI RCA).
³ According to BGO pipeline / indicative term sheet provisions.
⁴ Rounded, obtained by combining methodologies (2) and (3).

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Diversification benefits

Unlike most of the private credit market, which offers broad exposure to firms, governments or pools of borrowers, private CRE credit is largely focused on asset-based lending. This offers a significant ability for lenders to focus – on a market, property type, or even a particular asset – without having to take the broad credit risk that comes from lending at a more aggregate level.

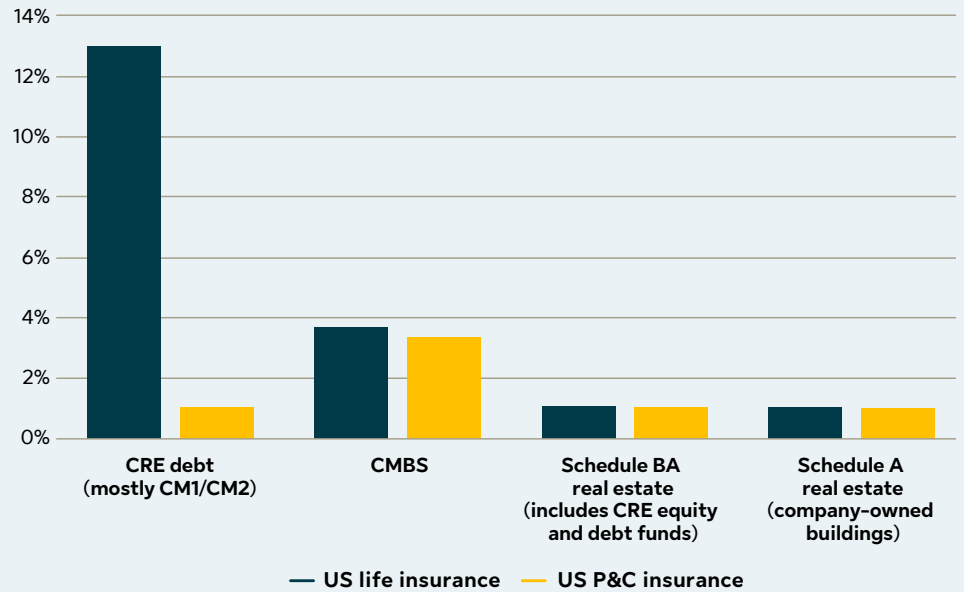
The sheer number of properties offers diverse opportunities relative to other forms of debt. CRE debt offers a far greater number of potential individual loans because the estimated number of commercial properties globally (including multifamily) is in the tens of millions. That surpasses the number of publicly traded companies, governments, pools of securitized debt and potentially even private companies. It is important to note that real estate performance is significantly driven by microeconomic factors, so the sheer volume of buildings presents tremendous opportunity for diversification, which inherently reduces an investors’ volatility.

The case for insurers

An under-allocated asset class

While interest in CRE from insurance investors has increased, outside of life insurers' investment-grade commercial loan holdings, the industry has relatively little exposure to private CRE compared to other asset classes. Given that CRE is one of the largest asset classes in the world, there is significant room for insurer allocations to increase.

US insurance industry investment allocation to real estate



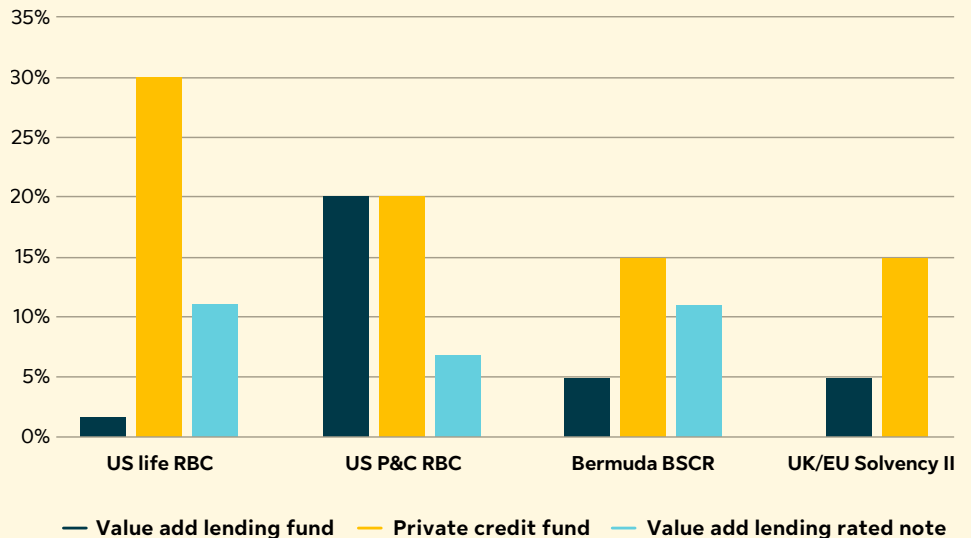
Source: S&P Global Market Intelligence as of 12/31/2024

For US life insurance industry, 90% of CRE debt holdings are CM1 & CM2 (investment grade) loans, represented by the patterned bar. The Value Add Lending strategy has an average rating of CM2/CM3 (CM3 is below investment grade).

High capital efficiency

Relative to other private asset classes, CRE debt funds are more capital efficient across most capital regimes, which adds another layer of appeal to the asset class for capital-conscious insurers. In addition, under regulatory regimes such as U.S. P&C RBC where investing in any type of fund comes with punitive capital treatment, the option to incur lower capital charges by investing via rated notes or other capital efficient vehicles exists for CRE debt (as it does for private credit). European capital regimes benefit from look-through treatments allowing CRE debt funds to benefit from more capital efficiency versus other private credit investments.

Insurance regulatory capital charges



Source: NAIC, BMA, EIOPA, SLC Management analysis. Assumes no fund level leverage. Bermuda BSCR and Solvency II capital charges assume look through to underlying securities. For BSCR, private credit assumed average rating = B. For Solvency II, Value Add Lending Fund capital charge assumes an effective duration of 2.5 years and credit quality 4 (CM3); private credit fund capital charge assumes no ECAI credit assessment available for underlying collateral and effective duration of 5 years. Rated note assumes tranches of 50% BBB, 30% BB, and 20% equity.

Strategic asset allocation: Modeling a compelling option

Like other income-oriented private alternative investments, CRE debt models well in strategic asset allocation (SAA) analyses, which can result in an improvement in the portfolio's expected return as well as reduction in the implied volatility, with the lower volatility driven by diversification benefits.

Layered with the capital efficiency and durable income required by insurers, it becomes a compelling option. The analysis shows the impact of 5% and 10% pro-rata reallocations out of a traditional P&C insurance company portfolio into value-add lending.

A strong portfolio component worth consideration

Value-add CRE debt warrants consideration by insurers looking for a capital-efficient path to steady income with downside protection. CRE debt is a large and growing asset class comprising significantly more potential loans than other forms of debt. Providing access to floating rate asset-backed loans originated at attractive LTVs and backed by improving collateral, value-add CRE debt features floating rate floors for additional risk management. And with property rates lower since the 2022 correction, attractive entry points can translate into strong risk-adjusted returns. Insurers may well benefit from reviewing their SAA to evaluate the role value-add CRE might have in enhancing their portfolio and their balance sheet.



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Our insurance heritage has guided the deliberate evolution of this global investment and insurance solutions platform, which has been constructed to meet insurers' specialized needs. Our strategies are delivered in capital efficient structures when practical and serve as critical building blocks that help provide insurers with enhanced income and total return, downside risk mitigation and liquidity management.

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