Credit Currents:

Insights across public and private credit

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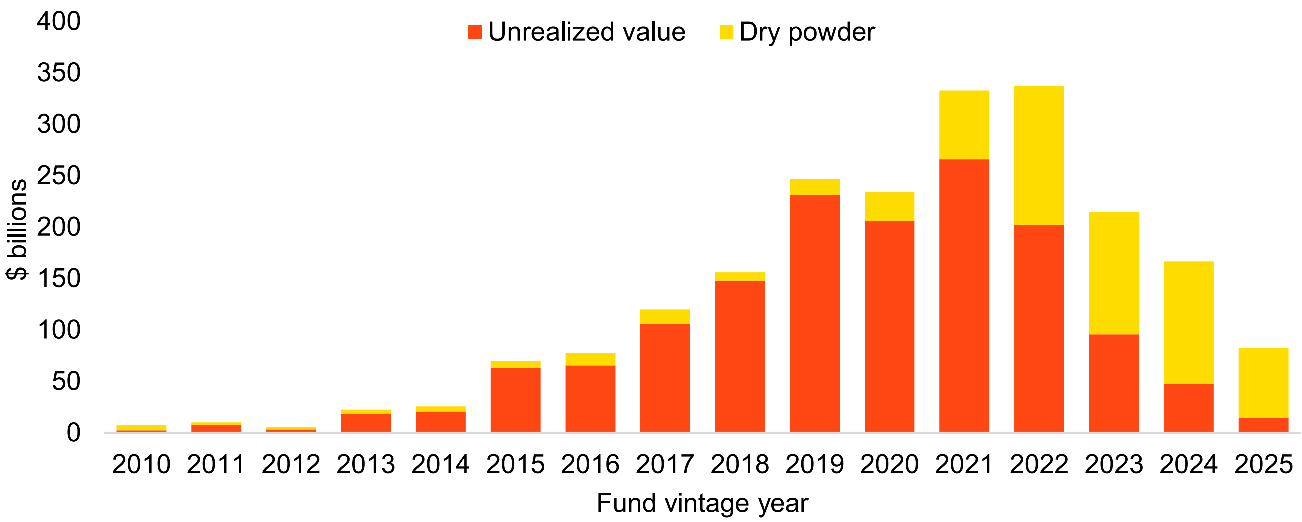
CRE: A more stable backdrop, but an uneven recovery

1. **Commercial real estate is moving beyond the broad repricing of recent years toward a more stable, but differentiated, phase.** Property values have steadied, improving price discovery and supporting a 24% YoY increase in U.S. transaction volume in the 1H2026. However, the recovery remains uneven across property types.
2. **AI-related investment is creating a source of demand for data centers and related infrastructure.** The opportunity spans public and private markets. Within private markets, exposure can appear across CRE, infrastructure, private equity and private credit, blurring traditional asset class boundaries.
3. **Distress remains most concentrated in office**, which represents 46% of outstanding distress. Even so, modest bank CRE charge-offs and generally sufficient reserve levels suggest that property-level stress has not translated into broad credit deterioration.
4. **Capital is returning gradually and selectively.** Private CRE fundraising has favored opportunistic and value-add strategies, while newer vintages hold meaningful dry powder and older vintages retain substantial unrealized value.

Exhibit 1: More recent vintage years show strong dry powder levels available for deployment
Real estate assets under management by fund vintage year, in $ billions



Source: Preqin, BlackRock. As of YE2025 (most recent).

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Commercial real estate: A more stable backdrop, but an uneven recovery

Commercial real estate is moving beyond the broad repricing of recent years, but the recovery remains uneven. A more stable valuation backdrop is supporting price discovery and transaction activity, while AI-related investment is creating a distinct tailwind for data centers and related infrastructure. Yet still-elevated financing costs, upcoming refinancing needs and divergent property fundamentals continue to shape outcomes, with distress concentrated in office. Capital is returning to private commercial real estate, but allocations remain selective across strategies and managers.

CRE values have stabilized, but sector dispersion remains wide

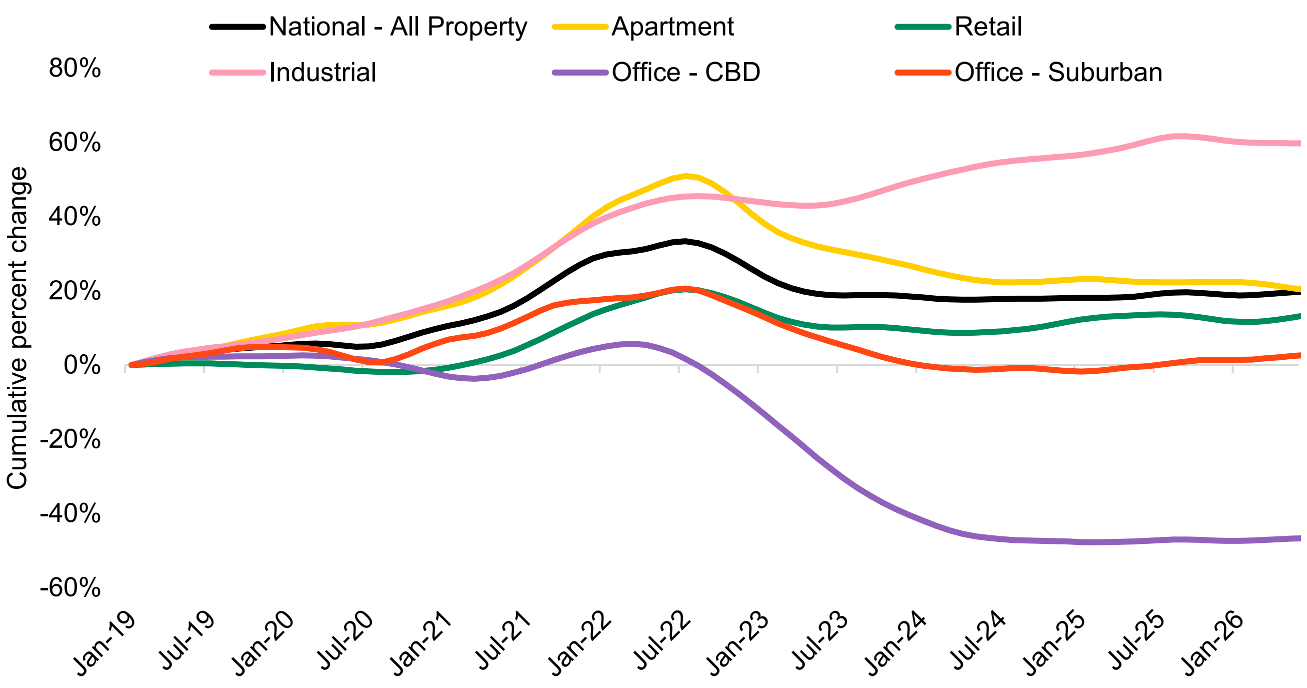
The MSCI Real Capital Analytics Commercial Property Price Index (RCA CPPI) suggests that U.S. CRE property values have generally steadied, with the all-property index up 0.9% year-over-year (YoY) as of 2Q2026 (Exhibit 2). Greater price stability can narrow the gap between buyer and seller expectations, supporting transaction activity and market liquidity.

That said, financing conditions remain a consideration for the asset class. Policy rates and Treasury yields remain elevated relative to the decade preceding the COVID-19 pandemic, keeping borrowing costs high and weighing on asset values. Even so, we expect that any incremental increases are likely to be more gradual than those experienced in 2022 and 2023, reducing the risk of another broad-based repricing, in our view.

Despite the stabilization in aggregate CRE values, performance remains highly differentiated across sectors and asset quality. Industrial property values have been relatively resilient, supported by tailwinds related to logistics demand and supply-chain reconfiguration. As of 2Q2026, industrial property values are approximately 60% above January 2019 levels, per data from RCA CPPI.

By contrast, central business district (CBD) office values remain roughly 47% below January 2019 levels, reflecting weaker demand associated with hybrid work, elevated vacancies and refinancing pressures. Though importantly, dispersion is also pronounced within office, where newer, well-located, high-quality assets have generally attracted stronger demand than lower-quality properties.

Exhibit 2: Stable property values are a key input for CRE's broader recovery
Cumulative percent change in the level of the Real Capital Analytics Commercial Property Price Indices (RCA CPPI), since January 2019



Source: MSCI Real Capital Analytics, BlackRock. As of June 30, 2026 (most recent available).

Transaction activity continues its directional recovery

Stabilizing asset values are also supporting a gradual recovery in transaction activity. Indeed, aggregate U.S. CRE transaction volume increased 24% YoY in 1H2026 (Exhibit 3), pointing to improving momentum.

Measured against pre-pandemic norms, however, the recovery remains uneven across property types. Industrial transaction volume in 2Q2026 reached 143% of the average quarterly pace from 1Q2016 through 4Q2019 (i.e., pre-pandemic), while office activity, despite improving, remained at just 53% of its pre-pandemic average.

The range of property types contributing to activity is also broadening. The "other" category, which includes hotels, development sites, senior housing & care facilities, and data centers, represented 23% of total transaction volume in 2Q2026, compared with a pre-pandemic average of 14%. The contribution of these property types remain generally small and can often be lumpy, reflecting the impact of large deals. Data centers are a clear example of this.

Tracking the AI theme

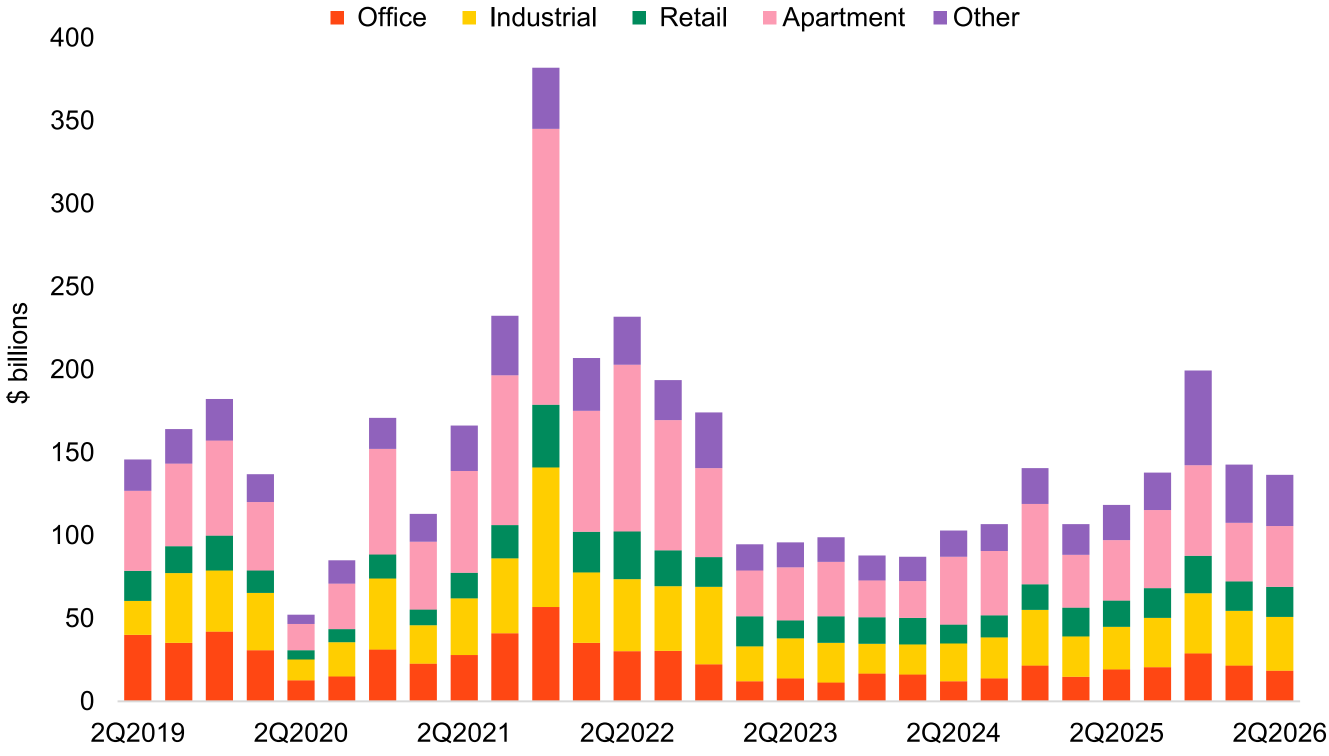
Indeed, the AI buildout is creating investment demand across data centers and related infrastructure. The AI theme spans public and private markets and within private markets, can appear across CRE, infrastructure, private equity and private credit.

RCA data provide a view of the real estate component of this activity (Exhibit 4, next page). Because the CRE data center transaction market remains relatively small, quarterly volumes can be highly deal-driven, as illustrated by the sharp increase in the Americas in 4Q2025. As such, we view the series as directionally informative rather than as a measure of underlying momentum during any given quarter.

That said, the breadth and complexity of the AI investment opportunity reinforce the need for deal-specific analysis, in our view. Indeed, underwriting and structuring should reflect the asset and capital structure, including development and execution risk and, for debt investments, borrower default risk.

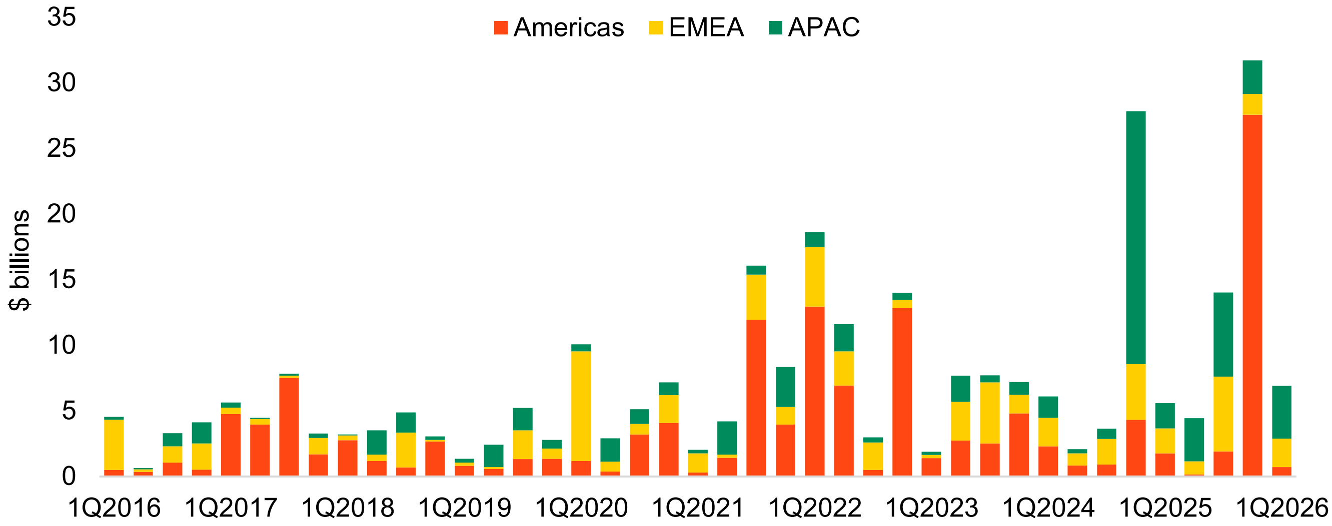
Exhibit 3: U.S. CRE transaction activity continues to improve

U.S. CRE transaction volume by property type, in $ billions



Source: MSCI Real Capital Analytics, BlackRock. As of 2Q2026. Other includes hotels, dev sites, seniors housing & care, and data centers.

Exhibit 4: Data center transaction volume is often lumpy and deal-driven
Real estate data center transaction volume, by region, in $ billions



Source: MSCI Real Capital Analytics, BlackRock. As of 1Q2026 (most recent available for EMEA and APAC regions).

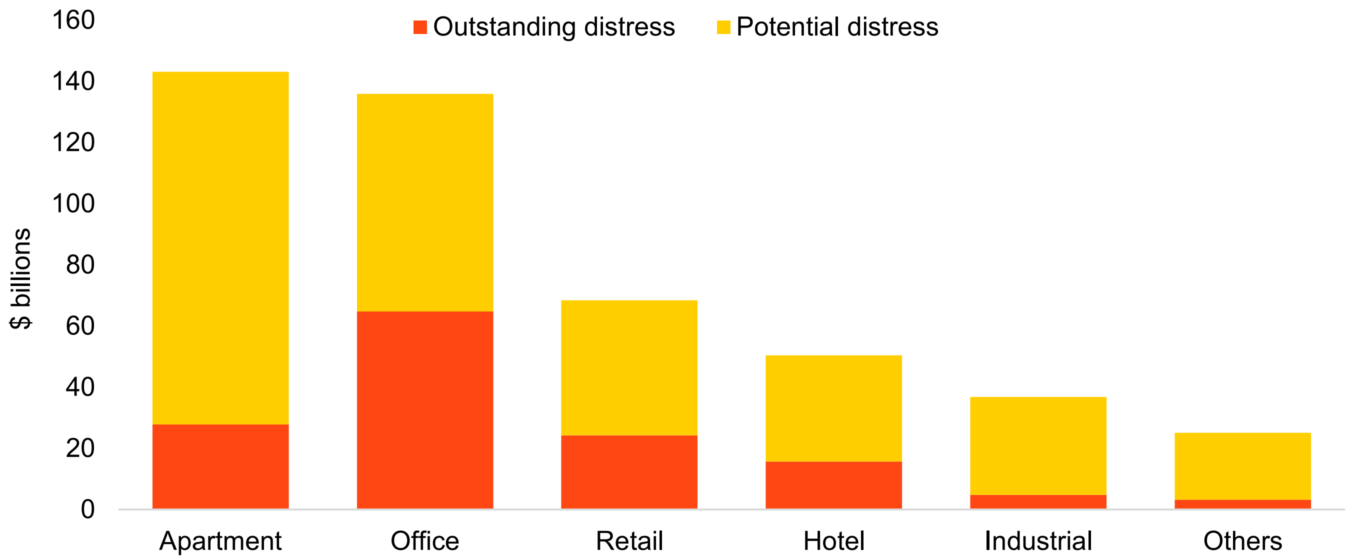
Office remains the center of distress, though new pressure is broader

Even as asset values stabilize and transaction activity recovers, distress remains an important part of the CRE opportunity set. Higher policy rates, elevated long-term Treasury yields, lower property values, tighter lending standards and property fundamentals continue to weigh on refinancing and asset performance.

Outstanding distress rose modestly in 2Q2026, driven primarily by a slower pace of workouts, rather than because newly arising distress accelerated meaningfully, per RCA. This points to a market in which challenged assets are taking longer to resolve, extending the opportunity for capital providers able to finance, restructure or reposition them.

Office remains the largest source of outstanding distress, accounting for approximately $65 billion, or 46% of the total, in 2Q2026 (Exhibit 5). However, new office distress slowed considerably during the quarter, while net additions were more pronounced across apartment, industrial and retail. The shift suggests that legacy office challenges remain the dominant overhang, even as more modest pockets of pressure emerge across the broader CRE market.

Exhibit 5: Office properties represent the largest share of outstanding distress volume
Outstanding and potential distress by property type, in $ billions



Source: MSCI Real Capital Analytics, BlackRock. As of 2Q2026. "Others" category captures asset types not included in RCA's standard volume statistics, such as self storage and manufactured housing.

CRE loan performance remains broadly resilient, despite ongoing pressure

Importantly, concentrated property-level stress has not translated into broad deterioration in CRE credit. Because banks remain a major source of financing for the asset class (Exhibit 6), their CRE exposures provide a useful gauge of whether stress is spreading more broadly.

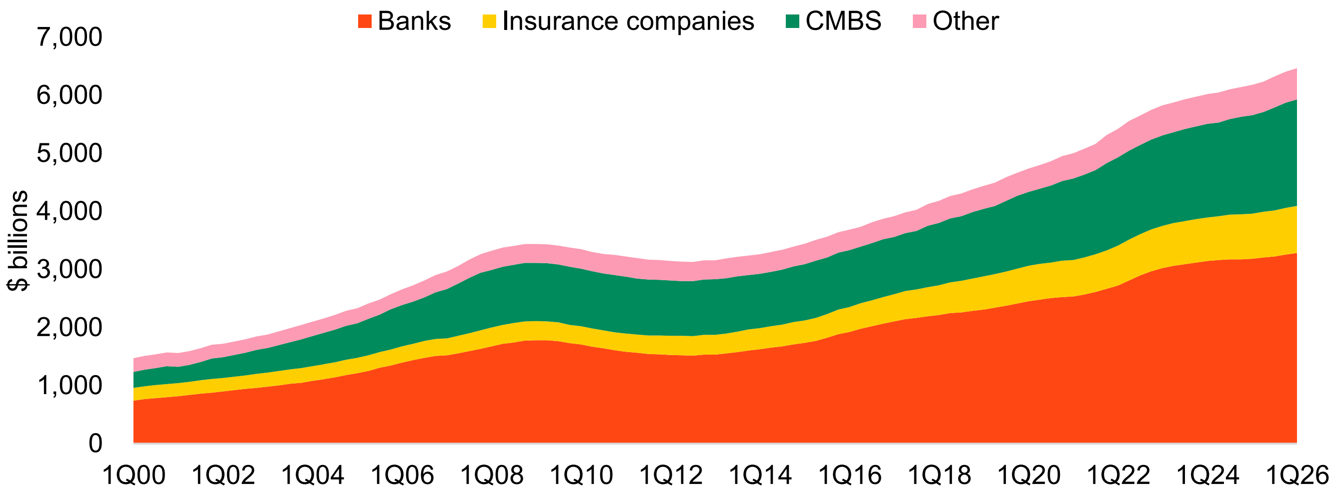
Indeed, U.S. bank CRE charge-off rates remain modest (Exhibit 7). While charge-offs generally lag broader stress, we view this as directionally informative given the enduring nature of ongoing disruptions.

Recent bank commentary also points to gradual improvement. Across 19 2Q2026 earnings calls, management teams generally described CRE conditions as improving, including some progress in office, although it remains the most pressured segment. Many banks viewed existing reserves as sufficient to absorb expected losses, and some indicated that reserve releases could become possible if credit performance continues to stabilize.

Though pressure on CRE loans has not fully cleared. Indeed, a Moody's report, which characterizes a cohort of 10 rated non-bank CRE lenders, noted that higher credit-loss provisions weighed on profitability for the segment in 1Q2026.

Exhibit 6: Banks represent the largest share of CRE loans outstanding

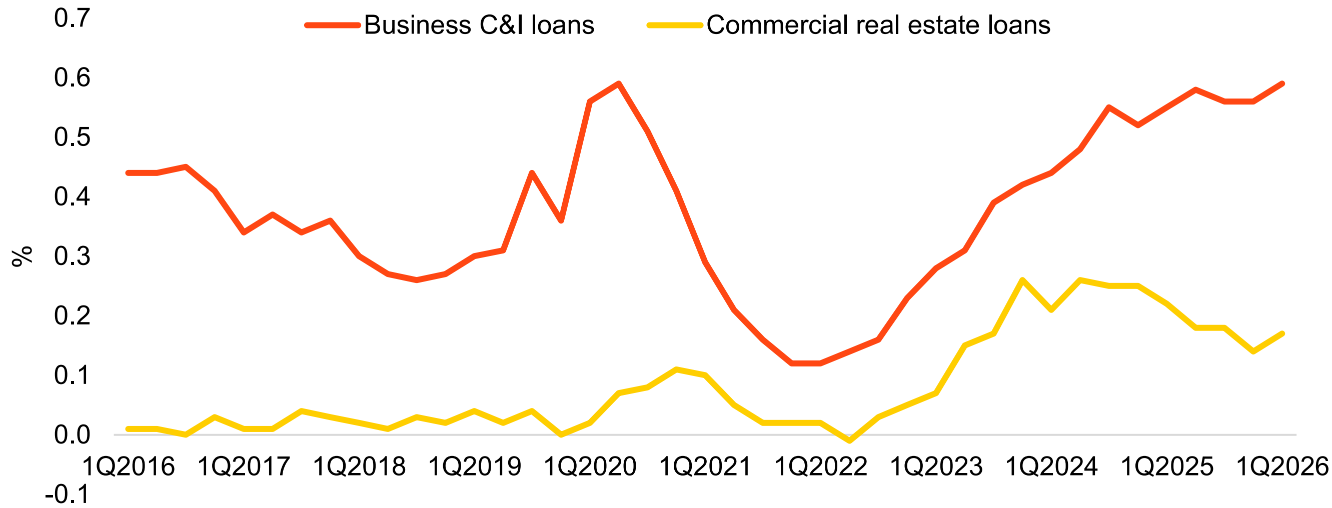
Commercial and multifamily real estate loans outstanding, in $ billions



Source: Federal Reserve, Green Street, BlackRock. As of 1Q2026. Includes mortgages backed by construction projects (~$550B) and owner-occupied properties (~$660B). "Other" includes mREITs, finance companies, pension funds, and others. CMBS includes agency portfolios and CMBS ($1.2T) and non-agency CMBS ($0.7T). mREITs holdings are adjusted to exclude CMBS securities owned.

Exhibit 7: Charge-off rates for U.S. bank CRE loans are contained

Charge-off rate for U.S. bank commercial & industrial (C&I) loans and U.S. bank commercial real estate loans (excluding farmland)



Source: Board of Governors of the Federal Reserve System, FRED, BlackRock. As of 1Q2026. Data is annualized and net of recoveries.

Capital is returning to private CRE, but selectively

Capital is beginning to return to private CRE, although the fundraising recovery remains measured. Global commitments improved in 2025 but remained well below the record levels reached in 2021 (Exhibit 8), pointing to a gradual recovery in investor appetite rather than a broad-based rebound.

The improving opportunity set is supported by several factors, in our view. Persistent inflation risk has reinforced the appeal of real assets for some institutional investors, while elevated financing and construction costs have acted as a headwind to new development in some sectors. For example, data from Green Street demonstrates that supply growth has slowed for office and industrial properties in recent years, which may support fundamentals for existing assets where demand remains resilient.

Fundraising patterns reflect this more selective environment. Capital has increasingly shifted toward strategies positioned to navigate a more complex backdrop, either through active asset repositioning or by providing financing where traditional sources of capital remain constrained. For example, opportunistic funds accounted for 42% of capital raised in 2025, vs. a five-year average of 28%.

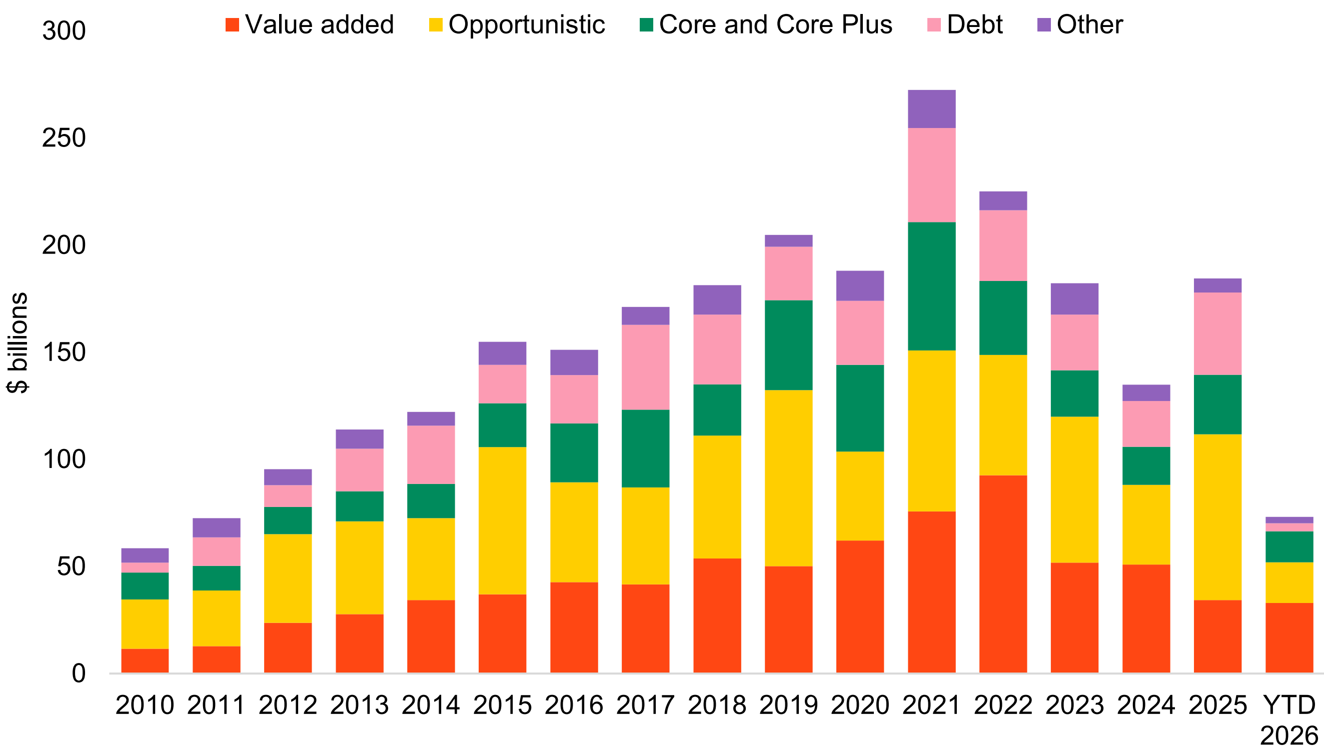
The emphasis has more recently shifted toward value-add strategies, which represented 45% of year-to-date 2026 fundraising, the largest share across strategies. Several large fund closings contributed to that total. Nonetheless, we view this as an indication that capital is returning to managers with the flexibility to reposition assets, address financing needs and invest through periods of market dislocation.

The industry's vintage profile provides another indication of this transition. Funds raised from 2019 through 2022 account for much of the market's unrealized value, while the 2023 through 2025 vintages hold a larger share of dry powder (Exhibit 1, first page). Some of this reflects the normal fund lifecycle, but the volume of unrealized value in more mature funds is also consistent with the prolonged slowdown in realization activity. Meanwhile, capital available in newer vintages creates capacity to invest as valuations reset and transaction markets reopen.

The result is a market supported by meaningful capital, but one in which deployment remains disciplined, and strategy and asset selection remains central to the opportunity.

Exhibit 8: Capital is returning, but selectively

Historical private real estate capital raised, in $ billions, by strategy



Source: Preqin, BlackRock. As of July 28, 2026. Other includes fund of funds, secondaries, distressed and co-investment.

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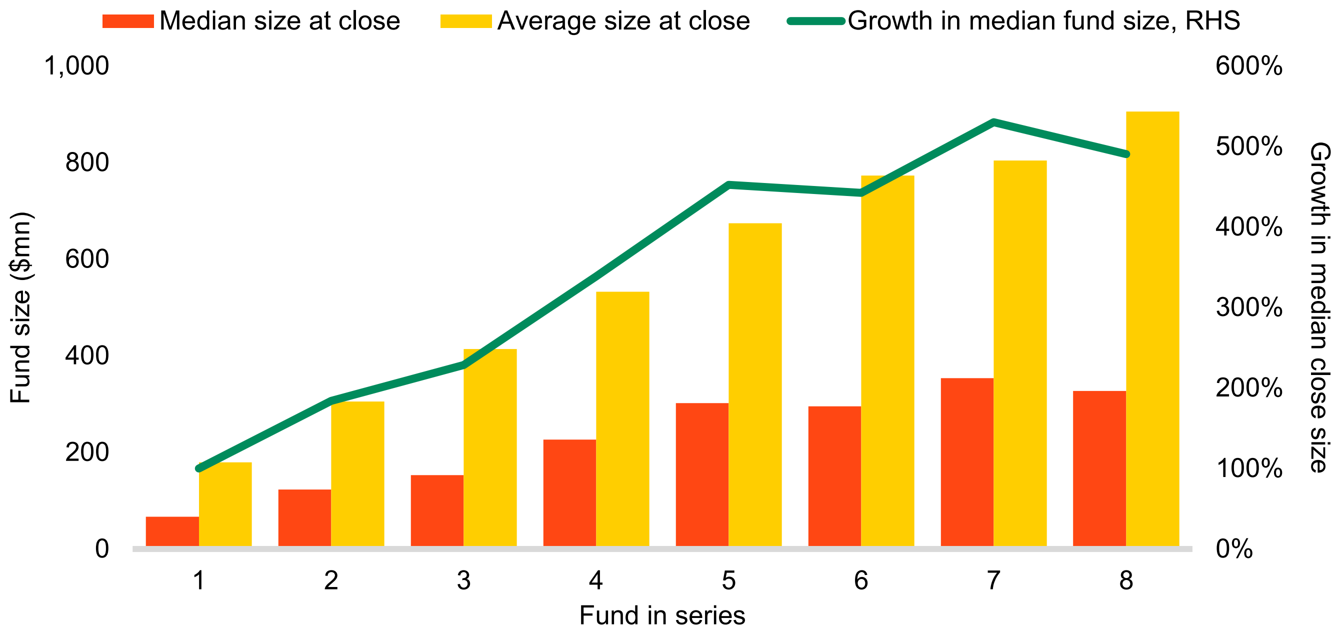
Capital availability is also uneven across managers. Preqin data by fund sequence show that median fund size more than doubles between a manager's first and third funds, suggesting that successful platforms can scale relatively early in their fundraising lifecycle (Exhibit 9). Beyond the fourth fund, however, growth moderates and median fund sizes settle into a relatively stable range, suggesting that fundraising scale becomes more established as platforms mature.

However, average fund sizes follow a different path, reflecting the influence of a relatively small group of scaled managers that continue to raise increasingly large vehicles. Average fund size rises from approximately $179 million for first-time funds to roughly $900 million by the eighth fund (vs. a median eighth-fund size of approximately $328 million). The widening gap between the average and median points to a small number of very large funds lifting the average.

Exhibit 9: Median fund size scales early, though average fund size rises steadily over successive funds

Median and average fund size at close for successive commercial real estate closed-end funds, and growth in median fund size, RHS



Source: Preqin Private Market Research, BlackRock. As of May 2026. For growth in median close size, note that first fund = 100%.

Unless otherwise stated, all reference to $ are in USD.

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