U.S. Commercial Real Estate Outlook

Commercial Real Estate's Two-Speed Market

by Morris Chen, Head and Lead Portfolio Manager
Commercial Mortgage-Backed Securities and Commercial Real Estate Team

The U.S. commercial real estate (CRE) market is undergoing a continued but uneven recovery – defined by a two-speed dynamic. Property transaction volumes have improved, and capital markets have reopened. However, the pace and strength of recovery vary significantly across sectors. In the view of the Doubleline Commercial Mortgage-Backed Securities CMBS/CRE team, this divergence presents both risks and opportunities.

Geopolitical tensions, evolving trade policy and a more protectionist U.S. stance have added layers of complexity to CRE. Slower cross-border capital flows, rising tariff friction and a reorientation of global capital away from the U.S. likely will lengthen investment timelines and alter pricing dynamics. Meanwhile, persistent interest-rate volatility, concerns over the risk of slowing economic growth, shifting central bank postures and changes in municipality governance are challenging risk calibration and underwriting.

In response, DoubleLine's CMBS/CRE team is emphasizing investments that can generate predictable, cash-flow-driven returns. This means de-emphasizing reliance on cap rate compression in favor of more firmly rooting qualifying CRE profiles in fundamental demand. We tend to favor sectors such as multifamily housing, student housing, industrial logistics, self-storage and necessity-based retail. These areas may benefit from secular tailwinds, stable usage patterns and tenancy resilience, even in less favorable macroeconomic conditions.

In contrast, we remain cautious on commodity office, where structural usage changes, potential disruption of artificial intelligence in white-collar jobs and high cost to re-tenant challenge long-term value and consistency of income. In our view, these headwinds are not merely cyclical – they are symptomatic of a broader revaluation of how property is used, financed and prioritized. We are also cautious on commoditized hotels as the cyclical nature of cash flows, rising labor costs and operational intensive nature of these assets are headwinds to income and valuation.

This two-speed framework is central to how the CMBS/CRE team underwrites and allocates capital. It reinforces our focus on assets with resilient income and thematic sector alignment. Identifying collateral with these embedded characteristics requires significant attention to detail and analytical skill at the localized property level. The CMBS/CRE team possesses these qualities, which I believe are essential to navigating the complexities of today's CRE environment and delivering outcomes that align with the needs of our investors.

Commercial Real Estate's Two-Speed Market

Investment Strategy: Prioritizing Resilient Income in a Two-Speed Market

In a bifurcated CRE landscape, the ability to generate resilient income – even in flat or faltering markets – is more critical than ever.

The team tends to favor sectors that exhibit cash-flow resilience and lower cyclical sensitivity:

- **Multifamily Housing:** supported by supply constraints and long-term demographic demand
- **Student Housing:** **c**ountercyclical performance tied to enrollment stability
- **Industrial Logistics:** benefiting from e-commerce, supply chain reconfiguration and regionalization
- **Self-Storage:** operational flexibility and demand durability across economic conditions
- **Necessity-Based Retail:** anchored centers with consistent foot traffic and omni-channel alignment

This sector focus reflects our broader investment philosophy: targeting resilient yield, embracing idiosyncratic underwriting and structuring transactions to mitigate known risks.

Private CRE Debt Investment Strategy: Defensive Yield in a Transitional Market

In an environment marked by rate volatility, policy uncertainty and uneven recoveries in the event of default across asset types, CRE loans may offer an attractive investment profile. At DoubleLine, we view private CRE debt strategies – particularly in the core and transitional loan spaces – as a compelling way to access resilient income, downside protection and thematic exposure with structural control, particularly in the face of impending CRE loan maturities that remain unaddressed. *(Figure 1)*

Loan Maturities by Lender Type | As of March 31, 2025

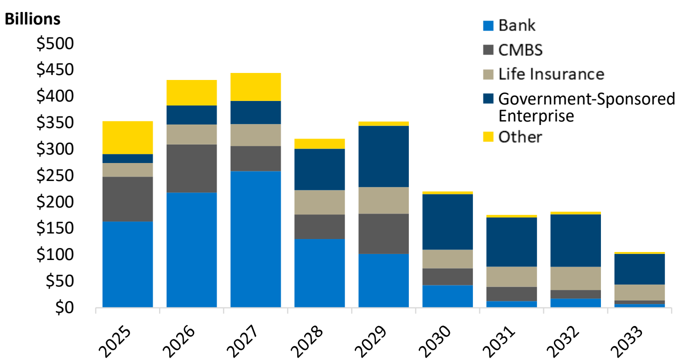

Figure 1
Source: DoubleLine, KBRA, MSCI RCA

Macro and Market Dynamics Driving This Opportunity

Elevated base rates and wider credit spreads have pushed senior loan coupons to cyclical highs.

Traditional lenders remain constrained, creating a significant funding gap – particularly for transitional assets, refinancings and development projects.

Stronger entry points with CRE valuations having reset and tighter lending standards, lower loan-to-value ratios (LTVs) and enhanced covenant protections that may provide stronger downside mitigation.

Private CRE debt investors may exert control over underwriting, asset selection and sponsorship while capturing equity-like returns with subequity volatility.

For capital seeking yield with principal preservation and structural protection, CRE credit represents a timely allocation opportunity.

DoubleLine Private CRE Debt Strategy Framework

Strategy Type	Description	Key Characteristics
Core	Senior loans on stabilized, high-quality assets	• Modest leverage • Strong sponsors and locations • Predictable income • Contractual protections
Transitional	Loans supporting value-add or lease-up business plans	• Moderate LTVs • Typically, floating rate • Targets improving income and credit profile

CMBS Relative Value & Full-Year 2025 Market Outlook

CMBS spreads have continued to trade at historically wide levels relative to investment grade (IG) corporates, presenting compelling value for investors seeking attractive risk-adjusted returns. *(Figure 2)*

Percentile Rank vs. Current Spread | As of June 30, 2025

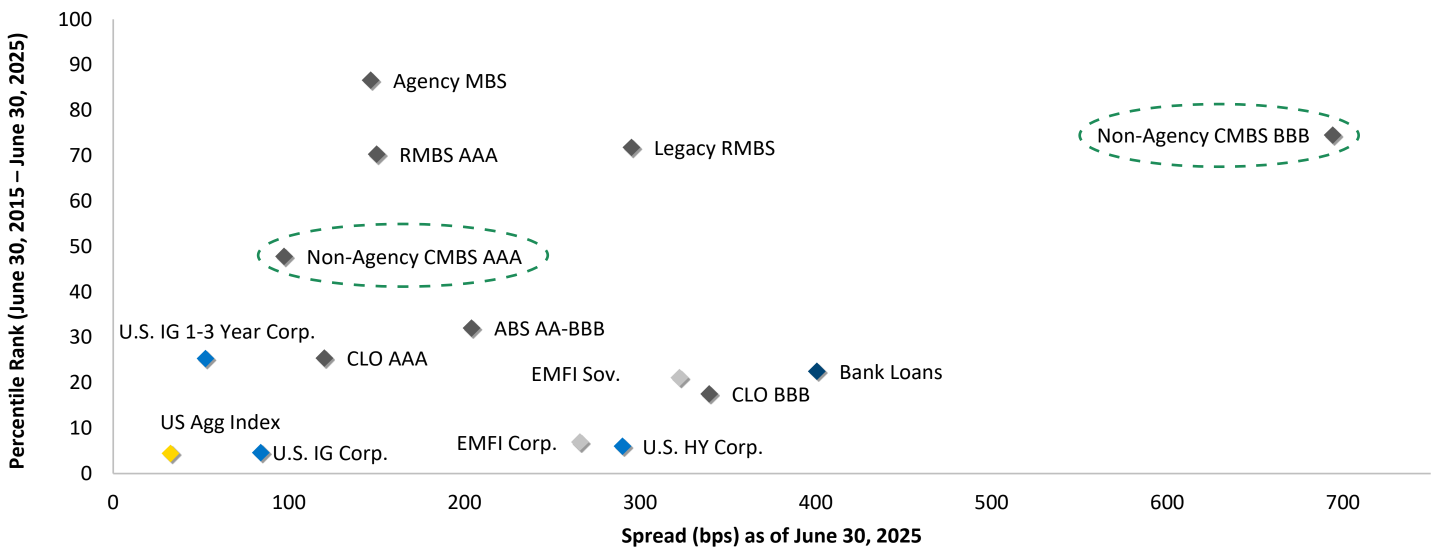

Figure 2
Source: DoubleLine, Bloomberg, Wells Fargo
US Agg Index (Bloomberg US Aggregate Bond Index); RMBS (Residential MBS); Corp. (Corporates); ABS (Asset-Backed Securities); CLO (Collateralized Loan Obligations); EMFI (Emerging Markets Fixed Income); Sov. (Sovereigns); HY (High Yield)

With capital markets reopening and functioning with improved stability, issuance estimates for full-year 2025 are forecast in the range of **$120 billion to $140 billion.** *(Figure 3)* This expected pickup in supply could create a conducive environment for investors to be **highly selective** in structuring portfolios that balance **strong yields with high credit quality.**

Importantly, elevated **base rates** continue to offer a favorable yield backdrop, enabling fixed income portfolios to have the potential to generate solid income without taking on excessive credit risk. This dynamic holds especially true in the private-label CMBS space, where **spread dislocations** persist despite improving fundamentals and structural protections in newly originated deals.

In the broader context of **CRE debt investing**, private-label CMBS may offer a unique advantage compared to private CRE debt. While both sectors share similar themes of yield enhancement and moderate risk appetite, private-label CMBS may benefit from **greater liquidity, transparency and standardized underwriting.** Thus, investors that want access to the real estate debt market and need liquidity should consider private-label CMBS as an option in their portfolio.

Year-to-Date Private-Label CMBS Issuance | As of June 30, 2025

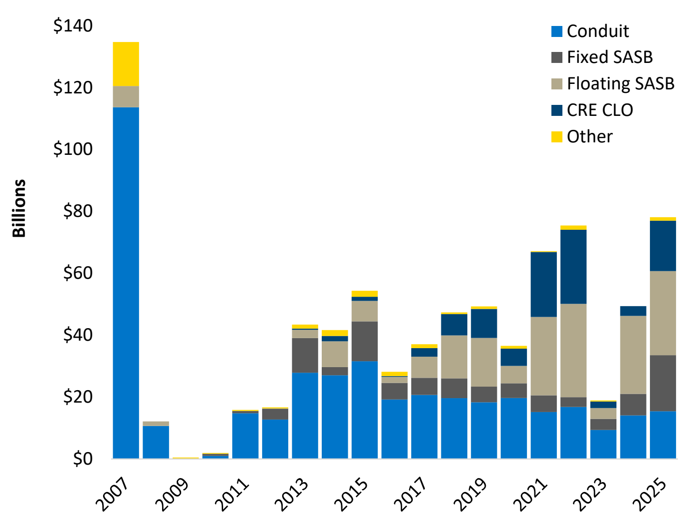

Figure 3
Source: DoubleLine, J.P. Morgan Research
SASB (Single Asset, Single Borrower); CLO (Collateralized Loan Obligations)

About the Author

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Mr. Chen joined DoubleLine at its inception in 2009. He is a Portfolio Manager, leading the CMBS/CRE Debt Investment team and CRE New Investment Review team, and is responsible for the oversight and management of all CRE debt-related investments at DoubleLine. Mr. Chen is a permanent member of the Fixed Income Asset Allocation and Structured Products committees, providing valued insight into the CMBS sector. He is also an active participant and speaker at CREFC events. Prior to DoubleLine, Mr. Chen was a Vice President at TCW, where he was responsible for CMBS credit analysis and trading from 2004 to 2009. He holds a B.S. in Business Administration with concentrations in Business Development and Finance from the University of California, Riverside.

DoubleLine Commercial Mortgage-Backed Securities and Commercial Real Estate Debt Team

DoubleLine's Commercial Mortgage-Backed Securities (CMBS) and Commercial Real Estate (CRE) Debt team, led by Portfolio Manager Morris Chen, manages $12.5 billion in CMBS and other CRE debt in CRE-dedicated and multi-sector investment strategies and portfolios. CMBS/CRE team members average over 17 years of experience in the industry. Within the CRE asset class, the team invests across the credit spectrum from the senior part of the capital structure through B-piece investments, mezzanine loans and B-notes, with portfolio characteristics managed to meet investors' risk tolerance and return objectives. The team directly participates in CRE debt workouts and direct originations through the DoubleLine platform as well as its strategic partners.

Agency – Refers to mortgage-backed securities (MBS) whose principal and interest are guaranteed by a U.S. government agency such as Fannie Mae (FNMA) or Freddie Mac (FHLMC).

Asset-Backed Securities (ABS) – Investment securities, such as bond or notes, that are collateralized by a pool of assets, such as loans, leases, credit card debt, royalties or receivables.

Basis Points (bps) – Basis points (or basis point (bp)) refer to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% or 0.0001, and is used to denote the percentage change in a financial instrument. The relationship between percentage changes and basis points can be summarized as: 1% change = 100 basis points; 0.01% = 1 basis point.

Bloomberg US Aggregate Bond Index – This index (the "Agg") represents securities that are SEC registered, taxable and U.S. dollar denominated. It covers the U.S. investment grade, fixed-rate bond market, with components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Collateralized Loan Obligation (CLO) – Single security backed by a pool of debt.

Commercial Mortgage-Backed Securities (CMBS) – Securitized loans made on commercial rather than residential properties.

Conduit Loans – Type of loans, also known as commercial mortgage-backed securities (CMBS) loans, that are commercial real estate loans pooled together with similar commercial mortgages and sold on the secondary market. On the secondary market, conduit loans are divided into tranches based on risk, return and loan maturity.

Government-Sponsored Enterprise (GSE) – Quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies – although they are privately held – provide public financial services. GSEs help to facilitate borrowing for a variety of individuals, including students, farmers and homeowners.

High Yield (HY) – Bonds that pay higher interest rates because they have lower credit ratings than investment grade (IG) bonds. HY bonds are more likely to default, so they must pay a higher yield than IG bonds to compensate investors.

Investment Grade (IG) – Rating that signifies a municipal or corporate bond presents a relatively low risk of default. Bonds below this designation are considered to have a high risk of default and are commonly referred to as high yield (HY) or "junk bonds." The higher the bond rating the more likely the bond will return 100 cents on the U.S. dollar.

Legacy RMBS – Name for private-label, aka non-Agency, residential mortgage-backed securities (RMBS) issued before the shift to stricter post-Global Financial Crisis (GFC) guidelines. RMBS issued post-GFC are referred to as "RMBS 2.0."

Loan-to-Value (LTV) Ratio – Assessment of lending risk that financial institutions and other lenders examine before approving a mortgage. Typically, loan assessments with high LTV ratios are considered higher-risk loans. Therefore, if the mortgage is approved, the loan has a higher interest rate.

Residential Mortgage-Backed Securities (CMBS) – Securitized loans made on residential properties.

Spread – Difference between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument. The spread can be measured between debt instruments of differing maturities, credit ratings or risk.

You cannot invest directly in an index.

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