FIERA REAL ESTATE

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Private Real Estate Debt: A Complement to Traditional Fixed Income

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For decades, government bonds have occupied a foundational role within institutional portfolios. They have been viewed as the bedrock of capital preservation, a reliable source of income and a portfolio stabilizer during periods of economic stress. While those characteristics remain important, the global fixed income landscape has evolved meaningfully in recent years.

This is a marketing communication.

Government debt issuance is accelerating across developed markets amid persistent fiscal expansion, inflation uncertainty and heightened interest rate volatility. As a result, investors are increasingly evaluating complementary sources of income and diversification that may enhance traditional fixed income allocations.

Private real estate debt has quietly emerged as one of the most compelling complements within the broader fixed income spectrum. Backed by tangible assets, structured with conservative loan-to-value ratios and characterized by shorter duration profiles, private real estate debt can provide **attractive income generation, inflation resilience, lower interest rate sensitivity, stronger downside protection and meaningfully wider yield premiums** than traditional government bonds.

This paper contends that the widening divergence between sovereign debt and private real estate credit reflects a broader *structural* evolution within fixed income markets. Rather than replacing government bonds, private real estate debt may serve as a complementary allocation that enhances portfolio resilience, diversification and long-term risk-adjusted returns through exposure to short-duration, asset-backed private credit.

Evolving Dynamics in Sovereign Bond Markets

A key feature of today's fixed income environment is the rapid growth in government debt issuance across developed economies. As sovereign borrowing expands, investors are increasingly assessing how traditional government bonds fit alongside complementary sources of income and diversification within modern portfolio construction.

Rapid Debt Growth

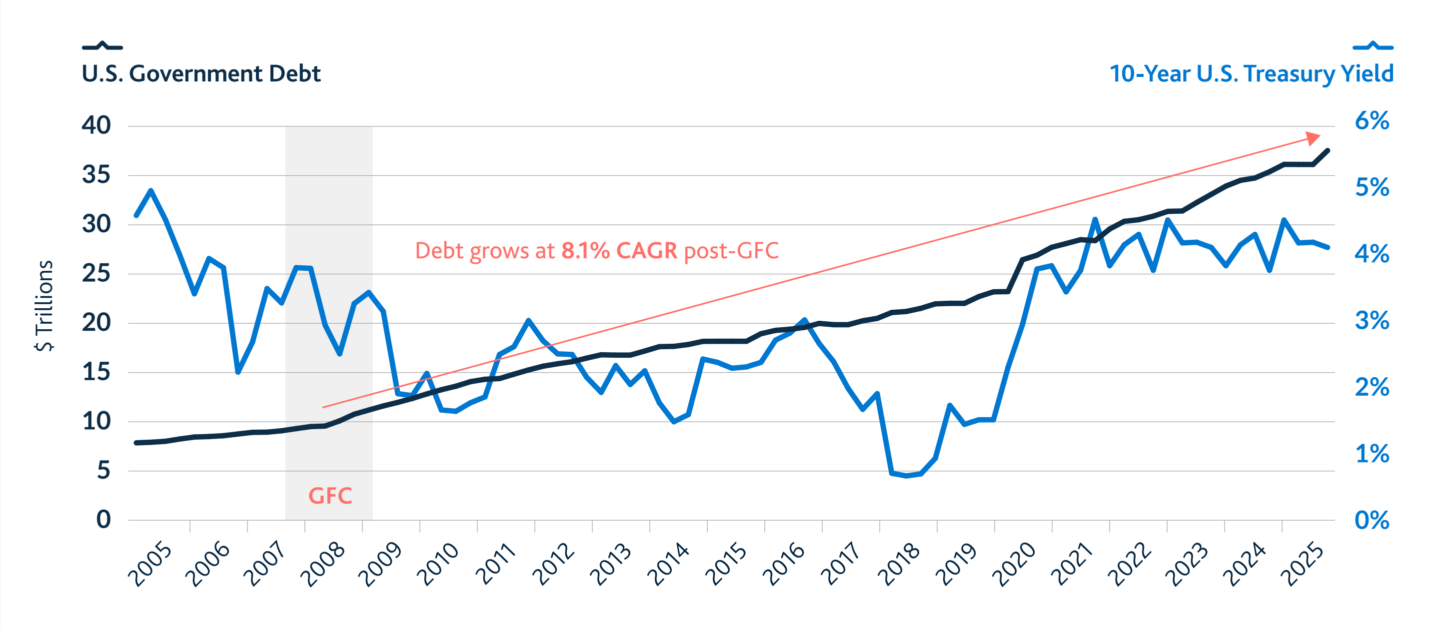
Across developed markets, fiscal deficits have structurally widened over time. Aging demographics, rising entitlement costs and higher interest expenses have contributed to steadily increasing public debt levels (see our previous paper, Canadian Real Estate: A Strategic Shield Against Monetary Debasement, for additional details).

In the United States, federal debt outstanding has been compounding at approximately **8% annually** since the Global Financial Crisis (GFC). Despite this acceleration, the 10-year U.S. Treasury yield remains anchored around **4–4.5%**, highlighting the evolving balance between sovereign debt growth, inflation expectations and investor return requirements.

These dynamics are not unique to the United States. Canada, the United Kingdom (UK) and much of Europe are also experiencing structurally higher debt issuance alongside already elevated debt-to-gross domestic product (GDP) ratios, reinforcing the importance of diversified and complementary fixed income exposures.

Figure 1

U.S. Federal Debt Outstanding vs. 10-Year Treasury Yield[1,2]



Sources: U.S. Treasury, Fiscal Service – Federal Reserve Bank of St. Louis (FRED), January 22, 2026; Board of Governors of the Federal Reserve System; FRED, December 2025.

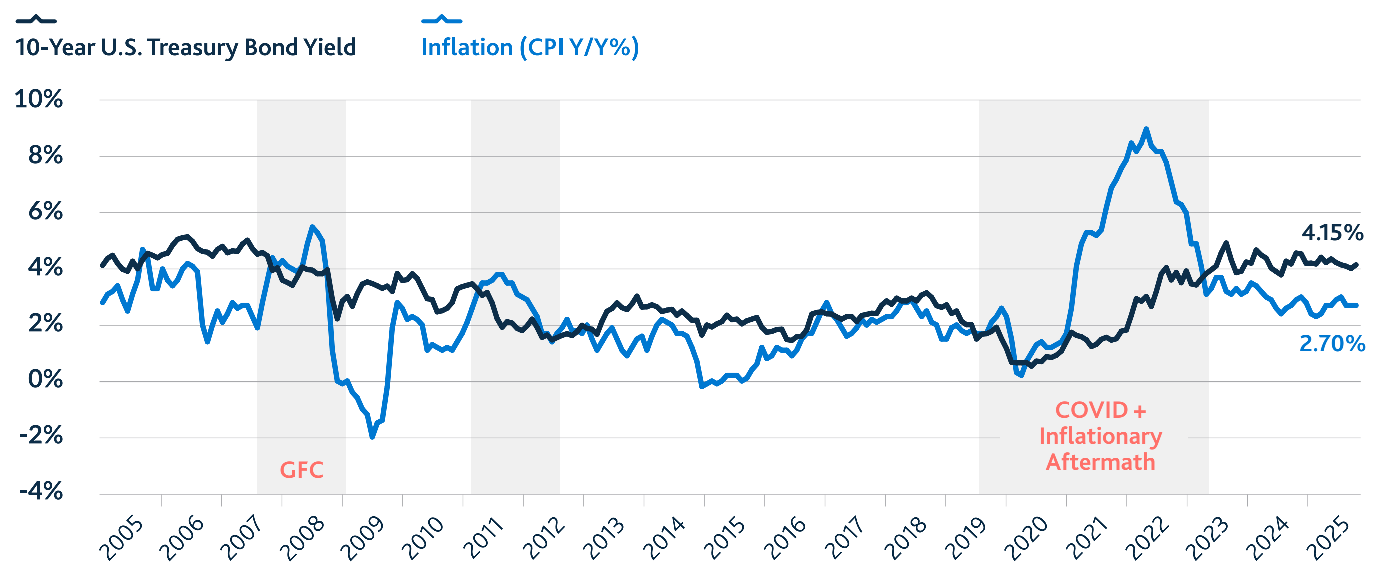
The Inflation Problem

Even if nominal yields appear more attractive relative to the post-GFC era, **real yields are less compelling** once inflation expectations are considered.[3] In this environment, long-duration government bond investors remain increasingly sensitive to the path of inflation and monetary policy, particularly in a world characterized by:

- **Deglobalization and supply-chain re-shoring**
- **Energy transition costs**
- **Demographic-driven labour scarcity**
- **Persistent fiscal expansion**

Figure 2

10-Year U.S. Treasury Bond Yield vs. Inflation [4,5]



Sources: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis (FRED), December 2025; U.S. Bureau of Labor Statistics, FRED, December 2025.

In this environment, government bonds may be more vulnerable to periods of **negative real returns** when inflation accelerates unexpectedly. Prominent examples include the 2008-09 GFC and the 2019-2023 period that encompassed the lead-up to COVID-19 and the subsequent inflation surge. While real yields have improved since 2023, inflation premiums remain relatively modest and could compress again should inflationary pressures reaccelerate for the reasons outlined above.[4,5]

Duration Risk Has Re-Entered the Fixed Income Equation

For much of the last four decades, declining interest rates helped support the performance of long-duration bonds. That environment has become materially more volatile.

The Return of Rate Volatility

Interest rates are no longer moving in a persistent downward trend. Central banks are now operating in a far more complex environment, balancing inflation control, financial stability and fiscal sustainability, often with competing objectives.

The result has been **elevated rate volatility**, unstable yield curves and more frequent policy shifts. In this environment, duration risk has become increasingly relevant for fixed income investors.

Long-duration government bonds, such as 10-year issues or longer, exhibit meaningful price sensitivity to changes in yields. A 100-basis point (bps) increase in interest rates can translate into near double-digit capital declines for long-dated sovereign bonds. A recent case study was the 10-year U.S. Treasury bond declining approximately 16.5% in 2022, as global central banks aggressively hiked interest rates to tame inflation.[6] This highlights that even traditionally defensive fixed income assets can experience periods of elevated volatility when interest rates adjust rapidly.

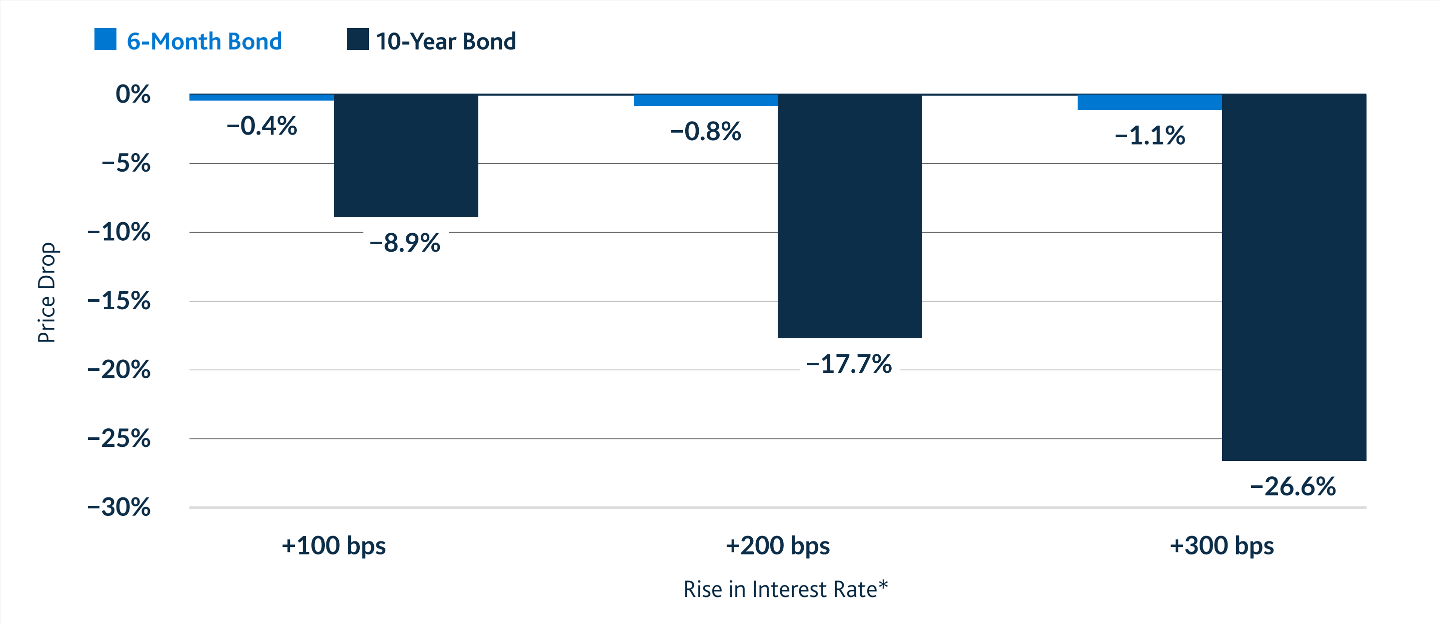
Duration Is Increasingly Important to Monitor

Crucially, investors are also receiving modest incremental yield compensation for extending duration. Yield curves remain historically flat relative to volatility,[7] meaning the incremental yield earned from holding longer-dated bonds may not always fully offset the increased interest rate sensitivity assumed.

As a result, duration management has become an increasingly important consideration within traditional fixed income portfolios, particularly in periods where government bonds may not consistently provide the same diversification benefits observed during prior market cycles.

Figure 3

Bond Duration Sensitivity – Assume 5% Annual Coupon[8]



Source: Fidelity Investments, November 26, 2025.

***Rise in Interest Rate:** A simultaneous change in interest rates across the bond yield curve. This hypothetical example is an approximation that ignores the impact of convexity; we assume the duration for the six-month bonds and 10-year bonds in this example to be 0.38 and 8.87, respectively.

Private Real Estate Debt: A Different Risk Profile Entirely

Private real estate debt operates under a fundamentally distinct set of mechanics compared to government bonds.

Short Duration by Design

Most private real estate loans are **short-term instruments**, typically ranging from **12 to 36 months** in duration. This includes:

- **Transitional loans**
- **Construction financing**
- **Bridge loans**
- **Short-term stabilized lending**

Because capital is returned and redeployed frequently, investors are less exposed to long-term interest rate movements. Repricing occurs naturally as loans mature, allowing portfolios to adjust to evolving macro conditions.

Floating-Rate Structures

Many private real estate loans are structured with floating-rate coupons, directly linking income streams to prevailing interest rates. This feature provides a natural hedge against inflation and monetary tightening, something fixed-rate government bonds cannot offer.

In a world where rates possibly remain structurally higher than the 2010s and more volatile, this flexibility has become increasingly valuable.

The Yield Premium: Being Paid to Take Real Risk

The most compelling argument in favour of private real estate debt is the **magnitude and persistence of its yield premium**.

A Structural Spread Advantage

Today, senior secured private real estate debt typically offers **net returns in the 8–11% range**, translating into a **400–600-basis point spread** over comparable government bonds.[9] This spread is not the result of excess leverage or speculative underwriting: it reflects a financing gap created by constrained traditional lenders as they adapt to higher capital charges under Basel IV.[10] These regulations effectively reduce competition from regulated banks and allow private investors and non-bank lenders to step-in.

Asset-Backed Downside Protection

Unlike government bonds, which rely solely on sovereign creditworthiness, private real estate debt is **secured by tangible assets**. But not all real estate lending provides equal protection.

Risk differs across the capital stack. Mezzanine and preferred equity positions are structurally subordinated. Senior secured first-lien lending, by contrast, sits first in priority against the asset. In a stress scenario, senior lenders have direct recourse to collateral and control over enforcement outcomes.

Fiera Real Estate's global suite of real estate debt strategies is predominantly senior secured first-lien. Loans are typically underwritten at a conservative 65–75% loan-to-value ratio, providing meaningful equity buffers through:

- **Hard-asset collateral**
- **Subordinated sponsor equity**
- **Contractual covenants**

Equally important is disciplined fund-level leverage. Strategies targeting mid-teen internal rates of return (IRR) often rely on excessive structural leverage – effective in benign markets, fragile in stressed ones. Conservative leverage preserves control and reduces refinancing risk.

Downside protection is not defined by yield. It is defined by seniority, collateral coverage and capital structure discipline, a materially different risk profile than both unsecured sovereign debt and subordinated private credit.

Geographic Diversification as a Risk Mitigation Tool

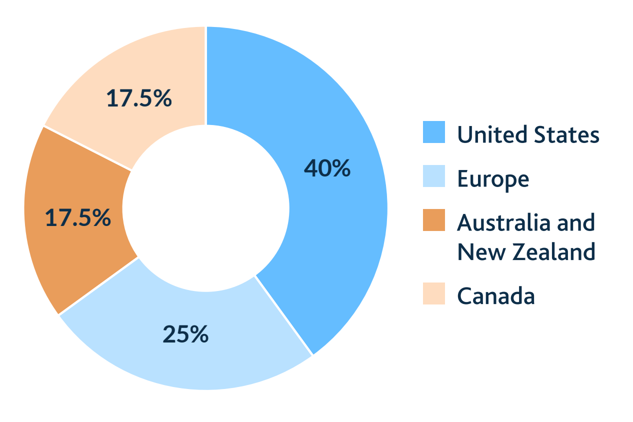
Another critical advantage of modern private real estate debt platforms is **geographic diversification**.

Global strategies spanning the **U.S., Canada, the UK/Europe and Australia/New Zealand**, which happen to represent the deepest and most liquid real estate markets, allow capital to be allocated dynamically across different economic cycles, regulatory regimes and real estate markets. These regions were identified as the fastest-growing[11] and most structurally under-housed developed nations.[12] Economic growth further supports industrial and logistics demand, strengthening the underlying collateral base for debt capital. Importantly, these are creditor-friendly jurisdictions with strong property rights and enforceable security frameworks.

By concentrating on these markets, investors access the most compelling developed-market real estate debt opportunities globally. Fiera Real Estate combines four regionally dedicated real estate debt platforms – anchored by local origination, underwriting and asset management expertise – with institutional-caliber operations, finance and reporting, delivering a globally diversified strategy built on local insight and executed at institutional scale.

Figure 4

Fiera Real Estate's Proposed Global Real Estate Debt Strategy Allocations[13]



Source: Fiera Real Estate, as at March 31, 2026.

Note: As at the date of this paper's publication, Fiera Real Estate has not yet launched its proposed Global Real Estate Debt strategy.

Re-Thinking Fixed Income in the New Regime

The traditional fixed income landscape is evolving. In an environment characterized by higher inflation uncertainty, greater interest rate volatility and expanding fiscal deficits, investors are increasingly evaluating complementary sources of income and diversification alongside traditional government bonds.

Private real estate debt can offer several differentiated characteristics within a broader fixed income allocation, including:

- **Higher income potential**
- **Lower duration exposure**
- **Asset-backed downside protection**
- **Structural yield premiums**
- **Geographic diversification**

Rather than viewing private real estate credit as a niche allocation, investors may increasingly consider it a complementary component of modern fixed income portfolios, particularly those seeking diversified income streams and differentiated risk exposures.

Conclusion

Income Has a New Centre of Gravity

Traditional fixed income continues to play an important role within institutional portfolios, particularly for liquidity management, liability matching, duration exposure and capital preservation. However, structurally higher debt issuance, inflation uncertainty and increased rate volatility have broadened the opportunity set for complementary fixed income strategies.

In this evolving environment, private real estate debt may serve as a compelling complement to traditional sovereign and corporate bonds. By combining shorter duration profiles, strong collateralization and attractive spread income, private real estate debt can provide differentiated return drivers and enhanced income potential within a diversified fixed income allocation.

For investors with sufficient liquidity budgets, private real estate debt offers exposure to asset-backed private credit with lower interest-rate sensitivity and access to resilient real estate fundamentals across developed markets. Allocations should ultimately be sized in accordance with an investor's liquidity requirements, liability structure, risk tolerance and ability to underwrite private-market credit risk.

Endnotes

1 **Federal Debt Outstanding.** U.S. Treasury, Fiscal Service; Federal Reserve Bank of St. Louis (FRED), January 22, 2026 – https://fred.stlouisfed.org/series/GFDEBTN

2 **10-Year Treasury Constant Maturity Rate.** Board of Governors of the Federal Reserve System; Federal Reserve Bank of St. Louis (FRED), December 2025 – https://fred.stlouisfed.org/series/DGS10

3 **OECD Inflation Expectations (Consumer Prices).** Organisation for Economic Co-operation and Development (OECD), January 12, 2025 – https://www.oecd.org/en/data/insights/statistical-releases/2026/01/consumer-prices-oecd-updated-12-january-2026.html

4 **10-Year Treasury Constant Maturity Rate.** Board of Governors of the Federal Reserve System; Federal Reserve Bank of St. Louis (FRED), December 2025 – https://fred.stlouisfed.org/series/DGS10

5 **Consumer Price Index for All Urban Consumers: All Items (CPI-U).** U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis (FRED), December 2025 – https://fred.stlouisfed.org/series/CPIAUCSL

6 **S&P U.S. Treasury Bond Current 10-Year Index.** S&P Global, February 11, 2026 – https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-treasury-bond-current-10-year-index/#overview

7 **Yield Spreads Dashboard.** Koyfin, February 2026 – https://app.koyfin.com/sprd

8 **Duration: Understanding the relationship between bond prices and interest rates.** Fidelity Investments, November 26, 2025 – https://www.fidelity.com/learning-center/investment-products/fixed-income-bonds/duration

9 **U.S. Government Bonds.** Board of Governors of the Federal Reserve System; Federal Reserve Bank of St. Louis (FRED), December 2025.

10 **Basel IV and the butterfly effect: A lesson in unintended consequences.** Moody's. January 16, 2026 – https://www.moodys.com/web/en/us/insights/regulations/basel-iv-and-the-butterfly-effect-a-lesson-in-unintended-consequences.html

11 **Global Real Estate Forecast Dashboard – Population Growth.** Oxford Economics, January 19, 2026 – https://my.oxfordeconomics.com/reportaction/A5S36D895eDA4ea19A5F47/Toc

12 **OECD Housing Database – Dwellings per 1,000 inhabitants.** Organisation for Economic Co-operation and Development (OECD), 2022 or latest data – https://www.oecd.org/content/dam/oecd/en/data/datasets/affordable-housing-database/hm1-1-housing-stock-and-construction.pdf.

13 **Fiera Global Real Estate Debt Fund.** Fiera Capital, Fiera Real Estate, March 2026.

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