Private Real Estate Bridge Lending

An Individual Investor's Primer to Structure, Risk, and Portfolio Considerations

REDWOOD
INVESTMENT MANAGEMENT

What Is a Bridge Loan in Private Real Estate?

Bridge loans are typically short-duration, first-lien loans secured by tangible property and designed to provide interim financing until a borrower completes a business plan, stabilizes the asset, or secures permanent financing. Unlike long-term mortgage debt, bridge lending focuses on transitional phases of a property's lifecycle.

When structured conservatively, with disciplined underwriting, appropriate loan-to-value ratios, and clearly defined exit strategies, bridge lending may provide investors exposure to income backed by tangible collateral while maintaining shorter duration relative to traditional fixed-income.

Typical Characteristics

- 12–36-month duration
- Secured by real estate
- Often first-lien position
- Floating rate structures common
- Defined exit strategy (refinance or sale)

Common Borrower Use Cases

- Value-add renovation
- Lease-up of newly constructed properties
- Acquisition requiring rapid execution
- Repositioning underperforming assets
- Financing gap prior to long-term mortgage

How Different Lenders Evaluate Real Estate Loans

Bridge Lending	Traditional Bank Lending
Property value	Property income
Loan-to-value (LTV)	Debt-Service Coverage Ratio
Market comparables	Income Stability
Sponsor experience	Borrower Financial History
Exit Strategy	Cash-flow underwriting

Private Bridge Lending

Bridge lenders are typically private investment firms or specialized credit platforms that finance transitional real estate projects. These lenders often work with loan originators who source opportunities and conduct initial due diligence before presenting them to capital partners for additional review and funding.

Bridge loans are typically structured to support projects undergoing renovation, lease-up, or repositioning. Loan proceeds may be deployed in stages as construction or operational milestones are achieved.

Once the property stabilizes, borrowers often secure long-term financing or sell the property, using those proceeds to repay the bridge loan.

Traditional Bank CRE Mortgages

Traditional commercial real estate mortgages are most commonly provided by banks or regulated financial institutions. These loans are generally designed for stabilized properties that produce predictable rental income.

Because banks rely heavily on borrower cash flow and regulatory lending standards, the underwriting process typically focuses on property income, debt-service coverage ratios, and the borrower's financial history. These loans are typically longer-term mortgages with fixed repayment schedules rather than short-duration transitional financing.

Traditional Mortgage Lending vs. **Private CRE Bridge Lending**

Traditional CRE lending

Pros	Cons
Lower cost of capital / lower coupons	Slower execution
Larger balance sheets and often more stable funding	Less flexible underwriting and structure
Better for straightforward, stabilized, lower-risk assets	Lower tolerance for transitional assets, lease-up, construction issues, or sponsor complexity
Often better for long-term fixed-rate financing	Heavier regulatory and committee constraints
Standardized, predictable documentation process	Less flexible around bespoke business plans

Private CRE Bridge lending

Pros	Cons
Execution speed and certainty	Higher interest rates and fees
Flexibility of structure	Lenders are often regionally focused, reducing options for borrowers
Better fit for transitional, value-add, bridge, or more complex deals	More lender-friendly documents / tighter covenants
Can underwrite to business plan / vision, not just in-place cash flow	Can involve refinance risk if the borrower's business plan does not get completed on time
More willingness to customize holdbacks, extensions, future funding, and intercreditor terms	Funding can be more dependent on manager discretion, warehouse lines, or capital markets conditions

Access Methods & Considerations

Bridge lending strategies can be accessed through different investment structures, each with distinct regulatory, liquidity, and operational features. Understanding these structural differences is an important part of evaluating how the strategy may fit within a broader portfolio.

	Interval Fund	Non-Traded BDC	Non-Traded REIT	Private Funds / LPs	Tender Offer Funds
Accessible with Ticker	Yes	No	No	No	No
Regulated Under the Investment Company Act of 1940	Yes	Fund Election	No	No	Yes
NAV Pricing Frequency	Daily	Variable	Variable	Variable	Variable
Redemption Frequency	Scheduled	Discretionary	Discretionary	Discretionary	Discretionary
Minimum Investments	Varies	Varies	Varies	Varies (Often $100,000 or Greater)	Varies
Leverage Limit	33.3% of Gross Assets	Generally, Less Restricted	Generally, Less Restricted	Generally, Not Restricted	33.3% of Gross Assets
Existing Custody Account Eligible	Yes	Platform Dependent	No	No	Yes

Please see Important Information and Risk Disclosures at the end of this document.

Bridge lending represents a specialized segment of private credit focused on transitional real estate assets. When evaluated carefully — with attention to collateral, structure, duration, and underwriting — it may serve a beneficial role within diversified portfolios.

Understanding the mechanics and risks is the first step in determining whether the strategy aligns with an investor's broader objectives and constraints.

Important Information

Risk Disclosures:

The information provided within is for informational purposes only. It contains opinions that should not be construed as fact. All investment types discussed contain a certain degree of risk, including a loss of principal. Certain investments may not be suitable for everyone. There can be no guarantee that any investment objective will be achieved.

Diversification does not assure a profit or protect against loss in a declining market.

Leverage Limit of 33.3% of Gross Assets is the maximum permitted amount in accordance with the 1940 Investment Company Act. Leverage Limits identified as "Generally, Not Restricted" signifies that these have no known limits on leverage and the source of this categorization is Bluerock-Brief-Why-Interval-Funds-Now.pdf. Existing Custody Account Eligible category identifies whether or not the investment's assets are maintained at a qualified custodian that are typically broker-dealers registered with the U.S. Securities Exchange Commission ("SEC") and therefore must comply with SEC regulations regarding safekeeping of securities

Investing involves risk, principal loss is possible.

Definitions:
1. 1st Lien: 1st lien (or first lien) debt is a type of legal debt secured by collateral, such as real estate. 1st lien debt holders are paid back before all other debt holders. If the borrower defaults on the loan, the lender can seize the collateral to recoup their losses until the loan has been repaid.

2. Commercial Real Estate (CRE): Commercial real estate refers to properties primarily used for business and income-generating purposes. These properties are not designed for residential living and typically encompass various asset types, including office buildings, retail spaces, industrial warehouses, hotels, and multifamily apartment complexes.

3. Interval fund: An Interval Fund is a distinctive category of closed-end investment fund, featuring shares that are not openly traded on the secondary market. Interval funds are designed to facilitate periodic repurchases, typically occurring on a monthly or quarterly basis. The periodic repurchase schedule of interval funds affords them the flexibility to invest in alternative asset classes that may not be accessible through conventional fund types.

4. NAV (Net Asset Value) per share is calculated by dividing the value of all of the securities and other assets of the Fund, less the liabilities (including accrued expenses and indebtedness), and the aggregate liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

5. A Non-Traded Business Development Company (BDC) is a closed-end investment fund that provides capital to private companies, typically in the form of debt or equity. Unlike publicly traded BDCs, they do not trade on an exchange, making them illiquid with limited redemption opportunities.

6. A Non-Traded Real Estate Investment Trust (REIT) is a vehicle that invests in income-producing real estate or real estate-related assets. Unlike publicly traded REITs, they do not trade on an exchange, making them illiquid with limited redemption options.

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