EXPERT COMMENTARY

A convergence of demographic momentum, bank retreat and housing undersupply has created a rare and durable opportunity in Australian commercial real estate debt, says Andrew Schwartz, group managing director and co-founder at Qualitas

The structural case for Australian real estate private credit

There are moments in every asset class when the structural forces align so decisively that the investment case becomes difficult to ignore. For Australian real estate private credit, that moment is now – and the conditions that created it are not temporary.

For much of the past decade, Australian institutional investors have looked to private credit as a source of predictable income and portfolio diversification. That interest has intensified as public market volatility has compressed yields elsewhere.

But what is now drawing the attention of global pension funds, sovereign wealth funds and insurance capital is something more specific: the combination of demographic tailwinds, chronic housing undersupply, bank withdrawal from commercial real estate lending and a domestic private credit market that remains materially underdeveloped relative to comparable economies. These dynamics reinforce one another.

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A market with structural depth

Australia's commercial real estate market is large, liquid and institutionally credible. The CRE lending market stands at around A$630 billion ($450 billion; €387 billion) as of December 2025. It is underpinned by a stable legal framework, strong property rights and transparent transaction processes that provide real protections for lenders and investors alike. Australia holds a AAA sovereign credit rating – one of only nine countries globally – with an interest rate environment of 4.35 percent and wage growth of 3.3 percent, reflecting a well-managed, resilient economy.

Historically, lending to this market was dominated by the major banks – the authorized deposit-taking institutions, or ADIs. That dominance is waning. Regulatory reform following the global financial crisis, particularly the implementation of Basel III capital requirements by the Australian Prudential Regulation Authority, fundamentally changed the economics

Although banks still make up the lion's share of Australia's A$630bn commercial real estate lending market, Basel III capital requirements are driving a pullback on construction finance (%)

Australia's CRE lending market estimated based on APRA authorised deposit-taking institution property exposure December 2025 and Alvarez & Marsal estimated size of private credit market share in Australian CRE lending from Australian Private Debt Market Review 2025
Source: APRA

of bank lending to commercial real estate. The practical result has been a sustained and measurable retreat from commercial real estate construction finance – particularly for larger, more complex projects.

The data is unambiguous. Major banks now account for 82 percent of the A$630 billion CRE lending market, with alternative lenders at 18 percent (see chart above) – a share that has grown as banks have pulled back. That contraction has created a structural funding gap – one that does not close when interest rates shift or sentiment improves, because the regulatory constraints driving it are permanent features of the banking landscape. Private alternative lenders have stepped into that gap.

For experienced credit managers, this environment offers something valuable: access to well-credentialed borrowers – developers and property investors with strong fundamentals – who have been underserved by the banks, not because of credit quality, but because of regulatory design.

Demographics are doing the heavy lifting

The demand side of this equation is equally compelling. Australia is currently experiencing some of the strongest population growth in the developed world. From 2025 to 2035-36, the national population is forecast to grow by around 15 percent – second only to Canada among major economies, and at a time when many comparable nations are facing demographic stagnation or decline. Today's population of 27.7 million is projected to reach 31.5 million by 2036.

Net overseas migration peaked at more than half a million people in 2023 and remains elevated at around 306,000 for the 2024-25 financial year. Much of this growth is concentrated along the eastern seaboard, where Sydney, Melbourne and Brisbane continue to attract the majority of migrants and international students. New South Wales, Victoria and Queensland account for approximately 72.8 percent of national GDP – and they are also the markets where housing supply constraints are most acute.

Australia's economic credentials reinforce this picture. The country has the second-highest GDP per capita in Asia-Pacific after Singapore and is ranked among the most attractive OECD destinations for skilled foreign talent. This is not a population that will settle elsewhere. The sustained demand it generates for residential property, rental accommodation and supporting commercial infrastructure creates durable, long-term fundamentals for lenders secured against well-located assets.

27.7m

Australia's population as of September 2025

31.5m

Estimated population by 2035-36

Source: Australian Goverment, 2025 Population Statement

A housing supply crisis with no quick fix

Against this backdrop of strong and sustained demand, Australia faces a severe structural shortage of housing – and a supply response that is running well behind what is required.

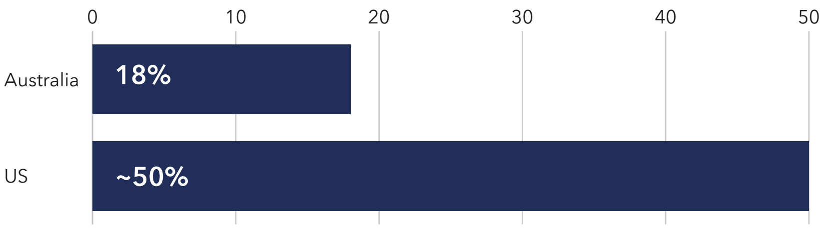
National residential rental vacancy rates are around 1.2 percent, reflecting a deeply undersupplied rental market, with forecasts suggesting capital city vacancy rates could fall to 0.8 percent by 2028. The federal government has set a target of 1.2 million new dwellings over five years to 2029, which we are likely to fall short of.

Apartments are central to any serious response to this challenge, yet building activity has been chronically subdued. Australia needs approximately 75,000 new apartments annually to avoid further vacancy deterioration, yet only around 60,000 are currently being built – leaving an annual gap of 15,000 that is forecast to persist through to 2030, according to data from CBRE.

The reasons for this underbuilding are structural, not cyclical. Construction costs across the eastern seaboard have risen more than 20 percent since 2021. Zoning and planning bottlenecks continue to delay approvals. And with higher interest rates compressing project feasibility, many developers who would otherwise be building are constrained by their inability to access capital on viable terms.

Alternative lenders with deep sector

Alternative lenders have a relatively low market share in Australia compared with other markets, pointing to significant opportunity for private credit (%)



Australia's CRE lending market estimated based on APRA-authorized deposit-taking institution property exposure December 2025 and Alvarez & Marsal estimated size of private credit market share in Australian CRE lending from Australian Private Debt Market Review 2025
Source: Alvarez & Marsal, APRA, Federal Reserve

knowledge and disciplined underwriting can provide construction finance and other structured credit solutions to projects that have the fundamentals to succeed but lack access to bank capital. For lenders with genuine expertise, this is not a question of taking on risk that banks have wisely avoided – it is a question of pricing risk properly and securing it well.

The mechanics of the opportunity

Real estate private credit in Australia operates primarily through senior debt structures secured by first-ranking mortgages over real property. These loans sit at the top of the capital structure and are repaid ahead of mezzanine debt and equity – providing meaningful downside protection in stress scenarios.

Critically, Australian real estate private credit has structural characteristics that distinguish it from comparable markets in the US and Europe.

Australia's private credit market also has natural barriers to entry that are easy to underestimate from the outside. This is a relationship-driven market, not a transactional one. Success depends on trust and reputation built up over many years with developers, borrowers and intermediaries who operate within a relatively tight-knit industry.

Unlike the deeper, more liquid markets of the US and Europe, where capital can move quickly between managers and mandates, Australian CRE lending rewards those who have established genuine, long-standing relationships within what remains a specialised development market. That cannot be acquired quickly – it has to be earned.

Combined with a lender-friendly legal system that provides strong recourse for secured lenders, this enables comparable returns to be achieved with a more transparent risk profile – and with genuine capital preservation characteristics across cycles.

Beyond senior construction finance, the market has seen the growth of residual stock loans – a more recent innovation that addresses the needs of developers following project completion. These are loans secured against unsold apartments and designed to provide working capital or equity release. Because the exposure typically sits at a material discount to underlying valuations, against a backdrop of strong residential demand, they can offer compelling risk-adjusted returns.

The income stream produced by real estate private credit is also structurally differentiated from direct property investment. Rather than depending on rental payments – which fluctuate with occupancy, tenant covenant and asset management – investors receive scheduled interest payments on secured loans.

That income is tied to a fixed loan schedule and is not exposed to the day-to-day operational risks of property ownership. For income-focused institutional investors, this combination of yield, predictability and security is increasingly difficult to replicate elsewhere.

A market with room to grow

Despite Australia's institutional credentials and the structural drivers, the domestic private credit market remains underdeveloped relative to comparable economies. Alternative lenders now account for around 18 percent of CRE lending in Australia, compared with approximately 50 percent in the US – a gap that points to a long runway ahead.

Over the past decade, bank lending grew at a 6 percent CAGR, and private credit (not just commercial real estate) grew at 20 percent CAGR. This convergence – of institutional appetite, structural funding gaps, demographic tailwinds and a stable legal environment – is what distinguishes Australia from many of the markets competing for global capital today.

What experience brings

None of this means execution is straightforward. Successful real estate private credit investing demands experience across multiple market cycles, deep origination relationships and rigorous credit discipline. Not every deal that looks attractive on paper will perform. Location, developer quality, capital structure and LTV ratios are all decisive factors – and getting them wrong in a market with constrained liquidity is costly.

The managers who have built track records across both rising and falling markets – those who have navigated the global financial crisis, the covid disruption, the interest rate cycle of 2022–24 and the current cost environment – are better placed to identify where the risk-adjusted opportunity genuinely sits. That experience is not easily replicated.

None of these dynamics are new. But their convergence – and the scale of the gap between what the market needs and what traditional lenders can provide – means the opportunity for private credit in Australia remains both significant and structural in nature. ■