METRICS

Here to Stay: Real Estate Private Credit's Ongoing Role in Investment Portfolios

OCTOBER 2025

Executive Summary

The rise of real estate private credit as an investment class has been rapid over recent years and there are good reasons why it will remain a mainstay of a balanced investment portfolio.

Private credit in Australian commercial real estate (CRE) has more than doubled in the last four years. This extraordinary growth has been driven by two key factors:

- A tumultuous few years of global shocks and rising interest rates that have made the stable and predictable returns of private credit very attractive to investors relative to other asset classes and particularly bond markets; and
- A need for private credit lenders to fill a 'funding gap' left by the retreat of banks from CRE lending due to tighter regulatory capital requirements that have made this type of lending less attractive for authorised deposit taking institutions (ADIs).

> *This strong growth phase for private credit is far from over.*

CRE private credit is projected to grow by a further 85% over the period to 2029 to over $160 billion (Foresight Analytics).

While the interest rate cycle may have turned, this is likely to just increase the demand for CRE credit further and banks will remain constrained in their ability to meet this increased demand.

> *For Australia specifically, continued strong population growth means considerable development across all real estate sectors will be required long-term and private credit will play a crucially important role in funding this development.*

We expect that investors will continue to embrace private credit and make it permanently a vital part of their portfolio construction.

We believe investors have become accustomed to the risk/return profile of real estate private credit and how it fits and compliments other parts of their portfolio including equity investment in real estate, plus replace part of the large portfolio allocation historically given to public debt markets (bonds).

The resilience of CRE private credit lies in the security of its underlying property assets, offering a clear advantage over other asset classes and helping to protect investor capital. Long term growth prospects remain strong, however parts of the sector may come under pressure during economic downturns or periods of rising loan delinquencies.

> *Manager selection is critical in mitigating investor risk. Partnering with an experienced, reputable firm like Metrics Credit Partners (Metrics) - backed by scale, deep expertise, and diversified loan portfolios - helps ensure effective risk management and consistent performance[1].*

1 Past performance is not indicative of future performance.

The Extraordinary Growth of Private Credit

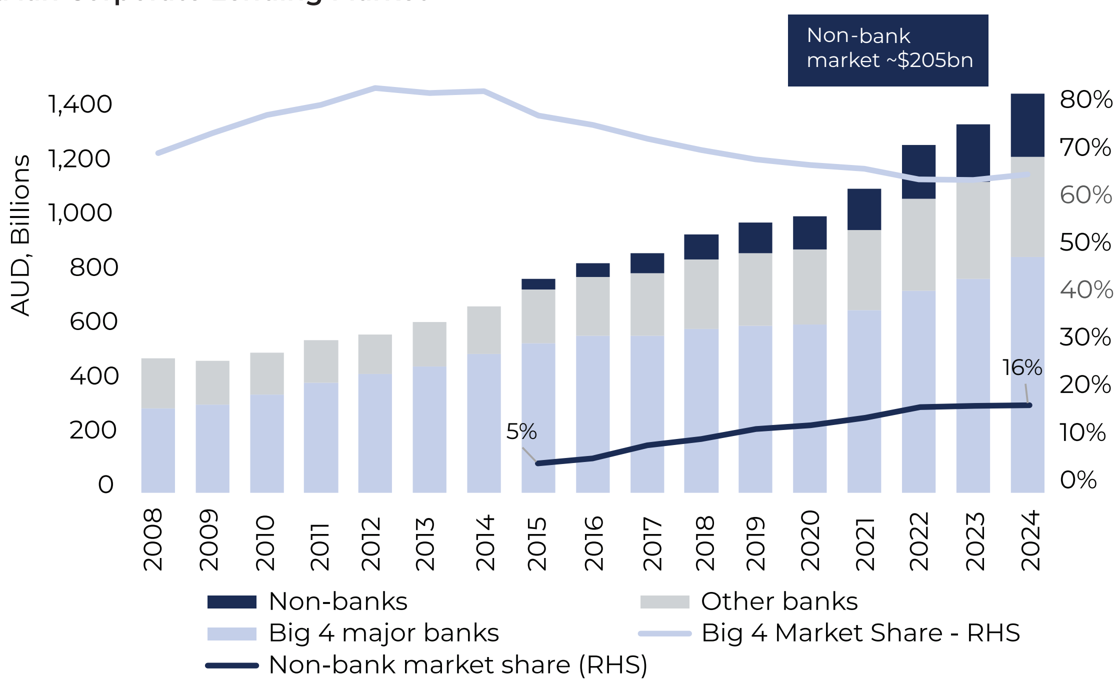
Much has been written of late about the rapid growth of private credit in Australia. Alvarez & Marsal's Australian Private Credit Market Review 2024 estimated that total private credit (including corporate debt and CRE debt) in Australia at the end of 2024 was approximately $205 billion. This compares to a total corporate lending market of just over $1.3 trillion meaning non-bank lenders had a market share of 16%.

In 2015, private credit was estimated to be worth just $35 billion and had a market share of only 5%.

As such, growth in both the overall market and in non-bank lenders' market share has turbo charged the growth of private credit.

Of the $205 billion private credit market in 2024, Alvarez and Marsal estimate that commercial real estate backed private credit is around $86.6 billion and has been growing particularly quickly in the last few years. Indeed, in 2020 the market was estimated to be $35 billion which translates to a compound annual growth rate of around 25% per annum over the last four years.

Australian Corporate Lending Market



Sources: Alvarez & Marsal/EY Debt and Capital Advisory, Australia CapitalIQ, LoanConnector and Bloomberg APRA, Metrics Credit Partners

What Has Driven the Surge in Real Estate Private Credit Investment?

A myriad of factors have created the ideal conditions to drive rapid growth in real estate backed private credit - both in Australia and globally - in the last four years.

For investors, it has been a rough ride in many asset classes since COVID-19. The initial pandemic growth shock was followed by further cuts in already low interest rates, then supply chain issues, a surge in inflation and eventually higher interest rates globally from around 2022 onwards and continued ongoing geopolitical threats.

Normally in such a period of uncertainty investors would flee from risk assets to the relative safety of fixed interest investments that have typically been through public debt markets in government and high-quality corporate bonds. However, rising interest rates after an extended period of ultra-low rates means the typical negative correlation between bonds and equities has turned positive. This means both assets simultaneously had a lean period and bonds have not been the typical counter-cyclical cushion to portfolio performance they normally have.

Equity investment in real estate has also not been particularly attractive. Office and retail property markets suffered substantial demand impacts from COVID. While demand for industrial and living sectors has been stronger, all sectors have experienced a period of yield adjustment to reflect higher interest rates (and bond rates as proxy for the 'risk-free' rate).

The result was that CRE backed private credit was suddenly a very attractive alternative, with some positive qualities of both bond and equity real estate investments. That is, like a bond, private credit offered very stable and predictable income flows but without the exposure to the volatility of public markets and being largely capital protected (by the security of the underlying real estate value).

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It also allowed investors' exposure to some of the more positive real estate demand stories such as in residential and industrial markets, but without the capital risk of equity investors had to take on in a rising yield cycle.

But these attractive returns meant little if private credit providers had no opportunity to make loans to the commercial property sector and create the investment product to satisfy this investor demand. This is where the retreat of banks from many kinds of CRE lending has created a 'funding gap' that non-bank lenders have been able to fill with private credit offerings.

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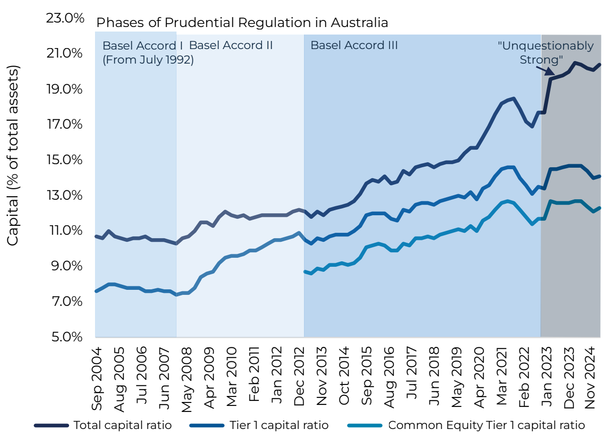
For banks and regulated authorised deposit taking institutions (ADIs), tighter regulatory capital requirements have been a long term but cumulative trend.

Globally, through the Bank of International Settlements (BIS), the major economies have been coordinating on bank regulations since the mid-1970s through the 'Basel Committee'. Over the years, several 'Basel Accords' have committed member countries to ensuring Banks hold minimum amounts of capital against lending to ensure liquidity and protection against bank runs.

The Basel Accord I started from the early-1990s and Basel II took effect in 2008, but capital requirements were really tightened after the Global Financial Crisis with the Basel Accord III that took effect in Australia in 2013. The Australian Prudential Regulation Authority (APRA) then further introduced the "unquestionably strong' framework for bank capital that further lifted Australian bank capital requirements (with a focus on Common Equity Tier 1 Capital requirements).

Bank (ADI) Capital Adequacy Ratios



Sources: APRA, Metrics Credit Partners

These increased regulatory requirements mean that Australian banks must now hold nearly twice as much capital as they did in the late 2000s—regardless of the metric used.

Further, different types of lending carry different 'risk weights' so lower risk types of lending such as owner-occupier housing loans carry lower risk ratings and require less capital held against them, while commercial real estate (CRE) lending (and particularly development lending) carry higher risk ratings and require more capital held against them.

The impact of this is that Australia's major banks have retreated from many parts of CRE lending. Banks have been particularly unwilling to lend to undertake development and land loans that carry higher risk ratings. At the same time, the demand for CRE and development lending has been strong as Australia's population growth has driven the need for construction across most sectors.

This has created a 'funding gap' for CRE lending, which has been become the major opportunity for non-bank lenders to fill the gap and fuel the extraordinarily strong growth of private credit.

Borrowers have embraced private credit providers not only due to the availability of credit for projects, but also for flexibility of loan terms. For banks, the high capital requirements of development lending in particular have forced them to remain very conservative in terms of gearing levels and terms such as pre-sales requirements for residential projects. Given most development loans are fairly short duration, borrowers have been more than willing to pay a slightly higher interest rate in exchange for the more flexible loan terms that non-bank lenders have been able to provide.

So the ideal conditions for CRE private credit were in place – filling the funding gap left by banks gave non-bank lenders the product to offer investors and rising interest rates helped ignite the appetite of investors for the investment product. Not only did rising interest rates question the outlook for bonds, but it allowed private credit providers with higher base rates and margins to offer low double-digit returns to investors in many cases that was a very attractive risk-adjusted return at that period of time.

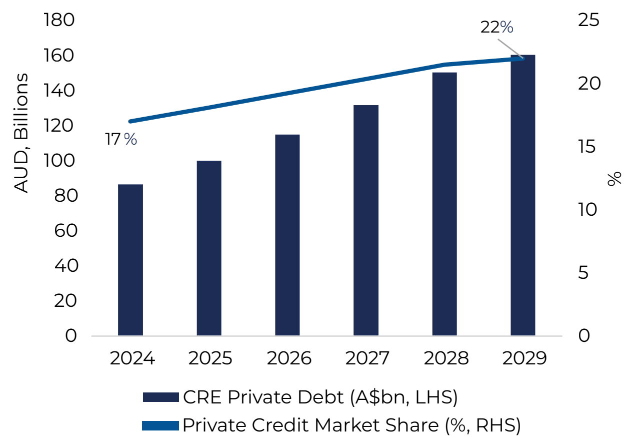
Can the Strong Growth of CRE Private Credit Continue?

Given some of the ideal conditions to drive CRE private credit have changed – particularly a new downward cycle in interest rates and a stabilisation of CRE yields – it is natural to ask if the strong growth path will continue.

Forecasts suggest that growth will remain strong. Foresight Analytics project that the current market estimate of $86.6 million will grow by around 85% over the five years from 2024 to 2029 (or 13.1% p.a.) to $160.5 billion.

From a market share perspective, this translates to a lift from around 17% market share in 2024 for non-bank lending to 22% in 2029. This implies that there will continue to be growth in both the overall CRE lending market and the market share to of non-bank lenders to sustain the high levels of market growth projected.

Australian CRE Private Credit Forecast (2024 – 2029)



Sources: Alvarez & Marsal, Foresight Analytics & Ratings, Metrics Credit Partners

Why growth is likely to stay strong essentially comes down to:

a. **There will be no shortage of lending opportunities for private credit providers** – the funding gap left by banks will only get bigger as the CRE lending pie in Australia keeps growing and banks remain restricted in servicing that growth; and

b. **Investors globally will make private credit a permanent part of their portfolio composition** – with many coming to realise that the risk-return profile and other characteristics of private credit add to overall portfolio performance. Characteristics of private credit also complement investment in other sectors.

Why there will be no shortage of lending opportunity for CRE private credit

First and foremost, banks' appetite for CRE lending is not going to suddenly increase and the funding gap will remain wide.

Bank capital requirements may not keep increasing in the same way as they have the past few decades, but they also won't fall and the higher risk ratings on CRE lending and development lending in particular will continue to be a disincentive and constrain the ability of banks to be competitive for this type of loan. As such, there is scope for further market share growth for non-bank lenders.

Further market share growth for non-bank lenders is expected, while the size of the overall CRE lending market in Australia will also continue to grow strongly. In the short-term, rather than hindering private credit, slightly lower interest rate rates should support GDP growth and broader market confidence, helping drive CRE loan demand.

Longer-term, Australia's continued strong population growth outlook will create the need for considerable construction across all real estate sectors that will drive strong loan demand for private credit providers to satisfy.

Australia's population growth the last 20 years has been a robust 1.6% p.a., more than double the average for all OECD countries (0.6% p.a., OECD). While the pace of growth is forecast to slow somewhat, the OECD forecasts that Australia's population growth will remain a very strong 1.1% p.a. over the next 25 years to 2050. This compares to an OECD average of just 0.3% p.a., with many member states tipping into population decline over this period. Australia's population is expected to grow by 9.1 million people over this period.

Some projections of Australia's population growth are slightly higher than the OECD's and the balance of risks appear skewed to the upside. Regardless, 9.1 million is a lot of additional people to accommodate over the next 25 years. For context, Sydney remains Australia's largest city at an estimated 5.56 million at the end of 2024 (marginally bigger than Melbourne at 5.35 million, ABS[1]) - this translates to building 1.6x Sydney or 1.7x Melbourne over the next 25 years.

This task will also clearly translate to heightened real estate demand in all sectors. Global real estate services group CBRE recently published what it believes to be the demand multipliers for population across all sectors. The table below applies these multipliers to OECD population forecasts, illustrating how much additional property Australia may need over the next 25 years — and what that equates to in real terms.

For example, it equates to building more dwellings than exist today across all of New South Wales, and about one-third more industrial space than currently in Melbourne.

1 Australian Bureau of Statistic (ABS) - Regional Population Paper 2023-24 Financial Year

How much property demand does 9.1 million people by 2050 create?

3.8 million dwellings

> 3.2 million dwellings currently in all of NSW

41 million sqm of industrial

> 30 million sqm total size of the Melbourne market now

7.3 million sqm of office

> Current combined stock of Sydney CBD and Perth CBD

7.3 million sqm of retail

~ 30x Chadstone Shopping Centre in Melbourne (Australia's largest)

11,500 hotel rooms

~ Combined stock of Victoria and Western Australia

30,000 hospital beds

~ 30x Royal Brisbane and Women's Hospital (Australia's largest)

Sources: OECD, CBRE, Metrics Credit Partners

Why investors will make private credit a permanent part of their portfolio composition

Private credit's risk-adjusted returns are likely to remain attractive to investors even as some of the tailwinds that fuelled recent growth - such as higher interest rates - begin to ease. Continued economic and geopolitical uncertainty is likely to sustain volatility in equities and bonds, while the relative stability of private credit can keep returns attractive.

Furthermore, the surge in popularity of private credit as an investment class over the past few years has given many investors a greater appreciation of what the asset class can add to a portfolio. As such, we believe many will make a very deliberate choice to maintain private credit permanently as a larger part of their portfolio.

While investors will appreciate that private credit, like all asset classes, is not without risk, they should now have a greater appreciation of how the characteristics and risk/return profile of the sector complements other parts of their portfolio and can improve overall portfolio performance.

> ***Investors have a greater appreciation of how the characteristics and risk/return profile of the sector compliments other parts of their portfolio.***

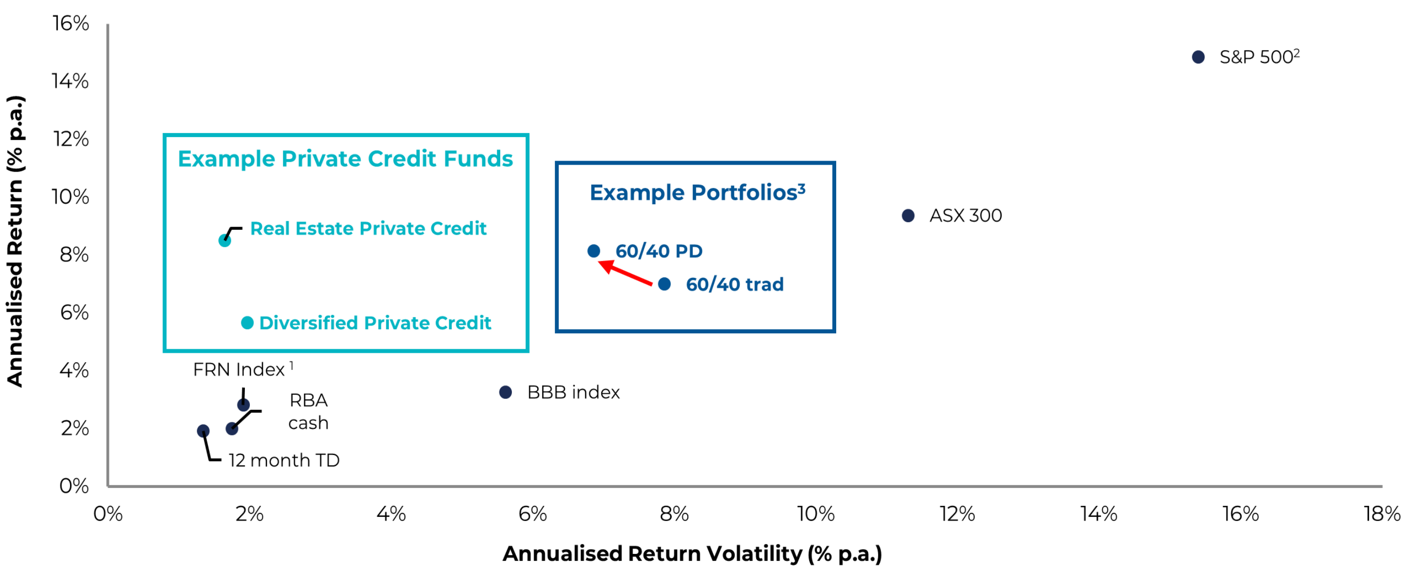
In particular, private credit has a lot of characteristics of public credit markets and historically the traditional portfolio split has been 60% equities and other risk assets balanced against 40% bond and other fixed interest investments.

Underpinned by contractual loan repayments, private credit can offer the same kind of predictable income payments that bond markets offer and often without the same volatility as a traded public market asset. As such, in theory mixing the fixed income portion of a portfolio between private and public markets could potentially lower overall portfolio volatility.

Indeed, the chart below shows that since 2018 Metrics' private credit funds have produced very strong returns at low levels of return volatility relative to other asset classes. Further, it illustrates how replacing the 40% traditional allocation to fixed-interest bonds with floating interest private credit both increases portfolio returns and lowers portfolio risk over that period.

Similarly, private credit investments into CRE have many similar characteristics to equity investments into real estate. Both can be influenced by broader macroeconomic trends that drive demand across property segments. However, private credit typically provides exposure through income-generating debt instruments rather than direct equity ownership, which results in different return and risk profiles. From a portfolio construction perspective, it is common for institutional investors to mix both real estate debt and equity exposures to achieve diversification across the capital structure.

Investment Returns and Risk (2018 to 2025)



Sources: Bloomberg, Metrics Credit Partners, Monthly data Oct 2018 to Jul 2025. Past performance is not an indicator of future performance.

Notes: 1. FRN is Floating Rate Notes which are bonds priced as a spread over a reference rate such as Federal Funds Rate.
2. S&P 500 index used is S&P500/SPX Local, which is S&P returns in AUD
3. 60/40 Traditional portfolio is 60% equities (ASX300) and 40% fixed interest bonds (BBB index), 60/40 PD simulates replacing the bond allocation with floating rate private debt (Metrics 'Diversified Private Credit').

[1] Past performance is not a reliable indicator of future performance. Returns shown for Metrics' private credit funds are based on net asset value (NAV) after all applicable fees and costs, but before tax, and are provided for illustrative purposes only. The information represents Metrics private credit funds collectively and does not reflect the performance of any specific fund or product. Comparisons with other asset classes are based on historical index data over the same period and may not reflect actual investable outcomes. The illustration of replacing a traditional fixed-interest allocation with private credit is hypothetical in nature and does not constitute investment advice or a recommendation.

Why Manager Selection Will Become Increasingly Critical

Private credit is becoming a core allocation in diversified portfolios, and rightly so. But as macroeconomic conditions shift, volatility is inevitable. Scale, experience and a diversified product offering can support consistent performance by enabling managers to access a broader opportunity set and manage portfolio risk effectively. Metrics' investment expertise and multi-strategy capabilities provide the depth and flexibility to identify opportunities and navigate changing market conditions.

Market conditions remain favourable for private credit and we do not anticipate any significant changes in the near term. We are, however, prepared for any deterioration in economic conditions that become less favourable for CRE lending.

When inevitably loan arears and default rates do rise at some point, investors should have confidence that their investment manager can deal with this effectively. The first comfort point an investor should take is from the size of the manager's loan book – is it sufficiently large to minimise concentration risks to any particular borrower and/or sector or geography?

Size and experience of the asset manager also matters in dealing with issues as they arise. You want a manager with strong risk frameworks and deep experience in dealing with credit issues over an extended period and many economic cycles. The manager should also be large enough and has sufficient resources to act proactively rather than reactively to loan risks. That is, strong governance and oversight should be in place so that potential issues are identified and dealt with early before they become problems.

Ultimately, a well-resourced, experienced manager will be able to handle matters in an efficient and effective manner, with preservation of investor capital always front of mind.

Metrics' Management Credentials

Metrics Credit Partners CEO and Managing Partner **Andrew Lockhart** explains why investors should have confidence in trusting Metrics in managing CRE credit investments on their behalf.

"At Metrics, our success is built on three core strengths: raising capital from trusted channels, deploying it with discipline into high-quality investments, and managing risk with robust governance to deliver strong, consistent outcomes for our investors.

Scale on its own doesn't guarantee success, but in private credit, it provides a crucial advantage - you can better mitigate downside exposure, broadly diversify portfolios of loans, and act decisively with the support of an experienced team.

That's why I'm a big believer in investors partnering with an experienced manager who can use their networks to originate good quality investment opportunities and fully realise the benefits of Australian real estate private credit. It is also one of the few asset classes where a manager can demonstrate to investors how they're proactively safeguarding investor capital.

Since 2013, Metrics has grown to be one of Australia's leading private asset managers, overseeing more than $30 billion in assets. To date, we've loaned in excess of $25 billion across more than 800 real estate transactions, driving consistent returns for investors.

Looking ahead, our focus remains on delivering value through disciplined investment and deep expertise in commercial real estate. As private credit continues to evolve, Metrics is well-positioned to help investors navigate complexity and unlock opportunities in a resilient and rewarding asset class."

For More Information

If you would like to learn more about Metrics or our funds, contact us on the details below.

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OCTOBER 2025
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