



RAY WHITE CAPITAL
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BRICK BY BRICK

A STRUCTURED APPROACH TO
PRIVATE CREDIT INVESTING

EXECUTIVE SUMMARY

01	RAPID MARKET GROWTH & BANK RETREAT	Australia's private real estate credit market has grown from A\$33bn in 2016 to A\$205bn by 2024, driven by APRA and Basel rules forcing banks to retreat from high-LVR and construction lending. Non-bank lenders now fill the gap, especially in mid-market and complex deals.
02	STRUCTURED CREDIT EMERGES AS CORE STRATEGY	Stretch senior, mezzanine, and special situations loans are displacing traditional senior lending. These tailored structures offer 8–16% yields, fill capital gaps, and enable project execution banks won't fund.
03	CONCENTRATION RISK IN CORE LENDING	Over 40% of Australian private credit is concentrated in residential development, often with construction exposure. This clustering creates hidden systemic risk and underlines the case for structured diversification.
04	AUSTRALIA LEADING APAC IN REAL ESTATE CREDIT	Australia accounts for over 40% of Asia-Pacific's private real estate credit market due to strong legal protections, institutional transparency, and relatively high secured loan spreads.
05	RESILIENCE THROUGH STRUCTURE, NOT RATINGS	Structured credit delivers superior risk-adjusted returns not by chasing risk, but by pricing and structuring it effectively. Tools like interest reserves, staged releases, and bespoke covenants underpin capital protection and investor confidence.

Structured private credit—once a niche corner of finance—is now stepping into the spotlight, offering tailored solutions to complex problems and delivering resilient returns in a market starved for yield and stability.

Forget the image of plain vanilla loans. This is credit reimagined—engineered, layered, and structured to unlock opportunity where banks can't tread. It's the engine room behind everything from opportunistic real estate plays to corporate growth stories, and it's growing fast.

The Australian private real estate credit market is experiencing rapid growth as non-bank lenders fill funding gaps left by traditional banks. Private credit assets under management (AUM) in Australia have surged from an estimated A\$33 billion in 2016 to an estimated A\$205 billion by 2024, and on track to be Australia's largest commercial real estate investment class by 2028. This growth – roughly 15% CAGR – has been fuelled by tighter bank lending regulations and strong investor appetite for higher-yield, secured investments. Non-bank lenders now account for approximately 17% of all Australian commercial real estate debt (up from 10% in 2020).

An emerging growth area in this market is structured debt transactions which covers stretch senior loans, mezzanine finance, and structured solutions providing flexible financing solutions beyond what banks can offer.

From a macro perspective, in a world increasingly shaped by volatility—from geopolitical realignment and inflation shocks to trade fragmentation and banking sector retrenchment—investors are re-evaluating what it means to be truly “defensive.” Yield is no longer sufficient on its own. Today's institutional capital seeks legal certainty, downside protection, liquidity resilience, and the ability to weather macroeconomic storms. The Asia Pacific region is shaping up as a safe harbour for global investors, delivering over 60% of the world's GDP growth in 2024-25. Despite the region's strong growth profile, getting set in Asia Pacific markets is more nuanced, with limited opportunities where investors can balance market depth and find a suitable risk adjusted return. In the search for better risk adjusted returns, global investors increasingly favour Australia for private credit investments, due to its strong economic fundamentals and stable, transparent investment markets. Australia accounts for over 40% of the Asia Pacific private real estate credit market, and will be over 50% by 2030. Investors with a regional focus will need to have a significant weighting to the Australian market

This paper demystifies structured private credit: what it is, why it matters now more than ever, and how investors are using it to gain exposure to high-quality risk-adjusted returns in a dislocated market.

IN A WORLD WHERE TRADITIONAL LENDING IS PULLING BACK AND VOLATILITY IS REWRITING THE RULES OF RISK, A QUIET REVOLUTION IS UNDERWAY.

STRUCTURED CREDIT'S QUIET ASCENT AND THE EMERGING LIMITS OF CORE DEBT

BY RW CAPITAL – GEORGE AJAKA

THE PRIVATE CREDIT MARKET IS EVOLVING. OVER THE PAST DECADE, WE'VE CLOSELY OBSERVED A GROWING MISMATCH BETWEEN THE NEEDS OF BORROWERS AND THE OFFERINGS OF TRADITIONAL LENDERS. AT THE SAME TIME, THE MACRO ENVIRONMENT IS SHIFTING. WITH BASE RATES PEAKING AND THE FIRST SIGNS OF A DOWNWARD TRAJECTORY EMERGING, THE FOUNDATIONS THAT HAVE SUPPORTED STRONG RETURNS IN FLOATING RATE SENIOR DEBT ARE BEGINNING TO ERODE.

While private credit has historically thrived on this yield tailwind, the compression of base rates and tightening spreads is starting to challenge the economics of core lending strategies. First mortgage positions on stabilised assets—once the cornerstone of many portfolios—are now delivering materially lower income, even as risks in the underlying market remain constant, if not elevated.

Layered over this is a broader structural issue: concentration. We estimate that more than 40% of private credit loans in the Australian market are now tied to residential development—much of it with exposure to construction risk. This degree of sectoral clustering presents a vulnerability that isn't always apparent on the surface.

In this context, the rise in demand for structured credit isn't surprising. Rather than simply being about return enhancement, it's about adaptability—about meeting the needs of borrowers navigating a capital landscape that has become far less liquid, less predictable, and far more fragmented.

At RW Capital, this has reinforced a view we've long held: that resilience in private credit comes from sectoral diversification, structural flexibility, and a deep understanding of asset-level fundamentals.

Our current sector focus includes:

- **Hospitality**, where travel and tourism tailwinds continue to play out;
- **Industrial and logistics**, driven by infrastructure constraints and long-term occupier demand;
- **And residential**—but specifically in lower-risk, non-construction-impacted segments such as completed stock or pre-sold projects.

Structured credit is not a silver bullet. It requires careful underwriting, real alignment with borrowers, and a disciplined approach to pricing risk. But in a market defined by transition and complexity, we believe it offers a more appropriate response than simply doubling down on core.

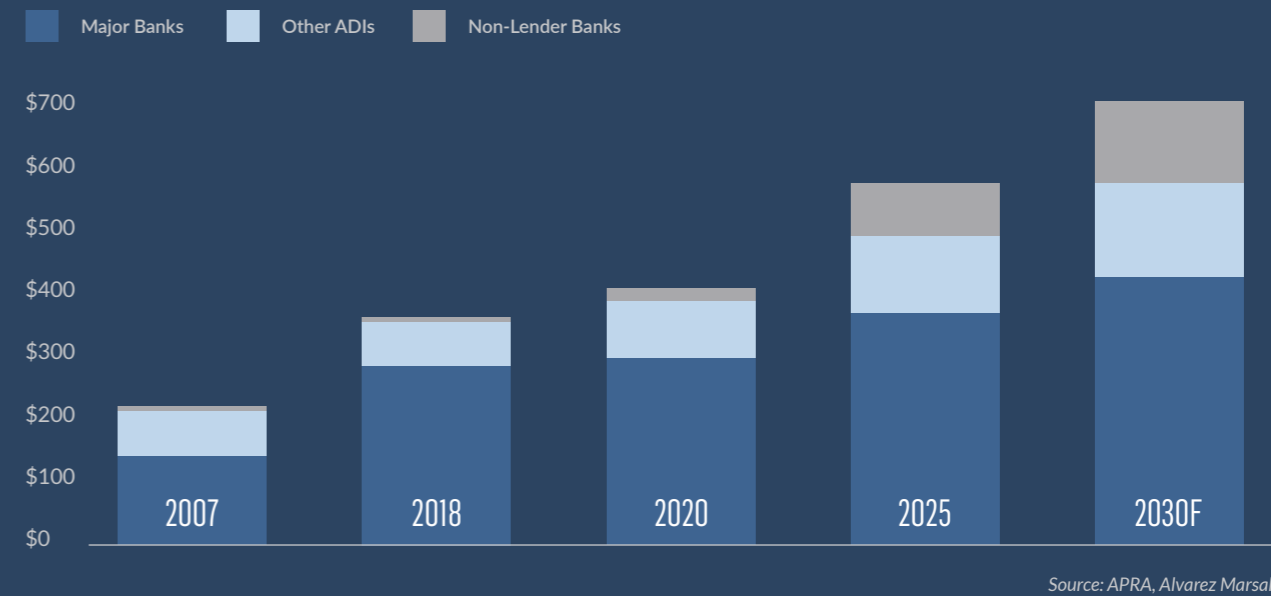
Our private credit fund partners with long-standing, high-quality developers, many of whom we have supported across multiple projects. On average, our relationships span more than six years, reflecting a foundation of trust, repeat business, and disciplined execution.

As the market continues to normalise post-rate cycle, credit investors may need to reassess what constitutes safety—not in terms of LVR alone, but in terms of concentration, sector outlook, and flexibility of capital.



MARKET OVERVIEW AND TAILWINDS

THE AUSTRALIAN PRIVATE CREDIT MARKET HAS GROWN DRAMATICALLY IN RECENT YEARS, EXPANDING FROM ROUGHLY A\$33 BILLION IN 2016 TO OVER A\$200 BILLION BY 2024. THIS REFLECTS A COMPOUND ANNUAL GROWTH OF ~15%, MAKING PRIVATE CREDIT ONE OF THE FASTEST-GROWING SEGMENTS OF AUSTRALIA'S FINANCIAL MARKET.



SUCH GROWTH HAS BEEN UNDERPINNED BY SEVERAL TAILWINDS:

REGULATORY CHANGES

Post-GFC bank regulations (implemented by APRA) increased capital requirements for higher-risk loans, curtailing banks' appetite for commercial real estate development lending. For instance, major banks have reduced maximum loan-to-value ratios (LVRs) on property development to ~65%, leaving a gap above that level for alternative financiers. Basel III/IV rules and domestic prudential reviews have made certain real estate loans (e.g. construction, value-add projects) capital-intensive for banks, prompting them to retrench.

BANK PULLBACK CREATING FUNDING GAPS

Over the past decade, the Big Four banks' share of commercial real estate lending has fallen from ~86% to ~73%. Notably, banks like NAB reduced their exposure to property development (NAB's development lending dropped from 16% to 7% of its CRE book between 2013 and 2023). This retreat has opened a liquidity gap estimated around A\$10 billion for maturing loans in office, retail, and industrial property that banks are unwilling to refinance at previous leverage levels. Non-bank lenders – including domestic debt funds and foreign institutions – have stepped in to bridge these financing gaps.

INVESTOR DEMAND FOR YIELD AND STABILITY

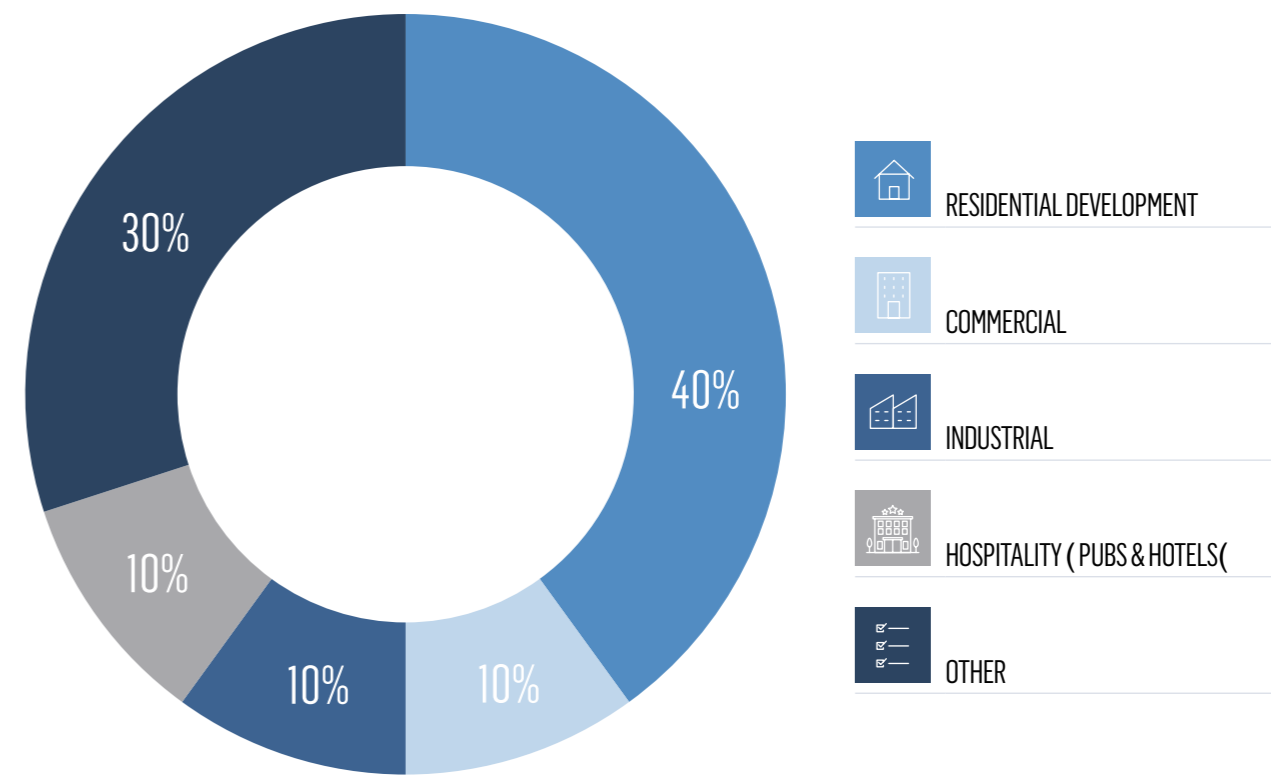
Institutional investors (superannuation funds, insurers, sovereign wealth funds, etc.) are drawn to private real estate credit for its attractive risk-adjusted returns. Private credit loans typically pay higher interest than comparably rated public bonds or bank loans, yet are secured by hard assets and have shown low volatility historically. As interest rates rose (13 RBA hikes from 2022–2023), private loan yields increased from the low-mid single digits to the low double digits in many cases, enhancing their appeal as an income investment. Floating-rate loan structures also offer a hedge against inflation and rising rates.

ECONOMIC AND PROPERTY MARKET TAILWINDS REGULATORY CHANGES

Australia's robust population growth and housing undersupply have boosted demand for development finance. Similarly, the e-commerce boom drives investment in logistics/industrial projects, and the post-pandemic travel rebound spurs hotel development – all areas where private credit is stepping up. Foreign capital is also increasingly targeting Australian real estate debt, attracted by Australia's stable economy and legal framework. In the Asia-Pacific context, Australia offers comparatively high spreads on senior secured loans and strong creditor protections (enforceable mortgages, reliable insolvency laws), making it a preferred destination for global private credit funds pivoting from riskier markets.

Overall, Australia's private real estate credit market – though still relatively small at ~2.5% of total business credit – is growing rapidly and maturing. Industry estimates value non-bank commercial real estate debt at about A\$74 billion as of early 2024, with a potential to double in the next five years if current growth rates persist. This expansion is broad-based across asset classes, as shown below, and is enabling more real estate activity by providing financing where traditional lenders will not.

Indicative allocation of private credit investment across Australian real estate sectors in 2023. Residential-related projects comprised the largest share of non-bank real estate financing (driven by housing demand and build-to-rent growth), followed by commercial (office and mixed-use developments), industrial (logistics and warehouse facilities), and retail properties. Specialised segments like hospitality and pubs (often counted within commercial) are smaller but growing niches for private credit.



THE FLOATING RATE FACTOR

IMPACT OF FALLING INTEREST RATES ON PRIVATE REAL ESTATE CREDIT

AS GLOBAL CENTRAL BANKS PIVOT TOWARD RATE CUTS, THE LANDSCAPE FOR PRIVATE REAL ESTATE CREDIT—PARTICULARLY FLOATING RATE DEBT—IS SHIFTING RAPIDLY. WHILE FLOATING RATE STRUCTURES HAVE DELIVERED OUTSIZED RETURNS DURING THE RECENT HIGH INTEREST RATE CYCLE, DECLINING BASE RATES ARE NOW COMPRESSING YIELDS AND CHALLENGING UNDERWRITING ASSUMPTIONS.

01

YIELD COMPRESSION AND RETURN PRESSURE

Floating rate loans are typically benchmarked to reference rates such as SOFR, BBSY, or bank bill swap rates, plus a credit spread. When rates are high, these instruments generate attractive income. However, as monetary policy eases, base rates fall—cutting directly into the gross return on floating rate loans unless spreads are re-priced upward. This creates a “return headwind” for managers who have relied on elevated floating income to meet target distributions, or based on outdated assumptions, actual LVRs may be materially understated.

03

REPRICING DYNAMICS AND BORROWER BEHAVIOUR

Declining interest rates often coincide with improving borrower sentiment and increased refinancing activity. This can trigger early repayments on existing loans, particularly those priced at peak-cycle levels, further compressing portfolio yields. Simultaneously, borrower demand for more aggressive leverage or tighter margins may increase, putting pressure on credit discipline.

02

RISK-RETURN MISALIGNMENT

In a falling rate environment, the absolute return on floating rate credit declines even as underlying deal risk remains constant or, in some cases, increases. For investors, this can distort risk-adjusted return profiles—particularly for core and core-plus strategies that may no longer offer sufficient premium over government bonds or investment-grade corporate debt.

04

STRATEGIC IMPLICATIONS FOR LENDERS

Private credit managers must now adapt by:

- Shifting toward fixed or hybrid-rate structures in new originations,
- Reassessing hurdle rates for new deals,
- Exploring higher-yielding strategies like mezzanine, stretch senior, or transitional credit,
- Enhancing underwriting to reflect lower base rate risk-adjusted pricing.



OVERVIEW OF STRUCTURED CREDIT DEAL TYPES

WHAT IS A STRUCTURED CREDIT LOAN?

A HALLMARK OF PRIVATE REAL ESTATE CREDIT IS THE USE OF STRUCTURED LOAN PRODUCTS THAT CAN BE TAILORED TO A PROJECT'S NEEDS AND A BORROWER'S CAPITAL STACK. THE KEY DEAL TYPES INCLUDE SENIOR LOANS, STRETCH SENIOR LOANS, MEZZANINE LOANS, AND STRUCTURED LOANS, EACH OCCUPYING A DIFFERENT POSITION IN THE FINANCING STRUCTURE:

SENIOR LOAN (FIRST MORTGAGE)

This is the foundation of real estate debt financing. A senior loan is secured by a first-ranking mortgage on the property, giving the lender first claim on the asset in a default. Banks traditionally provide senior construction or investment loans up to ~60–65% LVR (value of property). The senior debt is often called “the last money in, first money out,” meaning it is drawn after the borrower’s equity and is repaid first from project cash flows or sale. Senior loans carry the lowest risk and accordingly offer lower interest rates (often a few percent over base rates, e.g. high single-digit annual interest in the current environment). They typically have full covenants and around 1–5 year terms.

STRETCH SENIOR LOAN

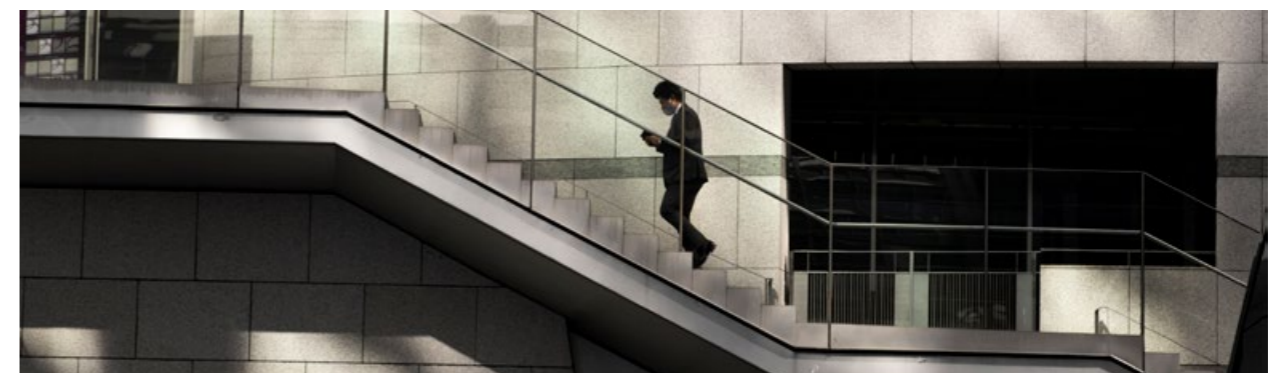
A stretch senior loan extends leverage beyond the typical senior loan limit in a single facility. Instead of a separate mezzanine piece, one lender (or lending group) provides a blended loan that might go up to ~75% LVR (combining what would have been senior and mezzanine into one tranche). The interest rate on stretch senior debt is higher than pure senior debt to reflect the additional risk of that “stretched” upper portion. For the borrower, this structure simplifies financing (one loan agreement) and can often be obtained faster or with more flexible terms than arranging a separate mezzanine. In Australia, appetite for stretch senior loans has grown significantly, even displacing some mezzanine demand, as borrowers seek higher leverage without dealing with multiple lenders. Example: A property developer might borrow 75% of the project cost through a stretch senior loan from a debt fund, accepting an interest rate perhaps in the ~8–12% range, instead of the ~6–8% senior bank loan but avoiding the need for a junior loan.

MEZZANINE LOAN (SECOND MORTGAGE)

Mezzanine debt sits subordinate to senior debt in priority, often secured by a second mortgage or a contractual arrangement behind the first mortgage. Mezzanine loans fill the gap between a bank’s max LVR and the borrower’s equity, commonly covering the 65%–80% LVR range in development projects. Because it is riskier (mezzanine lenders only recover value once the senior debt is fully repaid), the returns are higher – typically mid teens or higher in annualized terms. Mezzanine financing is a crucial tool for developers to minimize their equity contribution and boost project leverage. Private credit funds frequently provide mezzanine capital alongside a bank or senior lender. According to industry reports, mezzanine facilities in Australian projects have offered IRRs around 12–15%+. For instance, in 2022 a non-bank lender sought investors for a mezz loan behind a major bank construction facility for a Melbourne apartment project, offering about a 14% net IRR on the junior loan. Mezzanine loans are usually shorter-term and often allow payment-in-kind interest (accrual of interest to be paid at the end) to reduce cash outflow during the project.

STRUCTURED LOAN (WHOLE-OF-CAPITAL-STACK FINANCING)

In some cases, a private credit provider extends a structured loan, effectively funding the entire debt stack (senior + mezzanine) as one lender. This could be structured as a single facility or multiple interlocking loans, but from the borrower’s perspective it is a one-stop debt solution often covering up to ~75–80% of the property value. Structured loans give maximum flexibility – the lender can internally tranche the risk or syndicate parts of it, but the borrower deals only with one counterparty. Structured loans are common when speed or confidentiality is crucial, or when a project is too complex for multiple lenders. They are often used in bridge financing and transitional asset situations (e.g. a short-term loan to reposition a property). The pricing of structured loans will be the weighted blend of a senior and mezz portion, resulting in a high-single to low-double-digit interest rate depending on risk. Many Australian debt funds advertise an ability to provide capital “across the full capital stack” – offering senior, stretch, mezz or preferred equity as needed in one package. This flexibility is a key differentiator of private credit: bespoke deal structuring allows tailoring of LVR, covenants, tenor, and repayment to suit non-standard deals. As noted by APRA, alternative lending structures (mezzanine, stretch senior, pref equity) are gaining popularity since they bridge the gap between senior debt and equity, enabling projects that might otherwise not proceed under bank constraints.



Each of these deal types serves to expand the financing capacity for real estate beyond what traditional senior loans alone would provide. By combining them creatively, private credit lenders can fund complicated projects (e.g. high-density developments with lower presales, hotel refurbishments with ramp-up risk, land banking or value-add properties with short leases) that banks find outside their comfort zone. The trade-off for borrowers is a higher cost of capital, but this is often acceptable when the alternative is no funding or insufficient funding. For investors in private credit, these structures provide a spectrum of risk/return profiles – from relatively safe first mortgages to equity-like risk in mezzanine – allowing fine-tuned portfolio construction. Importantly, all these loans are asset-backed (secured against real estate), and Australian private debt deals tend to maintain conservative fundamentals like covenants and prudent leverage, even in stretched structures.

RW CAPITAL'S

CREDIT INVESTMENT STRATEGY



01 SPECIAL SITUATIONS CREDIT: UNLOCKING VALUE IN COMPLEXITY

SPECIAL SITUATIONS LENDING HAS EMERGED AS ONE OF THE MOST DYNAMIC AREAS IN AUSTRALIAN PRIVATE REAL ESTATE CREDIT. THESE ARE TYPICALLY NON-VANILLA TRANSACTIONS THAT FALL OUTSIDE TRADITIONAL BANK PARAMETERS—OFTEN INVOLVING STRUCTURAL COMPLEXITY, TIMING PRESSURE, OR BORROWER DISLOCATION.

At RW Capital, we define special situations credit as capital provided against transitional, impaired, or unconventional assets that require bespoke structuring, often in time-sensitive scenarios. Common use cases include recapitalisations, sponsor distress, debt restructures, or incomplete developments needing interim funding to reach stabilisation or exit.

In many cases, the asset quality remains sound, but the borrower's capital stack or circumstances have triggered a liquidity event. By partnering closely with developers, we structure senior secured credit that not only supports project delivery but also provides tailored solutions designed to enhance outcomes for all stakeholders.

Key features:

- High-margin, short-to-medium term loans with strong collateral coverage
- Often secured against partially completed or non-income producing assets
- Underpinned by asset-level due diligence, not just borrower strength
- Repayment typically via sale, refinance or stabilisation

Special situations require hands-on underwriting, deep real estate experience, and legal agility—but in return, they offer superior risk-adjusted returns and downside protection when structured correctly.



02 SENIOR SOLUTIONS FINANCE: CORE RISK, STRUCTURED RETURNS

SENIOR SOLUTIONS FINANCE SITS AT THE INTERSECTION OF TRADITIONAL FIRST MORTGAGE LENDING AND STRUCTURED PRIVATE CREDIT. WHILE STILL SENIOR IN THE CAPITAL STACK, THESE DEALS OFTEN REQUIRE GREATER FLEXIBILITY THAN BANKS CAN PROVIDE—EITHER IN TERMS OF SPEED, ASSET TYPE, OR DEAL STRUCTURE.

In Australia, this includes funding for stabilised assets that are in good locations and have clear income profiles but require more leverage or tailored terms than bank lenders are willing to offer. This could involve non-standard income profiles, partial pre-leasing, or sponsor requirements that fall just outside conventional loan covenants.

These loans tend to be:

- Lower risk relative to mezzanine or equity, but more flexible than bank debt
- Priced at a moderate premium to core credit, offering enhanced yield
- Backed by completed, income-producing assets with visible exit plans
- Structured to include features like interest reserves, cash trap covenants, or LVR step-downs

Senior solutions finance is attractive in an environment where borrowers need certainty and responsiveness—yet still value the protection and priority of senior capital.

03

BRIDGE ASSET FINANCE: SPEED, SIMPLICITY, SECURITY

BRIDGE FINANCE REMAINS A FOUNDATIONAL TOOL IN PRIVATE REAL ESTATE CREDIT, PARTICULARLY IN AUSTRALIA'S TIGHTENING LIQUIDITY ENVIRONMENT. BORROWERS SEEK BRIDGE LOANS TO MEET URGENT FUNDING NEEDS: SETTLEMENT FINANCE, LAND CARRY, ASSET REPOSITIONING, OR QUICK ACQUISITION OPPORTUNITIES.

What distinguishes bridge finance is its emphasis on

- **Speed of execution** (often 1–3 weeks to drawdown)
- **Short duration** (typically 3–12 months)
- **Clear exit** via refinance, sale, or construction funding
- **Security-first approach**, with real asset backing and conservative LVRs

For lenders, bridge finance offers consistent demand, attractive pricing, and the opportunity to recycle capital frequently.

However, disciplined underwriting and control of exit conditions are critical to mitigate rollover risk.

At RW Capital, we approach bridge finance not as a commoditised product, but as a strategic tool within a broader capital solutions framework. When aligned with the right developer and asset, we provide liquidity solutions in close collaboration with experienced partners — supporting projects while maintaining strong credit quality.

Financing Type	Capital Stack Position	Typical LVR Range	Typical Interest (Annual)	Risk Profile & Notes
Senior Loan	First mortgage (lowest priority risk)	~50–65% of property value	~5–7% p.a.	Lowest risk: first claim on asset. Offered mainly by banks (strict terms, lower leverage).
Stretch Senior	First mortgage (covers senior + part of junior)	Up to ~70–75% LVR	~7–9% p.a.	Higher leverage first lien. Provided by private lenders; simplifies capital stack for borrower.
Senior Solutions	First mortgage with flexible structuring	~55–70% LVR	~6.5–8.5% p.a.	For income-producing or completed assets needing non-bank terms. Structural flexibility with senior ranking.
Bridge Asset Finance	First mortgage (short-term capital)	~50–70% LVR	~8–11% p.a.	Short-term loans for settlement, land carry or urgent acquisitions. Fast execution; requires clear exit strategy.
Mezzanine Loan	Second mortgage / junior debt	Up to ~80–85% LVR	~12–18% p.a.	High-risk, second-ranking claim. Enhances leverage. Only available via non-banks.
Structured Loan	May cover entire debt stack in one facility	~70–80% LVR	~6–10% p.a. (blended)	One lender holds senior + mezz. Simplifies execution for complex or transitional deals.
Special Situations	Flexible (can include senior, mezz, bespoke tranches)	~60–85% LVR (deal-specific)	~10–16% p.a.	Structured loans in distress, transitional, or off-market scenarios, where special situations typically command lower entry multiples. We partner with sophisticated developer-borrowers in these situations, with complexity priced into the margin and strong collateral remaining essential.

CAPITAL STACK ROLES

In a typical development or acquisition, the capital stack layers would be senior debt at the base, then mezzanine debt above it, then the borrower's equity at the top. For example, a developer might secure a bank senior loan up to ~60% of project cost, then use mezzanine finance to increase total debt to ~80–90% of cost, and only put in ~10–20% equity themselves. Alternatively, a private credit fund might provide a structured loan for, say, 75% of the project's value, and the developer covers the remaining 25% as equity. Each layer has its own risk/return: equity expects the highest returns (and takes first loss), mezzanine expects high returns for second-loss risk, and senior debt accepts lower returns for taking the least risk.

THE RETURN PROFILE OF REAL ESTATE PRIVATE CREDITS

Private real estate credit offers a compelling risk/return profile for investors, sitting between traditional fixed-income and equity in terms of yield. In the current market, base interest rates in Australia are relatively high (RBA cash rate at 3.85% as of July 2025), and private loans typically have a credit spread margin on top.

Senior secured loans on stabilised properties might yield on the order of 6–8% annually, while development or stretch senior loans can command higher yields (8–12%+). Mezzanine and subordinated loans often target returns in the low- to mid-teens. These figures align with examples like the 14.6% mezzanine IRR noted earlier. Many debt funds advertise target gross returns in the 8–15% range depending on strategy. Indeed, one prominent Australian private credit fund reported delivering ~10% annualized returns to its investors over the past decade – outperforming equities (the ASX returned ~8% in the same period) with much lower volatility, since loans are not marked-to-market daily. Such returns are primarily in the form of contractual interest income, often floating-rate. With most private loans indexed to benchmark rates, rising interest rates have directly lifted returns for investors, (non-bank loan coupons moved from mid single-digit to low double-digit territory after the recent rate hikes).

TOTAL RETURN COMPARISON: CORE VS STRUCTURED PRIVATE REAL ESTATE CREDIT (AUSTRALIA)

In Australia's current market, core senior real estate credit—typically first mortgage loans at ~50–60% LVR—has seen total returns compress to ~5.0–6.5% p.a., driven by falling base rates and tighter spreads. These loans remain low-risk, but in many cases, net investor returns now sit below inflation-adjusted targets, particularly after fees.

Meanwhile, structured private credit continues to offer compelling yield across the capital stack:

- **Stretch senior loans:** 7.0–9.0% p.a.
- **Bridge finance:** 8.0–11.0% p.a.
- **Mezzanine loans:** 12.0–16.0% p.a.
- **Special situations credit:** 10.0–16.0%+ p.a.

This creates a return gap of 300–600bps—a material premium that persists even after accounting for liquidity and complexity risk. Crucially, much of this lending is still secured against real assets, with structured protections and senior-ranking security.

At the same time, concentration risk is rising in the Australian market. According to industry data and manager disclosures:

- **Over 40% of private credit capital is deployed into residential property**, much of it tied to development and construction.
- **Less than 10% is allocated to sectors like hospitality, logistics, or transitional-use assets**—areas with long-term growth drivers and yield resilience.

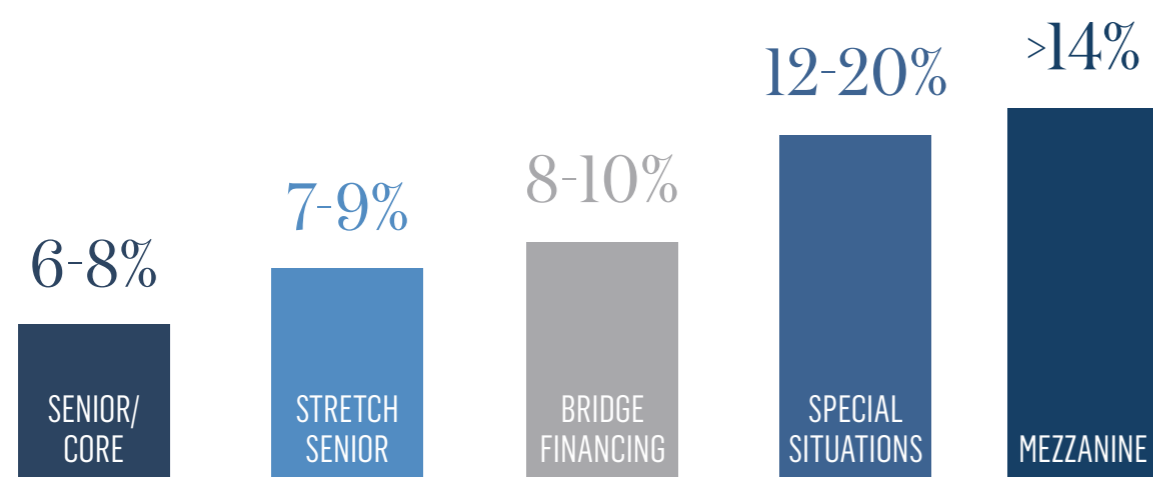
In our view, this imbalance presents both a risk and an opportunity. Structured credit—when selectively deployed—can enhance total return, diversify exposure away from overheated segments, and provide better protection against market dislocation.

In a lower-rate, higher-volatility world, risk premiums in structured credit are not only intact—they're attractive.

40%+ OF PRIVATE CREDIT CAPITAL IS DEPLOYED INTO RESIDENTIAL PROPERTY



PRIVATE CREDIT RETURN COMPARISON BY STRATEGY



PORTFOLIO IMPLICATIONS: THE STRUCTURED CREDIT EDGE

Incorporating structured real estate credit into a diversified private credit portfolio has become an increasingly important lever for generating excess return without materially increasing volatility. While core senior real estate loans offer strong downside protection and predictable income, they are, by design, conservative—targeting base rate plus modest spreads and often pricing below 6% p.a. in today’s environment. For many investors, particularly those with real return targets above CPI + 3%, this profile alone is no longer sufficient.

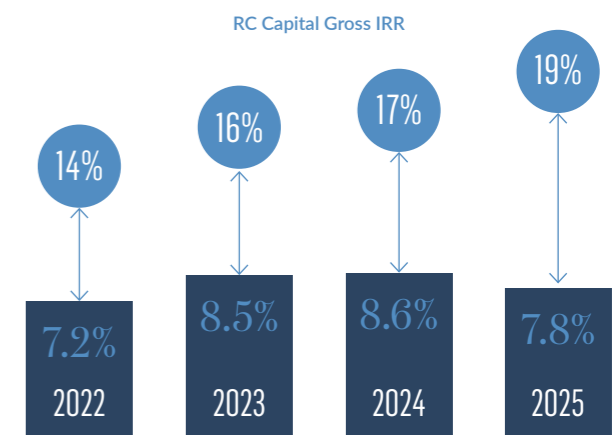
Structured credit—spanning stretch senior, bridge finance, and special situations—adds complexity, but also delivers meaningful incremental yield. These instruments routinely offer returns in the 8%–13%+ range, even when backed by institutional-grade collateral. Importantly, they enable investors to price risk more accurately and structure deals in a way that reflects real-world asset dynamics—whether that be transitional use, liquidity constraints, or sponsor-specific idiosyncrasies.

The impact on portfolio-level returns is significant. A private credit portfolio weighted exclusively to core senior real estate debt may produce a blended net return of 5.5–6.5% p.a., with minimal capital return and limited upside optionality. By contrast, a balanced allocation that includes 30–50% structured credit can increase net returns to 8.5–10.0%+, while preserving downside protection through asset-level controls, conservative LVRs, and structural enhancements like interest reserves or step-down covenants.

In effect, structured credit offers a source of private market alpha—not by taking equity risk, but by lending into complexity where pricing power exists. This alpha is reinforced by the relative illiquidity of the space, limited competition (particularly in non-core sectors), and the bespoke nature of transactions that resist commoditisation. When properly underwritten, structured real estate credit serves not only as a yield enhancer but also as a diversifier within private credit, offering exposure to differentiated risk drivers compared to corporate loans, direct lending, or core real estate debt.

In our own portfolio, we reviewed the last few years of returns, versus floating rate benchmarked peers to see how our structured returns. Our portfolio achieved an average return alpha of 800 basis points.

For institutional allocators, the message is clear: a core-only credit strategy may protect capital, but it will likely underperform real return targets over time. Structured credit provides the mechanism to bridge that gap—with controllable risk and repeatable execution—delivering true alpha in portfolios that can underwrite it.



Source: Various company reports on return performance (RW Internal Performance Data)

WHY PRIVATE FUNDS EXCEL IN STRUCTURED CREDIT

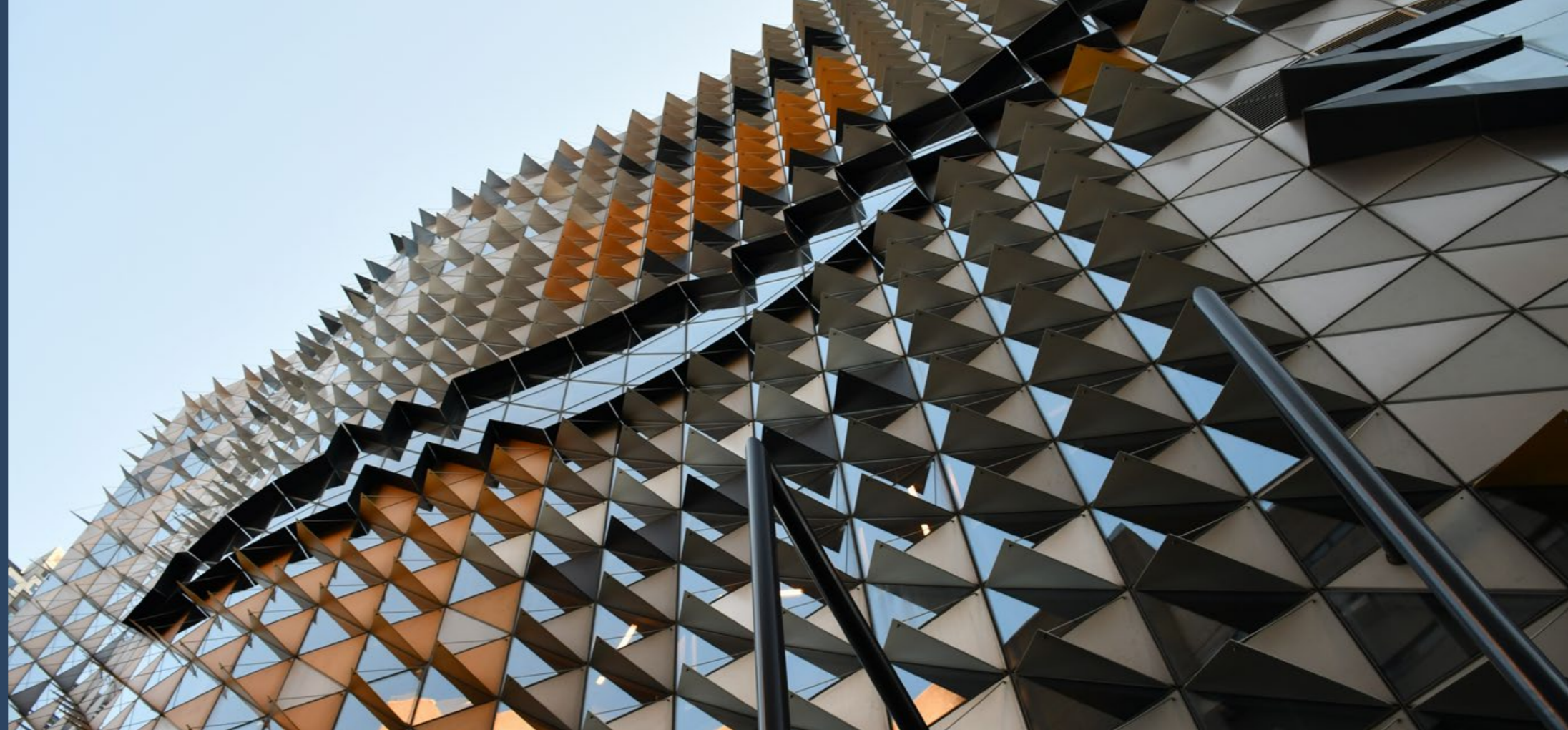
In short, Basel III and related APRA rules have made bank lending more conservative, opening space for private credit. Banks must hold significantly more capital against commercial real estate debt (especially construction/development and higher LVR loans), which makes such lending less attractive for them. As a result, banks focus on lower-risk segments (like home mortgages or prime commercial loans) and have “retreated from certain lending sectors, particularly SME and parts of real estate finance”. This retrenchment created a funding gap that private debt funds have eagerly filled by offering tailored, higher-leverage loans to creditworthy borrowers who simply don’t fit the banks’ narrowed criteria. Importantly, this doesn’t mean these borrowers or projects are subpar – many are “A-grade” borrowers or solid projects that banks cannot serve due to their constraints. Private lenders, funded by institutions, superannuation funds, and high-net-worth investors, are designed to match investor capital with borrowers’ needs outside the banking system. They can price for risk (instead of avoiding it), and thus deliver financing solutions that banks simply don’t offer. The result has been win-win: borrowers get capital faster and with more flexibility, and investors (in private credit funds) gain access to attractive yield opportunities backed by real assets.

This trend is evident in market data: Australia’s private debt market (across business and real estate lending) has quadrupled in size over the past decade, reaching about A\$205 billion in assets by 2024. Within that, approximately A\$85 billion is in commercial real estate loans. Non-bank commercial real estate lenders have seen ~35% annual growth since 2020, and their market share is expected to continue rising. By 2028, forecasts suggest non-banks could hold nearly a quarter of Australia’s CRE debt market (vs ~16% now). Clearly, private credit funds are now an established pillar of real estate finance in Australia, not just a niche: borrowers increasingly view private credit as a *first-choice* option when deals require flexibility or higher leverage.

CASE STUDIES

PRIVATE CREDIT FILLING THE GAPS IN COMPLEX OR DEVELOPMENT DEALS

PRIVATE CREDIT'S IMPACT IS BEST ILLUSTRATED THROUGH EXAMPLES OF DEALS AND SCENARIOS WHERE BANKS HAVE PULLED BACK BUT PROJECTS STILL FOUND FUNDING THROUGH ALTERNATIVE LENDERS.



Here are a few representative cases common in the Australian market:

HIGH-LEVERAGE PROPERTY DEVELOPMENT

A property developer planning a new apartment project needs, say, 80% of the project cost financed by debt (far above what a bank would do). Major banks might only offer ~60% LTC (loan-to-cost) and would require substantial pre-sales of units before lending. In one recent study, it was noted that traditional banks have scaled back involvement in development funding, exemplified by NAB's halving of its development loan exposure from 2013–2023. To fill the gap, the developer turns to a private credit fund, which provides a stretch senior loan funding, for example, 75% of costs, and a mezzanine loan to take total leverage to ~90%. This enables the project to proceed with the developer contributing only ~10% equity. The private loans might carry an interest rate in the high single digits for the stretch senior and mid-teens for the mezz – a blended cost higher than a bank's, but acceptable given the project's profit margins. Such financing was not available from banks under current APRA constraints, but the alternative lender's involvement ensures the housing project gets built (addressing supply needs) while the lender earns a healthy return. Many mid-sized residential developments across Sydney and Melbourne in recent years have relied on this model, partnering with non-bank lenders for mezzanine debt when banks wouldn't go beyond their low-risk thresholds.

LAND ACQUISITION AND EARLY-STAGE DEVELOPMENT

Banks typically require developments to have approvals in place and often a percentage of pre-sales or pre-leases before they will lend on construction. They also usually won't lend against land purchase at high leverage, especially if it's speculative (no immediate income). Private lenders have been filling this void by offering land loans and pre-development financing. For example, a developer acquiring a land parcel for future subdivision might get only a 50% LVR loan from a bank (or none at all if the land is unzoned). A non-bank lender could offer a higher leverage land loan (say 70% of land value) on a short-term basis, giving the developer time to obtain development approval. Similarly, private credit funds finance early works and site preparation when banks are unwilling to fund until later. These loans are structured with appropriate protections (they might be shorter tenor and carry higher interest, reflecting the higher risk until the project de-risks). Such funding is crucial for getting projects off the ground in Australia's booming corridors; alternative lenders effectively incubate projects until they qualify for cheaper bank capital at a later stage.

COMPLEX OWNERSHIP OR FINANCIAL STRUCTURES

Banks prefer simple deal structures and well-capitalised sponsors. If a project has a complex joint-venture ownership or a sponsor who is capital-constrained, banks may hesitate. Private credit can craft solutions here. One example is the use of preferred equity or structured equity (which sits between debt and common equity) – while not a loan, many private credit providers offer this as an alternative to mezzanine debt. For instance, in a large mixed-use development, instead of pure mezzanine debt, a fund might take a preferred equity stake that gives the developer funding now, with the fund earning a preferred return and equity upside. Banks do not engage in such structured investments, but private capital thrives on them. This flexibility has seen numerous deals go ahead: e.g. developers bring in a private fund as a pref equity partner or junior lender when banks limited their lend. It's particularly common in large, complex projects (like multi-tower developments or projects with longer timelines) where the senior bank syndicate might only fund a portion of the needed capital.

It's worth noting that while private credit deals carry higher interest costs, the trade-off is often a faster, more certain execution. In real estate, timing and certainty can be worth the extra cost – for instance, avoiding a six-month delay waiting for a bank committee approval or missing a market window can be far costlier than a few extra percentage points of interest for a year or two.

Thus, many seasoned Australian developers now keep relationships with non-bank lenders in addition to banks, choosing the financing source that best fits the project profile.



CONCLUSION

THE STRUCTURED REAL ESTATE CREDIT MARKET IN AUSTRALIA HAS MATURED SIGNIFICANTLY, EVOLVING INTO A PARTNERSHIP BETWEEN CAUTIOUS BANKS AND ENTERPRISING PRIVATE CREDIT FUNDS.

Major loan types like senior, special situations, stretch senior, and structured loans form a spectrum of risk and return that together can finance an entire capital stack. Traditional banks still anchor the low-risk senior debt space but have retrenched from higher leverage and complex deals due to APRA's prudential standards and Basel capital requirements. In their wake, private credit funds have rapidly expanded, offering bespoke high-leverage loans, faster execution, and creative structures that “complete the market” where banks are constrained.

This shift is backed by data: non-bank real estate lenders now manage tens of billions in loans, growing at double-digit rates and eroding banks' market share. Private credit is thriving because it addresses real needs – the funding of developments, transitional properties, and other opportunities that Australia's big banks, for all their strength, are not equipped or willing to finance under today's rules. Macroeconomic tailwinds (strong demand for property and investor appetite for yield) and regulatory settings have aligned to make private real estate credit a permanent feature of Australia's financial landscape.

Going forward, borrowers can be expected to increasingly tap private credit for stretch senior and mezzanine capital, especially in the mid-market segment (loans \$5–50 million) which has been identified as having the greatest growth potential for non-bank lenders.

Meanwhile, banks will continue focusing on core senior lending, and may even partner with private lenders (for example, providing a “super senior” revolver alongside a stretch loan from a fund). For investors, Australian real estate private debt offers an appealing combination of secure collateral and enhanced yields, with private lenders often achieving risk-adjusted returns superior to many traditional assets.

In summary, Australia's structured real estate credit market is more robust and diverse than ever: senior loans, stretch and structured loans each play a role in financing property, and private credit funds have proven they can deliver all these layers with speed and ingenuity.

Supported by favourable regulation (for non-banks) and market demand, private credit is bridging the gaps left by banks – ensuring that worthwhile projects get funded and that Australia's real estate sector continues to grow, even as banking models evolve.

The collaboration (and competition) between banks and private credit is delivering a more complete capital stack for Australian real estate, to the benefit of developers, investors, and the broader economy.

The Australian real estate structured credit market remains highly concentrated, with only a small number of specialist non-bank lenders and funds actively operating in the space. This limited competition means that experienced originators can command attractive deal flow and pricing, particularly in complex transactions that fall outside the remit of traditional core debt providers.

AUSTRALIA'S STRUCTURED
REAL ESTATE CREDIT MARKET
IS MORE ROBUST AND DIVERSE
THAN EVER.



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