

RWC

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# LEADING THE PACK:

WHY AUSTRALIAN REAL ESTATE  
FUND MANAGERS ARE  
OUTPERFORMING GLOBAL PEERS

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# SUMMARY

- Australia real estate fund managers outperform globally across both equity and debt, with ~8–9% equity returns and ~9–10% credit returns, exceeding North America and Europe on a risk adjusted basis.
- This outperformance is structural, not cyclical, driven by income-led returns, constrained supply, conservative leverage, and strong demographics
- Global investors remain underexposed to Australia, despite its depth and performance, with allocations often constrained by regional mandates



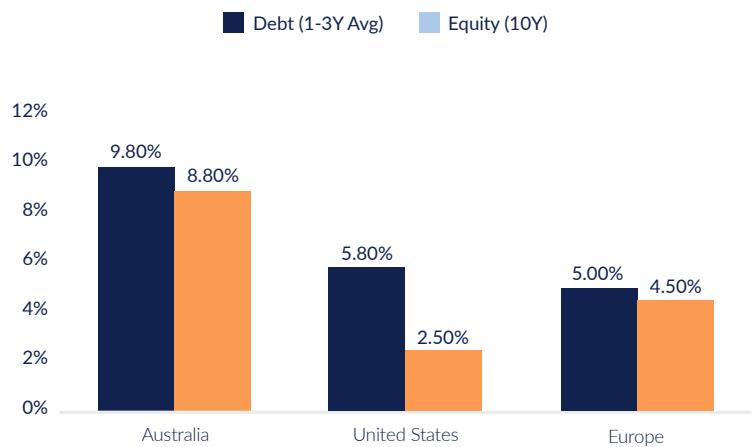


In the last ten years, Australian commercial real estate (CRE) has been at the forefront, outperforming North American and European counterparts, offering consistent capital protection, increased returns, and less volatility across multiple markets. Equity and debt markets have shown similar trends, placing Australia as a rare jurisdiction with consistent performance across all risk adjusted levels of the capital stack. But what is driving this unique phenomenon?

Over the last 10 years, Australian direct property income and valuations have remained stable, delivering annual returns of approximately 8.5 to 9.0% p.a., materially outperforming global peers. By comparison, US real estate has delivered ~0 to 4% p.a. over the same period, with significantly higher volatility, while European markets have generated more moderate returns of ~3 to 6% p.a.

This performance gap is even more pronounced in private credit. The emergence of an Australian Private Real Estate Credit. Tracking more than A\$20bn in loans, across 14 managers shows ~9.9% one-year and ~9.7% three-year returns, compared to ~6.7% (1-year) and ~4.9% (3-year) in the US, and ~5.4% (1 year) and ~4.7% (3 to 5 year) in Europe, highlighting a consistent return premium across the capital stack.

## AUSTRALIA VS USA VS EU RE EQUITY & CREDIT RETURNS



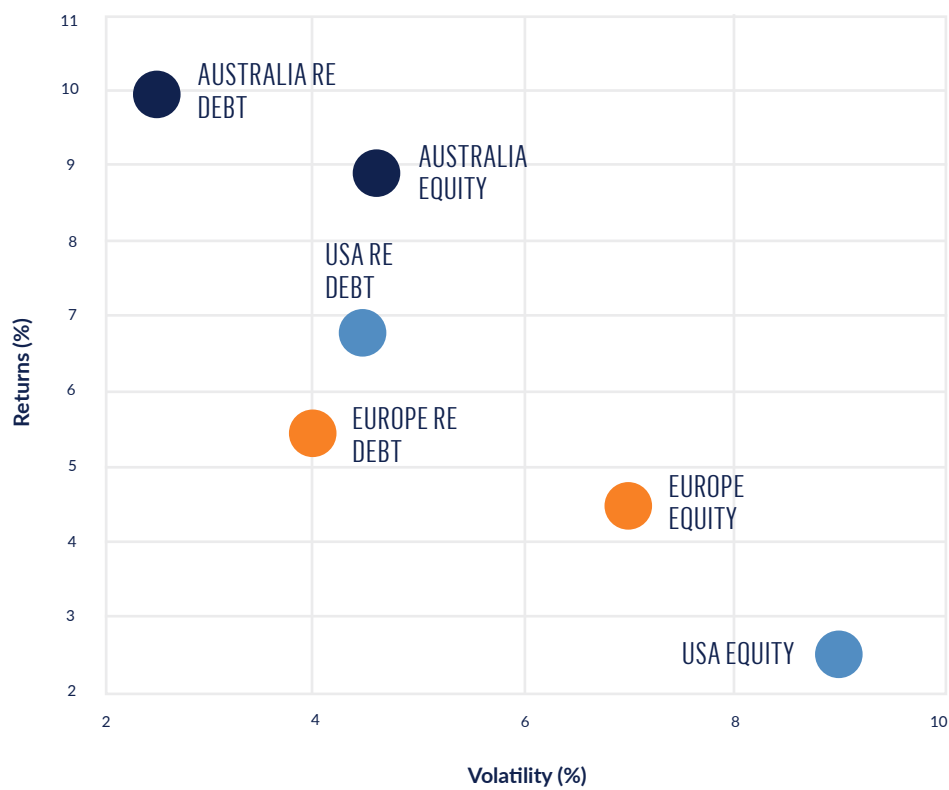
Sources: MSCI, RW Capital Research, ODCE Index

Note: The Australian figures are an aggregate of Australian RE Credit Fund level returns, with an average LVR of 65%, returns are adjusted for back leverage.

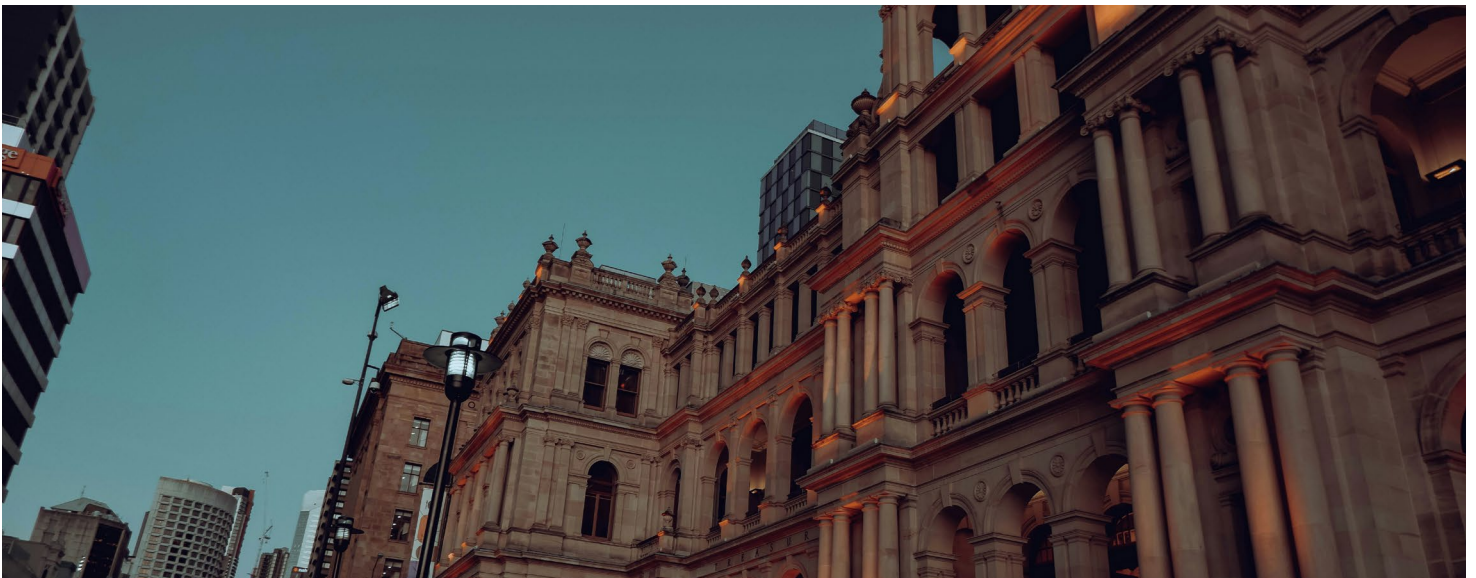
These outcomes indicate structural properties, not cyclical positioning. Conservative leverage, supply constraints, strong demographic demand, and mature institutional markets have resulted in a real estate ecosystem that is both resilient and return-generative. For global investors, the implication is clear: Australia is one of the most compelling propositions in real estate, especially when considering both equity and debt.

Australia is not outperforming because it is taking more risk. It is outperforming because the structure of its market allows it to generate better outcomes from the same underlying real estate fundamentals.

## GLOBAL REAL ESTATE: RISK VS RETURN ACROSS EQUITY AND DEBT (1 YR)



Sources: RW Capital Research, MSCI





# INTRODUCTION

Beginning in 2022, global real estate markets began to reprice as central banks tightened fiscal policy, leading to cap rate decompression across all major commercial asset classes. Reassessing how different real estate assets responded to market shocks highlighted their disparate responses. For example, real estate markets that were highly capitalised in terms of large amounts of debt, and market aggressive growth expectations experienced significant valuation drops. On the other hand, real estate markets that were more balanced, underpinned by strong fundamentals, faced limited losses.

Australia is located in the latter category, and while it is not crisis proof from global macroeconomic turbulence, it is relatively well insulated from the worst of the downside, limiting losses, while providing higher, risk adjusted returns. This document seeks to assess how much of an outlier Australia is and how sustainable those returns will be as we enter a renewed period of geopolitical instability.

Australia's returns and risk profile are assessed and benchmarked against the newly available private credit metrics in Australia, North America and Europe.

## EQUITY PERFORMANCE: RETURN AND RISK IN CONTEXT

Australian direct real estate has delivered strong and consistent returns across multiple cycles. As shown in Table 1, ten-year annualised returns are approximately 8.5–9.0%, with similar performance observed over longer horizons.

**Table 1: Global Direct Real Estate Performance Comparison**

Region	10-Year Return	20-Year Return	30-Year Return	Volatility (10Y)
Australia	8.5–9.0%	~8–9%	~9%	~4.6%
United States	~0–4%	~5–7%	~6–8%	~8–10%
Europe	~3–6%	~4–6%	~5–7%	~6–8%

Sources: RW Capital Research, MSCI

While the return differential is meaningful, the more important distinction lies in volatility. Australian real estate exhibits approximately half the volatility of US markets, resulting in materially higher risk-adjusted returns.

To illustrate this, Table 2 presents indicative Sharpe ratios using a long-term risk-free rate of ~2.5%.

**Table 2: Indicative Risk-Adjusted Performance**

Region	Return	Volatility	Sharpe Ratio (approx.)
Australia	~8.9%	~4.6%	~1.4
United States	~3.0%	~9.0%	~0.1-0.3
Europe	~5.0%	~7.0%	~0.5-0.7

Source: RW Capital Research, MSCI

The difference is stark. Australian real estate delivers not only higher returns but also does so with significantly less risk.

This dynamic is further reinforced when examining drawdowns. During periods of market stress, Australian real estate has demonstrated superior capital preservation.

**Table 3: Peak-to-Trough Drawdowns**

Region	GFC Drawdown	COVID Drawdown
Australia	~-20% to -25%	~-10% to -15%
United States	~-35% to -40%	~-20% to -30%
Europe	~-25% to -30%	~-15% to -25%

Source: MSCI

The combination of lower drawdowns and faster recovery cycles contributes significantly to long-term outperformance, particularly for institutional investors managing long-duration capital.





# DEBT PERFORMANCE: A CLEAR STRUCTURAL ADVANTAGE

To assess the Australian real estate private credit market, we built a fund return index tracking over A\$23 billion in loan book exposure across 22 funds and more than 2,200 loans. This coverage range is important, as it is more comprehensive than other regions and provides a wider spectrum of risk and return, thus providing a representative view of the market that is comparable to the North American and European fund level performance.

Based on a weighted measurement of returns, Australian real estate private credit has delivered strong and stable returns, as shown in Table 4.

**Table 4: Private Real Estate Debt Performance (Latest Available)**

Region	1 Yr Return	3 Yr Return	Basis	Weighting
Australia	~9.9%	~9.7%	Net	AUM-weighted
United States	~6.7%	~4.9%	Gross	Equal-weighted
Europe	~5.4%	~4.7%	Net	NAV-weighted

Source: RW Capital Research, MSCI

Even allowing for methodological differences, Australian credit delivers a 300–500 basis point premium over global peers.

More importantly, these returns are achieved without a commensurate increase in risk. The Australian market is characterised by conservative loan structures, with lower loan-to-value ratios and stronger covenant protections.

**Table 5: Structural Differences in Credit Markets**

Metric	Australia	United States	Europe
Typical Senior LVR	50–65%	60–75%	60–70%
Recourse	Often full	Limited	Limited
Loss Rates (historical)	Very low	Moderate	Moderate
Income Stability	High	Moderate	Moderate

Source: RW Capital Research

This structural conservatism allows Australian lenders to achieve strong returns while maintaining capital protection.

The capital stack composition further enhances returns. As shown in your benchmark, Australian strategies generate increasing returns across risk tiers:

Table 6: Australia Credit Returns by Strategy (1-Year)

Strategy	Return
Residual / Low Risk	~8.3%
Senior Land	~9.0%
Senior Investment	~9.9%
Senior Construction	~10.0%
Mezzanine	~10.9%
Special Situations	~11.3%

Source: RW Capital Research

This gradient reflects rational risk pricing, but importantly, even senior strategies deliver returns that exceed global benchmarks.

## INTEGRATING EQUITY AND DEBT: A CAPITAL STACK PERSPECTIVE

When viewed together, equity and debt performance in Australia reveal a uniquely attractive capital stack.

Table 7: Capital Stack Return Comparison (Australia vs Global)

Asset Class	Australia Return	Global Return
Core Equity	~8-9%	~3-6%
Value-Add Equity	~10-12%	~7-10%
Senior Debt	~8-10%	~4-6%
Mezzanine Debt	~10-12%	~9-11%

Source: RW Capital Research, MSCI, Company Reports

Across every layer of the capital stack, Australia delivers higher returns. This is highly unusual. In most markets, investors must move up the risk curve to achieve higher returns. In Australia, even lower-risk strategies generate strong outcomes. This reflects the stronger, underlying fundamentals of Australian real estate and its unique regulatory environment, which limits downside risk through greater protections for lenders.

## STRUCTURAL DRIVERS OF OUTPERFORMANCE

The persistence of these results suggests structural rather than cyclical drivers. These can be summarised quantitatively.

Table 8: Structural Comparison Across Regions

Factor	Australia	USA	Europe
Market Volatility	<i>Low</i>	<i>High</i>	<i>Medium</i>
Leverage Levels	<i>Low</i>	<i>High</i>	<i>Medium</i>
Supply Elasticity	<i>Low</i>	<i>High</i>	<i>Medium</i>
Population Growth	<i>High</i>	<i>Medium</i>	<i>Low</i>
Institutional Transparency	<i>High</i>	<i>High</i>	<i>Medium</i>
Credit Market Efficiency	<i>High</i>	<i>Medium</i>	<i>Medium</i>

Source: RW Capital Research, MSCI

**These characteristics combine to produce a market with:**

- Strong income stability
- Limited supply-driven volatility
- Efficient capital allocation

# WHY AUSTRALIA OUTPERFORMS: STRUCTURAL DRIVERS OF RETURN AND RESILIENCE

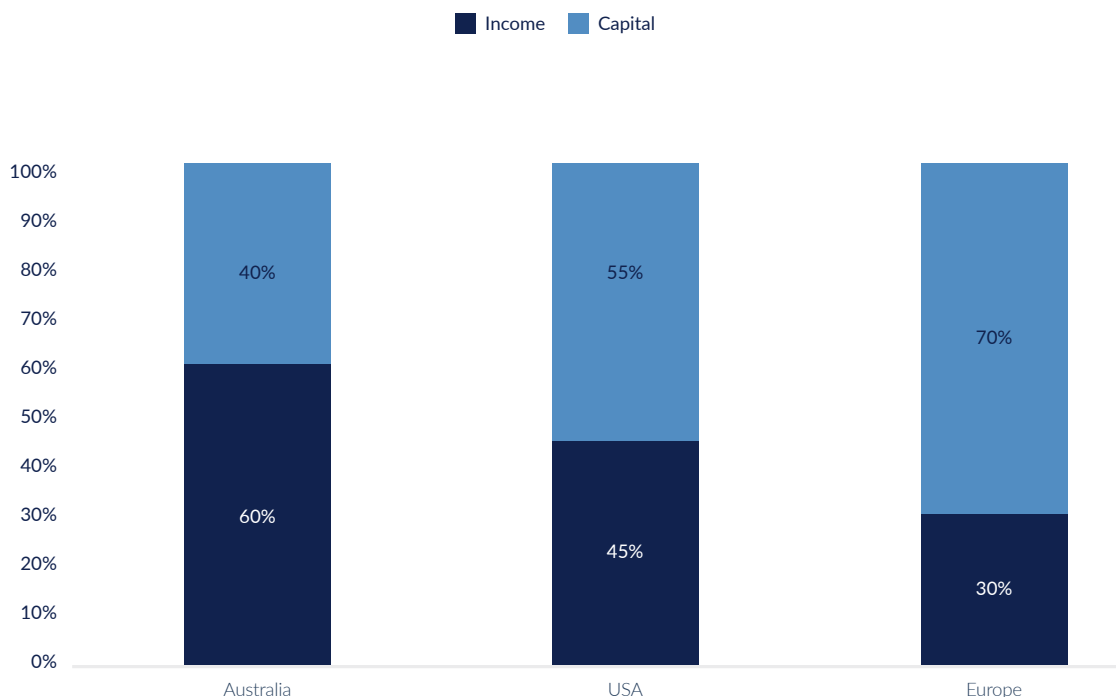
The persistence and consistency of Australia's outperformance across both equity and debt markets cannot be adequately explained by cyclical positioning or short-term macroeconomic factors. Instead, it reflects a set of deeply embedded structural characteristics that influence how returns are generated, how risk is distributed, and how markets respond to stress. These characteristics operate across the full capital stack, shaping outcomes for both asset owners and lenders, and creating a system in which higher returns are achieved alongside lower volatility.

**The 8 key drivers of outperformance are linked to:**

**1. Return Compositions:** Unlike many global real estate markets, where capital appreciation has historically been a dominant driver of performance,

Australian real estate is more heavily anchored in income. Average commercial real estate equity net income returns tend to range from 4.5% to 6% over the cycle, versus 3% to 5% in Europe and the USA. Rental cash flows play a primary role in total return generation, with capital growth acting as a secondary, rather than leading, component. This distinction has important implications. Income-driven returns tend to be more stable, less sensitive to changes in discount rates, and less dependent on exit timing. As a result, Australian assets exhibit lower volatility and more consistent performance across cycles. This dynamic is particularly evident in private credit, where returns are overwhelmingly derived from contractual income streams rather than valuation changes, further reinforcing stability at the portfolio level.

## GLOBAL RE EQUITY RETURN COMPOSITION COMPARISON (10YR AT DEC-26)



Source: RW Capital Research, MSCI



**2. Conservative LVRs, Low to No Back Leverage:**

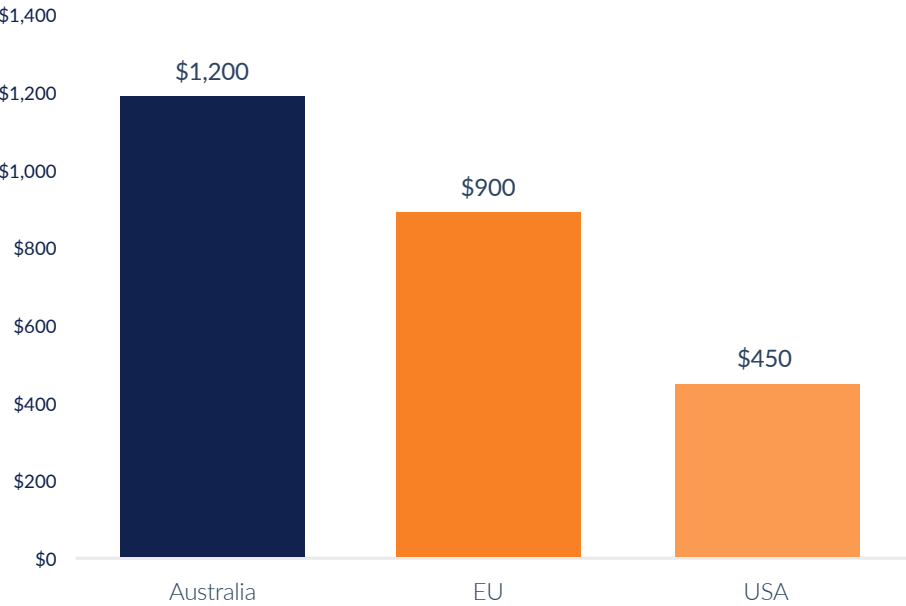
Both borrowers and lenders operate within tighter loan to value parameters than those typically observed in North America and, to a lesser extent, Europe. Senior lending in Australia commonly sits in the range of 50% to 65% loan-to-value, providing a substantial equity buffer that protects lenders from downside risk and reduces the likelihood of default. In contrast, higher leverage levels in other markets increase sensitivity to valuation movements and amplify losses during downturns. The effect of this structural conservatism is cumulative. Lower leverage not only reduces the probability of distress but also limits the severity of outcomes when

stress does occur, leading to a materially different risk profile across the cycle.

**3. Private Credit is Primarily Backed by Hard Assets:**

Unless like the US market, over 65% of Australia's A\$200bn private credit market is directly supported by hard assets, with a significant portion of this market allocated to real estate and infrastructure. In the USA and Europe, we observed this to be closer to 20-30%, with the majority of loans focused on the corporate credit space. By linking a majority of loans to hard assets, it limits capital losses and provides greater ballast to the private credit market, reducing volatility through cycles.

**FORECAST ANNUAL INFASTRUCTURE SPEND PER CAPITAL (5 YRS)**

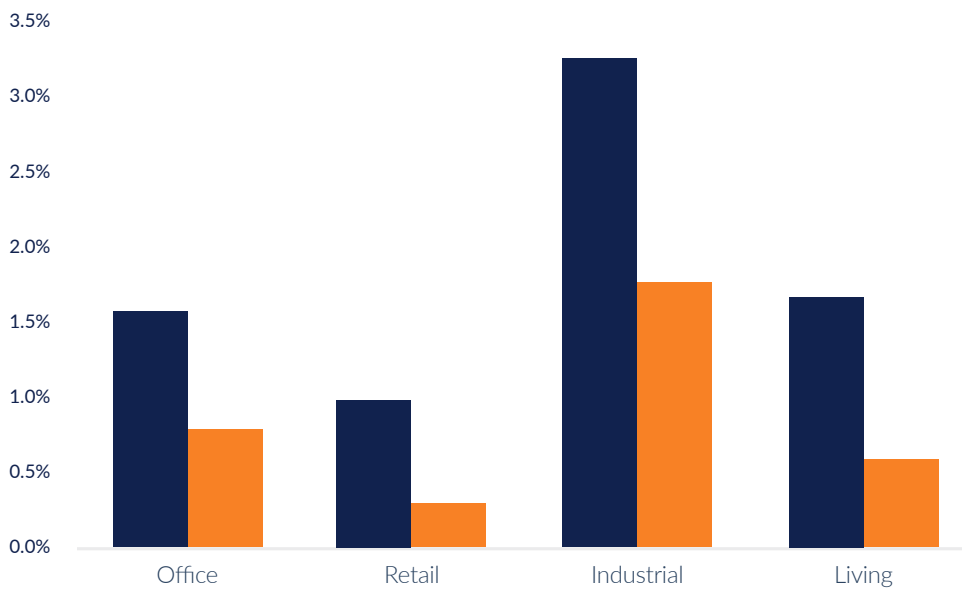


Sources: IMF, Infrastructure Australia, ABS, World Bank

**4. Real Estate Supply Constraints:** The Australian real estate market is characterised by persistent constraints on new development, driven by a combination of planning restrictions, regulatory processes, construction cost inflation, and labour availability. These factors limit the responsiveness of supply to changes in demand, resulting in a structurally tighter market. In practical terms, this means that vacancy rates remain relatively low, rental growth is sustained over longer periods, and the risk of oversupply-driven downturns is reduced. In more elastic markets, particularly in parts of the United States, development can expand rapidly during periods of strong demand, often leading to excess supply and subsequent correction. Australia's more constrained system dampens this cycle, contributing to smoother performance over time.

## NEW SUPPLY AS A SHARE OF STOCK BY SECTOR

■ 10YR Historical Avg ■ 5YR Forecast



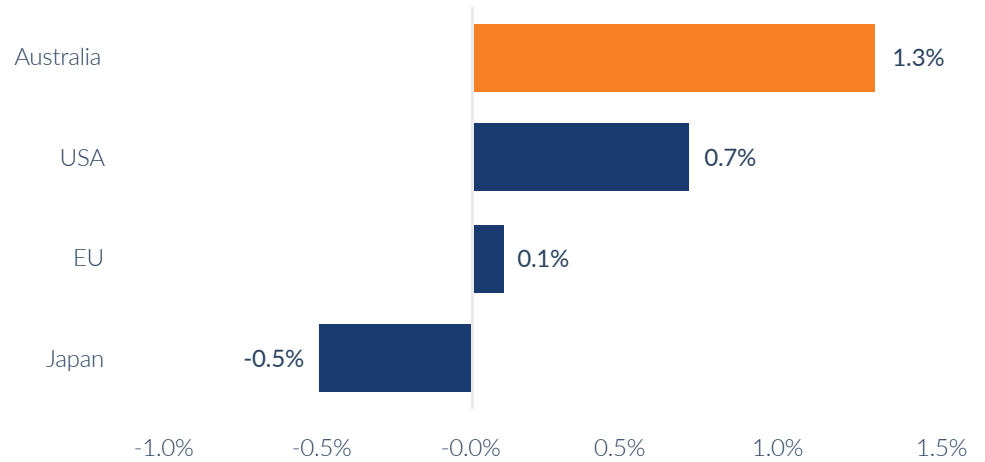
Source: RW Capital Research, MSCI

**5. Strong Demand Drivers:** Australia benefits from strong population growth ~1.6%, relative to other developed markets, supported by both natural increase and sustained international migration. This growth is concentrated in major urban centres, where economic activity, employment, and infrastructure investment are also focused. The result is a steady and diversified demand base that supports multiple real estate sectors, from residential and retail to logistics and alternative assets. This demographic underpinning provides a level of resilience that is less dependent on short-term economic fluctuations, ensuring that occupancy and rental income remain relatively stable even in weaker economic environments.





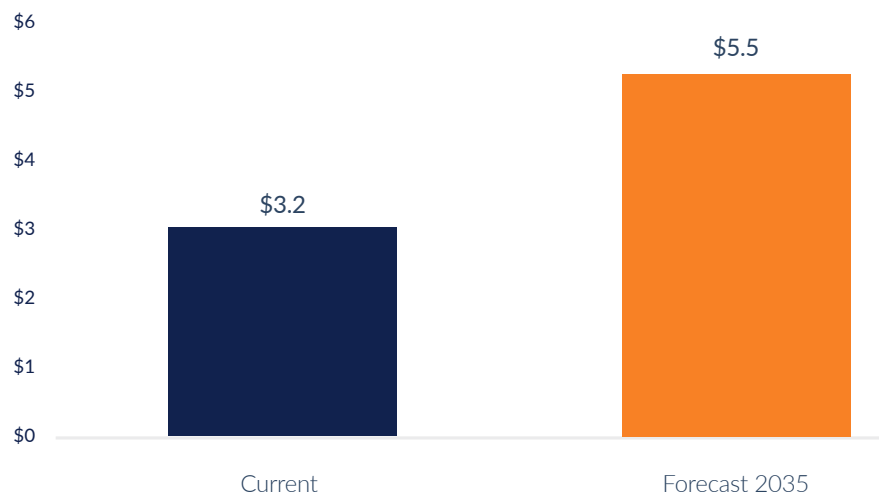
## 5 YR OUTLOOK POPULATION GROWTH FORECAST ANNUAL GROWTH RATE



Sources: ABS, IMF, Australian Centre for Population

**6. Deep Pension Fund Market:** The country's superannuation system represents the third largest pool of pension fund capital globally, with US\$3.2 trillion and growing, with an average allocation of 12% to real estate, making its influence on local real estate markets profound. This capital is typically deployed with a focus on income generation, capital preservation, and long-term value creation, rather than short-term trading or speculative positioning. As a result, pricing tends to be more stable, investment decisions are more disciplined, and the overall market is less prone to abrupt shifts in sentiment. The presence of this capital also supports liquidity and transparency, particularly in core sectors, enhancing the efficiency of the market as a whole. Over the next decade, the Reserve Bank of Australia is forecasting the size of the pension pool to grow to over US\$5.5Tn, which, with an average allocation of 12% will generate a net inflow of US\$276Bn into direct real estate investment.

## FORECAST SIZE OF AUS PENSION FUND POOL 2025 - 2035 (USDS TN)



Source: RW Capital Research, Reserve Bank of Australia



## FORECAST NET INFLOWS TO AUS REAL ESTATE - 2025-34 (US\$ BILLION)

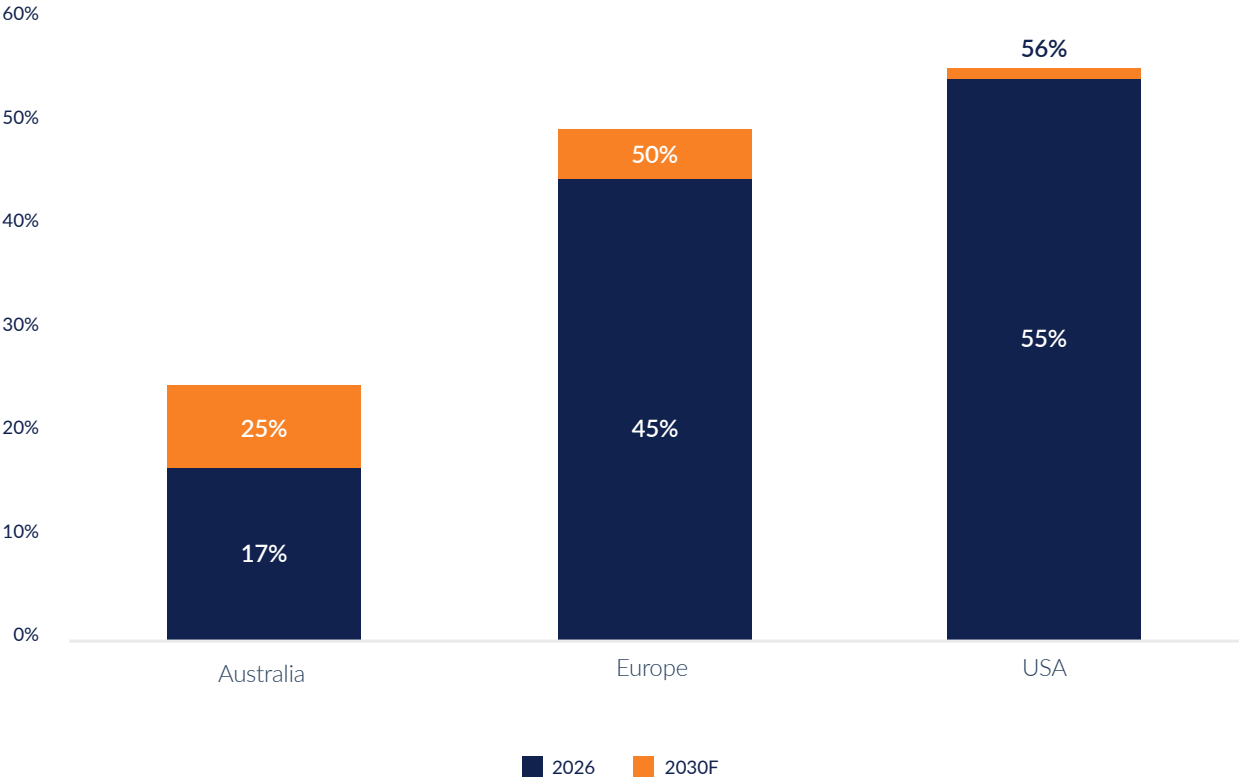


Sources: Real Capital Analytics, ANREV, RBA, Alvarez Marsal

**7. Pro Lender Legal Environment:** Australia provides strong creditor protections and relatively efficient enforcement mechanisms, enabling lenders to act decisively in the event of borrower distress. Loan structures often include robust covenants and, in some cases, recourse to sponsors, increasing the likelihood of recovery. Nearly all loans in Australia are full recourse loans, compared to <50% in the USA. This makes enforcement more complex or protracted, which creates a more favourable risk environment for lenders and contributes to the low loss rates observed historically. Loss rates in Australia are half those of the USA, with <5% versus ~10%.

**8. Growing Market Share for Private Credit:** The configuration of the credit market itself creates a persistent opportunity for excess return. The gradual withdrawal of traditional banks from certain segments of real estate lending, particularly construction and transitional finance, has created a gap that is increasingly filled by non-bank lenders. Today, private real estate credit captures 17% of all commercial real estate loans and is forecast to surpass 25% by the end of the decade. Private lenders tend to operate with greater flexibility and are able to price risk more dynamically, often capturing higher margins than would be possible in a more competitive environment. At the same time, demand for credit remains strong, driven by development pipelines, refinancing needs, and ongoing investment activity. This imbalance between capital supply and borrower demand allows lenders to maintain discipline while achieving elevated returns, without necessarily increasing risk.

# RE PRIVATE CREDIT MARKET SHARE BY REGION AND FORECAST GROWTH



Sources: RW Capital Research, CBRE, APRA, Goldman Sachs

Taken together, these factors form a coherent and self-reinforcing system, that delivers strong return outcomes in the Australian market relative to its peers. Income-dominated returns reduce volatility, conservative leverage limits downside risk, supply constraints support rental growth, demographic strength ensures sustained demand, institutional capital enforces discipline, and credit market dynamics enhance yield. The interaction of these elements creates a market environment in which returns are both higher and more stable than those observed in other developed regions.

The implication is that Australia's outperformance is not simply a function of favourable timing or market positioning. It is the product of a structural framework that governs how capital is deployed, how assets are priced, and how risk is managed. In this context, the observed performance outcomes are not surprising. They are, in many respects, the logical consequence of the system itself.



An aerial photograph of Melbourne, Australia, showing a mix of modern skyscrapers and historic architecture. In the foreground, a large railway station with multiple tracks and blue trains is visible. To the right, a river flows through the city, with a boat docked. The sky is clear and blue, suggesting a bright day.

# CONCLUSION

The evidence across both equity and debt markets points to a consistent conclusion. Australian real estate delivers superior risk-adjusted returns relative to global peers, and this outperformance is driven by structural factors that are unlikely to change in the near term.

For institutional investors, this has clear implications. Australia should be viewed not simply as a defensive allocation, but as a core component of global real estate portfolios. Its ability to generate stable income, preserve capital, and outperform across cycles makes it uniquely valuable in an increasingly uncertain global environment.







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