

Australian Commercial Real Estate Debt and the Portfolio Puzzle in 2025

In a challenging investment market, the Australian commercial real estate debt market continues to deliver strong and resilient returns for investors. As Bruce Wan, Head of Research for MaxCap Group, explains, this makes a compelling case for more investor attention and greater portfolio allocation in 2025.



Looking into our crystal ball, the investment outlook appears as hazy as ever.

While the most pressing concerns of past years – weak growth, high inflation and rising rates – appear to be gradually unwinding, the world is now confronted with new sources of economic uncertainty, notably with a new policy direction in the US, with escalating risks of trade discord and tariff barriers between China and the United States – the world's two largest economies.

Already, economists are re-assessing their outlooks for the global economy, reducing their growth expectations as increased tariff barriers look set to inflate import prices, impede the flow of commerce, and reduce economic activity. Undoubtedly, there is a lot of uncertainty for investors, as they contend with this Portfolio Puzzle for 2025... Where do we deploy our capital to find pockets of sustained growth, resilient returns, and genuine diversification?

For many cross-border investors, this search is leading them to Australia, which remains an island of stability in a chaotic world. Moreover, many investors are still being drawn into private credit, for its consistent returns and its increasingly vital role in any well-diversified investment portfolio.

What is commercial real estate debt? In Australia, this is the market segment that funds the acquisition and development of commercial real estate, which includes office buildings, shopping malls, hotels, distribution warehouses, and residential apartment blocks.

For many years, commercial real estate lending has been dominated by a few major banks. However, banks have been structurally retreating from this space, as the Australian regulator steadily tightened capital reserve ratios and increased risk weightings for real estate development, in a bid to reduce the systemic and contagion risks presented by the banks during the Global Financial Crisis.

Consequently, we are seeing a progressive shift from bank to non-bank lenders in Australia. This process has many years to run, in line with the similar adjustment that has already occurred in North America and Europe. In other words, there is a long runway of growth for non-bank lenders from here.

This structural shift to non-bank lending is a positive development from many perspectives. For regulators, a more diverse set of lenders helps to reduce the volatility in the credit cycle and steadies the economy during a banking crisis. For borrowers, there is great value in having greater security of funding, more flexibility on loan terms like leverage ratios, interest coverage and pre-sale requirements, even if it means higher interest margins. For investors, most importantly, there is improving access to a highly profitable set of private credit opportunities, previously only available to a cosy banking oligopoly.

Why invest in commercial real estate debt? Simply, investors are here for the better risk-adjusted returns in commercial real estate debt, compared to many other traditional asset classes.

The other big investor consideration relates to manager selection. Certainly, there is more capital competing for deals. Increasingly, we are seeing new start-ups looking to write their first deal or managers branching out into private credit for the first time, without the technical skillset or the appropriate local market experience needed to appropriately price a deal or manage the risks. In this market, deep origination capacity and track record are absolutely vital. With a stronger transaction pipeline, established managers can afford to be more selective on deals, pricing, sectors and sponsors. This allows stronger managers to be far more patient and disciplined on deployment.

Looking ahead, 2025 is shaping up to be another interesting year. For many investors, looking for stability in a volatile world, Australian commercial real estate debt remains an attractive solution to a difficult portfolio puzzle. There is still persistent demand for real estate amid robust population growth. There is still room for growth in lending volumes as banks retreat and interest rates ease. Moreover, Australia remains a highly desirable destination to live, work and invest, given the strong rule of law, stable governance, high-quality educational institutions and an enviable quality of life. Altogether, the commercial real estate debt investment outlook remains highly compelling, given a long track of robust, resilient returns across all market conditions.



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Bruce Wan is the Head of Research for MaxCap Group, responsible for the platform's market research and analysis. He brings onboard a deep and diverse set of experiences in global market research, economic analysis and investment strategy. His previous experience includes Macquarie Capital, BlackRock, QIC and RF Capital for investment research and Commonwealth Treasury and Queensland Treasury for economic and policy analysis.