SQM RESEARCH | ADVISER BRIEFING

Private Credit: Lessons Learnt

What the 2025–26 stress episode has taught us about how these funds are built, disclosed, rated and sold — and what to do differently from here.

Louis Christopher · Managing Director, SQM Research · [date]

ANATOMY

What broke first — and what is still ahead

What broke first

- Governance, disclosure and conflict management
- Definitions — arrears, LVR, income, maturity
- Liquidity terms, ahead of any realised loss
- Concentration to single sponsors, not diffuse default
- Contagion by association across unrelated funds

What is still ahead

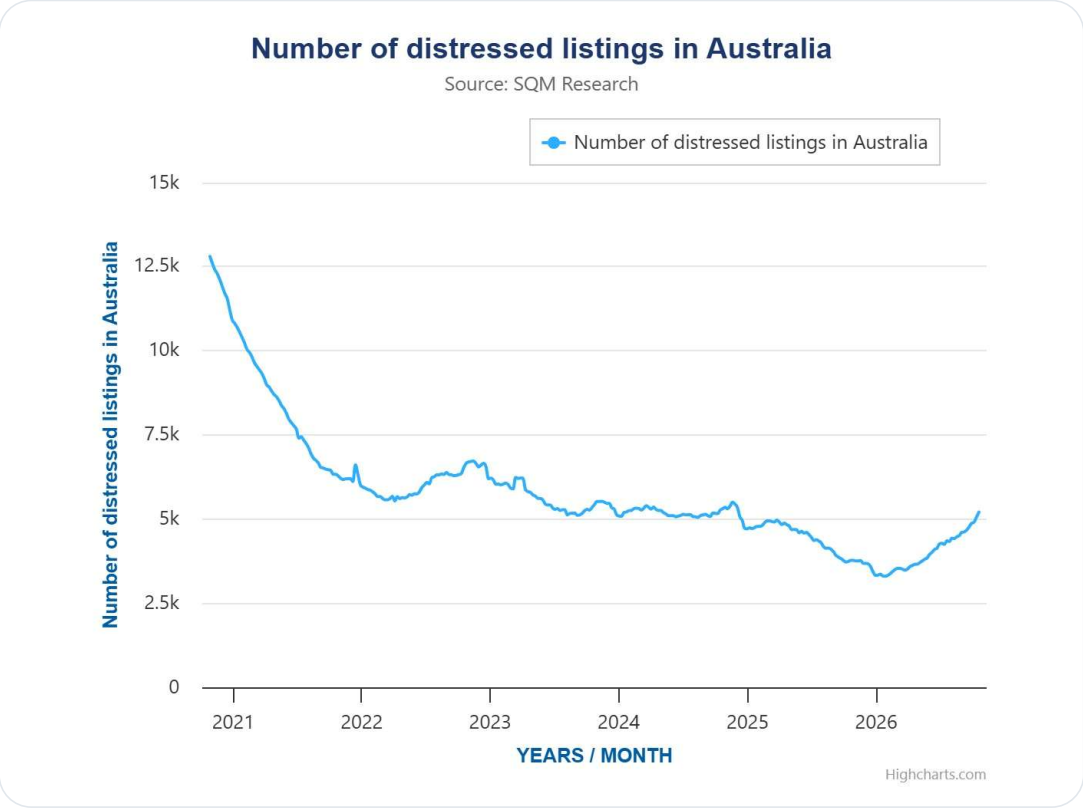
- Borrower defaults, as stressed sponsors fail
- Realised capital losses once workouts conclude
- Recovery outcomes on land and residual stock
- Provisioning catching up to carrying value
- Whether valuations hold when assets actually sell

Governance and disclosure failed early. The credit cycle has not finished running — the defaults are ahead of us, not behind us.

HOUSING MARKET | SQM DATA

Forced sellers are back — and the curve is still steepening

Distressed listings nationally have turned sharply higher through 2026.



~5,200

distressed listings, latest week

+55–60%

from the early-2026 low of ~3,300

Why it matters for credit

Highest level since late 2024, and the rate of increase is accelerating rather than levelling off.

Distressed sellers set the comparable sales. Every forced sale resets the evidence a valuer uses on the next loan.

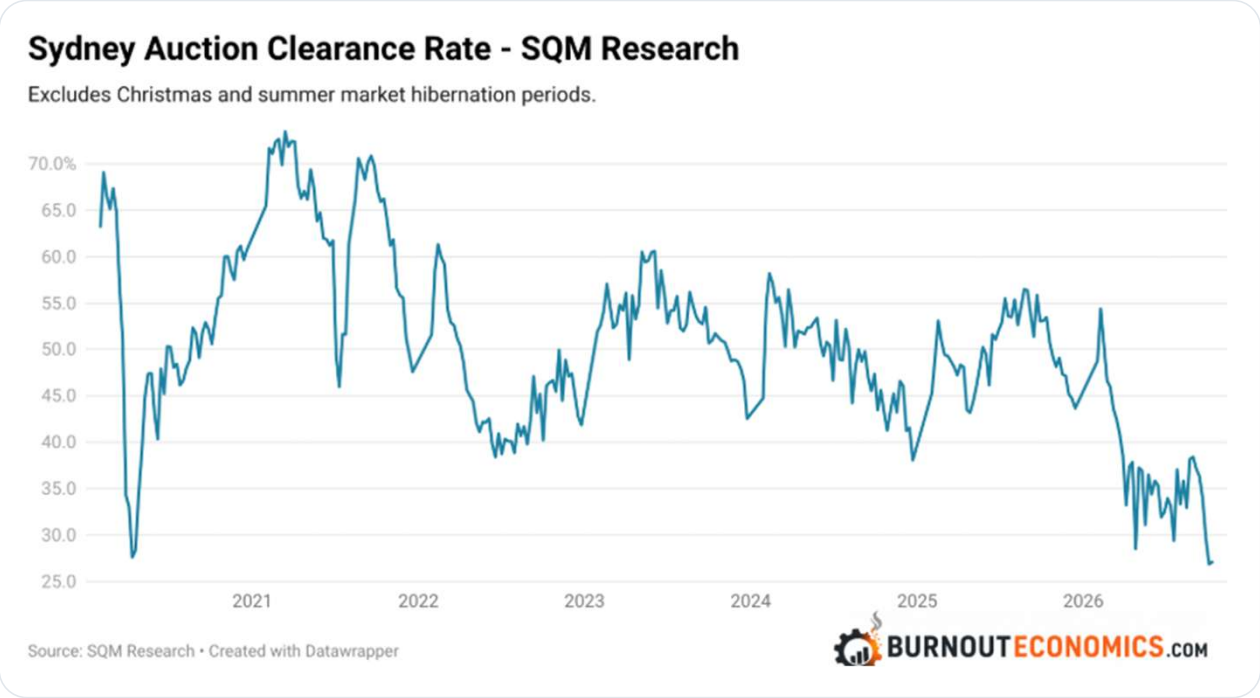
Mostly household and mortgagee distress — a demand-side signal, not yet a developer-default count.

Source: SQM Research, weekly distressed listings (Australia). Figures read from series, approximate.

HOUSING MARKET | SQM DATA

Sydney is clearing at COVID-shock levels — without the shock

Weekly auction clearance has broken below the floor of every soft patch since 2022.



~27%

Sydney clearance rate, latest weeks

38–42%

where prior downturns found a floor (2022, 2024)

Price discovery is failing. Seven in ten properties offered are not selling under the hammer — and there is no external shock to explain it.

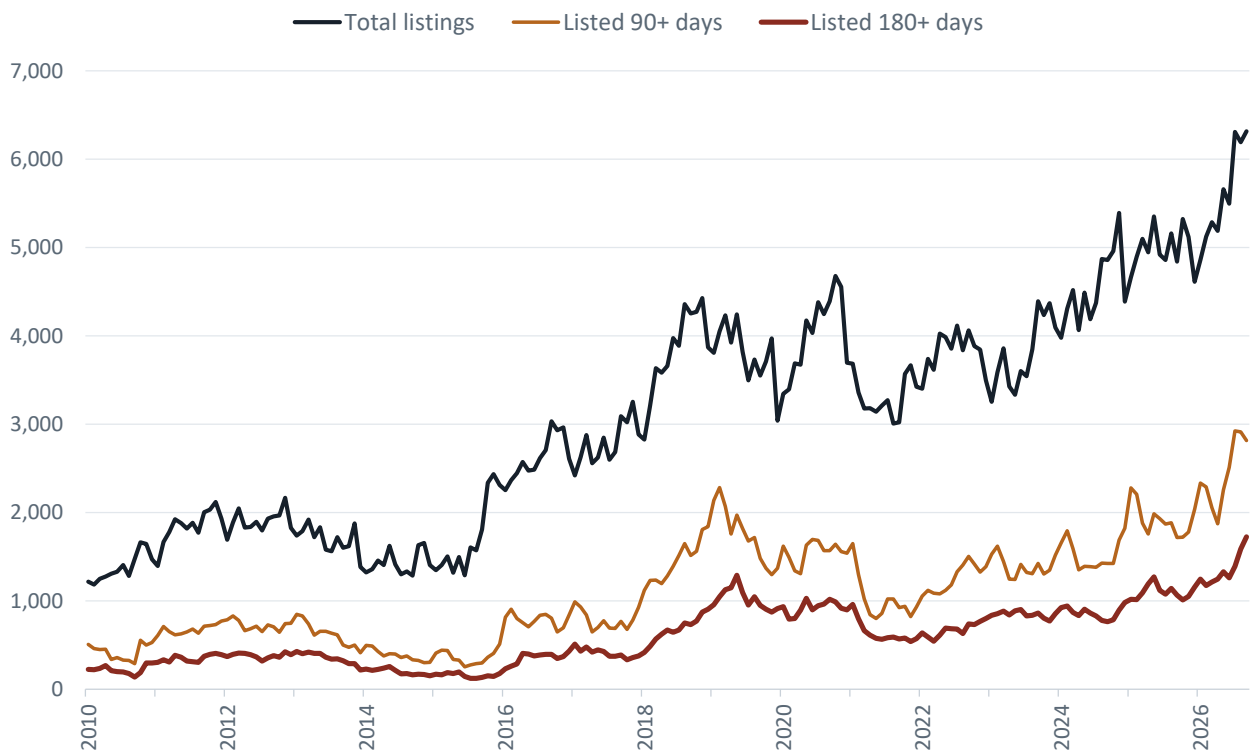
The only comparable reading on this chart is March–April 2020.

Source: SQM Research, Sydney weekly auction clearance rate; excludes Christmas and summer hibernation periods. Chart: Burnout Economics.

BLACKSPOT 1 | HILLS DISTRICT, SYDNEY

In the growth corridor, stock is building — and not selling

Total listings by time on market, monthly, 2010 to September 2026.



6,317

listings in Sept 2026 — a series record, +30% on a year ago

1,723

listed 180+ days — a record, +62% on a year ago

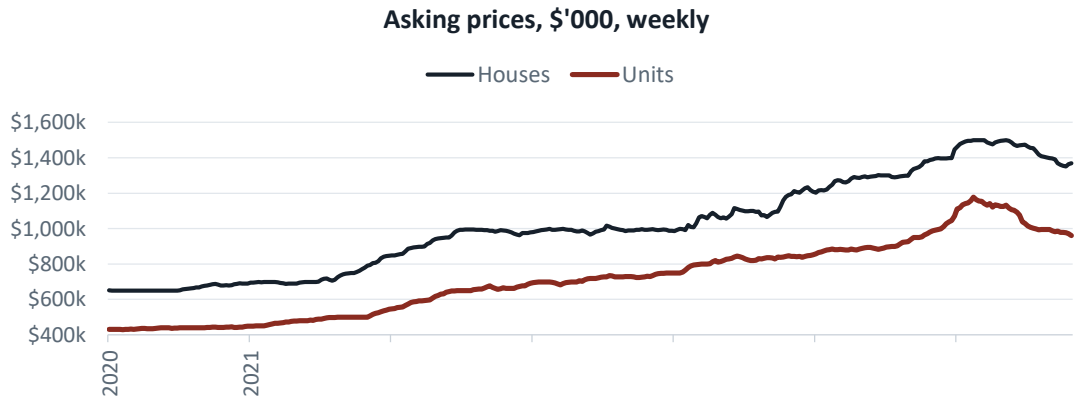
New listings are normal. About 2,090 fresh listings in September, the same as a year ago. The build-up is stock that is not selling: the 180+ day cohort is 34% above its previous peak in 2019.

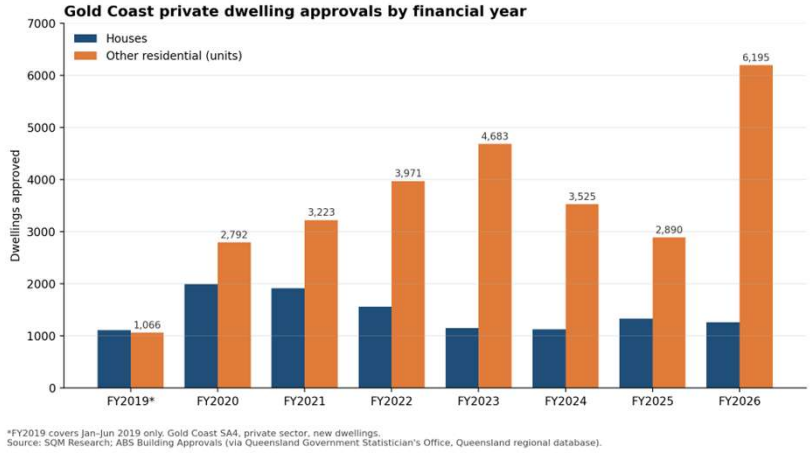
Source: SQM Research, total property listings by days on market, Hills District (Sydney), monthly to September 2026.

BLACKSPOT 2 | GOLD COAST

Gold Coast: prices falling into a supply wave

A blow-off peak in February, a sharp reversal since — and a record unit pipeline still to land.





−18.5%
units from Feb 2026 peak

−8.7%
houses from Feb 2026 peak

6,195
FY26 unit approvals — 2× FY25

Valuation vintage is the risk. A 65% LVR struck on a unit at the peak is ~80% on today's asking prices.

Source: SQM Research asking prices, Gold Coast, weekly to 16 Oct 2026; ABS Building Approvals via QGSO (Gold Coast SA4, private sector). LVR illustration assumes value moves with asking prices.

THE BRIDGE

Collateral is now being tested at the point of sale

How the housing signal works its way into a private credit fund.

WHAT THE HOUSING DATA SHOWS	WHAT IT DOES TO THE LOAN	WHERE IT SHOWS UP IN THE FUND	
Auctions not clearing	Exit by sale stalls. Loans are extended or refinanced rather than repaid.	Reported as performing; arrears history reset.	Lesson 1
Forced sellers rising	Distressed sales set the comps. Valuations and LVRs go stale.	Carrying values untested; the LVR tail grows.	Lesson 2
Land and residual stock idle	No cash income. Interest is capitalised onto the balance.	Distribution outruns cash received.	Lesson 3
Headlines move first	Investors redeem on news, before any loss is booked.	Windows tighten; gates follow.	Lesson 4

The housing data is the leading indicator for the 'still ahead' column. The credit data will follow it, not lead it.

LESSON 1

1 Arrears are a definition, not a number

Three managers can report the same book and produce three very different default rates.

Loan extended past maturity	Often reported as performing — or re-booked as a brand new loan
Interest capitalised, not paid in cash	Normal in construction lending; a warning sign in land or residual stock
Restructure or refinance	Can reset the maturity clock and erase the arrears history
Non-accrual decision	Frequently discretionary, with no objective backstop or independent trigger
Provisioning	Often no written policy; carrying value rarely independently tested

Never accept a headline arrears figure without the definition sitting underneath it.

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LESSON 2

LVR is only as good as its basis and its vintage

The most quoted number in the sector is also the least standardised.

Basis

"As is" versus "as if complete" can move an LVR by twenty points or more on the same asset. ASIC has singled this out.

Vintage

A valuation two years old in a moving land market is not a valuation. Ask for the date of every material one.

Denominator

Struck on the drawn balance, or on the facility limit including capitalised interest? The two are not comparable.

And a weighted average hides the tail.

A fund reporting a 65% weighted average LVR can hold a third of its book above 75%. Ask for the distribution by band, not the average — and ask which loans sit in the top band and who the sponsor is.

LESSON 3

3 A stable distribution can outrun the cash behind it

The monthly distribution is the product's main selling point — and its least interrogated feature.

- Many funds distribute accrued interest recognised but not actually received in cash.
- Some trust deeds permit distributions to exceed income at the trustee's discretion, reconciled later through cost-base adjustments.
- The result: a headline yield can hold steady while the underlying book deteriorates.
- This creates a first-mover advantage — investors who redeem early exit at a NAV that later proves optimistic.
- Hardest to reconcile where the fund is marketed on capital preservation.

The question to ask

"What proportion of last year's distributions was funded by cash interest actually received?"

Regulator's view

ASIC: distributions should be supported by genuine asset cashflows.

LESSON 4

4 Monthly liquidity on multi-year assets is a promise

Every gating event in this cycle was a structural mismatch that had been visible from day one.

The mismatch

Open-ended vehicles offering monthly or quarterly windows, invested in 12–24 month illiquid loans with no secondary market. Australia runs more open-ended private credit than most markets do.

How it fails

Redemptions rise on news, not on losses. The gate arrives before any impairment is booked — which is why liquidity risk, not credit risk, is the live risk for an adviser's client.

This is not only an Australian story.

Through the first quarter of 2026 a series of very large US semi-liquid private credit vehicles capped or suspended redemptions within weeks of management publicly describing liquidity as ample. Domestic funds have since paused both redemptions and applications. Watch for gates applied retrospectively to an earlier cut-off date — and check how and when unitholders were told.

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LESSON 5

The sector is smaller and more correlated than it looks

Diversifying across managers is not the same as diversifying across risk.

- A single distressed sponsor in this cycle owed several billion dollars across roughly eighteen non-bank lenders.
- Several of those lenders run separately branded, separately rated retail funds.
- The origination teams are drawn from the same small talent pool and the same relationships.
- So allocating a client across three or four private credit funds can concentrate, not diversify, sponsor exposure.
- Reputational contagion travels the same network — redemptions hit funds with no exposure at all.

For the adviser

Look through to sponsors and geography across the whole client allocation, not fund by fund.

For the manager

A single-name event now stresses the manager's business, not just the loan.

CASE STUDY | PUBLIC REPORTING

One sponsor. Five hundred entities. Three billion dollars.

A single residential development group entered voluntary administration in August 2026.

520+
separate subsidiary entities in the group

$3bn+
of debt, almost all owed to private credit funds

12+
non-bank lenders named in public reporting

Months
from serviced and performing to administrators appointed

What it demonstrates

- **Aggregation is not optional.** Fragmented across hundreds of numbered entities, the exposure presents as many small, discrete loans. No lender could independently verify the group total.
- **Manager diversification is not risk diversification.** The debt sat across a dozen or more lenders, several operating retail funds an adviser could hold side by side.
- **Performing is a point-in-time statement.** Interest was serviced across most facilities well into the deterioration. The credit signal arrived late; governance signals arrived early.

Compiled entirely from published media reporting and public registers. Figures as reported. No rated fund is identified and no rating conclusion should be drawn.

PRACTICAL

Ten questions worth asking before you allocate

1. Largest exposure by ultimate sponsor group — and how is it verified independently?
2. Exposure by region and collateral type — how much sits where prices are falling and stock is building?
3. LVR distribution by band — not the average.
4. Valuation basis and date for the top ten loans.
5. How many loans have been extended or restructured?
6. Written non-accrual and provisioning policy?
7. Cash interest received versus interest distributed.
8. Redemption history, gates and trustee discretion.
9. Which service providers are related parties?
10. What changed in the last two IM versions, and why?

If a manager cannot answer questions 1, 6 and 7 in writing, that is the finding.

OUTLOOK

Where the sector goes from here

1. **Regulation tightens**

   Poor private credit practice is an ASIC enforcement priority for 2026, with surveillance focused on fees, margin structures and conflicts — particularly in wholesale real estate lending. Guidance is being refreshed through 2026–27.

2. **Disclosure standardises**

   Expect convergence on definitions: arrears, extensions, LVR basis, income recognition. The sector's terminology problem is now a regulatory problem.

3. **Distribution narrows**

   Platforms and trustees are re-examining approved product lists. Advised distribution of these funds to retail clients is under direct scrutiny.

4. **The sector consolidates**

   Flows and platform access will concentrate in the managers who moved early on definitions, disclosure, valuation and liquidity terms. Fewer products, but stronger ones — with the gap between managers priced and rated, not assumed away.

Sources: ASIC REP 814, REP 820 and 2026 enforcement priorities; ASIC public statements, June 2026.

IN CLOSING

Private credit is not the problem. Undifferentiated private credit is.

- **The risk was never the yield** — It was the concentration, the definitions and the liquidity terms sitting behind the yield.
- **Governance is the leading indicator** — Disclosure quality deteriorates before credit quality does. Treat it as the primary signal.
- **Diligence has to look through** — To sponsors, to related parties, to the actual cash — not to the factsheet.