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As banks are hamstrung by regulation, developers turn to alternative lenders
Private lending platforms are helping fill in the gaps
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Banks, faced with new regulations aimed at reining in risk, are pulling back from providing construction loans, so alternative lenders are stepping in to fill some of the gaps.

Alternative lenders, including private equity funds and mortgage real estate investment trusts, originated 68 percent more loans in 2015 than in 2014, according to the Mortgage Bankers Association. Banks are grappling with the High Volatility Commercial Real Estate (HVCRE) rule, which was implemented as part of Basel III reforms in January 2015. Under the rule, banks must retain 150 percent of risk weight on a loan, which effectively prevents banks from being as aggressive in lending, according to the Commercial Observer.

One particularly sore spot for developers: The new regulations don't allow borrowers to use the appreciated value of land toward the 15 percent in cash equity required before banks can provide funds.

"A lot of the provisions are fairly nonsensical and counter decades and decades of practice," Christina Zausner, vice president of industry and policy analysis at CRE Finance Council, told Commercial Observer.

As a result, private lending platforms — like ACORE Capital and Mack Real Estate Credit Strategies — have sprouted up in the past two years. Developers like RXR Realty TRData LogoTINY and Kushner Companies have also stepped in to provide mezzanine loans to developers to help fill out their capital stacks.

In its July issue, The Real Deal took a look at the lending climate for luxury condo projects and office buildings.