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Nonbank Lenders Seeing Greater Opportunity as Banks Take Heat from Regulators
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No, the big banks and real estate are by no means breaking up. But that's not to say that the new kids on the block don't have a seat at the table.

Traditional commercial banks originate roughly two-thirds of commercial real estate in the United States, while nonbank lenders account for a mere 3 percent of that pool, noted Greta Guggenheim, the chief executive officer at TPG Real Estate Finance Trust. But a confluence of factors could change those statistics. Industry experts on Commercial Observer's "Getting Creative: Who's Stepping in to Replace Traditional Lenders" panel agreed.

"That's a huge supply for nonbanks," Guggenheim said.

Basel III's High Volatility Commercial Real Estate, or HVCRE, rule in particular opens up an area for nontraditional lenders to originate more debt, because it directly affects bank's cost of capital when making construction loans. Dennis Schuh, the chief originations officer at Starwood Property Trust, explained that HVCRE gives construction loans a figurative "scarlet letter," meaning that while banks aren't inhibited from engaging in those transactions, they don't necessarily want to fill up their balance sheet with them.

"It's a cliche to call the demise of the banking industry," Schuh said. However, with regulations—like HVCRE and risk retention—it is important to keep in mind that "banks are not set up where they want to necessarily hold a lot of risk," which could lead to more business for the nonbanks.

Peter Sotoloff, managing partner and chief investment officer at Mack Credit Real Estate Strategies, said that firms like his offer flexibility that the established institutions might not be able to provide in this day and age."Transition by nature means change, and as [a borrower's] business plan ebbs and flows we're there to be a resource and to be value-add capital," he said. Banks aren't always able to provide that flexibility when it comes to those types of deals (especially when it comes to construction), and oftentimes don't provide direct access to the decision makers, he explained.

While private capital isn't always the cheapest, borrowers place a premium on having access to that level of communication, Sotoloff said.

"Because we're a little less regulated, we're able to lend more to a borrower's business plan," said Tony Fineman, a managing director at ACORE Capital. "Our main responsibility today is to find places where it does make sense to lend."

Guggenheim noted that because real estate values are "25 to 35 percent above their peak in 2007 and 2008, I think there's more downside potential than upside," but all in all, the U.S. real estate markets are very healthy.

"There are pockets of overbuilding, such as hotels in Manhattan, but we find great risk-adjusted returns in being a senior secured lender," she said. "We're finding the opportunities because the banks are pulling back so much."

Even with acquisition activity down from a year ago, Guggenehim continued, “it’s still very strong on a historic basis, as are real estate values and growth. We look for markets with strong employment growth, but there is tremendous growth in many U.S. markets.”