

Private Credit Is Challenging Banks and Changing the Terrain of CRE Finance

The shifts have led to a lucrative symbiosis between alternative lenders and the larger commercial banks

BY [BRIAN PASCUS](#) APRIL 9, 2025 6:00 AM



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During a climactic moment of the classic 1975 film “Jaws,” the three fishermen finally encounter up close the killer shark they’re hunting, leading actor Roy Scheider’s chief Martin Brody to utter the famous line, “You’re gonna need a bigger boat.”

In many ways, here in 2025, the commercial real estate capital markets system is going to need a bigger boat to get a handle on private credit. It’s a less-well understood part of the financing world that has gone from being a minor, back alley lending option 20 years ago into a \$1.7 trillion industry that is expected to double its asset volume by the end of the decade.

“It has changed a lot, and part of it is just the fact that the market has adapted to think about private credit not as a last resort, but, in many ways, as a first option,” said Josh Zegen, managing principal and co-founder of [Madison Realty Capital](#), a debt fund with \$22 billion in assets.

Between 2013 and 2023, U.S. private credit — corporate and real estate loans originated by private, nonbank lenders — grew from \$141 billion to \$853 billion, according to the financial data provider Preqin.

That’s not that surprising. The market’s largest players — Apollo Global Management, Ares Management and Blackstone — to say nothing of “smaller” firms, with their \$2 billion to \$25 billion in assets, have raised money from institutional investors seeking higher returns. This fundraising has come at a time when banks have pulled

back their CRE and corporate lending, making the need for private credit financing not just enticing but also necessary.

BlackRock now predicts that the global private credit market will double and reach \$3.5 trillion by 2030, [according to *The Wall Street Journal*](#). Much of that has flown into commercial real estate assets underwater at maturity and in need of rescue capital, or ambitious construction projects looking for bridge and senior financing to either get off the ground or across the finish line.

“It’s been an incredible positive for the industry, and the amount of liquidity that’s come in, on the credit side, is staggering, and it’s clearly coming from the debt funds,” said Tom Traynor, vice chairman and co-head of large loans at [CBRE \(CBRE\)](#).

Traynor noted that as recently as 15 years ago, private credit was limited to a smattering of opportunity funds financing mezzanine pieces. Today the trillion-dollar industry creates highly complex loans, structured with the tightest possible spreads, that fund the full spectrum of core and core-plus assets to value-add and opportunistic real estate credit.

“The banks are, by far, the biggest group within the lending universe, but it’s pretty incredible the impact private credit has had on an institutional level, because it’s created really robust competition,” he said. “They’re basically in competition with everybody.”

Even long-term players in the private credit space like Zegen are surprised by its rapid evolution, especially when he recalled how investors couldn't initially differentiate the need to separate real estate equity from traditional credit, or decipher how a novel lending product could deliver better returns than classic fixed-income investments like Treasuries and corporate bonds.

“When we started business 21 years ago, from 2004 to 2008, it was everything a bank didn't want to do — you were dealing with special situations, someone who needed money quickly for a last-minute deal,” said Zegen. “The borrower universe took time to understand, and the same was true for the institutional investor base. It needed to adapt, get educated and put money out.”

Seth Weissman, managing partner of [Urban Standard Capital](#), an alternative lender that has financed \$1.4 billion worth of CRE projects, listed several factors that have come together to grow the private credit space.

First, the 2023 regional banking crisis, which saw four of the five largest commercial bank failures in U.S. history, spooked lenders and depositors alike. Banks pulled back their lending after that. Borrowers then turn to private credit for speed, flexibility and bespoke deal structuring, choosing to go with long-term loans financed by pension funds, asset managers and insurance companies, rather than panicky deposits from Main Street businesses and individual families.

“It’s a more institutional and sophisticated investment base, and every private lender is overpaid for their risk,” said Weissman. “They call it the golden age of private credit for a reason.”

And it’s not as if banks are weeping at the thought of allowing an unregulated “shadow bank” market to grow unabated. Often, private credit funds bear the risk of various CRE and corporate loans that normally require onerous capital reserve requirements and perhaps several board meetings for a bank to even approve. Large commercial banks like Citigroup and J.P. Morgan Chase regularly provide back leverage to private credit firms that originate risky CRE debt, mainly through warehouse lines, repurchase agreements and loan-on-loan financings.

“It’s competition but it’s also collaborating,” said David Bouton, co-head of U.S. commercial mortgage-backed securities (CMBS) at Citigroup. “We jointly do deals with clients who are private credit, we source loans and provide back leverage, and in certain ways, it’s actually provided a very good partnership.”

Last year, Bouton and Joseph Dyckman, the other head of U.S. CMBS at Citigroup, extended \$4 billion of warehouse line repurchase agreements to nonbank lenders, bringing the bank’s total commitment in that space to \$13 billion.

“I think our clients view it as another way to partner with Citi, and we view it as a way to expand the origination platform,” said Dyckman, who added he’s not too worried about the exponential growth of

shadow banking. “Everyone makes a big deal about private credit markets, but private credit can’t withstand the volume we’ll see in the next several years, so there’s still a tremendous opportunity for bank balance sheet lending to continue.”

Scott Rechler, chairman of [RXR](#), has been able to view the emergence of private credit through the lens of being both a borrower and a private lender, as his firm launched a \$1 billion CRE credit strategy in 2023. Rechler argued that banks like to be lenders to nonbanks due to the favorable credit treatment and the better collateral, as well as the fact that whole loans provided to the funds are often broken up to disentangle risk — which is also easier for borrowers to live with.

“What we’re finding, we’re seeing, is an interesting simpatico, where everyone is finding their home and it works for all pieces,” said Rechler. “And, so, that is a good development that will create somewhat more permanent capital for the borrower and re-equitize the CRE space.”

Humble origins

Unlike its more famous (and maligned) cousin, private equity, which emerged out of the go-go 1980s and was immortalized by movies like *Wall Street* and books like *Barbarians at the Gate*, the industry of private credit has its origins in the lending apocalypse that followed the Global Financial Crisis of 2007-2009.

“After the GFC, the Dodd-Frank [financial oversight legislation] went into effect and regulatory oversight pushed business to the shadow banking market. That’s how debt funds got started,” explained James Millon, president of U.S. debt and structured finance at CBRE.



LEGISLATION FROM CONGRESS FOLLOWING THE 2008 GFC INADVERTENTLY PAVED THE WAY FOR PRIVATE CREDIT. PHOTO: BEATA ZA OF GETTY IMAGES

In the post-GFC banking landscape, onerous regulations made it more challenging and expensive for traditional lenders to play a role in financing real estate and corporate debt. And, while the federal Troubled Asset Relief Program (TARP) and the Term Asset-Backed Securities Loan Facility (TALF) were designed to open up liquidity within the asset-backed securitization space, the programs also created an incentive for private debt funds, nonbank lenders and mortgage REITs to open their doors to originate loans and borrow against them at cheap rates.

Both Millon and Rechler independently likened the capital markets’ innovation in this period to what occurred when private firms established the modern commercial mortgage-backed securities

market in the early 1990s to replace the failed savings and loan industry that began a painful, multiyear collapse in 1987.

“After the savings and loan crisis, the nonbank lender that evolved was the CMBS market, which didn’t exist before that,” explained Rechler. “After the GFC, the regulatory environment made it much more challenging and expensive for traditional lenders to play a role, which led to nonbank lenders.”

And, at first blush, the nonbank lending industry was relatively small. In 2009, it was only \$250 billion, while total private credit assets under management didn’t even reach \$1 trillion until 2020, according to data from the *Wall Street Journal*.

“Before it was formalized, and had the glow of being called private credit, the private lending world was hard money lending, it was sharp elbowed and could be called predatory,” said Weissman.

But it *did* fill a void.

Michael Gigliotti, senior managing director at JLL Capital Markets, explained that GE Real Estate and Mesa West Capital were among the first that saw the gap in the marketplace of CRE bridge loans that banks were either avoiding due to nonrecourse risk or the dangerous leverage requirements, which flew in the face of new Dodd-Frank mandates. Moreover, investment dollars into various CRE asset classes only grew once the S&P 500 added real estate in 2016 as one of 11 sectors in its Global Industry Classification Standard, pushing

real estate finance well beyond the traditional bounds of public REIT stock purchases.

“People really gravitated toward [private credit] because it solved issues, and then there wasn’t enough of it, so more people took advantage of it,” said Gigliotti. “Also there was the ability to earn equity-like returns in the credit space because of leverage you could put on their credit.”

There were sector specific loans, too, that required the touch of private credit. S3 Capital’s Robert Schwartz, who co-founded his firm in 2013, said that by the mid-2010s regional banks were completely inactive lenders in the sub-\$20 million space for construction loans. That allowed his firm to grow quickly by filling that void, mainly in New York City, and eventually nationally.

Today S3 Capital has originated \$6.3 billion in multifamily bridge and construction loans.

“The need for that capital was huge, and the regional banks were ignoring it. There was no real institutional presence in that market back then for those lenders,” said Schwartz.

But the Dodd-Frank rules, while well intentioned to rein in the excesses of the commercial and investment banks that nearly blew up the global financial system, also had an unintended side effect. After 2008, the government no longer wanted to see banks use the deposits of Joe Six-Pack or Molly Main Street to finance CRE investment sales,

construction projects, lease-ups or repostings. Instead, they wanted that financing to come from institutional investors that could bear the brunt of any losses (and certainly the headlines).

“The regulation is well intended but it’s not executed well,” said Weissman. “As it’s become harder to get loans from banks, it’s opened up the desire and demand for alternative financing, and that’s what’s accelerated that business.”

Clients for you. Clients for me?

For both banks and nonbank lenders alike, the crux of their business model is to secure clients — either depositors or long-term investors, sometimes direct referrals, often repeat borrowers — that allow them to make loans on lucrative assets.

Now that a second player has entered the credit space, however, banks are feeling the heat as there’s only a limited number of clients to service and only so much debt needed at once.

“The thought process that your local banker is your tried and true, to be trusted for all your banking needs, mortgages, lines of credit, has been turned on its head with the prevalence of private credit,” said real estate finance attorney Christine O’Connell, a partner at [King & Spalding](#). “Back in 2008 to 2010, when banks pulled back and private credit came in, it was seen as dangerous for borrowers. But, as these players have grown in the space, it’s almost become the banks that used to be there.”

Those who have succeeded in the alternative lending space believe they can offer their borrowers services that banks either can't do or won't do, particularly speed of execution and the ability to take over stalled projects and foreclosures due to their vertically integrated structure.

Marcello Cricco-Lizza, principal of global commercial real estate at [Balbec Capital](#), an alternative investment manager with \$7 billion in assets, argued that large bank loans often take months to close, due to regulatory constraints, while bank appraisals can take two to three weeks as nervous boards review the details.

“There’s a whole slew of borrowers for whom bank financing just doesn’t make sense. There’s not enough proceeds, and they can’t go high enough in leverage,” he said. “Whereas, we can add higher leverage on our loans and have the sophistication to take over those properties and work them out that banks don’t have.”

Aside from the ability to offer higher loan-to-value ratios, there’s a certain personal touch that many private credit asset managers tend to advertise as well.

Warren de Haan, CEO and managing partner of [Acore Capital](#), a CRE investment firm with \$19 billion in AUM, noted that his company currently has 80 borrowers with whom they’ve made at least three deals, and that “there’s not much reason for them to go elsewhere,” due to the familiarity between both parties.

“Today, when you have a difficult macro environment with higher interest rates, there’s more of a hands-on asset management function that’s required for borrowers to feel they’ve had a great experience,” he said. “Everything we do feeds the funnel of production, so our goal is to give our clients a white-glove experience.”

Investors have taken notice of the more borrower-friendly landscape. The proportion of bank lending compared to all corporate borrowing dropped from 44 percent in 2020 to 35 percent in 2023, according to the Federal Reserve Bank of St. Louis.

In an increasingly situational and deal-specific marketplace, where borrowers choose their lenders based on deal theme and expertise, banks have responded by highlighting their resumés and relationships, to say nothing of their global, multinational outreach.

“Banks are leaning in on strong relationships that they have to keep their clients, but I don’t think they’re expanding into too many new relationships,” said David Perlman, managing director at Thorofare Capital, a vertically integrated commercial real estate debt manager. “If you have a good relationship, you’ll get a good bank quote, but it’s very competitive.”

Perlman added that the largest commercial banks have the luxury of holding a global viewpoint toward their clients’ business needs. This allows them to be more flexible on deal structures, like waving upfront fees and yield maintenance, due to the global revenue their deposits eventually accrue.

Attorney Scott Levine, a partner at King & Spalding, told CO that relationships “are a huge reason” why his CRE clients go to certain banks for financing, and that debt funds were known in the post-GFC landscape from 15 years ago to sometimes sell off pieces of their loans.

“Borrowers have historically felt the debt funds were more likely to sell than the banks, particularly when things went south, and that’s when they got concerned,” he said. “The banks may have been selling pieces of loans, but they were generally sticking around in the deal — and, for borrowers, they knew who was on the phone when they called.”

But the outlook is not entirely sunny for U.S. commercial banking. Most banks’ legacy portfolios have issues, whether from 30-year mortgages written at low interest rates, or 10-year office loans now completely underwater. Plus, almost every bank is feeling the heat from nervous depositors, who are tempted by Treasuries, money market accounts, mutual funds and, yes, debt funds.

Moreover, the uncertainty of Basel III — an international framework on bank capital requirements and liquidity and leverage regulations — has also depressed the sector’s standing among borrowers, as banks have been more cautious about extending CRE loans amid the Basel fog, which requires higher capital requirements to compensate for the increased risk.

So, ironically, banks have responded to the competition from private credit by becoming the private credit industry's lender of choice, and changing the nature of commercial real estate finance in the process.

Risk vs. reward

As Stuart Boesky explains it, the banks just got tired of carrying all the risk in big CRE projects.

The industry veteran and CEO of [Pembroke Capital](#) told CO that the nation's largest banks actively decided that it would be most cost effective for the active fund managers to take some of their "smaller" clients away from them. In return, the banks would help these entities by originating large loans at advance rates that reduced risk and allowed themselves to remain participants in the CRE market, albeit with a smaller staff and less overhead. The debt funds, in turn, generated new business and created clients for life.



STUART BOESKY, CEO OF PEMBROOK CAPITAL, DEFINED THE RELATIONSHIP BETWEEN BANKS AND

PRIVATE CAPITAL AS RECIPROCAL. PHOTO CREDIT: EMILY ASSIRAN FOR COMMERCIAL OBSERVER

“Until very recently, I think the banks were happy to let the funds do their business,” said Boesky. “I don’t think that business was profitable to banks due to cost of capital and regulatory requirements and so they were very willing to lend to those big funds.”

Through warehouse-type facilities and repurchase structures (repos) – which include note-on-note finances, joint venture uni-trench loans and single-asset repos — the banks have been able to originate safer CRE loans that receive better capital treatment and that place balance sheet risk in the hands of safer sponsors.

“Their desire to finance us is top of their list,” said de Haan. “It’s a partnership between alternative lenders and the banks that results in more liquidity available at an attractive cost for the CRE industry, and that’s a positive long-term trend.”

Balbec Capital’s Cricco-Lizza has called this universe of lender financing “the most competitive sector today within all of CRE,” and said that the competitive nature among debt funds for bank loan business has pushed out many regional banks that otherwise would be making bridge and construction loans.

“Everyone wants to be in it,” he said. “Because the people providing lender financing don’t take a loss, if you do the work properly, but it’s

a low-risk business where you can still earn some spread, and a lot of bigger banks in direct CRE lending have done pretty poorly.”

Citigroup’s Dyckman said lender financings allowed his commercial bank to originate certain types of loans they normally wouldn’t consider because they have a professional banking partner with them to carry most of the risk.

“Now we can do deals with size,” said Dyckman. “It’s been a tremendous sort of growth for us over the last 12 months.”

But, like anything in the nebulous waters of high finance, enormous risks balance out the enormous rewards.

Boesky argued that in many respects the evolution of debt funds is a good thing, as banks in the post-GFC years offered historically low LTV levels on CRE loans that would’ve depressed the product across all sectors had debt funds not come into existence. But he cautioned that private credit might be growing too large, too quickly.

“As they raise more and more money, they get more competitive, which means they have to price their loan products at points that don’t adequately compensate them for the associated risk,” he said. “And sometimes things like that end badly.”

Rechler — who is both a borrower of, and lender in, private credit — admitted that there is a lack of transparency on the capital that has created some risk in this new system.

“When banks do it, the regulators know exactly what’s out there, they know what banks are lending and how much to each sector, but that’s not really transparent on these funds,” he said.

Casual observers should recognize that if a black swan event occurs, commercial banks’ exposure is limited because they are lending at a senior position to the funds. They’ll be more protected than the actual investors into private credit, who would take the first losses.

“If there’s margin calls, or a COVID-style event, all of sudden the leverage providers to private credit will call in their loans, and a lot of lenders don’t have that margin call type of facility,” said Weissman. “It’s not that there’s no risk. There’s a transfer of risk and repricing of risk that’s happening here.”

Others in the space are bullish no matter what the market brings. Zegen conceded that while there’s room for multiple players, the investor base of private credit is expanding from institutions to now encompass wealth managers, IRA accounts, and individual retail investors

“They’re funding the next age of private credit, and more and more it’s taking the place of banks,” said Zegen. “We’re in the early innings of it.”

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