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Banks Teaming With Property Owners More on Mezzanine Loans for Projects

It's not uncommon for owners' expertise — and money — to be in higher demand in tricky economic conditions

BY [ANDREW COEN](#) FEBRUARY 26, 2025 6:00 AM

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Valentine's Day might be in the rearview, but the romance between banks and developers kindles stronger with each passing day.

Specifically, we're talking about banks approaching developers and asking them to take a piece of their capital stack — because, like in a Hollywood romance, the line delivered to developers is: "You complete me."

"Complete" in the sense that, as a private lender, a developer knows whether a project makes sense. And, from a mezzanine position, a developer can take a project over in the event of the unthinkable.

[Naftali Credit Partners](#) CEO Glenn Grimaldi has had a unique vantage point for watching developers play an expanded role in the commercial real estate capital stack, sourcing that mezzanine debt to get deals over the finish line.

Prior to joining Naftali Group's lending arm in 2022, Grimaldi spent more than two decades leading HSBC's CRE finance platform, where he first saw signs of private credit growth in 2009 amid the Global Financial Crisis. Banks then began to gradually deleverage their CRE balance sheets due to risks and increased regulatory requirements, and the higher interest rate environment of the last three years has only accelerating the need for more capital players.

"I think right now there is a sort of ascendancy of private credit 2.0," Grimaldi said. "The most important part of the financing these days is the mezzanine deal because banks are reducing their loan-to-value and loan-to-cost [ratios]."

Naftali is among a number of development firms that banks have partnered with when it comes to issuing mezzanine debt in concert with senior loans as a credit enhancement in case there is distress with a property.

[RXR](#) has also been a long-standing player in the credit space, executing a number of mezzanine deals over the years. It expanded its debt platform in late 2021 through a merger with Hudson Realty Capital. The developer, too, last fall hired Steven Schwartz, who was co-head of real estate credit at H.I.G Capital, to lead its CRE credit business, which executed around \$1 billion of credit volume in 2024 and is targeting \$2.5 billion this year.

Scott Rechler, CEO of RXR, said the need for mezzanine financing is coming to the surface in particular for loans issued in an interest rate environment where borrowing levels were at near zero prior to 2022.

"To refinance some of these loans today you can't get the same level of proceeds. So, instead of them going up and having a higher loan-to-value level, the borrower or the lender themselves will come to nonbank lenders and credit platforms like RXR, and we'll provide mezzanine to fill that gap," Rechler said. "Banks are also in many cases financing credit platforms like ours, where we provide the whole loan and effectively they are providing financing to our loan pool, which gets them also lower capital cost charges and it puts them in a safer position."

There are reasons why this sort of arrangement works for the bank, the developer who takes the mezz piece, and the borrower.

Rechler said property owners are attracted to banks for subsidized debt deals in particular when it comes to construction loans involving ground-up development and conversions. He noted that having a lender in the capital stack with CRE development experience provides the senior lender reassurance if problems arise.

The strategy of banks bringing development firms with debt platforms into the capital stack began gradually building in the wake of the Global Financial Crisis as more financing restrictions were placed on banks, according to Grimaldi. It took on a crucial role after the COVID-19 pandemic in 2020 with so many unknowns about values of certain CRE assets.

The need for mezzanine pieces to make financing pencil with stringent loan-to-cost (LTC) and loan-to-value (LTV) standards grew more urgent beginning in March 2022, when the Federal Reserve began hiking interest rates to their highest levels in two decades.

The timing was ideal for Naftali, which has provided seven mezzanine pieces since launching its second debt fund in spring 2023. Grimaldi said the firm is now targeting a third fund that would deploy around \$1 billion to meet the demand, which is especially high for construction loans given how much banks have been reducing their LTC ratios.

“We’ve had big institutions bring us deals saying we can’t get to this last bit of leverage, but we would love to be in the deal, and your stamp and your name on the project and your expertise is really going to give comfort to us in our credit department,” Grimaldi said. “I look at the senior debt partners as real partners in the capital stack to provide the bulk of the capital, and they look at us as credit enhancing their position.”

Over the years, the intentions of owners in mezzanine positions have at times been questioned, given there is a clear line to owning the property in times of distress. But, after the market roller coaster ride of the past six years, the sentiment seems to have swung instead to taking comfort from their institutional expertise in these assets

SL Green Realty, which has been at the forefront of lending mezzanine debt, launched an opportunistic debt fund late last year that inked a \$250 million commitment from Canadian pension fund Caisse de Dépôt et Placement du Québec. The debt fund was set up by the real estate investment trust — New York City’s largest office owner — to originate or acquire loans tied to the city’s office and retail sectors.

“When there’s uncertainty, borrowers and lenders really value partners with deep experience and expertise,” Harrison Sitomer, chief investment officer at SL Green, said in a statement. “The opportunities in front of us range from providing ‘good news’ money to rebalance capitalizations, to originating loans for new borrower acquisitions, to acquiring existing debt positions from lenders looking to rightsize loan books.”

SL Green was active on the credit side of its business in 2024 even before the debt fund launch. It teamed with fellow REIT Vornado Realty Trust, another large Manhattan office landlord, to purchase a \$125 million mezzanine loan secured by 280 Park Avenue at a discount of \$62.5 million. The deal was part of a modification and extension of a \$1.075 billion commercial mortgage-backed securities loan on the 1.3 million-square-foot office complex.

Justin Quinn, a partner at law firm Kramer Levin, said mezzanine debt has played an important role in closing many transactions since he began practicing CRE law in 2008. The strategy is far more popular when financing restrictions are tighter, such as during the last few years with more mezzanine deals now than past cycles, but the uptick hasn’t been more prevalent with property owners, Quinn said.

Quinn stressed that comfort level plays a critical role when banks opt to seek mezzanine lenders, making property owners an ideal fit in many cases since they can provide support for the asset if necessary. He said the relationship is also key given disputes that sometimes arise between the senior lender and mezzanine lender over a loan’s term.

“The senior lenders that I’m seeing accept mezzanine debt are somewhat particular about who they want to see on the other side of the table,” Quinn said. “Ownership groups that they know are good sponsors are always welcome as counterparties.”

[Slate Property Group](#) has also been at the forefront of closing mezzanine loans to complement bank senior loans since 2018, when Slate launched its credit business, Scale Lending. Roughly \$3.5 billion has been invested in the vehicle since its inception, and Scale is now raising capital for its third fund. Martin Nussbaum, co-founder and principal of Slate Property Group, said bank limitations and challenges with balance sheets have resulted in more partnerships with private credit lenders like Scale, either with mezzanine debt or creating a structure with A and B notes.

With the rise of interest rates, coupled with traditional and regional banks facing regulatory pressures deploying capital, Scale has seen its deal volume grow five- to sixfold over the last two years, according to Nussbaum, with a number of the deals involving partnerships with banks lending at lower leverage levels. He said strong banking relationships will help Scale continue to grow its platform over the next year as more banks eye partners for mezzanine loans.

“The banking system is still working through its problems and figuring out the right leverage levels that it’s going to be going forward with on an ongoing basis,” Nussbaum said. “I think the private credit market as well as the mezz and prep equity market is going to continue to be an important source of capital for financing transactions.”