

News & Analysis

S3 Capital lines up \$700m construction financing pipeline

The ongoing banking pullback is the building blocks for this activity, said Alan Purser, global head of capital formation.

Anna-Marie Beal - 1 day ago

S3 Capital, a New York-based specialist private lender, is gearing up for \$700 million in construction lending opportunities as banks continue to stay on the sidelines.

“The liquidity pullback from the regional banks over recent years has curtailed development, but it is now causing a resurgence of development opportunities,” Alan Purser, global head of capital formation, told *PERE Credit*.

The firm – which originates loans ranging from around \$20 million for smaller projects and up to \$250 million for its large balance portfolio – has seen a drastic increase in transaction activity since the beginning of the year.

“The regional banking sector has experienced significant stress and solvency issues, leading to a dearth of liquidity for real estate development across all property types,” Purser added.

The regional banks in the US have historically had the lion’s share of the market, accounting for 70-75 percent of all construction lending.

“Bank distress has created an opportunity in the construction lending space for private lenders to step in and fill the liquidity gap,” said Purser.

That is not to say that all regional banks are in the same distress as those that had more exposure to commercial real estate loans, Purser added.

“This does not mean that all regional banks have ceased writing loans,” said Purser. “However, there has been a systemic shift in how all banks are approaching their commercial real estate portfolios and their lending practices.”

He continued: “Traditionally, banks would assume the senior position in the capital stack directly with a sponsor, especially in construction financing. But they are now moving away from direct lending and seeking indirect exposure to the capital stack through private lenders for better capital treatment.”

Since its inception in 2013, S3 Capital has originated more than 550 loans, amounting to more than \$4 billion. Its current portfolio comprises over 150 active loans, totaling more than \$1.6 billion. The firm does not participate in other parts of the capital stack or different risk levels and focuses solely on construction lending investments.

