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Solutions Despite Basel III

FINANCING: The new regulatory framework is tightening access to bank credit whileincreasing the appeal of mezzanine financing.

—By Dan Amar and Nicolas Terrier

Since January 2025, Switzerland has adopted the final Basel III standards through the revision of the Capital Adequacy Ordinance (CAO). A central feature of these reforms is the requirement for banks to hold more capital against riskier loans. This strengthens their resilience in times of financial stress, but also forces them to take a more selective approach to lending.

Basel III is therefore fundamentally changing the nature of the Swiss real estate market, particularly in the area of property loans. For income-generating residential properties, risk weights have been increased whenever the loan-to-value ratio (LTV) exceeds 60%. This means banks must allocate significantly more capital to these loans than under the previous regime. Construction and development loans are also treated more restrictively: Basel III requires greater equity contributions and, in many cases, higher pre-sale levels. A further measure is a modest reduction in risk weights for rental and owner-occupied properties, but only when they are financed with maximum prudence.

THE CAPITAL CONSTRAINT

In parallel, the merger between UBS and Credit Suisse has concentrated a large share of real estate exposure, pushing other banks closer to their lending limits and making them more cautious about new developments or bridge financing.

It has therefore become increasingly difficult for developers to secure traditional bank financing, especially for high-yield projects and construction loans. This is happening despite Switzerland facing a severe housing shortage. Banks are also demanding higher levels of pre-sales or equity to offset increased capital costs, which delays or even blocks project launches. On top of this, Basel III requires even more capital to be held for loans deemed riskier.

Because banks must now lock in a greater share of their own capital to back these loans, their capital costs rise significantly. Consequently, complex and highly leveraged development loans are losing appeal. Internal approval processes are tightening: banks assess transactions more critically and may reject loans that no longer meet revised risk-return thresholds. The focus is shifting to low-risk, low-leverage projects, usually in prime locations, backed by strong sponsors and conservative financial structures.

That said, there’s an important nuance: low-leverage rental properties remain attractive to banks, but any transaction that exceeds these risk thresholds becomes capital-intensive and is approached with caution.

This shift is creating a financing gap for developers, particularly for owners looking to fund renovations, ESG upgrades, or modernisation work. These stakeholders face stricter credit conditions and higher costs. Consequently, many projects risk being delayed, scaled back, or cancelled, further worsening the housing shortage in Switzerland.

WITHOUT BANK INTERVENTION

Fortunately, a solution is emerging to bridge the gap: mezzanine debt and the growing interest of private investors in crowdlending. In Switzerland, construction and renovation financing without bank involvement is becoming a reality, especially where traditional funding is unavailable.

Both investors and developers stand to benefit. Crowdlending offers investors direct access to short- to mid-term fixed-yield investments (12 to 36 months), secured by real estate assets. Investors can enter the real estate debt market segments that banks are gradually retreating from, gaining access to opportunities once reserved for institutional players. These loans typically offer higher fixed interest rates to compensate for their subordinated position and must be backed by real assets, such as mortgage notes, to mitigate associated risks.

For developers, these loans, subordinated to senior bank credit, can be critical in moving projects forward. Mezzanine financing via crowdlending is emerging as a preferred solution, enabling capitalisation without diluting ownership or control. Crowdlending opens open this segment to private investors seeking stable, attractive returns while supporting the creation of much-needed housing. They give developers access to an alternative source of funding.

For example, a developer needing CHF 5 million to complete their equity stack can use crowdlending to bring together multiple private investors willing to fund the project in exchange for above-market interest rates. This model opens dual access: for developers to alternative finance, and for investors to secure, high-performing placements. As traditional channels close, this solution becomes a practical lever to accelerate housing construction in Switzerland.

— *Dan Amar*, *CEO*, *and Nicolas Terrier*, *Head of Real Estate Debt*,
"Obtaining bank financing is becoming increasingly difficult."

BASEL III

Basel III standards have been gradually introduced in Switzerland since 2013. In 2023, the Federal Council approved revisions to the Capital Adequacy Ordinance, incorporating the final Basel III framework into Swiss law from 2025. The goal is not only to implement international standards, but also to strengthen the banking system's stability, particularly its resilience in an increasingly digital financial environment.