

## HVCRE – the new specialised lending category and what it means for banks across jurisdictions

### Abstract

The classification and capital treatment of High Volatility Commercial Real Estate (HVCRE) exposures vary significantly across jurisdictions, creating challenges for internationally active banks.

While Basel III introduced HVCRE as a specialised lending category subject to higher capital requirements, its implementation differs widely. The Prudential Regulation Authority (PRA) mandates the slotting approach, limiting banks' ability to use Internal Ratings-Based (IRB) models for risk quantification.

Meanwhile, the EU's CRR III framework does not recognise HVCRE as a separate asset class, instead applying existing income producing real estate risk-weighting rules.

This paper explores these regulatory divergences, examining their implications for capital allocation, credit risk modelling, and commercial real estate financing. Key considerations include the impact on risk-weighted assets (RWA), supervisory expectations for specialised lending, and the strategic adjustments banks are making to navigate these differences. By comparing global regulatory approaches, this study provides insights into the broader implications of HVCRE treatment for financial stability, credit supply, and real estate market dynamics.

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