German debt financing gap seen bridged by non-bank capital partners

With new property debt financing constrained, loans for investments beyond core are not easily obtained through classic bank channels, says German financial advisor Curth Flatow. However, new financing solutions are set to bridge the funding gap.

Flatow is managing partner of Berlin-based Flatow Advisory Partners, founded in 2005, an independent privately-owned financial advisor specialised in restructuring and acquisition of financing for German real estate investments. The firm has over 150 financing partners, including domestic and foreign banks, insurance companies, pension schemes, leasing companies, specialist private-equity funds, selected family offices and institutional co-investors. "We cannot really confirm the impression that loans can hardly be come by," he told PIE in an interview. "Frameworks have changed so that debt financing has become scarce but with new entrants such as credit funds or insurers, we see enough capital in the market."

FAP Managing Partner Curth Flatow: "We cannot confirm the impression that loans can hardly be come by."

Flatow, a former Crédit Suisse banker, said competition among debt financiers for core property has become very steep, especially with increasing interest from insurers. "They are looking at exactly the same business as mortgage banks," he said. These non-bank providers complement large-volume core financing deals, as already seen on the German market, "but they are certainly not the solution for non-core, value-add or management intensive assets or project developments." Finding loans for these assets takes a lot more time, with information needs more stringent. "Many project developers cannot or will not fulfil banks' equity demands so one of our business units is looking at finding that missing equity," said Flatow.

Outside of core, demand for higher risk debt finance has soared over the past 18 months, and finance for mezzanine structures and joint ventures is not very common in Germany yet. "This alternative capital can come from family offices, private equity funds, pension funds or insurers." But the market is widening as many new players come in. "Refinancing activities have also become more prominent over the last 18 months, as many who invested in the boom years now have to find new capital," said Flatow. Some were not complicated but those that need restructuring or recapitalisation find harder conditions than a few years back. "We will see more of these difficult situations coming over the next 24-36 months, when new debt financing is insufficient to find a solution." FAP is in contact with international banks, several of those Irish, that are looking to sell German loan portfolios – be they performing or not – as part of a strategic retreat from the market. "What still detains them is that potential buyers are not ready to pay the prices they demand. Balance sheets will have to be cleared at some point but we have not seen a massive boost in activity yet as many are still hoping to sell at better prices."

Some 80% of FAP's clients are international, and quite a few are moving back to acquire in the market, - with clear abundance of Asian capital over US investors. "We also see capital from the Middle-East, mostly coming in through London, looking for opportunities." These include core investors as well as value-add ones, looking for distressed situations. One or two Austrian and London-based debt financiers were also looking at deals further up the risk-scale. "One of the best exit strategies for financiers during the boom years was securitisations, a market that is virtually dead at the moment," Flatow told PIE. "If a solution is found for that situation, it is going to be one of the best refinancing opportunities." He also sees banks profiting from cheap capital from the European Central Bank, but also expects securitisation to make a comeback in the mid-term. ■ **pie**