Press release

Only modest potential for loan funds in Germany

FAP: 90 per cent of pan-European loan funds have conditions that are simply incompatible with the German market.

Berlin, 11 January 2016. International loan funds have only very modest potential in the German market according to Flatow AdvisoryPartners (FAP), the leading independent consultancy for the procurement and structuring of real estate financing in Germany. According to the latest data from Scope Ratings, there are currently 53 loan funds in issuance throughout Europe. The target capital of the funds totals €33.8 billion according to Scope Ratings.

The German Financial Supervisory Authority (BaFin) eased the regulatory conditions for loan funds in Germany last year, strengthening interest in the financing instrument. "The truth, however, is that 90 per cent of loan funds with a pan-European structure have conditions that are simply incompatible with the German market," says FAP's Managing Partner Curth-C. Flatow.

The reasons for this are multi-faceted. According to Flatow, either the loan funds are exclusively focused on senior tranches and are, therefore, too expensive from the outset compared with traditional bank or covered bond (Pfandbrief) financing. The funds only come into play in this instance when the assets to be financed are simply "unbankable". Or the junior tranches of the international funds require a volume of at least €15 to €25 million per deal up to a maximum of 80 to 85 per cent LTV. Accordingly, a deal would have to have a financing volume of at least €100 million. The majority of individual deals are of a significantly lesser magnitude, meaning that there will be insufficient deal flow.

When it comes to pricing junior tranches, many international providers are also too expensive with expected internal rates of return (IRR) of at least 10 to 12 per cent. In Germany, junior capital is available from an IRR of 6 to 9 per cent. "That is why we have scarcely seen any deals from foreign loan funds in Germany," explains Flatow.

"These could succeed in markets such as the Netherlands, the UK and Spain, where the financing market is far less sophisticated than in Germany."

According to Flatow, besides the absolute size of the market, access to the larger deals plays a decisive role. "In our estimation, this is the largest obstacle for loan funds as newcomers to the German market. In that respect, we are not expecting a boom, but nonetheless more joint financing between alternative financing providers and banks than in the past. Indeed, we have arranged several such deals in the last year: senior capital from the bank, junior tranche via mezzanine finance." Flatow sees a further opportunity in the provision of whole-loan financing, whereby the loan fund provides a high LTV capital tranche, thus lending senior and junior tranches from a single source. This also vastly simplifies processing and documentation according to Flatow.

About Flatow AdvisoryPartners (FAP)

Flatow AdvisoryPartners GmbH (FAP) is the leading independent consultancy for the procurement and structuring of capital for real estate investments and development projects in Germany. As a one-stop agency, FAP secures overall financing comprising debt capital and, where necessary, equity replacement funds. FAP's involvement in transactions and projects means that our services are called upon by purchasers, vendors, agents, lenders and those seeking to raise capital. FAP, with its head office in Berlin, was founded in 2005 by Curth-C. Flatow, who heads the company as Managing Partner alongside Managing Director Jörg Scheidler. Co-operation partners include Savills, BNP and Engel & Völkers.

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