

Press release

FAP Mezzanine Report: capital providers show increased appetite for risk

Munich/Berlin, 4 October 2016. The current FAP Mezzanine Report illustrates the increased appetite for risk of capital providers in commercial real estate financing in Germany. Developments can now be financed with capital requirements as low as 2-7 per cent. At the top end of the scale, projects are financed via subordinated capital at loan-to-cost (LTC) ratios of 93-98% of the total investment cost.

The market report is published by Berlin-based financing consultancy FAP. Founder and Managing Partner Curth-C. Flatow says: “The formula is simple – capital is seeking deals. We are in a booming market with a positive outlook. The search for alternative investments is intensifying and capital providers are increasing their appetite for risk and/or lowering their ROI requirements.”

Mezzanine capital sees 51 per cent growth

The provision of subordinated capital over the last 12 months has risen by 51 per cent year on year to reach EUR 1.4 billion. This equates to a market value volume of approximately EUR 7.4 billion, representing an increase of 36 per cent compared with the previous year.

Jörg Scheidler, Managing Director of FAP, comments: “The subordinate financing market segment has discernibly established itself as an asset class for investors. We expect further growth during the current year.”

Developments can now be financed with average capital requirements as low as 2-7 per cent. On the other side of the equation, this mean that projects are being financed via subordinate financing at LTC ratios of 93-98 per cent of total investment costs.

When it comes to existing property, the majority of capital providers apply a maximum loan-to-value (LTV) ratio of 85 per cent of market value. However, the proportion of more risk-prone investors offering LTV ratios above 90 per cent has increased. Accordingly, a capital requirement 15 per cent is currently standard on existing property.

Micro-apartments grow in favour with capital providers

Which property sectors are financed by capital providers? The top three sectors in terms of existing property are offices, shopping centres/retail parks and retail. One climber compared with last year is the micro-apartment sector, which is now financed by 65 per cent (2015: 33 per cent) of capital providers. Nursing homes/healthcare have also gained in popularity with willingness to invest rising from 17 to 39 per cent of investors.

With regard to developments, the top three sectors are residential, offices and shopping centres/retail parks. Climbers include micro-apartments again with 77 per cent (2015: 38 per cent), warehouses/logistics with 58 per cent (2015: 38 per cent) and hotels with 55 per cent (2015: 25 per cent).

Returns on mezzanine financing for existing property fall to 9.3%

Interest rate expectations of capital providers on financing for existing property range between 8 and 12 per cent IRR, while the average return achieved is 9.3 per cent. Thus, achieved returns have fallen by more than one percentage point compared with last year. On developments, IRR expectations range between 12-18 per cent with the average achieved return standing at 14 per cent.

Methodology

There are 97 mezzanine capital providers active in the German market. Financing consultancy FAP was able to analyse 40 of these. These included both national and international investors, comprising funds (60 per cent), family offices (24 per cent), private banks (8 per cent), investment companies (5 per cent) and insurance companies (3 per cent).

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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