





## On the Mezzanine

**CURTH FLATOW**, MANAGING PARTNER OF FLATOW ADVISORY PARTNERS, SPEAKS TO CHRISTOF HARDEBUSCH ABOUT MEZZANINE FINANCING.




*Mezzanine financing is on the increase but, in absolute terms, still accounts for very modest volume. Why is that? Are high LTVs and the glut of equity capital responsible?*

**CURTH FLATOW:** The German financing market is still typically dominated by the banks. Besides the lower margins, banks have also increased leverage in many instances, removing the necessity for mezzanine finance in some cases. However, there is a clearly discernible trend towards mezzanine capital being used for development projects in particular. The mezzanine sector and its transactions have been professionalised.




*Is there a genuine boom in mezzanine financing itself or does the growth rate merely reflect the old adage that a rising tide lifts all boats?*

**CURTH FLATOW:** The professionalisation of borrowers and the desire for high leverage have increased. We believe the mezzanine market is beginning to show sustainable momentum with institutional investors also exhibiting sustainable interest owing to the regulatory incentives.



*Are lenders' preferences changing with regard to junior debt, preferred capital, equity capital and similar forms of financing?*

**CURTH FLATOW:** Lenders have highly diverse expected returns and attitudes to risk. When it comes to development projects, we are witnessing strong growth in the mezzanine segment. Loan funds and institutions are now also positioning themselves on the investment side, even offering whole loans for example.



*Do funds, family offices and private banks differ when it comes to financing investments and development projects?*

**CURTH FLATOW:** Family offices and private banks are primarily active in the development project sector and in tranches of up to 10 million euros. Funds, particularly those located abroad, typically demand a capital requirement of at least 10 to 15 million euros per deal. Furthermore, "private capital", or capital granted directly by an institutional investor and not via a fund, can often be acquired on more favourable terms in our experience.