

## **Press release**

### **FAP Mezzanine Report: growing market for subordinate financing**

**Munich/Berlin, 4 October, 2017. The new FAP Mezzanine Report reveals a growing market for subordinate real estate financing. Institutional investors in particular are increasing their exposure to this segment, with family offices proving to be a reliable constant.**

The market report is published by Berlin-based financing consultancy FAP. Founder and Managing Partner Curth-C. Flatow says: “The fact remains: capital is seeking deals. Subordinate financing is a firm fixture in the financing market and will continue to grow.”

#### **Strong growth in the volume of mezzanine capital provided**

Subordinated capital provided for real estate investments in the market analysed by FAP totalled approximately EUR 2.6bn over the last twelve months. This has facilitated real estate investments and development projects with a total investment cost of approximately EUR 17.5bn during the current year.

Jörg Scheidler, Managing Director of FAP, comments: “The positive growth in the mezzanine capital market has continued impressively over the last 12 months.”

#### **Concentration on the Top 7 cities intensifies**

Some 49 per cent of capital providers offer finance throughout Germany, down from 60 per cent 12 months ago. There is a significant increase in the percentage of investors focusing exclusively on the Top 7 German cities: now 17 per cent compared with 7 per cent in 2016. A further 34 per cent provide financing in metropolitan regions (the 15 largest German cities), which is largely unchanged (2016: 33 per cent).

### **LTCs and LTVs on existing property and developments**

The majority of development projects are financed with capital requirements of 5 to 10 per cent, reflecting loan-to-cost (LTC) ratios of 90 to 95 per cent of total investment cost. The average loan-to-value (LTV) ratio on existing property stands at 88 per cent. The number of more risk-prone providers offering LTVs above 90 per cent on existing property has risen year on year. Initiators contribute an average of 12% of the market value of a property as equity.

### **Financing spans a broad range of sectors**

Which property sectors are being financed by capital providers? In terms of existing property, the three leading sectors are residential, offices and mixed use. Retail property and hotels also remain popular. The complete range includes car parks, leisure property, healthcare properties and refugee accommodation.

With regard to developments, the top three sectors are residential, offices and retail property. Here, too, financing covers a wide spectrum of sectors that includes hotels, logistics property, medical centres and leisure property.

### **Returns on mezzanine finance relatively stable**

Expected returns of capital providers on financing for existing property range between 6 and 15 per cent IRR, while the average return achieved is 9 per cent (previous year: 9.3 per cent). On developments, IRR expectations range between 8-18 per cent with the average achieved return standing at 14 per cent (previous year: 14 per cent).

In 2015, developments were still being financed in tranches starting from EUR 500,000. In 2016, capital providers were lending from in tranches from EUR 1 million and, today, many capital providers stipulate minimum tranches of EUR 2 million. Most finance providers (73 per cent) concentrate on tranches of between EUR 3 and 15 million. This has allowed crowdfunding platforms to expand in the range up to EUR 2.5 million to become the leading providers in this category.

## **Methodology**

There are currently 146 mezzanine capital providers active in the German market. Financing consultancy FAP analysed 40 of these. These comprised institutional investors (37 per cent), funds (32 per cent), family offices (20 per cent) and financial institutions (11 per cent), which include crowdfunding platforms and private banks.

## **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. Cooperation partners include Savills, BNP and Engel & Völkers.

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