PRESS RELEASE

FAP Mezzanine Report 2020: Mezzanine capital as lifeline during crisis

- *Reluctance of banks to lend during coronavirus pandemic has been opening up new opportunities for subordinated debt providers*
- *Fewer deals but larger ticket sizes, with a focus on Germany's major metropolitan areas*
- *ESG not (yet) playing a role in investment decisions*

Berlin, 15 October 2020 – The mezzanine capital market is growing and has now become a standard part of real estate financing in Germany. Due to the low loan-to-value ratios being demanded on average by senior lenders, the scope for subordinated financing solutions has been increasing. Since the onset of the coronavirus crisis, mezzanine capital providers have been stepping in with attractive offers in situations where banks are available as a financing source to only a limited extent. The range of interest rates and the span of mezzanine deal sizes have expanded, with a trend towards larger-ticket deals. These are the central findings of the 6th Mezzanine Report of FAP Group, one of Germany's leading independent consulting firms for the arranging and structuring of capital for real estate investments and development projects.

According to FAP, 155 investors are currently active in the subordinated financing market in Germany, nine more than last year. 53 of these took part in the FAP Mezzanine Report 2020, representing a total of EUR 6.9 billion in new mezzanine capital financing over the past 12 months, 19 percent more than in the prior-year period. This mezzanine capital financing enabled investment and development projects with an aggregate total value of EUR 40 billion.

"Many subordinated lenders are seeing the reluctance of the banks as an opportunity. They jump into the breach where banks are either not willing to lend or only at low loan-to-value ratios. The coronavirus crisis has once again made clear the vital economic importance of mezzanine capital providers and thus, compared to the prior year, the proportion of subordinated capital as part of overall financings has increased on average by more than 13 percent," says Hanno Kowalski, Managing Director at FAP Invest.

Mezzanine capital even B and C locations

Of the subordinated lenders participating in the survey, 80 per cent are currently active in financing existing properties and project developments, which represents an increase of 16 percentage points over the prior-year period. The most popular projects continue to be in Germany's seven largest metropolitan areas. In fact, 32 percent of the respondents stated that they are investing exclusively in these top seven markets, an increase of 22 percentage points over the prior year. Institutional investors in particular are limiting their subordinating lending to major German cities with favourable demographic trends. As to location quality, 80 per cent of the investors surveyed are active in both A and B locations. Even C locations are gaining in acceptance, with 44 per cent of subordinated lenders expressing their willingness to consider these deals, compared to only 26 per cent in the prior year.

With the focus on financing properties and projects in major German cities, there is also a trend towards a smaller number of larger-size deals, as can be seen in the higher average transaction size. At the same time, many investors are trying to better balance their costs against their benefits through longer deal terms. The average debt yield (IRR) of 10 per cent was unchanged from the prior-year level, while the range of yields between 5 and 18 per cent reflects the broad risk spectrum within which mezzanine capital is finding a role.

ESG not yet a decision criterion

Although sustainability is becoming ever more the watchword of today, environmental, social and governance (ESG) criteria have, according to the survey results, so far been playing almost no role when it comes to real estate mezzanine lending decisions. The financial viability of project developments and real estate investments continues to be largely decided by traditional industry-standard evaluation criteria. Because the term of mezzanine lending is generally short, the survey respondents usually do not consider the potential longer-term risks that could result from poor marketability of non-ESG-compliant properties.

Outlook cloudy, but optimism from abroad

While 64 percent of prior-year survey respondents reported a positive market outlook at that time, 58 percent now expect a slight market decline. None of the respondents anticipates an increase in demand. “The euphoria of the past few years is over,” states Hanno Kowalski. “Given the lockdown and the resulting economic slump, many investors want to wait and see how the property market will respond. We have seen numerous instances of financing targets for 2020 being retracted, without any new targets being announced.”

Among international investors, however, the mood is far less gloomy as they are largely assuming a stable to favourable market trend. Anglo-Saxon lenders, in particular, are taking advantage of the reluctance of German capital providers in the hopes of gaining market share.

About the FAP Mezzanine Report

For the FAP Mezzanine Report 2020, 53 market participants were individually interviewed in the first half of the year. The survey group was comprised of loan funds (31 per cent), institutional investors (29 per cent), single and multi-family offices (24 percent) as well as banks and insurers (16 percent).

Further details: FAP Mezzanine Report 2020 > https://www.fap-finance.com/en/downloads/

About FAP

The FAP Group is an independent advisory company for capital raising and structuring for real estate investments and project developments. The group includes FAP Invest, a leading real estate investment platform for institutional investors with a focus on debt products, and FAP Finance, which provides advice on capital and financing issues. FAP structures both classic debt financing as well as mezzanine, equity and capital market products. These services secure the overall financing from debt capital and - if necessary - equity substitutes. FAP, headquartered in Berlin, was founded in 2005 by Curth-C. Flatow. Since then, the group has advised and structured capital with a volume of over €15 billion.

Contact at FAP Group

Head Office Berlin
Marburger Str. 17
10789 Berlin
Germany
phone: +49 30 84415949-0
e-mail: contact@FAP-group.de
website: fap-group.de

Press contact

Anke Sostmann
Executive Director
Feldhoff & Cie. GmbH
phone: +49 69 26 48 677 - 14
mobile: +49 159 04 02 85 05
e-mail: as@feldhoff-cie.de