

THE MARKET IS CHANGING

WE PROVIDE TRANSPARENCY



It gives us great pleasure to publish the second FAP Mezzanine Report. After producing the first ever comprehensive market analysis on the subordinated capital segment last year, we now provide you with our 2016 edition of the report.

This also allows the first trends and comparisons to be identified in this rapidly growing segment, which is also an investment class for family offices and institutional investors.

My colleague Jörg Scheidler, Managing Director and Head of Capital Partners at FAP, and his team have spent recent months analysing the behaviour and criteria of capital providers both in Germany and abroad and collating the figures in the format familiar to you from last year.

Interest in mezzanine capital is greater than ever owing to the low interest rate environment and the known regulatory changes.

As consultants, we can detect the significant demand from a wide range of capital providers who wish to invest via us in this segment. Consequently, FAP will be expanding further as a platform for capital.

Firstly, however, you have the results of our market analysis on the following pages to look forward to.

Curth-C. Flatow
Managing Partner



In last year's edition, we reported “anticipated continued growth in subordinate financing”. We can now confirm that expectations have been significantly exceeded.

Not only has the number of providers of subordinated real estate capital increased, so too has the available capital volume, which is surging into the market segment in all currently conceivable forms.

At the same time, despite the generally declining capital market interest rates, relatively high yields continue to be

achieved for investors. Provided that the right project or investment target can be identified and secured, it remains the case this year, in contrast with previous years, that capital is seeking deals rather than deals seeking capital.

With this in mind, we hope you enjoy reading the results and trust you will gain some fresh insights from digesting the FAP Mezzanine Report 2016.

Jörg Scheidler

Managing Director & Head of Capital Partners

CONTENTS

Current market environment	4
Transaction volume	5
Capital is seeking deals	6
Capital is seeking deals - nationwide	7
Appetite for risk and capital requirements	
Existing property	8
Developments	9
Comment	10
Contact	12

CURRENT MARKET ENVIRONMENT

As expected, pressure to invest increased further for all market participants over the last 12 months owing to the challenges of the low interest rate environment in Europe.

Investment vehicles previously considered sound no longer even hedge against inflation over the long term. Every investor is seeking the “golden goose”.

It is little wonder, therefore, that in addition to the mass of national, institutional and private capital, more and more international capital is also flowing into the subordinate financing market this year. However, in view of the renowned stable characteristics of the German real estate financing landscape, such international capital is scarcely able to penetrate the market in significant volume.

In addition to a growing horde of capital providers, other alternatives such as crowdfunding platforms are springing

up like mushrooms. For further information on this subject, see our **FAP Special Report** on Real Estate Crowdfunding, which will be published at the end of October.

Combined senior and subordinate financing, often with high lending ratios, has now become quite common practice. This is supported, inter alia, by now established business relations between senior and subordinated creditors.

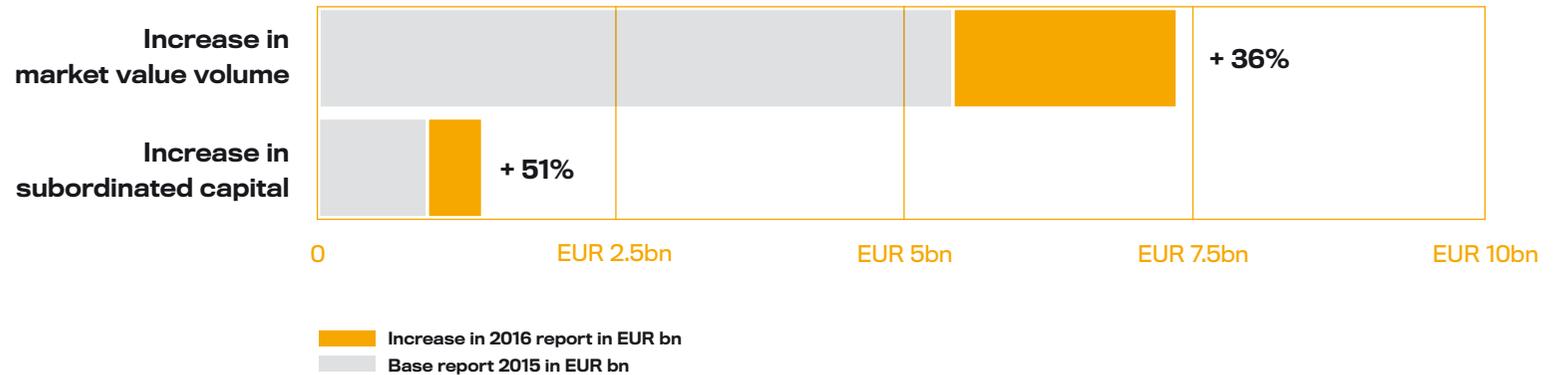
It is clearly evident that financing of value-add or bridging scenarios (short-term financing) is being facilitated by an increasing number of established capital providers, even in B- and C-cities.

However, the increased requirements of all participants in terms of due diligence and security remain equally challenging.

TRANSACTION VOLUME

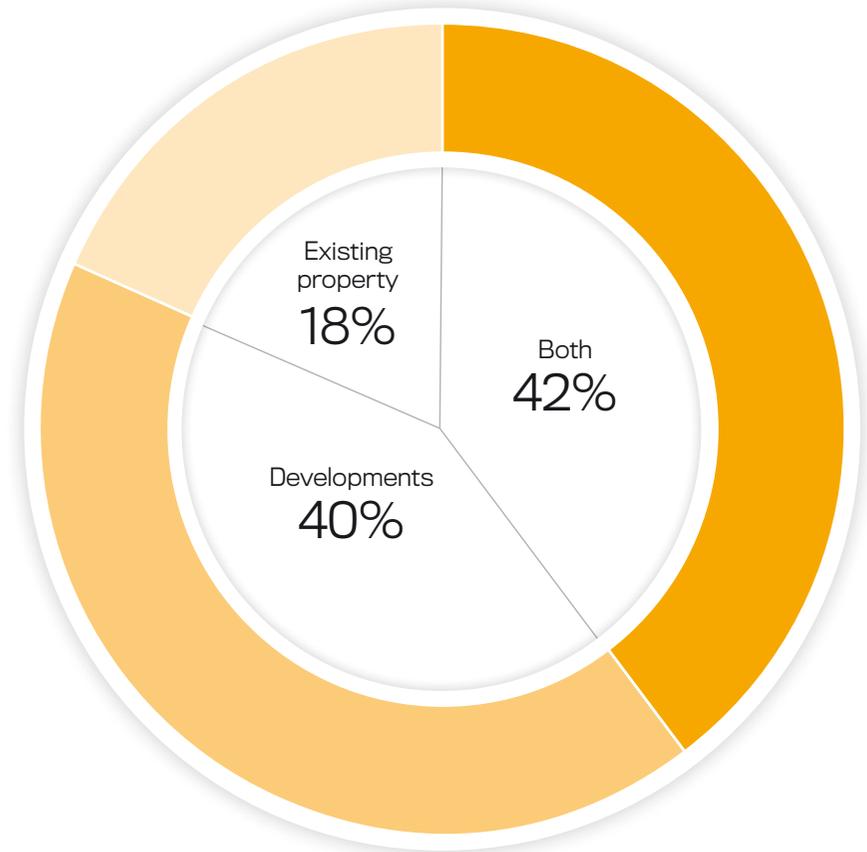
With a 51% increase in subordinated capital provided over the last 12 months, a market value volume of approx. EUR 7.4bn was achieved across both areas of subordinate financing by 60% of providers.

Compared with the 2015 report, 51% more subordinated capital was provided. Owing to the new provider distribution across both segments, however, the market value volume achieved has not risen by the same percentage.



CAPITAL IS SEEKING DEALS

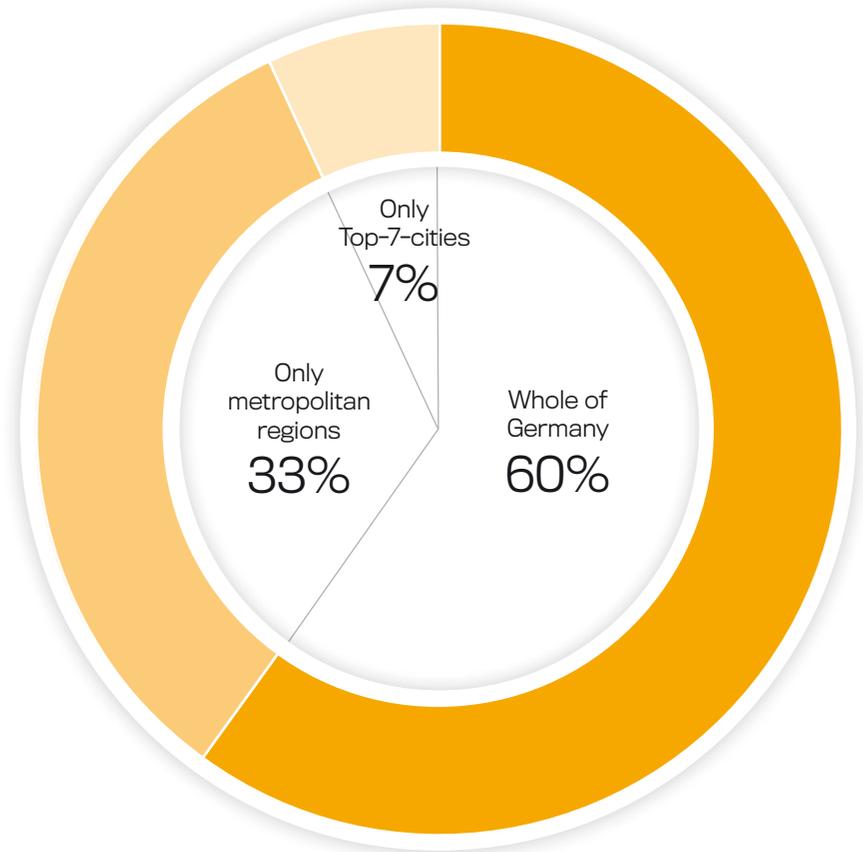
Capital providers are casting their nets wider and, in view of the flood of capital, are increasingly investing in developments as well as financing of existing property.



CAPITAL IS SEEKING DEALS – NATIONWIDE

Capital is available in many forms and from more providers than last year. This trend is also reflected in geographical coverage.

The clear majority of providers (60%) offer financing in all locations throughout Germany and increasingly in rural areas.



STRONG **APPETITE FOR RISK** **MODERATE** CAPITAL REQUIREMENTS

When financing existing property **loan-to-value (LTV)** ratios of up to 85% of market value are normal for the most part, in line with 2015. The number of more risk-prone investors able to offer LTVs above 90% has increased moderately year on year.

85%

Accordingly, 15% of the market value must be contributed as **equity** by the initiator.

15%

STRONG **APPETITE FOR RISK** **MODERATE** CAPITAL REQUIREMENTS

At the top end of the scale, development projects are financed at **loan-to-cost (LTC)** ratios of 93% - 98% of the total investment cost. These represent moderately higher LTC ratios than in 2015.

93-98%

In extreme cases, this implies a minimum **capital requirement** from the developer of 2% - 7% of the total investment cost.

2-7%

COMMENT

The significant increase in transaction volume and further professionalisation, combined with collaborations between senior and subordinated capital providers, are contributing towards consolidation in the subordinated capital sector.

The co-operative partnerships require explicit expertise and appropriate forms of security. Once these are in place, high lending ratios are possible with relatively moderate interest rate expectations, even in rural areas.

FULL REPORT

The FAP MEZZANINE REPORT 2016 is available now with the following additional content as a paid download from the iz-shop at www.iz-shop.de.

Detailed analysis of overall market

- Subordinated capital at a glance
- Capital with an entrepreneurial approach
- Capital with a co-operative approach
- Data and institutions
- Distribution by investment sector
- Segmentation of capital providers
- Regional coverage
- Transaction volume
- How does the market view itself?

Detailed analysis of existing property

- Sectors
- Capital tranches
- Lending ratios
- Maturities
- Interest rate expectations versus achieved IRR
- Equity contribution
- Forms of security

Detailed analysis of developments

- Sectors
- Capital tranches
- Lending ratios
- Maturities
- Interest rate expectations versus achieved IRR
- Equity contribution
- Forms of security

Conclusion

Glossary

A GLOBAL NETWORK FOR CAPITAL **AND** FINANCE



Flatow AdvisoryPartners GmbH
Head Office Berlin
Marburger Straße 17
10789 Berlin
Phone +49(30) 844 15 94-90
Fax +49(30) 844 15 94-99
contact@FAP-finance.com
www.FAP-finance.com