

FAP Mezzanine Report | 2017 Edition

SUBORDINATED CAPITAL FOR REAL ESTATE - A GROWING MARKET

WE PROVIDE TRANSPARENCY

® **FAP** MEZZANINE
REPORT

The logo graphic consists of three blue squares of varying sizes and shades (dark blue, medium blue, light blue) arranged in a stepped, ascending pattern to the right of the text.



The market for mezzanine capital continues to enjoy strong growth and, since the start of the year, FAP has been more broadly positioned with an expanded service spectrum.

In our “FAP Invest” real estate debt platform, we now offer institutional investors the opportunity to invest directly or indirectly in various forms of real estate financing.

Hence, our claim “Connecting real estate and capital” is becoming increasingly significant since professionally bringing together capital with real estate investors and developers, combined with in-depth risk-return analysis, have been the foundation stones of our success in this field for more than 12 years.

My colleagues will guide you through our new Mezzanine Report 2017. We have collected insightful information from capital providers to create further transparency in this rapidly growing segment.

Curth-C. Flatow
Managing Partner



Welcome to the Mezzanine Report 2017!

The positive growth in the subordinate real estate financing market has continued impressively over the last 12 months.

It is noteworthy that, with a significantly larger database, we are able to provide an even more accurate overview of this market segment.

The larger pool of data is attributable to an even larger number of participating capital providers, particularly institutional investors. We will elaborate on this point throughout the present report.

And one thing clearly remains unchanged from the previous edition: capital is still seeking appropriate deals!

Nevertheless, despite the ready availability of capital, bringing together the right parties remains a highly time-consuming and individual process.

Once again, whether you gain new insights or confirm existing knowledge, we hope you enjoy reading the FAP Mezzanine Report 2017.

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
Contact	11

CURRENT MARKET ENVIRONMENT

In view of the sustained historically low interest rate landscape in the capital markets, investment volume and pressure to invest remain high.

Interest rates/returns on subordinated loans are falling modestly. This is not least attributable to even stronger demand for investment opportunities in Germany following the Brexit vote and uncertainty in the markets following the outcome of the US election.

Against a background of constant capital inflows from pension contributions, institutional investors are surging into the subordinate real estate financing market.

Family offices (multi-family offices) represent a stable constant in the market as a financially strong backbone in the development segment in particular.

It is striking once again this year that international capital providers continue to play a scarcely discernible role in this market in Germany. The strength of international loan funds is primarily benefiting European and/or global real estate financing structures, e.g. via the provision of large volumes per deal.

The line-up of subordinate financing providers now also includes various crowdfunding platforms. Following a wave of start-ups in recent years, the market now appears to be consolidating and transitioning to a manageable number of well-structured platforms.

TRANSACTION VOLUME

Capital is available in many forms and from more providers than last year. This trend is also reflected in the transaction volume: over the last 12 months, the market participants surveyed for this report alone allocated EUR 2.6bn to subordinated capital for financing existing property and developments.

This enabled the completion of real estate investments totalling approx. EUR 17.5bn.

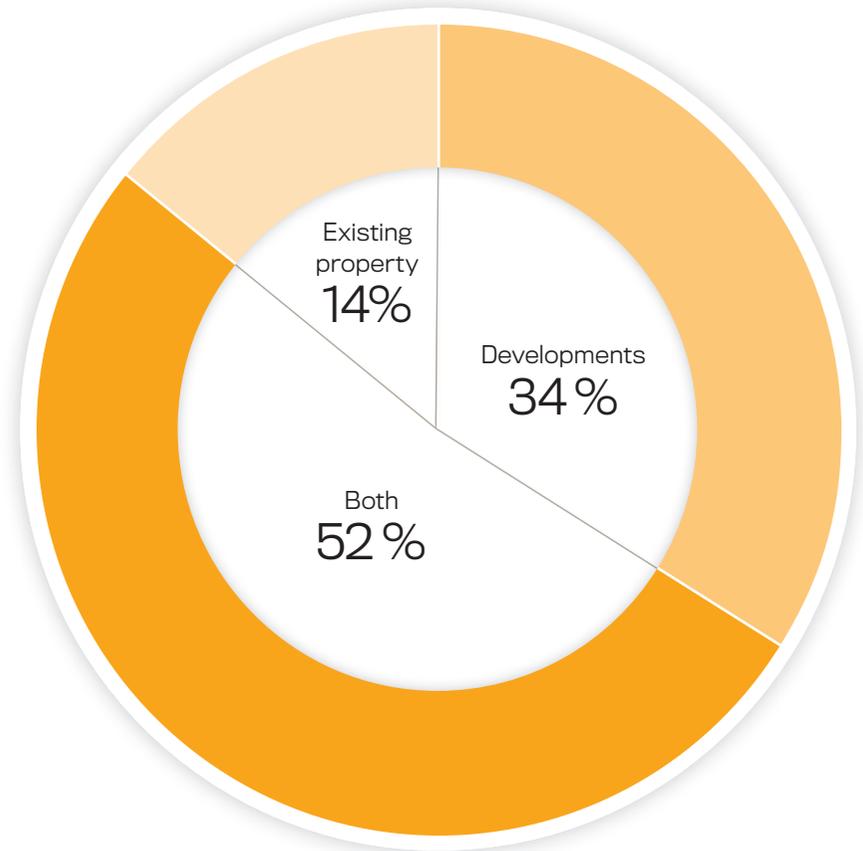


Institutional investors in particular are surging into the subordinated capital market with relatively large volumes per deal.

CAPITAL IS SEEKING DEALS

Capital providers are deploying their available capital more universally and the majority are investing in financing scenarios for both existing property and developments.

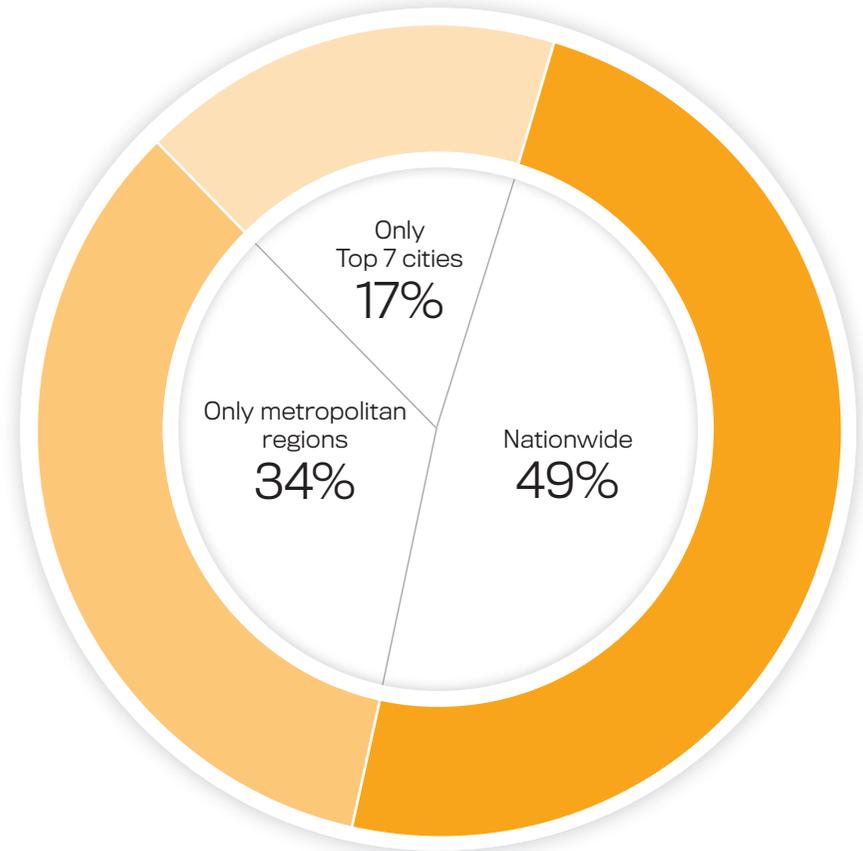
Specialising exclusively in just one of these segments is becoming increasingly rare.



CAPITAL IS SEEKING DEALS – NATIONWIDE

Almost every other provider is allocating capital for real estate financing throughout Germany.

Metropolitan regions comprise the regions surrounding the 15 largest cities in Germany.



STRONG **APPETITE FOR RISK** **MODERATE** CAPITAL REQUIREMENT

When financing existing property, **loan-to-value (LTV)** ratios up to an average of 88% of market value are possible for the most part.

The number of more risk-prone providers able to offer LTVs above 90% has increased moderately year on year.

88%

On average, 12% of the market value must be contributed as **equity** by the initiator.

12%

STRONG **APPETITE FOR RISK** **MODERATE** CAPITAL REQUIREMENT

Development projects are currently financed, for the most part, at **loan-to-cost (LTC)** ratios of 90% - 95% of the total investment cost (TIC).

90-95%

Owing to the larger number of providers and different focuses, the range is very wide and, overall, extends from 80% to 100% LTC.

By implication, this normally requires equity of 5% - 10%.

In extreme cases, the developer's **capital requirement** lies at the extremes of 0% or 20% of TIC.

5-10%

FULL REPORT

The FAP MEZZANINE REPORT 2017 is available now with the following additional content as a paid download from the iz-shop at www.iz-shop.de.

Data and institutions

Detailed analysis of institutional investors

- FAP Invest GmbH
- Regional coverage
- Maximum LTC
- Interest rates on existing property
- Interest rates on developments

Detailed analysis of overall market

- Subordinated capital at a glance
- Capital with an entrepreneurial approach
- Capital with a co-operative approach
- 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
- Expected returns versus achieved IRR
- Equity contribution
- Security options

Detailed analysis of developments

- Sectors
- Capital tranches
- Lending ratios
- Maturities
- Expected returns versus achieved IRR
- Equity contribution
- Security options

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