



Issue 11 | Publisher: FAP Group GmbH

FAP

Real Estate
Private Debt Report
Germany

2025



Hanno Kowalski
Managing Partner, FAP Group



Kim Jana Hesse
Senior Vice President, FAP Group

Stretched Senior Structures Continue to Gain Momentum

The trends identified in the previous report have further solidified. The dislocations in the real estate markets and the difficulties faced by certain funds continue to have a lasting impact, shaping the financing environment noticeably. The cautious stance of traditional lenders is driving structural shifts in capital allocation. As a result, the trend observed last year an increasing reliance on stretched senior structures and whole loans continues. Mezzanine capital remains rarely available. Accordingly, this report once again examines the full spectrum of alternative financing solutions.

The few providers of mezzanine capital are increasingly smaller credit funds and family offices, primarily active in the small-scale financing segment. While international investors generally express willingness to lend mezzanine capital, the loan-to-value ratios they offer are often insufficient to remain competitive in the German market. Whole loans, by contrast, are becoming established as a credible alternative to traditional bank financing. These trends underscore the need to integrate alternative financing sources flexibly and strategically into the capital structures of real estate projects.

Although the crisis mode of recent years has not yet been fully overcome, there are early signs of positive market momentum: transaction activity is picking up again, and some banks as well as alternative capital providers are showing selective willingness to accept moderate haircuts on senior structures. This brings a sense of cautious optimism. Ultimately, however, much will depend on whether the announced financings and projects are implemented and brought to completion.

Hanno Kowalski
Managing Partner, FAP Group

Kim Jana Hesse
Senior Vice President, FAP Group

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Arrived in the New Reality

Our forecast from the previous report has proven accurate: the interest rate peak of 2023/2024 has been overcome. The first interest rate reduction by the European Central Bank (ECB) in 2024, were followed by further downward adjustments. Nevertheless, no noticeable reduction in the terms offered by alternative lenders has been observed so far. Financing costs remain at a high level.

By now, almost all market participants have adapted to the “new reality.” Overly optimistic exit assumptions, which were still common last year, are now rarely part of well-founded financial models. Even so, financing remains challenging for many projects, particularly where land was acquired at record prices during the boom years.

Until recently, banks have shown little willingness to compromise on deferrals or reductions of existing claims. Currently, however, a slight shift in sentiment can be observed: some capital providers are

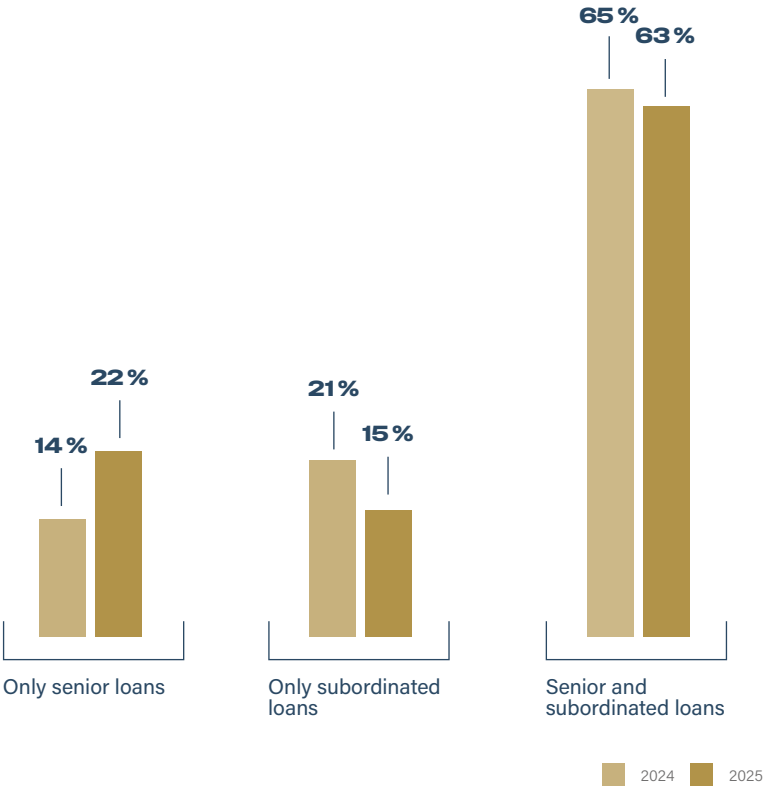
now accepting haircuts, an important step that facilitates refinancing and the continuation of projects. This development, combined with long processing times and the continued restraint of traditional banks, continues to work to the advantage of alternative lenders, especially in the segment of senior secured financings.

In contrast, new subordinated loans have become a rare feature of current financing structures. On one hand, there are fewer providers willing to offer this higher-risk form of capital; on the other, mezzanine capital has become so expensive – driven by higher return expectations – that it is no longer economically viable for many projects.

Alternative lenders continue to report a high number of financing requests. However, project implementation often faces significant delays. In many cases, realization fails due to unresolved prerequisites on the borrower’s side or project-specific delays.

Despite these challenges, lenders overall show a slightly improved sentiment compared to the previous year, particularly among whole-loan providers, even though a broad market recovery is not yet in sight. Compared with last year, there has once again been an increase in market participants focusing primarily on senior secured financings. While many still indicate that they offer both senior and junior loans, in practice a clear focus on senior lending can be observed. Wherever possible, whole loans are being structured reflecting a clear trend toward simpler, lower-risk financing models.

Across asset classes, interest in hotels has increased noticeably once again. They are becoming more attractive, particularly in established locations with convincing operator concepts. By contrast, the previous hype surrounding life science properties and data centers has subsided. A closer analysis reveals that the realization of such projects often involves considerable regulatory, infrastructural, and operational challenges.



Capital Is Available – Credit Funds Seize Opportunities

Compared to the previous year, construction costs have stabilized, but consolidation among project developers continues. The ongoing wave of insolvencies indicates that additional market participants are likely to come under pressure. At the same time, banks remain cautious toward mezzanine capital, and new financing in this segment is hardly being observed.

While international capital providers are showing openness to mezzanine solutions, suitable projects with sufficiently large financing volumes are often lacking.

The year 2024 was still characterized by a clear reluctance to engage in transactions. In the meantime, a cautious revival is emerging: initial transactions are once again under review, and valuers are showing greater optimism as new deals can provide the urgently needed comparables. Nevertheless, projects continue to require significant time to implement.

The temporary sense of optimism that was felt in early 2025 has been dampened again; only a few projects could be realized. In many cases, this was due less to a lack of capital and more to seemingly minor issues as well as operational or structural hurdles.

It is notable that whole-loan financing is generally available and increasingly so for large-scale projects. International lenders are also gaining further market relevance.

Regulatory requirements, particularly the final implementation of Basel III standards and the associated capital requirements, are tightening conditions for traditional bank loans. This benefits alternative lenders. Their terms are converging with those of banks, making them even more attractive. So-called “back leverage” solutions are also enhancing the competitiveness of credit funds. International funds are using these structures to refinance their own positions through banks.

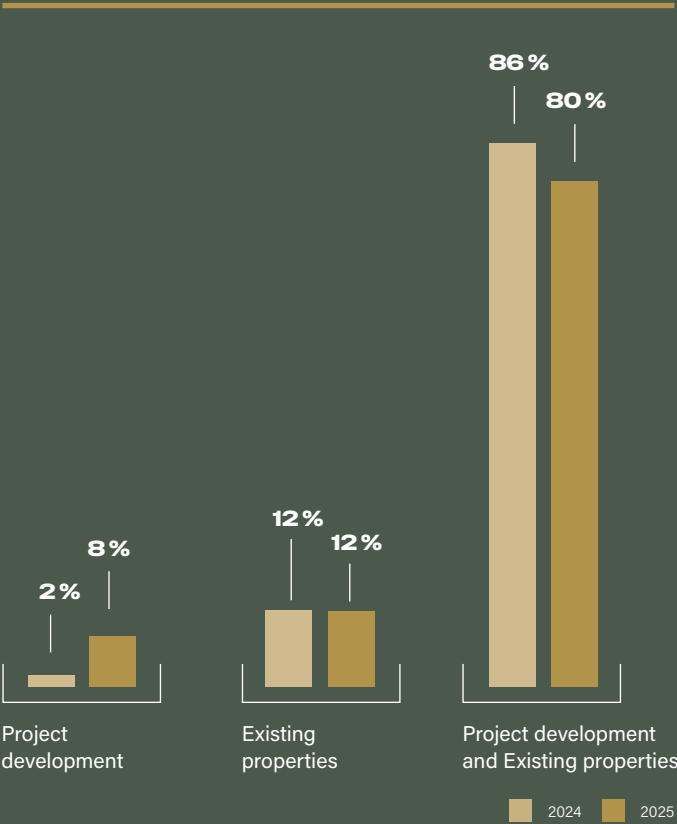
In the current year, there is a noticeable increase in the launch of new credit funds, both domestically and internationally. First movers are bringing fresh products to market to take advantage of opportunities in the current financing environment. At the same time, institutional investors are once again showing a willingness to invest in the asset class real estate, particularly through fund structures.

Growing Willingness for Project Financing

A clear trend can be observed in 2025: an increasing number of lenders are once again signaling their willingness to actively support project developments. After almost no one was willing to invest in the early stages of developments in the previous year, the first funds are now emerging that specialize exclusively in this segment and are actively seeking suitable development projects.

A key driver behind this trend is the increased flexibility in restructuring earlier financings. Lenders who supported land acquisitions in previous years are now showing openness to so-called “haircuts.” This willingness creates room for new structures and makes it possible to finance projects in a marketable way again.

Despite these new impulses, many alternative lenders still clearly prefer existing properties with ongoing cash flow. However, it is becoming increasingly apparent in practice that such assets often fail to deliver the required target returns particularly in the current interest rate environment.

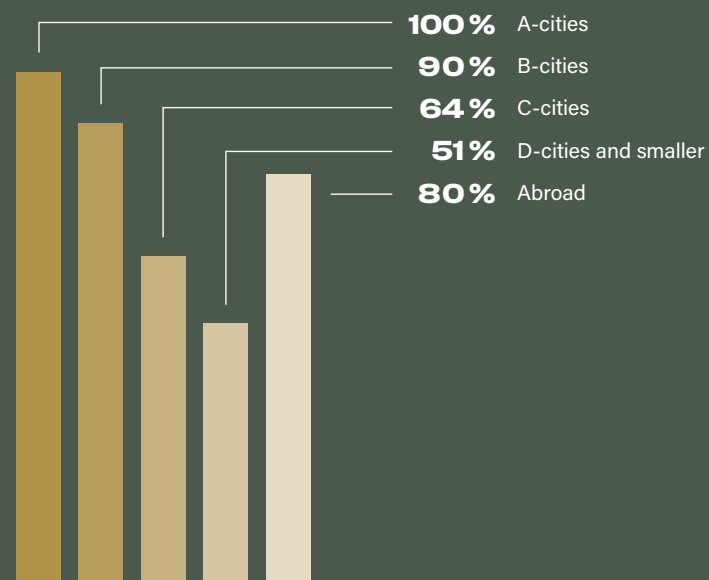


Focus on Top 7 – Opportunities in C-Cities

Germany's A-cities, or the Top 7 locations, remain firmly in the focus of many market participants. International investors continue to favor metropolitan areas with cross-border recognition, as these are perceived to mitigate risks and ensure investor acceptance.

At the same time, the number of German alternative lenders active abroad is increasing. Many European real estate markets are recovering significantly faster from the current market situation than Germany's. The focus is clearly on Western Europe and the Nordic countries. In Central and Eastern Europe, however, many lenders remain cautious due to geopolitical uncertainties and economic risks.

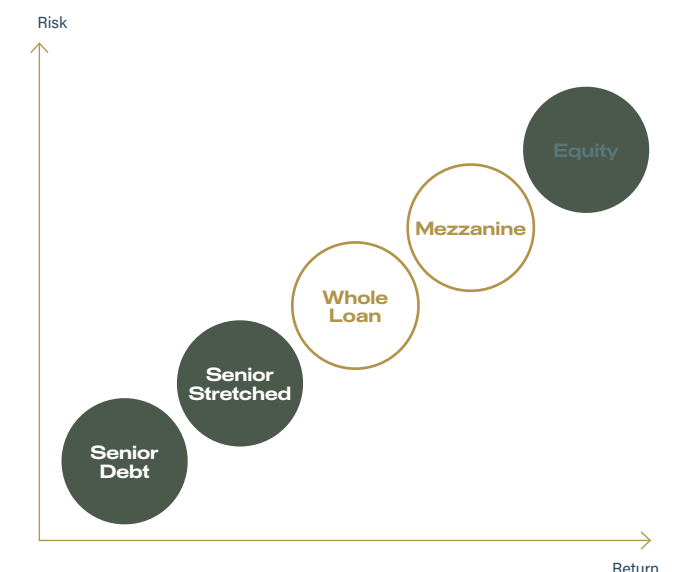
Another notable market observation concerns the availability of suitable projects: while attractive opportunities are often scarce in A and B cities, the supply in C and D locations is increasing markedly. These projects are not necessarily of lower quality. In fact, they are often driven by smaller, locally rooted developers and property owners with a high level of market expertise. Many of these players have successfully navigated recent crises and stand out for their solid business models.



Valuation as a Key Lever

It appears that the decline in financing ratios has bottomed out. Compared to the previous year, no further decreases have been observed. Instead, the discussion is increasingly shifting toward valuation standards. Lenders are applying different approaches: some focus on Loan-to-Value (LTV), others on Loan-to-Cost (LTC) or Loan-to-Gross Development Value (LTGDV) each calculated either in- or excluding financing costs.

As market values have fallen, many lenders are adopting a more conservative stance. With the same financing ratio, the overall financing volume decreases because the underlying market value is lower. While the LTV ratio itself remains unchanged, the market value adjustment effectively tightens lending conditions and reduces the available capital.



Hotels in the Fast Lane – Data Centers Lose Momentum

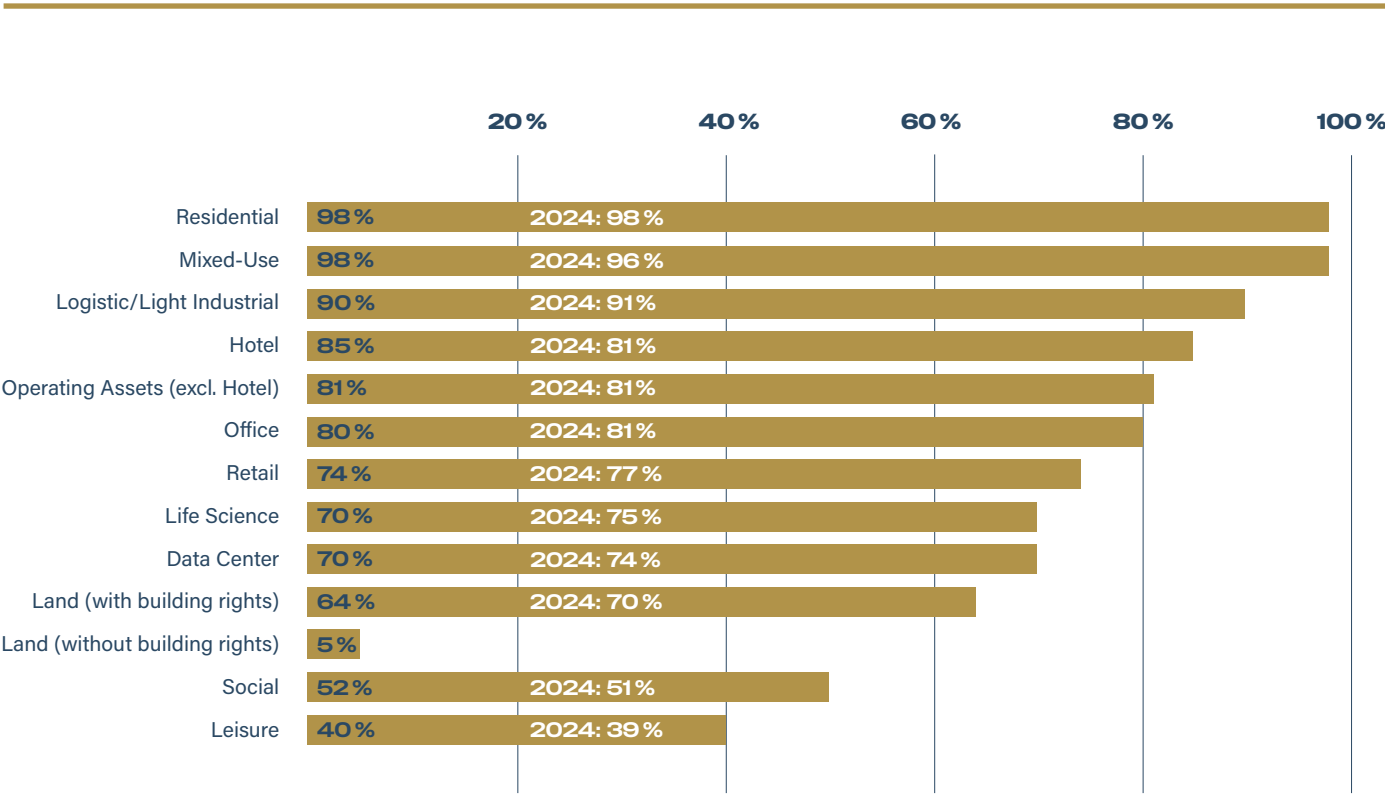
Clear preferences are emerging among asset classes. Residential properties and mixed-use concepts remain in high demand among all market participants, as both segments are considered relatively stable and low risk.

A particularly notable development can be seen in the hotel sector: hotel properties have gained significant popularity over the course of the year. Once viable operator structures and clearly defined usage concepts are in place, many lenders are willing to finance such projects.

In contrast, the initial enthusiasm for life science properties and data centers has noticeably faded. Financing appetite is declining, not because the practical realization of these projects often proves more

complex than expected. Challenges related to permits, site selection, and technical infrastructure are prompting many capital providers to act more cautiously.

In addition, many lenders are once again drawing sharper distinctions between plots with and without building rights. Land with secured planning permission remains generally financeable, but under conservative terms. However, the willingness to finance undeveloped land without building rights has almost completely evaporated, few are currently prepared to take that level of risk.

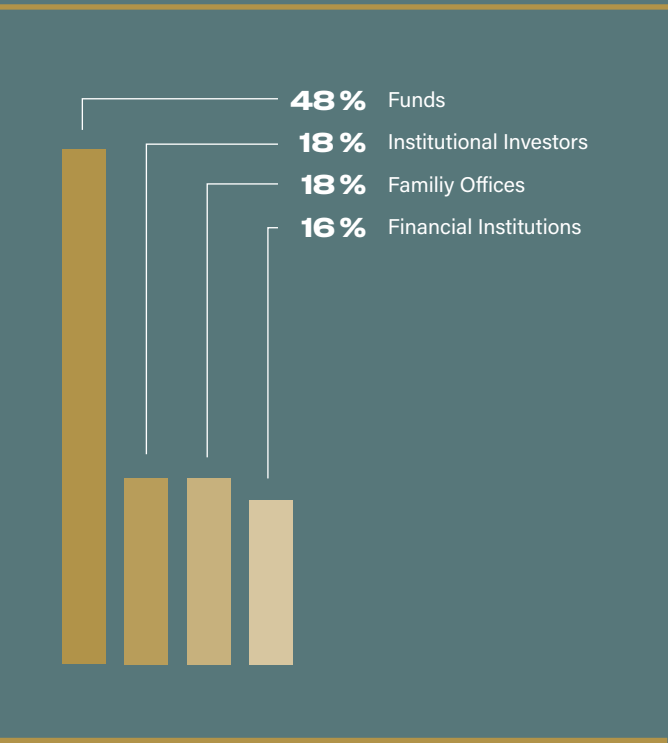


Institutional Investors Cautiously Returning

Over the past two years, we have observed a decline in the number of institutional investors active in the subordinated debt segment. Even now, the majority of institutional investors remain cautious in this area. However, this year marks the first signs of a cautious increase in the share of institutionals becoming active again. These investors are primarily engaged in the whole-loan segment and are signaling renewed interest in participating in financing structures.

Another notable development concerns the origin of capital. Family offices continue to play a role as capital providers, but they are currently contributing equity rather than mezzanine capital, and mostly in smaller volumes. In contrast, the capital backing international funds active in the German market increasingly stems from large international private equity funds.

In previous years, a few banks were still selectively active in the subordinated financing segment. At present, however, the presence of traditional banks in this area has now almost disappeared.



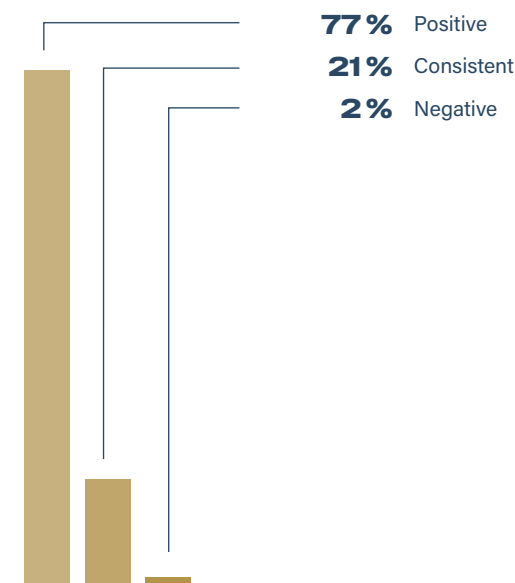


Whole Loans with Tailwind

The sentiment in the whole-loan market continues to brighten. Currently, 77% of market participants have a positive outlook, fueled by the ongoing restraint of banks. This creates opportunities for alternative lenders, particularly in the whole loan financing segment.

The gradual market revival itself is also seen as a positive signal. Compared to banks, whole loans often offer higher loan-to-value ratios, making them an attractive financing alternative, especially for complex or large-volume transactions.

After a positive first quarter in 2025, sentiment softened slightly in the second quarter as many anticipated transactions initially did not materialize. However, new opportunities are now emerging: initial haircuts and debt write-offs are becoming visible, indicating that the market is recalibrating. This could open attractive entry points for alternative capital providers.



Full Report

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FAP Group GmbH
Lietzenburger Straße 51
10789 Berlin

T +49 30 844 159 49-0
E contact@fap-group.com

www.fap-group.com

Redaktion

Feldhoff & Cie. GmbH |
Frankfurt am Main

Design

APPEL NOWITZKI GmbH |
Frankfurt am Main

Druck

Braun & Sohn Druckerei
GmbH & Co. KG
Maintal
*Auf FSC-zertifiziertem Papier
(Mix Credit SCS-COC-000929)
gedruckt.*

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