Our experience has shown that a transparent market is a stable market. Our Mezzanine Report offers you an insight into the extremely active segment of subordinate financing for the German real estate market, which can now be considered an asset class in its own right.

For a long time, there was a sense that interest rate expectations and security guidelines were pushed through in something of an agricultural manner wherever possible. The last two years in particular, however, have shown a clear trend towards somewhat more consistency and professionalism in capital provision. And since all market participants anticipate continued growth in subordinate financing, we would like to take the opportunity to familiarise you with current market activity in the „asset class of subordinate capital“ over the following pages. Certain comments have been highlighted to draw your attention to particular aspects of the report.

Jörg Scheidler
Managing Director FAP & Head of Capital Partners

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CURRENT **MARKET ENVIRONMENT**

Alternative forms of financing are enjoying a significant increase in market share both throughout Europe and in the USA. Explanations for this global trend include falling lending ratios (average LTV of 53% in Europe according to DTZ report on 30.06.2015) and rising capital requirements.

The „safe haven of German real estate“ plays a quite unique role here, however.

We, too, are currently seeing investors suffering from the challenges of the low interest rate environment.

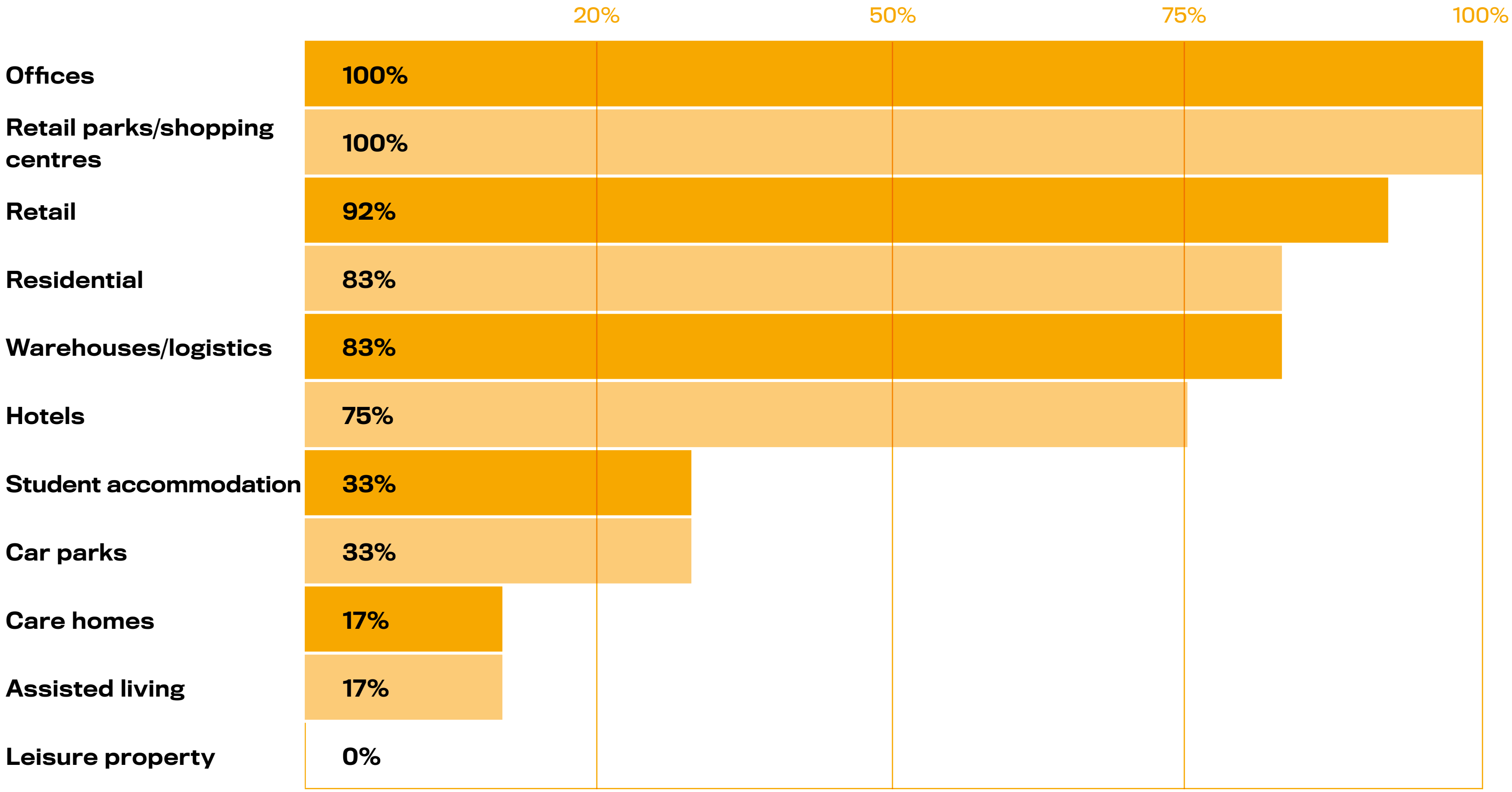
Developers and portfolio holders are also having to contend with increased capital requirements when seeking financing.

Nevertheless, in stark contrast with the global market, the once again well-structured German banking landscape, with its own unique guidelines and regulatory requirements, still provides little scope for a larger and well-collateralised mezzanine segment.

This requires a much more entrepreneurial approach, extensive professional expertise and an extremely co-operative process structure from all market participants when it comes to implementing subordinated capital in German real estate projects.

SECTOR **COVERAGE**

Almost all property sectors are covered. Only leisure property currently falls outside the scope of subordinated capital providers, with limited exceptions. The distribution of providers illustrates a clear focus on the preferred sectors for debt financing: offices, shopping centres, retail and residential.

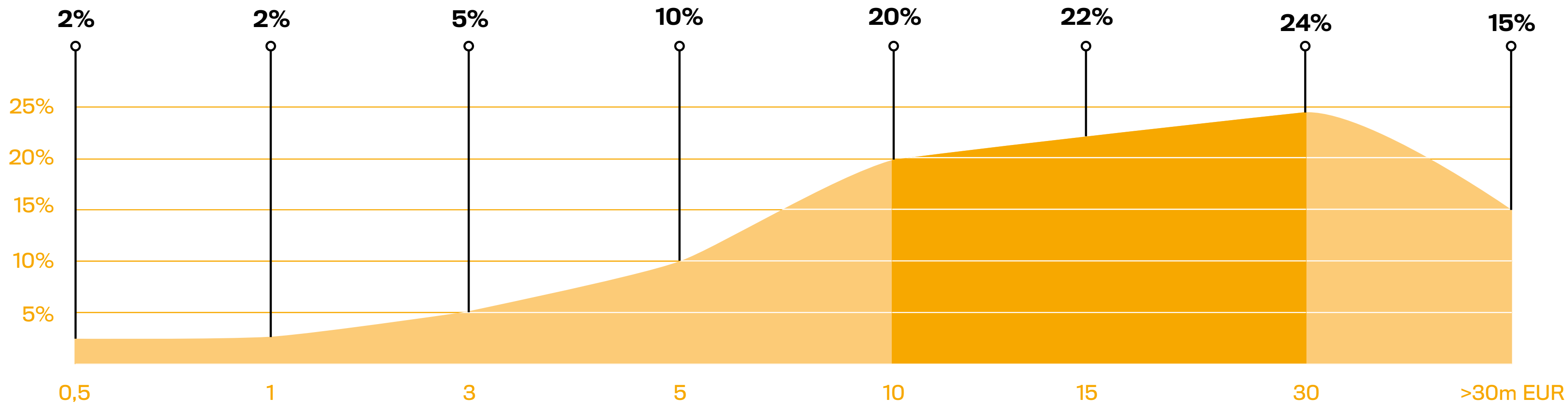


CAPITAL TRANCHES

In subordinate financing on existing property, 66% of providers focus on capital volumes of EUR 10 to 30m.

Many providers, particularly international operators, offer maximum potential capital tranches significantly above EUR 30m.

> The average minimum tranche from international capital providers (EUR 10m per deal) makes it difficult for these to access the German market.



LOAN-TO-VALUE RATIOS

85% of market value is viewed by the majority of subordinated capital providers as an appropriate maximum loan-to-value (LTV) ratio. More risk-prone exceptions allow LTVs up to 95%.

15% of the market value must, therefore, be contributed as equity by the project initiator.

> Some 58% of capital providers for existing property are also in a position to offer financing from a single source (whole-loan solutions)

MATURITIES AND INTEREST RATE EXPECTATIONS

All subordinated capital providers are individually prepared to offer maturities from 12 to over 48 months.

At the same time, ongoing interest rate expectations range from 5% to 11% with a consensus expectation of 8% p.a.

Stated overall interest rate expectations reflect IRRs from 7% to more than 15%, with an average IRR of 10.6%.

INTEREST RATE EXPECTATIONS VERSUS ACHIEVED IRR

Actual IRRs generally range from 10-12% and largely meet the expectations of the capital providers.