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

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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 Crowdinvesting, 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.