In the 4th edition of the FAP Mezzanine Report in front of you, we provide further transparency on the rapidly growing market segment for subordinate financing. This year's report reflects the views of 59 of the 136 capital providers active in the segment. These market participants alone have provided EUR 3.9bn of mezzanine capital over the last twelve months and the total for 2018 is expected to reached up to EUR 6 billion!

It remains the case this year that capital is seeking the right investment. Successfully matching borrowers and capital providers remains the central challenge.

The market for subordinate financing has now grown into an independent asset class of significant size and recognition throughout the real estate sector and will remain a fascinating and highly competitive segment going forward. Institutional capital providers are surging into the market while family offices and crowd capital are increasingly important players. With increasing capital inflows, falling returns and growing flexibility in financing structures, the market is evolving.

"Mezzanine" has now established itself as an independent investment asset class in a changing financing market. This is underlined, besides the consistently increasing volumes, by demand from capital providers for our real estate debt investment platform "FAP Invest". In addition to offering deal-by-deal investments in debt, the platform also advises capital providers via separate account structures.

The FAP Mezzanine Fund launched this year represents the third pillar of investment in debt, offering an approach that fills a crucial gap in financing for defensive mezzanine strategies in the investment and real estate development segments. Hence, FAP Group offers both borrowers and capital providers a unique platform that we will continue to expand.

The trend in the mezzanine segment in 2018 is: more capital, more risk, more optimism!

Curth-C. Flatow
Managing Partner

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DATA AND **INSTITUTIONS**

There were around 136 active participants in the market during the reporting period, representing a modest decline year on year. The decrease of approx. 7% is attributable, on the one hand, to the withdrawal of some small providers from the segment owing to low market penetration and capacity and, on the other hand, to the fact that some institutional providers are now investing capital in the asset class via corresponding funds rather than directly.

Information from 44% of capital providers was evaluated for this report. However, their composition is somewhat different from last year, which impacts the comparability of some findings. Besides the disappearance of some capital providers, there are also newcomers to the German mezzanine capital market. These are primarily international funds with extensive experience that are now shifting their focus specifically to the German market via dedicated business units.

“Institutional investors” include insurance companies, pension funds and pension schemes. “Financial institutions” comprise crowdfunding platforms, private banks and investment companies.