In this, the fifth edition of the FAP Mezzanine Report, we once again present the current trends in the rapidly maturing market segment for subordinate financing. This year's report reflects the views of 53 of the 146 capital providers active in the segment. These market participants alone have provided EUR 5.8bn of mezzanine capital over the last twelve months, which has been used to complete a development volume of EUR 38bn.

The market for subordinate financing has now established itself as an independent asset class of significant size in the real estate sector. Overall, the market is becoming more dynamic. In light of interest rates and the associated pressure on margins, the segment is also becoming increasingly competitive, albeit market participants are becoming more cautious and discerning when it comes to deals.

Institutional capital providers and international operators are pouring into the market and family offices and crowd capital players expanding their positions. While the market is rapidly evolving, successfully closing a deal requires significant willingness to compromise. Trust is once again becoming a central criterion of a financing partnership.

Mezzanine capital has now taken on a vital function for real estate projects. It has become an integral and regular feature of financing deals. Besides the stable volumes, this is also evidenced by demand from capital providers for our real estate debt investment platform, which offers both deal-by-deal investments and separate account structures.

With our FAP Mezzanine Fund, launched last year, we have been able to fill a crucial gap in financing for defensive mezzanine strategies in the investment and real estate development segments. Thus, FAP offers both borrowers and capital providers a unique platform providing real estate investors with a structured route to various sources of capital and facilitating deals!

The trend in the mezzanine segment in 2019 is: more cautious players, fewer deals, bigger tickets, lower margins, longer maturities, more flexibility and willingness to compromise!

Curth-C. Flatow
Managing Partner

FAP MEZZANINE REPORT

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THE **MEZZANINE MARKET** IS PROVING **AGILE** AND **STABLE**

This year, too, capital has been available via a wide range of facets and individual structuring.

The participants in this report alone have provided mezzanine capital totalling EUR 5.8bn for financing existing property and developments over the last twelve months, which has been used to complete a development volume of EUR 38bn.

We have witnessed intensive activity in terms of verifying financing projects. It has become significantly more challenging for capital providers to find suitable deals for their specific risk/return profiles.

Overall, the number of deals has fallen while the average volume of financing has increased. Although growth expectations have not been entirely fulfilled, on the whole the market has stabilised at a high level.

The number of market participants continues to rise. Foreign institutions from Asia in particular are seeking direct access to the German market for whole-loan and mezzanine financing. Positive premiums on currency hedging and a secure national economy in international comparison are making debt investments in Germany increasingly attractive. German institutions, on the other hand, are more frequently choosing the indirect route via subscriptions to fund products.

DATA AND INSTITUTIONS

The number of market participants active in the segment during the reporting period shows an increase from 136 last year, according to our observations, to a current total of 146. At the same time, certain participants have exited the market.

Notable players here include investors from the United Kingdom and elsewhere whose business models were no longer compatible with conditions (risk profile vs. margin expectations) in the German financing market. The resulting voids have been filled primarily by institutional providers and funds, stronger involvement from crowdfunding platforms, for example, as well as an increasing presence of international providers, particularly from Asia. In view of sustained low interest rate policies in their domestic markets and positive changes in currency hedging, such investors are increasingly exploiting the opportunities in continental European markets.