

PRESS RELEASE

## **FAP Mezzanine Report 2021**

### **The market for subordinated financing is changing: more debt funds, larger tickets and clear professionalisation**

Berlin, 19 October 2021 – The market for subordinated financing in the real estate industry is changing. Loan funds are playing an ever-greater role and volumes per transaction are getting much bigger. At the same time, the absolute number of transactions is falling. Demand for mezzanine capital is growing, but it is mostly well prepared and solidly structured financing with an appropriate collateral concept that is being implemented. In addition, many finance providers have deliberately moved away from direct lending and traditional mezzanine loans in recent months, particularly because mezzanine lending has become too expensive. These are the key findings of the seventh Mezzanine Report by the FAP Group, a leading independent advisory company that specialises in raising and structuring capital for real estate investments and project developments in Germany.

FAP counts 155 active subordinated finance providers in Germany – exactly as many as last year. 55 took part in the survey for the 2021 Mezzanine Report and provided EUR 6.1 billion of mezzanine capital in the reporting period (previous year: EUR 6.9 billion), with which a project volume of over EUR 36 billion was realised. Given the 20 percent decline in the lending volume among senior finance providers, this is another strong result. Mezzanine capital is an essential part of many project developments as well as existing real estate finance.

“Subordinated finance providers were mostly able to fill the gap left by the reticence of the banks and also jumped in when the banks offered loan-to-value ratios that were too low. Bridge financing for project developments until the granting of construction permits was particularly sought-after in the survey period,” says Hanno Kowalski, Managing Partner of FAP Invest.

#### **Growing ticket sizes**

Overall, it is apparent that, following a brief period of restraint at the start of the coronavirus pandemic in the second quarter of 2020, lending had normalised again by the fourth quarter of 2020. Ticket sizes increased considerably year on year.

“The absolute number of transactions declined in the past 12 months, while the average loan amount continued to climb. With growing ticket sizes and an increasing number of debt funds, the market for subordinated finance providers is professionalising,” explains Kim Jana Hesse, Head of Capital Partners at FAP Finance.

### **Existing properties instead of project developments**

The proportion of finance providers concentrating exclusively on existing properties when providing mezzanine loans has increased considerably, by more than 16 percentage points, from 2 percent in the previous year to 18.6 percent. This is being driven in particular by institutional lenders, which distance themselves from project development financing because of risk considerations.

The average internal rate of return (IRR) on existing real estate finance is 9.75 percent this year, only slightly below the previous year's level. The wide range of returns on mezzanine capital, at 6 to 15 percent, also remains similar to that of the previous year (5 to 18 percent). In the case of project developments, by contrast, that range has narrowed considerably, from 7 to 20 percent in the previous year to just 10 to 14 percent now. The average return is nearly 12 percent (previous year: 11 percent).

### **Optimism returns**

While in the last Mezzanine Report nearly 60 percent of survey respondents expected the market to decline, this year 77 percent of those surveyed are feeling positive again.

Hanno Kowalski: "Anglo-Saxon investors in particular still hope to re-establish themselves on the German market. They want to invest in less popular asset classes such as retail and hotels or even take on NPLs that they expect in 2022."

The FAP Mezzanine Report also reveals another thing: demand for whole-loan solutions is growing. More and more providers are appreciating the advantages of the lack of coordination between senior and junior lenders and see whole-loan solutions as a good alternative to the conventional 'senior plus mezzanine' financing structure.

[Click here](#) to request the entire FAP Mezzanine Report.

### **About FAP**

The FAP Group is an independent advisory company that specialises in raising and structuring capital for real estate investments and project developments. The Group comprises FAP Invest, a leading real estate investment platform for institutional investors with a focus on debt products, and FAP Finance, which provides advice on capital and financing issues. FAP structures conventional debt finance as well as mezzanine, equity and capital market products. These services secure the overall financing from debt capital and – if necessary – equity substitutes. FAP, headquartered in Berlin, was founded in 2005 by Curth-C. Flatow. The group has since advised and structured capital with a volume of over EUR 16 billion.



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