*Press release*

# Experts expect inflows into the real estate debt asset class

- Withdrawal of banks opens up opportunities for real estate loan funds
- Focus on whole-loan structures in particular
- Yields have risen significantly compared to the low-interest phase
- Real estate debt is treated more favorably than equity investments from a regulatory perspective

**Hamburg / Stuttgart, September 17, 2024** - There has been hardly any activity in the real estate private debt segment over the past two years. The uncertainty on the real estate market was too great. By 2025 at the latest, however, there will be more new real estate loan funds again and more money will flow into the asset class from institutional investors. The market is already showing signs of recovery. The structures have changed: mezzanine capital hardly plays a role anymore, whereas the focus is now on whole loans. Yields are once again significantly higher than during the low-interest phase.

These are the key findings of today's online press conference **"Real Estate Private Debt: Does the asset class need to itself after the interest rate turnaround?"**, in which **Uwe Janz**, Head of Treasury & Private Debt at INTREAL, **Manuel Köppel**, Managing Director of BF.capital, and **Pascal Scheeff**, Managing Director Institutional Sales at BF.capital, took part.

**Withdrawal of banks brings opportunities for real estate private debt**

Uwe Janz from INTREAL first defines the term: "Private debt is the provision of debt capital by non-banks and without involving the capital market - hence private." Janz is optimistic about the real estate private debt segment: "Banks are continuing to withdraw. Real estate private debt can partially  the gap. This is one of the reasons why we expect increasing inflows of funds into the segment in 2024. Figures from INREV also support this expectation: in the Investment Intentions Survey 2023, almost 80 percent of investors stated that they wanted to invest their real estate private debt in the future. estate debt allocation. Debt was therefore the segment that INREV expects to grow the most among all real estate investments."

Janz expects a significant refinancing gap for maturing commercial real estate loans in Europe in the coming years: "The law firm Macfarlanes puts the volume of maturing commercial real estate loans at EUR 150 billion for 2025 alone. According to a study by CBRE, almost EUR 40 billion of this is considered to be at risk of refinancing. According to the study, there will be a refinancing gap in Europe of EUR 176 billion between 2024 and 2027.

euros. This  a potential opportunity for alternative lenders - including credit funds - to offer restructuring solutions to institutional clients." Janz also expects an increase in non-performing loans (NPLs) at banks.

**Institutional investors have room to maneuver again**

Manuel Köppel from BF.capital estimates the proportion of real estate debt in German institutional portfolios to around 1.0 percent. There has been hardly any movement in real estate debt exposure over the past two years. At most, there have been passive changes - for example through loan repayments or
Devaluations. Köppel continues: "We are currently seeing that institutional investors have more leeway again. Both interest rates and property prices have stabilized, which means they can calculate more securely again. We are currently in the fund-raising phase for our new Real Estate Debt Fund. We want to be one of the first to return to the market after the crisis."

**Yields on real estate debt increased**

Pascal Scheeff from BF.capital adds: "The debt segment has undergone changes compared to the time before the interest rate turnaround. Mezzanine structures now only play a subordinate role. Both investors and fund providers currently  whole loan strategies in particular as attractive. However, mezzanine will make a comeback in the future once the market has recovered further."

What returns are currently possible with real estate debt? Scheeff: "As in all segments of the real estate market, yields have also risen in the debt sector. With real estate debt, 6.5 to 8.5 percent gross IRR (internal rate of return) is currently possible."

**Real estate debt receives favorable regulatory treatment**

In addition to the return, which is higher than that of equity investments, real estate debt also offers regulatory advantages. Scheeff explains: "The regulation of insurance companies (Solvency) and the regulation of banks (CRR 3) impose lower capital requirements on investors compared to equity funds. This makes real estate debt attractive, as investors have to use less of their scarce equity. The Investment Regulation, which applies to the majority of institutional investors, also deals with real estate debt
advantageous. "Investments are not included in the - often already full - real estate quota, but in the AI quota (no. 17)."

Where and how is real estate debt  in practice? "The capital is used for
Acquisition financing, project developments with secured but developable land

construction law, value-add properties, conversions, refurbishments, bridge financing or to finance ESG optimizations on the property. In other words, they tend to finance special situations rather than the classic long-term portfolio phase of a property," says Scheeff.

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**About BF.capital GmbH**

BF.capital is an investment manager for institutional investors. To date, BF.capital has offered them access to the real estate debt asset class via individual fund solutions. W&W Asset Management GmbH has held a 35% stake in BF.capital since October 2023. In the future, the asset class profile will be expanded to include other components of the private debt segment such as infrastructure and corporate debt.

BF.capital's previous funds are real estate debt direct lending vehicles. They invest in whole-loan and mezzanine loans, which are primarily used to support the value creation phases of the property. The regional focus here is on German A-locations (metropolitan regions in each case).

**About INTREAL**

As a service KVG, INTREAL focuses exclusively on the launch and administration of regulated real estate funds for third parties in accordance with the KAGB. About the platform, all the possibilities of a real estate KVG can be used without having to set one up yourself. This means that both open and closed-end real estate funds and real asset funds can be set up or the back office of KVGs can be outsourced to INTREAL.

become. With 528 employees, the INTREAL Group offers many years of real estate expertise as well as detailed and highly professional fund administration knowledge.

The company is represented in Luxembourg, Europe's largest fund location, via its subsidiary INTREAL Luxembourg. INTREAL Luxembourg is an independent AIFM and central manager for Luxembourg real estate funds and other real asset classes such as
infrastructure or private debt for German and international clients.

INTREAL makes its extensive fund experience in the area of real assets available to the market via its subsidiaries INTREAL Solutions and REAX Advisory as part of best practice consulting. While INTREAL Solutions
REAX Advisory acts as a management consultancy and provides support in making processes and structures more efficient, reducing costs, managing risks and developing and implementing ESG strategies.

INTREAL manages 308 funds via a large number of external fund partners with a total investment volume of around EUR 66.1 billion (all figures as at the end of Q2/2024).