



# steinberg

real estate + finance

**Case Study:** Financing of an Alternative  
Investment Fund (AIF)  
(for the borrower)

# Initial Situation

- ❖ The investors of a special real estate fund (AIF), which invests in residential and retail properties throughout Germany, wanted to finance the fund with borrowed capital in order to increase the return on the capital employed and free up equity for further investments. The AIF had already purchased properties with a value of around EUR 1.5 billion over several years.
- ❖ When the mandate was taken over, the AIF had already been financed with approx. EUR 300 million (LTV: approx. 20%) at more than 30 different banks. Further real estate loans of approx. EUR 75 million had already been concluded but not yet disbursed.
- ❖ The objective of the institutional investors was to achieve the disbursement of the already concluded loans in a timely manner. In addition, the entire fund was to be funded with additional bank financing of approx. EUR 300 million within six to nine months in order to achieve an LTV (loan-to-value) of 45 % (approx. EUR 675 million).

# Strategy

So the challenge was,

- ❖ to arrange for the disbursement of the completed loans at short notice in order to avoid commitment interest,
- ❖ to review existing financing with regard to risk-relevant aspects on the part of the borrower,
- ❖ to achieve the best possible economic result for the investment fund in negotiating new loans,
- ❖ to protect the regulatory framework, risk-relevant aspects and the legal interests of the investment fund, the Alternative Investment Fund Manager (AIFM) and the investor,
- ❖ to avoid the future incurrence of commitment interest through precise planning (especially when purchasing project developments as part of forward deals),
- ❖ to make the invitation to tender and the conclusion of the financing transactions transparent and to document them in a comprehensible manner,
- ❖ not to unnecessarily increase the pool of financing banks in order to minimise the administrative burden on the borrower side (monitoring of covenants, annual disclosure of financial circumstances), and
- ❖ to meet the planning horizon of six to nine months.

# Realisation

- ❖ Prioritising the processing of existing loans for which provision interest was imminent or already accrued.
- ❖ Review of loans already concluded with regard to further potential risks for the borrower (e. g. adequate LTV and ICR covenants, reporting obligations, etc.).
- ❖ Re-tendering and renegotiation of already ongoing financing requests in order to document market conformity and make the selection of financiers transparent.
- ❖ Reduction of the risk of the investor and the AIFM company by avoiding cross collateralisation, personal liability and the mixing of properties with different types of use.
- ❖ Avoiding the increase in administrative expenses in the administration of new financing by focusing on banks with which a contractual relationship already existed.
- ❖ Optimisation of interest rates by avoiding external financing intermediaries and thus additional costs.
- ❖ Tendering for new financing at at least five banks and renegotiating the financing terms offered in order to keep interest rates as low as possible, avoid processing fees and reduce the risk of incurring commitment interest.
- ❖ Negotiate the best possible interest conditions by taking account of interest rate developments, either by reducing interest rates (if the reference interest rate falls) or by fixing the interest rates agreed in the Term Sheet (if the reference interest rate rises).
- ❖ Adjustment of the planned loan term to the extent that the AIF will not be exposed to any cluster risk with regard to repayment or, if applicable, refinancing at the end of the loan term.
- ❖ Preparation of a monthly report for each fund segment in order to keep investors and asset managers informed about the progress and conditions of the financing.
- ❖ Negotiation and adjustment of tenant serviceability agreements (Mieterdienbarkeiten) in order to establish the VDP standard and thus the financial viability of the properties.

# Result

- ❖ Short-term fulfilment of the disbursement requirements for concluded loan agreements in the amount of approx. EUR 75 million, for which provision interest threatened or already accrued.
- ❖ Structuring and bundling of the properties to be financed according to regionality, type of use and condition of the property in order to increase their attractiveness as a package for banks.
- ❖ Invitation to tender, negotiation, conclusion and disbursement of financing in the amount of EUR 175 million and thus **increase of the LTV of the investment fund from approx. 20.0% to 36.6% within six months.**
- ❖ Invitation to tender, selection of banks and initial negotiations for further financing in the amount of EUR 125 million. The conclusion and disbursement of these financings in the following three months **increased the LTV to 45 % and thus achieved the planned total financing volume of approximately EUR 675 million.**
- ❖ In addition to the **full financing of the Alternative Investment Fund**, the following was achieved, among other things:
  - ❖ Conclusion of several amendments to loan agreements in order to eliminate the borrower's risks (e. g. banks opting for VAT).
  - ❖ Successful exchange of various collateral properties in order to avoid the occurrence of prepayment penalties in the event of a large-volume portfolio sale.
  - ❖ Preparation of a monthly report for investors and asset managers that is easy to update.
  - ❖ Digitalisation of all loan and collateral agreements.



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