

DRC Capital's new mezzanine debt fund takes loan tally to six

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Mezzanine fund European Real Estate Debt II has made two more loans, both German refinancings.

The fund, which was launched last year by London-based DRC Capital, has now made six investments and raised over £200m in two closings.

ERED II's latest investments are a €6.2m mezzanine facility as part of a circa five-year, term €71.2m refinancing of six German department stores let to the Metro Group's Kaufhof subsidiary. The stores are located mainly in Western Germany, in city centres.

The other is a €37.5m mezzanine loan to Evans Randall as part of a €82.5m, seven-year refinancing of the private equity group's Stuttgart shopping centre Konigsbau Passagen. European insurance group Allianz provided the €45m of senior finance at a fixed rate of 3.5%.

Dale Lattanzio, DRC Capital's managing partner, said the target return for ERED II is over 10% and the firm is seeing a good pipeline of deals. "There are more refinancings coming up in Germany than previously and we are also seeing good deal flow in the UK. Investors who use leverage are back in the market, which is good news.

"The cost of senior debt is a bit lower which is also helping refinancings".

DRC launched its first mezzanine fund in 2009 when the team worked at Duet Group.

It's understood that a third and final closing for ERED II is expected soon with a total target size for the fund of £400m. US pension plans Sacramento County Employees and New Mexico's Public Employees Retirement Association have already invested.

Evans Randall said it was "a core element" of its strategy to take advantage of historically low interest rates for senior debt. "We had an extensive review of the (financing) market and talked to traditional and non-traditional lenders" said head of finance Nick Halpin. "We also had serious interest for the mezzanine finance from three lenders including DRC".

Kent Gardner, Evans Randall's chief executive, said: "There seems to be a bit more mezzanine being used now than previously".

ERED II's first four investments were: a €47m flexible loan to Cornerstone's Nordic Retail Fund; acquisition of a retail loan in Copenhagen; a €20m facility for Victory Advisors to buy the Atrium office building in Amsterdam; and in the UK, £20m of junior debt to Queensgate Investments to fund the acquisition of Executive Offices Group.

Jane Roberts, editor