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High Yield Bonds by German Real Estate Companies

Over the last few years, our finance lawyers have witnessed the increasing convergence / overlap between traditional real estate finance, leveraged finance and debt capital markets products, for example, in the form of high yield bonds.

Although far from replacing traditional forms of financing in the real estate sector, there has been a steady flow of "corporate-style" debt capital markets transactions by real estate companies across Europe, including a small but increasing number of high yield bond offerings, including recent high yield bond offerings by German real estate companies.

The very largest and/or more highly rated real estate companies across Europe, including large, investment-grade rated German real estate companies, have been accessing the debt capital markets for years at very attractive terms. Recent examples of such offerings include the offering of €800,000,000 1.625% Fixed Rate Notes due 2028, at an issue price of 97.179%, by <u>Aroundtown SA</u> (S&P: BBB+) in January 2018 and the offering of €500,000,000 1.500% Fixed Rate Notes due 2028, at an issue price of 99.439%, by <u>Vonovia</u> <u>Finance B.V.</u> (S&P: BBB+) in January 2018. These large, established, investment-grade rated issuers have long been able to regularly access the debt capital markets pursuant to their Euro Medium Term Note (MTN) Programs.

However, access to the debt capital markets is not reserved for just these very large and investment-grade rated real estate companies anymore, as demonstrated by highly successful recent offerings by high-yield or "cross-over" issuers such as the offering of €270,000,000 2.875% Senior Notes due 2022 by DEMIRE Deutsche Mittelstand Real Estate AG (Moody's Ba2; S&P: BB+) in July 2017 (followed by a €130,000,000 tap offering in September 2017) and the offering of €300,000,000 2.00% Senior Notes due 2025 by SUMMIT Germany Limited (Moody's: Ba1/S&P: BBB-) in January 2018. The proceeds of both these (unsecured) note offerings were used to refinance existing (secured and more expensive) indebtedness of certain subsidiaries of the issuers and for general corporate purposes, including the aquisition of additional assets.

The benefits for those eligible companies that do decide to opt for a bond offering include the opportunity to secure long-term financing at (currently low) fixed interest rates and with a bullet maturity, increased operational and financial flexibility through typically less onerous covenants (and no financial maintenance covenants), potential flexibility to issue unsecured and/or subordinated debt (at the HoldCo-level) as well as the opportunity to significantly expand their investor base.

While the European high yield market experiences regular ups and downs, it had a very busy start in 2018, even though high yield bond yields remain near record lows by historical standards and certain bond terms have become progressively more issuer-friendly over the last few years.

For more information generally about high yield bonds, please click on the following link to obtain a PDF copy of the <u>4th European Edition of our High Yield Bonds – An Issuer's</u> <u>Guide</u>. As with earlier editions, the Guide is primarily intended for (first-time) issuers of high yield bonds.

For further information or advice or to request a hard copy of the Guide, please contact <u>Bernd Bohr</u>, <u>Fabian Harwich</u>, <u>Joachim Modlich</u> or your usual contact at Mayer Brown.

Learn more about our <u>High Yield Bonds</u>, <u>Capital Markets</u> and <u>Real Estate</u> practices.



Bernd Bohr Partner, London E: bbohr@mayerbrown.com T: +44 20 3130 3640



Dr. Fabian Hartwich, LLM Partner, Frankfurt E: fhartwich@mayerbrown.com T: +49 69 7941 1115



Dr. Joachim J. Modlich Partner, Düsseldorf E: jmodlich@mayerbrown.com T: +49 211 86224 222

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