CMBS investors to agree Karstadt restructuring-sources

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* Set to agree bond extension/lease changes to protect value

* Agreement will boost Karstadt survival prospects

By Sinead Cruise

LONDON, Feb 23 (Reuters) - Some of the biggest creditors to the landlords of stricken German department store chain Karstadt are set to approve a landmark debt restructuring plan that could make it appealing to a white knight buyer, sources said.

Sources close to the situation said more than 75 percent of noteholders in the 1.2 billion pound Fleet Street 2 Commercial Mortgage Backed Securitisation (CMBS) will agree emergency measures to protect the value of their bonds, boosting Karstadt's survival prospects.

If the plan is agreed as seen, this will be one of the largest CMBS restructurings of its kind.

"The plan is likely to be approved, there's only a slim possibility it could be rejected," one source close to the situation told Reuters.

"Most bondholders have supported this relatively strongly, not because they necessarily thought it was the greatest deal but because the alternative scenario of an insolvency plan failing, and being left with empty properties, caused enough of a scare," the source said.

The bondholders are due to meet in London on Wednesday to vote on proposed amendments to the deal's debt and lease structure after Karstadt's parent company Arcandor AG (AROG.DE) was placed in administration.

If the bonds fall into default, Fleet Street 2 will become the effective landlord of about 45 Karstadt stores, plus about 50 Karstadt car parks, offices and logistics properties across Germany.

The administrator has composed an insolvency plan that includes extending the maturity of the bonds to July 2014, extending legal final maturity to July 2017 and amending the Karstadt master lease, a second source said.

The lease amendments include slicing 38 million pounds off rental payments over five years, closure of four Karstadt stores and a five-year lease extension on most of the remaining assets.

Bondholders have also been asked to relax the 70 percent loan-to-value (LTV) covenant, with new LTV tests set at 90 percent for January 2011, 85 percent for January 2012, 77.5 percent for January 2013, and 75 percent for July 2013 and January 2014.

In exchange, bondholders would receive a margin increase of about 52 basis points, all excess rental payments and assurances that any sale proceeds will be used to repay the notes first before shareholders or the 1.4 billion euro mezzanine facility also secured on the assets.

PLAN B?

Without agreement on the amendments, both sources said the administrator may be forced to liquidate Karstadt, erasing one of Germany's best-known retailers from existence.

A Plan B has been considered, but fears abound there may not be time to vote on and implement a second raft of proposals as the administrator is running out of cash to keep the stores running, threatening the recovery value of all classes of bonds.

If the stores close, efforts to attract a third-party buyer for the group are likely to falter and the chain of Karstadt stores would almost certainly be sold off, the second source said.

Commercial property valuer Cushman & Wakefield has said Fleet Street's portfolio would fetch only about 710 million euros if liquidated.

Liquidation would likely see recoveries only for the Class A noteholders. At the start of February, the Class A notes were rated AA and A, respectively, by S&P and Fitch, while the Class B Notes were rated A and BBB+, the Class C Notes BBB and B+, and the Class D Notes BB and CCC.

"The key issue is not what happens this week but what happens in the next three to four months as Karstadt's insolvency administrator tries to sell Karstadt the business and whether anyone would be willing to buy that business together with the whole portfolio of properties," the first source said.

"It's hard to know who will want all the department stores bearing in mind department stores as a concept has failed in Germany and most of Karstadt's competitors have gone bankrupt," that source said.

Fleet Two's sponsors, the Whitehall Funds and a consortium of RREEF, Pirelli, Generali and Borletti have been working closely with the borrower on restructuring the notes.

Their financial advisor, Cairn Capital, has brought together noteholders representing about 70 percent of the notes' principal amount - 64 percent of the 780 million pounds Class A, 75 percent of the 170 million pounds Class B, 87 percent of the 143.1 million pounds Class C, and 68 percent of the 98.9 million pounds Class D notes.

Lazard is advising the borrower and landlord. The servicer of the notes, Capita, is being advised by Brookland Partners. (Editing by Andrew Macdonald) (See www.reutersrealestate.com for the global service for real estate professionals from Reuters)