Solid plan: liquidation would have led to severe losses for bondholders

PHOTOGRAPH: LOOP_OH

Creditors welcome Kartstadt debt plan

CMBS bondholders approve plan to keep retailer out of liquidation. Lucy Scott reports

THE GOLDMAN SACHS-LED CONSORTIUM that owns properties occupied by insolvent department store operator Karstadt would have breathed a sigh of relief last month as creditors gave their almost-unanimous approval to a debt restructuring plan to rescue the retailer from liquidation.

Last month, the landlords of 96 assets occupied by Karstadt and Quelle – whose parent, Arcandor, filed for insolvency last June – asked bondholders of a €1.2bn (£1bn) commercial mortgage-backed securities (CMBS) vehicle secured against the properties to approve changes to the debt and lease terms over the assets.

The approval has paved the way for the sale of Karstadt. It has also created a more stable tenant, which will allow landlords Goldman Sachs, RREEF, Pirelli, Generali and Borletti more time to sell the properties at a reasonable price.

The plan, which involves one of the largest CMBS restructurings of its kind, includes five-year rent reductions totalling around €38m (£34m), store closures, the extension of the senior loan as well as the extension of the maturity of bonds for three years.

Quelle, which occupies around 3% of the portfolio by rent, is being liquidated.

Chris Hillard, senior adviser at Brookland Partners, which advised the servicer of the loan, Capita, says: "The resolution shows that restructuring large CMBS deals is possible, and borrowers will see this in a positive light". He says this is the first time a European CMBS has been extended beyond its final legal maturity.

It was widely expected by those close to the negotiations that the plan would be accepted. Had the plan been rejected, it could have pushed Karstadt, which filed for insolvency last June, into liquidation.

Creditors were warned that liquidation of Karstadt would have led to the termination of its leases and rental payments, and that a sale of the vacant properties might then only reap around €700m (£627m). This would have resulted in a total loss for equity, mezzanine debt and class B, C and D noteholders.

Karstadt is likely to be sold as a going concern, in which case the property assets could in time be worth more than €1.5bn (£1.3bn). It is thought that Karstadt's administrator is in talks with several prospective buyers.