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No **CMBS** flood, but work to do

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Germany and the UK remain the prime markets for European **CMBS** restructuring, and are likely to throw up about 50 deals with maturity issues this year, according to an adviser.

Transactions below €100m will make up the vast bulk of that, however, and special servicers will look for approval to sell assets in that range rather than attempt the difficult and expensive work of restructuring. That leaves a core of between five and 10 deals of a scale and complexity to justify restructuring.

Already in the works is a proposed two-year loan extension to CENTP 2007-1, a **CMBS** backed by the assets of UK holiday operator **Center Parcs**.

The proposal calls for dividends to stop being paid, for new cash sweeps to help de-leverage the deal (pro rata), and for a 176bp margin increase on all notes. If successfully implemented, a 45bp consent fee would be paid to all classes. In addition, those holding the A1 tranche would get an extra 30bp early bird fee if they vote in favour of the proposal before 4pm on March 29 or 15bp extra if they vote after that date.

The move "increases the likelihood of a successful refinancing", said Kit Evans, an analyst at Chalkhill SF strategy.

An extraordinary resolution of the Class A1 noteholders is required for the proposal to be accepted and this would be binding on all other classes. The A1 holders will meet on April 7 2010.

Since 75% of the A1s have already agreed to vote in favour, "the proposal will almost certainly be accepted," said Evans. He expects the rating agencies to view the proposal as neutral or positive because a maturity extension to October 2013 leaves five years of work-out time before the deal's final legal maturity.

If approved the arrangement will buy time for Center Parcs and its sponsor Blackstone to consider alternatives and Evans believes an IPO is one option under consideration.

Also in the UK, there are developments with **Titan 2007-1 (NHP)** with GVA Grimley appointed as sales agent this week.

The sale process is just one prong of a dual-track approach that will allow noteholders to assess their likely outcomes under a sale or restructuring. One source reckons the preferred option is a consensual deal, with junior creditors taking equity while senior bonds are refinanced.

A consensual deal requires support from 75% of each tranche of a multi-tranche deal and a sale process showing a lower recovery for junior bonds could be the trigger to getting a deal agreed.

Some players reckon that the loan underlying the **Tahiti CMBS** may also need to be extended and ***Brookland Partners*** has been appointed as financial adviser to the servicer, Capita Asset Services.

That deal closed in 2005. The pool was backed by one loan, originated by Citigroup, on 73 hotels acquired from Intercontinental Hotels Group, which retains management. These were all located in the UK with 25% by value being in Central London. The legal final maturity of the rated notes is 2015. The loan matures this year, but can be extended by two years subject to conditions.

Also on the radar is **Ulysses (ELoC 27)**, which securitises the A note of a £545m loan secured on London office building City Point. The sponsor is Beacon Capital.

According to Fitch's new issue report, Beacon Capital and MetLife put about £97m and £38m of equity, respectively, into the transaction. Interest payments in the **CMBS** are fully guaranteed by the European subsidiary of Beacon Fund until October 2010.

The market is trying to guess what Beacon will do after that date, since the building is understood to be under-used already and prestige tenant Macquarie could leave. In a performance report released in December, Fitch stated that the securitised ICR stood at 1.20 times, broadly unchanged since closing. For the whole loan, the ICR is 0.93 times.

The sponsor's interest guarantee has "topped up the difference between net rental income and interest due since closing", but the guarantee terminates if, at any time after January 1 2010, the projected loan ICR exceeds 1.025 times.

From January 2011, the guarantee is subject to a maximum aggregate payment of £5m for the remaining life of the loan. Without an increase in rental income, the loan would default in the event of non-payment under the sponsor guarantee.

A trader pointed out that the building was high-profile and market players therefore assumed that new tenants would be found.

The bonds are fairly illiquid but have changed hands in the past months in the low 80s.