

ANALYSIS

'Herding' the CMBS cats

Brookland founder says: "Noteholders have certainly become more savvy in dealing with restructurings"

CMBS sector sees increased level of success in complex restructurings

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When the property downturn reached its nadir in spring 2009, it seemed like the problems created by giant securitised loans would never be solved.

The £1.5bn of debt secured against Four Seasons Healthcare's property assets had been in default for more than a year, talks on the £1bn Gemini loan extended to Glenn Maud's Propinvest were deadlocked, and default of the £1.4bn of debt secured against Simon Halabi's White Tower portfolio was imminent.

Not all of the problems related to loans in commercial mortgage-backed securities vehicles have been solved. But the market has come a long way. Four Seasons is in the last knockings of a debt extension. Most of the White Tower portfolio has been sold at the top of the recent mini-boom. And several other CMBS loans totalling billions of pounds have now been successfully restructured.

A principal factor behind this increase in resolutions in the CMBS world is the emergence of specialist structured property finance advisory companies.

One such firm, Brookland Partners, which was set up by former Merrill Lynch director Nassar Hussain a year ago, has been at the centre of many of the successful CMBS debt resolutions so far, and is involved in several ongoing high profile transactions (see box).

"I stopped originating new debt for securitisation or buying third party debt at Merrill towards the end of 2006 and sold out of all of my balance sheet positions in early 2007," says Hussain. "I struggled to see the risk/reward trade-off in the terms being offered by our competitors, unless you took the view that you would immedi-



↑ Brookland is advising the servicer on the final stages of the Four Seasons debt restructuring



↑ Nassar Hussain, former Merrill Lynch director set up Brookland Partners

has also changed, and servicers are now taking far more pre-emptive action with borrowers before problems arise."

The result is that on many deals forced sales have been avoided – the sale of Halabi's White Tower portfolio is one of the few large-scale forced sales of assets used to securitise loans. Also, bondholders have seen significant increases in the level of interest they receive in return for granting loan and bond extensions.

Hussain warns that the sector is not yet out of the woods – negotiations on deals such as Gemini, where an interest rate swap has cut the value of the assets by £150m, rumble on, and there are many more deals that fall into this camp. With this in mind, Brookland is now focusing on raising capital to deploy in such situations.

"There are still pension funds and institutional investors out there who see that real estate debt can offer good relative value compared to other asset classes in which they invest," says Hussain. "We're looking at creating vehicles that allow them to do that. These will provide capital to invest in refinancing and create debt that can be traded in new real estate finance programmes, whether it's through the new version of CMBS, debentures, property certificates or liquid loans. This, in turn, should offer a partial solution to the significant refinancing issues facing the markets in the next two to three years."

After Brookland's success on the advisory side, its move into investing will be one to watch.

ately be selling the risk on to third parties. That, and the advisory role played at Merrill in setting up real estate capital market programmes for clients such as Rothschild, Anglo Irish and Capmark, has put us in a good position to advise on the issues facing the market."

Brookland advises borrowers in loan restructuring talks, but one of the firm's main functions to date has been to advise special servicers and bondholders of their options during complex restructuring negotiations.

In 2008 and 2009, a lack of cohesion between bondholders was a prime reason for the failure of debt restructurings. The process of getting bondholders to agree was often described as like "herding cats". Partly, this was a result of an inherent para-

dox in the CMBS structure – senior tranches of bondholders get paid back first when assets are sold, so it is in their interest to push for sales, while it is in the interest of junior bondholders to block foreclosure procedures. But it runs deeper than this.

One reason for the administration of Dunedin's Industrious portfolio in 2008 was that not enough bondholders could be rounded up to vote on a proposal to free up cash to keep the portfolio going, even though the cash was there. Brookland's knowledge of who bondholders are, and of their needs, has helped to move the process along.

"I think noteholders have certainly become more organised and savvy in dealing with restructurings," says Hussain. "The role of primary servicing

HIGH-PROFILE PROBLEM SOLVER

BROOKLAND has been involved in some of the most high-profile debt restructurings of the past few years. It is currently advising the servicer and special servicer on the final stages of the Four Seasons debt restructuring, and has managed to bring together the servicers of two separate CMBS vehicles on the refinancing of a €900m loan

secured against residential property owned by German company GSW – a first for the market. A standout deal was the extension of the £535m loan secured against £1bn of hotels operated by InterContinental. Commenting on this deal, Bank of America Merrill Lynch analysts said: "This level of transparency is not always present in CMBS structures or restructurings."