Bondholders must make choice over Alburn loan options

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Earlier this month, Brookland Partners, the specialist property debt advisory firm, was appointed to advise bondholders in the restructuring of a £184m loan to Irish entrepreneur Noel Smyth's Alburn Real Estate

This marked something of a turnaround. Previously Brookland had been advising Alburn on the best way to resolve the problem of owning a portfolio valued at £134m as security for a £184m loan.

The deal is a microcosm of the issues that still face the property sector. The portfolio of 47 assets across the UK are secondary at best, and little asset management has been undertaken in the last five years.

As well as Brookland, CB Richard Ellis has been brought in to review the property portfolio and assess the strategy put forward by Alburn to increase value. Alburn has outlined three possible solutions to the impasse that surround the loans, which breach loan-to-value (LTV) and income covenants. Under the first, Alburn would seek a new senior loan of £90m at a 65% LTV.

The present commercial mortgage-backed securities (CMBS) structure would be collapsed and the £90m distributed to noteholders. The portfolio would be sold and remaining distributions made by 2016.

Option two is an orderly sale of assets to be completed by 2014. The third option is to "work out" the portfolio over a period to 2016, effectively an extension to legal final maturity of the bonds.

The portfolio would be managed by Alburn until an eventual sale in 2016. Alburn would receive an agreed fixed fee and potential equity once all debt was repaid. Bondholders need to decide whether to stick or twist.

None of the options are particularly palatable. As analysts at Chalkhill Securities say of the proposals: "We don't see the first option being attractive to senior noteholders and more work is required to flesh out the strategy and eventual value recovery to decide between the second and third options."