Highcross real estate fund rides to REC 6 rescue

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Noteholders in the troubled Alburn Real Estate Capital 6 (REC 6) CMBS were discussing whether to accept a tender offer backed by Highcross, a real estate investment fund, this week. This is one of the first CMBS where a third party has put in capital with a view to buying out the whole loan.
REC 6 is expected to default on its April 2011 interest payment date, despite a restructuring in September last year, which allowed the issuer to waive the loan-to-value and interest cover ratio covenants.

A commercial property specialist said that completing the tender offer and collapsing the CMBS structure would allow Highcross to add capital, which was necessary to make the portfolio profitable.

Bank of America Trustees, the trustee of the securitisation, announced a noteholders conference call on Monday at the request of one noteholder. The noteholder asked BofA Trustees to clarify that the call was independent of another meeting for REC 6 noteholders, to be held later that week.

The second meeting, held on Wednesday, was arranged by NM Rothschild, the originator and servicer of the property loan portfolio, along with Brooklands Partners, Lazard, and Deutsche Bank, which are joint dealer managers. This meeting was specifically held to discuss the buyback offer.

"It's a pathfinder transaction," said a London-based CMBS specialist. "We've seen tender offers before, but not many where the aim is to purchase the whole transaction."

Highcross managing director Peter Gubb said: "While we are not a vulture fund, given the current market conditions we are in a strong position to take advantage of any distressed or mis-priced assets."

Alburn is offering to pay 75% for the class 'A' notes, 51% for the class 'B', 33% for the class 'C', 29% for the class 'D', and 16% for the class 'E'. Barclays Capital research calculates that classes 'C', 'D', and 'E' will lose 100% of their principal on base case assumptions. Because the tender offer returns some principal to these noteholders, Barclays considers that subordinated noteholders should take advantage of the offer, whereas the decision is harder for class 'A' and 'B' noteholders.

However, difficulty enforcing the transaction could push senior noteholders towards accepting the tender. The CMBS is a securitisation of the £188m senior loan, but there is also a £12m junior loan secured on the same assets, which was not securitised. Unusually, the holders of the junior loan have voting rights to block enforcement of the transaction, and to replace the special servicer, so enforcement in April could result in deadlock.

The collateral for the loan is 47 UK commercial properties, 74% office, 16% industrial, and 10% retail. Reported senior loan-to-value ratio is 138%, and the whole loan loan-to-value ratio is 147%. Including swap termination costs, the figures become 156% and 165% respectively