

Hands' GRAND plan

One-time private equity pin-up Guy Hands, fresh from losing control of music company EMI, faces another bruising battle with creditors at another of his firm's key investments, **Deutsche Annington Immobilien**.

Deutsche Annington is Germany's largest single owner of apartments with 190,000 units, many of which are let to former German railway workers.

Five months ago Hands' private equity outfit Terra Firma first called in Blackstone, which had also advised it on negotiations with Citigroup at EMI, to help steer it through refinancing options at German Residential Asset Note Distributor **(GRAND)**, the €5.8bn structured finance vehicle backing Deutsche Annington.

GRAND has 31 individual borrowers, representing parts of its parent's portfolio, spread across Germany with a predominance in North Rhine Westphalia.

The notes against them do not mature until July 2013 and GRAND's own set of seven CMBS notes, consisting of various parts of the underlying 31 borrowers' paper, matures three years after that. However, given the scarcity of real estate debt, Terra Firma has been keen to kick-start the process early.

Part of the problem is that five large German real estate structures, alongside GRAND, are due to mature in the third quarter of 2013, worth nearly €8bn in aggregate. This will mean that these borrowers are likely to compete to "secure a potentially limited supply of debt" ahead of that date, said one source.

No formal valuation has been made of the underlying portfolio since March 2006, but Moody's last year estimated the loan-to-value ratio at 88.2%.

Rather than address noteholders en masse, Deutsche Annington, with advice from Blackstone, has chosen to open discussions with a select group. This upset other noteholders excluded from these confidential discussions and prompted servicer Capita to call an open meeting, held last week.

Some had expressed concern "about the lack of clarity and potential conflicts in relation to the process being undertaken by the sponsor to date", Capita, which met Blackstone on April 21, subsequently appointed Paul Hastings as legal adviser and Brookland Partners as financial adviser.

A source close to the private negotiations initiated by the borrower said the "small" ad hoc committee of noteholders approached had appointed Freshfields as legal adviser. The law firm did not immediately confirm this. Another source said the formal appointment had yet to be made.

Although discussions are at an early stage, more specific proposals could be seen within weeks, said another source close to the situation.

"The solution is likely to be a large 'amend and extend' of the bonds," said the first source, acknowledging that a refinancing of the vehicle was another option under consideration. The second source said that a "partial refinancing with an extension of the remaining portion" was a more likely scenario.

The €860m refinancing earlier this year of GSW, another German residential structure, in its entirety required six banks. So refinancing all of GRAND's €5bn notes would be seen as a stretch.

The company said: "At this stage, there is no proposal and Deutsche Annington's aim is to

initiate a constructive and orderly process with the noteholders and all other relevant parties over the coming months."

Deutsche Annington said that while the noteholders it had approached, who represented "a significant interest in the notes", would not legally act for all other noteholders, it was "minded" that these investors should take legal and financial advice which would be paid for by the sponsor.

"Deutsche Annington would meet reasonable costs related to such advice. The intention is that such advice would be for the benefit of the noteholders as a whole," said the company. It added that a 'factbook' providing details of the company, its market and the GRAND structure would be "made available in the coming weeks". However, this would not set out any specific proposal.

A vehicle connected to Terra Firma is understood to have bought back some of the notes, giving it a 30% stake in Class F, the most junior, and smaller stakes in other more senior classes. These notes cannot be voted in any holders' meetings.

The documents do not clearly state what majority of votes is required to clear motions at such meetings. These would be required if changes in the terms of the notes were proposed.

Terra Firma owns Deutsche Annington through a special purpose vehicle that raised €2.1bn from 21 investors in 2006. Last year the company grew Ebitda by 4.6% to €502m and paid 6.6% more interest at €274m.

Allen & Overy is advising Deutsche Annington, alongside Blackstone.

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