City tower heads to point of no return

■ Failed £535m restructuring means Citypoint could go into receivership

BY MIKE PHILLIPS

One of the City of London's largest office buildings is heading for receivership after a £535m restructuring deal collapsed last week.

The 703,382 sq ft, 34-storey Citypoint Tower is owned by a fund managed by Beacon Capital Partners and could become the largest single UK asset to be put into receivership since the downturn if a rescue deal cannot be lined up in the coming weeks.

A source close to the deal said lenders to the property are examining their options for enforcing on the loan following an interest payment default earlier this month.

Receivership is the most likely option, but no final decision has yet been taken.

If the loan is enforced, the property is likely to be asset managed to improve occupancy before being put up for sale.

The restructuring of the loan secured against the tower has been one of the most complicated workout situations in the UK. The latest twist was an interest payment due last Friday, which was not paid in full.

Beacon bought the building for £650m in 2007, using £535m of debt.

Point break: tower could become largest single asset in receivership

Morgan Stanley provided £429m of this debt and then sold it to bond investors, and £106m is in the form of a junior loan, both of which mature in July 2014.

When it was bought, the income from the building was not sufficient to cover the interest payments on the loan, and Beacon put in place a top-up account to cover this shortfall. The funds in this have now been exhausted, and on the last two payment dates there were shortfalls on the interest paid.

The property is 7% vacant. Australian bank Macquarie exited 50,000 sq ft when it moved to nearby Ropemaker Place last year. The last valuation of the building was £447m – £88m less than the debt.

Beacon had put forward a proposal to lenders whereby the loan would have been extended, £20m of equity provided to undertake asset management, and interest payments reduced and deferred in the immediate term.

The lenders would have seen an increased interest payment rolled up and repaid at loan maturity on the premise that the income and value of the property could be improved through asset management.

But a final agreement to implement this proposal could not be reached, and a standstill agreement between Beacon and the lenders expired last week. The loan's servicer, Morgan Stanley Mortgage Servicing, last Friday announced it was examining its options.

AgFe and PWC are advising Beacon; Brookland Partners is advising the servicer.

All parties declined to comment.