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£1.5bn General Healthcare CMBS restructuring finally gets the go-ahead

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Bondholders have consented to a restructuring of the £1.5bn debt pile secured by 35 General Healthcare Group UK private hospitals.

Their consent comes after more than two years of negotiations among borrowers, bondholders and lenders to refinance the portfolio's loans, and draws to a close one of the few remaining work-outs of very large distressed European CMBS deals.

The new structure involves group of junior bondholders injecting £175m and taking control of the assets. Senior lenders will be partially repaid; amortisation is increased and the interest rate on senior and one junior tranche is being increased. A long-dated interest rate swap – whose mark-to-market value is currently around £675m – is being partially crystallised and replaced by new hedging arrangements.

The original debt was taken on in 2006 after GHG was sold to a consortium led by Netcare, a leading South African private hospital group, Apax Partners, and London & Regional. GHG was split into an operating company and its hospitals hived off into a property arm, which borrowed £1.65bn from Barclays, Dresdner Bank, Bank of Scotland and Mizuho Corporate Bank.

This was structured as two CMBS – Theatre (Hospitals) 1 and 2 of £396m and £264m respectively, a minority senior loan of £299m, a junior A loan of £493.88m and junior B of £170.98m, all maturing in October 2013.

But the deal also included long-dated swaps, maturing in 2031 and ranking super-senior. The 18-year mismatch between the swap and the loan maturities meant that the cost of breaking the swap – whose mark to market value was put £675m at April 19 – was a big obstacle.

The restructuring discussions have been under way since 2012; during this period, hedge funds including KKR, D E Shaw and Centerbridge bought positions in the junior debt, while various loan extensions pushed the final maturity date to April 30, 2015.

The restructuring sees the maturity of the debt extended to April 2019, and a group of junior lenders including KKR, DE Shaw and Centerbridge will provide a new £175m loan to partially repay the senior lenders and take control of the propco. The new loan will carry an interest rate of 2.01% and a payment in kind interest rate of 4.65%, and be subordinate to the senior but rank above the junior A.

Margins are being increased on the senior bonds and the minority senior loan. On the former they now range from 300bps for the A notes to 575bps for the D; originally these were paying between 41 and 95 basis points. The junior A loans will accrue payment in kind interest at 4.385%, while the junior B loans do not accrue any interest.

The swap, which was originally provided by Dresdner, Barclays, Bank of Scotland and Mizuho, is being dealt with by crystallising part of it, and a new super-senior loan has been created to pay for this. This loan, of up to £400m is being provided by Commerzbank at a margin of 205bps. Dresdner, now folded into Commerzbank, was one of the original swap providers.

During the restructuring process, Brookland Partners, which had been mandated by the creditors to arrange the super-senior debt, found there was significant interest from CMBS investors in providing this. Commerzbank, however, offered to provide the loan in return for additional benefits in respect of other exposures in the deal. The loan is super-senior to the CMBS debt, the minority senior loan, and the junior loans. This position also helped keep the interest rate on the Commerzbank loan lower than it otherwise would have been.

Of the remaining swap, new hedge agreements will see Barclays take 45% and Bank of Scotland (now part of Lloyds), 55%. Lazards advised Capita Asset Services, the master servicer.