



steinberg

real estate + finance

Case Study: Workout of a distressed real estate loan collateralized by a retail portfolio.

Collateral: 55 real estate assets

Initial Situation

- The loan exposure described below was part of a CMBS securitization. The loan transferred from primary servicing in 2014 as part of a special servicing mandate.

- Loan level

The engagement comprised the financing of a portfolio of 55 retail properties with an original purchase price of approx. 150 million euros, financed at an LTV of 85% (i. e. with an original loan amount of around 130 million euros). The borrower was a single-purpose vehicle with no further assets. At the time of final maturity in 2014, the remaining debt amounted to EUR 113 million, whereby the market value of the portfolio was estimated only at EUR 90 million. This meant that it was not possible to repay the loan in full at maturity through sale or refinancing.

The portfolio was managed by a London-based, borrower affiliated investment manager. In view of the approaching repayment date and the decline in value since purchase, the borrower expected a complete loss of equity. In order to make it more difficult for the lender to realize the collateral and to pass on part of his losses to the lender via a cooperation fee, the borrower behaved uncooperative and blocked consensual solutions, such as a direct sale. He made his cooperation dependent on a massive payment (approx. 10% of the portfolio value). Furthermore, he refused to disclose any data necessary for either a valuation of the portfolio or a market sounding.

- Real estate level

The individual properties were geographically dispersed and also very heterogeneous in regard of lease terms, property sizes and tenant mix. Only one well-known discounter was represented at a large number of locations. However, with very different lease terms and intentions to prolong. A legal dispute was also pending with this anchor tenant. The total portfolio comprised around 82,000 sqm with a vacancy rate of only 2% and annual NRI of around EUR 9 million.

Strategy

The challenge in this commitment was therefore:

1. to negotiate a consensual strategy with the investment manager without transferring costs and risks to the investors,
2. to transform the portfolio into a homogeneous investment product that can be well placed on the market in order to increase the value of the portfolio; and
3. to achieve a full repayment of the loan ahead of maturity of the securitisation.

Realisation

- Due to the widely spread locations throughout Germany, it was difficult to position the portfolio on the market as a whole. Further, value creation through an individual letting/renewal strategy with or without cooperation of the investment manager was also not very promising in light of the already low vacancy rate and short workout time frame.
- Our solution was therefore to focus on the portfolio's only strong point. It was only possible to raise the portfolio's low WALT to a solid and financially viable level through a global extension agreement with the portfolio's anchor tenant. At the same time, enough potential for a future owner should be left to be able to improve the value further.
- In order to achieve this goal within the planned timeframe, cooperation with the existing investment manager was essential. Intensive negotiations connected parts of the investment manager's financial demands to the successful conclusion of the global extension agreement with the discounter. The remaining part was tied to a successful sale. Thus, in a worst case scenario, only a small cost risk would have to be borne by the lenders. At best, there would be no costs whatsoever on lender's side.
- In parallel to the negotiations of the extension agreement, a transaction manager pitch was held the the most suitable was selected. In cooperation with the Special Servicer and anticipating the extension agreement, the transaction manager began to develop a professional investment case and tested the market.

Result

- With the conclusion of the global extension agreement, anchor leases for more than 20 properties were extended to over 10 years at the same time. In return, the legal dispute with the discounter was settled, thus eliminating a further risk position in the sale. In addition, a number of individual lease agreements, whose expiries were imminent, were extended in parallel, so that the portfolio WALT was significantly longer than 8 years at the point of sale and was thus improved considerably compared to the initial situation.
- Due to previous market soundings, a group of interested bidders was quickly found. This group was greatly reduced by a structured bidding process. Based on interviews with interested parties and the obligation to provide detailed and structured offers, the most promising buyer was selected. In this context, it was important to ensure that the project could be fully financed and a full due diligence was made so that no price reductions were to be expected until signing of the SPA. The portfolio was finally sold at a price of approx. 135 million euros, which represented an increase in value of 50% compared to initial value estimate.
- This strategy resulted in a **full repayment** of the loan, including workout costs and default interest, with a delay of only 15 months, well within the remaining term of the securitisation (tail period).

The case described above was solved by a member of the team before Steinberg Real Estate Management GmbH was founded.

Workout of a distressed real estate loan collateralised by a retail portfolio.

Contact

Steinberg Real Estate Management GmbH
Feldstraße 1
65719 Hofheim
Germany

Phone: +49 (0) 6192 973 3544

Mobile: +49 (0) 177 454 1325

Email: info@steinberg.management

Web: www.steinberg.management/en