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real estate + finance

Case Study: Workout of a securitised
(CMBS) real estate loan
Collateral: 32 real estate assets (across Germany)

Initial situation

- In December 2014, a securitized facility (commercial mortgaged-backed security - CMBS) with an original loan volume of more than EUR 80 million became a specially serviced loan. The real estate assets securing the loan were located in Germany.
- Before transfer to Special Servicing and prior to initiating work-out measures, negotiations failed on an amicable solution with the borrower, a foreign based SPV, which was unable to repay the loan at maturity.
- Loan level: Very high level of over-indebtedness of the company, uncooperative borrower, various jurisdictions (assets, borrower and sponsor were located in different countries)
- Real estate level: 32 real estate assets (across Germany), predominantly below-average location in structurally weak municipalities, very heterogeneous tenant structure, low lease term, various types of use (retail, office, logistics, DIY), partly high vacancy and capex backlog.
- Objective: Maximising loan repayment taking into account the current market phase of the real estate market

Strategy

- **Loan Level:** As a first step, it was important to prevent further mismanagement and leakage through the owner.

In a second step, the goal was to create transparency and to prepare an orderly sale of the real estate portfolio. As the borrower was uncooperative, the servicer exercised his voting rights as a shareholder (share pledge enforcement) and replaced the management. Subsequently, the shares (share appropriation) of the borrower company were transferred to two newly established foreign based SPVs.
- **Real estate level:** Detailed analysis of the previously approved (in 2012) individual sale strategy and of the collateralised assets with a focus on the current market situation.

In cooperation with the newly mandated asset manager the workout strategy was updated from the originally planned individual sale to a portfolio sale of 28 assets, mainly used for retail purposes (core portfolio).

By separating 4 properties with non-retail types of use for individual sale the core portfolio was streamlined.

Stabilization of the core portfolio through implementation of an intensive lease-up strategy to increase WALT for the core portfolio over a period of six months in order to prepare the portfolio for a sale.

Result

- Quick sale of the 4 separated properties within three months at market prices
- Stabilization of the core portfolio through new lettings and lease extensions
- Increase in the weighted average lease term by more than two years
- Successful sale of the core portfolio to an international investor in mid-2016 through a structured bidding process
- Realisation of a **repayment rate** in relation to the outstanding loan of **more than 77%** with ongoing debt service cover

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

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