



steinberg

real estate + finance

Case Study: Workout of a syndicated real estate-backed loan

Collateral: 6 convention hotels

Initial Situation

- As part of a securitisation, our team took over the workout of a syndicated, non-performing real estate loan, that failed repayment at maturity in 2014. The borrower was a single-purpose vehicle without further equity or reserves. The repayment failed in particular as the value of the properties had deteriorated massively since 2006 due to expiring leases, underinvestment on the part of the owner and as a result high vacancy rates. Through its life, the loan of originally above EUR 50m had only been paid down marginally.
- The initially agreed consensual sale strategy with the owner failed in mid-2015, predominantly due to the borrower not complying with the realisation agreement.
- *Loan level:* During the course of the negotiations, it turned out that the borrower was unreliable and uncooperative and did not keep to agreements. An attempt was made by an affiliated company of the borrower to influence a potential investor in the interest of the borrower. The sale was made further difficult as the borrower provided incorrect and inadequate documentation of the portfolio, with the aim for the buyer to make substantial deductions due to data deficiencies and associated risks. In addition, the loan was syndicated and the four syndicate partners had different interests.
- *Real estate level:* The portfolio was very difficult to market as it comprised 6 conference hotels in Germany, predominantly located in difficult locations. Some were vacant, some had short remaining lease terms with the single tenant planning to move out at expiry of the lease. This necessitated high investment costs for new leases or extensions.
- *Objective:* Maximise loan repayment within a short to medium term period and with low additional investment volume.

Strategy

In order to achieve this, efficiently measures at loan and real estate level were necessary, which were developed, coordinated and implemented by our team. These included among others:

- *Loan level:*
 - Assumption of control over the rent accounts by disclosure of the assignment of rent after the borrower's breach of contract,
 - Ensuring the ongoing debt service by controlling the expenditures of the property management,
 - Negotiating an alignment of interests on lender side in order to strengthen the Special Servicer's position vis-à-vis the borrower, and
 - Intensive, month-long negotiations with the borrower about conditions for the release of collateral when they tried to sell part of the property without the consent of the syndicate.
- *Real estate level:*
 - A highly profitable sale of a major property in 2014 was achieved by the Special Servicer through a structured bidding process.
 - In order to increase pressure on the borrower, forced administration and forced auction measures were used as a last resort in order to achieve cooperative behaviour on the part of the borrower. This allowed further damage to the syndicate to be avoided.

Result

- ❖ Increase of the repayment of the loan by more than EUR 1m compared to the original expectations through successful negotiations of the Special Servicer with the borrower and the buyer of the assets.
- ❖ Reduction of potential subsequent liability of the lenders due to solvent liquidation of the borrower structure.
- ❖ Achievement of a **repayment rate** in relation to the outstanding loan of more than **98%** with ongoing debt service.

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

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