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European mortgage bond deal agreed

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By Mary Watkins and Robin Wigglesworth in London

Investors have agreed a landmark deal to restructure the first European bonds backed by commercial mortgages to have gone into overall default, potentially offering a template for other cases.

Senior bondholders in Opera Finance, or Uni--Invest, a Dutch provider of office space, have agreed to accept a proposal from private equity firms TPG and Patron, the private equity firms, that will see them recover about €359m of a total €602m in debt.

Senior investors will receive an initial payment of about 40 cents on the euro, plus interest and other expenses. They will receive a further 60 per cent of the balance in the form of four-year notes that will be paid with the proceeds of the sale of property.

The deal, one of two options presented to bondholders, will see TPG and Patron take over Uni-Invest, subject to court approval.

The agreement, however, means that junior bondholders are unlikely to receive the €242.9m they are owed.

Europe's commercial mortgage-backed securities market saw a boom in issuance between 2004 and 2007 but was deemed toxic in the financial crisis. Annual issuance volumes peaked at about €65bn in 2006 but there has been very little issuance since 2007-08.

Last month, Standard & Poor's, the rating agency, warned that the amount of unpaid debt on loans linked to packages of European commercial mortgages that thrived until the last crisis could hit a record €10bn by the end of this year.

However, while individual loans have been problematic, the Opera/Uni-Invest case is the first example of a European CMBS bond defaulting when it reached its maturity, having failed to secure other refinancing options.

"There have been lots of individual loans that have defaulted in the past, but this is the first time the overall structure has gone into restructuring in Europe," said Gordon Kerr, structured finance analyst at Citi.

"Uni-Invest contains just one large, underlying loan that backs a portfolio of property assets, so a real estate company can come in and work the assets to improve them and gradually sell them off. But it will be a challenge."

With many CMBS issued in the boom due to mature this year and next, restructuring specialists say they are becoming increasingly busier with struggling securitised vehicles.

"There are a lot of CMBS approaching their repayment period in the next several years," said Mr Kerr.

Deutsche Annington's €4.7bn "Grand" securitisation, the largest CMBS in Europe, for example, is in talks to refinance its debts, which mature next year. The German residential property company is controlled by Terra Firma, the private equity firm of Guy Hands.