



## CMBS unresolved

### Euro CMBS questions unanswered as maturities loom

S&P announced this week that over €10bn of loans backing European CMBS transactions that it rates could need refinancing next year (SCI 3 December). About €3bn of the €13bn of loans scheduled to mature in 2014 has been prepaid, with sizable question marks hanging over many of the transactions that are approaching maturity.

Although loan maturities will continue to come due, next year is expected to be relatively quiet in terms of maturing transactions. Particular attention will be paid to Opera Germany 2 and to the handful of deals maturing in 2015, but it is 2016 when the maturity wall really comes into play.

"The number of deals maturing in the near future is limited and those maturing in 2014 and 2015 will generally have the securitised loans worked out beforehand. Talisman 6 or Titan Europe 2006-3 are two to watch, as the special servicers might not have finalised the loan work-out before bond maturity," says Christian Aufsatz, securitisation strategist at Barclays Capital.

Given issuance increased year-on-year before the crisis, it is no surprise that the peak issuance year of 2006 is responsible for many of the maturing deals. "There are some maturities next year and in 2015 as well, and of course we have had maturities at the loan level for a few years," says Andrew Petersen, structured finance partner at K&L Gates.

He adds: "We have seen some restructurings already, particularly with German multifamily deals such as GRAND. There is less than €1bn maturing in 2014 and by and large the market is dealing with these maturities, but the question is whether we could be dealing with them in a better way."

Recent transaction updates from October show that events of default have been dealt with in different ways for different transactions. One of the biggest surprises was the Titan Europe 2006-3 transaction, where the eventual interest shortfall was only seen coming a couple of months earlier.

Particularly surprising for the market was how quickly the deal ran out of liquidity. The shortfall was partially caused by payments made to the class X notes (SCI 1 November).

Investors may well be wary of deals with class X notes in the future. There was also a transaction notice for EMC 4 in October, which is another CMBS to feature class X notes, although in that case the notes have matured.

"Class X has developed into a note it was never intended to be. It was meant to take out excess spread, but it has exacerbated and created issues it was never supposed to," says Petersen.

He continues: "There will still be a role for class X to play because it is a good way for arrangers to stay involved in a deal, but I think it will be structured in a different way, with less emphasis on it always continuing to be paid. It would make sense to change the way the class works, so that it gets switched off in certain situations."

While class X notes might remain as a way to satisfy skin-in-the-game requirements, Petersen adds that there swap issues are also causing concern. A recent transaction notice for REC 6 (Alburn) highlights another significant issue, which is the reluctance of some trustees to act without first firmly establishing indemnification.

"Indemnification proves to be a substantial hurdle. The problem is that if you do not have the majority of a class signing up to a letter – as happened with Opera Uni-Invest – a single investor is unlikely to be able to do it alone," says Aufsatz.

He continues: "Investors need to coordinate on this. The easiest solution would be to have an extraordinary resolution and get the investors together. The difficulty with Opera Uni-Invest was that there were two competing proposals and it was relatively hard to get a consensus around one or the other."

While trustees have been reluctant to enforce on notes without being properly indemnified, Petersen suggests that this could be an area where servicers could take on a more active role. A special servicer will already be very familiar with the loans securing a deal and could be better placed than the trustee to feature in an enforcement process.

"A trustee will not exercise their right to enforce without support from a majority of noteholders and they want to be indemnified on the back of an enforcement. Some trustees will spend a long time arguing that no action should be taken, so it can be a difficult process," says Petersen.

He continues: "That perception of inactivity is not helpful. Building in a form of indemnification that everyone is comfortable with would help to deal with that situation."

For most transactions, special servicers are expected to finalise loan liquidations before bond maturity. For some transactions, however, that finalisation may only come just in time.

Opera Germany 2, which matures in October 2014, is one such transaction that hangs in the balance. While the deal is not yet out of time, two of the properties behind it have been up for sale for a year without success and so the clock is ticking.

Meanwhile, losses on DECO 2005-C1 are expected to reach the D tranche after a £1m loss on the Sandfile loan, while a principal loss of €19.1m has been recorded for the Mansford Nord Bayern loan backing DECO 2007-E5. Losses are also expected on several loans securitised in DECO 2007-E7.

A number of transactions also appear to have a high risk of failing to pay interest on their most senior class. Among them are four Titan deals issued in 2006 or 2007.

Titan Europe 2006-3 has already failed once to pay interest to the senior notes. "Titan Europe 2006-1 and 2006-5, and FHSL 2006-1 are also concerns, while the concern in the near term is Titan 2007-CT1," says Aufsatz.

The Munster loan securitised in Titan 2007-CT1 has been extended from 18 October until 17 January 2014 (see SCI's CMBS loan events [database](#)). It was partially redeemed in October and the remaining balance is €9.6m.

The borrower failed to repay the Zana Centrum loan, while standstill agreements for the Hannover and Koblenz/Pforzheim loans – which are also securitised in Titan 2007-CT1 – have been extended to next month. There are concerns that the deal could suffer a note event of default in 2014.

"Another deal to keep an eye on though will be Infinity Soprano, where we are waiting to see whether the biggest loan will have a credit event or not," says Aufsatz.

However, increasingly the European CMBS market is focused on new issuance and not on legacy deals. "We are in full swing for loan workouts and I do not expect a large number of principal misallocations in the future," Aufsatz concludes.

[JL](#)

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