Property EU – Distressed Real Estate Workshop
Workout Strategies
SEE /EE – Additional Complexities

- Banks: similar issues to Western Europe
  - stressed balance sheets
  - Basle III

- ‘Traditional’ lending - Predominance of bilateral / syndicated

- No new entrants to fill in the funding gap

- Borrower-friendly legislation

- Extremely low levels of liquidity

- Price Gap

- Relative absence of asset management skills
Assessment: The Lender’s Options (Simplified)

- **Sell Now (Asset)**
  - Enforceability?
  - Pricing?
  - Outright / Structured

- **Sell Now (NPL)**
  - Borrower friendly jurisdictions => Pricing is even worse

- **Do Nothing**
  - ‘Trust the management’ aka ‘Extend & Pretend’?

- **Workout**
  - Improvement (or avoidance of value destruction) through asset management
  - Commits the lender for the medium / longer term
  - Enables deferment / avoidance of write down – but not always
  - Issues to consider:
    - additional equity (e.g. required capex / Basle III funding gap)? Who commits and how?
    - role of the borrower?
Workout: Unfinished Office Development

THE ISSUE
- Office development in an SEE capital city
- Over-budget / slow prelets
- Development facility = non-performing
- Borrower: good but over-stretched
- Stalemate

THE SOLUTION
- First, try consensual..
- Assessment: revised business plan
- Additional capital:
  - D2E swap => ‘Normal’ LTC
  - New capital as mezz
- Workout:
  - Developer carrying out under supervision
  - Appropriate remuneration structure to make it worthwhile
THE ISSUE
- Individual banks foreclosed on a number of small (<75 key) hotels
- Mostly 4*
- Non-viable on their own
- Need for working capital

THE SOLUTION
- Handled together with our Hotel & Leisure partners, The Hotel Solutions Partnership
- Acted as a consolidator (sensitivities / confidentiality issues)
- Devised new strategy for the whole portfolio: economies of scale now make the portfolio operationally viable
  -...and more significant for the banks and potential investors
- Operations & shadow management
Going Forward..

- Bad banks?
- Internal vs. External Management
- Deleveraging
- Local teams - Incentivisation

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