

# US banking giants hit by property losses

US banks Morgan Stanley and Goldman Sachs have made steep first quarter losses on their own property investments, undermining stronger performance in most other divisions.

On 22 April, Morgan Stanley reported a £1bn loss on commercial property investments for Q1 2009.

The bank's high-profile Real Estate Funds programme, which has \$81bn of assets under management, lost \$600m.

It also revealed a £300m loss due to a writedown in the value of Texas-based REIT Crescent Real Estate, which it bought at the top of the market in May 2007 for \$6.5bn. The bank made a further \$100m loss on real estate bridge financing.

Morgan Stanley said that at the end of March it had \$1.9bn of equity invested in property.

A week earlier, Goldman Sachs revealed results for December, reported separately to the rest of 2008 due to accounting changes, as well as for Q1 2009.

In December alone it lost \$525m (£352m) on its property investments, including those by its high-profile Whitehall Street funds. In Q1 2009 it made a further loss of \$640m, compared with a \$949m loss in the first 11 months of 2008.

The bank said the losses included value adjustments "due to deteriorating real estate fundamentals" and higher yields.

Top-of-the market purchases included the Whitehall 7 fund's

acquisition of the Stratosphere casino in Las Vegas from entrepreneur Carl Ichan in February 2008 for \$1.3bn.

The deal is thought to have been made up of \$200m of equity provided by the bank, plus \$700m of senior debt and \$400m of mezzanine debt.

Goldman said it had just under \$2bn of its own money invested in property at the end of March, compared with \$3bn at the end of November.

It also revealed losses on its commercial loan portfolio of \$625m in December and \$800m in Q1 2009, and said its \$8.5bn commercial property loan book, including \$1.5bn of CMBS, was valued at an average of around 50 cents in the dollar.

# Club offloads last of Paris T1 loan

The banking club behind the €400m financing of the T1 tower at La Défense, Paris, has completed the syndication of the remainder of the loan.

Landesbank Baden-Württemberg (LBBW) and Landesbank Berlin (LB) have taken part of the debt. The original club of German banks included Helaba, which initially took £100m, Westdeutsche ImmobilienBank, Deutsche Postbank and DG Hyp, which took £75m each.

Helaba, Postbank and West Immo were the lead arrangers. Nigel Chapman, WestImmo's London head of syndication, said: "LB and LBBW like the sponsor and the strong property characteristics."

## HSBC and Credit Suisse replace Lehman Brothers subsidiary as counter parties on CMBS swaps

# Banks repair hedging on Windermere

The replacement of interest rate hedging within three Windermere securitisations has been completed.

HSBC has replaced Lehman Brothers Special Financing (LBSF) as counter party on Windermere VIII and XI, while Credit Suisse is about to replace LBSF on Windermere IX.

The loans underlying these transactions had been unhedged since Lehman Brothers collapsed, but now the notes again comply with note holders' and rating agents' requirements.

The banks are replacing LBSF, part of the US Lehman Brothers business, which is in Chapter 11 bankruptcy, at the same terms as the original swap transactions.

The swaps were traded off market at the original transaction rates. Payments, thought to amount to tens of millions, have been made by HSBC – and will be made by Credit Suisse – to Wilmington, the issuer of



**Goodall: "It is satisfying to have got these trades done and the market can see that it is possible"**

the Windermere vehicles.

The issuer, on behalf of the vehicles, has retained funds to cover the amounts not paid by LBSF to the vehicles for the swap payments that were due in October and January, and also to cover all costs and expenses relating to the replacement.

The liquidity facility that was drawn so that the vehicles could pay note holders has been repaid and the vehicles will not have suffered any loss as a result of the transactions.

None of the borrowers of the loans – which include Wichford, Tishman Speyer and a Lehman Brothers' bridge equity business

called LCPI, owner of London offices on Long Acre and Devonshire House – have incurred costs; all costs have been covered by reducing the amount paid to LBSF.

Wichford will now be able to write back a loss it took on the hedge in its results last year.

The remainder of the funds have been paid to LBSF to cover liabilities due under the swaps.

Liz Goodall of JC Rathbone Associates, who has been co-ordinating the re-hedging of these and three other Windermere vehicles, said: "It is satisfying to have got the first of these trades done and the market can see that it is possible.

"We have worked hard with the varied requirements of the issuer, trustee, various Lehman entities, new swap providers, borrowers, B-lenders, note holders and rating agencies to make this happen."

The replacements were

controversial because of the large cash payments made to LBSF in administration.

"Many believe that because LBSF defaulted, the money due under the swaps does not have to be paid, but that's not true," said Goodall.

The International Swaps and Derivatives Association contract covering derivatives transactions allows the non-defaulting party to recover unpaid amounts and replacement costs, but does not give them a right to walk away.

"In these securitisations a defaulting swap counter party does get subordinated, but they must still be paid; so it was essential that we traded off market at the original rates, not the current lower rates, to have enough money to pay LBSF."

New swap providers are being lined up to replace hedging on the loans that back Windermere VII, XIV and Private Placement (see March issue, p3).