



Starwood wins extension on €240m Spanish office debt

Noteholders and lenders have voted to extend senior and mezzanine facilities, due to mature on 16 September, on seven office assets near the country's two main cities.

Lucy Scott – 16th September 2024

Miami-headquartered manager Starwood Capital Group has been granted more time to repay €240 million of debt, secured by seven office assets on the outskirts of Madrid and Barcelona.

The three-year extension has given the US firm more time to either sell or refinance the properties after noteholders voted unanimously in favour of the extension, proposals also approved by each of the other senior lenders and the mezzanine lender.

In return for the extension, Starwood has agreed to inject €15 million of equity to repay part of the outstanding balance, split between the senior and mezzanine facilities, according to a stock exchange filing by the issuer of the Taurus 2021-2 SP DAC commercial mortgage-backed securities transaction, within which part of the senior loan is held.

London-based Brookland Partners is advising Starwood Capital Group on the restructuring.

Taurus 2021-2 SP DAC was set up in 2021, and part securitised a five-year loan originated in 2019. The senior and mezzanine loans had a three-year term and had two one-year extension options, the second of which was exercised last year, extending the maturity date from September 2023 to September 2024.

The amount securitised was €139.9 million, a portion of a €269.9 million limited recourse, first lien mortgage financing originated by Bank of America in August 2018 and upsized in September 2019. The remaining €130 million senior financing was structured as a pari-passu loan, with €45 million syndicated and €85 million retained by the original lender.

Following amortisation and one asset sale, the current outstanding balance of the senior debt is €209 million, including €9 million from an undrawn capex facility, and outstanding mezzanine debt of €40 million.

In exchange for the extension, the borrower has agreed to pay down €12.4 million of the senior facility and put €2.5 million towards paying off the mezzanine facility. It has also agreed to make an €8.9 million repayment towards a cap-ex facility loan, as well as pay extension fees to the lenders and noteholders.

A margin increase has also been agreed, with 3.2 percent per year now applied to the senior loan from 2026 – an increase of 1 percent on the existing margin. The borrower has also agreed to pay an increased margin on the mezzanine facility of 7 percent per year, an increase of 1.5 percent on the current rate. A capital expenditure reserve of up to €2.2 million has also been agreed.

For the senior facility, the borrower has also agreed to yield-on-debt of at least 8.5 percent and for the mezzanine facility, it must be at least 7.1 percent.

The business plan for the assets during the original loan term was to upgrade properties, increase occupancy, and increase rental income. Since then, occupancy has increased from 77 percent to 84 percent, based on the November 2023 rent roll, while eight of the top 10 tenants have renewed or extended all or some of their leases. However, the weighted average in place rent has decreased by approximately 2.1 percent since securitisation, according to the latest surveillance report from ratings agency KBRA, issued in January.

Secondary markets

The majority of the portfolio is located in peripheral markets in Madrid, but two were located in Barcelona, with one subsequently sold. All properties were built between 1999 and 2012. The largest is the San Fernando Business Park, a property located northeast of Madrid's city centre, which accounts for almost half of the overall €20 million rental income.

Starwood purchased the eight office assets across two deals, in 2018 and 2019, which had an aggregate market value at securitisation of €416 million. In 2022, one of the two Barcelona assets was sold for around €60 million. As the loan featured a cash trap, the surplus from the sale was used to repay debt.

Savills valued the remaining portfolio at €359 million in December 2023.

In a report from KBRA, published in January, the firm said a granular tenant base of 130 unique tenants, none of which individually accounts for more than 17.2 percent of the portfolio's base rent, was a positive, as well as Starwood's "institutional" sponsorship, citing its \$115 billion assets under management.