Securing the future in retail property

Deals of the Year 2000	
TRAFFORD CENTRE	22 February
TYPE OF DEAL:	Securitisation
SIZE:	£610m
MATURITY:	2014-2034
BOOKRUNNERS:	Deutsche Bank, Royal Bank of Scotland

Shopping took on a whole new meaning on 22 February when Peel Holdings ring-fenced, packaged and sold a loan structure, secured on the Trafford Centre, its retail mall on the outskirts of Manchester. The £610m deal was the first securitisation of a European shopping centre and opened the door for a host of other companies looking to exploit this latest departure in property finance.

The Trafford Centre opened in 1998 following several years of building and, before that, of defending the value of the project to local authorities.

Peel Holdings, the property development and investment firm, won the battle, and today the centre holds more than 200 shops, about 30 restaurants and pubs, as well as a high-tech cinema complex.

When Peel Holdings wanted to refinance the original bank debt to create a longer maturity profile than was available through conventional debt financing and to reduce the overall cost of the financing it turned to the debt capital markets.

Finding the best-fit funding solution

"Property shares are trading at a discount to the true asset value of the shares. Therefore, any new money for expansion through equity was not appropriate. But it soon became obvious that we could get a higher loan to asset value if we securitised [the Trafford Centre]," says Peter Scott, Managing Director of Peel Holdings. And with tenants such as WH Smith, Boots and Selfridges, the rental income stream was "extremely reliable".

"The Trafford Centre had about £50m of the rental income, 90% of that rental income came from long term leases over 15 years," says Scott. This income stream came from the varied 280-strong group of tenants in the centre, ensuring a well-diversified portfolio.

"Investors were not actually buying Peel Holdings, but the rental income from the Trafford Centre," comments Scott.

The deal was divided into five tranches spanning a 14 to 34-year maturity range, with a mix of fixed and floating elements. Each tranche was based on a non-sequential amortisation structure, which allowed Peel Holdings to repay the principal over a number of years. The tranches also varied in terms of credit rating to suit the investment preferences and risk appetite of the various investor groups targeted. Ratings ranged from triple-A to triple-B.

Deutsche Bank utilised a combination of fixed and floating tranches of varying maturities, up to 35 years, to take advantage of the pockets of interest in the capital markets.

The beauty parade

To identify the most suitable banking partner in the securitisation process, Scott asked several banks to present their capabilities in the field. Bankers Trust, which subsequently merged with Deutsche Bank, won the process, while Royal Bank of Scotland, as a long standing banking relationship to Peel Holdings and a credible securitisation operation, was added to the group at a later stage. "More hands make lighter work," says Scott.

The banks accompanied Peel Holdings on the two sets of investor roadshows ahead of the launch. The first brought them to London, Glasgow and Edinburgh in the autumn of 1999, while a delay to the intended launch later that year, prompted a second round of presentations in early 2000.

Last-minute delay to the financing

"We were trying to do the transaction prior to Christmas – at the end of October, beginning of November, but we had to pull the deal from the market because it was not receptive to a transaction of that magnitude so close to the year 2000," explains Scott.

However, with the documentation already in place, Scott and his team were able to cherry-pick the best time to launch the deal when stability had returned to the market.

On 22 February, the deal was launched to a strong market reception and successful placement of the paper across all five tranches.

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"We had an extremely good product to sell and just had to find the right investors to sell it to," says Scott about the success of the transaction.

The deal effectively lowered the cost of funding for Peel and raised additional funds to facilitate the expansion of the business and potential acquisitions. ■

Peter Scott, Managing Director of Peel Holdings compiled a shopping list for a successful securitisation transaction:

- The negotiations and paper work in terms of the legal documentation were extremely time consuming for senior directors. It must not be underestimated – if you don't have six months to spare, don't embark on it. It is very complicated but the rewards are great.
- The rating of the paper is extremely important. We never had a relationship with the rating agencies and had to start from scratch. Any firm considering a securitisation must realise the time involved." ■