



14:40 18Feb2008 European CMBS market may not recover until 2009

By Sinead Cruise

LONDON, Feb 18 (Reuters) - The embattled market for European commercial mortgage backed securities (CMBS) is drowning in mistrust and illiquidity and is unlikely to regain any sense of normality before 2009, a conference heard on Monday.

When it does recover, it will be much more spartan and simple, with issues backed by single borrowers and much smaller pools of higher-quality loans in sole jurisdictions.

Colin Fleury, senior portfolio manager at asset manager and erstwhile CMBS investor Henderson Global Investors told IMN's fourth annual European CMBS conference in London that they were unlikely to see a traditional conduit-led, 2008 vintage CMBS issue until 2010.

"This year is going to be about recovery, healing, clearing out the dead wood and getting investor confidence back...I just don't believe any conduits are actively originating new loans to issue bonds on right now," Fleury said.

#### MISTRUST

While banks may see shifting older, more junior debt from their balance sheets as the priority to kickstart revival of ailing Europe's structured finance markets, investors bruised by rapidly widening CMBS spreads say banks must win back their confidence before any degree of liquidity returns.

Questions from the 200-plus delegates at the conference were dominated by concerns over trust and the stricken relationship between conduits and CMBS investors.

One buy-side delegate said the collapse of secondary trading was partly linked to the inadequate level of up-to-date information provided by issuers on credit conditions and borrower fundamentals supporting loans while another questioned the level of liquidity banks were providing to their offshoot conduits.

"New investors coming in are supposed to support the secondary market, but the information we're getting is old," one audience member said.

"It's hard to convince people who didn't buy these bonds when they were first issued two years ago to buy now based on the same information," he said.

But Caroline Philips, managing director of securitisation at Eurohypo said her organisation produced quarterly information reports on bonds and "were readily disclosing everything" in a bid to win back trust and define best practice disclosure across the entire ABS industry.

Nehal Farooqui, executive director at ABN Amro, also reminded investors that banks had been hit equally hard by the credit crisis and said there was a limit to the amount of slack they could be expected to pick up.

"Those that have been able to extend liquidity to their conduits have been doing so, but you will see that their secondary trading books are already heaving with risk," he said.

Gerard Scully, head of debt listing at the Irish Stock Exchange highlighted initiatives put forward by authorities to improve transparency but said investors had to be prepared to take a leading role in the discussion or risk ushering in unwanted regulation.

"If you want things to change, you have to stand up and be counted," Scully said. "Say what you need, what format you want it in and where you want to be able to find it."

#### LONGER-TERM OPTIMISM

Although the majority of the panellists painted a bleak picture for 2008, several were optimistic the market was beginning to find a floor after significant widening of European AAA CMBS spreads in the last month.

Euro triple-A spreads on floating-rate CMBS now stand at 163 basis points over Euribor, according to data from Lehman Brothers, versus 108 basis points a month ago.

The panellists agreed there were definite bargains to be found at the AAA level, although short-term investors should not bank against further temporary widening of spreads due to continued volatility.

"The first step on road to recovery is acceptance," said Fleury, who said Henderson was currently weighing up opportunities to invest in the beleaguered market.

"The problem is not many of us out there are able to take a long-term view -- that is something we are trying to change but it is going to take some time," he said.

Christian Aufsatz, senior credit officer at ratings agency Moody's said CMBS were still performing in spite of a slight increase in refinancing risk and a weakening of fundamentals in the UK commercial property market, where average capital values have tumbled 12 percent since their June peak.

"There is no systemic risk of downgrades in European CMBS," Aufsatz said.

"Our upgrade to downgrade ratio is still 5:1, which is approximately the same for 2005 and 2006," he said.

(Editing by Jason Neely)

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