

HD Cerberus makes £2.3bn real estate bet

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Cerberus has acquired two portfolios of distressed **property** loans for £2.3bn as the US private equity **group** bets on a strengthened recovery in regional values in the UK and Irish **commercial property** markets.

Already one of the biggest buyers of distressed real **estate** from banks seeking to de-risk their loan books, Cerberus agreed on Tuesday to acquire a £1.2bn portfolio of **commercial property** loans from National Australia Bank, and a further £1.1bn portfolio of Irish **commercial** real **estate** loans from the Royal Bank of Scotland.

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At a time when overseas investors are driving down yields on trophy assets in central London, private equity groups and hedge funds have become increasingly interested in the long-term recovery prospects of debt secured on regional **property** assets, which they perceive as better value.

The RBS portfolio comprises loans on more than 5,000 **commercial** properties in Ireland, including shops, offices, hotels and industrial units. Approximately three-quarters of the assets are in the Republic of Ireland and a quarter in Northern Ireland - both markets where **commercial property** values plunged steeply after the financial crisis.

RBS announced the asset **sale** an hour after it was revealed to have passed stress tests set by the Bank of England. The Cerberus deal is expected to complete in the first quarter of next year.

RBS said that the carrying value of the **property** loans was about £1bn, but the value of the gross assets was close to £4.8bn. The portfolio generated a loss of £800m in the year to December 2013 "primarily in impairment provisions".

The £1.2bn NAB deal builds on £625m parcel of largely non-performing loans that the bank **sold** to Cerberus in July as the bank's new chief executive accelerates its British exit.

A Cerberus spokesman said the **group** is "is a patient and long-term investor with a twenty-year track record of successfully restructuring distressed real **estate** loans while supporting improvements to the underlying assets. We look forward to managing this important portfolio."

NAB, one of Australia's Big Four lenders, has long sought to extract itself from a pre-crisis era expansion into the UK, where its biggest remaining holdings are the Clydesdale and Yorkshire banks - for which it is examining options that include an initial public offering.

"This is an important step forward, effectively bringing closure to one of our legacy positions," said Andrew Thorburn, NAB chief executive.

The portfolio consists of mainly defaulted, at-risk or high loan-to-value **property** loans, the bank said. The **sale** leaves NAB with an £836m portfolio of performing loans for which the bank said it would examine other options.

When completed, Tuesday's **sale** would release £127m of capital, NAB said, adding that it would no longer report its UK loan portfolio as a separate line of business.

Mr Thorburn took over in April, well aware of investor impatience with the Australian lender's slow withdrawal from the UK. Shareholders have urged the bank to focus more on its home markets, viewing its venture halfway around the world as a costly mistake.

NAB first announced plans to close its UK **property** arm and dispose of a £5.6bn loan book in 2012, under then chief executive Cameron Clyne.

Mr Thorburn said the Cerberus deal was "another important milestone in our strategy of reducing our low returning legacy assets and sharpening our focus on our core Australian and New Zealand franchises".

Shares in NAB were flat in afternoon trading in Sydney, beating a 0.8 per cent slide in the wider market.

The bank has, however, underperformed its Big Four rivals this year, down 10 per cent compared with a 4 per cent gain for Commonwealth Bank, the biggest of the country's banks.

As part of its retreat homeward, NAB in October pulled back from the US via the flotation of 28 per cent of Great Western Bank, for which it received \$288m. Further sell-downs are planned over time.

CO ncbnk : National Australia Bank Ltd | cercap : Cerberus Capital Management LP

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