Citigroup, Goldman Offload $1.8 Billion of BioMed-Buyout Debt

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By Sarah Mulholland

(Bloomberg) -- Citigroup Inc. and Goldman Sachs Group Inc. pulled off a sale of about $1.8 billion in bonds linked to Blackstone Group LP's acquisition of BioMed Realty Trust Inc., clearing their books of loans that have been parked there for months.

Buyers snapped up the offering, enabling the banks to extract better pricing terms from investors than originally planned. The strong demand marked a change in tone from the dark mood that has hung over the commercial mortgage-backed securities market since the start of the year.

The deal's success "is in keeping with this month's market rally," said Ed Shugrue, chief executive officer of New York- based Talmage LLC, which invests in commercial real estate debt. "It also speaks to a flight to quality in a market where people have heightened credit concerns," he said, citing Blackstone's track record and reputation as a savvy borrower.

Values of riskier assets have surged in recent weeks after hurtling to the lowest levels in years as buyers of stocks and bonds weigh stimulus measures from central banks around the world against slowing growth in China and the slump in oil. Investors have soured on CMBS since Wall Street banks funded $14 billion of real estate buyouts last year, creating a backlog of unsold mortgage debt on the firms' balance sheets. The BioMed transaction -- the largest CMBS deal sold this year -- helps alleviate the congestion.

Citigroup and Goldman Sachs were able to sell a $417 million portion of the BioMed deal rated AAA to yield 165 basis points more than the London interbank offered rate, according to a person familiar with the transaction. The banks originally offered buyers as much as 175 basis points more than the benchmark, said the person, who asked not to be identified because the terms are private.

Even with that success, gyrations in the bond market signal that banks will be reluctant to fund future large buyouts, according to Jim Sullivan, a managing director at Green Street Advisors LLC, a real estate research company.

“Some leveraged buyers who use CMBS certainly have a headwind,” Sullivan said.

Representatives of Citigroup and Goldman Sachs declined to comment on their funding deals.

Buyout Targets

Real estate investment trusts that have been trading at a discount to what investors would pay for the properties they own -- from office buildings to shopping malls to hotels -- are an attractive target for private equity firms and other cash-rich buyers. The disconnect between commercial real estate values and the landlords’ stock prices had helped push the odds of REIT takeovers to the highest in almost 10 years, Green Street analysts wrote in a September report.

Blackstone agreed to buy BioMed, which controls laboratory real estate, in October in a deal valued at about $8 billion, including debt. A month prior, the firm agreed to acquire Strategic Hotels & Resorts Inc., an owner of U.S. luxury properties, in a transaction valued at about $6 billion.

Now Blackstone, the biggest private equity real estate investor, is selling Strategic to Anbang Insurance Group Co. for $6.5 billion, according to people with knowledge of the matter. Lenders led by Goldman Sachs are in talks to determine how best to deal with about $1.4 billion of debt being assumed by Anbang that was originally slated to be sold as bonds, people familiar with the negotiations said.

The CMBS slowdown mirrors problems in the leveraged-loan market, where dealmaking has declined as demand for risky bonds of all types dries up. Lenders led by Bank of America Corp. and Morgan Stanley are still stuck with debt backing Carlyle Group LP’s purchase of Veritas, Symantec Corp.’s data storage business, after investors turned up their noses at the banks’ marketing efforts in November. The acquisition of Veritas, completed in January for $7.4 billion, was the largest leveraged buyout announced last year.

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