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Lehman liquidators secure over US\$200m for creditors from China real estate positions

The Liquidators of Lehman Brothers Commercial Corporation Asia Limited (LBCCA) have successfully realised seven out of LBCCA's nine real estate assets in China.

The transactions generate proceeds of over US\$200m for creditors and represent a recovery of around 80 percent of Outstanding Principal Balances (OPBs).

The assets comprise senior and mezzanine loans secured on real estate as well as convertible bonds. LBCCA's real estate portfolio consists of loans to 44 counterparties mainly secured against hotel, residential, retail and commercial properties and developments, with the largest country and currency risk exposures being in China and Thailand.

Most of the transactions involved a sale of the loan to the original borrower or a compromise repayment following extensive negotiations.

Lehman is the largest bank insolvency in history. As a result of the different insolvency regimes under which Lehman and its subsidiaries now operate, it is its Asian subsidiaries which have the clearest mandate for selling assets at this time. Accordingly, institutions involved in real estate lending around the world are monitoring with keen interest the strategies being adopted, and the progress being made, by the insolvency officers appointed to Lehman's Asian subsidiaries.

Michael Lindsay, Global Head of Real Estate for KPMG Corporate Finance leads the management and asset disposal of the LBCCA real estate portfolio, which has a par value of US\$1.26 billion. He said: "These realisations are a strong endorsement of the "borrower solutions" strategy adopted by the Liquidators. Giving borrowers the space, time and encouragement to disengage themselves from Lehman's using their own knowledge, skills and relationships has been a win/win for all parties and enabled the Liquidators to achieve more than would have been possible via alternative realisation routes."

Despite significant challenges presented by the scale, spread and risk profile of these real estate assets, combined with the slowdown in both the Chinese and global economies, counterparties have been successful in raising the necessary funds. Funding for these transactions in some case came from balance sheet resources or sales, although most came from new third party debt financing with borrowers taking advantage of improved levels of liquidity in the Chinese banking market over recent months.

Doug Ferguson, Partner, KPMG China, commented: "Our market intelligence in early 2009 indicated a risk of deterioration in commercial rental and capital values, especially in the Shanghai offices, where LBCCA had the greatest exposure. We therefore felt it important to act swiftly on those assets to recover value for LBCCA's creditors."



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