

Blackstone Defaults on Nordic CMBS as Property Values Wobble

The notes are backed by a portfolio of offices and stores Blackstone has been trying to sell the underlying properties

[Jack Sidders](#) 3 March 2023 at 3:46 am AEDT

[Blackstone Inc.](#) defaulted on a €531 million (\$562 million) bond backed by a portfolio of Finnish offices and stores as rising interest rates hit European property values.

Blackstone, which acquired landlord [Sponda Oy](#) in 2018, sought an extension from holders of the securitized notes to dispose of assets and repay the debt, according to people with knowledge of the plan. Bondholders voted against a further extension, the people said, asking not to be identified as the sales process was not public.

Property values are dropping in Europe as rising interest rates put off buyers until a clearer picture about how far rates will rise emerges. That's led to wide gaps between bids and offers, crimping deal volumes and putting pressure on owners with loans that are maturing. About a third of all loans in commercial-mortgage backed securities maturing in 2023 and 2024 face high

refinancing risks, according to a study published by Scope Ratings in January.

Concerns about how far values could fall are encouraging lenders to push for sales more quickly, while borrowers would prefer more time to seek higher offers for their properties. The drop in prices has so far not led to widespread credit losses, so some creditors are betting that rapid sales can still ensure debt is fully repaid.

"This debt relates to a small portion of the Sponda portfolio," a Blackstone representative said in an emailed statement. "We are disappointed that the servicer has not advanced our proposal, which reflects our best efforts and we believe would deliver the best outcome for note holders. We continue to have full confidence in the core Sponda portfolio and its management team, whose priority remains delivering high-quality retail and office assets."

Nordic real estate has been at the forefront of Europe's real estate correction after a long period of relative calm following the global financial crisis. Investors have been spooked by the landlords' use of relatively short-term debt, which has made them more vulnerable to the rising rates. The level of cross-ownership in the sector, where multiple real estate companies own stakes in one another has also exacerbated concerns.

In the US, where valuation declines have been more

severe and rates have been higher for longer, owners such as Pacific Investment Management Co.'s Columbia Property Trust and Brookfield Corp. have also defaulted on mortgages. The US office market has been particularly hard hit by the pandemic-induced shift to home working.

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Blackstone's notes have now matured and have not been repaid, prompting loan servicer Mount Street to determine a default, according to a statement Thursday. The loan will now be transferred to a special servicer, it added.

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- [Why Sweden's \\$41 Billion of Property Debt Is Alarming Europe](#)
- [Europe Has a \\$55 Billion Property Credit Problem as Values Drop](#)
- [Short Sellers Are Zeroing In on Europe's Embattled Landlords](#)
- [Europe Is Bracing for a Sharp, Abrupt Real Estate Reversal](#)

Blackstone [acquired Sponda](#) for almost €1.8 billion in 2018.

Fitch [downgraded](#) the notes in December, saying that "weak macroeconomic outlook and limited appetite for lending against secondary quality illiquid assets" create significant challenges for refinancing.

The loan was originated by Citigroup Inc. and Morgan Stanley and is secured against 45 properties in Finland, most of which are offices. At the time of the downgrade, €297.1 million of the senior loan remained outstanding, according to Fitch.

The portfolio is about 45% vacant, having risen about 10 percentage points higher during the pandemic, according to the report. Travel restrictions then hampered Blackstone's sales efforts before the war in Ukraine unleashed a fresh wave of volatility.

— *With assistance by Alastair Marsh*