Ambac Facilitates Syndication of CMBS Notes Backed by UK Private Hospitals

Mark Cheng
Director
44 20 7786 4313
mcheng@ambac.co.uk

Theatre Hospitals Plc
Secondary Guarantees on £660m Commercial Property Securitisation

On May 11 2007, Theatre Hospitals Nos.1 and 2 plc successfully completed syndication of £660 million of CMBS notes backed by the rent payments on 36 private UK hospitals owned by the UK's General Healthcare Group (GHG). GHG is the largest independent provider of acute care hospital services in the UK. They own and operate approximately one quarter of the UK's acute care private hospitals. The notes are serviced by rents paid by BMI Healthcare, the main operating company within the GHG group and the sole tenant of the transaction.

In order to facilitate the syndication process, some of the notes were issued to investors with the benefit of a AAA financial guarantee from Ambac, provided on a secondary basis. Ambac already had extensive prior knowledge of the company and industry, having wrapped a whole business securitisation of GHG in 2001. In 2006, Ambac provided its consent as controlling creditor for the company to restructure itself into an 'Opco-PropCo' (i.e. splitting itself into an operating company and separate property owning company under an internal 'sale-and-leaseback' arrangement). This restructuring paved the way for the sale of the Group to a consortium of private equity investors and Netcare SA, a leading operator of hospitals in South Africa. The sale was completed in May 2006 and the former whole business securitisation was refinanced with a £1.85 billion bank facility in October 2006. The senior £660 million portion of this facility was subsequently securitised in the Theatre Hospitals CMBS transaction.

The transaction is representative of a powerful trend in the current market for securitisations to be restructured as single tenant, property-based transactions, driven by the record high valuations that commercial properties are currently achieving and the corresponding greater leverage. At least six such transactions in the UK health care sector alone were refinanced on this basis in 2006. One more transaction is expected to follow.

Commenting on the transaction, Mark Cheng, Director in Ambac's European Structured Finance team, said "We were delighted to be invited by the arrangers to assist on this deal by providing AAA guarantees tailored for specific investors. Investors are understandably cautious when the CMBS approach is applied to single tenant transactions secured against highly specialised properties, particularly as the rating agencies adopt quite divergent approaches to analysing these deals. As a result, such notes tend to trade wider than more conventional CMBS. Our AAA guarantee helped facilitate the syndication process by providing greater certainty of pricing and execution."

Ambac can provide secondary guarantees in a number of different forms on new issuances and unwrapped bonds that have already been issued, including Credit Default Swaps, Named Beneficiary Policies or through a Transferable Custodial Receipt program, depending on investors' requirements.

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