



Moody's Investors Service

Rating Action: [Moody's concludes review of Centro Shopping Centre CMBS 2006-1](#)

Global Credit Research - 21 Jul 2009

Approximately AUD 900 million of CMBS affected

Sydney, July 21, 2009 -- Moody's Investors Service has concluded its review for possible downgrade of notes issued by Centro Shopping Centre Securities Limited -- CMBS Series 2006-1.

As part of the review, Moody's has taken the following rating actions:

- AUD 250 million Class A-1 Notes

Current Rating: Aaa rating confirmed

Prior Rating: Aaa, on review for possible downgrade

Prior Rating Action Date: 29 January 2008

- AUD 300 million Class A-2 Notes

Current Rating: Aaa rating confirmed

Prior Rating: Aaa, on review for possible downgrade

Prior Rating Action Date: 29 January 2008

- EUR 100 million Class A-3 Notes

Current Rating: Aaa rating confirmed

Prior Rating: Aaa, on review for possible downgrade

Prior Rating Action Date: 29 January 2008

- AUD 37 million Class B Notes

Current Rating: A1 rating confirmed

Prior Rating: A1, on review for possible downgrade

Prior Rating Action Date: 19 December 2008

- AUD 62 million Class C Notes

Current Rating: Downgraded to Baa2

Prior Rating: Baa1, on review for possible downgrade

Prior Rating Action Date: 19 December 2008

- AUD 52.8 million Class D Notes

Current Rating: Downgraded to Ba3

Prior Rating: Ba2, on review for possible downgrade

Prior Rating Action Date: 19 December 2008

- AUD 28 million Class E Notes

Current Rating: Downgraded to B3

Prior Rating: B1, on review for possible downgrade

Prior Rating Action Date: 19 December 2008

Today's rating actions reflect the fact that the likelihood of refinancing for five loans (41% of the total debt) -- which have soft maturity dates in December 2009 -- has diminished greatly because of the scarcity and cost of debt financing. In addition to this refinancing risk, Moody's -- in its review -- focused on value declines for properties in the pool.

In our view, due to the general lack of demand currently evident for commercial real estate, should the underlying properties be sold to repay outstanding debt, it is likely that the prices obtained would be significantly less than the valuations recorded in December 2008.

Additionally, although the December 2008 figures were higher than the valuations at the inception of the transaction, these last valuations were approximately 9% below the figures for June 2008. This downward trend in real estate prices is expected to continue.

Our analysis assumed peak to soft refinancing date declines of 40%, 35%, and 30% for loans with soft maturities in 2009, 2010, and 2011, respectively. Additionally for the two largest loans, CER 1 and CER 2 (36% of the total debt), we assumed a peak to soft refinancing date decline of 45%. These declines encompass both general real estate market decreases and the possible further yield widening that purchasers may apply due to the perceived financial weakness of Centro, which partially indirectly owns and manages each obligor and manages the underlying real estate.

In addition the CER 1 and CER 2 loans, which have Centro Retail Trust as the obligor, entered into new swaps with significantly higher strike prices. At the time of the deal's inception, these two loans had, and continue to have, the lowest Moody's DSCR of the pool at approximately 1.3x. Any deterioration in income, due to an increase in vacancies or decrease in rents, would put downward pressure on the DSCR.

Moody's notes that while the credit risk in the transaction has increased -- due to the points above -- the occupancy and rental cash flows of the underlying real estate collateral has been stable and in line with Moody's expectations.

This transaction is backed by 13 commercial mortgage loans granted to 12 borrowers in the Centro Group, including various property syndicates and CER, the largest borrower in the portfolio. The underlying collateral consists of 50 properties in 5 States and in the Northern Territory of Australia and is supported by over 1,100 tenancies.

The majority of the properties -- by number -- are supermarket-based shopping centres, a substantial portion of which are anchored by Woolworths Ltd (an Australian entity rated A3), or Coles Group Ltd, Australia's two leading supermarket retailers. The portfolio's weighted average occupancy level is approximately 99%.

The principal methodology used in rating and monitoring the transaction is "Update on Moody's Real Estate Analysis for CMBS Transactions in EMEA", which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

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