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Atlantis Owner Said Facing Possible Default on Loan Held by Private Equity

By Jonathan Keehner and Beth Jinks - Mar 25, 2011

Kerzner International Holdings Ltd., the company that built Atlantis resorts in the [Bahamas](#) and Dubai, faces a loan covenant test that may trigger a default as soon as next month, people with knowledge of the matter said.

The company, which also runs seven [One&Only resorts](#), may fail the test on an estimated \$450 million loan, said the people, who sought anonymity because the situation is private. Centerbridge Capital Partners LP and TPG Capital are among the largest holders of the debt, which is backed in part by management contracts and equity in some properties, they said.

A default on so-called operating company debt may lead to the refinancing of Kerzner's \$3 billion total debt, asset sales or ownership changes, according to the people. The company, whose owners include [Dubai World's](#) Istithmar, [Goldman Sachs Group Inc. \(GS\)](#)'s Whitehall Funds, Colony Capital LLC and founder Sol Kerzner, has struggled with debt since the 2008 financial crisis sank hotel values and reduced room rates.

"Kerzner is one of the last big commercial real estate restructurings of the last cycle," said J. Soren Reynertson, New York-based managing general partner of GLC Advisors & Co., a restructuring specialist. "It is sure to garner attention not only because of its size but also because of the high profile of some of its assets."

About \$2.5 billion of separate property company debt due in September requires Kerzner, based in the Bahamas, to obtain an unqualified opinion from auditors on its 2010 financial statements, the people said. Another default may be triggered if that is withheld on concerns about the company's ability to service or refinance its debt, said the people.

2006 Buyout

Kerzner, famous for Atlantis's Mayan-themed water slides and up-close encounters with dolphins, sharks and rays, was taken private in 2006 for \$3.6 billion by a group led by its namesake founder. The company has hired Blackstone Group LP and lawyers Kirkland & Ellis LLP as advisers.

The advisers have contacted [hedge funds](#) and [private-equity](#) firms including Paulson & Co. about investing new equity, one person said. No agreements have been reached, the person said.

Holders of Kerzner's operating company debt, including Centerbridge, TPG, Abu Dhabi Commercial Bank and [Fidelity Investments](#), are represented by investment bank Houlihan Lokey, according to the people.

Representatives of TPG Capital, based in [Fort Worth, Texas](#), declined to comment, as did Houlihan Lokey and Paulson. New York-based Centerbridge, Abu Dhabi Commercial Bank, Dubai World and Fidelity didn't respond to requests for comment. Representatives for Kerzner, Goldman Sachs and Colony Capital, along with company advisers Blackstone and Kirkland, also wouldn't comment.

Sol Kerzner, 75, is known for building what his company [website](#) calls the "mythical city of Atlantis" resort on Paradise Island property he bought from Merv Griffin, the former talk show host and game show creator.

Dolphin Habitat

The resort is surrounded by an artificial open-air marine habitat featuring 50,000 sea creatures and a marina to "attract the sleek international mega-yacht set," according to the site. A \$1 billion expansion begun in 2007 added hotels, a new dolphin habitat and expanded the Aquaventure water park.

In September 2008, as the financial crisis deepened, Kerzner opened the second Atlantis in the [Persian Gulf](#) on the outer frond of Palm Jumeirah, Dubai's man-made palm tree-shaped island.

Kerzner faces other challenges. A 2.5 percent royalty fee the company collects on revenue from the Mohegan Sun casino in [Connecticut](#) it once managed expires at the end of 2014. The same year, the Bahamas Atlantis will face a new rival six miles away when the \$3.4 billion Baha Mar casino resort opens.

Sarkis Izmirlian, whose family built More London in the U.K., is developing the property, where work began last month. Baha Mar is financed by the Export-Import Bank of [China](#) and is being built by China State Construction & Engineering.

In October, BMB Group, a firm representing Malaysian investors, offered to pay \$3.4 billion to \$4 billion for Kerzner, according to BMB founder Rayo Withanage. The offer letter was received and Kerzner wasn't for sale, the company said at the time.

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