RSU Rating Service Unit

Module International Commercial Real Estate

Ratings on international commercial real estate financings

Overview

The module has been designed for the risk assessment of commercial real estate loan facilities, covering financing schemes for both individual properties and entire real estate portfolios. A differentiated modeling approach ensures applicability to a wide range of business concepts. Moreover, special financing aspects (tranches, special repayment conditions, etc.) can be incorporated.

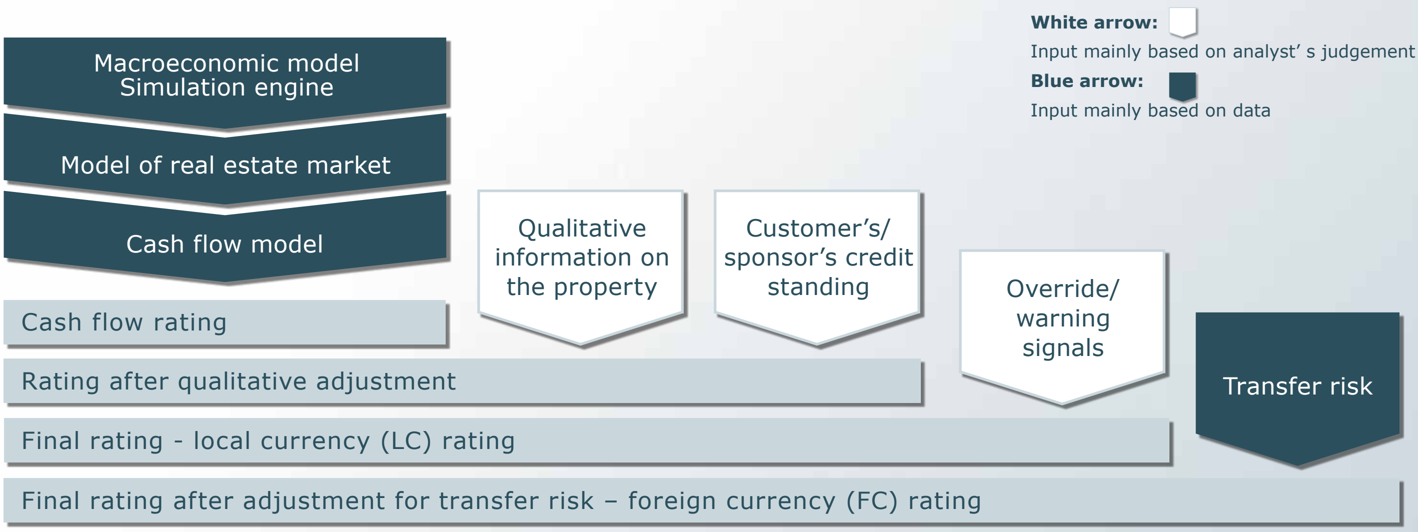
The simulation-based rating algorithm generates a multitude of scenarios to predict the potential development of the cash flows from and the value of the financed property. In addition, a variety of qualitative factors is considered. The main result of the rating model is the one-year probability of default (PD).

The module International Commercial Real Estate has been included in the annual validation cycle since 2005; it has been approved for the IRB Approach in Germany since the beginning of 2007.

Scope

- The scope of the module International Commercial Real Estate covers commercial real estate loan facilities on an international scale outside Germany.
- The module applies to both individual properties and real estate portfolios.
- All common business concepts are covered: long-term rent/lease; construction or redevelopment and subsequent sale of the entire property or individual residential units; lease of property to a management company; operation and management of a commercial property.
- The module provides for a wide range of possible uses for the properties in question: office, retail, residential, industrial, hotel, and leisure.
- Typically, the borrower is a special purpose company (SPC) whose purpose is the financing or operation of a property.

Rating Process



Macroeconomic Model, Real Estate Market Model, Cash Flow Model

Through Monte Carlo simulations, a multitude of scenarios is generated to predict the general economic development. Based on these scenarios, the real estate market model generates market development projections for different locations. Subsequently, the future cash flows and property values for the financing transaction are simulated, taking into account segment-specific factors (for example, volatilities and correlations). To determine the risk, the simulated cash flows and property values are set against the debt service to be paid.

Qualitative Factors

The cash flow rating is complemented by qualitative aspects. To ensure a consistent approach, the appropriate assessments must be selected from a predefined answer catalog.

Customer Credit Standing

If the borrower, in addition to the property to be financed, owns assets which should be reflected in the risk assessment, these assets can be taken into account by using the credit standing component.

Overrides, Warning Signals, Transfer Risk

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into account, an adjustment of the rating may be necessary. For this purpose the system provides an override option and the possibility to release warning signals: from a standardized list the analyst can select criteria which may lead to a rating upgrade or downgrade. Furthermore, the additional risk of currency transfer restrictions in the customer's home country and the country of the property is taken into account. This risk must be considered when the financing currency is different from the borrower's home currency.

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