International Commercial Real Estate

Ratings for international Real Estate Lending

Overview

The LB-Rating module International Commercial Real Estate (ICRE) is designed for assessing commercial real estate projects involving one or more properties. A differentiated modelling approach ensures applicability to various business models. Moreover, special aspects of a loan (tranches, unscheduled repayments, etc.) can be covered in detail.

The simulation-based rating algorithm generates a series of scenarios on the potential development of the cash flows from and the value of the financed property. In addition, several qualitative factors are taken into account. The main result of the rating process is the one-year probability of default (PD).

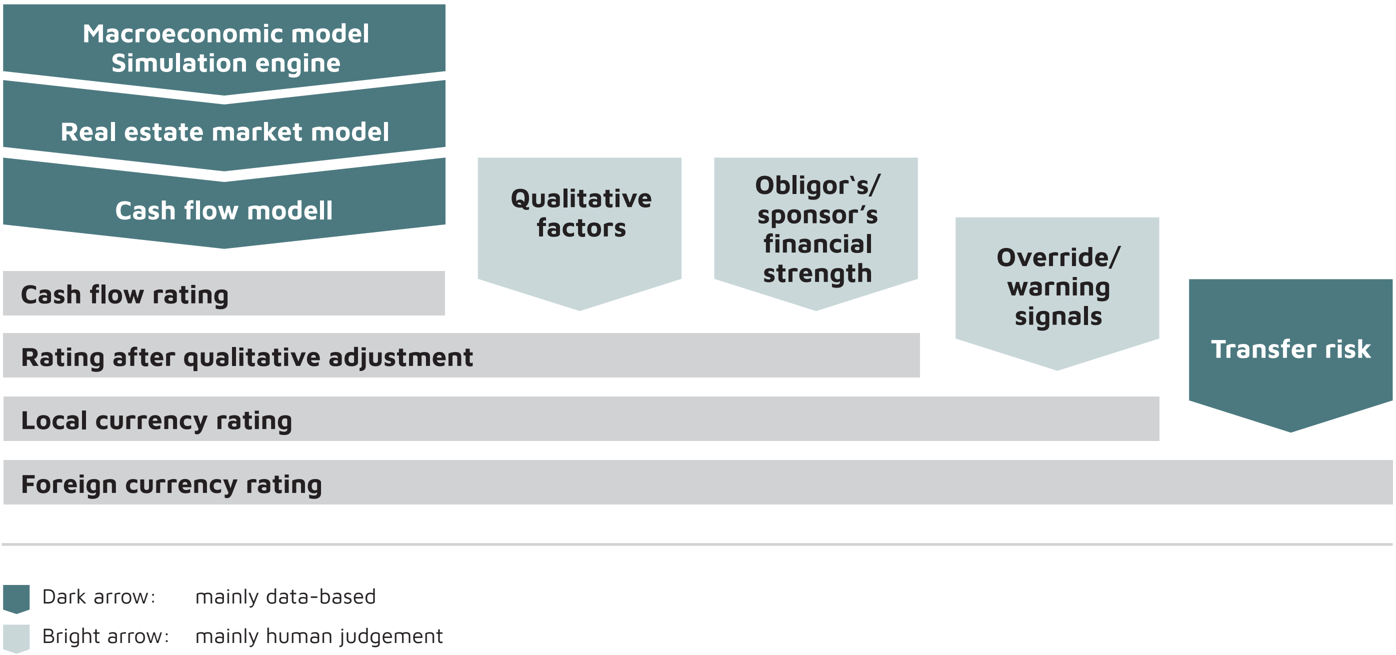
Annual reviews of ICRE started in 2005. The module was approved for the IRB Approach in early 2007.

Scope of Application

- 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.
- Covered business concepts are: long-term rent/lease; 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, managed real estate (especially hotels) hotel and leisure.
- Typically, the borrower is a special purpose company (SPC) whose purpose is the financing or operation of a property.

RSU RATING

Rating Process



Macroeconomic Model, Real Estate Market Model, Cash Flow Model

A series of scenarios is generated by means of Monte-Carlo simulations to predict the general economic development. Based on these scenarios, the real estate market model generates market development projections for different locations. Then the future cash flows and property values for the project 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 list.

Obligor`s Financial Strength

If the obligor owns assets other than the property to be financed which should be reflected in the risk assessment, these assets are taken into account in a separate component.

Overrides, Warning Signals, Transfer Risk

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating or enter a warning signal and change the rating manually. In addition, the risk of restrictions on foreign currency transfers in the obligor‘s home country or at the location of the property is taken into account. This risk must be considered when a loan is not denominated in the obligor's domestic currency.

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