GCR RATINGS

CRITERIA FOR RATING REAL ESTATE INVESTMENT TRUSTS AND OTHER COMMERCIAL PROPERTY COMPANIES

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Scope of the Criteria

1. The *Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies* ('Property Criteria'), is intended to illustrate the broad rating guidelines that GCR follows when according a rating to a commercial property company or property funds. GCR defines commercial property companies as those companies that derive a substantial majority of their earnings from rental income, or other forms of recurring income that is ultimately sourced from rental income, such as dividends from other commercial property investments or mortgage related lending. This definition accommodates the varied legal structures evidenced by property funds including, Real Estate Investment Trusts (REITs), corporate real estate operating companies, and commercial property funds (collectively referred to as property funds). Property development companies, where the majority of income derives from the sale of properties fall under the general Criteria for Rating Corporate Entities, but the property component analysis may draw substantially from the principles discussed in this methodology.

Summary of the Criteria Changes

2. This Property Criteria remains rooted in the fundamentals used in the last criteria titled '*Global Criteria for Rating Real Estate Investment Trusts and Other Commercial Property Companies, updated February 2018*'.

3. In this respect, the GCR Ratings Framework continues to evaluate the susceptibility to default on senior unsecured obligations (primarily borrowings). There is little change to the metrics and credit factor highlighted in the previous criteria, which remain critical to constructing GCR's property fund credit opinion.

4. However, in order to improve the comparability and transparency of the ratings, GCR has adopted a framework (see page 4) detailing the relative strengths and weaknesses of each rated entity. Each 'framework component' is scored to accumulate to a final risk score, which is then translated into GCR international and GCR national ratings. GCR has also framed the ratings of an entity more thoroughly in its operating environment, by rooting the analysis in the country risk and sectoral factors it faces. Lastly, GCR has moved to a slightly more ratio-based analysis for the property portfolio and leverage assessments. However, like previous versions of the Criteria, quantitative assessments are largely interpreted using qualitative factors.

5. As commercial property companies essentially comprise a niche sector within the general corporate environment, GCR draws heavily upon the *Criteria for Rating Corporate Entities, May 2019* ('Corporate Criteria') to guide the property criteria in areas of convergence. Where the reader may benefit by making reference to the corporate criteria, this is clearly indicated, as well as the potential justifications for disparity. The main differentiation is that greater weighting has been given to portfolio quality for property funds (which substitutes with the company profile factor), while earnings performance is not considered as a standalone component.

6. The new criteria elements include a group rating criteria, the management and governance criteria, country risk and sector risk criteria, all of which have application across GCR's Issuer and Issue credit ratings.

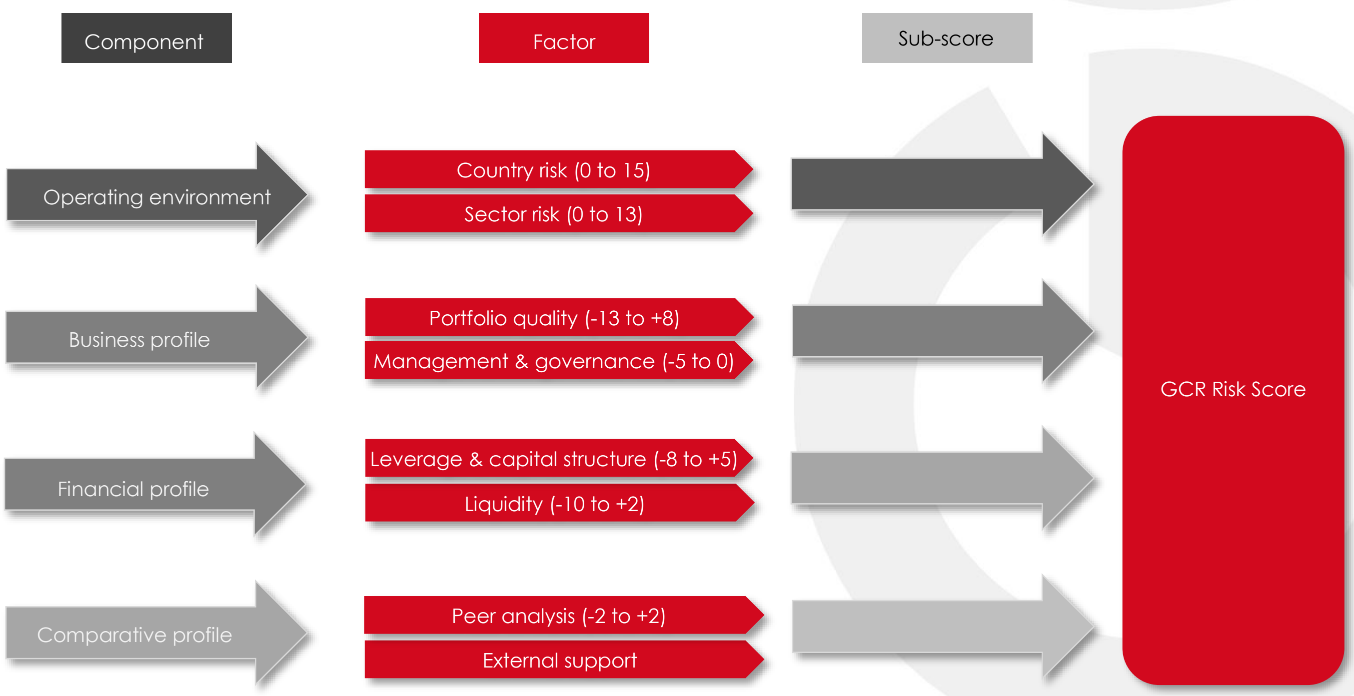
7. The revised framework also lays out a more detailed foundation for rating debt instruments (see Rating Adjustment Factors 2: Issue Rating(s) on page 21). Senior unsecured obligations are typically rated in line with the Issuer rating, unless there are some statutory or regulatory peculiarities. Subordinated and hybrid debt is notched down from the Issuer rating, including or excluding external support, depending on the various contractual or statutory factors detailed within the notes. Secured debt ratings are conducted under the *Global Summary Structurally Enhanced Corporate Bonds Rating Criteria, updated 2018*.

An Overview of the Ratings Framework

8. In order to improve the comparability and transparency of the ratings, GCR has adopted a framework (see below) with publicly available scoring for the major rating components. The goal is to provide stakeholders (issuer, investor, regulator, counterparty etc.) with a view of each of the major rating drivers and ultimately what factors may change the ratings in the future.

9. GCR has adopted four major rating components (operating environment, business profile, financial profile and comparative profile), which are all broken down into two or three major factors, with a positive or negative score assigned to each. The accumulation of the scores determines the GCR Risk Score, which is translated using the GCR Anchor Credit Evaluator and some final rating adjustment factors into issue(r) credit ratings.

Figure 1: GCR Ratings Framework Diagram for REITs and Commercial Property Companies



Component 1: Operating Environment

(0 TO 28: 28 BEST)

Operating Environment
Factor A: Country Risk (0 to 15)
• GDP Per Capita • World Bank Governance Indicators • WEF
Factor B: Sector Risk (0 to 13)
• Cyclicality • Ease of Doing Business • Industry Dynamics

10. The core of the rating framework is based on GCR's opinion that a property fund's operating environment frames its creditworthiness. As a result, the operating environment analysis contributes the largest component of the underlying risk score for the GCR rating methodology. Essentially, GCR combines elements of macro-economic and sectoral analysis, sometimes weighted across countries, to anchor the property fund to its current operating conditions.

11. Whilst the direct link to sovereign strengths and macro trends may not be as obvious for property companies as it is for financial institutions (for example), GCR is of the view that the wealth of households and the political/ business environment are *essential* considerations in respect of their creditworthiness. This is because studies demonstrate that the performance of most entities within a country is highly correlated with that country's GDP performance and other financial indicators. Furthermore corporate entities will still be exposed to factors such as the domestic credit environment, regulatory pressures, and the funding dynamics within a given geography.

Component 1, Factor A: Country Risk Score

(0 TO 13: 13 BEST)

12. Scored on a 1 (worst risk score) to 15 (best risk score) scale. GCR's score the weighted average of operating income or the asset base by geography, in line with the '*Country Risk Score*' methodology as highlighted in the '*Country Risk Criteria*'. Preference is given to the entities country of domicile or where the majority of its operations are undertaken. Typically another country must contribute over 30% of the weighted average operating income or asset base to be included in the blended country risk score. See the global Country Risk Criteria published here.

Component 1, Factor B: Corporate Sector Risk Score

(0 TO 13: 13 BEST)

13. It is GCR's opinion that the overall economic conditions within a particular industry will be one of the key drivers of financial performance for the individual entities. Being private entities, property companies are subject to the same systematic risks that impact broader corporate entities. Accordingly, the property criteria makes use of the same three step analysis for calculating the Sector Risk score, as detailed in the *Global Master Criteria for Rating Corporate Entities.* In brief, GCR considers the Property Sector Score in terms of 1) industry cyclicality 2) ease of doing business within a jurisdiction and 3) industry dynamics.

Component 1, Factor B1: Cyclicality

(1 to 4: 4 BEST)

14. The cyclicality of an industry refers to the sensitivity of the industry's performance (or lack thereof) to broad economic factors (although cyclicality may also be a factor of sector specific trends). The cyclicality of an industry is considered to be an inherent operating condition, relatively consistent across the world and generally will not change (or will only change gradually over the long term). The property sector does evidence cyclicality, which is usually manifest in terms of movements in vacancy

levels, rental rates and valuations. Nevertheless, as much of the income is locked in through multi-year rental agreements, actual earnings adjust relatively slowly to changes in the environment. Thus, in GCR's experience earnings volatility for property funds tends to be below fairly low, even for poorly performing entities. This informs GCR's opinion that (notwithstanding some differences across property classes, which is captured as part of the portfolio quality assessment) property funds evidence below average cyclicality, translating into a cyclicality score of +3 (taken from the broader corporate cyclicality range of +1 to +4).

Component 1, Factor B2: Ease of doing business

(-3 to 3: 3 BEST)

15. GCR recognises that the risk related to an industry is highly dependent on the jurisdiction wherein the corporate is headquartered or conducts its operations. For property companies, jurisdiction considerations are particularly important as their income generating assets are literally fixed to the ground. GCR believes that property companies domiciled in countries, which are characterised by a stable operating environment, with strong capital markets and a legislative/ regulatory environment that is supportive of the private sector are typically more creditworthy than those operating in jurisdictions with large bureaucracies, weak financial markets and unpredictable legal systems, all else being equal. To measure the business environment, GCR utilises the Doing Business report, issued annually by the World Bank, which takes into account the above factors in ranking countries according to the strength of their business environment. High scores (of up to +3) will be dependent on a strong ranking in the Doing Business report, while poor rankings will receive negative scores (down to -3). The scoring may be modified by an assessment of the movement in ranking relative to previous years.

Component 1, Factor B3: Industry dynamics

(1 TO 6: 6 BEST)

16. In GCR's opinion, the credit ratings for most property companies will not deviate substantially from the average credit rating of similar companies in the same jurisdiction. Accordingly, it is critical to understand the property dynamics of the specific jurisdiction wherein the entity is domiciled/operates. These dynamics can fluctuate over a fairly short space of time and need to be monitored on an ongoing basis. To this end, GCR will periodically publish opinion pieces on property sector dynamics in key markets, which will be used in calculating the Sector Risk Score for the rated property companies. The opinion is influenced by both industry specific (barriers to entry, technology and disruption, and the profitability of the industry) and external characteristics (regulations, legislation and politics), which are considered together to arrive at an Industry Dynamics risk score of +1 and +6.

Component 2: Business profile

Component 2, Factor A: Portfolio quality

(-13 TO 8: 8 BEST)

Portfolio quality

Factor A: Portfolio composition (-5 to 5)

- Size
- Diversification
- Sectoral preference
- Development pipeline

Factor B: Portfolio performance (-8 to 3)

- Vacancy rates
- Rental rates
- Tenant quality
- Lease maturity
- Property expense

17. In the property sector, the business profile factor is a reflection of portfolio quality assessment. This is because the property sector is so broad, with millions of private property owners, that no one player can be said to be dominant in the market (although strong positions can be achieved in specific subsectors in specific locations). Rather, it is the quality of the property portfolio that will have the greatest influence over how a property fund performs through the cycle. Property funds with stronger property fundamentals will generally have greater pricing power in upcycles, while being better positioned to retain tenants through economic downturns. GCR thus considers overall portfolio quality to be a more relevant predictor of a property fund's risk and the differentiating factor between competing funds. As a consequence, the Business profile assessment has been given a higher weighting by expanding the potential scoring scale from 'very weak' (-7) to 'very strong' (+7). The Earnings Performance component (as utilised in the assessment for corporate entities) in the Financial Performance sector has been removed as it is encapsulated by portfolio composition and portfolio composition.

18. The portfolio quality assessment factor is based on an analysis of a number of sub-factors meant to ascertain the robustness of a fund's property portfolio. The assessment is broadly split into two categories, being portfolio composition and portfolio performance, under which the sub-factors are allocated. GCR recognises that there is a strong correlation between the two categories in that property portfolios evidencing advantageous characteristics tend to report above average performance. Nevertheless, differentiation does allow one greater ability to pinpoint the problematic factors in instances where this relationship may not be linear. For example, during market slumps particular high-quality asset classes can be adversely impacted or conversely some funds specialise in lower quality assets and are able to extract above average returns despite the disadvantages. To this end, while quantitative metrics form the basis for GCR's credit risk score for both the quality and performance of a property portfolio, the score may be adjusted for subjective factors that take into account each entities' particular strategy.

Component 2, Factor A1: Portfolio composition

(-5 TO 5: 5 BEST)

19. The assessment of portfolio composition primarily focusses on those sub-factors that will reduce an entities operating risk, and as a corollary on factors that could be assumed to support robust long-term income growth. GCR aggregates the risk scores suggested from the quantitative assessment of each sub factor to determine an average risk score for the sub factor between 'very weak' (-4) and 'very strong' (+4).

20. ***Key sub-factors include:***

21. **Size**: GCR views larger funds, as measured by the gross value of investment assets, to be less risky. Scale allows for a fund to entrench its relationships across all market participants (developers, brokers, tenants) to become a preferred partner/investor. Larger funds are also better positioned to absorb shocks to specific assets/sectors exposures than smaller funds, as well as benefitting from the greater financial flexibility and more potential funding options that derive from a larger asset base. To be accorded the highest score for the size component, the value of a fund's assets must be in excess of USD20bn, comparable to some of the larger global REITs. However, in practice most REITs, particularly in emerging markets, are much smaller and GCR thus allows for greater risk scoring differentiation at lower portfolio values.

22. **Diversification**: GCR considers funds that are more diversified to be less risky as there is a lower correlation between the performances of individual properties. Diversification is measured both by geography and by property class, as well as the concentration towards individual properties. To receive positive risk scores for geographic diversification, property funds should evidence a spread of assets across at least three major cities or regions, with some asset and income diversification away from the core jurisdiction of operations. GCR also considers diversification by property class to be positive as each property class tends to exhibit varied correlations to the overall economic environment. Well diversified funds tend to exhibit strong positions in three or more property classes. There are many property funds who specialised in a particular property class or region. Such funds may be somewhat penalised for lack of diversification, but the assessment may be adjusted to account for the benefits of specialisation, if demonstrated through robust performance metrics.

23. GCR will only include geographies or sectors where the fund has a meaningful investment in the diversification consideration. The threshold for each geography/ sector has to be at least 10% to be considered material to the portfolio, but this may be adjusted in specific circumstances. GCR may also penalise funds for having too much diversification if the granularity of the portfolio leads to a disparate portfolio that is cumbersome and costly to manage.

24. A diversification assessment is also applied to income by analysing a property fund's exposure to particular tenants (even over multiple properties). This is most relevant to retail portfolios, where large retail chains will let space in multiple properties, but the analysis is applicable to all property classes. Where a very high concentration to a particular tenant is evidenced, the tenant quality assessment (as discussed on page 11) becomes more critical in determining the risk to a fund.

25. Apart from the quantitative assessment, GCR may adjust the risk score based on some more subjective factors:

26. (**Positive/negative**) A fund has a strong position in key global gateway cities or cities that are undergoing particularly favorable economic growth, as well as in the most desirable nodes within those cities. Conversely, if the properties are located in cities/ nodes with weak fundamentals, or risk factors related to the city/country/region are considered to be very high, diversification benefits may be negated.

27. (**Positive/negative**) A fund's portfolio includes a number of marquee assets, and/or evidence other features that provide a tangible competitive advantage. Conversely the diversification benefits of poor quality properties may be discounted.

28. **Sectoral preference:** Historical trends have demonstrated that large retail properties tend to be the most stable through the cycle, while office and traditional industrial properties have been more volatile. GCR has thus adopted a relative ranking of property class creditworthiness, the least volatile being retail focused funds, followed by logistics related warehousing, office, residential and industrial. The ranking is based on long term trends and a higher risk score is assigned to sectors with lower assumed risk. The risk score attributable to each class is then modified by a factor that takes into account current dynamics in the sector. These modifications may be positive or negative. GCR's views for each property class will be disintermediated through the publication of periodic property industry opinions pieces. Some adjustment may also be made where a fund includes properties that are materially above or below the average quality of properties in the sector. A positive adjustment may also be made where a fund has demonstrated particularly strong capabilities in a property class.

29. **Development pipeline:** Successful development activity is critical for a property fund to sustain long term, asset value growth above the market average. However, by its nature, development activity entails numerous risks. Thus, while a moderate level of development activity is necessary, GCR views excessive development activity as increasing the risk profile and will make a downward adjustment to the risk score. In general, no negative score will be made where development activity accounts for less than 10% of the portfolio. At higher levels of development activity the extent of negative scoring will depend on other risk mitigating factors, such as whether the development is pre-let or pre-sold, whether it is greenfield or brownfield and the developer's track record of tenanting new developments. In exceptional cases, a small upward adjustment may be made where a fund has explicitly committed to following a very conservative investment approach.

Table 1: Portfolio composition		
Score description	Score	Portfolio composition (typical descriptors)
Highest	4 to 5	Very large property portfolio value - in excess of USD20bn. Diversification in at least 3 global gateway cities in at least 3 different countries/regions, marquee properties within these cities with strong competitive advantage features. Wide network of relationships with key global players (developers, agents, tenants etc.) along with market leading management and systems. Low risk development pipeline.
High	2 to 3	Large property portfolio value. Strong diversification within its core market, as well as partial diversification into other markets, with a weighting towards better performing sectors and geographies. Some marquee properties within these cities evidencing competitive advantage features. Demonstrated market leading competencies in 2 distinct property classes. Wide network of relationships with key players in core markets (developers, agents, tenants etc). Low risk development pipeline.
Intermediate	-1 to 1	Mid to large portfolio within a jurisdiction. Geographic diversification within its jurisdiction, as well as some property class diversification, but concentration may be evidenced. Meaningful exposure to well performing sectors, with a mix of above average and average properties in the portfolio. Moderate to low risk development pipeline.
Low	-2 to -3	Small property portfolio, with average to below average quality of properties, but may feature some competitive advantages. Moderate levels of diversification by geography and property class. Moderate to high development risk may be present.
Lowest	-4 to -5	Very small property portfolio. Average to below average quality of properties. Diversification benefits are minimal. High development risk may be present.

The above boxes highlight typical characteristics of a highest, high, intermediate, low and lowest assessments. It is likely that an entity has one or more characteristic across different boxes. GCR allow analytical decision making to decide what are the most pertinent factors for each rated entity. However, to achieve a stronger score the entity is likely to a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

Component 2, Factor A2: Portfolio performance

(-8 TO 3: 3 BEST)

30. Portfolio performance assesses how the property fund has actually performed, given the advantages or disadvantages described in the preceding sub-factors. More importantly, GCR believes that the underlying trends that will drive a property fund's earnings are appropriately identified by assessing vacancies, rental escalations/ reversions and the property expense ratio. A Quantitative analysis of each sub factor is used to determine an average risk score for the sub factor between 'very weak' (-8) and 'very strong' (+3). Key sub-factors include:

31. **Vacancy rate:** Perhaps the clearest measure of a property portfolio's performance is its vacancy rate. As a rule, the lower the vacancy rate, the better a property portfolio is performing and the greater will be its ability to negotiate above average rental rates. GCR scores this sub-factor on the absolute vacancy level (with lower scores assigned to higher vacancy rates) as it is best reflective of the quantum of revenue foregone. Nevertheless, the assessment will also consider the vacancy rate relative to the average property class/ nodal vacancy rate and against historical trends within the fund. Where the assessment indicates outperformance relative to the market, or an improvement to the internal trend, a positive adjustment to the risk score may be made (if not already captured in a strong risk score).

32. **Rental rates:** GCR determines trends in rental performance by assessing a combination of in force rental escalations and reversions on the renewal of lease contracts. Escalation rates are important as they provide an underpin for consistent growth in rental income. The reversion trend provides more of an insight into the current market conditions. Thus, the ability of a property fund to achieve stable or positive rental reversions throughout the cycle is evidence of market outperformance. Negative reversions are characteristic of funds where performance is highly dependent on market conditions, or may signal that prevailing rental rates are above the market average (which may also be an indication that properties are overvalued).

    Tenant retention statistics can provide important insight into a property fund's escalation rates and the movement in vacancies. For example, property funds may prioritise tenant retention at the expense of negative reversions upon lease renewals, while other funds will be more focused on rental rates at the cost of income forgone.

33. **Tenant quality:** The higher the tenant quality the more likely a tenant will be to be able to honor a long-term lease, notwithstanding economic conditions, and the less problems the fund will likely face with rental collections and other management issues. Property funds that attain a positive risk score will generally report over 50% of income deriving from large national or multi-national corporations. Further uplift may be accorded where the proportion of high quality tenants is well above 50% or where the tenants comprise global blue chip corporations. Where necessary, GCR may perform an internal credit assessment on particular tenants to ascertain their credit quality. This will usually only be applied in cases where the exposure to a particular tenant or tenant group is atypically high.

34. **Lease maturity:** The Lease maturity profile is considered both in terms of its weighted average expiry and by identifying any concentrations. For a fund to attain strong positive risk score it should report a long dated maturity profile, with maturities not exceeding 20% in any given year. Where a high concentration is evidenced, a fund should be able to demonstrate proactive steps to renew the lease (or replace the tenants) at least 12 months ahead of maturity. Conversely, a short dated maturity profile is associated with much greater portfolio volatility, in that vacancy rates and rentals tend to fluctuate, leading to an unpredictable earnings trajectory.

35. **Operating performance:** GCR's utilises various operating metrics to provide an indication of a property fund's ability to manage its internal expenditure across the cycle and relative to its peers. To directly assess property management and the ability of the fund to pass on exogenous cost increases to its tenants, a property expense ratio is calculated by dividing direct property costs (including municipal charges, electricity, water, security, and general property maintenance) by direct property income (excluding income earned from investments). However, as funds may generate investment and other income (in addition to rental income), a broader operating margin ratio is more meaningful.

Table 2: Portfolio performance

Score description	Score	Portfolio performance (typical descriptors)
Highest	3	Global blue chip tenant profile, with long darted lease maturity profile (typically over 7 years). Long term vacancy rates below the industry average. Sustained positive rental price movements. Very strong cost management and wide operating margin.
High	2	Blue chip tenant profile within the core operating jurisdiction, with long term lease maturity profile (+3.5 years). Long term vacancy rates below the industry average. Sustained positive rental price movements. Strong cost management and wide operating margin.
Intermediate	-1 to 1	Tenants are mainly of a good quality (c.60% of rental income), but a meaningful percentage of weaker tenants may also be evidenced. Vacancy rates fluctuate around the industry average. Rental rates do evidence some contraction during weak property markets. Expenditure and operating margins are stable but may show some fluctuations due to market conditions.
Low	-2 to -3	Tenant quality is fairly weak, with a short dated lease maturity profile. Vacancy rates tend to be above the industry average. Rental rates are mainly below the industry average. Operating margin below the industry average, with cost pressures evidenced.
Lowest	-4 to -8	Tenant quality is mainly weak, with a short dated lease maturity profile. Vacancy rates tend to be well to be above the industry average. Rental rates are mainly below the industry average. High property expense ratio that is under continued pressure, combined with weak operating margin.

The above boxes highlight typical characteristics of a highest, high, intermediate, low and lowest assessments. It is likely that an entity has one or more characteristic across different boxes. GCR allow analytical decision making to decide what are the most pertinent factors for each rated entity. However, to achieve a stronger score the entity is likely to a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

Component 2, Factor B: Management & Governance

(-5 TO 0: 0 BEST)

36. The Corporate criteria has adopted the universal GCR Management & Governance criteria. For more information on how this score is derived please click here.

Component 3: Financial Profile

(-18 to 5: 7 best)

37. By their nature, property funds utilise debt to sustain growth in their portfolios. The actual quantum of debt may fluctuate depending on a fund's risk tolerance, but the use of gearing is inherent to the property sector. Highly rated property companies thus require a flexible financial structure, with sufficient sources of liquidity, to ensure their ability to meet all financial obligations and take advantage of opportunities. Financial flexibility derives primarily through lower levels of gearing, but factors such as the diversification of funding sources and the structure of existing debt maturities also impact on overall financial flexibility.

Financial profile

Factor A: Leverage & capital structure (-8 to +5)

- Ratio analysis
- Capital structure assessment

Factor B: Liquidity (-10 to 2)

- Uses versus sources analysis
- Structural adjustments

Component 3, Factor A: Leverage and Capital Structure

(-8 to +5: 5 best)

38. GCR's assessment of leverage and capital structure utilises a mix of quantitative debt service and cash flow metrics, combined with a more subjective assessment of the appropriateness of the capital structure. The quantitative assessment of gearing focuses mainly on debt service coverage metrics. Historical debt coverage service trends are extrapolated, along with expected cash flows, to determine two-year forecasted ratios (where possible). In general, GCR will use net gearing (gross debt minus cash and unpledged liquid assets) to calculate gearing metrics for property funds. In cases where cash may be earmarked for investment purposes, gross gearing metrics may be applied.

39. Determining the correct value of the investment portfolio is the other critical component of the capital leverage and capital structure assessment. For most property funds, investment assets primarily comprise of properties for rental, but may also include investments in property related securities (such as the equity of listed REITs) or mortgage backed debt instruments. GCR will generally exclude assets linked to loans to development partners or other related entities from the investment portfolio calculation, as well as assets not forming part of the core investment strategy. In general GCR will rely on the valuations performed by reputable property valuation professionals/ firms. However, adjustments to the asset value could also be made where GCR considers the property valuations to be questionable, or has some concerns as to the valuation methodology. GCR may also stress asset valuations to determine the sensitivity of key gearing metrics to changes in asset value. Where there is a high sensitivity to asset pricing, GCR may opt to accord a risk score aligned with the lower leverage band.

40. There are three main metrics that are utilised when assessing debt, with the typical scoring bands (from a minimum of (-8 to a maximum score of +5) detailed in table 3. The outcomes for each metric will be summed and then divided by three to establish a core leverage score, which may then be adjusted based on capital structure considerations.

41. **Loan to Value**: Calculated as the percentage of debt to investment assets. In essence, the metric reflects how much gearing is being utilised to finance the fund's core operations and as a corollary it

also gives an indication of the fund's potential funding flexibility, with a lower loan to value suggesting greater flexibility. It also provides an indication of how sensitive gearing is to changes in asset values.

42. **Debt to operating income:** A measure of the extent to which the profits generated by on-going operations (before interest and exceptional items) could meet debt principal obligations. The key benefit of this metric is that it incorporates all core profits that the entity has earned and over which it has a legal claim, irrespective of the terms of payment. GCR will usually assess this metric on a rolling forward looking basis, which should account for earnings drag from new acquisitions/ investments.

43. **Operating income to net interest coverage:** Examines the ability of the corporate entity to honor its main recurring debt service obligation, that is interest payments. Typically GCR will offset interest income against the interest charge, but non-cash interest income and other interest risk mitigants such as hedging instruments and capitalised interest on development funding will be excluded from the calculation. These mitigants may, however, be included in alternate coverage metrics.

Table 3: Leverage and capital

Score description	Score	Financial position - Leverage, Cash Flow, Coverage		
		Net Loan to Value ratio	Net debt to operating income	Operating income / Net interest
Highest	4 to 5	<15%	<2.5x	>6x
High	2 to 3	15%-30%	1.5x – 3.5x	4x - 6x
Intermediate	-1 to 1	30% - 40%	3.5x – 5x	2.2x – 4x
Low	-2 to -4	40%-55%	5x – 6.5x	1.2x – 2.2x
Lowest	-5 to -8	>55%	>6.5x	<1.2x

44. The structure of a property fund's debt is critical to maintaining financial flexibility. A high debt concentration represents a key risk with regard to property companies, as property assets are illiquid and cannot be disposed of on short notice. Accordingly, a property fund could experience funding pressure, even though it is moderately geared. This could arise where, for example, a property fund is overly reliant on a single source of funding, and that source experiences its own cash flow pressure, or where they are substantial short-term refinancing requirements during a period of low liquidity in financial markets. In both cases the property fund may have sufficient ability to sell assets, but this may not be realisable within the necessary timeframe. To achieve a high-risk score GCR would typically expect that not more than 40% of debt be maturing within two years, although even over the longer term GCR views a smoothed debt maturity profile to reduce risk.

45. To mitigate refinancing risk, GCR will seek to determine the strength and reliability of a property fund's access to additional debt facilities. A positive assessment primarily depends on the number of banks a fund has facilities with, how long those relationships have been in place, and the demonstrated access to loan funding from alternative financial institutions such as long-term insurers, pension funds or the debt capital market. The demonstrated funding position will then be adjusted to take into account

GCR's assessment of current funding appetite, which considers a combination of prevailing financial market conditions (i.e. is there sufficient liquidity and risk appetite for financial institutions to lend) and the prevailing reputation of the property fund (are institutions prepared to lend to the particular fund at the moment).

46. A similar assessment is performed on a property fund's ability to raise equity capital. For listed funds, GCR will look at its historical track record of raising equity. Access to equity capital will be considered strong where there have been several successful equity issuances over the preceding three years, and the issuances were fully subscribed (or oversubscribed). For unlisted funds, where possible, GCR will make an assessment of the financial strength of the major shareholders, as well as their willingness to provide support in need. This too will be modified by an assessment of current equity market conditions and the prevailing reputation of the property fund.

47. Other capital structure considerations may be used to adjust the quantitative leverage score by one or more notches.
    i. (**Negative**) Currency risk can materially change the leverage position and liquidity dynamics of the entity (in the event of currency movements). GCR takes a highly negative view of property funds that finance properties in different currencies to the local currency of the jurisdiction wherein the property is situated, even where there is a rental peg to the US Dollar. If foreign currency debt is greater than 30% of total debt, and there are not sufficient currency hedges in place, GCR may make a negative adjustment to the score. The level of adjustment will depend on the amount of leverage and the foreign currency exposure/ volatility.
    ii. (**Negative**) Interest rate fluctuations can lead to substantial volatility in a property fund's operating cash flows. As rental contracts are usually fixed, exposure to adverse interest rate movements could result in interest coverage and general debt serviceability coming under pressure. To maintain stability, a property fund should fix at least than 75% of its interest rate exposure. Below this level, a negative adjustment may be made, depending on other the amount of leverage and other debt characteristics.
    iii. (**Negative**) If debt is growing very quickly, possibly due to the rapid capital expenditure needs, we can also bring down the initial leverage score depending on the nature of the growth.
    iv. (**Negative**) Adverse shareholder rights/ actions. If the quality of capital is potentially threatened by options held by the shareholder to force repayment, or if there are any other debt-like characteristics.

Component 3, Factor B: Liquidity

(-10 to 2: 2 BEST)

48. GCR applies a zero-tolerance approach to a lack of liquidity. This is because a company with the healthiest balance sheet and strongest competitive position can still fail if it does not have appropriate levels of, and control over, its liquidity. As a result, our assessment of weak liquidity can bring the ratings down to the lowest levels should we have concerns. GCR's analytical approach is based on a simple view of the entity's ability to meet its liquidity requirements over a rolling one to two-year period.

49. Available liquidity may differ for property funds as legislation in many jurisdictions does not permit REITs (or other property funds) to utilise operating cash flows to settle debt, rather cash profits must be paid out to unit/shareholders and property funds are required to refinance debt through new facilities or asset sales. GCR considers such legislation to be an inherent credit weakness for REITs, which will prevent most property funds from attaining a positive credit risk score for liquidity. To underpin their liquidity, property funds must demonstrate reliable ongoing access to capital and it is these capital structure considerations that link the financial profile to liquidity. In other words, those debt characteristics that are considered to enhance the capital structure, do so because they are congruent with greater access to capital, which is beneficial because it ultimately translates into increased liquidity.

50. Applying the sources versus uses approach to assessing property fund liquidity, GCR typically will include the following in sources where applicable:
    i. GCR calculates non-pledged, non-restricted cash that hasn't been earmarked for future capex. For property funds, this is cash that generally derives from capital raising exercises or asset sales, not operating activities.
    ii. GCR includes the undrawn and available portion of committed facilities maturing after 12 months. Committed facilities are fairly common for property funds, as the facilities are generally secured by property mortgages. GCR may also include a percentage of non-committed facilities where the rated entity has a long-standing banking relationship with the lender, or where there is reasonable certainty that the funding lines are available. In regards to both committed and uncommitted lines, GCR will include the entire amount of credit available, up to but not beyond any covenant breach.
    iii. GCR will include anticipated funds from core operations, net of expected dividend or distribution payments. As RIETs pay out the majority of cash this will generally be low. However, where the property fund has a demonstrated track record of retaining some cash, the projected retention amount can be included. This is measured by the ratio of dividend payments to free cash flow from operations, where a lower ratio indicates greater cash retention.
    iv. GCR may include liquidity from contracted property or investment sales or from external support should the sources be reliable. GCR may only include properties for which sales agreements are already in place, but where the transfer has not occurred. GCR may include a portion of properties held for sale (but for which there are no sales agreements) if there is reason to believe that there is a strong chance the properties will be sold in the next 12 months. In such cases, GCR

will apply a haircut to the value of properties held for sale to account for the vagaries of property sales.

v. Listed equity may also be included for liquidity purposes, with an appropriate haircut applied. The extent of the haircut will depend on the liquidity of the equity counter and the size of the shareholding, with less liquidity and a greater percentage shareholding requiring a larger haircut.

51. When examining uses GCR typically considers the following sources of liquidity pressure:
    i. GCR will first look at debt maturities over a one year and two-year period. As property funds are inherently reliant on refinancing, this may be netted off against expected refinancing activities, where such plans are far advanced and can be shown to be reasonably certain. Where refinancing is less certain, such as for commercial paper, GCR expects property funds to maintain sufficient unutilised committed funding facilities to cover all outstanding maturities of less than six months.
    ii. We include all planned capital expenditures and investment requirements over the two-year period. Property funds need to spend substantial amounts on maintenance on an ongoing basis, besides for expansionary spend to ensure its portfolio remains competitive in the market. GCR generally expects there to be definite funding plans in place for all major capex projects before they begin.
    iii. Projected dividend payments that have not been netted against operating income.
    iv. Any contracted extraordinary purchases and other discretionary elements of cash outflows. GCR will also overlay any other expected group liquidity needs or requirements.

52. Two other liquidity considerations are overlaid onto the uses versus sources analysis.

53. **Covenants**: The presence and proximity to covenants is an important factor when assessing the uses of liquidity. Typically, corporate debt facilities are granted subject to various financial and non-financial covenants. Where these covenants can lead to an acceleration of debt repayment or event of default, this will significantly increase risk for the corporate entity and constrain financial flexibility. The risk becomes more acute the closer an entity's metrics come to the covenant levels and the leverage score should be penalised. GCR also views rating-based triggers highly negatively. For all covenants, the extent of the negative adjustment would be dependent on the severity of the breach and the solutions that are contractually available to both debtors and creditors.

54. **Encumbrances:** GCR takes a negative view of significant levels of asset encumbrance. This is because unencumbers assets can more easily be used to obtain additional facilities in times of need. In addition, encumbrances can divert cash flows away from the servicing of general unsecured debt and can subordinate senior unsecured claims in liquidation. Consequently, as asset encumbrance increases, the issuer credit rating comes down. The negative impact of encumbrances may be moderated by high levels of overcollateralisation on facilities (calculated as the value of the encumbered assets over the outstanding quantum of debt). This is because GCR considers it more likely that facilities with high overcollateralisation could be discharged to settle several obligations or additional funding could more easily be raised under the same security package.

Table 4: Liquidity		
Score description	Score	Typical descriptors
Highest	2	If the entity has sources of liquidity and unutilised facilities in place that cover more than 2x its uses over a one-year period and 1.5x over a 2 year period. Furthermore, there is significant headroom in its debts covenants before an acceleration of its longer-term funding or event of defaults would be triggered. Funding relationships with banks of good creditworthiness are strong and stable. Levels of asset encumbrance are low.
High	1	If the entity has sources of liquidity that cover more than 1.5x its uses over a one-year period and 1x over a 2 year period. Furthermore, there is significant headroom in its debts covenants before an acceleration of its longer-term funding or event of defaults would be triggered. Funding relationships with banks of good creditworthiness are strong and stable. Levels of asset encumbrance are moderate to low.
Intermediate	0 to -1	If the entity has sources of liquidity that cover between 1.0x and 1.5x its uses over a one-year period. GCR is comfortable with the covenant headroom and there are typically no rating triggers in the debt packages. Funding relationships are strong and stable. Asset encumbrance is in line with market norms and there is excess overcollateralisation.
Low	-2 to -5	If the entity does not have sufficient sources of liquidity to cover its uses over a one-year period. There is limited covenant headroom, which could cause penalties or an acceleration of debt repayments should the performance of the company deteriorate. High asset encumbrances. Funding, with moderate to low excess overcollateralisation.
Lowest	-5 to -10	If the entity has sources of liquidity that are insufficient to cover one years' use and there are no clear refinancing arrangements in place. If covenant breach is plausible, material and could result in an acceleration of funding or event of default. Negligible unencumbered assets and little or no excess overcollateralisation. The most severe negative scores will arise If funding partners are refusing to provide access to funds.

The above boxes highlight typical characteristics of a highest, high, intermediate, low and lowest assessments. It is likely that an entity has one or more characteristic across different boxes. GCR allow analytical decision making to decide what are the most pertinent factors for each rated entity. However, to achieve a stronger score the entity is likely to a number of cumulative strengths. Conversely, any one risk can bring the score down to a weak level.

Component 4: Comparative profile

(VARIOUS)

Comparative Profile
External Support
Group Support
Sovereign Support
Peer Comparison (+2 or -2)

55. The last risks score factor allows GCR to make a series of qualitative changes based on external or idiosyncratic factors, the most common one being ongoing group or extraordinary sovereign support.

Component 4, Factor A: Group Support

56. For details on group support please see the universal group support criteria.

Component 4, Factor B: Government Support

57. This factor is generally not applicable to property companies. Nevertheless, in an event where such support may be applicable, please see the country risk criteria.

Component 4, Factors A & B: External Support for a Corporate Entity

58. Support comes from shareholders/ affiliates and/ or governments. However, if both elements of support apply we only take the higher of the two support options to avoid double counting.

Component 4, Factor C: Peer analysis

59. GCR allow one positive or negative notch to create greater credit differentiation within the risk scoring model. Typically, this notch should be used when an entity is a generally better or worse performing company than its peer group, but the above criteria hasn't managed to reflect this. Most often, the entity will be a significant earnings and cash flow outlier.

Final Rating Adjustment Factors

60. Once the risk score and the ACE has been established, on either/ both the national or international scale we can then create the formal ratings on different legal entities. For most property funds the ACE will be equivalent to the rated entity, being the group. Where this is not the case, we move off the risk scoring framework and start adjusting the national/ international ratings because we are trying to establish the most applicable credit ratings hierarchy within a consolidated group.

Rating Adjustment Factor 1: Specific Structural Factors

61. As stated above, we will typically base our credit scoring on the financial and business characteristics of the immediate group (when there is one) around that legal entity. This is because we believe there is tangible likelihood of risk transfer either up from subsidiaries, across from sister companies or down from a holding company/ parent. It is in this section that we address these risks, to hone in on the correct rating for that legal entity.

62. The Group Classification and Support Criteria is the predominant guide for this decision-making process. The following are the principles of the first adjustments.

63. There should be no adjustment from the ACE for the **major operating entity**, of the analysed analytical object. An example of this would be an operating entity that usually has above 50% of total group assets or capital. However, it could be smaller and still be operationally critical the group.

64. **Minor group Subsidiary / Affiliates** are analysed on a standalone basis and then allocated support uplift, if necessary, in line with the Group Classification and Support Criteria.

65. **Non-operating holding companies (NOHC):** Due to the fact that corporate entities are not regulated in the same manner as Financial institutions, GCR does automatically notch down the ratings on NOHC, although an assessment will be made to establish if there are any structural or legal impediments to cash flow.

66. **Operating holding companies** typically will be treated like NOHC.

67. **Intermediate non-operating holding companies** typically will be treated like NOHC. However, if the group benefits from parent or government support and that support has to flow through the NOHC, then the ratings don't need to notched down.

Rating Adjustment Factors 2: Issue Rating(s)

68. The notching from the legal entity rating will depend on the nature of the instrument, whilst always respecting the credit hierarchy.

Table 5: Issue ratings

Debt Rating Types	Notching	Typical Characteristics
Secured Liabilities	+1 or more notches	See Structurally Enhanced Corporate Bonds Rating Criteria.
Senior Unsecured	0	Reflects the relevant legal entity rating on the company issuing the debt, including the government support uplift (if applicable).
Senior Subordinated	-1	Contractually subordinated non-perpetual and cumulative debt, with no any discretionary/ mandatory/ statutory nonpayment or write down clauses and cannot delay coupon. Typically, would take losses at the same time but at a deep haircut than senior unsecured debt.
Junior Subordinated	-2	Contractually subordinated debt, typically non-perpetual and cumulative, but likely to have a discretionary/ mandatory/ statutory nonpayment or write down clauses. Should be able to take losses before senior unsecured and senior subordinated debt.
Hybrids (a)	-4	Contractually subordinated debt, typically perpetual even if callable after 5years, non-cumulative, likely to have a discretionary/ mandatory/ statutory nonpayment or write down clauses with trigger points as the entity remains a going concern.
Hybrids (b)	-5 or more	All of Hybrids (a) but also with the presence of capital / liquidity or rating triggers that would default the instrument as the entity remains firmly a going concern entity, i.e. before senior unsecured losses or other types of default. Notch down according to the proximity of the trigger, whilst respecting the credit hierarchy.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S GLOSSARY

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Administration	A debtor unable to pay a judgement of debt or who cannot meet its financial obligations and does not have sufficient realisable assets that can be attached in satisfaction of judgement or obligations. The debtor can apply for an administration order interims of the Magistrates' Court Act 32 of 1944 (South Africa).
Advance	A lending term, to transfer funds from the creditor to the debtor.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Bankruptcy	Court proceedings at which an individual or a company is declared unable to pay its creditors. The liabilities of a bankrupt company typically exceed its assets.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Borrower	The party indebted or the person making repayments for its borrowings.
Broker	One who represents an insured in the solicitation, negotiation or procurement of contracts of insurance, and who may render services incidental to those functions. By law the broker may also be an agent of the insurer for certain purposes such as delivery of the policy or collection of the premium.
Call Option	A security that gives the holder or buyer the right but not the obligation to buy an underlying instrument at an agreed price (the strike price) within a specified time. The seller or writer has the obligation to sell the underlying instrument if the holder exercises the option.
Callable	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Capital Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
Capital	The sum of money that is invested to generate proceeds.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash. A Treasury Bill is considered cash equivalent.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Collateral	Asset provided to a creditor as security for a loan or performance.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Correlation	A term that describes the degree to which two variables move together. A correlation of 1 means that they move together

	exactly, while a correlation of minus 1 means that they move in exactly the opposite direction from each other.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Assessment	See GCR Rating Scales, Symbols and Definitions.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Creditor	A credit provider that is owed debt obligations by a debtor.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Debt Service Coverage	Measures the ratio of cash available for debt servicing to interest, principal and lease payments.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Debtor	The party indebted or the person making repayments for its borrowings.
Deed	A legal document that is signed and delivered, especially one regarding the ownership of property or legal rights.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Discharge	Performance of obligations in a natural way according to a contractual relationship.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Enforceable	To make sure people do what is required by a law or rule et cetera.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exercise	To exercise an option is to use the right of the holder to buy or sell the underlying asset on which the option is based at the strike price.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an indvdual or company's vulnerability to varous risks
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Flexibility	The company's ability to access additional sources of capital funding.

Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Fix	The setting of a currency or commodity price for trade at a future date.
Forecast	A calculation or estimate of future financial events.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Haircut	The percentage by which the market value of an asset is reduced. The size of the haircut reflects the expected ease of selling the asset and the likely reduction necessary to realised value relative to the fair value.
Hedge	A form of risk management aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Hedging	The act of managing risk, aimed at mitigating financial loss or other adverse circumstances. May include taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Hybrid	A form of security that has characteristics of various types of transaction or product.
Illiquid	Markets or financial instruments are described as being illiquid if there are few buyers and sellers. Assets may also be considered illiquid. It may be difficult, or even impossible, to find a reliable price for an illiquid security.
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
International Scale Rating.	An opinion of creditworthiness relative to a global pool of issuers and issues.
Investment Portfolio	A collection of investments held by an individual investor or financial institution.
Issue Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Junior	A security that has a lower repayment priority than senior securities.
LC	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
Lease	Conveyance of land, buildings, equipment or other assets from one person (lessor) to another (lessee) for a specific period of time for monetary or other consideration, usually in the form of rent.
Lender	A credit provider that is owed debt obligations by a debtor.
Lessee	The party that enjoys temporary use of a corporeal thing.
Lessor	The owner or agent that acts on behalf of the owner of property that grants the temporary use of a corporeal thing.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidation	Liquidation is the process by which a company is wound up and its assets distributed. It can be either compulsory or voluntary. It can also refer to the selling of securities or the closing out of a long or short market position.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan To Value	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to

	most recent property market value, or relative to the original property market value.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Long-Term Rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Long-Term	Not current; ordinarily more than one year.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Mortgage Loan	A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.
Mortgage Pool	A group of mortgages held as collateral for a mortgage-backed security. The securities issued represent shares in the pool. The mortgages in a particular pool have similar maturities and yields, and are on a similar class of property.
Mortgagee	A creditor under a mortgage agreement.
Notching	A movement in ratings.
Noteholder	Investor of capital market securities.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Obligor	The party indebted or the person making repayments for its borrowings.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing	An obligation that performs according to its contractual obligations.
Pledge	An asset or right delivered as security for the payment of a debt or fulfillment of a promise, and subject to forfeiture on failure to pay or fulfill the promise.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Pricing	A process of determining the price of a debt security.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Proceeds	Funds from issuance of debt securities or sale of assets.
Property	Movable or immovable asset.

Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Ranking	A priority applied to obligations in order of seniority.
Real Estate Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Real Estate	Property that consists of land and / or buildings.
Redemption	The repurchase of a bond at maturity by the issuer.
Reference Rate	A rate that is the basis of the calculation such as JIBAR.
Refinance	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Renewal	The re-establishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.
Rent	Payment from a lessee to the lessor for the temporary use of an asset.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Retention	The net amount of risk the ceding company keeps for its own account.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Secured Debt	Debt backed with or secured by collateral to reduce lending risk and thus the interest rate charged.
Securities	Various instruments used in the capital market to raise funds.
Securitisation Vehicle	An entity that is created to fulfill specific objectives. Normally insolvency remote and created to isolate financial risk.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security Package	Security offered to Noteholders for debt securities issued that should increase the recoveries in an event of default.
Security	One of various instruments used in the capital market to raise funds.
Senior Unsecured Debt	Securities that have priority ahead of all other unsecured or subordinated debt for payment in the event of default.
Senior	A security that has a higher repayment priority than junior securities.
Servicing	The calculation of interest and repayments, collection of repayments, advancing of loans, foreclose procedures, maintaining records and seeing that the proceeds of each loan are passed on to the respective party.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Shareholders' Funds	The holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Short Term	Current; ordinarily less than one year.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Systematic Risk	Risk attributed to market factors that cannot be eliminated through diversification.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust Deed	A deed of conveyance creating and setting out the conditions of a trust.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Unsecured Claim	Debt securities that have no collateral.
Vacancy	In commercial property, usually expressed as a percentage of unoccupied floor space in relation to the GLA.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.

Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.