

# **Model description**

## **Real estate management forecast model**

## PURPOSE OF THE MODEL

1. We use our real estate management forecast model (RE model) as an input when rating real estate management companies according to our Corporate Rating Methodology.
2. The RE model supports our standalone credit assessment in accordance with our criteria.
3. The RE model is a tool to create a forward-looking estimate of a real estate manager's key financial ratios by forecasting its income statement, balance sheet and cash flow for up to four years.
4. The RE model outputs have no direct impact on specific rating factors or scoring, though our assessments of key rating components are driven by forecast credit metrics which result from the analytical inputs into the model.

## DESCRIPTION OF THE MODEL

5. The RE model consists of debt information, estimates, historical and forecast financial statements, and key credit metrics, as well as an overview of the adjustments made in our calculations. The model also includes our assessment of liquidity sources and uses and financial covenant headroom (with relevant adjustments). The model also includes interest simulations that estimate the average interest rates based on debt and derivatives information. It also includes a leasing schedule for forecasting leasing liabilities and a template for assessing expected recovery values for entities rated 'BB+' or lower.
6. The RE model enables analysts to forecast financial statements and other major components of real estate management company ratings, such as key credit metrics, profitability margins and liquidity metrics.
7. The projections form the basis of the standard key metrics published in our full reports on rated issuers.
8. In rating committees, forecast ratios are compared with figures set out in our scoring guidelines for operational and financial ratio analysis. However, the final decision on individual rating subfactors is never directly based on forecast or historical ratios; rather the ratios act as key inputs alongside other relevant considerations for each rating factor.

## ASSUMPTIONS UNDERLYING THE MODEL/KEY RATING ASSUMPTIONS

9. No assumptions are made in the forecast model that are not subject to analytical inputs that can affect the final rating.

## INPUTS

10. Historical financial statements are input into the RE model from NCR's internal database.
11. Analysts are responsible for inputting assumptions of forecast revenues, operating and central administrative costs, debt information, capital spending, acquisitions, debt issuance, amortisation, equity issues, dividends and other key information. A "recovery template" enables analysts to input estimated realisable values and/or going concern values along with estimated administrative costs in a theoretical default scenario. Certain fields within the RE model are locked and cannot be modified, but analysts have some flexibility to adjust their inputs in the case of specific issuers. Analytical inputs are saved separately and can be reloaded into the RE model for future use.

## DATA USED IN THE MODEL

12. The RE model is a forecasting tool designed for use with data prepared under established financial reporting standards.

## THE LIMITS AND WEAKNESSES OF THE MODEL

13. The RE model could be subject to incorrect inputs which subsequently result in inaccurate forecast metrics. We use analytical judgement and the committee process to establish if a forecast conforms with our expectations.

## MATERIAL CHANGES TO THE MODEL

14. The RE model includes a version log and changes require rigorous approval (four-eyes signoff). Checks and balances flag input errors and/or missing data and semantic versioning is used for all updates, no matter how minor. Previous versions are maintained separately.

## RELATED METHODOLOGY AND PRINCIPLES

15. [Corporate Rating Methodology](#)
16. [Group and Government Support Rating Methodology](#)
17. [Rating principles](#)

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