Moody's is First to Develop and Publish Real Estate Fund Rating Criteria; Responding to the Property Market's Needs

NEW YORK--Dec. 9, 2002--In a recently released report by Moody's Investors Service, the rating agency is first to develop and publish a methodology for assigning real estate fund ratings, a new tool that provides property market participants with consistent and comparable measures of portfolio quality and the strength of the investment manager.

Moody's has finalized its methodology based on significant market feedback, including input from pension fund investors, pension fund consultants, and investment managers. The ratings are available to a broad cross-section of real estate investment funds, including open-ended and closed-ended funds, separate accounts, opportunity funds, unit trusts, partnerships, and joint ventures.

A copy of the report "Real Estate Fund Ratings: Enhancing Transparency and Comparability," is available at www.moodys.com/banking under "Rating Methodologies".

Real estate funds in the USA, Europe and elsewhere have often been criticized for their lack of transparency, governance and structural discipline, as well as for the diversity of their accounting and performance measurement methodologies.

"The aim of Moody's real estate fund ratings is to substantially reduce the level of investor concern about transparency by providing an independent and standardized approach to assessing the qualitative and quantitative aspects of real estate funds," says Moody's Senior Vice President Arlene Isaacs-Lowe.

Moody's says that it will provide public or private assessments of management quality and investment quality at the request of a fund's management. The rating agency will also provide an assessment of the investment manager alone, if requested.

"Analyzing management quality and portfolio quality separately allows for a reasonable and nuanced evaluation of funds," says John J. Kriz, Managing Director of Moody's Real Estate Finance Group. "We believe that this approach provides investors and real estate professionals with a useful instrument for determining the most appropriate combination of these two components for their desired risk/reward appetite."

Moody's emphasizes that these ratings are not intended to compete with or substitute for the existing methods of evaluating whether a fund is appropriate for a specific investment allocation strategy.

"Our ratings have instead been designed to compare and contrast a broader universe of real estate funds across the risk/return spectrum and, as such, provide a new and useful tool for all property industry professionals," says Mr. Kriz.

Management Quality and Investment Quality Ratings Explained

The management quality (MQ) component of the rating is an assessment of the overall day-to-day and long-term management issues associated with the organization, which takes into account the entity's management abilities and operational practices. The key factors Moody's considers when assessing the quality of the investment manager include the capacity of the firm's business infrastructure, risk management and controls, operational procedures, management abilities, financial resources, quality of client servicing and the overall quality of the organization.

The investment quality (IQ) component assesses the quality of the properties, including asset age and location, tenant characteristics and property mix. The main factors Moody's looks at when assessing the quality of the real estate portfolio are the impact of macro- and micro-economic trends on real estate fundamentals, asset quality, portfolio quality and the fund's liquidity profile and fee structure.

Prospective ratings for funds being launched will be designated with a (P) modifier, which will be removed as investments are made. The rating will then be adjusted to reflect the quality of the formulated portfolio.

Moody's has been assessing the quality of mutual funds, asset managers and administrative service providers for more than a decade. Its ratings have become the industry standard for the global managed funds community. The rating agency also maintains rating coverage for a broad spectrum of real estate firms.

Moody's real estate fund ratings were launched in March 2002 in Germany, where Moody's rates 16 real estate investment funds and 10 fund managers.

To view a list of Moody's existing Real Estate Fund Ratings, please click on this link: www.moodyseurope.com.

Moody's Real Estate Fund Rating Definitions

Management Quality Component(a)

Aaa(MQ)Excellent
Aa(MQ)Very Good
A(MQ)Good
Baa(MQ)Adequate
Ba(MQ)Questionable
B(MQ)Poor

(a) The ratings Aa(MQ) through B(MQ) may be modified by a "1", "2" or "3" to indicate positioning within each rating category.

Portfolio Investment Quality Component(b)

Aaa(IQ)Excellent
Aa(IQ)Very Good
A(IQ)Good
Baa(IQ)Adequate
Ba(IQ)Questionable
B(IQ)Poor

(b) The ratings Aa(IQ) through B(IQ) may be modified by a "1", "2" or "3" to indicate positioning within each rating category.

For additional information, call John J. Kriz (+1 212/553-7134) or Arlene Isaacs-Lowe (+1 212/553-7841) in New York City, or David Vriesenga (+44-207-772-5403) in London.