



## ≡ Methodology

Real Capital Analytics (RCA) has taken the step of expanding their research program to track corporate level and property level economic distress that could affect global property markets.

We have integrated the tracking of Troubled Assets (TA) into our system in order to observe distressed situations across the lifecycle of a property and the different owners of distressed assets. This would contain all classes of property owners and developers who find themselves overextended or otherwise unable to meet their obligations, as opposed to banks, mortgage REITs and other lender groups or debt owners who find themselves in possession of real estate they have taken control of via foreclosure or similar methods.

### DISTRESSED STATUS

**Troubled:** Includes foreclosure, bankruptcy, LenderREO.

**Foreclosure, Bankruptcy, Etc.:** For properties where there is a direct knowledge of property level distress. Known through announcements of bankruptcy, default and court administration as well as significant publicly reported issues—like significant tenant distress or liquidation—that would exemplify property level distress.

**Lender REO:** To signify properties 1st mortgage lenders have taken back through foreclosure. The transaction side of the RCA data set sees this as a Foreclosure sale with the defaulted mortgagee as Seller and the recovering lender as Buyer to show the property changing hands. The property is now Real Estate Owned by a Lender.

**Restructured/Extention:** To classify deals where ownership or debt terms have changed but a long term solution to the cause of distress may not have been reached. Types of ownership restructurings include a mezzanine lender stepping into the equity position or a debt for equity swap. On the debt side, the most common types of restructuring include modifications to the interest rate, loan balance, interest-only period and/or other terms. In almost all cases, at least two of the three stakeholder groups (borrower, 1st mortgage lender, mezzanine lender) most often involved in real estate transactions will retain either an equity or debt stake in the property or portfolio at the completion of the restructuring.

**Resolved:** Represents properties that have moved out of distress via refinancing or through a sale to a financially stable third party.

### TROUBLED SUBTYPES

To further clarify the trouble we are tracking properties that fall within the Troubled Status levels will be marked with a Troubled Subtype at the loan, property and/or ownership level as appropriate:

#### LOAN

- **Delinquent/Default:** Troubled deals known to be delinquent, in default or in special servicing but not yet foreclosed upon or otherwise resolved.
- **In Foreclosure/Administration:** Troubled deals with loan known to be in the foreclosure process, while the lender has not taken the property back they have gone to court and have pressed their claim to the property. These properties are in the process of moving to the Lender REO stage.
- **Funding Stop:** Troubled deal in which lender has cut off financing for reasons including but not limited to the lender's own liquidity problems or lack of confidence in the project.
- **Maturity Default/Past Due:** Troubled deals with loan known to be past maturity but new financing arrangement is unknown.

#### PROPERTY

- **Challenged Development:** Development has been delayed, halted, scaled back, or cancelled due to reasons including but not limited to: failure to sell or lease initial units, funding cut off from a lender.
- **Tenant Bankrupt:** Troubled deal in which the bankruptcy of a tenant represents a large enough percent of occupancy to imperil the borrower's ability to service debt. Bankrupt tenants need to be in liquidation of single tenant properties to be classified as Troubled.
- **Underperforming Conversion or Redevelopment:** Troubled deal in which the buyer had planned to convert the property into condos and sell off individually or otherwise redevelop but for whatever reason it did not happen.

#### OWNER

- **Fraud Alleged:** Troubled deal in which the owner is alleged to have engaged in fraud and those allegations have led to the property becoming distressed.
- **Owner Financially Challenged:** Troubled deal in which the owner of the property is under financial pressure generally and not necessarily relating to this specific property.
- **Owner/GP Bankrupt:** Troubled deal in which the owner or General Partner of the property has declared bankruptcy.