The Pakistan Credit Rating Agency

Real Estate Investment Trust (REIT) Manager Rating

Assessment Framework

Table of Contents

Introduction 2
Profile 5
Ownership 5
Governance 7
Management 8
Investment and Portfolio Management 10
Customer Relationship 12
Investment Performance 13

Summary

This methodology outlines PACRA's approach to assigning a REIT Manager Rating, which is an independent opinion on the quality of a REIT Manager's investment and operations management ability. PACRA's opinion is based on the evaluation of the following factors: i) Profile, ii) Ownership, iii) Governance, iv) Management, v) Investment Risk and Portfolio Management, vi) Customer Relationship, and vii) Investment Performance. PACRA also compares the standing of the REIT Management Company with that of its peers in its relative universe.

Analyst Contacts:
Muhammad Danish Nadeem
danish.nadeem@pacra.com
+92 42 3586 9504

The Pakistan Credit Rating Agency:
Head Office
FB 1 Awami Complex
Usman Block, New Garden Town
Lahore
Phone: +92 42 3586 9504
Karachi Office
169/1, Street No 21.
Khayaban-e-Qasim, DHA Phase 8
DHA, Karachi
Phone: +92 346 2578624

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Introduction

Overview

Real Estate Investment Trusts (REITs) are investment vehicles designed to mobilize resources from a large pool of investors and, in turn, provide them with access to income-generating real estate assets. A REIT is structured like a traditional closed-end mutual fund. However, instead of stocks and bonds, a REIT investor owns real estate-backed units that sell like any other units or listed securities, enabling the investor to invest directly in real estate assets. Returns for the investors come either from rental income distributed through dividends or capital gains through price appreciation of the underlying assets, as reflected in the unit price. REITs generally distribute the majority of their profits (over 90% in Pakistan) to their investors to receive favorable tax treatment under Pakistan's tax laws. REITs enable investors to have direct exposure to a relatively illiquid asset class with low individual investment requirements and a sizeable initial capital requirement.

REIT Industry Structure

A REIT Scheme can execute its project through two structures. The Regulations place specific obligations on the RMC under the second one, and PACRA considers the RMC's adherence to them in its assessment.

- **Direct Investment Structure:** The REIT Scheme invests directly in the REIT Project.
- **Special Purpose Vehicle (SPV) Structure:** The REIT Scheme invests in an SPV, which executes the REIT Project. The RMC manages the SPV under an SPV Management Services Agreement, and the Regulations set conditions on the REIT Scheme's ownership of the SPV and on its governance and operations.

Types of REITs

The REIT industry has two distinct elements: REIT Management Company (RMC) and REIT schemes. REIT schemes can be structured as three different models – Rental, Developmental or Hybrid REIT schemes. These are briefly described below:

- **RMC:** a public limited company licensed to undertake REIT management services.
- **Rental REIT schemes:** established to make investments in industrial, commercial, or residential real estate for generating rental income.
- **Developmental REIT schemes:** established with the objective of development, construction, refurbishment, rehabilitation, management, and/or operation of real estate for industrial, commercial, residential purposes or a combination of these.
- **Hybrid REIT schemes:** comprising a development component as well as a rental component.

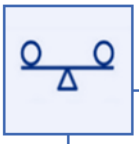
Scope

PACRA has developed separate methodologies reflecting distinct rating considerations for these elements of the REIT industry, depicted in the following diagram. This methodology outlines PACRA's rating considerations for REIT Manager Rating.



REIT Manager Rating

- REIT Manager Rating is an independent opinion on a REIT Manager's quality of investment and operations management.



Rental REIT Rating

- Rental REIT Rating is an independent opinion on the relative capacity of a Rental REIT scheme to maintain stable rental income, and risk factors impacting value of REIT assets.



REIT Fund Rating

- REIT Fund Rating is an independent opinion on a Development or Hybrid REIT scheme's likelihood of succesful implementation of REIT projects and risk factors impacting value of REIT assets.

Regulatory Framework

REITs are regulated by the Securities and Exchange Commission of Pakistan (SECP), which has issued a comprehensive set of regulations (REIT Regulations 2022, hereinafter referred to as "the Regulations"). The Regulations address all aspects of REIT registration, operations, and the roles and responsibilities of all parties, including the RMC. Where applicable, PACRA also considers the Shariah Governance Regulations, 2023, which apply to REIT Schemes and RMCs offering Shariah-compliant products. REITs can be formed under a Public and Private Partnership model (referred to as PPP REIT schemes) or otherwise directly or through Special Purpose Vehicles (referred to as non-PPP REIT schemes). As per the Regulations, a Developmental REIT scheme or Hybrid REIT scheme with a developmental component should be listed three years from the date of transfer of real estate/shares of SPV, whereas other types of REIT schemes should be listed one year from the date of transfer of real estate/shares of SPV. Some salient features of the Regulations are listed in the table below:

Minimum ownership requirement by accredited investor/RMC:	
In the case of a single strategic investor	25% Units
In the case of multiple strategic investors	5% Units
Application for permission to form an RMC	PKR 0.25 million
Application for license to undertake or carry out REIT Management Services.	PKR 1 million
Application for the renewal of a license to carry out an activity or function.	Nil
Launch REIT scheme	PKR 0.5 million
Annual Monitoring Fee paid quarterly to SECP (Rental REIT)	0.1% of fund size
Annual Monitoring Fee paid quarterly to SECP (Developmental REIT)	0.2% of fund size
Annual Monitoring Fee paid quarterly to SECP (Hybrid REIT)	0.15% of fund size

Roles and Responsibilities of a REIT Manager

RMCs provide REIT Management Services to all three types of REITs. REITs invest in different segments within the real estate industry such as office buildings, residential properties, industrial estates, apartments, malls, hotels, and other commercial buildings and mega structures. Some key responsibilities of RMCs, as per the Regulations, are given below:

1) Conducting due diligence of real estate to confirm that it is free from encroachments, defects & encumbrances

2) Ensuring legitimacy and validity of all material contracts pertaining to the REIT schemes and ensuring standard of Trust Deed

3) Completing relevant documentation including business plan, offering documents and information memorandum

4) Being responsible for development, maintenance, operations, renting and sale of the real estate

5) Arranging insurance coverage for real estate & transferring real estate to trustee/SPV (as applicable)

6) Outsourcing certain functions to third-party service for furtherance of objectives of the REIT funds

7) Ensure that REIT Assets are in name of Trustee for benefit of unit holders and customer advances are received in name of Trustee and REIT Scheme is in accordance with Trust Deed and all applicable laws and regulations

RMC Rating Framework

PACRA follows a comprehensive approach when assigning a REIT Manager Rating, comprising both qualitative and quantitative analyses. The factors considered include: i) Profile, ii) Ownership, iii) Governance, iv) Management, v) Investment Risk and Portfolio Management, vi) Customer Relationship, and vii) Investment Performance. This enables PACRA to understand the perspective and objectives of the RMC shareholders, board, and management team. PACRA attempts to analyze an RMC not only on a standalone basis but also in the relative universe

Rating Scale

REIT Manager Rating scale ranges from RM1 (indicating that REIT Manager meets or exceeds the overall REIT management industry best practices and highest benchmarks) to RM5 (indicating that REIT Manager does not meet the minimum REIT management industry standards and benchmarks). Symbols ranging from RM2 to RM4 are appended with '++' and '+' for rankings within the same category.

Profile

Background

PACRA reviews the background of the RMC to understand its evolution from where it started to its current standing. PACRA looks at the progress of the RMC from its historical past and the number of REIT schemes under management of the RMC. The progress of the RMC helps PACRA determine its ability to successfully manage REIT schemes. PACRA considers RMC's experience in the industry and favors RMCs with an established track record of several years, navigating through market cycles, developing sound processes and well-nurtured expertise to offer REIT management services.

Market Share

Size provides sustainability to an RMC and longevity to its operations. Thus, analysis of REIT schemes under management and the product base relative to the industry is central to PACRA's assessment. The aim is to assess the RMC's ability to work with clients and to provide services well-suited to their needs. To gauge this, PACRA assesses the market share of an RMC and its growth over a period of time.

Scheme Mix

PACRA, apart from sheer size, also considers RMC's portfolio of REIT schemes and its diversification. PACRA looks at diversification at two levels: a) AUMs represented by the top scheme, and b) AUMs represented by a single property. Concentration in either of these is not considered favorable.

Ownership

Ownership Structure

The assessment of ownership begins with the RMC's legal status, determining whether it is listed or unlisted. PACRA then conducts an in-depth review of the shareholding structure to understand the structure of ownership. Key factors considered for this purpose include: i) shareholding structure, which includes whether the individual(s) own the RMC directly or indirectly, ii) foreign or local shareholders, iii) whether the RMC is owned by a single group or through a combination of entities and individuals, and iv) whether it is part of a group or operates as a standalone RMC. All these deliberations are done to identify the person at the last mile. PACRA also examines how an RMC is run, as some entities function as family businesses despite their legal company status.

Complex shareholding/ownership structures: In cases where an RMC has a complex ownership structure, there could be unique challenges in evaluating the decision-making process, lines of hierarchy, and financial obligations and liabilities. In analyzing these RMCs, the fundamental issue is to explore the underlying reason or motivation for the complexity of the structure.

RMCs which are owned by private individuals and families: On the one hand, the concentration of equity ownership might indicate that the majority shareholders have a strong vested interest in creating long-term value and closely monitoring management behavior. On the other hand, a potential concern in such cases is that the owners might rely heavily on funds generated by the RMC as a source of income or to fund other business activities, potentially undermining the financial stability of the RMC

Stability

In order to analyze the stability of ownership, succession planning is a particularly important factor to consider. PACRA attempts to assess whether, and under what right of succession, the RMC's prospects would be supported and by whom. This is particularly relevant in case of family-owned businesses and joint ventures, where lack of clear succession could have a contagious effect on the sustainability of the RMC. Stable ownership with clarity in succession, with major stakes residing with one family or group, is considered positive for ratings.

Business Acumen

PACRA gauges the owners'/major shareholders' business acumen. Having a strong business acumen and related experience is considered critical for sustainable success. PACRA analyzes business acumen through two primary areas: i) industry-specific working knowledge, and ii) strategic thinking capability. A deep, practical understanding of the system is critical in order to determine how a business achieves its goals and objectives. The scope includes the assessment and understanding of how the shareholders of the RMC deliberate and successfully make the right business decisions. Conformity to the Fit and Proper Criteria as per the Regulations is also confirmed.

Financial Strength

PACRA evaluates the availability of financial resources with the RMC owner since the Regulations stipulate a minimum paid-up capital of PKR 50mln for RMCs. Moreover, if the RMC is the strategic investor for a certain REITs Fund, it is required to hold at minimum 25% units of the initial size of the fund at all times. This presents the first challenge for the RMC. If the shareholders are unable to arrange the required equity, it may not be able to set up the RMC. PACRA also analyzes the ability and willingness of major shareholders to support the RMC on an ongoing basis and in times of crisis. Here, PACRA gives due importance to: i) behavior of the major shareholders to provide timely and comprehensive support in times of need in the past, ii) prospective view of key shareholders, in case such need arises, iii) other businesses of shareholders, and iv) the level of commitment of the major shareholder with the RMC in providing capital support. In case of no explicit commitment, PACRA attempts to form a view on the availability of likely support. Support, in this context, refers strictly to financial support, rather than operational support. PACRA's review of other businesses includes profiling key shareholders to identify their resources outside the RMC. If, in a group structure, the financial strength of the key shareholder is deemed to be weaker than that of the RMC, this may bode negatively for the RMC's standalone rating given the possibility that the RMC may at some point of time be bound to extend financial support to its weaker parent.

Information Required on Ownership:

- Shareholding pattern
- Details of strategic investor, major shareholders' other businesses
- Shareholders' financial information and other businesses
- Past pattern of support provided by the shareholders

Governance

Board Structure

This comprises assessment of the board on various criteria including overall size, presence of independent members, board members' association with the RMC, overall skill mixes and structure of board committees. Size of the board may vary depending on the scope and complexity of the RMC's operations. While a very small board is not considered good, similarly, reaching a decision in an effective and efficient manner may not be possible in case of a very large board. A healthy composition of board includes the presence of independent/non-executive members having limited relationship with the shareholding group of the RMC. Additionally, having the same individual as both chairperson and CEO is considered weak governance. The chairperson is expected to have a non-executive role, and should be independent for higher rated RMCs. Compliance with the code of corporate governance is also examined. PACRA also considers the independence of governance from major shareholders. Lastly, PACRA evaluates number of board committees, their structure, and how these committees provide support to the board. A board with higher number of members and REIT funds should have a higher number of committees in place to assist in performing its role.

Members Profile

PACRA collects information regarding the profile and experience of each board member. This helps in forming an opinion about the overall quality of the board. Moreover, diversification in terms of knowledge background and experience is considered positive. However, a fair number of board members should have related experience. Members having sufficient knowledge and professional experience of the Real Estate Industry is viewed positively.

Board Effectiveness

In PACRA's view, the role of the board is to work with management in steering the RMC to its performance objectives and to provide critical and impartial oversight of management performance. PACRA analyzes the type and extent of information shared with board members, and the quality of discussions taking place at board and committee levels. Effective oversight requires frequent sharing of detailed information covering various aspects of business and market development. PACRA also reviews the number of board meetings held during the year, as these should be justified with the number of issues/challenges arising. Board members' attendance and participation in meetings is important and is gauged by viewing board meeting minutes.

Transparency

The quality of the governance framework is also assessed by the procedures designed by the board to ensure transparent disclosures of financial and other information. This can be achieved through: i) ensuring independence of the audit committee, ii) strength and effectiveness of the quality of the internal audit function, which may be in-house or outsourced, and iii) improving the quality of external audit by engaging auditors, who are included in the State Bank of Pakistan's panel of auditors and/or have a satisfactory QCR rating.

Accounting Quality: PACRA reviews the quality of an RMC's accounting policies as reflected in its notes to accounts, auditors' comments, and other disclosures which are part of its financial statements. Adherence to accounting standards is assessed, particularly for unlisted concerns.

Information Required on Governance:

- Size and composition of board
- Details of board committees including TORs
- Profile of board members
- Information packs used by the board
- Minutes of board meetings
- Internal auditor details (if outsourced)
- External auditor details

Management

Organizational Structure

PACRA's analysis of the organizational structure focuses on how the RMC is set up while keeping in view the scope of operations and diversity of REIT funds. PACRA believes that departments should be structured in an RMC to ensure segregation of duties and importance of functions to be performed by each department. For instance, risk function has to be separate and independent from sales or operations. Each functional area is covered during the analysis including Internal Audit, Information and Technology, Risk Management, Portfolio Management, Research, Sales and Distribution, Marketing, and compliance, etc.

Management Team

PACRA's evaluation of human resources (HR) is based on an objective criterion that focuses on the background of top management, both individually and collectively. Assessment is based on the years of relevant work experience, prior track record, and tenure with the RMC or related activities. Loss of key personnel, particularly members of senior management and senior portfolio managers, can have potentially adverse effects on the performance of REIT funds under management and overall standing of the RMC relative to its peers. Hence, HR turnover is reviewed to determine the stability of critical staff, with particular focus on key departments. In addition, RMC's HR policies are also reviewed to gauge RMC's emphasis on retaining and recruiting vital staff and ensuring their redundancy in the structure.

Since the RMC is responsible for setting up the REIT, developing the business plan and implementing it, it is extremely important that its management team has the relevant business and financial acumen and experience to fulfill their roles effectively. Here, PACRA gives higher weightage to an RMC which is part of a group with experience and expertise in real estate development and management. Senior individuals with expertise in real estate-related legalities are also important to ensure that due diligence of the real estate is conducted proficiently in terms of completeness and authenticity of documentation, clarity on legal status, and transferability of real estate.

Management Effectiveness

Optimum deployment and delivery of management services require adequate skills and operating systems. When deployed correctly, these boost management effectiveness. Skills and systems could be internal or can be arranged by entering into a contract with a third party. PACRA's analysis is based on a thorough review of management systems to assess their effectiveness and adequacy. PACRA places high value on system-generated MIS and standardized

policies and procedures. A key measure of management effectiveness is its track record of delivering on past projections and projects, and implementing its strategy effectively.

MIS: System-generated, real-time-based MIS reports add more efficiency in decision-making, whether related to operational, financial, or strategic issues. PACRA evaluates the quality and frequency of the MIS reports used by the management team to ascertain how it supplements decision-making within the RMC is information-based.

Control Environment

An analysis of the overall Compliance and Internal Control framework (including Internal Audit procedures) of the RMC helps in identifying the procedures, controls, and reporting lines in place. A robust control environment ensures the management of conflicts of interest, meets fiduciary responsibility, and verifies the accuracy of financial and accounting information prepared for investors and other stakeholders. This analysis assesses the strength of the overall compliance and control environment beyond regulatory requirements. Well-documented and comprehensive internal policies and a structured internal control program are viewed as positive factors for the rating. The compliance function is evaluated on an enterprise-wide basis. More value is placed on the independence of the compliance function and integration into the overall systems of the RMC.

Oversight of Third-Party Service Providers

Existence of documented policies and processes established by the RMC for availing services by third-party service providers is viewed positively. In particular, PACRA assesses how due diligence of service providers is conducted by RMC, onboarding processes, and mechanisms in place to monitor the quality of services being provided by the third parties as per the underlying Service Level Agreements (SLAs). Controls surrounding these processes are considered crucial as the performance of the REIT is not only dependent upon the management of the RMC but also upon the quality of the services provided by third parties. Since ultimate responsibility for outsourced functions rests with the RMC, PACRA evaluates whether an adequate mechanism exists for the identification and mitigation of service providers' related risks. Here, PACRA gives due credit to the existence of comprehensive contingency plans developed under the guidance of the RMC's Board to prevent potential disruption in operations due to negligence or underperformance of the service providers.

Managing Conflicts of Interest

It is possible that the key owner/strategic investor of the REIT holds multiple real estate properties, which they may choose not to include under the REIT. This would effectively mean competing real estate interests, which could impact the impartiality of the key owner. Since the key owner has a high minority stake (possibly even a majority stake), and may also be part of the Board/management team, this can create potential conflict of interest. Other conflicting interests may arise if an RMC outsources key functions to affiliates or associated companies. The Regulations limit such risks to some extent by requiring certain functions, including the trustee, valuer, and advisor/consultant, to be independent. However, other roles such as those of property manager or developmental advisor may still result in a risk of self-dealing if transactions are not conducted on an arm's-length basis. Here, PACRA would place emphasis on the RMC's policy on avoiding such conflicts and assess how the RMC ensures robust controls around related party transactions. There may also be conflicts of interest on the RMC's part if compensation arrangements are not well thought out. If the management fee of the RMC is tied to the value of underlying real estate assets, this can potentially

impact decision-making by the RMC. It is highly unlikely that the RMC would want to sell a valued asset in such case, even if the sale may result in a substantial capital gain for the REIT. Therefore, it is preferred that the management fee be linked to operating income/profits rather than the value of underlying assets.

Operational Risk: Operational risk is the risk of loss resulting from inadequate internal processes, people and systems or from external events. An analysis of the RMC's Disaster Recovery (DR) procedures, infrastructure security and monitoring of third-party activities helps determine the viability of the operational control environment against unanticipated business disruptions, personnel errors and inadvertent data entry errors.

Information Required on Management:

- Latest organogram
- Details of management committees
- Business Plans of REIT schemes under Management
- Profile of senior management
- Redundancy pattern
- MIS reports
- Minutes of management committees' meetings
- REIT's policies and SOPs

Investment and Portfolio Management

Investment Risk Management Framework

A strong risk management framework and monitoring culture are pivotal for effective investment and portfolio management. Evaluating the overall risk management framework of the RMC enables PACRA to determine how various risks are identified, monitored, and mitigated across the RMC. The efficiency of controls and risk management within an RMC is instrumental in mitigating risks arising from operational and investment management activities. Our analysis also considers the role of the Board in formulating risk management policies, the independence of the risk management function, and key risk indicators and IT systems employed by the RMC to monitor risk. At the same time, the involvement of senior management in the overall risk management function is assessed to understand the organization's emphasis on risk and its overall risk culture.

Type of Risks

Investment Risk Management permeates the entire investment management process and consists of two pillars: a) macro-economic risks, and b) portfolio risks. Macro-economic risks pertain to the operating environment of the industry and overall economy. Portfolio risks are related to REIT schemes under the management of the RMC. PACRA reviews the coverage and appropriateness of risk indicators used by the RMC for both macroeconomic and portfolio-level risks, and the capacity of the RMC to measure such indicators and monitor exposures against explicit and meaningful limits. Reconciliation between expected and actual risk levels is equally important and requires regular comparisons, analysis of discrepancies, and corrections. Key risks to which an RMC is exposed during its investment processes and portfolio management are summarized below:

- **Economic and Industry Risk:** These are macroeconomic and industry-specific factors. The real estate industry is strongly correlated with overall economic conditions. Macroeconomic indicators that impact real estate include GDP growth, manufacturing activity, the interest rate environment, and government policies. Meanwhile, PACRA analyzes the real estate industry in the context of the local economy, regulatory environment (especially taxation) and trends impacting the industry.
- **Asset Quality:** This includes market position (demand and consumer interest relative to other properties), project risk (completion of projects of Developmental and Hybrid REITs), tenancy risk (tenancy agreements, profile and concentration of tenant base, and vacancy rates), marketability of the underlying properties, legal risk (any ongoing or potential legal disputes), third-party service provider risk (risks arising due to quality of services provided by third-party contractors), and event risk (risk arising due to unforeseen events).
- **Financial Risk:** Here, PACRA analyses the availability of liquid resources for completion of projects, cash flows, management of ongoing cash flow needs, insurance arrangements and debt burden to ascertain the level of risk.

PACRA considers the underlying protocols developed by the RMC to mitigate and avoid these risks. PACRA considers it positively if the RMC has well-structured enterprise risk management processes, thoroughly designed standard operating procedures and internal control systems covering the above-stated risks. Similarly, business plans for underlying schemes are analyzed. For newly launched schemes, PACRA's analysis is based upon the adequacy and achievability of the business plan. PACRA analyzes whether the business plan covers legal, financial, and business aspects, contingency planning, and exit strategies. For operational schemes, PACRA also compares the stated objectives in the business plans with the actual results achieved by the managed schemes.

Investment Decision Making

PACRA assesses how investment/divestment decisions are formulated, reasoned, and analyzed. From this perspective, the composition of the Investment Committee, experience of its members, frequency of meetings, independence from other functions, and investment committee packages are reviewed to determine the overall effectiveness of the decision-making process. The Investment Committee is integral to this process, serving as the primary reference point for all investment decisions made and implemented. PACRA considers IC composition by reviewing the profile of individual IC members to gauge the collective investment acumen. The dominance of any particular member is carefully scrutinized through review of Investment Committee minutes. Additionally, the effectiveness of the IC is also gauged by studying adherence to the stated investment objectives and philosophy, ensuring it discharges its responsibilities in the best interest of the investors.

Investment Research and Analysis

Strong investment research and analytical frameworks are critical for prudent investment management. In the absence of formal data pertaining to Pakistan's real estate sector, it is crucial that the RMC has a well-structured, well-staffed, and capable in-house research function to gather data required for investment decision-making. The experience and educational profile of the research team are considered. Ultimately, the quality of the research would dictate how effectively the RMC monitors the real estate value, market position, changes in the economic and regulatory environment, and legal issues, in addition to any other risk factors which may impact the operations and performance of the REIT. The degree of independence enjoyed by the research staff in its operational activities and investment recommendations, both from the fund management team and from the reference shareholder, is an important determinant in assessing its effectiveness in the investment management chain.

Information Required on Investment Risk and Portfolio Management:

- Investment Policy and Guidelines
- Risk policy/manual
- Details of risk management systems
- Details of investment committee (incl. members' profiles and ToRs)
- Details of research function
- Sample research reports

Customer Relationship

Investor Services

RMC is responsible for regular reporting to its investors and the regulator. PACRA examines the investor services platform of an RMC for evaluating overall service quality and resource availability for investor education and facilitation. Client relationship management system (CRM) software/platform and its capabilities are analyzed to determine efficacy and ease of use from investors' perspective. This includes both existing and potential investors of the RMC. PACRA evaluates the RMC's capacity to provide appropriate responses tailored to investors' requests, as well as keeping abreast of applicable regulations. Similarly, sales force and other staff adequacy, their g, technical knowledge, value-added services provided, and access to information are analyzed.

Investor Reporting

Much of the information provided to investors is communicated through regular reporting, which PACRA examines in light of its comprehensiveness, clarity, consistency, accuracy, and timing. PACRA also evaluates the capacity to customize reports to meet varied investor requirements. Beyond mere reporting, PACRA believes that all RMCs should offer performance presentations and performance attribution reports to their clients on a timely basis. PACRA, therefore, looks at the accuracy of performance attribution and consistency with the investment process. PACRA also reviews the resources and the procedures used in the production of reports, particularly with respect to data accuracy.

Distribution and Sales Network

PACRA examines the distribution and sales network of an RMC. Particular focus is given to RMC marketing strategies, a well-structured sales team, and association with other players in the real estate industry. At the same time, RMC's emphasis on brand management, strength of the sales team, training of HR, and related performance reviews is also incorporated in the analysis.

Information Required on Customer Relationship:

- Overview of CRM
- Details of value-added services
- Frequency, mode, and information of client reporting
- Complaint management policy and systems
- Details of sales and distribution channels

Investment Performance

REIT Schemes Under Management

PACRA looks at the growth trend in the AUMs. This is then compared to industry trends and peer performance over the period. Movement in AUMs is also assessed in light of the overall economic environment during the period. Segment-wise composition of AUMs is analyzed to understand significant changes in trends and possible underlying risks.

Performance

Achieving competitive investment results to sustain and improve REIT schemes is the principal objective of an RMC. Over the long run, poor performance leads to reputation risk and makes holding on to REIT Schemes challenging. This lowers the income and leads to deterioration in profitability and ultimately the standing of the RMC. PACRA believes that in the long run, the REIT schemes of an RMC with noted strengths will usually be superior or at par with peers. Given the low number of players currently operating in the REIT industry and lack of availability of formal data pertaining to the real estate sector in general, performance benchmarking is expected to be a challenge in the short term and could be made across asset classes. However, the growth momentum of the industry, supported by favorable government policies, is encouraging, and more performance-related data gathered over time is expected to allow for building of sophisticated datasets and indices for comparative analyses.

Financial Sustainability

PACRA looks at the financial position of the RMC to assess its sustainability. For this, both balance sheet analysis and profit analysis are undertaken. Several aspects of the RMC's income statement are considered: revenue and diversification of revenue streams, revenue from management fees and other income, expense trends, and concentration by REIT schemes and industry segments. More than 50% of revenue contribution by one REIT scheme or industry segment may not be considered favorable. These deliberations are done to assess whether the RMC is financially stable to maintain its operations in the long run and its payment capacity in case any liability comes due. The return on equity is analyzed in conjunction with peers to take a view as to the investor's satisfaction with the investment. PACRA also considers if there are insurance arrangements to cover the loss occurring due to errors and omissions.

Information Required on Investment Performance:

- Details of insurance policies acquired
- Analysis of growth trends of REIT schemes under management
- Financial Statements
- Financial Projections

REIT Manager Rating Scale

An independent opinion on a REIT Manager's Quality of investment and operations management.

Scale	Long-Term Rating
RM1	Very high quality of investment and operations management.
RM2++ **RM2+** **RM2**	High quality of investment and operations management.
RM3++ **RM3+** **RM3**	Good quality of investment and operations management.
RM4++ **RM4+** **RM4**	Adequate quality of investment and operations management.
RM5	Weak quality of investment and operations management.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business / financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within the foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany the rating outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization
A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

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