

REAL ESTATE WEEKLY

Serving America's #1 Market

New investment analysis tool boosts investor confidence

June 2008

Risk Integrated, a consulting and technology firm focusing on risk management for specialized finance, recently announced it has added an **equity analysis module** to its Specialized Finance System (SFS) for Commercial Real Estate (CRE).

The addition offers property investors and portfolio and asset managers the ability to analyze debt and equity investments in a single coherent framework. The new module has been designed to address investor demand for transparency at a time when lenders and asset managers are looking to stabilize investor confidence in their CRE assets. In addition, it will provide banks with the necessary framework to meet Basel II Advanced compliance for their entire portfolio and for individual loans.

As the effects of the current market crisis permeate the CRE sector, investors are demanding more understanding of the risk exposures and market stresses on their portfolios. Risk Integrated's equity analysis module enables those structuring CRE deals to address investors' concerns over equity exposures on any deal or portfolio.

The new analysis tool provides a consolidated portfolio view of the exposures, as well as the ability to drill down into individual assets. This ensures volatile deals can be restructured when needed. The enhancement to the SFS will bring clarity to the stresses on deal values at a time when managers, board members, regulators and investors all need reassurance as to the quality of the assets on

balance sheets. Dr. Chris Marrison, CEO of Risk Integrated comments, "Increasingly, our clients are demanding more transparency in their CRE portfolios, both from a debt and equity perspective. The current market sentiment is to be very apprehensive about risks where there is any lack of transparency."

Property investments in the CRE sector have been hit heavily due to lack of confidence caused by the complexity of these transactions. Third parties are calling for a deeper insight into the values and risks of portfolios they have interests in. These factors, along with Basel II, have driven the need to demonstrate solid internal risk measurement and prove the quality of deals.

To meet this demand, the capability of the SFS has been extended to offer equity analysis in addition to debt analysis. The system allows users to assess and report on how instruments such as interest rate and property derivatives can be used to effectively hedge and assess the risk-return profile which is critical to maintaining profitability during the current credit crisis.

To guide the portfolio manager in restructuring risks, the SFS can also simulate the effects of the sale of individual properties, reserve accounts, sweeps and sinking funds on future cashflows. Using advanced quantitative techniques and cashflow simulation, the distribution of outcomes in thousands of possible scenarios can be tested.

The SFS equity module is unique in offering this capability for global portfolios of thousands of deals. This capability comes in part from the analytics and in part from the data integration tools that create a centralized data repository for commercial real estate assets.

Dr. Yusuf Jafry, Risk Integrated's CTO, remarks, "In order to have a cohesive and comprehensive overview across their portfolio, banks have to pull together and consolidate disparate data sources, such as the banking systems, Excel and paper sources. We have developed these capabilities for commercial real estate lending and now, the addition of the equity analysis module extends the capability to be used by other investors such as asset managers, insurance companies and pension funds.

