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Morningstar Credit Ratings, LLC Contacts

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Deadline

Morningstar Credit Ratings, LLC (MCR) will accept comments on this Request for Comment until 5 p.m. Eastern Time on July 5, 2017.

How to submit your comments

Comments should be submitted by the deadline date and time via email to NRSROconsultations@morningstar.com. Comments should contain your name, your title (if writing on behalf of an organization), your organization (if applicable), address, phone number, and email address.

Once MCR takes action with respect to the proposed methodology or methodology change, it will publish a summary report on the request for comment, which will also disclose the comments it received during the comment period (subject to certain conditions). Therefore, commenters should also include with any response to this Request for Comment any request to keep their identity and/or the content of their comments confidential. However, commenters should understand that confidential responses may still be circulated internally at MCR, or its affiliates, to individuals who have a need to know and may be turned over to regulatory authorities in response to any inquiry, investigation, examination, or subpoena, or may be discoverable and produced as part of a legal or administrative proceeding without further notice to the commenter.

Scope of Proposal

MCR is proposing a draft U.S. real estate investment trust (REIT) credit rating methodology for the purpose of initiating, maintaining, and adjusting credit ratings on REITs. The proposed methodology will be utilized in conjunction with MCR's Corporate Credit Rating Methodology.

Summary of Proposal

The proposed REIT methodology utilizes the four scores, or pillars, that are utilized in the application of MCR's corporate methodology, with certain REIT and commercial real estate adjustments:

Business Risk

A number of the scores that build the Business Risk assessment were retained from the MCR's corporate methodology: Size, Economic Moat™, Uncertainty, Concentration Risk, Management Score, Capital Access, and Cyclicity. As well, we

retained the Other Company Risk Factor, which can be used when other important credit considerations are not captured in the other scores. The differences are: 1) we use EBITDA instead of revenue to evaluate size (the corporate methodology permits alternatives to revenue to measure size, so this is not necessarily a departure), and 2) we have added the Property Quality and Positioning score to capture age of portfolio, location, rents earned relative to market, etc.

Additionally, we anticipate assigning ratings to REITs which are not covered by Morningstar Research Services LLC. In these cases, we will estimate our own moat components and uncertainty assessments.

Cash Flow Cushion™

This score is similar in approach and purpose to the MCR's corporate methodology; however, the REIT methodology approach differs in that we calculate funds from operations and adjusted funds from operations, according to conventions widely utilized by REITs and their investors.

Additionally, REITs refinance debt maturities with proceeds from issuing new debt, equity, or selling assets. A REIT's ability to generate proceeds therefore is measured against the value of its properties, primarily those unencumbered by debt and thus available for sale or borrowing collateral for secured borrowings. Therefore, we included an estimate of unencumbered assets in Cash Flow Coverage.

To view the full proposed MCR REIT Credit Ratings Methodology document, please click [here](#).

Impact on Outstanding Ratings

MCR has assigned ratings to three telecommunications infrastructure companies under our Corporate Credit Rating Methodology which have converted to REITs: American Tower Corp., Crown Castle International Corp., and SBA Communications Corporation. MCR expects to rate these companies using the proposed REIT methodology when it is officially adopted.

MCR has no outstanding ratings on any other REITs.

Related Methodology and Research

Related Methodology

- Corporate Credit Rating Methodology (Sept 2016)