



October 2009

To: all ADIs accredited to use the internal ratings-based (IRB) approach to credit risk

Identification of income producing real estate (IPRE) specialised lending exposures

APRA has been working with those authorised deposit-taking institutions (ADIs) approved to use advanced approaches for credit risk capital requirements to develop criteria for consistent identification of IPRE exposures. The criteria and are as follows:

In order for an ADI to treat a property exposure as a general corporate exposure under the IRB approach to credit risk rather than as a IPRE specialised lending exposure, the ADI should have recourse for that exposure to an entity that meets all of the following minimum criteria:

- the entity is a listed or a substantial private company, and is managed by a recognised, professional and reputable management team;
- the ADI's exposure to the entity is not specifically or substantially financing limited recourse development projects;
- the entity has greater than \$250 million in tangible assets, to which the lender has unconditional recourse (for instance, this would not include recourse to the likes of personal assets via directors' guarantees nor a simple debenture charge taken for 'makeweight' purposes);
- property assets are sufficiently diversified such that:
 - no single property asset represents greater than 25 per cent of the entity's property portfolio by value; and
 - property assets are not concentrated in one particular specific geographic location (asset concentrations in an individual major CBD are acceptable, subject to all other criteria having been met); and
- for property operators/investors, tenants are sufficiently diversified such that no single tenant represents:
 - greater than 10 per cent of portfolio net rental income for portfolios of commercial offices, industrial buildings, or those diversified across sectors (except for government tenants, subject to the above asset diversity criteria having been met); and

- greater than 25 per cent of portfolio net rental income for portfolios of retail shopping centres that typically require significant anchor tenants to attract speciality tenants.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wayne Byres', is centered on a light grey rectangular background.

Wayne Byres
Executive General Manager - Diversified Institutions Division

Tel: 02 9210 3146
Fax: 02 9210 3421
wayne.byres@apra.gov.au