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Fitch to Take Closer Look at Revolving Credit Lines

By Allen Kenney

REITs generally are in solid shape in terms of their ability to obtain revolving credit lines, although Fitch Ratings in a report said it is taking a more critical look at companies' abilities to extend the maturities of these financing facilities.

Fitch's report, entitled "Renewal and Pricing Risk for U.S. Equity REITs' Revolving Lines of Credit," outlines the impact of the recent upheaval in the financial industry on REITs' ability to obtain unsecured, revolving credit lines. Companies use these lines of credit to finance acquisitions and working capital needs. In the past, lenders have allowed REITs to exercise options to extend the maturity of their credit accounts.

"Therefore, when reviewing the liquidity positions of U.S. equity REITs, Fitch has historically taken the view that line-of-credit maturities would not result in ultimate repayment of such facilities. In the current market, Fitch is reexamining this assumption," the ratings agency's REIT analysts wrote in the report. "If certain REITs were unable to renew lines of credit altogether, such REITs would experience constrained liquidity and limited financial flexibility. This would likely hinder the ability of such REITs to meet their financial obligations and would likely result in rating downgrades."

However, Steven Marks, Fitch's managing director for REITs, downplayed the notion of massive credit downgrades in the immediate future. "Given the uncertainty in the banking sector, REITs do face a higher risk of non-renewal of unsecured lines of credit," he said. "But this is not a near-term risk, given that very few REITs that Fitch covers have lines of credit maturing in 2009."

Fitch identified only seven REITs with credit lines that had stated maturities in 2009, six of which held options to extend the maturities into 2010.

The analysts also tried to gauge REITs' sensitivity to price increases on borrowing as related to the companies' debt covenants. They found that higher borrowing costs would have a minimal effect on the EBITDA-to-interest ratios of the REITs covered by Fitch. Consequently, they determined that pricier borrowing would pose little risk to these companies' credit ratings.

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