S&P Global Ratings

Research

Presale:

Taurus 2021-5 UK DAC

October 18, 2021

Preliminary Ratings

Class	Preliminary rating*	Preliminary amount (mil. £)	S&P Global Ratings loan-to-value ratio (%)§	Market value decline (%)§†	Debt yield (%)§‡	Expected final maturity**	Interest§§	Legal final maturity
A	AAA (sf)	98.4	39.4	74.9	16.2	May 17, 2025	SONIA plus a margin	May 17, 2031
B	AA- (sf)	31.8	52.1	66.8	12.3	May 17, 2025	SONIA plus a margin	May 17, 2031
C	A (sf)	17.3	59.0	62.4	10.8	May 17, 2025	SONIA plus a margin	May 17, 2031
D	BBB (sf)	26.1	69.5	55.7	9.2	May 17, 2025	SONIA plus a margin	May 17, 2031
E	BB- (sf)	34.7	83.4	46.9	7.7	May 17, 2025	SONIA plus a margin	May 17, 2031
F	B- (sf)	41.7	100.1	36.2	6.4	May 17, 2025	SONIA plus a margin	May 17, 2031

Note: This presale report is based on information as of Oct. 18, 2021. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *Our preliminary ratings address timely interest payments and of principal repayment no later than the legal final maturity in May 2031. §Based on the total senior loan amount. †Reflects the approximate decline in the £3.7 billion market value based on corporate sale and portfolio premium that would be necessary to experience a principal loss at the given rating level. ‡Based on S&P Global Ratings' NCF and the total senior balance. **The initial maturity date is May 2022, but it can be extended three times if the borrower exercises its three one-year extension options. §§At all times, the SONIA will be subject to a floor of 0%. After the expected maturity date, the amount of interest representing the amount by which SONIA exceeds 4.00% per year will be subordinated to the payment of interest and principal on the notes. SONIA-- Sterling Overnight Index Average. NR--Not rated. N/A--Not applicable. NCF--Net cash flow.

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Transaction Participants

Arranger and lead manager	Merrill Lynch International
Loan seller	Bank of America N.A., London Branch
Primary servicer, special servicer, and facility agent	CBRE Loan Services Ltd.
Cash manager	U.S. Bank Global Corporate Trust Ltd.
Account bank, agent bank, and principal paying agent	Elavon Financial Services DAC
Note trustee and issuer security trustee	U.S. Bank Trustees Ltd.
Liquidity facility provider	Bank of America N.A., London Branch
Hedge counterparty	Merrill Lynch International
Corporate services provider	CSC Capital Markets (Ireland) Ltd.

Supporting Ratings

Institution/role	Ratings
Elavon Financial Services DAC as issuer account bank provider	AA-/Negative/A-1+
Bank of America N.A., London Branch as liquidity facility provider	NR
Bank of America N.A., interdependency bank branch parent, on the unrated branch	A+/Positive/A-1

NR--Not rated.

Transaction Key Features

Expected closing date	November 2021
Number of loans	1
Number of assets	43
Geographic concentration of assets	U.K. (100%)
Asset type concentration	Purpose built student accommodation (100%)
Securitized loan balance (mil. £)	263.2
Total senior loan (bil. £)	2.36*
As-is market value (bil. £)	3.29
Market value based on corporate sale and portfolio premium (bil. £)	3.70
As-is market value LTV ratio (%) based on total senior loan	71.6
Market value based on corporate sale and portfolio premium and total senior loan LTV ratio (%)	63.7
Redemption profile	Principal recoveries are applied pro rata. After a note acceleration, a loan failure event, or the issuer security becoming enforceable, all available funds are applied sequentially.
Liquidity facility size (mil. £)	8.0
Interest limitation of junior notes	Available funds cap on the class F notes
Hedging profile	The senior loan is 100% hedged through a borrower-level interest-rate cap

Transaction Key Features (cont.)

*Includes £2.19 billion senior term facility and assumes the complete drawing of the £169 million senior capex facility. (To date, only £74.6 million of capex facility drawn.) LTV--Loan to value. N/A--Not applicable.

Transaction Summary

S&P Global Ratings has assigned preliminary credit ratings to Taurus 2021-5 UK DAC's class A, B, C, D, E, and F notes.

The transaction is backed by £263.2 million of a £2.36 billion senior loan, which includes a £169 million capital expenditure (capex) facility which we have assumed will be fully drawn. Bank of America N.A., London Branch and three other lenders, originated the loan in February 2020 as part of the financing of Blackstone Inc.'s acquisition of iQ Student Accommodation (iQ), one of the U.K.'s largest student housing providers.

The senior loan is secured by 43 purpose-built student accommodation (PBSA) properties totaling about 21,000 beds located throughout the U.K.

The securitized senior loan (£263.2 million) will be 11.2% of the senior loan (£2.36 billion). As part of EU, U.K., and U.S. risk retention requirements, the issuer and the issuer lender (Bank of America N.A., London Branch) will enter into a £13.2 million (representing 5% of the securitized senior loan) issuer loan agreement, which ranks pari passu to the notes of each class. The issuer lender will advance the issuer loan to the issuer on the closing date. The proceeds of the issuer loan will be applied by the issuer as partial consideration for the purchase of the securitized senior loan from the loan seller.

The portfolio consists of PBSA properties spread out across England and Scotland. The appraiser has valued the as-is value of the portfolio at £3.29 billion or £3.70 billion based on a corporate sale and portfolio premium. The current loan-to-value (LTV) ratio is 71.6% based on the as-is value or 63.7% based on the corporate sale and portfolio premium value. The two-year loan (with three one-year extension options) provides no amortization prior to a permitted change of control. Unless there is a permitted change of control in the borrower, there are no financial covenants, only cash trap covenants.

Our preliminary ratings address Taurus 2021-5 UK's ability to meet timely interest payments and principal repayment no later than the legal final maturity in May 2031. Our preliminary ratings on the notes reflect our assessment of the underlying loan's credit, cash flow, and legal characteristics and an analysis of the transaction's counterparty and operational risks.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For CMBS, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as average (see "ESG Industry Report Card: Commercial Mortgage-Backed Securities," published March 31, 2021). The sector's above average exposure to environmental credit factors reflect environmental risks, such as physical climate and pollution. These risks can have serious and material effects on the value of the underlying commercial real estate backing the rated certificates--especially since CMBS pools are generally more concentrated than other highly diversified asset classes in structured finance.

The transaction's exposure to environmental credit factors is in line with our sector benchmark, in our view. Our analysis of the underlying real estate in the loan pool included a review

of third-party appraisal(s), environmental site, property condition, and seismic risk assessments (when located in a high hazard earthquake zone). We also reviewed the underlying loan documentation or a sample of the largest loans in the loan pool in conduit transactions. In particular, we looked at the property insurance requirements, the loan covenants requiring

borrower(s) to maintain the real estate in good condition and appropriately address any exposure to environmental conditions, and any other available loan features we deemed relevant (e.g., environmental indemnity, third-party environmental guarantee, and specific cash reserve). We also reviewed the disclosed exceptions to the seller's representations and warranties to identify any other significant unmitigated environmental credit factors present in the smaller loans, if applicable.

Our review concluded that environmental credit factors are not key rating drivers in this transaction because these risks were adequately addressed. While the progressive decarbonization of the real estate sector by 2050 is expected to influence market values over time, we believe our current approach to evaluating stressed long-term recovery values indirectly accounts for the potential materialization of that pricing differentiation over the expected life of the transaction. In addition, our analysis does not give credit to any future actions that landlords and tenants may take to reduce their carbon footprint to support a healthier environment and preserve property value. As a result, we have not separately identified this as a material ESG credit factor in our analysis.

The transaction's exposure to social and governance credit factors is in line with our sector benchmark, in our view.

Strengths, Concerns, And Mitigating Factors

Strengths

- The loan is secured by a geographically diverse portfolio of 43 properties comprising approximately 21,000 bedspaces across 19 towns and cities in England and Scotland.
- The portfolio benefits from a granular income stream. The largest asset, providing 704 bedspaces on individual leases, represented 6.6% of the total gross income for the last pre-COVID-19 academic year (2019/2020).
- The portfolio is generally aligned with stronger universities. About 75% of the portfolio is located in cities that are homes to Russell Group Universities. About 50% of portfolio by value is located in London, with five Russell Group institutions, while a further 40% are in prime regional universities cities.
- The operating platform, iQ, is one of the largest providers of student accommodation in the U.K. The platform is used to manage 67 properties across 27 cities in the U.K. Between 2017 and 2020, the average occupancy of the portfolio was 97.7%.
- In our view, the transaction's five-year tail period would be sufficient, if necessary, for the ranked servicer to manage a real estate workout process.

Concerns and mitigating factors

- The student accommodation asset class was highly affected by COVID-19-related travel restrictions and social-distancing rules. This led to a significant occupancy decline for the portfolio to 71% from historical levels of 97%-98%. That said, following the relaxation of COVID-19 restrictions, bookings as of Sept. 24, 2021 was 78.7% for the academic year (AY) 2021/2022, despite travel restrictions still being in place for foreign students. In our analysis, we have deducted downtime to reflect the difference between our assumed vacancy and the current booking rate.
- Although the portfolio is spread across 43 properties in 19 towns, there is some concentration (about 50% by market value) in London. The London properties were affected more by COVID-19 as it attracts a larger percentage of overseas students who were unable to travel due to restrictions. However, AY 2021/2022 bookings for the London properties were about 62% despite travel restrictions still being in place, which is an increase from 54% during AY 2020/2021.
- The loan is exposed to concentration risk, as all of the properties have the same type of use. However, demand for student accommodation remains relatively strong. The demographics in the U.K. show the number of 18-year-olds increasing. The Universities and College Admissions Service in the UK (UCAS) reported in February 2021 that the number of students that had applied to U.K. universities had increased by 8.5% in February 2021.
- International students represent a core segment of demand for U.K. student accommodation, which can be affected by geopolitical events. However, current government support for overseas students continues to be strong. UCAS reported in February 2021 a 17.2% increase in applications from foreign, non-EU countries.
- The borrower can take out additional mezzanine debt up to an 81.5% LTV ratio. Although there is currently no additional mezzanine debt, we have reflected this potential risk in our analysis with a minus 2.0% adjustment to our recovery rate for all rating levels.
- The loan amounts allocated to the properties are not in proportion to their market values. However, given the granularity of the portfolio (the largest represents 9.2%), we believe it protects the collateral pool from ratings degradation as a result of adverse selection.
- The transaction documents include provisions for the transaction parties to seek a rating agency confirmation (RAC) that certain actions will not result in a downgrade or withdrawal of the then-current ratings on the securities. The definition of RAC in the transaction documents includes an option for the transaction parties to deem their RAC request satisfied if, after having delivered a RAC request, the transaction parties have not received a response to the request within a certain period of time. We believe it is possible for a situation to arise where an action subject to a RAC request would cause us to downgrade the securities according to our ratings methodology, even though a RAC request is deemed to be satisfied pursuant to this option.

Transaction Characteristics

Legal structure

On the closing date, the issuer will issue the notes and draw the issuer loan from the issuer lender.

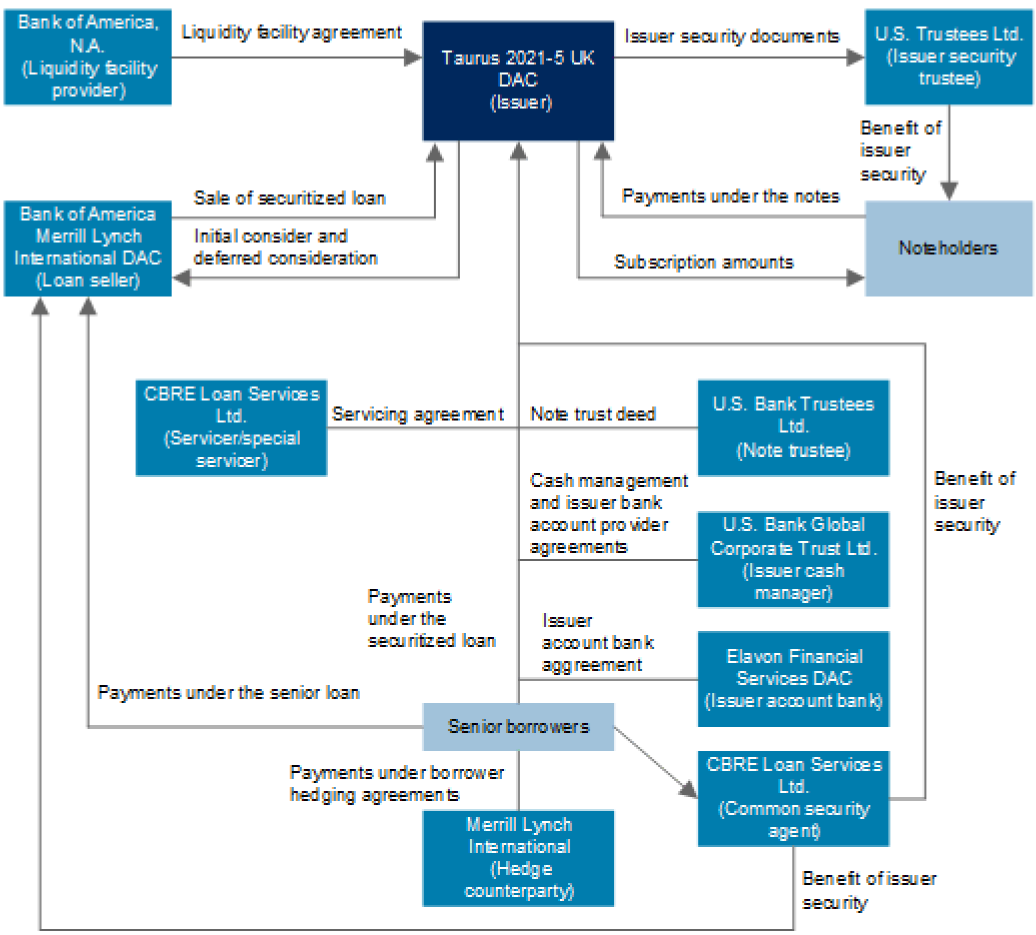
The proceeds of the issuance of the notes will be used by the issuer, with the amount borrowed by the issuer under the issuer loan, to acquire an amount of £263.16 million of the senior loan from the loan seller.

The issuer will benefit from a pari passu interest in the senior loan's security package, which includes:

- A first-ranking mortgage security over the 43 properties;
- A first-ranking security over all rental income, all rights under occupational leases, and insurance proceeds;
- A first-ranking security over all bank accounts, intra group receivables, and the shares in any subsidiaries; and
- A first-ranking security over any hedge agreement.

Chart 1

Transaction Structure



Loan characteristics

The notes along with the issuer loan will be secured by a 11.2% interest on the senior loan that Bank of America N.A., London Branch and three other lenders, originated in February 2020 as part of the financing to facilitate Blackstone's acquisition of iQ, one of the U.K.'s largest student housing providers.

The senior loan, which matures in May 2022 and has three one-year extension options, has a loan balance of £2.36 billion, reflecting a 71.6% LTV ratio based on the as-is market value or 63.7% based on the corporate sale and portfolio premium market value. The loan provides no amortization or financial covenants prior to a permitted change of control but there are cash trap mechanisms from origination.

Table 1

Key Senior Loan Characteristics

Property type	Purpose-built student accommodation (100%)
Number of properties	43
Property location	U.K. (100%)
Total senior loan (bn. £)*	2.36
Securitized portion of total senior loan (mil. £)	263.2
Loan maturity	May 2022, with three one-year extension options
Loan type	Acquisition
Fixed/floating interest	Floating: SONIA plus 1.85%
Amortization	None. Following change of control, 0.25% of outstanding loan amount per quarter.
Cash trap covenants	LTV ratio greater than or equal to 75%. Or a debt yield of:less than 6.02% before October 2022; less than 6.30% from November 2022 to October 2023; or less than 6.50% from November 2023.
Borrower hedge counterparty	The senior loan is 100% hedged through a borrower-level interest-rate cap
As-is market value (bn. £)	3.29
Market value based on corporate sale and portfolio premium (bn. £)	3.70
As-is market value LTV ratio based on total senior loan (%)	71.6
Market value based on corporate sale and portfolio premium and total senior loan LTV ratio (%)	63.7

*Includes £2.19 billion senior term facility and assumes the complete drawing of the £169 million senior capex facility. (To date, only £74.6 million of capex facility drawn.) LTV--Loan-to-value. AY--Academic year.

Sponsor and operating platform overview

The sponsor is Blackstone, an investment firm with approximately $571 billion in assets under management. The Blackstone Real Estate platform encompasses investments across the risk spectrum from opportunistic to core to debt. Blackstone's real estate portfolio includes logistics, rental housing, office, hospitality, and retail properties.

In 2020, Blackstone acquired iQ, a British student housing company which is the third-largest provider of purpose-built student accommodation in the U.K. iQ owns and operates 67 halls of residence across 27 cities, with over 28,000 beds, including a large number of London assets.

Tenure

All of the properties are held under a freehold or long-term leasehold arrangement with a remaining term of greater than 85 years.

Insurance

Under the loan agreement, the obligors are required to maintain insurance that covers the full reinstatement value of the property, at least three years' loss of rent, fire, and casualty (including terrorism), and general/public liability.

The current insurer, Aviva Insurance Ltd., rated 'AA-', complies with our minimum insurance requirement, but the replacement language is not in line with our insurance guidance. However, the portfolio is granular, with the largest property in the portfolio representing 9% of the total market value.

Property releases and prepayments

The borrower may release one or more of the properties, subject to the payment of 105% of the allocated loan amount (ALA) for the first 20% of the total senior loan. The release premium then increases to 110% of the ALA for the next 10%, then to 115% of the ALA for the following 10%, and to 120% of the ALA thereafter.

In the event of a partial loan prepayment, the issuer will allocate prepayments of ALAs and prepayment fees to the notes pro rata (including the release premium).

The loan amounts allocated to the properties are not in proportion to their market value. However, given the granularity of the portfolio (the largest represents 9.6%), we believe it protects the collateral pool from ratings degradation as a result of adverse selection.

Servicing arrangements

CBRE Loan Services Ltd. (CBRELS) will be the primary servicer and special servicer. We rank CBRELS as STRONG as a commercial mortgage primary servicer and ABOVE AVERAGE as a commercial mortgage special servicer (see "Servicer Evaluation: CBRE Loan Services Ltd.," published on July 28, 2020).

For this transaction, each of the following is a special servicing transfer event:

- A loan default exists on the loan's maturity date.
- A loan event of default arises as a result of any creditors' process or cross-default.
- Any obligor becomes subject to insolvency or insolvency proceedings.
- Any other loan event of default occurs or is imminent, and this is unlikely to be cured within 21 days of its occurrence and likely to have a material adverse effect on the issuer, in the servicer's

opinion.

If the loan enters special servicing, the special servicer will generate an asset status report within the 60 days after the special servicing transfer event occurs. The report will describe the status of the loan and the properties and outlines the effect of various courses of action on the loan's net present value. Examples of possible courses of action include a work-out of the senior loan or a realization of the security for the loan. The report concludes by presenting the special servicer's strategy to maximize the loan's recovery, based on the net present value.

The special servicer will produce a note maturity plan for the note trustee, the issuer, and the issuer security trustee within 45 days if:

- Any part of the loan remains outstanding six months before the final note maturity date; and
- It believes that the loan's anticipated recoveries (including by enforcement of the related security) are unlikely to be realized in full before the final note maturity date.

The issuer would then hold noteholder meetings to discuss the special servicer's proposals. Following this meeting, the special servicer will generate a final version of the note maturity plan. The holders of the most-senior class of notes will then meet and vote for their preferred option.

Liquidity facility

A liquidity facility with a total initial commitment of £8.0 million will be available to fund any expense shortfalls, note interest shortfalls on the class A, B, C, and D notes, issuer loan interest shortfalls, or to remedy property protection shortfalls.

The liquidity facility cannot be drawn on to pay principal, note prepayment fees, pro rata default interest amounts, and Sterling Overnight Index Average (SONIA) excess amounts (including deferred SONIA excess amounts) on any class of notes.

The issuer liquidity facility commitment will reduce in line with the notes' balance, and an appraisal reduction mechanism that reduces the liquidity commitment's size is in place. All payments due to the liquidity facility will rank ahead of interest payments and principal repayments on the notes.

If our long-term issuer credit rating on the liquidity facility provider falls below the level commensurate with the rating on the most-senior note according to our current counterparty criteria, the issuer would draw on the liquidity facility into a standby account or find a replacement that satisfies the criteria set out in the liquidity facility agreement (including having the required credit ratings; see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Interest and principal priority of payments

Until the expected note maturity date, the notes will pay interest at a rate of SONIA, with a floor of zero, plus a margin. From the expected note maturity date, the amount of interest representing the amount by which SONIA exceeds 4.00% per year will be subordinated to interest and principal payments on the notes.

Before a note acceleration notice, there will be separate payment priorities for interest and principal. Interest is paid sequentially. Principal is paid pro rata with the exception of sequential note principal, which is applied sequentially.

Following a loan failure event or the issuer security becoming enforceable, interest and principal payment priorities remain separate, but principal is paid sequentially.

Following the delivery of an acceleration notice, the notes are accelerated and repaid out of available funds sequentially, for both interest and principal.

Hedging arrangements

The borrower has entered into an interest rate cap to mitigate the loan's interest rate risk for 100% of the total senior facility.

However, the interest rate cap agreement does not comply with our counterparty criteria. In our cash flow analysis, we have incorporated a stressed interest rate scenario for the loan.

Mezzanine debt

The borrower has the option to incur mezzanine debt during the term of the senior loan. This is subject to certain conditions, including that the amount of the mezzanine facility does not exceed an 81.5% LTV ratio.

Cash management

The tenants under the leases of the properties make periodic rental payments, which are paid into the rent collection account of the relevant obligor or property manager. Rental income is transferred into the operating company rent collection account and then into the property company rent collection account not less than once per month.

On each loan payment date, the senior facility agent will transfer amounts then due to the issuer from the relevant account to the issuer transaction account.

Collateral Overview

The senior loan is backed by 43 PBSA properties located in 19 towns and cities in England and Scotland. The COVID-19 pandemic has affected the performance of the portfolio for the last two academic years and the current year as shown in the table below.

Before the pandemic, the portfolio reported average occupancies between 97-98%. COVID-19 affected its occupancy rates for both AY 2019/2020 and AY/2020-2021, reporting occupancies of 89% and 70%, respectively. The portfolio is currently 78.7% leased for AY 2021/2022, as of Sept. 24, 2021.

Table 2

Historical Performance

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022f
Weighted average number of operational beds	16,179	19,871	19,914	19,936	19,517	19,664
Occupancy (%)	98	98	97	89	70	79
Total revenue (mil. £)	111	159	169	146	99	142
Growth (%)		44	6	(13)	(32)	43

Table 2

Historical Performance (cont.)

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022f
Operating expenses £mi. £)	(26)	(35)	(37)	(36)	(36)	(39)
Net operating income (mil. £)	84	124	132	110	63	103
Margin (%)	76	78	78	75	64	73

f--Arranger's forecast based on September 2021 revenue data from the sponsor for bookings and nomination agreement. Summer revenue and other revenue included based on previous year's performance.

Table 3

Performance During COVID-19 Pandemic

	Pre-COVID-19 budget	Actual	Pre-COVID-19 budget	Actual
	2019/2020	2019/2020	2020/2021	2020/2021
Weighted average number of operational beds	19,937	19,936	20,896	19,517
Total revenue (mil. £)	176	146	193	99
Net operating income (mil. £)	137	110	150	63

The properties are university accommodation buildings that have either been built or redeveloped for the purposes of providing accommodation to students. The majority of the properties have been built or substantially refurbished since 2000.

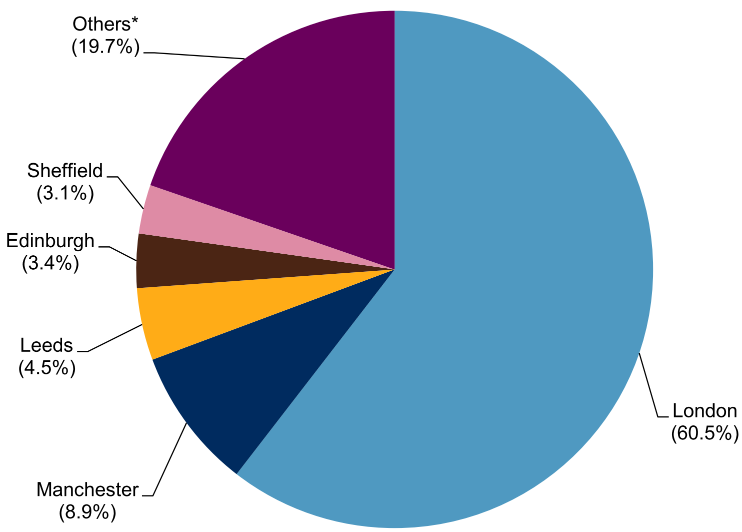
For AY 2021/2022, 77% of the beds in the portfolio are directly let to students on tenancies. The remainder is let via nomination agreements with universities, and there is one hotel property, Pendulum Hotel. In addition, there are three properties, Will Wyatt Court, Broderick House, and Steel, which were not open during the 2021/2022 AY as they were being refurbished.

The properties offer students an all-inclusive product offering, with rents including utility bills, internet, and contents insurance. A variety of amenities is available at every property, including entertainment rooms, study rooms, gyms, bike storage, and laundry facilities.

The portfolio is geographically diverse, as it is spread across 19 cities/towns. London contributes the largest percentage (60.5%) by ALA.

Chart 2

Geographic Distribution Of Properties By ALA

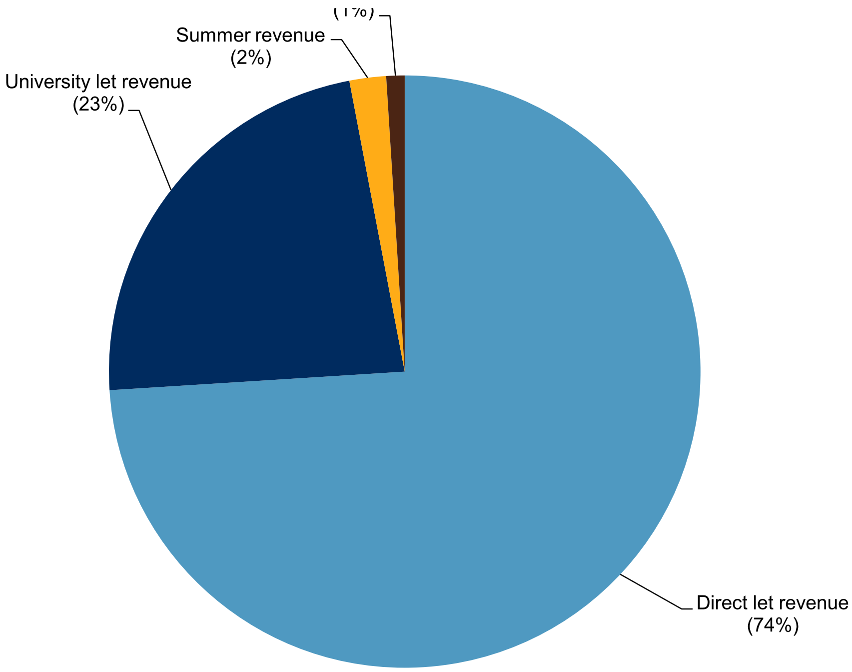


*Lower than 3% for individual city. Source: S&P Global Ratings.

The majority of the portfolio income is from direct lets (74%).

Chart 3

Portfolio Income Sources



*Based on academic year 19/20 business plan. Source: S&P Global Ratings.

Top Five Assets

The top five assets account for 33.6% of the market value and are described in more detail below.

Table 4

Top Five Assets--Key Figures

	Shoreditch	City	Tufnell House	Hammersmith	Will Wyatt Court	Total
Market value (mil. £)	303.0	289.9	200.5	160.2	151.3	1,105.0
Total portfolio value (%)	9.20	8.80	90.20	4.87	4.60	33.55
Location	London	London	London	London	London	
AY 19/20 occupancy (%)	92.3	89.9	99.7	88.5	100.0	
AY 21/22 occupancy as of Sept. 24, 2021	34.8	91.1	39.2	70.5	0.0*	

Table 4

Top Five Assets--Key Figures (cont.)

	Shoreditch	City	Tufnell House	Hammersmith	Will Wyatt Court	Total
In a city with a Russell Group university?	Yes	Yes	Yes	Yes	Yes	
In a city with a top-50 university?	Yes	Yes	Yes	Yes	Yes	
Total bedspaces	704	785	707	440	512	
Ensuite rooms (%)	0	30	75	0	100	
Studios (%)	98	56	25	100	0	
Others (%)	2	14	0	0	0	
Notable nearby university	City University London	City University London	London Metropolitan University	Imperial London	University of the Arts	

*Closed. AY--Academic year.

Credit Evaluation

In our analysis, we evaluated the loan's underlying real estate collateral in order to generate an "expected-case" value. This value constitutes the S&P Global Ratings value that we determine for each property--or portfolio of properties--securing a loan (or multiple loans) in a securitization. It primarily results from a calculation that considers each property's net adjusted cash flows and an applicable capitalization (cap) rate.

We determined the loan's underlying value, focusing on sustainable property cash flows and cap rates. We assumed that a real-estate workout would be required throughout the five-year tail period needed to repay noteholders, if the borrower were to default.

The loan

We consider that the assets' potential to produce net cash flows (NCFs) is £150.6 million on a sustainable basis. Based on the total senior loan, this would imply a day-one S&P Global Ratings debt yield of 6.4%. This includes our assumptions of the portfolio's ability to generate a sustainable cash flow, with adjustments to account for vacancy rates and costs related to running the estate.

We consider 6.0% to be an appropriate weighted-average cap rate for the portfolio. This reflects our assessment of the quality of the portfolio and the operator. We applied the derived cap rate to the portfolio's assumed NCF and deducted purchase costs to determine the portfolio's sustainable value. We also made deductions for downtime and capex, to arrive at our £2.36 billion net recovery value for the portfolio, which represents a 28.4% haircut (discount) to the as-is market valuation or a 36.3% haircut to the valuation based on a corporate sale and portfolio premium.

Table 5

S&P Global Ratings Key Assumptions

S&P Global Ratings net cash flow (mil. £)	150.6
S&P Global Ratings weighted average cap rate (%)	6.0
Purchaser's costs (%)	5.0
Deduction for downtime and capex (mil. £)	48.6
S&P Global Ratings value (bn. £)	2.36
Haircut to as-is market value (%)	(28.4)
Haircut to market value based on corporate sale and portfolio premium (%)	(36.3)
S&P Global Ratings LTV ratio before recovery rate adjustments (%)	100.1

Other property, loan, and transaction-level considerations

After we determined cash flows and values appropriate for the security package, we determined recovery proceeds at each preliminary rating level by applying a recovery proceeds rate at each rating category. We began by adopting base market value declines and recovery rate assumptions for different preliminary rating levels. At each rating category, we adjusted the base recovery rates to reflect specific property, loan, and transaction characteristics (see "European CMBS Methodology And Assumptions," published Nov. 7, 2012).

We compared the principal amount of each outstanding tranche at the time of an assumed loan default against the derived recovery proceeds for the loan at each rating level. We then compared them with the proposed capital structure and used this as an input to our preliminary ratings.

In our assessment of the issuer's capacity to make timely interest payments, we have analyzed the available liquidity support for the transaction. We have analyzed scenarios where the issuer's income would decline in line with the relevant rating scenarios and where drawings on the liquidity facility would be needed. We have also assumed that the loan will default at its maturity date, that it does not benefit from loan-level hedging, and that the issuer may then be exposed to increasing senior ranking expenses, such as special servicing fees. In these scenarios, we have used a stressed note interest rate to assess whether the issuer will still have sufficient revenue to meet its interest payment obligations.

In conclusion, we found that there is sufficient liquidity support for each class of notes at the given rating level.

The preliminary ratings assigned to the class A to E notes are in line with the tranched credit analysis and has considered the operational, counterparty, cash flow and structure, and legal and regulatory risks related to this transaction.

For the class F notes, even though they do not pass our 'B' rating level stresses, we have assigned a preliminary 'B- (sf)' rating to this class of notes because we believe the repayment of interest and principal does not rely on favorable economic and financial conditions (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012).

Scenario Analysis

We performed our stress scenario analysis to determine, on an indicative basis, our preliminary ratings' sensitivity to a decline in S&P Global Ratings value. A value decline may reduce refinancing prospects or reduce recovery proceeds in the event of loan enforcement, in our view. To analyze the effect of a value decline, we therefore considered scenarios in which the S&P Global Ratings value of the portfolio decreases by 10% to 40% from the current value.

Table 6

Indicative Ratings Given S&P Global Ratings Value Decline

		S&P Global Ratings value decline			
Class	**Preliminary rating**	**10%**	**20%**	**30%**	**40%**
A	AAA (sf)	AA+ (sf)	AA (sf)	A+ (sf)	BBB+ (sf)
B	AA- (sf)	A (sf)	BBB+ (sf)	BB+ (sf)	B (sf)
C	A (sf)	BBB+ (sf)	BBB- (sf)	B+ (sf)	'B- (sf)' and below
D	BBB (sf)	BB (sf)	B (sf)	'B- (sf)' and below	'B- (sf)' and below
E	BB- (sf)	'B- (sf)' and below	'B- (sf)' and below	'B- (sf)' and below	'B- (sf)' and below
F	B- (sf)	'B- (sf') and below	'B- (sf)' and below	'B- (sf)' and below	'B- (sf)' and below

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | CMBS: European CMBS Methodology And Assumptions, Nov. 7, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria | Structured Finance | CMBS: CMBS Global Property Evaluation Methodology, Sept. 5, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009
- Criteria | Structured Finance | CMBS: Methodology For Analyzing Loan-Level Limited Purpose Entities In European CMBS, Sept. 1, 2004

Related Research

- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 23, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Servicer Evaluation: CBRE Loan Services Ltd., July 28, 2020
- 2017 EMEA CMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016