S&P Global
Ratings

Research

New Issue: Hera Financing 2024-1 DAC

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Ratings Detail

Ratings

Class	Rating*	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)	89.80	41.5	75.5	21.1	Nov. 17, 2029	SONIA plus 1.90%	Nov. 17, 2034
B	AA- (sf)	30.00	55.4	67.3	15.8	Nov. 17, 2029	SONIA plus 2.60%	Nov. 17, 2034
C	A- (sf)	24.00	66.5	60.8	13.2	Nov. 17, 2029	SONIA plus 3.50%	Nov. 17, 2034
D	BBB- (sf)	20.50	75.9	55.2	11.5	Nov. 17, 2029	SONIA plus 4.25%	Nov. 17, 2034
E	BB- (sf)	23.80	86.9	48.7	10.1	Nov. 17, 2029	SONIA plus 5.60%	Nov. 17, 2034
F	B- (sf)	31.90	101.7	40.0	8.6	Nov. 17, 2029	SONIA plus 6.80%	Nov. 17, 2034
R	NR	11.58	N/A	N/A	N/A	Nov. 17, 2029	SONIA plus 9.00%	Nov. 17, 2034

*Our ratings address timely payment of interest and payment of principal not later than the legal final maturity. §Reflects the approximate decline in the £867.0 million market value of the portfolio assuming corporate sale that would be necessary to experience a principal loss at the given rating level, excluding the issuer liquidity reserve. †Based on S&P Global Ratings' NCF and the mortgage balance. ‡At all times, 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 5.0% 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.

Transaction participants

Arrangers	BNP Paribas and Merrill Lynch International
Joint lead managers	BNP Paribas and Merrill Lynch International
Issuer account bank, agent bank, and principal paying agent	Elavon Financial Services DAC
Issuer cash manager	U.S. Bank Global Corporate Trust Ltd.
Facility agent, security agent, servicer, and special servicer	CBRE Loan Services Ltd.
Note trustee and issuer security trustee	U.S. Bank Trustees Ltd.
Loan-level hedge provider	To be confirmed 10 business days after closing
Corporate services provider	CSC Capital Markets (Ireland) Ltd.

Supporting ratings

Institution/role	Ratings
Elavon Financial Services DAC, as issuer account bank provider	A+/Stable/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+/Stable/A-1

NR--Not rated.

Transaction key features	
Expected closing date	Sept. 5, 2024
Number of loans	1
Geographic concentration of assets by market value	U.K. (100%)
Asset type concentration	Flexible offices
Current senior loan (mil. £)	520.0
Facility A2 loan (mil. £)	220.0 (for 19 assets)
Senior loan LTV ratio (%)*	60.0
Number of properties	19 (one additional property can be added within nine months of the closing date)
Redemption profile	Principal is applied pro rata, with the exception of principal amounts in the cash trap account that are applied sequentially, and voluntary prepayments that are applied reverse sequentially. After an issuer acceleration, loan failure event or the issuer security becoming enforceable, all available funds are applied sequentially
Liquidity facility size (mil. £)	11.5
Interest limitation of junior notes	Available funds cap on the class F notes
Hedging profile	The senior loan is expected to be fully hedged through a borrower-level interest rate cap

*Market value of £867.0 million based on corporate sale. LTV--Loan-to-value.

Transaction Summary

S&P Global Ratings has assigned credit ratings to Hera Financing 2024-1 DAC's class A, B, C, D, E, and F notes.

The transaction is backed by £220.0 million of a £520.0 million senior ranking loan. The senior loan was advanced to the borrowers under the facilities agreement (the facility A loans). The issuer advanced the £220.0 million facility A2 loan, which represents 42.3% of the total facility A loan using part of the proceeds of the issuance of the notes, with other lenders advancing the remaining portion of the facility A loan (such other portions of the facility A loan being the facility A1 loan and the nonsecuritized loans).

In addition, the issuer advanced a £11.58 million facility R loan using part of the proceeds of the issuance of the notes, which are junior ranking and rank behind the facility A loans. The facility R loan and the facility A2 loan are, collectively, referred to as the securitized loans, and the securitized loans together with the nonsecuritized loans are referred to as the loans.

After the closing date but before May 2025, under the terms of the facilities agreement and subject to certain conditions being satisfied, a new lender or existing lender (including the issuer) may advance the facility A3 loan under facility A to refinance the Chancery House property located in London.

References in this presale reflect the initial composition of the portfolio, 19 flexible office assets located in the U.K., unless otherwise stated.

The appraisers valued the property portfolio assuming a corporate sale at £867.0 million, and the current senior loan-to-value (LTV) ratio is 60.0%. The three-year loan (with two one-year loan extensions) does not include amortization or default covenants prior to a permitted change in control.

Our ratings address Hera Financing 2024-1 DAC's ability to meet timely interest payments and principal repayment no later than the legal final maturity in November 2034. Our 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

Our rating analysis considers a transaction's potential exposure to environmental, social, and governance (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 appraisals, 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 borrowers 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, occupiers 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 underlying assets are 19 flexible office properties located in the U.K., with a large concentration in London, in primary locations within their respective areas. By market value, 97% of the properties are located in London. The top five properties represent 50% of the total portfolio market value, with the largest property accounting for 14%.

- The occupier base is diverse, providing a granular income stream, with no single occupier representing more than 4% of the gross rental income and the top 10 representing 22%. Idiosyncratic factors affecting a particular industry, occupier, or region are therefore limited.
- Blackstone and Brockton Capital, the majority shareholders of the sponsor, The Office Group Securities Ltd., are both experienced investors and managers in the office real estate sector and both have recognized track records.
- The portfolio is currently 75% occupied but is expected to increase to approximately 79% in September 2024 based on license fee agreements signed as of the June 30, 2024, cutoff date. Given Blackstone's and Brockton Capital's track records in executing asset management strategies, together with the current occupational demand for flexible office space, the portfolio's occupancy is expected to increase in line with market occupancy rates.
- Demand for flexible offices is up and the main driver for demand is growing occupiers that want larger workplaces, according to "Savills Workthere UK H1 2024 flexible office market snapshot" report.
- The loan benefits from covenants triggering a cash trap event upon breach of certain debt yield and LTV ratio thresholds throughout the loan's term.
- 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

- Although the loan is backed by multiple properties, property type is highly concentrated. However, this is mitigated by occupier diversity from 456 occupiers across different industries. No single occupier accounts for more than 4% of the gross rental income.
- Some research indicates that take-up in flexible offices has dropped in 2024. As the portfolio is made up of mainly higher quality space, it is able to compete competitively in this market.
- The issuer can issue further notes subject to certain conditions. If this occurs, an additional asset (Chancery House) will be included in the portfolio and the additional income from this loan will go toward paying interest on the notes. In our rating analysis, we looked at two scenarios: 20 assets (including Chancery House) or 19 assets (excluding Chancery House). Our ratings are based on the lower of the two scenarios, which is the pool with 19 assets.
- The issuer holds approximately 42% of the senior loan (potentially reducing to 35% of the loan if Chancery House is added to the portfolio and funded by another lender). This means the servicer can block the enforcement action being taken by others or modifications to the whole loan, but it cannot proceed with enforcement action or modifications unless it joins together with the other lenders. We believe that as all parties will want the same outcome, to recover the highest amount of proceeds in a timely manner, we are comfortable with this as there is a five-year tail period.
- The loan is interest-only for its entire term, meaning there will be no scheduled amortization during the loan term, which exposes the loan to a higher refinancing risk when compared with an amortizing loan. We believe the day-one LTV ratio, based on market value, together with a five-year tail period would be sufficient for the ranked special servicer to maximize recoveries by note maturity.
- The loan is exposed to interest rate risk, as the interest payable is based on a floating rate. However, the borrower is required to enter into an interest rate cap agreement with a strike price of 1.95% in the first year, at 2.00% in the second year, and the higher of 3.00% and the rate such that the hedged interest coverage ratio (ICR) is 1.5x thereafter, which limits this risk. We note that the cap agreement will be for an initial one-year term, with a requirement to extend the hedge on an annual cycle for the entire loan term. If the hedging is not extended, a loan

event of default is triggered at the loan maturity date and the 5% Sterling Overnight Index Average (SONIA) rate cap on the notes is activated. The sponsor must put in place an interest cap agreement allowing the counterparty to support ratings up to 'AAA' based on our counterparty criteria.

- Prior to loan default, all principal is repaid pro rata, exposing noteholders to adverse selection and rising concentration risk. The available credit enhancement for each senior class of notes will not materially increase in the event the loan pays down, as it would otherwise in a fully sequential structure. This risk is cushioned by a release premium. The borrower may release one or more of the properties. However, there is a sweep of 100% of net disposal proceeds until the loan balance reduces to £440 million (£540 million if the Chancery House property is included). Thereafter, the release premium is 120% of the allocated loan amount (ALA) until the LTV ratio is 30% (calculated with reference to day-one market value). At which point, the release premium reduces to 102.5% of the ALA.
- The senior loan has high leverage, with a 101.68% S&P Global Ratings' LTV ratio based on our S&P Global Ratings value. On the same terms, the LTV ratio based on the appraiser's valuation assuming a corporate sale is 60.0%. Our estimate of long-term sustainable value is 41.0% lower than the appraiser's valuation of £867.0 million (for 19 assets).
- The transaction documents include provisions for the transaction parties to seek 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. 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 per this option.

Transaction Characteristics

Legal structure

The transaction is backed by £220.0 million of a £520.0 million senior ranking loan. The senior loan was advanced to the borrowers under the facilities agreement (the facility A loans). The issuer advanced the £220.0 million facility A2 loan, which represents 42.3% of the total facility A loan using part of the proceeds of the issuance of the notes, with other lenders advancing the remaining portion of the facility A loan (such other portions of the facility A loan being the facility A1 loan and the nonsecuritized loans).

In addition, the issuer advanced a £11.58 million facility R loan using part of the proceeds of the issuance of the notes, which are junior ranking and rank behind the facility A loans. The facility R loan and the facility A2 loan are, collectively, referred to as the securitized loans, and the securitized loans together with the nonsecuritized loans are referred to as the loans.

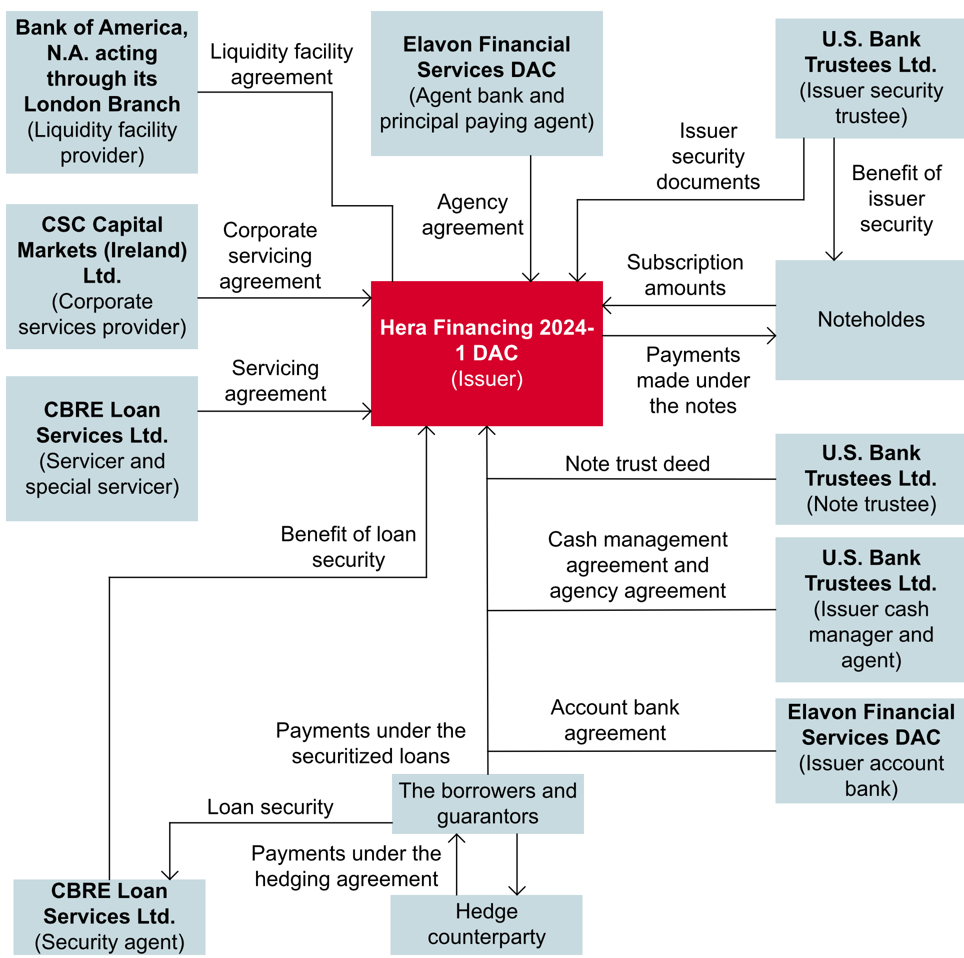
The issuer benefits from the senior loan's security package, which includes:

- A first-ranking mortgage security over the properties;
- A first-ranking charge over its rights in respect of all shares, stocks, debentures, bonds, or other securities and investments owned by it or held by a nominee on its behalf;

- A first-ranking security over all rental income and all rights under occupational leases, license fee agreements, insurance proceeds, purchase agreements, and any other income received in respect of, or otherwise relating to, the properties;
- A first-ranking security over all bank accounts;
- An assignment by way of security of any rights arising under any other transaction documents and contractual agreements of the Guernsey obligors; and
- A first-ranking security over any hedge agreement.

In addition, there is additional security to be granted under the management and services agreement.

Transaction structure



Loan characteristics

The borrower used the proceeds of the senior loan at closing to facilitate its refinancing of 19 flexible office assets.

The senior loan, which matures in November 2027 but has two one-year extension options, has a loan balance of £520.0 million, reflecting a 60.0% market value (19 assets) LTV ratio for the transaction. It is an interest-only loan, and it does not provide for default financial covenants prior to a permitted change of control of the property owner/sponsor. However, there are cash trap mechanisms set at 60% LTV ratio or if the debt yield is less than 12.5%, (increasing to 13% if Chancery House is added).

Table 1

Key senior loan characteristics	
Property type	Flexible offices
Number of properties	19*
Property location	U.K.
Current senior loan balance (mil. £)	520.0
Utilization date	September 2024
Loan maturity	November 2027, with two one-year extension options
Loan type	Refinance
Fixed/floating interest	Floating: three-month SONIA plus weighted-average margin of the notes
Borrower hedge counterparty	The senior loan is expected to initially be fully hedged through a borrower-level interest rate cap at a strike rate of 1.95% in the first year, at 2.00% in the second year, and the higher of 3.00% and the rate such that the hedged ICR is 1.5x thereafter, with a rated hedge counterparty
Market value assuming corporate sale (mil. £)*	867.0
Initial market LTV ratio (%)	60.0
Valuer estimated market rent (mil. £)§	43.7
Occupancy as a percentage of lettable area (%)†	75.0
Flexible office revenue (mil. £)†	60.3
FRI lease revenue (mil. £)†	2.9
Number of occupiers	456
Average length of license fee agreements (months)	15.3
Top five occupiers by rent	Occupier 1 (4.0% of total rent); Occupier 2 (3.1%); Occupier 3 (2.6%); Occupier 4 (2.3%); and Occupier 5 (2.0%)
Sponsor	The Office Group Securities Ltd.

*19 assets. One asset can be added to the property portfolio within nine months of closing subject to certain conditions. §Based on a CAT B office fit out and less ground rent. †As of June 30, 2024, cutoff date. SONIA--Sterling Overnight Index Average. LTV--Loan-to-value FRI--Full repairing and insuring.

Sponsor and asset manager overview

The Office Group Securities Ltd. is a flexible office provider in Europe, providing office space on flexible contracts and memberships to a wide range of clients. The Office Group Securities operates and manages 63 office locations in England and five in Germany as at Aug. 8, 2024, and serves approximately 30,000 members.

The majority shareholders of The Office Group Securities are Blackstone and Brockton Capital. Blackstone is a global private equity firm with $1 trillion of assets under management. Through its different investment businesses, Blackstone manages $337 billion of investor capital in real estate funds. Blackstone manages over $298 billion of real estate globally across office, retail, residential, logistics, hospitality, and other subsectors.

Brockton Capital is an experienced institutional sponsor with over 90 years of combined experience among its senior management, with a track record of acquiring £8.0 billion and nearly 22 million square feet of properties and asset-backed operating companies.

Insurance

Under the loan agreement, the obligors will be 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.

All insurance policies will be written by an insurance company rated at least 'A' by S&P Global Ratings. This is in line with our guidance on property insurance.

Servicing arrangements

CBRE Loan Services Ltd. (CBRELS) will be the servicer and special servicer. We rank CBRELS STRONG as a primary and ABOVE AVERAGE as a special servicer of commercial mortgages in the U.K.; our outlook for both rankings is stable ("see "Servicer Evaluation: CBRE Loan Services Ltd.," published on Feb. 28, 2024).

Under the terms of the notes, following the extended loan maturity in year five, the servicer could exercise the right of noteholders to negotiate an extension with the borrower on behalf of noteholders. The tail period between loan extended maturity and the legal final is five years and is in line with our criteria. However, as with any European CMBS transaction, should the tail period be shortened by way of delaying the special servicer's ability to enforce on the mortgage collateral, we may lower our ratings.

For this transaction, the loan enters special servicing if:

- A loan default exists on the senior loan's extended maturity date;
- Any senior obligor becomes subject to insolvency or insolvency proceedings or a loan event of default occurs under the facility agreement;
- A loan event of default arises because of any creditors' process or cross-default; and
- Any other loan event of default occurs or is in the servicer's opinion imminent, and it will likely not be cured within 21 days and will likely have a material adverse effect on the issuer.

If the loan enters special servicing, the special servicer generates an asset status report within 60 days, which describes the status of the loan and the properties. The report outlines the effect of various courses of action on the loan's net present value. Courses of action include a workout or a realization of the security for the loan. The report concludes 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 within 45 days if:

- The loan remains outstanding six months before the notes legal final maturity date; and
- It believes that the realization of anticipated recoveries by the notes legal final maturity is unlikely.

The note trustee would then hold a noteholder meeting to discuss the special servicer's proposals. Following this meeting, the special servicer would generate a final version of the note maturity plan, on which the noteholders of the most senior class of notes will vote for their preferred option.

Liquidity facility

A liquidity facility with a total initial commitment of £11.5 million will be available to fund any expense shortfalls, note interest shortfalls on the class A, B, C, and D notes, or to remedy property protection shortfalls. The liquidity facility commitment will be increased after closing if further notes are issued or if there is an increase in the margin of any class of notes.

The liquidity facility cannot be drawn on to pay principal, note prepayment fees, pro rata default interest amounts, and 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 notes 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 SONIA, subject to a floor of zero, plus a margin. After the expected note maturity date, the amount of interest representing the amount by which SONIA exceeds 5.0% per year will be subordinated to the interest payments on the notes.

Prior to an issuer acceleration notice, loan failure event, or the issuer security becoming enforceable, there will be separate priorities of payments for interest and principal. Following these events, there will be different combined waterfalls depending on the event.

A loan failure event is a material loan event of default or if the loan is not fully repaid by the final loan repayment date.

Prior to a loan failure event, principal is applied pro rata (except for cash trap principal receipts, which are always applied sequentially and voluntary prepayments that are applied reverse sequentially), whereas interest is applied sequentially (after senior expenses).

Following a loan failure event or if the issuer security becomes enforceable but no acceleration notice has been served, all available funds will be applied first to pay interest sequentially and then to pay principal sequentially.

Following note acceleration, all available funds will be applied to pay interest and principal on each class of notes sequentially.

The class F notes will be subject to an available funds cap that will lower payments due to lost interest from prepayments or a final recovery determination to the interest available funds left after servicing the senior notes. Under our criteria, this would not represent a breach of the imputed promise and would not cause the rating to be lowered to 'D'.

Hedging arrangements

The borrower is expected to enter an interest rate cap agreement with a rated counterparty 10 business days after closing, at a strike rate of 1.95% for the first year, for the full senior loan amount. For the second year, the strike rate increases to 2.00%, and for the third year, the strike rate increases to the higher of 3.00% and the rate that ensures that the hedged ICR is not less than 1.50:1.00.

The hedging agreement will expire at the first hedging renewal date and the borrower must obtain a new interest rate cap. Otherwise, it will be a borrower event of default.

The replacement language in the hedging agreement is intended to be in line with our counterparty criteria to support a maximum potential rating of 'AAA' on the notes.

Property releases and prepayments

The borrower may release one or more of the properties. However, there is a sweep of 100% of net disposal proceeds until the loan balance reduces to £440 million (£540 million if the Chancery House property is included). Thereafter, the release premium is 120% of the allocated loan amount (ALA) until the LTV ratio is 30% (calculated with reference to day-one market value). At which point, the release premium reduces to 102.5% of the ALA.

The issuer will allocate prepayments of ALAs to the notes pro rata.

The loan amounts allocated to the properties are proportionate to their market value. If the Chancery House property is included, the ALAs will be re-allocated pro rata to the market value of the entire portfolio.

Cash management

Rental income and other amounts received from the occupiers and tenants are paid into rent accounts. Amounts in the rent account will be payable by the borrower to the relevant finance parties (including the issuer) on the next loan payment date.

On each loan payment date, the facility agent will transfer all amounts then due to the issuer under the facility agreement from the debt service account to the issuer transaction account.

Portfolio Collateral Overview

At closing, the senior loan will be secured by a portfolio of 19 flexible office assets in the U.K., with the largest concentration being in London. If the facility A3 loan is advanced to the Chancery House borrower under the facilities agreement, then the Chancery House property will also form part of the property portfolio.

The portfolio description below reflects the initial composition of the portfolio with 19 assets. In our rating analysis, we looked at two scenarios: 20 assets (including Chancery House) or 19 assets (excluding Chancery House). Our ratings are based on the lower of the two scenarios, which is the pool with 19 assets and reflects the downside risk that

Chancery House is not added.

Table 2

List of assets in current portfolio

Asset name	Submarket	Flex NIA	Flex NLA	FRI NIA	Market value assuming corporate sale	Of total market value (%)
York House	King's Cross	54,800	40,465		118,000,000	13.6
Soho - Broadwick St.	West End	36,096	22,031	3,741	104,000,000	12.0
Montacute Yards	City/Shoreditch	58,611	38,673	21,291	89,000,000	10.3
Tintagel House	Southbank	92,769	56,266	302	67,000,000	7.7
Black & White	City/Shoreditch	37,439	26,313		57,000,000	6.6
Folgate Street	City/Shoreditch	35,806	22,073		56,000,000	6.5
201 Borough High Street	Southbank	37,177	24,884		53,000,000	6.1
The Stanley Building	King's Cross	29,223	18,149	2,928	50,000,000	5.8
180 Borough High Street	Southbank	29,295	10,766	7,165	38,000,000	4.4
Kirby Street	Mid-town	23,123	15,360		38,000,000	4.4
Eastcastle Street	West End	17,554	10,920		30,000,000	3.5
Dallington Street	Mid-town	23,089	14,978		29,000,000	3.3
241 Southwark Bridge Road	Southbank	37,077	24,859	2,472	29,000,000	3.3
24 Greville Street	Mid-town	16,615	11,005		24,000,000	2.8
81 Rivington Street	City/Shoreditch	23,214	16,197		21,000,000	2.4
Central Street	Mid-town	26,248	9,978		20,000,000	2.3
Queen St., Oxford	Oxford	44,951	--	24,648	20,000,000	2.3
Princelet Street	City/Shoreditch	22,767	11,704		19,000,000	2.2
St Nicholas House	Bristol	13,048	9,704		5,000,000	0.6
Total		658,902	384,325	62,547	867,000,000	100.0

NIA--Net internal area. NLA--Net lettable area. FRI--Full repairing and insuring.

The properties were built between the 1960s and 2022 and provide high-quality office accommodation under the Fora platform. Fora is a flexible office owner and operator specializing in the premium flexible office market. Occupiers in the portfolio benefit from several amenities freely accessible within each asset (typically including a gym with free classes and equipment, roof terraces or outdoor spaces, food and beverage facilities, changing rooms, cycle and end-of-trip facilities, lounges, virtual workspaces, meeting rooms, and event spaces).

Of the properties by market value, 97.1% are located in London but are spread among its submarkets, with the highest concentration in City/Shoreditch (27.9%). The two remaining properties are located in Bristol and Oxford.

Table 3

Portfolio distribution by submarket

Submarket	Number of properties	Market value (%)
City/Shoreditch	5	27.9
Southbank	4	21.6
King's Cross	2	19.4

Table 3

Portfolio distribution by submarket (cont.)

Submarket	Number of properties	Market value (%)
West End	2	15.5
Mid-town	4	12.8
Regional	2	2.9
Total	19	100.0

As of the June 30, 2024, cutoff date, the portfolio has an occupancy rate of 75.0% by floor area, but is estimated to increase to approximately 79.0% by September 2024 based on the future lettings that took place by the cutoff date, June 30, 2024.

Total rental revenue, consisting of flexible office revenue and FRI income, was £63.2 million as of the cutoff date, which is down from the prior year but is expected to increase to £64.8 million by September. In addition to rental revenue, there is also non-rental income, which totaled £7.6 million in financial year 2023.

Table 4

Total rental revenue

	Flexible office revenue (mil. £)	FRI income (mil. £)	Total (mil. £)
Financial year 2023	67.6	2.5	70.1
As of cut-off date	60.3	2.9	63.2
September 2024	61.9	2.9	64.8

FRI--Full repairing and insuring.

On a pro forma basis to September 2024, the portfolio is expected to generate £44.9 million of net operating income (NOI), which is in line with the £44.8 million in financial year 2023. NOI is calculated as the sum of flexible office revenues, FRI revenue, and ancillary revenues minus all operating expenses incurred to run the properties, including service charge, employee costs, business rates, technology costs and utilities, all on a pro forma basis to September 2024.

The NOI margin post ground rent payments for financial year 2023 was 57.7% as Fora incurs operating expenses which include property taxes such as business rates, costs associated with cleaning, security, provision of food and beverages, utilities, staff on site such as general manager, concierge, housekeeper, and sales and marketing expenses.

The average contract length is approximately 15.3 months for the flexible office licenses and the weighted-average unexpired lease term for the FRI leases is 9.1 years.

The property portfolio is well diversified in terms of occupiers. The largest occupier contributes 4.0% of the passing rent, and the top ten occupiers together only contribute 22.0% of the passing rental income.

Table 5

Top ten occupiers

Occupier	Property	Total area (%)	Total in-place rent (%)
Occupier 1	The Stanley Building	2.6	4.0
Occupier 2	Black & White	2.7	3.1

Table 5

Top ten occupiers (cont.)			
Occupier	**Property**	**Total area (%)**	**Total in-place rent (%)**
Occupier 3	Broadwick Street	2.0	2.6
Occupier 4	Dallington Street	2.1	2.3
Occupier 5	Tintagel House	2.7	2.0
Occupier 6	Broadwick Street	1.8	2.0
Occupier 7	Montacute Yards	1.9	1.7
Occupier 8	Tintagel House	2.0	1.6
Occupier 9	Montacute Yards	1.7	1.4
Occupier 10	Central Street	2.0	1.3
Total		21.5	22.0

Top Five Assets

The top five assets account for 49.9% of the total portfolio market value. An overview is provided in the table below.

Table 6

Top five assets						
	York House	**Soho - Broadwick St.**	**Montacute Yards**	**Tintagel House**	**Black & White**	**Total**
Market value assuming corporate sale (mil. £)	118.0	104.0	89.0	67.0	55.0	433.0
Portfolio value (%)	13.61	12.00	10.27	7.73	6.34	49.9
Location	London	London	London	London	London	
Submarket	King's Cross	West End	City/Shoreditch	Southwark	City/Shoreditch	
Tenure	Freehold	Freehold	Long Leasehold	Long Leasehold	Freehold	
Opening year	1981	2016-2019	2022	1961	2022	
Total flex lettable area (sq. ft.)	40,465	22,031	38,673	56,266	26,313	183,748
June 2024 flex office occupancy (%)	37	91	83	84	74	
September 2024 flex office occupancy (%)	53	94	93	90	100	

Third-Party Reviews

We reviewed technical and environmental due diligence reports on the properties, which were carried out in June 2024.

The technical reports outline the assets and provide high level analysis of operational and capital expenditure projections. They highlight that the properties are generally maintained in fair or good condition and are commensurate with age and use. Expected works over the next five years were detailed in the reports.

The technical reports provided a traffic light analysis for various technical elements to highlight any risks or concerns.

They identified no material concerns, although several items were flagged as red. Of those flagged red, none were considered high-risk. Additionally, there were some amber flags considered non-critical, but warranting further consideration and monitoring. These issues are expected to be addressed as part of the ongoing upkeep of the properties. No technical or environmental reporting was available for Queen St., Oxford (1.8% of portfolio value) on the basis that it is not an operational asset.

The objective of environmental reports was to determine the existence and likely extent of any potential environmental liabilities associated with the current and historical use of the sites. For all properties, the environment risk was considered low for the current use.

The environmental reports also reviewed the energy performance of the properties. Under the existing U.K. Minimum Energy Efficiency Standards (MEES) requirements, landlords of commercial properties in England and Wales are prohibited from granting a new lease unless the property has an energy performance certificate (EPC) rating of 'E' or higher (except where certain exemptions apply). From April 1, 2023, the prohibition on letting a commercial property with an EPC rating below 'E' applies to continuing/existing leases as well as new leases.

As part of its target to reach net-zero by 2050, the U.K. government may expand the MEES regulation so that existing commercial properties must achieve a minimum EPC rating of 'C' by April 2027 and 'B' by April 2030.

All the units in the portfolio currently comply with the MEES regulation. However, Tintagel House (7.73% of total market value) has an EPC rating of 'E', which currently complies with the legislation, but unless there is a registered exemption, it will not comply from 2027. Capital expenditure was recommended to increase the asset's energy efficiency performance. Six of the assets were assigned 'A' ratings and, along with another seven assets rated 'B', already comply with the highest standards in the proposed 2030 MEES regulation.

The EPC ratings for the assets in the portfolio are shown below. Assets with an EPC rating of 'A' represent the largest by area and market value in the portfolio.

The sponsor has budgeted £14.5 million refurbishment capital expenditure over the next five years, which includes ESG measures to achieve at least an EPC 'C' rating for all assets in line with current governmental target and to satisfy applicable MEES requirements.

Table 7

Property EPC ratings breakdown

EPC rating	Area (%)	Market value (%)
A	38.91	46.48
B	28.28	35.41
C	9.88	8.07
E	11.92	7.73
TBC	11.01	2.31

EPC--Energy performance certificate. TBC--To be confirmed.

Knight Frank valued the properties assuming a corporate sale at £867.0 million in August 2024. This considers splitting the NOI into two tranches, core income and tier 2 income. The core income represents income up to the property's market rent on a traditional basis and should be equivalent to the estimated rental value (ERV). The tier 2 income is the top-slice income over and above the market rent and is driven by the operational performance of the asset.

Core income is typically capitalized in line with comparables of a similar strength. Tier 2 income typically carries a heightened risk and fluctuates more and is thus capitalized using a more risk averse multiplier. The valuer's market value is the sum of the values for the two components of NOI, capitalized as described above.

Credit Evaluation

In our analysis, we evaluated the underlying real estate collateral securing the loan 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 rate.

We determined the loan's underlying value, focusing on sustainable property cash flows and cap rates. We assumed a real estate workout would be required throughout the five-year tail period (the period between the maturity date of the loan and the transaction's final maturity date) to repay noteholders, if the respective borrowers defaulted.

The loan

We consider that the assets' potential to produce net cash flows is £44.7 million on a sustainable basis.

To arrive at our S&P Global Ratings net cash flow, we adjusted for 21.9% vacancy and 37.0% nonrecoverable expenses. Our vacancy assumption is based on the September 2024 estimated vacancy for the portfolio of 19 assets. This is higher than the market vacancy, which is approximately 18% in London and 17% outside London. For the vacancy figure, we have taken into account future lettings that took place by the June 30, 2024 cutoff date. For the portfolio, the current vacancy is primarily driven by five of the properties.

We consider 8.30% an appropriate cap rate for the portfolio. This reflects our assessment of portfolio quality and the diverse occupier/tenant base and overall license fee/lease profile. To determine the portfolio's sustainable value we applied the derived cap rate to the portfolio's assumed net cash flow and deducted purchase costs. Our £511.4 million net recovery value for the portfolio represents a 41.0% haircut (discount) to the open market valuation assuming a corporate sale of £867.0 million.

Table 8

S&P Global Ratings key assumptions:	
Gross rent fully let (£ mil.)	90.9
Vacancy (%)	21.9
Non-recoverable expenses (%)	37.0
Net cash flow (£ mil.)	44.7
Purchase costs (%)	5.0
S&P Global Ratings value (£ mil.)	511.4
S&P Global Ratings cap rate (%)	8.3
Haircut to reported market value assuming corporate sale (%)	41.0
S&P Global Ratings whole loan LTV ratio before recovery rate adjustments (%)	101.7

Table 8

S&P Global Ratings key assumptions: (cont.)

LTV--Loan-to-value.

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 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 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 on 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 ratings.

In our analysis, we considered if Chancery House was added, our S&P Global Ratings LTV ratio would decrease to 99.3% from 101.7%. Our ratings reflect the weaker of the two collateral pools, which is the one without Chancery House. Our ratings also reflect the downside risk that the property is not added.

In our assessment of the issuer's capacity to make timely interest payments, we analyzed the available liquidity support for the transaction. We analyzed scenarios where the issuer's income declined 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 may then not benefit from loan-level hedging anymore, and that the issuer may then be exposed to increasing senior ranking expenses, such as special servicing fees, for example. 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 ratings assigned to the class A to E notes are in line with the tranched credit analysis and 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 '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 ratings' sensitivity to a decline in the 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 market value decline, we considered scenarios in which the S&P Global Ratings value of all the properties decreases by 10% to 50% from the current value.

Table 9

Indicative ratings, given the assumed S&P Global Ratings value decline

		--S&P Global Ratings' value decline--				
Class	**Rating**	**10%**	**20%**	**30%**	**40%**	**50%**
A	AAA (sf)	AA+ (sf)	AA (sf)	A+ (sf)	BBB+ (sf)	BB (sf)
B	AA- (sf)	A (sf)	BBB+ (sf)	BB+ (sf)	B (sf)	B- (sf)
C	A- (sf)	BBB (sf)	BB (sf)	B- (sf)	B-(sf)	B- (sf)
D	BBB- (sf)	BB- (sf)	B- (sf)	B- (sf)	B- (sf)	B- (sf)
E	BB- (sf)	B- (sf)	B- (sf)	B- (sf)	B- (sf)	B- (sf)
F	B- (sf)	B- (sf)	B- (sf)	B- (sf)	B- (sf)	B- (sf)

Related Criteria

- Criteria | Structured Finance | CMBS: European CMBS Methodology And Assumptions, July 26, 2024
- Criteria | Structured Finance | CMBS: CMBS Global Property Evaluation Methodology, July 26, 2024
- 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: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- 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
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 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

- European CMBS Monitor Q2 2024, July 23, 2024
- Servicer Evaluation: CBRE Loan Services Ltd., Feb. 28, 2024
- 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