S&P Global
Ratings

# Research

# New Issue: Pine Finance 2025-1 DAC

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# New Issue: Pine Finance 2025-1 DAC

## 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) | 81.510** | 47.7 | 68.7 | 14.8 | April 2030 | SONIA plus 1.95% | April 2036 |
| B | AA- (sf) | 23.370 | 62.7 | 58.9 | 11.2 | April 2030 | SONIA plus 2.50% | April 2036 |
| C | A (sf) | 11.875 | 70.2 | 53.9 | 10.0 | April 2030 | SONIA plus 3.50% | April 2036 |

*S&P Global Ratings' credit ratings address timely payment of interest and payment of principal no later than the legal final maturity. The legal final maturity date is initially in April 2035. However, the servicer has the option to extend the loan once by 12 months beyond the initial loan maturity. Should it choose to do so, the legal final maturity will also be extended by one year. The ratings therefore address repayment of the principal by April 2036. §Reflects the approximate decline in the property's £251 million market value that would be necessary to experience a principal loss at the given rating level. †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. **Includes £6.84 million to fund the issuer liquidity reserve. SONIA--Sterling Overnight Index Average. NR--Not rated. N/A--Not applicable. NCF--Net cash flow.

### Transaction Participants

| | |
|---|---|
| Arranger and lead manager | Citibank Europe PLC |
| Loan seller | Citibank N.A., London Branch |
| Primary servicer, special servicer, loan security agent, and loan facility agent | Mount Street Mortgage Servicing Ltd. |
| Issuer account bank, principal paying agent, and agent bank | U.S. Bank Europe DAC |
| Issuer cash manager | U.S. Bank Global Corporate Trust Ltd. |
| Note trustee and issuer security trustee | U.S. Bank Trustees Ltd. |
| Hedge provider | Standard Chartered Bank |
| Corporate services provider | CSC Capital Markets (Ireland) Ltd. |

### Supporting Ratings

| Institution/role | Ratings |
|---|---|
| U.S. Bank Europe DAC as issuer account bank | A+/Stable/A-1 |
| Standard Chartered Bank as hedge provider | A+/Stable/A-1 |

### Transaction Key Features

| | |
|---|---|
| Number of loans | 1 |
| Number of assets | 1 |
| Geographic concentration of assets | U.K. (100%) |
| Asset type concentration | Office (100%) |
| Outstanding principal (mil. £) | 115.7 |
| LTV ratio (%) | 46.1 |

| Transaction Key Features (cont.) | |
|---|---|
| Cutoff debt service coverage ratio at hedged rate* | 1.7x |
| Redemption profile | Principal receipts are 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 a loan failure event or note acceleration, all available funds are applied sequentially |
| Interest limitation of junior notes | N/A |
| Liquidity reserve size (mil. £) | 7.2 |
| Hedging profile | The loan is fully hedged through a borrower-level interest-rate cap |

*Based on S&P Global Ratings' NCF. LTV--Loan to value. NCF--Net cash flow. N/A--Not applicable.

## Transaction Summary

S&P Global Ratings has assigned credit ratings to Pine Finance 2025-1 DAC's class A, B, and C notes.

The transaction is backed by one loan, which Citibank, N.A. London Branch originated in April 2025 to facilitate the refinancing of the Aldgate Tower office building located in the City of London.

The senior loan backing this true sale transaction has a principal amount of £115.7 million. The loan has a five-year term with no extension options. There is no additional debt in the transaction.

The loan does not provide for default financial covenants prior to the PCC date, being the first date on which Brookfield Corporation and its affiliates do not hold, directly or indirectly, at least 10% of the issued share capital in the parent of the borrower. Instead, there are cash trap mechanisms set at a 53.8% loan-to-value (LTV) ratio, or minimum debt yields set at 8.5% in year 1, 9.5% in year 2, and 10.0% in years 3-5, prior to the PCC date. Following the PCC date, the cash trap levels will be reset at a 48.8% LTV ratio, or minimum debt yield at 10.0%, and there will be financial default covenants at a 53.8% LTV ratio or minimum debt yield at 8.5%. There is no amortization scheduled during the loan term.

The property's current market value is £251.0 million, which equates to an LTV ratio of 46.1%. Additionally, the market value under the special assumption of a share sale transaction is £264.0 million, implying an LTV ratio of 43.8%.

At closing, to satisfy EU, U.K., and U.S. risk retention requirements, Citibank N.A. advanced to the issuer the issuer loan in the amount of at least 5% of the securitized loan. The issuer loan sits pari passu with and is paid pro rata to the securitized loan. It also partially funded the liquidity reserve.

Pine Finance 2025-1 also issued an additional £6.84 million of class A notes, the proceeds of which, together with a portion (£360,000) of the issuer loan, are held in cash in the issuer liquidity reserve ledger on the issuer transaction account. These funds serve as a liquidity reserve in lieu of a traditional liquidity facility. The total note issuance is therefore larger than the outstanding loan balance.

Our ratings address the issuer's ability to meet timely interest payments and principal repayment no later than the legal final maturity in April 2036.

The legal final maturity date is initially April 2035. However, the servicer has the option to extend the loan once by 12 months beyond the loan maturity date in 2030. Should the servicer choose to exercise this option, the legal final maturity date will be automatically extended to April 2036.

Should there be insufficient funds on any note payment date to make timely interest payments on the notes (except for the then most senior class of notes), the interest will not be due but will be deferred to the next interest payment date (IPD). The deferred interest amount will accrue interest at the same rate as the respective class of notes.

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 reflects 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, and environmental site and property condition assessments. We also reviewed the underlying loan documentation. In particular, we looked at the property insurance requirements, the loan covenants requiring the borrower 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).

Our review concluded that environmental credit factors are not key rating drivers in this transaction because these risks were adequately addressed. While we expect the progressive decarbonization of the real estate sector by 2050 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 transaction's expected life. 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 property, known as Aldgate Tower, is a modern office building located within the eastern fringe submarket in the City of London. Furthermore, the building is situated directly adjacent to Aldgate East underground station and is within walking distance to two mainline stations and the core city office market.
- The Aldgate Tower is a relatively new building with excellent sustainability credentials and generally offers well-configured and adaptable grade-A floorplates, which are likely to appeal to a mix of new tenants from a broad spectrum of sectors.
- The building was 90% leased to 11 tenants as of the Oct. 21, 2024, cutoff date, with no single tenant contributing more than 31.4% of the rental income. The tenants operate within a relatively diverse range of industries and generally provide recognized corporate covenants.
- 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.
- The loan has low leverage, with a Day-1 note-to-market-value ratio of 46.1%. However, it does not amortize.
- The loan benefits from a healthy interest coverage ratio (ICR). Based on our underwritten net cash flow (NCF) and assuming an interest rate at the strike of the cap, the ICR would be 1.7x. Based on the property's reported net operating income, the Day-1 ICR is 2.2x.
- The transaction is structured with a liquidity reserve, which is funded out of the class A note issuance and a portion of the issuer loan. The liquidity reserve works similarly to a traditional liquidity facility, except that a liquidity facility would have to be extended annually. In addition, under a liquidity reserve, the issuer is not exposed to the counterparty risk associated with a liquidity provider, including its willingness and ability to maintain the facility and make drawings available. Instead, the counterparty risk sits with the transaction account bank, where the issuer deposited the reserve. However, the issuer does not need to make a request for a drawing. It can just use the funds as and when needed under the transaction documents.
- The portfolio benefits from experienced sponsorship by Brookfield Asset Management and China Life, and experienced asset management by Brookfield Properties, one of the world's largest asset managers.
- In our view, the transaction's five-year tail period would be sufficient for the ranked special servicer to manage a real estate workout process.

### Concerns and mitigating factors

- The transaction is concentrated by property type and geographic location. The loan is backed by a single office building within the Aldgate submarket of the City of London. This risk is somewhat mitigated by the in-place tenant diversity and weighted-average lease to break (WALTB) of 5.2 years as of the cutoff date.
- The eastern fringe market of the City of London has seen lower demand compared with the core City of London market given the established trend toward flexible working. The submarket vacancy was at 13.3% as of the fourth quarter (Q4) of 2024, according to Knight Frank, and was also higher than the average City of London vacancy, which stood at 9.6%, and the core City of London vacancy, which stood at 7.6%. Before the pandemic, the Eastern fringe submarket of the City of London attracted tenants in the tech and digital sectors, and is now seeing lower demand for office space. As stock in the core of the City of London is taken up over time, the Eastern fringe submarket is poised to absorb excess demand for prime office accommodation. The Aldgate Tower is well located

within this submarket, benefits from excellent sustainability credentials, and offers competitively priced office accommodation.

- The building vacancy has been at 15% during the last two years. Despite falling to 10% in August 2024, when leases with Uber started on levels 13, 14, and 15, vacancy increased to 12.7% in January 2025 after Aecom surrendered the lease for the area it occupied on level 7, and is expected to increase again when Uber surrenders the leases for the areas it currently occupies on levels 1 and 2, and when MyCityDeal's lease for level 11 expires in June 2025. This will likely raise the property vacancy above the submarket office vacancy for Aldgate/Whitechapel. We understand that the asset manager is in discussions with new occupiers for some of the vacant floors and with existing tenants to regear their leases in order to mitigate voids.
- Knight Frank research shows that the City of London vacancy during the current cycle reached 11.1% in Q2 2023 but has declined to 9.6% in Q4 2024. This compares with a peak vacancy rate of 10.4% following the global financial crisis, and 15.5% following the DotCom crisis of the early 2000s. We considered the property and market vacancy when assessing the underlying property and the loan.
- The mortgage loan is interest only, meaning there is no scheduled amortization during the loan term, which exposes the loan to higher refinancing risk when compared with an amortizing loan. We believe the five-year tail period would be sufficient for the ranked servicer to maximize recoveries by the note maturity.
- While the loan does benefit from cash trap covenants tied to both the LTV ratio and debt yield, there are no financial covenants triggering an event of default prior to the PCC date.
- The loan is exposed to interest rate risk, as the interest payable is based on a floating rate. However, the borrower entered into an interest rate cap agreement, which limits this risk. The interest rate cap is with a strike price of 3.5%. Beyond the loan maturity date, a 5% Sterling Overnight Index Average (SONIA) cap on the notes is activated. The loan-level cap agreement is structured in a way that the counterparty can support ratings up to 'AAA' under our counterparty criteria (see "Related Criteria").
- 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 under this option.

## Transaction Characteristics

### Legal structure

At closing, the issuer acquired the loan from Citibank, N.A. London Branch, using the proceeds from the note issuance and the issuer loan (approximately 95% from the former and about 5% from the latter). The issuer benefits from the loan's security package, which includes:

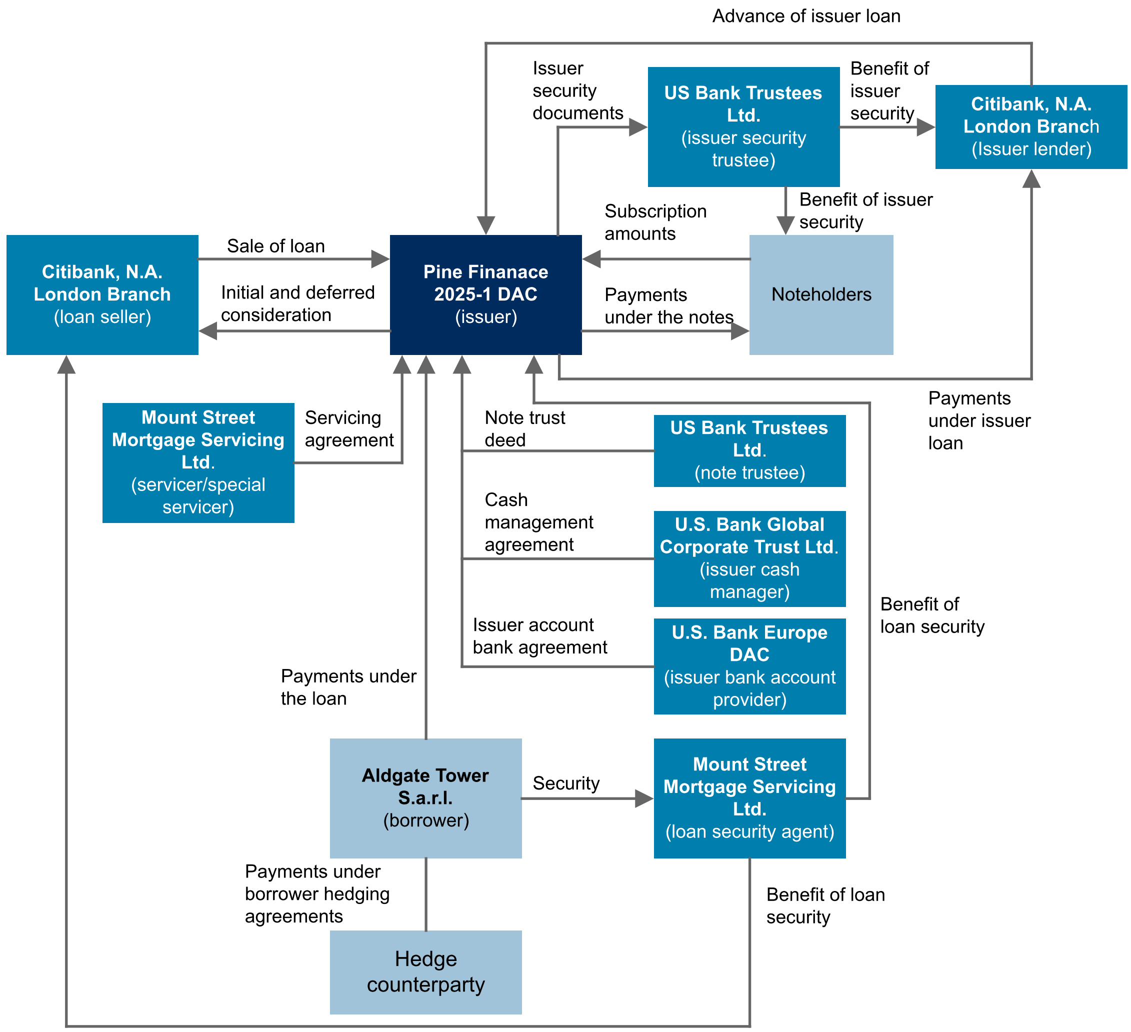
- A first-ranking mortgage security over the property;
- A first-ranking share security over the shares of each obligor;
- A first-ranking security over all rental income and all rights under occupational leases, insurance proceeds, purchase

agreements, and any other income received in respect of, or otherwise relating to, the property;

- 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 obligors; and
- A first-ranking security over any hedge agreement.

**Chart 1**

**Transaction structure**






## Loan characteristics

The £115.7 million senior loan was arranged and underwritten by Citibank, N.A. London Branch to facilitate the borrower's refinancing of the Aldgate Tower located in the City of London.

The notes are secured by a 95% interest of the whole loan.

The loan terminates in April 2030. It is an interest-only loan that does not provide for financial default covenants prior to a the PCC date. However, there are mandatory cash trap covenants if the LTV ratio is above 53.8% or if the debt yield is less than 8.5% in year 1, 9.5% in year 2, and 10.0% in years 3-5.

**Table 1**

| Key Loan Characteristics | |
|---|---|
| Property type | Office (100%) |
| Number of properties | 1 |
| Property location | London, U.K. |
| Cutoff whole loan balance (mil. £) | 115.7 |
| Securitized loan balance (mil. £) | 115.7 |
| Utilization date | April 2025 |
| Loan maturity | April 2030 |
| Loan type | Refinance |
| Fixed/floating interest | Floating: SONIA plus a margin |
| Amortization | None |
| Cash trap covenants | Year 1: <8.5% debt yield or >53.8% LTV ratio, Year 2: <9.5% debt yield or >53.8% LTV ratio, and Years 3-5: <10.0% debt yield or >53.8% LTV ratio |
| Financial default covenants | None |
| Borrower interest rate hedge | Fully hedged through a borrower-level interest-rate cap at a strike rate of 3.5% |
| Market value (mil. £) | 251.0 |
| LTV ratio (%) | 46.1 |
| Occupancy as a percentage of gross lettable area (%)* | 90.0 |
| Contractual rent (mil. £)* | 15.9 |
| Net rental income (mil. £) | 14.6 |
| Number of tenants | 11 |
| Weighted-average unexpired term to first break (years)* | 5.2 |
| Major tenants (% of gross rental income)* | Aecom Ltd. (31.4%), Uber London Ltd. (25.2%), InfinitSpace Aldgate UK Ltd. (20.6%), and Gravita Business Services Ltd. (7.2%) |
| Sponsor | Brookfield and China Life |

SONIA--Sterling Overnight Index Average. LTV--Loan to value. *As of the Oct. 21, 2024, cutoff date.

## Sponsor and manager overview

A joint venture between Brookfield Property Partners L.P. (10%) and China Life (90%) owns the property, with asset and property management provided by Brookfield.

Brookfield is a global private equity sponsor operating in more than 30 countries with $1 trillion assets under management as at Q3 2024. They have invested, on behalf of clients, in a diversified real estate portfolio with total assets under management of over $272 billion, including 184 million square feet (sq ft) of office properties. Brookfield's London office portfolio comprises 5 million sq ft of grade-A offices across 10 properties.

China Life is one of the largest institutional investors in China with Chinese renminbi (RMB) 5.8 trillion / $800 billion total assets as at the end of 2023, of which $135 billion is available for alternative investments.

At closing, Brookfield and China Life contributed £66 million of new equity in order to facilitate the refinancing of the borrower's existing senior debt.

### Tenure

The property is held majority freehold, save for a small part of the property that is held leasehold.

The small part held leasehold relates to a structural supporting column that is built underneath the property. The leasehold is for a term of 999 years from November 2011 and at a fixed peppercorn ground rent.

### Insurance

Under the loan agreement, the borrower must maintain insurance that covers the building's full reinstatement value, at least three years' loss of rent, fire and casualty (including terrorism), and general/public liability.

All insurance policies are written by an insurance company approved by the borrower facility agent and rated at least 'A' by S&P Global Ratings. This is in line with our guidance on property insurance.

### Servicing arrangements

Mount Street Mortgage Servicing Ltd. is the primary servicer and special servicer. We rank Mount Street as ABOVE AVERAGE as a commercial mortgage primary and special servicer (see "Servicer Evaluation: Mount Street Mortgage Servicing Ltd.," published on July 25, 2023).

For this transaction, the loan enters special servicing if:

- A loan default exists at loan maturity;
- Any transaction obligor becomes subject to insolvency or insolvency proceedings;
- A loan event of default occurs due to creditors' process or cross-default; or
- Any other loan event of default occurs or is imminent and in either case not likely to be cured within 21 days of its occurrence and which is likely, in the servicer's opinion, to have a material adverse effect on the issuer.

If the loan enters special servicing, the special servicer generates an asset status report no later than 60 days after the occurrence of a special servicing transfer event, which describes the status of the loan and the properties. The report outlines (among other things) the effect of various courses of action on the loan's net present value. Courses of action include a workout of the loan or a realization of the security for the loan. The report concludes the special servicer's recommended actions and strategy to maximize the loan's recovery on a net present value basis.

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

- 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 fully realized prior to 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 generates a final version of the note maturity plan, on which a meeting of the most senior class of notes will vote for their preferred option.

### Interest and principal priority of payments

Until the expected note maturity date, the notes 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 5.0% per year will be subordinated to interest and principal payments on the notes.

The loan does not amortize. On the termination date, the balance of the outstanding loan will be due in full.

Prior to a loan failure event, there are separate priorities of payments for interest and principal. Further, principal is applied pro rata (with the exception of cash trap principal receipts, which are always applied sequentially, and any voluntary prepayments, which are applied reverse sequentially), whereas interest is applied sequentially (after senior expenses).

If a loan event of default occurs or the loan does not fully repay at maturity, among other things, a loan failure event occurs, and all available funds will be applied sequentially to pay interest on the notes and then principal on the notes.

After the delivery of a note acceleration notice, all available funds will be applied to pay interest and principal on each class of notes sequentially.

### Hedging arrangements

The borrower entered into an interest rate cap with the hedge counterparty at a strike rate of 3.5% for the full loan amount. The hedging agreement is in place for the full term of the loan.

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

### Liquidity reserve

The £7.2 million liquidity reserve is funded by issuing additional class A notes (95% of the reserve balance) and by a portion of the issuer loan (5%), the proceeds of which are held in cash in the issuer liquidity reserve ledger on the issuer transaction account with the issuer account bank.

The liquidity reserve is available to fund, among other things, senior expenses, interest payments to the class A, B, and C notes, and the corresponding issuer loan (including any related deferred interest).

The issuer liquidity reserve 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 reserve is topped up before class A interest under the pre-enforcement revenue priority of payments.

The issuer liquidity reserve commitment reduces in line with the class A, B, and C notes' balance. A drawstop event occurs if at any time the aggregate market value of the properties is less than the amount of the undrawn liquidity reserve plus three times the aggregate of unpaid senior costs and any amounts due or accrued but unpaid to any third-party creditors and to the class A noteholders.

### Prepayment

Subject to certain conditions, prepayment fees may be payable during the first 12 months where the borrower makes a voluntary prepayment or a mandatory prepayment resulting from a change of control or a sale of the property.

### Cash management

The property's rents are collected by the managing agent and paid into the borrower's rent account. From there, the facility agent transfers funds that are due to the issuer under the loan agreement on or before each note IPD to the issuer's transaction account.

The issuer cash manager makes payments out of the issuer transaction account and records drawings under the issuer liquidity reserve in accordance with the pre- and post-acceleration waterfalls.

## Collateral Overview

The securitized loan is backed by Aldgate Tower, a 324,294 sq ft grade-A office building located in Aldgate, on the eastern fringe of the City of London.

The 19-story building, which was constructed by Brookfield and completed in 2014, provides 16 floors of office accommodation with a ground floor reception. The building also includes storage space on the mezzanine first floor and basement, as well as a single retail unit.

As of the Oct. 21, 2024, cutoff date, the property was 90.0% occupied (by gross lettable area) and leased to 11 tenants, generating a total gross rental income of £15.9 million. The tenants in Aldgate Tower predominately comprise tech, engineering, consultancy, and flexible office space provider firms. The top five tenants account for 90.7% of the annual rent and have a WALTB of 5.5 years. The other tenants (including leased ancillary areas) make up the remaining rental income with a WALTB of 1.9 years.

**Table 2**

**Top five tenants***

| | Area (sq ft) | Current rent (mil. £) | Current rent (%) | Weighted-average lease to break (years) | Weighted-averagelease to expiry (years) |
|---|---|---|---|---|---|
| Aecom Ltd. | 86,672 | 4.97 | 31.4 | 4.2 | 6.9 |
| Uber London Ltd. | 74,028 | 3.99 | 25.2 | 3.2 | 6.3 |
| InfinitSpace | 61,194 | 3.27 | 20.6 | 12.3 | 12.3 |
| Gravita Business Services Ltd. | 20,274 | 1.14 | 7.2 | 4.2 | 9.2 |
| MyCityDeal Ltd. | 20,471 | 1.01 | 6.4 | 0.7 | 0.7 |
| Total top five | 262,639 | 14.38 | 90.7 | 5.5 | 7.7 |

*As of the Oct. 21, 2024, cutoff date.

### Asset management/business plan

The property experienced a large uptick in vacancy in 2021 due to several tenant break options, including WeWork and Maersk, coinciding with the effects of the pandemic and occupiers revisiting their space requirements. The property manager was successful in leasing the fourth, fifth, and sixth floors previously let to WeWork to InifinitSpace, another alternative co-working operator.

Uber is expanding to approximately twice the space they currently occupy. They will move from their unit on the first and second floors and have signed a ten-year lease for the 13th, 14th, and 15th floors commencing in August 2024. They will further take the remaining areas on the 13th and 14th floors upon the expiry of the existing occupiers' leases on those floors in 2026, and will increase their total occupation to close to 60,000 sq ft.

The property is currently subject to vacancy across the third and seventh floors, which equates to approximately 40,000 sq ft. Aecom surrendered the 9,700 sf ft unit it occupied on the seventh floor in December 2024, in exchange for removing the breaks on its leases for the eighth and ninth floors. Additionally, when Uber relocates to the higher floors, it will vacate the units it occupies on the first and second floors, which total an additional 30,000 sq ft. Uber signed a six-month extension until November 2025 for its units on level 1 and 2, with a rolling mutual break option subject to one month's notice from the end of July 2025. MyCityDeal's lease for the 11th floor has an expiry date in June 2025. Gravita has a call option for the 11th floor, and we understand that Brookfield is in discussions with Gravita to facilitate their expansion requirements, which will mitigate the void periods on level 11.

We understand that the asset manager is also in discussions with new occupiers for some of the vacant floors. The borrower believes they will be able to execute on their business plan and maintain occupancy based on quality of the building, its position in the city fringe submarket, and their ability to price competitively when compared to core city office rents.

Brookfield has a sustained track record of leasing up managed properties in the city and implementing various asset management initiatives, including leasing regears and on floor refurbishments to support strong leasing momentum.

Knight Frank have reported that the City of London vacancy during the current cycle reached 11.1% in 2023, but declined to 9.6% in Q4 2024. This compares with a peak vacancy rate of 10.4% following the global financial crisis, and 15.5% following the DotCom crisis of the early 2000s. We have considered this information (among other factors) in arriving at our S&P Global Ratings' value, as detailed below.

## Third-Party Reviews

We reviewed technical due diligence and environmental audit reports of the property, which were carried out in February 2024.

The technical report included a building survey and provided high-level analysis of operational and capital expenditure projections. It highlights that the property is generally maintained in good condition, which is commensurate with age and use. The report identifies no significant expenditure requirements in the next ten years, and details repair and replacement works over the next ten years of approximately £1.12 million.

The technical report provided a traffic light analysis for various technical elements to highlight any risks or concerns. It identified no material concerns, although two items were flagged as amber and considered non-critical, pertaining to water quality issues in the closed systems and ceiling void detection, which warrant ongoing monitoring and further investigation. These issues are expected to be addressed as part of the ongoing upkeep of the property.

The objective of the environmental report was to determine the existence and likely extent of any potential environmental liabilities associated with the current and historical use of the site. The environmental risk of the property was considered low for the existing use.

The environmental report also reviewed the energy performance of the property. 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.

Aldgate Tower has an EPC rating of 'B', which complies with the current legislation, and already complies with the highest standards in the proposed 2030 MEES regulation. The current EPC certificate is valid until February 2035. The property has also achieved a BREEAM (Building Research Establishment Environmental Assessment Method) Excellent rating.

## Credit Evaluation

In our analysis, we evaluated the loan's underlying real estate collateral 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 (the period between the loan's maturity date and the transaction's final maturity date) needed to repay noteholders, if the borrowers defaulted.

### The loan

We consider that the asset's potential to produce an NCF is £11.6 million on a sustainable basis. This includes our assumptions of the property's ability to generate a sustainable cash flow, with adjustments to account for vacancy and costs. We have assumed a vacancy level of 19.0%, and non-recoverable expenses of 18.3%. In our vacancy assumption, we have taken into consideration the property's current vacancy and lease rollover, as well as the Aldgate submarket vacancy rate. Our non-recoverable expenses assumption is based on void costs, including service charges and business rates, for the vacant areas. Our S&P Global Ratings' NCF implies a Day-1 ICR at the hedged rate of about 1.7x and a debt yield of 10.0%.

We consider 6.5% to be an appropriate cap rate for the property, given its quality and location. This is based on our anchor cap rate for category 1 offices in London, with an upward adjustment of 0.5%, which takes into account the relative location of the property in the Eastern fringe of the City of London, a secondary submarket compared with the core City of London office market.

We applied the cap rate to the portfolio's assumed NCF and deducted free rent and purchase costs to determine the property's sustainable value at £164.7 million, which represents a 34.4% haircut (discount) to the £251.0 million open market valuation.

**Table 3**

| S&P Global Ratings key assumptions | |
|---|---|
| Gross rent fully let (mil. £) | 17.6 |
| Vacancy (%) | 19.0 |
| Non-recoverable expenses (%) | 18.3 |
| Net cash flow (mil. £) | 11.6 |
| Capitalization rate (%) | 6.5 |
| Free rent (mil. £) | 5.4 |
| Purchase costs (%) | 5.00 |
| S&P Global Ratings value (mil. £) | 164.7 |
| Haircut to market value (%) | 34.4 |
| S&P Global Ratings LTV ratio before recovery rate adjustments (%) | 70.2 |

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 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 July 26, 2024).

We compared the principal amount of each outstanding tranche at the time of an assumed loan default with 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 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 would decline in line with the relevant rating scenarios and where drawings on the liquidity reserve would be needed. We also assumed that the loan will default at its final 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. In these scenarios, we used a stressed note interest rate to assess whether the issuer will still have sufficient revenue to meet its interest payment obligations.

The class A notes do not pass our 'AAA' cash flow stresses by a very small margin, approximately 0.035% of the tranche balance. Given the small amount of the shortfall, we found that there is sufficient liquidity support for each class of notes at the assigned ratings.

## Scenario Analysis

We performed our stress scenario analysis to determine, on an indicative basis, our 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 4**

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

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

## Related Criteria

- Criteria | Structured Finance | CMBS: CMBS Global Property Evaluation Methodology, July 26, 2024
- Criteria | Structured Finance | CMBS: European CMBS Methodology And Assumptions, 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
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- 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 Q4 2024, Feb. 3, 2025
- S&P Global Ratings Definitions, Dec. 2, 2024
- Servicer Evaluation: Mount Street Mortgage Servicing Ltd., July 25, 2023
- 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