S&P Global Ratings

Research

New Issue: Sage AR Funding 2025 No.1 PLC

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Ratings Detail

Ratings

Class	Rating*	Amount (mil. £)	Market value decline (%)§	Debt yield (%)†	Expected final maturity‡	Interest**	Legal final maturity§§
A1	AAA (sf)	132.5	70.7	10.9	May 17, 2032	SONIA plus 1.3%	May 17, 2038
A2	AAA (sf)	0.1	70.7	10.9	May 17, 2032	SONIA plus 1.3%	May 17, 2038
B	AA- (sf)	47.3	60.2	8.0	May 17, 2032	SONIA plus 2.0%	May 17, 2038
C	A- (sf)	37.9	51.8	6.6	May 17, 2032	SONIA plus 2.4%	May 17, 2038
D	BBB- (sf)	32.4	44.7	5.8	May 17, 2032	SONIA plus 3.9%	May 17, 2038
E	BB- (sf)	19.8	40.3	5.3	May 17, 2032	SONIA plus 5.5%	May 17, 2038
R	NR	33.0	N/A	N/A	May 17, 2032	N/A	May 17, 2038

*S&P Global Ratings' credit ratings address timely payment of interest on the class A, B, C, and D notes, ultimate payment of interest on the class E notes, and payment of principal no later than the legal final maturity on all classes of notes. §Reflects the approximate decline in the property's £452.2 million market value, subject to tenancies, which would be necessary to experience a principal loss at the given rating level. †Based on S&P Global Ratings' NCF and the total securitized notes. ‡First expected note maturity date is May 17, 2030. **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. §§The legal final maturity date is initially May 17, 2037. However, the servicer has the option to extend the loan one time by 12 months beyond the extended loan maturity date in 2032. Should the servicer choose to exercise this option, the legal final maturity date will be automatically extended to May 2038. SONIA--Sterling Overnight Index Average. NR--Not rated. TBD--To be determined. N/A--Not applicable. NCF--Net cash flow.

Transaction participants

Arranger	Goldman Sachs International
Joint lead managers	Goldman Sachs International and Barclays Bank PLC
Loan seller	Goldman Sachs Bank USA
Primary servicer, special servicer, and loan facility agent	Situs Asset Management Ltd.
Issuer account bank, principal paying agent, and agent bank	U.S. Bank Europe DAC, UK Branch
Issuer cash manager	U.S. Bank Global Corporate Trust Ltd.
Note trustee and issuer security trustee	U.S. Bank Trustees Ltd.
Liquidity facility provider	Goldman Sachs Bank USA
Hedge provider	TBD
Corporate services provider	CSC Capital Markets (UK) Ltd.

TBD--To be determined.

Supporting ratings

Institution/role	Ratings
U.S. Bank Europe DAC, UK Branch as issuer account bank	NR
U.S. Bank Europe DAC, interdependency bank branch parent, on the unrated branch	A+/Stable/A-1
Goldman Sachs Bank USA as liquidity facility provider	A+/Stable/A-1
TBD as hedge provider	TBD

NR--Not rated. TBD--To be determined.

Transaction key features	
Number of loans	1
Number of assets	2,123
Geographic concentration of assets	U.K. (100%)
Asset type concentration	Affordable and social housing (100%)
Rated note balance (mil. £)	270.0
Rated LTV ratio based on MV-STT (%)	59.7
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 to the rated notes. After a loan failure event or note acceleration, all available funds are applied sequentially
Liquidity facility size (mil. £)	9.4
Hedging profile	The loan is expected to be fully hedged through a borrower-level interest rate cap

LTV--Loan-to-value. MV-STT--Market value, subject to tenancies.

Transaction Summary

S&P Global Ratings has assigned credit ratings to Sage AR Funding 2025 No.1 PLC's class A1, A2, B, C, D, and E notes. At closing, Sage AR Funding 2025 No.1 also issued unrated class R notes.

Sage AR Funding 2025 No.1 is a CMBS transaction backed by a loan secured on a portfolio of 2,123 social housing units located in England.

The issuer used the proceeds of the note issuance to acquire the £270.0 million tranche A loan from the loan seller and to advance the £33.0 million tranche R loan to the borrower. The tranche R loan will rank junior to the tranche A loan. The tranche A loan and the tranche R loan are collectively referred to as the loan.

The borrower then on-lent the loan proceeds to Sage Rented Ltd. (SRL), the parent registered provider (RP), through a parent RP facility agreement. The parent RP will use the proceeds of this loan to directly or indirectly finance or refinance the properties owned by the parent RP.

Payments due under the loan primarily fund the issuer's interest and principal payments due under the notes.

The borrower is a wholly owned subsidiary of the parent RP, which is a for-profit RP of social housing ultimately owned by Blackstone Inc. alongside the Regis Group PLC.

To satisfy E.U., U.K., and U.S. risk-retention requirements, an additional amount of unrated class R notes, were issued and retained by the originator, SRL (itself or acting through the borrower, its wholly owned subsidiary). For EU and U.K. risk retention requirements, this is at least 5% of the nominal value of the securitized loan, and for the U.S. risk retention requirements, this is at least 5% of the fair value of all the notes issued by the issuer at closing (determined using a fair value measurement framework under U.S. generally accepted accounting principles).

The loan provides for cash trap mechanisms set at a rated loan-to-value (LTV) ratio greater than 76.92% or a rated debt yield less than 4.675%. Following a permitted change of control, a cash trap event will occur if the rated LTV ratio is greater than the rated LTV ratio on the change of control date plus 10%, or the rated debt yield is less than 90% of the rated debt yield on the change of control date.

The loan has an initial term of five years with two one-year extension options available, subject to the satisfaction of certain conditions. There is no scheduled amortization during the loan term.

The portfolio's current market value subject to tenancies (MV-STT) is £452.2 million, which equates to an LTV ratio of 59.7% (based on the rated notes) and 67.0% for the full loan (including the class R retention piece).

Our ratings address the issuer's ability to meet timely payment of interest on the class A1, A2, B, C, and D notes, ultimate payment of interest on the class E notes, and payment of principal not later than the legal final maturity in May 2038 on all classes of notes. The legal final maturity date is initially May 17, 2037. However, the servicer has the option to extend the loan one time by 12 months beyond the extended loan maturity date in 2032. Should the servicer choose to exercise this option, the legal final maturity date will be automatically extended to May 2038.

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 on 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 we examined in the loan pool included a review of third-party appraisals, and environmental site and property condition assessments, when available. 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 underlying assets of 2,123 social housing units are geographically diversified across 119 housing developments in England. The largest development consists of 105 units and represents 4.6% of the total MV-STT. The average MV-STT for a unit is £213,000, 0.05% of the total.
- There is strong demand and a shortage of supply for social housing in the U.K. There are currently 1.3 million households on social housing waiting lists in England.
- The portfolio benefits from experienced sponsorship by Blackstone and the experienced property management of Sage Homes Group, which is England's largest private for-profit provider of newly built affordable housing over the last four years and manages a portfolio of approximately 19,000 affordable homes.
- The portfolio consists of newly constructed properties built between 2017 and 2023, so capital expenditures are likely to be minimal in the short to medium term.
- Rental income is government supported via government-backed housing benefits.
- The loan benefits from covenants triggering a cash trap event upon breach of certain rated debt yield and rated LTV ratio thresholds throughout the loan's term.
- In our view, the transaction's five-year tail period would be sufficient for the special servicer to manage a real estate work-out process.

Concerns and mitigating factors

- The transaction is concentrated by property type. However, the portfolio is diversified across housing developments and geographic regions. Additionally, this risk is mitigated by the fact that approximately 1.3 million households are currently on social housing waiting lists in England.
- The sector is heavily regulated. The U.K. government sets the rent levels which could cause the income from the portfolio to increase or decrease. Rent increases were approved for the five years from April 1, 2020, based on the consumer price index (CPI) plus 1%. This limit has been extended to apply from 2025 to 2026, and the government has confirmed its intention that the rent policy in effect from April 1, 2026, to March 31, 2031, will continue to allow annual increases of up to CPI plus 1%. In our analysis, we have not considered any future rent increases beyond 2026.
- The loan is interest only for its entire term, meaning there is 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 moderate Day-1 LTV ratio together with a five-year tail period would be sufficient for the special servicer to maximize recoveries by note maturity.
- A creditor wishing to enforce security or place the parent RP into an insolvency proceeding would first need to notify the Regulator of Social Housing (RSH) and a 28-day moratorium would apply. During this time, a housing administrator may be appointed and there would be a moratorium on disposals. Each housing administration order would last for 12 months but may be extended. The payment of rental income and other amounts to the borrower by the parent RP could be delayed. During this time, the liquidity facility would be available to make interest payments on the investment-grade notes.

- The parent RP and third-party security provider for the borrower are permitted to acquire additional social housing properties through additional financings. Although such additional financings and related security will be separate and ringfenced, this may increase the insolvency risk and the complexity of insolvency proceedings of the parent RP, which in turn could affect the securitized loan.
- The loan is exposed to interest rate risk, as the interest payable is based on a floating rate. Further, the Day-1 debt yield is low at 5.3% based on S&P Global Ratings net cash flow (NCF). However, the borrower is expected to enter into an interest rate cap agreement with a strike rate at the higher of 2.5% per year or the rate that ensures that the hedged interest coverage ratio (ICR) is not less than 1.2x. We note that the cap agreement will be for an initial term of two years, with a requirement to extend the hedge. If the hedging is not extended, a loan event of default would be triggered and the 5% Sterling Overnight Index Average (SONIA) cap on the notes will be activated. The cap agreement will have to be structured in a way that the counterparty can support ratings up to 'AAA' under our counterparty criteria.
- The special servicing transfer events are generally narrower in scope than in comparable CMBS transactions. A special servicing transfer event will occur if a loan default occurs at maturity, a payment default by the borrower occurs and continues for two consecutive payment dates, or a transaction obligor becomes subject to insolvency or insolvency proceedings. In particular, it will not be a special servicing transfer event of any other loan event of default occurs, or if such loan event of default is in the servicer's opinion imminent, even if the servicer takes the view that such loan event of default is likely to have a material adverse effect on the issuer. Therefore, the loan may transition into special servicing later in this transaction than would be the case for comparable CMBS transactions. We believe the five-year tail period would be sufficient for the special servicer to maximize recoveries by the note maturity.

Transaction Characteristics

Legal structure

At closing, the issuer used the proceeds of the note issuance to acquire the tranche A loan from the loan seller and to advance the tranche R loan to the borrower.

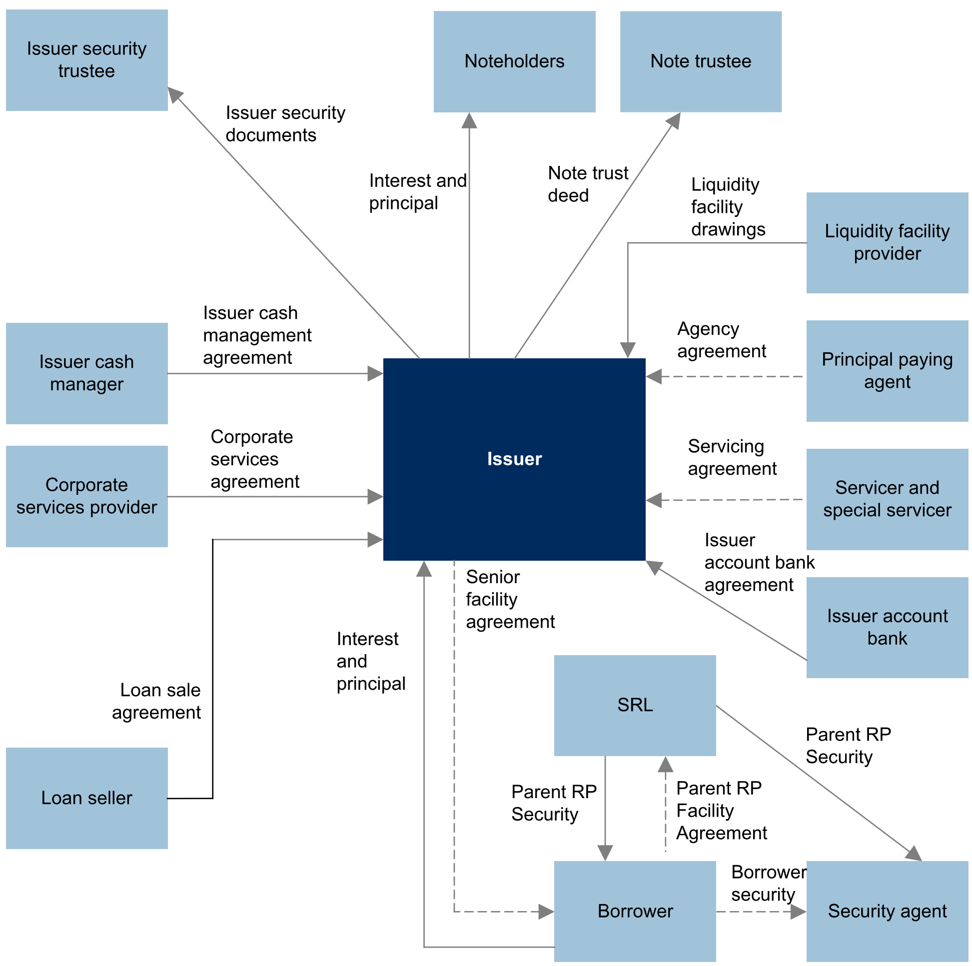
The borrower then on-lent the loan proceeds to the parent RP through a parent RP facility agreement. The parent RP will use the proceeds of this loan to directly or indirectly finance or refinance the properties owned by the parent RP. The issuer benefits from the borrower loan and parent RP-borrower security package.

The security granted by the parent RP in favor of the security agent for the benefit of the issuer or finance party is over the properties, insurances, and occupational leases relating to the properties (other than rental income to be secured by the parent RP-borrower security), ownership interest in the borrower, and shareholder debt. The parent RP also granted security in favor of the borrower over its segregated bank account and its right to receive rental income under occupational leases.

The security granted by the borrower is over all of its assets, including bank accounts, its rights through the parent RP facility agreement, rental income, insurance, and hedging documents.

Chart 1

Transaction structure



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Loan characteristics

The borrower used the loan to on-lend the proceeds to SRL, the parent RP, through a parent RP facility agreement. The parent RP will use the proceeds of this loan to repay loans made to it by its subsidiaries to finance or refinance the properties owned by the parent RP.

The loan matures in May 2030 and has two one-year extension options. The loan balance at closing is £303.0 million. The loan provides for cash trap mechanisms set at a rated LTV ratio greater than 76.92% or a rated debt yield less than 4.675% prior to a permitted change of control. Following a change of control, a cash trap event will occur if the rated LTV ratio is greater than the rated LTV ratio on the change of control date plus 10%, or the rated debt yield is less than 90% of the rated debt yield on the change of control date. The loan has an initial term of five years with two one-year extension options available, subject to the satisfaction of certain conditions. There is no amortization during the loan term.

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Table 1

Loan characteristics	
Property type	Affordable and social housing (100%)
Number of units	2,123
Property location	U.K.
Loan balance (mil. £)	303.0
Rated note balance (mil. £)	270.0
Loan maturity	May 15, 2030, initial repayment date, which may be extended annually until May 15, 2032
Loan type	Refinance
Fixed/floating interest	Floating: SONIA plus a margin based on the weighted-average margin of the rated notes.
Amortization	None
Cash trap covenants	Prior to a permitted change of control: rated LTV ratio greater than 76.92% or rated debt yield less than 4.675%. Following a permitted change of control: rated LTV ratio greater than the rated LTV ratio on the change of control date plus 10%, or rated debt yield less than 90% of the rated debt yield on the change of control date.
Financial default covenants	Prior to a permitted change of control: none. Following a permitted change of control: rated LTV ratio greater than the rated LTV ratio on the change of control date plus 15%, or rated debt yield less than 85% of the rated debt yield on the change of control date.
Borrower hedge counterparty	Expected to be fully hedged through an interest rate cap at a strike rate at the higher of 2.5% and a strike rate to ensure a hedged ICR of a minimum of 1.2x with a rated hedge counterparty.
MV-STT (mil. £)	452.2
EUV-SH (mil. £)	369.5
Rated notes to MV-STT (%)	59.7
Rated notes to EUV-SH (%)	73.1
Sponsors	Blackstone Inc./Sage

LTV--Loan-to-value. ICR--Interest coverage ratio. MV-STT--Market value subject to tenancies. EUV-SH--Existing use value for social housing.

Borrower, sponsor and manager overview

The borrower in this transaction is Sage Borrower AR4 Ltd., a wholly owned subsidiary of Sage Rented Ltd., the parent RP. The parent RP is a for-profit RP of social housing ultimately owned by Blackstone alongside Regis.

Blackstone is the world's largest alternative asset manager, with more than $1 trillion in assets under management. The Blackstone Real Estate Group was established in 1991 and is the largest private equity real estate investment manager in the world today with $763 billion of fee-earning assets under management across a $337 billion global real estate portfolio. As the largest owner of commercial real estate globally, Blackstone owns and manages assets across every major geography and sector, including logistics, housing, data centers, hospitality, and life sciences.

Sage Homes Group (Sage) is a regulated UK affordable housing platform. It was established in 2017 when Blackstone formed a partnership with Regis (the team that set up Invitation Homes) to create and grow an affordable housing company in England. Since 2017, Sage has delivered 10,727 affordable and social rental units across England, with approximately 1,924 units under construction as of December 2024. Sage operates a number of for-profit registered providers including SRL.

Sage Housing Group Ltd. acts as property manager for the portfolio. It is the management company for Sage. It is responsible for various functions including but not limited to place management, tenancy enforcement, income management and recovery services, and repairs.

Insurance

Under the deed of covenant, the parent RP must maintain insurance that covers the building's full reinstatement value, at least three years' loss of rent, fire and casualty (including terrorism to the extent available in the market on reasonable commercial terms), and general/public liability.

All insurance policies are written by an insurance company, which, if rated by S&P Global Ratings, is rated at least 'A'. This is not in line with our criteria on property insurance because some insurance providers may not be rated by S&P Global Ratings. However, the portfolio is geographically diverse and granular, with the largest development in the portfolio representing 4.6% of the total market value.

Servicing arrangements

Situs Asset Management Ltd. is the primary servicer and special servicer. We rank Situs Asset Management LLC and Situs Holdings LLC ABOVE AVERAGE as a primary and special servicer of commercial mortgages in the U.S., but we do not rank it as a servicer in the U.K.

For this transaction, the loan enters special servicing if:

- A loan default (including a loan event of default) exists on the loan's maturity date;
- A payment default by the borrower continues for two consecutive payment dates, other than as included in the bullet point above; or
- A transaction obligor becomes subject to insolvency or insolvency proceedings.

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 work-out 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 (or, if no proposal receives approval from the most senior class, a meeting of the noteholders acting as a single class) will vote for their preferred option.

Interest and principal priority of payments

Until the expected note maturity date, the notes (other than the class R 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 during its term. On the loan repayment 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 material loan event occurs or the loan does not fully repay at maturity, 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.

A material loan event means a loan event of default that is either an acceleration of the loan, a payment default (or financial covenant default following a permitted change of control), an insolvency loan event of default, or the occurrence of a loan event of default as a result of any creditors' process or cross-default.

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

Before the first loan payment date, the borrower is expected to enter into an interest rate cap with a rated counterparty at a strike rate at the higher of 2.5% per year or the rate that ensures that the hedged ICR is not less than 1.2x. The cap agreement will be for an initial term of two years, with a requirement to extend the hedge.

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

Liquidity facility

At closing, the liquidity facility provider provided a £9.4 million liquidity facility to the issuer.

The liquidity facility is available to fund an expenses shortfall, a property protection shortfall, or an interest shortfall on the class A, B, C, and D 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 or any amount of interest or other amounts that may become due and payable on the class E and R notes.

The liquidity facility is topped up before class A interest under the pre-acceleration revenue priority of payments and in the pre-acceleration loan failure priority of payments, and, if necessary, before principal is applied under the pre-acceleration principal allocation rules.

The liquidity facility commitment reduces in line with the class A, B, C, and D notes' balance and by any appraisal reduction factor. A drawstop event occurs if 90% of the aggregate market value of the properties is less than the amount of the liquidity facility plus the principal balance of the class A notes, unpaid senior costs, and any amounts due or accrued but unpaid to any third-party creditors and to the class A, B, C, and D noteholders. If there has been a reduction in the market value of the properties, the interest amount on the notes for the purpose of calculating interest shortfalls for which liquidity drawings can be made will exclude interest on the principal amount of class A, B, C, and D notes that exceeds 105% of the appraised value of the properties.

Prepayment

Prepayment fees are payable when the borrower makes a voluntary prepayment within twelve months from the closing date. It is also payable following a change of control and following permitted property disposals within twelve months from the closing date. The prepayment fee payable is 100% of the margin that would have accrued on the prepaid loan amount for the period from the date of prepayment until the date twelve months from the closing date.

The release price is 100% of the allocated loan amount for each property, which is proportionally weighted based on the market value.

On a partial loan prepayment before the initial repayment date, the issuer will allocate the allocated loan amounts together with the prepayment fees received pro rata to the notes.

Reinvestment

The borrower can use certain prepayment proceeds to acquire or to refinance a reinvestment property instead of applying those proceeds to prepay the loan. A reinvestment property needs to satisfy the following criteria:

- The relevant reinvestment property is or will be owned by the parent RP;
- The reinvestment property is an affordable rent property located in the U.K.; and
- The value of the relevant reinvestment property, when aggregated with the value of other reinvestment properties, does not exceed 10% of the portfolio value as of the utilization date.

The facility agreement imposes certain conditions on any withdrawal from the reinvestment account of the borrower, including the following:

- The maximum amount that may be withdrawn from the reinvestment account for a particular reinvestment property may not be more than the higher of 61.92% of: (i) the aggregate purchase price and transaction and financing costs and fees incurred in respect of such reinvestment property, and (ii) the value of that reinvestment property;
- On the date of such withdrawal, no loan event of default is continuing (or, if a loan event of default is continuing, it would be remedied as a result of the completion of that withdrawal);
- Following such withdrawal, the rated LTV ratio is not greater than the rated LTV ratio immediately prior to the date of such withdrawal; and
- The provision of certain condition precedent documentation.

Cash management

Tenants under the leases of the properties make periodic rental income payments into the rent collection accounts held by the property manager and parent RP.

Net rental income is paid by the property manager and the borrower (having sole signing rights on the account) from the rent collection account into the segregated parent RP account, which in turn is transferred to the borrower's rent collection account. On the last business day of each month and two business days before each loan payment date, the borrower transfers from the borrower's rent collection account to the debt service account an amount equal to the lower of the balance of the borrower's rent collection account (subject to certain permitted retentions) and the debt service amounts required to be paid to the finance parties (minus the balance of the debt service account).

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

Collateral Overview

The securitized loan is backed by 2,123 affordable rented and social rented properties across 119 housing developments across England, and we consider it to be a very granular portfolio.

Table 2

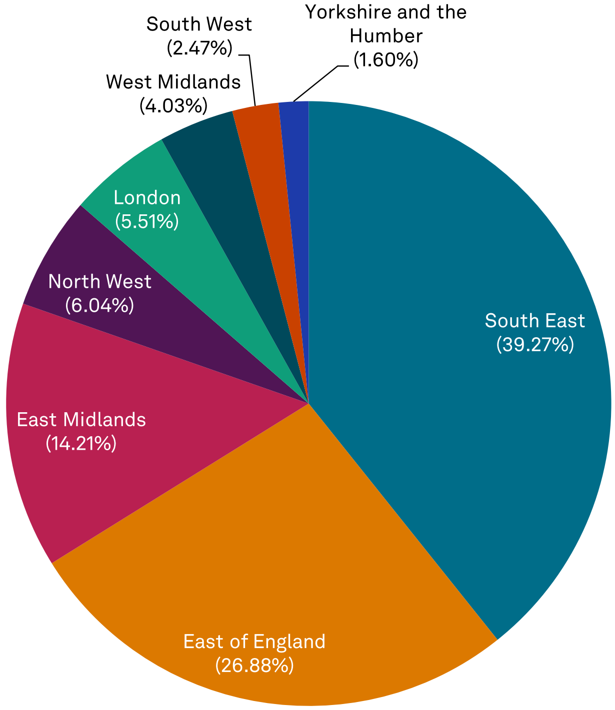
Geographic distribution

Region	Flats	Houses	Total
East Midlands	86	288	374
East of England	237	331	568
London	61	8	69
North West	79	122	201
South East	323	396	719
South West	17	32	49
West Midlands	37	62	99
Yorkshire and the Humber	16	28	44
Total	856	1,267	2,123

The top three regional concentrations are in the South East, East of England, and East Midlands, which together account for 80.4% of the MV-STT for the portfolio as shown in chart 2. Properties in London contribute 5.5% of the MV-STT.

Chart 2

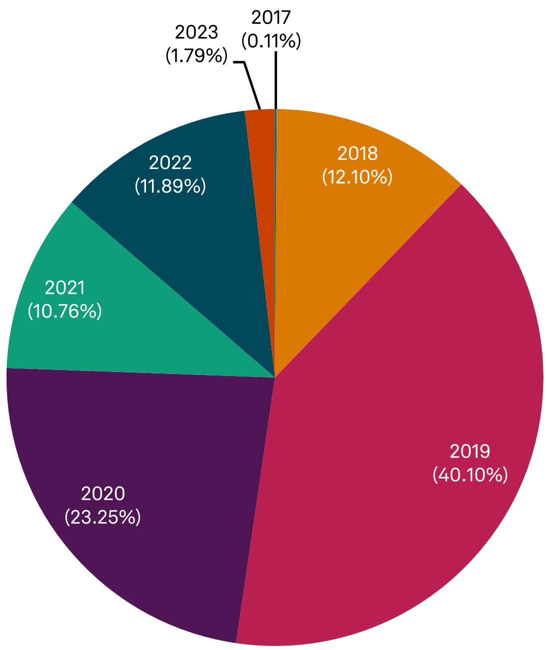
Portfolio MV-STT by region



All of the properties have been built between 2017 and 2023 and consist of a mix of houses and flats, all of which are purpose-built schemes. Generally, the schemes are located in residential areas and have access to transport and various amenities.

Chart 3

Year of construction by MV-STT

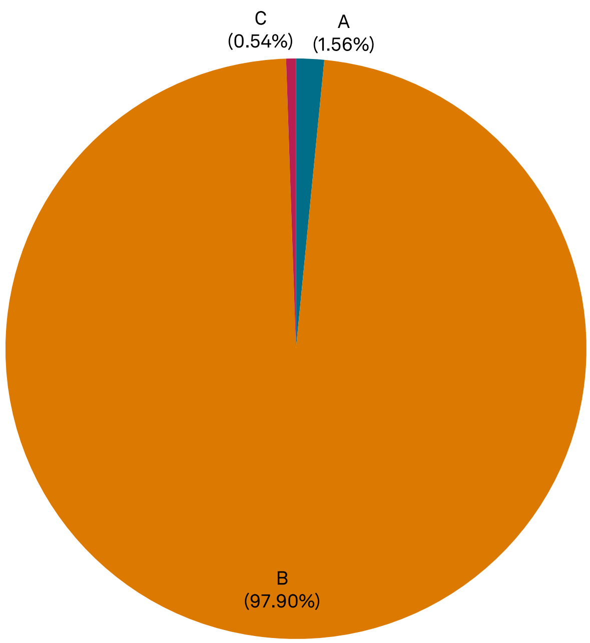


Source: S&P Global Ratings.

Given the recent construction and average age of the portfolio, 99.5% of the units have EPC ratings of A or B, and the remaining units have an EPC rating of C.

Chart 4

EPC ratings by MV-STT



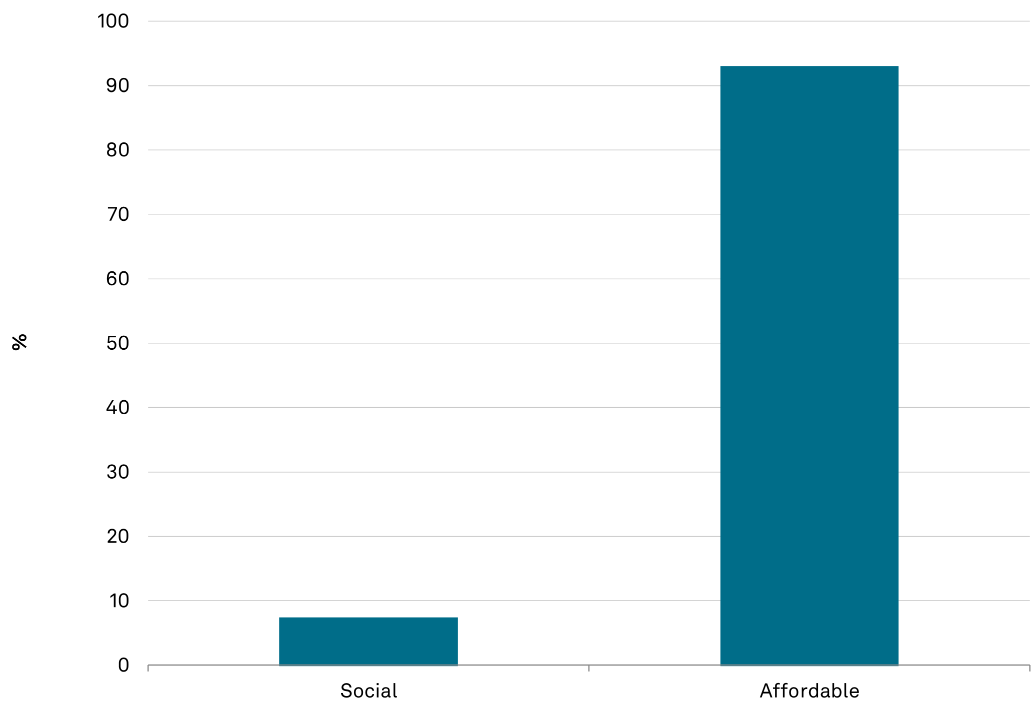
Source: S&P Global Ratings.

The properties were built by 30 different developers, including some of Britain's largest listed housebuilders. There is an average of 18 units per scheme across 119 different housing developments, with the largest development comprising 105 units. 73% of the units are two and three-bedroom units. The average annual rent per unit is £9,324, with the range from £4,662 to £18,945. The portfolio generates £19.8 million gross rental income (actual and estimated for vacant units) and £15.4 million net rental income annually.

The property portfolio is over 99% occupied. The tenancy agreements state that rental revisions must be in accordance with the government rent policy effective at that time. This is currently CPI plus 1%. Of the properties, 93% are affordable rent tenancies.

Chart 5

Social versus affordable by number of units



Source: S&P Global Ratings.

We have reviewed the February 2025 valuation by Jones Lang LaSalle Ltd., which carried out an assessment of the MV-STT (£452.2 million) of the properties subject to tenancies, and the valuation on the basis of existing use value for social housing (EUV-SH; £369.5 million) of the tenanted properties. The valuation also provided a vacant possession value (£566.0 million), which assumes the properties are available with vacant possession.

Building Safety Act 2022/Fire Safety Act 2021

The Building Safety Act 2022 lays a new framework of building safety requirements that affect the complete lifecycle of all residential buildings, from planning and design through to procurement and construction and, post-construction, to occupation and property management. The Fire Safety Act 2021 was enacted to clarify that the fire risk assessment of any building covered by the Regulatory Reform (Fire Safety) Order 2005 (FSO) must include the risks posed by the building's structure and external walls, including cladding, and internal areas. The Fire Safety (England) Regulations 2022 further amended the FSO to legally require "responsible persons" to keep records and share certain information with residents and local fire and rescue services on the design and materials of existing multiple-occupied residential buildings in England. At present, no blocks within the property portfolio under management fall within the scope of the Building Safety Act 2022.

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 assets' potential to produce net cash flow (NCF) is £14.4 million on a sustainable basis. This is based on a fully let rent of £20.3 million, which includes annual rent increases approved by the U.K. government for the current year effective from April 2025. We have adjusted the fully let rent for 5.0% vacancy and 25.5% nonrecoverable expenses.

We consider 4.2% to be an appropriate weighted-average capitalization rate for the portfolio, given the property type, portfolio quality, and location.

We applied the weighted-average cap rate to the portfolio's assumed NCF and deducted purchase costs to determine the properties' sustainable value at £323.9 million, which represents a 28.4% haircut (discount) to the £452.2 million MV-STT, or 12.3% haircut to the EUV-SH (existing use value for social housing).

Table 3

S&P Global Ratings key assumptions	
Gross rent fully let (mil. £)	20.3
Vacancy (%)	5.0
Non-recoverable expenses (%)	25.5
Net cash flow (mil. £)	14.4
Capitalization rate (%)	4.2
Purchase costs (%)	5.0
S&P Global Ratings value (mil. £)	323.9
Haircut to MV-STT (%)	(28.4)
Haircut to EUV-SH (%)	(12.3)
S&P Global Ratings LTV ratio before recovery rate adjustments (%)	93.5

MV-STT—Market value subject to tenancies. EUV-SH--Existing use value for social housing. 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 ratings. 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 aggregated the derived recovery proceeds above for the loan at each rating and compared them with the proposed capital structure.

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 facility 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.

In conclusion, we found that there is sufficient liquidity support for each class of notes at the given 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%**
A1	AAA (sf)	AA+	AA	A+	A-
A2	AAA (sf)	AA+	AA	A+	A-
B	AA- (sf)	A+	A-	BB+	B
C	A- (sf)	BBB	BB	'B-' and below	'B-' and below
D	BBB- (sf)	BB-	'B-' and below	'B-' and below	'B-' and below
E	BB- (sf)	B	'B-' and below	'B-' and below	'B-' and below
R	NR	NR	NR	NR	NR

NR--Not rated.

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
- 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 Q1 2025, April 30, 2025
- S&P Global Ratings Definitions, Dec. 2, 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