Presale:

Agora Securities UK 2021 DAC

June 16, 2021

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Preliminary Ratings

Class	Preliminary rating*	Preliminary amount (mil. £)	S&P Global Ratings loan-to-value ratio (%)	Market value decline (%)§	Debt yield (%)†	Expected final maturity	Interest‡	Legal final maturity
A	AAA (sf)	136.3	45.9	68.2	21.2	July 2026	SONIA plus a margin	July 2031
B	AA- (sf)	33.0	57.9	59.9	16.8	July 2026	SONIA plus a margin	July 2031
C	A- (sf)	31.8	69.4	51.9	14.0	July 2026	SONIA plus a margin	July 2031
D	BBB+ (sf)	9.7	73.0	49.4	13.3	July 2026	SONIA plus a margin	July 2031
X1	NR	0.3	N/A	N/A	N/A	July 2026	N/A	July 2031
X2	NR	0.1	N/A	N/A	N/A	July 2026	N/A	July 2031

*This presale report is based on information as of June 16, 2021. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Our ratings address timely payment of interest and payment of principal not later than the legal final maturity. The class A issuance amount includes the issuer's share in the liquidity reserve in an amount of £9.8 million. §Reflects the approximate decline in the £418.45 million market value of the portfolio 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 4.0% 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, lead managers	Morgan Stanley & Co International PLC and BofA Securities
Loan sellers	Bank of America Europe DAC and Morgan Stanley Principal Funding Inc.
Issuer account bank, issuer liquidity reserve account, agent bank, and principal paying agent	Elavon Financial Services DAC
Issuer cash manager	U.S. Bank Global Corporate Trust Ltd.
Security agent	Mount Street Mortgage Servicing Ltd.
Servicer, special servicer and senior loan facility agent	Mount Street Mortgage Servicing Ltd.
Note trustee and issuer security trustee	U.S. Bank Trustees Ltd.

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Transaction Participants (cont.)

Loan-level hedge provider	Merrill Lynch International
Corporate services provider	CSC Capital Markets (Ireland) Ltd.

Supporting Ratings

Institution/role	Ratings
Elavon Financial Services DAC as issuer account bank	AA-/Stable/A-1+
Merrill Lynch International	A+/--/A-1

Transaction Key Features

Number of loans	1
Outstanding principal (mil. £)*	211.5
Geographic concentration of assets by market value	U.K. (100%)
Asset type concentration	Big-box retail parks
LTV ratio (%)	50.5
LTV ratio at loan expiry (%)	50.5
Number of properties	9
Cutoff interest coverage ratio at hedged rate§	2.7x
Redemption profile	Principal receipts are applied pro rata, except for cash trap note principal receipts. After a note acceleration or sequential payment trigger, all available funds are applied sequentially
Liquidity reserve size (mil. £)	10.3
Interest limitation of junior notes	None
Hedging profile	The senior loan is expected to be fully hedged through a borrower-level interest-rate cap

*Including the issuer loan, which sits pari passu with the securitized loan and has an amount of £11.1 million (approximately 5% of the senior loan and the liquidity reserve). Securitized loan balance will be £201 million. §Based on S&P Global Ratings' NCF. LTV--Loan-to-value. NCF--Net cash flow.

Transaction Summary

S&P Global Ratings has assigned preliminary credit ratings to Agora Securities UK 2021 DAC's class A, B, C, and D notes. At closing, Agora Securities UK 2021 DAC will also issue unrated class X1 and X2 notes.

The transaction is backed by a single £211.5 million loan, which Bank of America Europe DAC and Morgan Stanley Bank N.A. originated to facilitate Brookfield Asset Management's acquisition of nine grocery-anchored retail assets in the U.K.

The issuer will also draw on a £11.1 million (representing approximately 5% of the senior loan and the liquidity reserve) issuer loan from Morgan Stanley Bank N.A. and Bank of America Europe DAC

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to satisfy EU, U.K., and U.S. risk retention requirements. The issuer loan will sit pari passu with, and will be paid pro rata to, the securitized senior loan. It will also partially fund the liquidity reserve.

The market value of the portfolio of properties is £418.45 million, which equates to a loan-to-value (LTV) ratio of 50.5%. The fully extended five-year loan will be interest only unless there is a permitted change of control in the borrower and it includes cash trap covenants from origination and default covenants after a permitted change in control.

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

Environmental, Social, And Governance (ESG)

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

The transaction's exposure to environmental credit factors is in line with our sector benchmark, in our view. Our analysis of the underlying real estate we examined in the loan pool included a review of third-party appraisal(s), environmental site, property condition, and seismic risk assessments (when located in a high hazard earthquake zone). We also reviewed the underlying loan documentation or a sample of the largest loans in the loan pool in conduit transactions. In particular, we looked at the property insurance requirements, the loan covenants requiring borrower(s) to maintain the real estate in good condition and appropriately address any exposure to environmental conditions, and any other available loan features we deemed relevant (e.g., environmental indemnity, third-party environmental guarantee, and specific cash reserve). We also reviewed the disclosed exceptions to the seller's representations and warranties to identify any other significant unmitigated environmental credit factors present in the smaller loans, if applicable.

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

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

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up

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and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Strengths, Concerns, And Mitigating Factors

Strengths

- The portfolio comprises nine well-located retail warehouse properties spread across the U.K., with focus on the Midlands (28% of total portfolio value) and South-East England (24%). The properties are predominantly grocery anchored with assets either having a supermarket anchor or located next to a large supermarket.
- Compared with other U.K. retail properties, retail warehouse properties in general have performed better in terms of rent collection rates. For seven of the nine properties where information was available, the average rent collection from first quarter 2020 to first quarter 2021 was 84%, with the lowest quarterly collection rate of 72% for first quarter 2021 due to the third lockdown in the U.K. U.K. shopping centers, by comparison, have seen rent collection rates well below 30% for most of that period.
- According to information provided by the originators for seven of the nine properties, footfall at the properties has recovered from the declines in 2020 that resulted from local lockdowns and social distancing requirements. By the end of 2020, footfall numbers were in line with pre-pandemic levels.
- The portfolio benefits from experienced sponsorship by Brookfield Asset Management and experienced asset management by Brookfield Properties, one of the world's largest asset managers.
- The loan is moderately leveraged, with a Day 1 note-to-market-value ratio of 50.5%. 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 2.67x.
- 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

- Although the loan is backed by multiple properties, there is high concentration in property type. However, this is mitigated by the fact that there is tenant diversity from over 100 tenants and no single tenant accounts for more than 8.4% of the gross rental income.
- The property portfolio is, on average, 16.6% overrented. The average market rent is £15.67 per sq. ft. per year, while base rent on the occupied space is approximately £18.27 per sq. ft. per year. This exposes the property portfolio to the risk of reversion and consequently a decline in cash flow. We have reflected this reversion risk in our underwritten gross rental income by

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underwriting each property to the lower of in-place and market rent. We have also applied an additional 7.5% stress on the resulting rent to reflect the risk of a further decline in market rents.

- 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 at least 2.0%, which will limit this risk. We note that the cap agreement will be for an initial term of two years, with a requirement to extend the hedge on an annual cycle for the third, fourth, and fifth year of the loan term. If the hedging is not extended, a loan event of default would be triggered at the loan maturity date and the 4% 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.
- 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 unless a permitted change of control has occurred.
- Prior to loan default, all principal is repaid pro rata, exposing noteholders to possible 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. The effect is cushioned by the release premiums of 110% of the respective allocated loan amount for the first five properties that have been sold and 125% thereafter.
- 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 will acquire the senior loan from Bank of America Europe DAC and Morgan Stanley Principal Funding Inc., using the proceeds from the note issuance and the issuer loan. The issuer will also issue additional class A notes to fund its share in the liquidity reserve. The issuer will benefit from the senior loan's security package, which includes:

- A first-ranking mortgage security over each property;
- A first-ranking share security over the shares of each obligor;
- A first-ranking security over all rental income, 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

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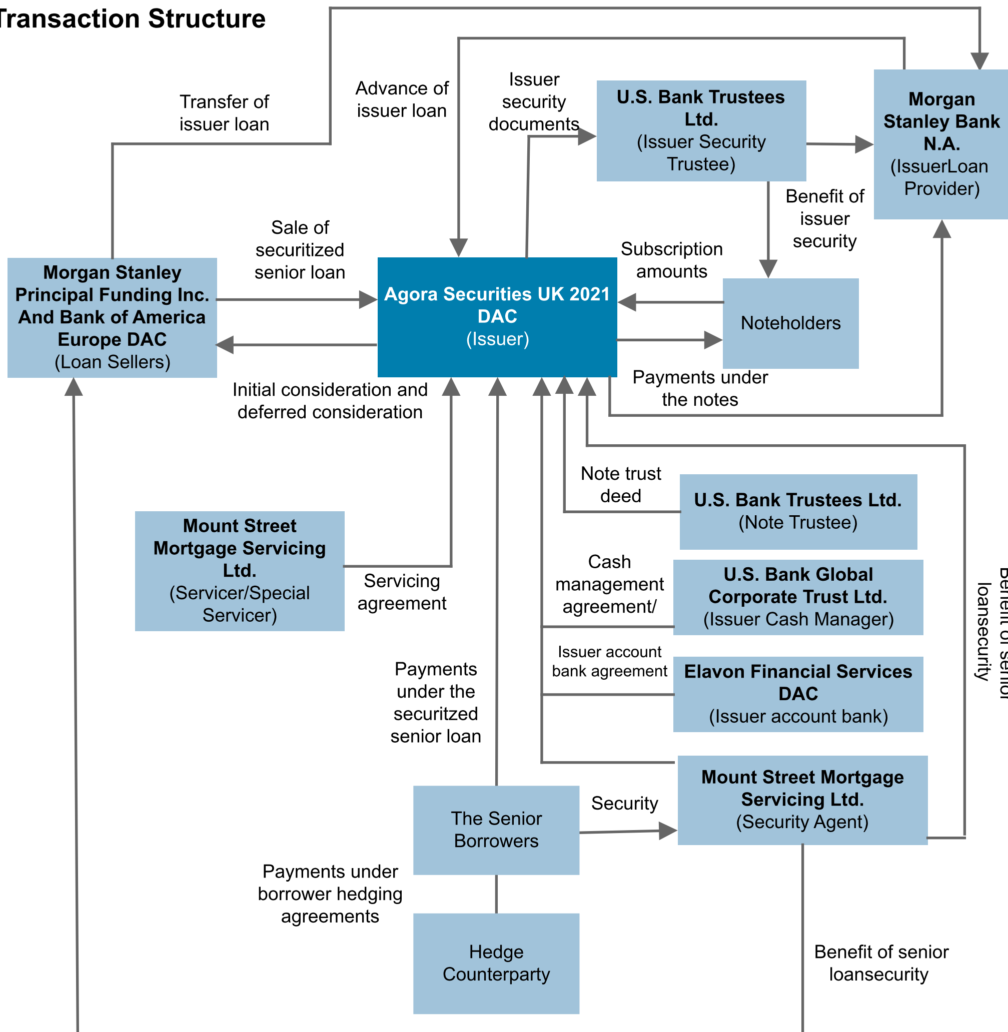
and contractual agreements of the obligors; and

- A first-ranking security over any hedge agreement.



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[In the top right box (Issuer Loan Provider, please add "Bank of America Europe DAC"]

Loan characteristics

The notes will be secured by a single commercial mortgage senior loan that Bank of America Europe DAC and Morgan Stanley Bank N.A. co-originated in May 2021.

The originators arranged and underwrote the single loan to facilitate the acquisition of a portfolio of nine retail warehouses located in the U.K.

The senior loan, which matures in July 2023 has a cutoff loan balance of £211.5 million, reflecting

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a 50.5% LTV ratio for the transaction. It is an interest-only loan with covenants triggering both cash trap mechanisms from loan origination and loan event of default after a permitted change of control.

Excess cash from the operations of the properties will be trapped in a separate account if the LTV ratio increases above 60.5% or if the debt yield falls below 13.1%. Should there be a permitted change in control (essentially if the current loan sponsor is no longer in control of the borrower), these triggers would be stricter.

After a permitted change in control, the loan would be in default if the LTV ratio increases above 60.5% or if the debt yield falls below 12.4%.

Table 1

Key Senior Loan Characteristics

Property type	Retail warehouse
Number of properties	9
Property location	U.K.
Senior loan balance (mil. £)	211.5
Utilization date	May 19, 2021
Loan maturity	July 20, 2023, followed by three one-year extension options
Loan type	Acquisition
Fixed/floating interest	Floating, SONIA, floored at 0%, plus 3%
Borrower hedge counterparty	Merrill Lynch International
Market value (mil. £)	418.45
Initial LTV ratio (%)	50.5
Gross estimated rental value (mil. £)	36.9
Occupancy by area (%)	90.0
Gross rental income (mil. £)	40.0
Net operating income (mil. £)	36.9
Number of tenant groups	111
Weighted-average unexpired term to first break (years)	6.1
Top five tenants by gross rental income (%)	36.2
Sponsor	Brookfield Asset Management

LTV-Loan to value. SONIA--Sterling Overnight Index Average.

Sponsor and manager overview

There are four senior borrowers, each located in Jersey. The borrowers are ultimately controlled by Brookfield.

Brookfield currently has over $600 billion assets under management, about a third of which is invested in real estate. Their real estate division has 24,400 employees and manages over 500 million sq. ft. of commercial space.

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Tenure

The nine properties are a mix of freehold and leasehold properties.

Of the assets, eight, representing 86.3% of the gross rental income, are held freehold and one property (Didcot) is subject to a ground lease that expires in over 200 years.

Environmental review

Environmental reviews have been carried out for all properties in April 2021. Consistent with the age and nature of similar property portfolios, the reports determine the risks of ground contamination onsite and offsite as well as the sensitivity of the sites in relation to neighboring land uses as low to moderate. Further action, including more detailed investigations may become necessary should a property be redeveloped.

Insurance

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

All insurance policies must 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 (see "Guidance: European CMBS Methodology And Assumptions," published March 13, 2019). Should an insurer lose the required rating it must be replaced on the next renewal date or within 60 days if requested by the agent.

Servicing arrangements

Mount Street Mortgage Servicing Ltd. will be the servicer and special servicer. Mount Street Mortgage Servicing is a subsidiary of Mount Street Loan Solutions LLP that we rank ABOVE AVERAGE as a primary and special servicer of commercial mortgages in the U.K.; our outlook for both rankings is stable (see "Servicer Evaluation: Mount Street Mortgage Servicing Ltd.," published on Aug. 20, 2020).

For this transaction, a loan enters special servicing if:

- A loan default exists on the senior loan's maturity date;
- Any senior obligor becomes subject to insolvency or insolvency proceedings;
- A loan event of default arises as a result of any creditors' process or cross-default; or
- Any other loan event of default occurs or is, in the servicer's opinion, imminent and 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, 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 note maturity plans for the note trustee within 45 days if:

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

The note trustee 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.

Liquidity reserve

The £10.3 million liquidity reserve will be funded by issuing additional class A notes (95% of the reserve balance) and by a portion of the issuer loan (5%).

The liquidity reserve is available to fund, among other things, senior expenses, interest payments to all classes of notes (except class X), and the corresponding issuer loan tranches (including any related deferred interest).

At closing, the issuer liquidity reserve will be deposited into an issuer liquidity reserve account held with the issuer account bank.

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 or any amount of interest or other amounts that may become due and payable on the class X 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 will reduce in line with the class A, B, C, and D 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.

Interest and principal priority of payments

Until the expected maturity date, the notes will pay interest at a rate of SONIA, with a floor of zero, plus a margin. After the expected maturity date, the amount of interest representing the amount by which SONIA exceeds 4.0% per year will be subordinated to the interest payments on the notes.

The loan does not amortize unless there is a permitted change of control. On the termination date, the balance of the outstanding loan will be due in full.

Prior to delivering a note acceleration notice there will be separate priorities of payments for interest and principal.

Prior to a sequential payment trigger event, principal is applied pro rata (with the exception of cash trap principal receipts, which are always applied sequentially), whereas interest is applied sequentially (after senior expenses).

In the event of, among other things, a senior loan event of default or the senior loan does not repay in full at maturity, a sequential payment trigger event occurs, and all available principal funds shall be applied sequentially.

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None of the classes are subject to an available funds cap.

Class X notes

The class X notes will receive excess spread in the transaction. Under the transaction documents, excess interest equals the difference between the loan's and notes' interest, minus senior ranking expenses, the issuer loan pre-enforcement revenue payment amount, SONIA excess amounts, and default interest amounts. The class X notes' interest payment ranks subordinate to the interest payment and after a sequential payment trigger event, principal repayment on the notes.

Hedging arrangements

The borrower is required to enter into an interest rate cap with a hedge counterparty (yet to be confirmed) before closing, for the full senior loan amount. The strike rate must be no greater than the higher of a strike rate that results in an ICR of no more than 1.5x, and 2.0%.

We understand the hedging agreement will initially expire on the second anniversary of the loan utilization date with an obligation to extend the hedge on an annual cycle for the third, fourth, and fifth year of the loan term. If the hedging is not extended, a loan event of default would be triggered (and a sequential payment triggered) at the loan maturity date, and the 4% SONIA cap on the notes will be activated.

According to the loan agreement and the draft hedging documents that we have reviewed, the replacement language in the hedging agreement must, at any time, be in line with our counterparty criteria to support a maximum potential rating of 'AAA' on the notes or whatever is the then highest rating in the transaction.

Prepayments

In the event of partial loan prepayment, the issuer will allocate the allocated loan amounts together with the release premium and the prepayment fees received on the notes (other than the class X notes), pro rata, to the amounts redeemed unless the prepaid loan is in default.

Following any property disposals, the borrower will have to repay the senior loan in an amount equal to the release amount. The net disposal proceeds cannot be lower than such release amount and any prepayment fees. The release amount of each property is 110% of the respective allocated loan amount for the first five properties that have been sold and 125% thereafter. The loan amount is allocated proportionately among the properties, by market value.

Cash management

There are four senior borrowers, two of which own the properties--the PropCos. Each PropCo will deposit all net rental income into its respective collection account. From there, the PropCos will pay operating expenses and transfer the balance monthly into the debt service account, over which the common security agent has sole signing rights.

The borrower will also pay any surrender premiums from tenants and any payments received from the hedge counterparty into this debt service account.

The common security agent will then pay fees, expenses, interest, and principal according to a waterfall on each interest payment date to the service providers, the issuer, and the mezzanine

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lender.

The mezzanine lender will receive no payments if the senior loan is in default or if the senior loan security is being accelerated (a "payment stop event").

Portfolio Collateral Overview

The loan is secured by a portfolio of nine retail warehouse properties, of which seven are in England, one is in Wales and one is in Scotland. The portfolio offers 2.35 million sq. ft. of lettable area.

The portfolio is 90% occupied and the leases have a weighted-average remaining lease term to first break option (WALTB) of 6.1 years.

There are 111 unique tenant groups under 222 leases. The largest tenant group in the portfolio is the home improvement company Kingfisher PLC ('BBB-'), which accounts for 8.4% of the total gross rental income. The company leases three different units with a WALTB of 6.2 years. The second-largest tenant accounts for 7.6% of the total rental income.

The property portfolio is, on average, 16.6% overrented. The average market rent is £15.67 per sq. ft. per year, while actual base rent on the occupied space is approx. £18.27 per sq. ft. per year. This exposes the property portfolio to the risk of reversion and consequently a decline in cash flow.

Table 2

Key Property Portfolio Characteristics*

Property name	Year built	Property occupancy (%)	Property area (sq. ft.)	Gross income (mil. £)	Market rent (mil. £)	Base rent per sq. ft. (£)	Market rent per sq. ft. (£)	Net operating income (mil. £)	Market value (mil. £)
Rugby	2015	81.7	263,517	5.61	5.57	22.83	21.15	5.02	65.50
Merthyr Tydfil	2004-2015	94.4	331,756	5.48	5.24	17.25	15.79	5.16	58.25
Waterlooville	1980s	100.0	159,924	4.60	3.38	28.77	21.16	4.60	51.50
Falkirk	1995	97.0	337,225	5.34	5.08	15.56	15.05	5.20	51.00
Didcot	2005-2018	84.1	275,947	5.49	4.90	22.66	17.76	4.46	50.00
St Helens	2000	88.3	298,700	3.77	3.64	14.16	12.19	3.42	39.15
Middlesbrough	1990-2007	93.1	300,981	3.84	3.22	13.71	10.71	3.68	38.75
Telford Forge	1997	78.8	249,447	3.37	3.74	16.78	15.00	2.84	36.50
Nottingham	1985-2013	94.8	135,978	2.54	2.09	19.74	15.38	2.46	27.80
Total/Weighted average	N/A	90.0	2,353,475	40.04	36.87	18.27	15.67	36.86	418.45

*All information as of March 31, 2021

Top Three Assets

The top three assets account for 41.9% of the rental income.

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Rugby (15.7% of the portfolio by market value)

Elliott's Field Shopping Park is on the northern outskirts of Rugby, Warwickshire, next to the A426, which connects Rugby to the M6 motorway. Rugby is 13 miles east of Coventry.

The property was built between 2015 and 2017. The property's vacancy is largely from a former Debenhams department store that became vacant in 2020. The remaining 25 tenant groups make up about 81.7% of the total lettable area. According to the appraiser, there are three parties interested in the vacant Debenham's space, but it was not disclosed what rent is being negotiated.

The Debenhams store was one of the anchors on the eastern end of the property. Other large tenants include Marks & Spencer, TJX Companies, and DFS.

The WALTB is 6.0 years and the property is approximately 7.9% overrented.

Merthyr Tydfil (13.9%)

Cyfarthfa Retail Park in in Merthyr Tydfil, Wales, which is approximately 20 miles north of Cardiff. The property is neighboring the A465 and approximately one mile west of Merthyr Tydfil town center.

The property was built in 2004 and extended in 2015. There are 22 individual tenant groups and three units are vacant, accounting for approximately 5.6% of the rental area. There is lease expiry concentration in 2029/2030, when about 40% of the rent is set to mature, predominantly from leases that date back to the original opening day in 2004.

The tenants include a mix of fashion, bulk goods, and food retailers. The three largest tenant groups by rental area are Kingfisher PLC (B&Q), Matalan Ltd., and Frasers Group PLC. The WALTB is 6.4 years and current rents are, on average, approximately 9.3% above market levels.

Waterlooville (12.3%)

This retail park trades under the name of Wellington Retail Park and is about 10 miles north of Portsmouth city center. It is one of the largest retail offerings in the immediate area. According to the appraisal, 3,000 homes will be built on a neighboring site, which would likely increase foot traffic. There are two grocery stores next to the site, Asda and Sainsbury's, which are not part of the property but serve as shadow anchors.

All the units at the property are currently let under leases with a WALTB of 4.7 years. More than half the rental income expires in the next five years. The property is over 30% overrented, most of which relating to the anchor tenants, according to the appraiser. The largest tenant groups are fashion and homeware retailers Matalan, TJX Companies (TK Maxx, HomeSense), and furniture retailer DFS.

Credit Evaluation

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

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

The loan

We consider that the assets' potential to produce an NCF is £28.2 million on a sustainable basis, which is approx. 23.5% below the reported net operating income (NOI). This is mainly because we adjusted rents down to market levels and then applied an additional stress of 7.5% to the gross rents to account for the risk of further declining market rents. Our S&P NCF would imply a Day 1 ICR of about 2.7x, based on the strike rate under the interest rate cap. This includes our assumptions of the portfolio's ability to generate a sustainable cash flow, with adjustments to account for revenue items and costs.

We consider 9.25% to be an appropriate weighted-average capitalization rate for the portfolio, given the property type, portfolio quality and location.

We applied the weighted-average capitalization rate to the portfolio's assumed NCF and deducted purchase costs to determine the portfolio's S&P Global Ratings value at £290.0 million, which represents a 30.7% haircut (discount) to the open market valuation.

Table 3

S&P Global Ratings Key Assumptions

Gross rent fully let (mil. £)	34.1
Vacancy (%)	10.0
Non-recoverable expenses (%)	8.0
Net cash flow (mil. £)	28.2
Capitalization rate (%)	9.25
Purchase costs (%)	5.0
S&P Global Ratings value (mil. £)	290.0
Haircut to market value (%)	(30.7)
S&P Global Ratings LTV ratio before recovery rate adjustments (%)	73.0

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

We aggregated the derived recovery proceeds above for each loan at each preliminary rating level, and compared them with the proposed capital structure.

In our assessment of the issuer's capacity to make timely interest payments, we have analyzed the available liquidity support for the transaction. We have analyzed scenarios where the issuer's

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income would decline in line with the relevant rating scenarios and where drawings on the liquidity reserve 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, capped at the 4% SONIA cap.

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

Scenario Analysis

We performed our stress scenario analysis to determine, on an indicative basis, our preliminary 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 of the properties decreases by 10% to 50% from the current value.

Table 4

Indicative Ratings, Given The Assumed Market Value Decline

		--Market value decline--				
Class	**Prelim. rating**	**10%**	**20%**	**30%**	**40%**	**50%**
A	AAA (sf)	AA (sf)	AA- (sf)	A- (sf)	BBB- (sf)	B (sf)
B	AA- (sf)	A (sf)	BBB+ (sf)	BB (sf)	B- (sf) & below	B- (sf) & below
C	A- (sf)	BBB (sf)	BB- (sf)	B- (sf) & below	B- (sf) & below	B- (sf) & below
D	BBB+ (sf)	BB+ (sf)	B+ (sf)	B- (sf) & below	B- (sf) & below	B- (sf) & below

Related Criteria

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | CMBS: European CMBS Methodology And Assumptions, Nov. 7, 2012
- Criteria | Structured Finance | CMBS: CMBS Global Property Evaluation Methodology, Sept. 5, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction

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- 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 Monthly Bulletin, published monthly
- S&P Global Ratings Definitions, Jan. 5, 2021
- 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

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