Presale:
Sage AR Funding 2021 PLC

October 20, 2021

Preliminary Ratings

<table>
<thead>
<tr>
<th>Class</th>
<th>Prelim. rating*</th>
<th>Prelim. amount (mil. £)</th>
<th>Market value decline (%)§</th>
<th>Debt yield (%)†</th>
<th>Expected final maturity‡</th>
<th>Interest***</th>
<th>Legal final maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>AAA (sf)</td>
<td>159.7§§</td>
<td>59.1</td>
<td>6.8</td>
<td>Nov. 17, 2046</td>
<td>SONIA plus a margin</td>
<td>Nov. 17, 2051</td>
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<tr>
<td>B</td>
<td>AA- (sf)</td>
<td>32.8</td>
<td>50.4</td>
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<td>Nov. 17, 2046</td>
<td>SONIA plus a margin</td>
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<tr>
<td>C</td>
<td>A- (sf)</td>
<td>26.3</td>
<td>43.4</td>
<td>4.9</td>
<td>Nov. 17, 2046</td>
<td>SONIA plus a margin</td>
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<td>D</td>
<td>BBB- (sf)</td>
<td>22.2</td>
<td>37.6</td>
<td>4.5</td>
<td>Nov. 17, 2046</td>
<td>SONIA plus a margin</td>
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<tr>
<td>E</td>
<td>BB- (sf)</td>
<td>21.0</td>
<td>32.0</td>
<td>4.1</td>
<td>Nov. 17, 2046</td>
<td>SONIA plus a margin</td>
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<tr>
<td>R</td>
<td>NR</td>
<td>18.5</td>
<td>N/A</td>
<td>N/A</td>
<td>Nov. 17, 2046</td>
<td>N/A</td>
<td>Nov. 17, 2051</td>
</tr>
</tbody>
</table>

Note: This presale report is based on information as of Oct. 20, 2021. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *S&P Global Ratings' preliminary credit ratings address timely payment of interest and payment of principal no later than the legal final maturity. §Reflects the approximate decline in the property’s £377 million market value, subject to tenancies that would be necessary to experience a principal loss at the given rating level, excluding the liquidity reserve amount. †Based on S&P Global Ratings’ NCF and the total securitized notes excluding the liquidity reserve amount. ‡First expected note maturity date is Nov. 17, 2026. **Excludes amortization and liquidity reserve amount. ***After November 2026, step-up margin up to 1.5x of initial margin on the class A-E notes. 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. §§Includes £5.6 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
Deutsche Bank AG, London Branch

Primary servicer, special servicer, and loan facility agent
Situs Asset Management Ltd.

Issuer account bank, principal paying agent, and agent bank
Elavon Financial Services DAC, UK Branch

Issuer cash manager
U.S. Bank Global Corporate Trust Ltd.

Note trustee and issuer security trustee
U.S. Bank Trustees Ltd.

Hedge provider
Merill Lynch International

Corporate services provider
CSC Capital Markets (UK) Ltd.
Presale: Sage AR Funding 2021 PLC

Supporting Ratings

<table>
<thead>
<tr>
<th>Institution/role</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elavon Financial Services DAC, UK branch as issuer account bank</td>
<td>NR</td>
</tr>
<tr>
<td>Elavon Financial Services DAC, interdependency bank branch parent, on the unrated branch</td>
<td>AA-/Negative/A-1+</td>
</tr>
<tr>
<td>Merrill Lynch International as hedge provider</td>
<td>A+/Positive/A-1</td>
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Transaction Key Features

<table>
<thead>
<tr>
<th>Number of loans</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of assets</td>
<td>1712</td>
</tr>
<tr>
<td>Geographic concentration of assets</td>
<td>U.K. (100%)</td>
</tr>
<tr>
<td>Asset type concentration</td>
<td>Social housing (100%)</td>
</tr>
<tr>
<td>Total securitized notes (mil. £)*</td>
<td>280.5</td>
</tr>
<tr>
<td>LTV ratio based on MVSTT (%)</td>
<td>72.9</td>
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<tr>
<td>Redemption profile</td>
<td>Principal receipts are applied pro rata. After a note acceleration or sequential payment trigger, all available funds are applied sequentially</td>
</tr>
<tr>
<td>Liquidity reserve size (mil. £)</td>
<td>5.6</td>
</tr>
<tr>
<td>Hedging profile</td>
<td>The loan is expected to be fully hedged through a borrower-level interest-rate cap</td>
</tr>
</tbody>
</table>

*Includes £5.6 million which will fund the liquidity reserve. LTV—Loan to value. MV-STT—Market value, subject to tenancies. NCF—Net cash flow.

Transaction Summary

S&P Global Ratings has assigned preliminary credit ratings to Sage AR Funding 2021 PLC's class A, B, C, D, and E notes. At closing, Sage AR Funding 2021 PLC will also issue unrated class R notes.

Sage AR Funding 2021 PLC is a CMBS transaction backed by a loan on a portfolio of 1,712 social housing units located throughout the U.K.

The issuer will on-lend the note proceeds to the borrower (Sage Borrower AR2 Ltd.) through an issuer/borrower loan. A portion of the class A notes, equal to £5.6 million, will be used to fund the issuer liquidity reserve.

The borrower will then on-lend the proceeds of the loan 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 acquisition of the properties by the parent RP.

Payments due under the issuer/borrower loan primarily fund the issuer’s interest and principal payments due under the notes. The loan is secured on a portfolio of 1,712 social housing units located throughout the U.K.

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, will be issued and retained by the originator, SRL. In the case of EU and U.K. risk retention requirements, this is 5% of the nominal value of the securitized loan, and in the case of the U.S. risk retention requirements, this is 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 issuer/borrower loan provides for cash trap mechanisms set at a rated loan-to-value (LTV) ratio greater than 78% or a rated debt yield less than 3.56%. The loan has an initial term of five years with 20 one-year extension options available, subject to the satisfaction of certain conditions. There is no amortization in the initial five years, but, if extended, includes 1.0% of principal on the expected loan repayment date (November 2026) and cash sweep starting in year six.

The portfolio’s current market value based on the market value subject to tenancies (MV-STT) is £377 million, which equates to an LTV ratio of 68.0% (based on the rated notes) and 72.9% for the full loan (including the class R retention piece).

Our preliminary ratings address the issuer’s ability to meet timely interest payments and principal repayment no later than the legal final maturity in November 2051. Our preliminary ratings on the notes reflect our assessment of the underlying loan's credit, cash flow, and legal characteristics, and an analysis of the transaction’s counterparty and operational risks.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For CMBS, we view the exposure to environmental credit factors as above average, social credit factors as average, and governance credit factors as average (see "ESG Industry Report Card: Commercial Mortgage-Backed Securities," published March 31, 2021). The sector’s above average exposure to environmental credit factors 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

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Concerns and mitigating factors</th>
</tr>
</thead>
</table>
- The underlying assets of 1,712 social housing units are geographically diversified across 134 locations in the U.K. The largest development consists of 51 units and represents 3.0% of the total MV-STT. The average MV-STT for a unit is £220,000, 0.18% of the total.

- There is strong demand and a shortage of supply for social housing in the U.K. There are currently 1.2 million households on social housing waiting lists in England.

- The portfolio benefits from experienced sponsorship by Blackstone and experienced property management by Places for People Homes Ltd., which itself has over 50 years in the sector and manages a portfolio of about 200,000 units.

- The portfolio consists of newly constructed properties built between 2019-2021 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 debt yield and LTV ratio thresholds throughout the loan's term. In addition, there is 1% amortization and full cash sweep if the loan is extended after the initial five-year loan 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.

- The transaction is concentrated by property type. The loan is backed by a portfolio of 1,712 social housing units located in the U.K. This risk is mitigated by the fact that approximately 1.2 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 CPI plus 1%. In our analysis, we have not considered any rent increases after the end of this five year period.

- 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 others amounts to the borrower by the parent RP could be delayed. During this time, the liquidity reserve would be available to make interest payments on the investment-grade-rated 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. In our analysis, we have reduced our recovery rate adjustment by 2% for all categories to reflect the additional risk of a more-complex recovery process.

- The loan is exposed to interest rate risk, as the interest payable is based on a floating rate. However, the borrower is expected to enter into an interest rate cap agreement with a strike rate of 0.75% per annum. 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 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.

- 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 on-lend the note proceeds to the borrower through an issuer/borrower loan. A portion of the class A notes, equal to £5.6 million, will be used to fund the issuer liquidity reserve.

The borrower will then on-lend the proceeds of the loan 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 acquisition of the properties by the parent RP. The issuer will benefit from the issuer/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, 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 and rights over the Sage Housing Ltd. indemnity. The parent RP will also grant 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, and hedging documents.
Loan characteristics

The borrower will mainly use the issuer/borrower 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 directly or indirectly finance or refinance the acquisition of the properties by the parent RP.

The issuer/borrower loan, which matures in November 2026 and has 20 one-year extension options, has a cutoff loan balance of £274.9 million, reflecting a 72.9% MV-STT LTV ratio for the transaction (or 68.0% excluding the unrated class R retention amount). The issuer/borrower loan provides for cash trap mechanisms set at a rated LTV ratio greater than 78% or a rated debt yield less than 3.56%. The loan has an initial term of five years with 20 one-year extension options available, subject to the satisfaction of certain conditions. There is no amortization in the initial five years, but, if extended, includes 1.0% of principal and cash sweep starting in year six.
Table 1

Loan Characteristics

<table>
<thead>
<tr>
<th>Property type</th>
<th>Social housing (100%)</th>
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<tr>
<td>Number of units</td>
<td>1712</td>
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<tr>
<td>Property location</td>
<td>U.K.</td>
</tr>
<tr>
<td>Loan balance (mil. £)</td>
<td>274.9</td>
</tr>
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<td>Rated note balance (mil. £)</td>
<td>256.4</td>
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<tr>
<td>Loan maturity</td>
<td>Nov. 15, 2026 initial repayment date, which may be extended annually until Nov. 15, 2046</td>
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<tr>
<td>Loan type</td>
<td>Refinance</td>
</tr>
<tr>
<td>Fixed/floating interest</td>
<td>Floating: SONIA plus a margin based on weighted-average margin of the rated notes. After November 2026, step-up margin up to 1.5x of initial weighted average margin of the rated notes.</td>
</tr>
<tr>
<td>Amortization</td>
<td>Years 1-5: none. If extended, 1% of loan amount</td>
</tr>
<tr>
<td>Cash trap covenants</td>
<td>&gt;78% rated LTV or the rated debt yield is less than 3.56%</td>
</tr>
<tr>
<td>Financial default covenants</td>
<td>None prior to permitted change of control</td>
</tr>
<tr>
<td>Borrower hedge counterparty</td>
<td>Expected to be fully hedged through an interest rate cap at a strike rate of 0.75% per annum for an initial two-year term. Requirement to extend the hedge at a strike rate of the higher of 1.0% and strike rate to ensure a hedge ICR of a minimum of 1.5x. After year five, cap strike rate is the higher of 0.75% and rate to ensure hedge ICR of 1.5x.</td>
</tr>
<tr>
<td>MV-STT (mil. £)</td>
<td>376.9</td>
</tr>
<tr>
<td>EUV-SH (mil. £)</td>
<td>302.8</td>
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<tr>
<td>Rated notes to MV-STT (%)*</td>
<td>68.0</td>
</tr>
<tr>
<td>Rated notes to EUV-SH (%)*</td>
<td>84.6</td>
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<td>Sponsors</td>
<td>Blackstone Inc./Sage</td>
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</tbody>
</table>

*Excludes the portion of class A notes used for issuer liquidity reserve. 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 AR 2 Ltd., a wholly owned subsidiary of Sage Rented, the parent registered provider (RP). The parent RP, is a for-profit RP of social housing ultimately owned by Blackstone alongside Regis.

Blackstone is an advisory and investment firm that specializes in private equity, real estate, and credit and marketable alternative investment strategies. Blackstone began building a real estate investment business in 1992, with the acquisition of a series of hotel businesses, and has built it into a global leader in private equity real estate. As of June 30, 2021, Blackstone Group has $207.5 billion in assets under management (AUM) for real estate investments (both equity and debt) and a total of $564.3 billion AUM globally across segments. Blackstone’s real estate portfolio includes office, retail, hotel, industrial and residential properties.

Sage Housing Group (Sage) is a regulated UK affordable housing platform owned by Blackstone alongside Regis (the team that set up Invitation Homes). Sage was formed in May 2017 and as of [Aug. 31, 2021] has delivered into operation approximately [3,396] affordable and social rental units and approximately [2,422] shared ownership units across England, with approximately
Presale: Sage AR Funding 2021 PLC

under construction. Sage operates three for-profit registered providers including SRL.

Places for People Homes Ltd. will act as property manager for the portfolio. It is one of the largest property management companies in the U.K. and owns and manages over 220,000 homes, commercial properties, and estates across over 200 local authorities and has over 50 years' industry experience. It will be responsible for various functions including but not limited to place management.

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 will be 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

Situs Asset Management Ltd. will be 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 is existing at loan maturity;
- The borrower becomes subject to insolvency or insolvency proceedings;
- There is a loan event of default due to a cross-default or creditors' process; 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 work-out of the loan or a realization of the security for the loan. The report concludes the special servicer’s strategy to maximize the loan’s recovery based on the net present value.

The special servicer will produce a note maturity plan for the note trustee, 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 second expected note maturity date, the notes (other than the class R notes) will pay interest at a rate of SONIA, with a floor of zero, plus a margin. From the second expected note maturity date, the amount of interest representing the amount by which SONIA exceeds 4.0% per year will be subordinated to interest and principal payments on the notes.

The loan amortizes by 1.0% of the balance at the expected maturity date per year if the loan is not paid by the initial repayment date. In addition, following the initial repayment date, any excess funds subject to payment of reserving for certain senior-ranking expenses will be swept and applied toward repayment of the loan.

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

All principal is applied sequentially following a sequential payment trigger event. A sequential payment trigger event means a material loan event, the loan has not been or is not expected to be repaid in full by the borrower on the initial repayment date, or if the parent RP ceases to be a registered provider.

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.

Upon sequential repayment, the class A notes will only be repaid down to their minimum principal amount, which is equivalent to the amounts in the issuer liquidity reserve. There could therefore be scenarios where the class B, C, and D notes have been fully repaid, while a portion of the class A notes is still outstanding.

Hedging arrangements

The borrower is expected to enter into an interest rate cap with Merrill Lynch International at a strike rate of 0.75% for an initial two-year term. After the two-year term, there is a requirement to extend the interest-rate cap at a strike rate of the higher of 1.0% and strike rate to ensure a hedge ICR of a minimum of 1.5x. After year five, the cap strike rate is the higher of 0.75% and rate to ensure hedge ICR of 1.5x.

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

Liquidity reserve

The £5.6 million issuer liquidity reserve will be funded by issuing additional class A notes.

The issuer liquidity reserve is available to fund an expenses shortfall, a property protection shortfall, or an interest shortfall on the class A, B, C, and D notes.

At closing, the issuer liquidity reserve will be deposited into an issuer transaction 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 E and R notes.

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

The issuer liquidity reserve commitment will reduce in line with the class A, B, C, and D notes’ balance and by any appraisal reduction factor. 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

Prepayment fees are payable when the borrower makes a voluntary prepayment within nine months from the closing date. It is also payable for mandatory prepays, following change of control, following property disposals (other than for first 15%) or in connection with any expropriation, major damage or headlease forfeiture. The prepayment fee payable will be 100% of the interest that would have accrued on the prepaid loan amount for the period from the date of prepayment until the date nine 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.

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 parent RP from the rent collection account into the segregated parent RP account, which in turn is transferred to the borrower’s rental income account. An amount equal to the relevant debt service amount is transferred into the borrower’s rental income account one business days before the last business day of each month and three business days before each loan payment date. On the last business day of each month and two business days before each loan payment date, the loan facility agent transfers from the borrower’s rental income account to the debt service account the debt service amounts required to be paid to the finance parties.

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 1,712 affordable rented and social rented properties across 134 locations across England, and we consider it to be a very granular portfolio. About three quarters of the collateral (by units) is located in the South East, East of England, and the East Midlands.
Table 2

Geographic Distribution

<table>
<thead>
<tr>
<th>Region</th>
<th>Flats</th>
<th>Houses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Midlands</td>
<td>21</td>
<td>136</td>
<td>157</td>
</tr>
<tr>
<td>East of England</td>
<td>260</td>
<td>247</td>
<td>507</td>
</tr>
<tr>
<td>Greater London</td>
<td>23</td>
<td>8</td>
<td>31</td>
</tr>
<tr>
<td>South East</td>
<td>368</td>
<td>271</td>
<td>639</td>
</tr>
<tr>
<td>South West</td>
<td>65</td>
<td>81</td>
<td>146</td>
</tr>
<tr>
<td>Yorkshire and The Humber</td>
<td>-</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>North West</td>
<td>56</td>
<td>96</td>
<td>152</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>838</td>
<td>874</td>
<td>1,712</td>
</tr>
</tbody>
</table>

These top three regions also contribute 79% of the MV-STT for the portfolio as shown in chart 2.

Chart 2

Portfolio MV-STT By Region

All of the properties have been built from 2019 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**

Source: S&P Global Ratings.
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The properties were built by 48 different developers, including some of Britain's largest listed housebuilders. There is an average of 13 units per scheme (with no more than 56 units in any specific scheme) across 134 different developments. The average annual rent per unit is £8,194, with the range from £4,667 to £14,308. The portfolio generates £14.34 million gross rental income (actual and estimated for vacant units) and £10.9 million net rental income annually.

Of the units, 85% are now let under five-year assured shorthold tenancies. There are only six vacancies as of October 2021. 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% and runs until 2025. Of the properties, 89% are affordable rent tenancies.
We have reviewed the October 2021 valuation carried out by Savills PLC, which carried out an assessment of the MV-STT (£376.9 million) of the properties subject to the tenancies, market rent, and the existing use value for social housing (EUV-SH; £302.8 million) of the tenanted properties. It also provided a vacant possession value (£431.8 million), which assumes the properties are available with vacant possession.

Savills has recently reported that, according to Nationwide Business Society, annual house price inflation was 10% and that for the first time since the financial crises, no local authority saw house price falls during the year to June 2021. COVID-19 has not had a significant effect on the social housing and residential investment market. Registered providers of social housing have still been working with their tenants over this time and Savills state there has been no discernible impact on pricing.

**Fire Safety Act 2021**

Although the Fire Safety Act 2021 is not yet in force, it will clarify who is responsible for managing and reducing fire risks in cladding and other different parts of multi-occupied residential buildings. At present, no blocks within the property portfolio under management fall within the scope of the government’s draft Building Safety Bill.
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 £10.5 million on a sustainable basis, which includes credit to annual rent increases approved by the U.K. government for the next four years. This includes our assumptions of the portfolio's ability to generate a sustainable cash flow, with adjustments to account for vacancy and costs.

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 property’s sustainable value at £236 million, which represents a 37% haircut (discount) to the £377 million MV-STT, or 22% haircut to the EUV-SH (existing use value for social housing).

Table 3

S&P Global Ratings Key Assumptions

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross rent fully let (mil. £)</td>
<td>14.2</td>
</tr>
<tr>
<td>Vacancy (%)</td>
<td>5.0</td>
</tr>
<tr>
<td>Non-recoverable expenses (%)</td>
<td>23.0</td>
</tr>
<tr>
<td>Net cash flow (mil. £)</td>
<td>10.5</td>
</tr>
<tr>
<td>Capitalization rate (%)</td>
<td>4.2</td>
</tr>
<tr>
<td>Purchase costs (%)</td>
<td>5.0</td>
</tr>
<tr>
<td>S&amp;P Global Ratings value (mil. £)</td>
<td>236.0</td>
</tr>
<tr>
<td>Haircut to MV-STT (%)</td>
<td>(37.4)</td>
</tr>
<tr>
<td>Haircut to EUV-SH (%)</td>
<td>(22.1)</td>
</tr>
<tr>
<td>S&amp;P Global Ratings LTV ratio before recovery rate adjustments (%)</td>
<td>116.5</td>
</tr>
</tbody>
</table>

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 preliminary 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 preliminary 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 Nov. 7, 2012). In particular, we adjusted the base recovery rates to reflect £55.0 million in amortization over the fully extended loan term ahead of an assumed default.

We aggregated the derived recovery proceeds above for the loan at each preliminary 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 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.

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

#### Table 4

<table>
<thead>
<tr>
<th>Class</th>
<th>Prelim. Rating</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>AAA (sf)</td>
<td>AA+ (sf)</td>
<td>AA (sf)</td>
<td>A+ (sf)</td>
<td>BBB+ (sf)</td>
</tr>
<tr>
<td>B</td>
<td>AA- (sf)</td>
<td>A (sf)</td>
<td>BBB+ (sf)</td>
<td>BB (sf)</td>
<td>'B-'(sf) and below</td>
</tr>
<tr>
<td>C</td>
<td>A- (sf)</td>
<td>BBB- (sf)</td>
<td>BB- (sf)</td>
<td>'B-'(sf) and below</td>
<td>'B-'(sf) and below</td>
</tr>
<tr>
<td>D</td>
<td>BBB- (sf)</td>
<td>BB- (sf)</td>
<td>'B-'(sf) and below</td>
<td>'B-'(sf) and below</td>
<td>'B-'(sf) and below</td>
</tr>
<tr>
<td>E</td>
<td>BB- (sf)</td>
<td>'B-'(sf) and below</td>
<td>'B-'(sf) and below</td>
<td>'B-'(sf) and below</td>
<td>'B-'(sf) and below</td>
</tr>
<tr>
<td>R</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
<td>NR</td>
</tr>
</tbody>
</table>

NR—Not rated.

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash
Presale: Sage AR Funding 2021 PLC

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | CMBS: European CMBS Methodology And Assumptions, Nov. 7, 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
- ESG Industry Report Card: Commercial Mortgage-Backed Securities, March 31, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- 2017 EMEA CMBS Scenario And Sensitivity Analysis, July 6, 2017
- Application Of Property Evaluation Methodology In European CMBS Transactions, April 28, 2017

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