

# City North II

## GS-SM City North II Owner, LLC



Credit  
Rating  
Agency

Corporates

May 28, 2025

A NRSRO Rating\*

GS-SM City  
North II Owner,  
LLC  
HR BB (G)  
StableOutlook

US\$102.9m  
Construction  
Loan  
HR BB (G)  
Stable Outlook  
36271#AA0



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## Information Disclosure Form

### Rule 17g-7

*The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.*

- Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

Entity/Instrument	Rating Action	Rating Type	Rating Code
GS-SM City North II Owner, LLC	Ratified	Long Term Rating	<a href="#">HR BB (G) / Stable Outlook</a>
US\$102.9m Construction Loan	Ratified	Long Term Rating	<a href="#">HR BB (G) / Stable Outlook</a>

- Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

The rating assigned by HR Ratings to the entity and its associated debt is based in accordance with the following methodologies established by the rating agency:



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- Corporate Debt Credit Risk Evaluation, February 2024.

[https://www.hrratings.com/docs/metodologia/Corporates\\_2024.pdf](https://www.hrratings.com/docs/metodologia/Corporates_2024.pdf)

**3. Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7**

The methodology describes the process used to assess the ability and willingness to meet corporate debt payment obligations in a timely manner and as originally agreed, including dependent structured debt and real estate investment trusts. The process consists of a quantitative analysis based on four financial metrics (three for structured debt) and an analysis allowing for qualitative adjustments, including adjustments related to ESG factors.

The corporate methodology involves the creation of financial models based on HR Ratings projections and when relevant historical performance data. The projections are made under a Base and Stress scenario, both incorporating the relevant historical data. The formal rating period generally incorporates five years of information. The four metrics used in this analysis are: (i) debt service coverage; (ii) debt service coverage including end of previous period cash (iii) years to payment, which measures the ratio between annual free cash flow and net debt; and (iv) the ratio between a market value estimate of corporate assets and its total liabilities. For real estate companies, the fourth metric is replaced by the loan to value ratio.

For both the Base and Stress scenarios the annual weighted average of each metric value is calculated. These annual averages are converted into a numerical rating scale, which is the same for each metric. Subsequently, and for each scenario, the weighted average of the metric numerical ratings is calculated. The final quantitative score is the weighted average of the two scenarios. If historical information is available, this process generally considers two reported and three projected years. However, the methodology considers the possibility of using different rating or time periods, with fewer reported years, and in the case of real estate leasing companies with seven instead of five years.

The rating obtained through this quantitative analysis can be adjusted positively or negatively by applying qualitative notches, which are divided into two categories: general and ESG. General adjustments refer to factors that could over time affect the quantitative rating especially when HR Ratings concludes that these factors cannot be adequately incorporated into the quantitative models. This includes ESG factors that are analyzed to determine their significance for and potential influence on credit risk. The environmental factor analyzes the corporate's environmental approach and policies, considering its lines of business and daily operations, as well as exposure to natural phenomena and environmental regulations. For the social factor, the business approach is evaluated first then the corporate policies regarding all levels of employee benefits, career plans and ability to retain talent and inclusion are evaluated.

Finally, the corporate governance analysis considers five aspects: (i) internal regulations of the corporation, considering their scope, formality and mechanisms for continuous adaptation, (ii) quality of senior management and administration, considering their financial strategies and history of crisis management, (iii) transparency and quality of the information provided, as well as history of non-compliance, (iv) risk associated with the regulatory framework to which each corporation is susceptible and the



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risk associated with the macroeconomic environment, and (v) management and mitigation strategies associated with the entity's operational risk, as well as the technological tools available for performing daily operations.

The rating maintains the negative qualitative adjustment considered in the initial rating for Project Risk, as the Project is still under construction.

#### **4. Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7**

- HR Ratings does not validate, guarantee, or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue, or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer's securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer's securities or stock, or the possibility that this value suffer a deterioration.

#### **5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7**

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

The third party did not provide HR Ratings with audited or historical financial information due to the Project is still under construction and therefore is not generating income yet. This was not considered as lack of information.

#### **6. Use of third-party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7**

HR Ratings did not use third party due diligence services for the rating.

#### **7. Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7**

HR Ratings did not use Servicer or remittance reports for the rating.

#### **8. Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7**

Among the main information used for the rating is:

- Property Appraisal made by CBRE provided by a third party.
- March 2025 Construction Reports No. 15, 13, 9 and 8 made by SPD Advisory provided by a third party.



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- Completion Guaranty provided by a third party.
- Debt Service and Carry Guaranty provided by a third party.
- US\$102.9m Construction Loan Credit Agreement provided by a third party.
- City North Draw 18 resume.

**9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7**

The financial information was solely projected due to the Project is still in construction and will not be fully operational until 2026. Nevertheless, the quality of the information provided by the entity is considered to be consistent with the quality observed in ratings that use a similar methodology.

**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7**

The aforementioned rating was not requested by the entity or issuer, or on its behalf. However, the rating was requested by an investor whose identity is kept confidential to the general public, therefore, HR Ratings has received from the investor the corresponding fees for the provision of its rating services. The following information can be found on our website <https://www.hrratings.com/>: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

HR Ratings was paid for services other than determining credit ratings during the most recently ended fiscal year by the person that paid to determine this credit rating.

**11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7**

1. Factors that are reasonably likely to lead to a change in the credit rating:

- **Increased Operations.** If the Project is able to achieve a stable operation faster or with a lower vacancy than expected, it could lead to an increase in FCF. If the previous is reflected in an average DSCR over 1.3x for 2025-2031 (vs. 0.7x in our baseline scenario), the rating could have a minimum positive impact.
- **Construction delay.** If the Project does not reach completion on the established dates, the expected revenue could be affected, leading to a lower FCF and higher leverage to cover the Project's expenses. If this is reflected in a weighted average DSCR of 0.4x, the rating could have a moderate negative impact.
- **Refinancing Conditions.** We assume the Project's debt refinancing in the 4Q27 and 4Q31, thus if the Company is not able to refinance or if the refinancing loan has worse conditions than the original construction loan, the Years of Payment metric could be affected. If this metric stays at levels above 15.1 years the rating could have a moderate negative impact.

2. The magnitude of the change that could occur under different market conditions determined by HR Ratings to be relevant to the rating:



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- **Lower Rental Rates.** In the case that the rental rates are lower than those considered in our scenarios, the revenue and consequently the FCF would be affected. If this results in a weighted average DSCR with Cash under 0.4x for 2025-2031 the rating could have a moderate negative impact.
- **Interest rate increases.** Since the debt has a variable interest rate tied to the SOFR, any change in the interest rate may directly impact on the DSCR and DSCR with Cash metrics, resulting in a minimum to strong negative impact on the rating.

NOTE: The Credit Analysis Committee must convene to review and discuss the changes that could occur under different market conditions. All the ratings issued by HR Ratings must be approved by the Credit Analysis Committee in accordance with the applicable methodology and the information available at the time. However, the magnitude of a potential change in the rating that could reasonably occur as a result of the impact of the factors listed above are characterized by the following summary chart:

Rating change impact	Number of notches
Minimum	(0-1)
Moderate	(2 - 3)
Strong	>3

## **12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7**

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations.

As our ratings measure relative creditworthiness, they do not necessarily reflect any specific statistical probability of default. However, HR Ratings provides to the market participants the default rate for historical default and loss statistics for the class or subclass of the credit rating. Although the default rate is not the expected probability of default or loss given default, we consider it the ratio that could be interpreted by market participants as such. The default rate for each of the asset classes in which HR Ratings provides ratings and for each rating category is publicly available for each calendar year at: [https://www.hrratings.com/regulatory\\_disclosure/transition\\_matrix.xhtml](https://www.hrratings.com/regulatory_disclosure/transition_matrix.xhtml).

## **13. Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7**

1. Assumptions made in the ratings process that, without accounting for any other factor, would have the greatest impact on the credit rating if proven false or inaccurate:

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. The assumption is that the information provided is reliable and credible, however, does not validate, guarantee



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or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.

- **Revenue.** Our base scenario considers that the construction of the Project will be completed by 2Q26. Thus, we forecast that the Project will generate revenue since the 2Q26 and will reach stabilization by 2Q27. The stabilized vacancy rate is expected to be 8.0%, while the annual growth rate in rents is expected to be 2.0% throughout the forecast period.
- **EBITDA margin.** We expect EBITDA to reach US\$9.9m in 2031, reflecting an EBITDA margin of 73.4% for that year. The previous would be a result of the increase in revenue and a ~2% annual growth in operating expenses (controllable and non-controllable).
- **Free Cash Flow.** We expect a FCF generation of US\$9.9m in 2031, driven almost entirely by the EBITDA increase, in addition to minimum working capital requirements.
- **Project Investment.** Regarding net investment in the Project, we estimate it will make a total investment of US\$158.4m (US\$145.9m without financing costs), according to the budget shared by the third party.
- **Debt Structure.** In our base scenario, we expect the Company to reach US\$103.0m of gross debt and US\$91.1m of net debt in 2031. We consider the refinancing of the entire construction loan at their initial maturity date in 4Q27. For this refinancing loan, we consider a four year-maturity (as original loan) and a lower pricing as construction risk is expected to be eliminated by then. Additionally, we anticipate another refinance for this loan during 2031 with the same characteristics as the first one.

2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:

- In the case that the Project's operating indicators, such as the occupation rate, rental rate or initial unit absorption results significantly lower than the projected values, the Company's revenue could be negatively affected. If this is reflected in an average weighted difference of 19.7%, against the base scenario's revenue the rating could be negatively impacted.
- If the weighted average EBITDA margin results in 57.3% or less for the projected period, the rating could suffer a negative impact.
- Under a scenario where the Company presents a weighted average FCF under US\$5.1m for 2025-2031 the rating could be downgraded.
- If higher investment is required for the construction's completion and it is funded through additional debt the rating could be impacted negatively.
- If the Project requires additional financing than expected, either to fund its initial operations or to cover unexpected expenditures, the rating metrics could deteriorate. If the weighted average Years of Payment metric stays above 15.1 years for 2025-2031, the rating could be revised downwards.



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**14. Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7**

The reporting of representations, warranties, and enforcement mechanisms does not apply to any of the credit ratings listed in this disclosure form.



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## Credit Rating Attestation

I, Elizabeth Martinez, Corporates Manager, have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities.
- The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

Mexico City, May 28, 2025

/s/ Elizabeth Martínez  
Corporates Manager  
HR Ratings de México, S.A. de C.V.



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\*HR Ratings, LLC (HR Ratings), is a Credit Rating Agency registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934.

The aforementioned rating was not requested by the entity or issuer, or on its behalf. However, the rating was requested by an investor whose identity is kept confidential to the general public, therefore, HR Ratings has received from the investor the corresponding fees for the provision of its rating services. The following information can be found on our website <https://www.hrratings.com/>: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

The ratings and/or opinions of HR Ratings de México S.A. de C.V. (HR Ratings) are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the rating methodologies of HR Ratings.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the [www.hrratings.com](https://www.hrratings.com) rating agency webpage. HR Ratings' Code of Conduct, rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The fees HR Ratings receives from issuers generally range from US\$1,000 to \$1,000,000 (one million dollars, legal tender in the United States of America) (or the equivalent in another currency) per offering. In some cases, HR Ratings will rate all or some of a particular issuer's offerings for an annual fee. Annual fees are estimated to vary between \$5,000 and US\$2,000,000 (five thousand to two million dollars, legal tender in the United States of America) (or the equivalent in another currency).

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