Casa Bella Residences

PRH 1400 Biscayne 1, LLC

PRH 1400 Biscayne 1, LLC **HR A+ (G)** Stable Outlook	US$239.4m Term Loan **HR A+ (G)** Stable Outlook 69449@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.

1. **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
PRH 1400 Biscayne 1, LLC	Assigned	Long Term Rating	HR A+ (G) / Stable Outlook
US$239.4m Term Loan	Assigned	Long Term Rating	HR A+ (G) / Stable Outlook

2. **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 US$239.4mTerm Loan is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Evaluation, February 2024.
  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

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 Company depends on the collection of the presale deposits to fund part of the development of the project, which may suffer from delays, leading to a longer construction time and cost. Given this project risk, it is possible that revenue generation could start later than expected, which would lower FCF compared to our projections. As a result, we applied two negative qualitative adjustments to the rating.

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 yet generating income. As mentioned, the rating incorporates two negative notches related to the project risk due to the construction process of the Project.

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:
- Appraisal report for the Casa Bella project elaborated by Newmark Valuation & Advisory, provided by the third party.
- Construction Loan Agreement for the facilities of PRH 1400 Biscayne 1, LLC, provided by the third party.
- Investment memo, provided by the third party.
- Status reports elaborated by SPD Advisory Group, provided by the third party.
- Pre-sold unit summaries of the project, provided by the third party.

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 quality of the information provided by the entity is considered to be consistent with the quality observed in the ratings that use the 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:

       - **Prompt project timing.** If the construction process ends on time and within budgeted costs, this would lead to a minimum positive impact on the rating.
       - **Prompt collection of deposits.** In the scenario where the Company is able to collect the corresponding 40.0% of deposits by 3Q25 (top off date) including the deposits related to the contract signing, groundbreaking and top off, this could lead to a minimum positive impact on the rating.

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

- **Regulatory and Compliance Risk.** The Company must constantly monitor regulations of all applicable local, state, federal laws, codes, and ordinances. If the Company is not able to stay current and compliant in terms of regulation, this could have a minimum to strong 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 the DSCR and DSCR with Cash metrics, resulting in a minimal 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

13. <u>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</u>

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 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.

   - In our baseline scenario, we anticipate the Project's total revenue generation to reach US$551.8m (on the project period). As of August of 2024, over 80% of the total units have been sold as the presale period. We expect the Company will finalize the total sale by 2027. Nonetheless, we incorporate revenue recognition starting from the date of substantial completion (3Q26), where the deposits from presale as well as the corresponding revenue from the period will be recognized. Additionally, we incorporate the rent of the restaurant starting in 3Q26. Therefore, in 2026 the Project is expected to generate US$527.8m in 2026 and US$23.1m in 2027. As of 2028, all the sales are expected to be completed. Nonetheless, we forecast revenue generation of US$0.9m from the rent of the restaurant.

   - In terms of EBITDA, as the Company incurred operating expenses during the construction period of the Project (and prior to revenue recognition), during 2024 and 2025 we have forecasted negative EBITDA (-US$29.9m and -US$6.5m respectively). In spite of the previously mentioned EBITDA, considering the beginning of revenue recognition in 2026, we forecast EBITDA generation for 2026 and 2027 to reach US$179.4m and US$7.1m respectively. During 2028 we anticipate an EBITDA of US$0.8m.

   - As for Free Cash Flow (FCF), in our baseline scenario we anticipate the Company to reach US$188.2m in 2026 due to the revenue recognition. Additionally, our forecast incorporates FCF generation for 2027 of US$19.5m, and US$0.8m in 2028.

   - Regarding net investment in the Project, we estimate the Company will realize a total investment of US$435.6m, according to the budget shared by a third party.

   - In terms of metrics, during the forecasted period we anticipate 0.0x DSCR in 2024 due to negative FCF. Nonetheless, we anticipate a DSCR of 2.0x for 2025, 8.6x (considered as 2.3x since it is the maximum value for this metric) for 2026 and 0.1x in 2027, due to the payment of the construction loan. In 2028 we expect DSCR and DSCR with cash at their maximum levels due to the existence of FCF and absence of debt service.

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

   - In the scenario where the Company does not achieve to complete the sale of the remaining units by 2027, therefore taking more than expected to execute the sale of those units, leading to a revenue generation in 2026 of US$462.4m (US$527.8 in our baseline scenario), the rating could have a negative impact.

- The rating could be revised downwards if average EBITDA from 2026-2028 (considering that revenue recognition started in 2026) reaches US$137.6m (vs US$187.2m in our baseline scenario) due to difficulties to execute the completion of the sales of the units.
- If the Company reaches an accumulated FCF of US$195.9m from 2026-2028 vs US$208.4m in our baseline scenario, the rating could be downgraded.
- The rating could be impacted negatively if the Company has a higher investment in the construction of the Project that results in a higher budget.
- If the scenario where the Company presents difficulties to generate revenue with the sales of the units, leading to a lower FCF, leading to an average DSCR of 3.1x from 2026 to 2028 (vs 3.7x in our baseline scenario), the rating could be revised downwards.

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.

Credit Rating Attestation

I, Jesús Pineda, 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, September 13, 2024

/s/ Jesús Pineda, Corporates Manager
HR Ratings de México, S.A. de C.V.

Media Contact

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