IQHQ-RaDD Holdings I&II

IQHQ-RaDD Holdings I, LLC
IQHQ-RaDD Holdings II, LLC

Credit Rating Agency

A NRSRO Rating*
Corporates
March 25, 2024

IQHQ-RaDD Holdings I, LLC	IQHQ-RaDD Holdings II, LLC	US$242m Mezzanine Loan
HR BBB (G)	HR BBB (G)	HR BBB (G)
Stable Outlook	Stable Outlook	Stable Outlook
		CUSIP 45000#AA9

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Rule 17g-7 Information Disclosure Form

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
IQHQ-RaDD Holdings I, LLC.	Upgraded	Long Term Rating	HR BBB (G) / Stable Outlook
IQHQ-RaDD Holdings II, LLC.	Upgraded	Long Term Rating	HR BBB (G) / Stable Outlook
US$242.0m Mezzanine Loan	Upgraded	Long Term Rating	HR BBB (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 associated debt 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.

HR Ratings is maintaining a positive notch as a result of the Companies' environmental strategies oriented to reduce the environmental impact when building the RaDD and/or other projects. Also, we consider these strategies to benefit the Companies by increasing the possibility of refinancing its debt as sustainability goals are met.

It is also important to mention that despite three of the buildings having achieved Substantial Completion / TCO (Temporary Certificate of Occupancy), HR Ratings still considers an existing project risk due to 54% of NRA (Alley and Rise) not been able to reach this level of completion. It is important to note that those two buildings represent 57% of the RaDD's rental revenue generation capability and the lack of pre-lease agreements as of the date of this report contributes to maintaining the project risk.

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 of 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 in construction and therefore, is not yet generating income. For this reason, HR Ratings decided to give a negative notch due to the uncertainty risk this represents for the rating.

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. **<u>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</u>**

HR Ratings did not use Servicer or Remittance Reports.

8. **<u>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</u>**

Among the main information used for the rating is:

- Credit and Guaranty Agreement provided by a third party.
- Industry information provided by a third party.
- Revenue and KPI estimations and Proforma provided by a third party.
- Appraisal Report prepared by Newmark Valuation & Advisory, provided by a third party.
- Projected Case Runner (Revenue, NOI, Cash Flow) 2023-2027 provided by a third party.
- Peers' information provided by a third party.
- Construction Status Reports provided by a third party.
- Interest Rate Cap Agreements (October 2022, September 2023)

9. **<u>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</u>**

The financial information was purely 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. **<u>Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7</u>**

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:

- **Project Risk**. If the Companies are unable to complete the construction of the Project by 3Q24-4Q24 or are unable to maintain a vacancy rate equal to or lower than our projections, it could result in a minimum to strong negative impact on the rating.
- **Reduction in DSCR levels**. If the Companies reduce the FCF due to lower operating results or higher working capital requirements through the forecasted period (2024-2030), reaching an average DSCR level below 0.6x, the rating could have a moderate negative impact.
- **Balloon Payment Risk**. Over time, and assuming that the Company is not able to refinance its debt before its maturity in 2026, the rating could suffer a strong negative impact.
- **Faster revenue generation**. If the Companies were able to perceive income before our estimates in the baseline scenario, this would impact directly on their FCF generation, reaching an average DSCR with Cash of 1.8x for 2024-2030. In this case, the rating could have a minimum positive impact.

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

- **Stronger competition.** If the Companies are not able to adjust to a highly competitive environment in the US, leading to a decrease in footprint and therefore affecting its Revenue generation capability, the DSCR would be impacted. If these metric levels are below 0.6x, this could have a negative minimum impact on the rating.
- **Lower US economic growth.** If the Companies are not able to adjust to low economic growth in the US, it could affect its Free Cash Flow generation. If this is reflected in an average DSCR with cash of 0.8x during the forecasted period of 2024-2030, it could have a minimum 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. 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 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.

   - Our estimates consider a 2025-2030 revenue CAGR of 25.0%, mainly driven by the construction and beginning of operation of the RaDD project that is expected to be fully completed by 2Q24. This revenue CAGR incorporates expected occupancy rate of 85% in 2025; 90% from 2026-2027; and 95% for the rest of the periods ahead. The revenue generation also considers a 9-month lag against the expected finalization date for the areas of each building, example: if the retail area of the building 2A “Alley” is expected to be finished in June 2024, we are considering that the Companies will not receive rental income until March 2025.
   - We are taking into consideration that the Companies would reduce its operating expenses as a percentage of sales along the construction finalizes and the revenue generation capability gradually increases, reaching this way an EBITDA margin of 68.2% in 2030.
   - Regarding net investment in the Project, we estimate that IQHQ-RaDD Holdings I&II will realize a total investment of US$1,899m.
   - Regarding debt, under both scenarios, we expect that the Companies will make complete use of the US$1,157m Credit Facility (Senior and Mezzanine Loan) during 2022 to 2026 in order to fund the construction of the RaDD project. The

senior loan facility which is US$915m has an interest rate of SOFR + 3.25% and the Mezzanine Loan, which is for US$242m has an interest rate of SOFR + 8.50%, both have a maturity date in 2026. At which we expect a refinancing of US$1,060m as a whole new loan with a new maturity date in 3Q30 and the same pricing as the Senior Loan (SOFR + 3.25%). We expect another refinancing of this new loan in 3Q30 to 3Q34 with the same characteristics as the first refinancing. It is important to mention that we are considering the amortization of the original loan and the first refinancing in our Net Debt Service metric.

- It is important to mention that the Companies have an Interest Rate Cap Agreement with Goldman Sachs Bank USA that covers the 4Q23 – 3Q24 period which is included in our analysis. This agreement caps the interest rate to 3.5% for both the Senior and the Mezzanine Loan but only for the notional amounts of US$414.5m and US$97.5m respectively. In September 2023, the Companies paid the corresponding Cap Premium of US$12.34m.
- As a result of the above, in our base scenario we expect an average DSCR and DSCR with Cash of 0.9x and 1.3x for 2024-2030, respectively.

2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:
   - If the Companies' revenue generation during the period projected (2024-2030) is 18.5% lower than our baseline projections, it could result in a lower rating.
   - Regarding our EBITDA margin, if there is an increase of ~3% in non-recoverable expenses that would lead to an average EBITDA margin of 43.3% for 2024-2030 (vs. 53.8% on our base scenario), the rating could be impacted negatively.
   - If the Companies had greater investment in the Investment Properties account, for the construction of the RaDD project and this increase was funded through debt, that pushed debt amounts to higher levels than expected, the rating could be impacted negatively.
   - If the counterparty of the interest rate cap agreement was unable to cover the interest payment corresponding to the difference in the effective rate vs. the cap rate in the period 4Q23-3Q24, the rating could be negatively impacted.
   - In the event that the Companies' accumulated FCF falls by 27.2% relative to our Base scenario increasing its LTV metric above ~62%, the rating could be negatively impacted.
   - Considering the previous point, if the average DSCR with Cash decreases below 0.8x in the rating period (2024-2030), this could result in a lower rating.

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

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, Elizabeth Martínez, 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, March 25, 2024

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

Media Contact

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