City North II

GS-SM City North II Owner, LLC

Corporates
May 21, 2024
*A NRSRO Rating**

GS-SM City North II Owner, LLC	US$102.9m Construction Loan 36271#AA0
HR BB (G)	HR BB (G)
Stable Outlook	Stable Outlook

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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
GS-SM City North II Owner, LLC	Assigned	Long Term Rating	HR BB (G) / Stable Outlook
US$102.9m Construction Loan	Assigned	Long Term Rating	HR BB (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.

The rating incorporates one negative notch related to the project risk due to the construction process of the Project which is expected to be completed by 2Q26

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 under construction and therefore is not yet generating income. The rating incorporates one negative notch 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.

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:

- Construction Loan 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 Apprise, provided by a third party.
- Monthly Debt Waterfall for 2023-2028 provided by a third party.
- Investment Memos provided by a third party.
- Construction Status Report and Monitor Reports provided by a 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 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. **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:

- **Construction Timeline delay**. If the construction is not finished on the expected date (April 2026) or the vacancy rates show a longer stabilization period than the one considered in our scenarios, it could lead to lower FCF, and if the weighted average Years of Payment metric of 14.8 years for 2025-2031, the rating could have a minimum to strong negative impact.

- **Reduction in DSCR levels.** If the Company reduces its FCF due to lower occupation levels, rental rates, higher fixed expenses, or higher working capital requirements, maintaining an average DSCR below 0.4x for the forecasted period, the rating could have a moderate negative impact.
- **Refinance Risk.** Our base scenario considers the refinancing of the expected outstanding debt in 2027. If the Company is not able to refinance its debt, it could result in an extension of its current loan maturity date resulting in higher financing expenses. This could result in a minimum negative impact on the rating.
- **Higher FCF.** If the Company generates more revenue than expected, this could be reflected in a higher FCF, and if the DSCR and DSCR with Cash reflect average levels above 0.9x and 1.2x respectively for 2025-2031, 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:

- **Strong competition**. If the real estate market in the Project's area shows more household offers than expected, this could lead to lower occupation and revenue generation, impacting the DSCR negatively. If the DSCR and DSCR with Cash show average levels below 0.4x and 0.5x respectively for 2025-2031, the rating could have a moderate negative rating.
- **Lower US economic growth.** If the demand does not growth as expected as a result of lower income increases, this could affect the FCF generated by the Project. If this is reflected in an average level of the Years of Payment metric above 14.8 years for 2025-2031, the rating could have a moderate negative impact.

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. <u>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</u>

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.

- **Total Revenue.** For the revenue projection we consider a $CAGR_{2026\text{-}2031}$ of 40.9%, driven by a gradual unit absorption of 23 units per month during the first fifteen months of operation of the Project, reaching a stable vacancy rate of 6.0% for the remainder of the projected period.
- **EBITDA Levels.** We expect the Project to reflect a 54.7% EBITDA margin for 2026, increasing to 73.8% in 2027, and finally reaching 74.0% in 2028 in line with the vacancy rate stabilization period, that is expected to help absorb the Project's fixed costs.
- **Investment.** In terms of the Project investment, we expect that the total budget provided by a third party is going to be surpassed by US$2.2m related to higher financing costs, financed through additional equity. This would result in a total investment of US$161.2m.
- **FCF.** As a consequence of the expected operating results, in addition to working capital requirements derived from a 30 day rotation on accounts receivable and a 60 day rotation on suppliers, we estimate the Company's FCF to reflect a $CAGR_{2026\text{-}2031}$ of 53.3%.
- **Debt Structure.** Regarding the debt acquisition, we expect the Company to acquire the full amount of its Construction Loan of US$102.9m gradually as the construction progress requires it. The Construction Loan has an interest rate of SOFR+4.5%, with a SOFR floor of 2.0%, and a bullet payment in the 3Q27, when we expect a refinancing of the same amount of US$102.9m. We consider the same conditions as the original Construction Loan for the refinance, except for the interest rate spread, for which we considered a reduction of 100bps, ending at 3.5%. Additionally, we anticipate another refinance for this loan during 2031 with the same characteristics as the first one. It's important to mention that our Net Debt Service considers the full amortization amount of the original Construction Loan and the first refinancing.

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

- If the Company's weighted average revenue during the projected period (2025-2031) is 21.5% lower than our baseline forecast, it could result in a lower rating.
- In the event that the weighted average EBITDA margin results below 58.7%, as a result of higher fixed costs or a slower stabilization period, the rating could be negatively impacted.
- If the Construction budget is surpassed by a higher amount than the one considered in our base scenario the Company might have to acquire additional debt, if the average Years of Payment metric increase above 14.8 years for 2025-2031, the rating could be impacted negatively.
- If the weighted average FCF of the Project during 2025-2031 falls 28.5% below our base scenario as a result of higher working capital requirements the rating could be negatively impacted.
- If the Company is not able to refinance its debt before maturity or if the rate obtained for the refinance loan is higher than expected, it could increase the Debt Service. If this is reflected on weighted average DSCR and DSCR with Cash below 0.4x and 0.5x respectively, the rating could be lowered.

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 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 21, 2024

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

**** 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 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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