Credit Rating Agency

*A NRSRO Rating**

IQHQ-RaDD Holdings I, LLC.
IQHQ-RaDD Holdings II, LLC.
US$242.0m ML: CUSIP 45000#AA9

HR BBB- (G)

Corporates
May 08, 2023

Ratings

IQHQ-RaDD Holdings I	HR BBB- (G)
IQHQ-RaDD Holdings II	HR BBB- (G)
US$242.0m ML	HR BBB- (G)
Outlook	Stable

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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.	Assigned	Long Term Rating	HR BBB- (G) / Stable Outlook
IQHQ-RaDD Holdings II, LLC.	Assigned	Long Term Rating	HR BBB- (G) / Stable Outlook
US$242.0m Mezzanine Loan	Assigned	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 is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Evaluation, August 2021

https://www.hrratings.com/docs/metodologia/Corporate_Debt_Credit_Risk_Evaluation_(August_2021).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:**

This methodology describes the process that HR Ratings uses to evaluate the ability and willingness of corporate entities to pay their debt obligations. This process consists of two elements: the first element refers to a quantitative analysis, which initially determines the credit rating through the projection of a Base Scenario and a Stress Scenario, weighting the main metrics of indebtedness identified by HR Ratings; the second element includes a qualitative analysis based on environmental, social, and corporate governance (ESG) factors. The quantitative element of this methodology consists of three sections that describe different rating processes that in general terms are similar, but that include different concepts and weights associated with these concepts. The first process refers to a quantitative evaluation of the corporate entities, the second to the assets that focus on real estate investments and, lastly, a third process that shows how to rate structured debt issues that have pledge a specific source of revenue to service the debt and that said revenue is dependent on the issuer's operations. All these processes have the following similarities:

- They are developed based on a Base Scenario, and a Stress Scenario in which the corporate entity's financial information is projected.
- Financial metrics are developed under each scenario for the projected years.
- Each metric, under each scenario, is weighted over the years to generate a unique intertemporal value.
- An integer value between 1 (lowest) and 19 (highest) is assigned to each metric based on its intertemporal value.
- These integer values are averaged based on the different metrics in each process and a result is obtained for the Base Scenario and another for the Stress Scenario.
- Based on the averages per scenario, the result of the quantitative evaluation is obtained.
- In turn, the qualitative analysis of HR Ratings allows to subtract or add up to three notches to the credit rating based on ESG factors. This evaluation focuses on identifying the credit risk that these factors could give rise to; therefore, it is important to clarify that, to a certain extent, their impact could already be included in the quantitative analysis. The ESG evaluation also recognizes that each factor being analyzed involves different risks depending on the economic activity and line of business of the corporate entity, an issue that the methodology considers in its analysis.
- HR Ratings is giving 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.

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 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. Nevertheless, the third party provided us with peers' information and projected metrics regarding income generation, and income proforma. Similarly, HR Ratings did not receive detailed projections regarding: i) Cost spending proforma, ii) Funding (Sources and Timeline), iii) Projected Sources and Uses.

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:

- 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.

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.

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. It 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 at 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.

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 the end of 2026 or are unable to maintain a vacancy rate equal 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 0.7x, the rating could have a minimum 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 six months before our baseline scenario, this would impact directly on their FCF generation, reaching an average DSCR with Cash of 1.6x 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 LTV (Loan to Value) would be impacted. If these metric levels are above ~60%, 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 of 1.1x 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. <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. <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:

- Our estimates consider a 2024-2030 revenue CAGR of 34.6%, mainly driven by the construction and beginning of operation of the RaDD project that is expected to be fully completed by the end of 2026.This revenue CAGR incorporates expected occupancy rate of 85% from 2023-2025; 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 December 2023, we are considering that the Companies will not receive rental income until June 2024.
- 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 70.4% in 2030.
- Regarding net investment in the Project, we estimate that IQHQ-RaDD Holdings I&II will realize a total investment of US$1,570.2m.
- Regarding debt, under both scenarios, we expect that the Companies will make use of the US$1,157.0m 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 for US$915.0m has an interest rate of SOFR + 3.25% and the Mezzanine Loan, which is for US$242.0m has an interest rate of SOFR + 8.50%, both have a maturity date in 2026. At which we expect a refinancing for US$1,086.0m (US$858.9m of the Senior Loan and US$227.1m of the Mezzanine) with a new maturity date in 3Q30. We expect a second refinancing 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.
- As a result of the above, in our base scenario we expect an average DSCR and DSCR with Cash of 0.8x 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 6.3% lower than our baseline projections, it could result in a lower rating.
- Regarding our EBITDA margin, if there is an increase in recoverable and non-recoverable expenses that would lead to an average EBITDA margin of 50.5% for 2024-2030 (vs. 58.2% on our base scenario), the rating could be impacted negatively.
- A lower rating could result if the Companies had greater investment in the Investment Properties account, for the construction of the RaDD project.
- In the event that the Companies' accumulated FCF falls by 9.4% relative to our Base scenario increasing its LTV metric above ~60%, the rating could be negatively impacted.
- Considering the previous point, if the average DSCR with Cash decreases below 1.1x 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 credit rating is not assigned to an asset backed security.

Credit Rating Attestation

I, Heinz Cederborg, Corporates / ABS Director 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 08, 2023

/s/ Heinz Cederborg, Corporates / ABS Director
HR Ratings de México, S.A. de C.V.

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The aforementioned rating was not requested by the entity or issuer, or on its behalf. It 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 at 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, and (iii) the procedure and process of voting on our Analysis Committee.

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 HR Ratings classification methodologies, in terms of the provisions of article 7, section II and/or III, as appropriate, of the “General provisions applicable to the issuers of securities and other participants in the stock market”.

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. There Code of Conduct, HR Ratings’ 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 rating fee that HR Ratings receives from issuers generally ranges from US$1,000 to US$1,000,000 (or the foreign currency equivalent) per issue. In some instances, HR Ratings will rate all or some of the issues of a particular issuer for an annual fee. It is estimated that the annual fees range from US$5,000 to US$2,000,000 (or the foreign currency equivalent).