SCOPE | Ratings

UK Logistics 2024-2 DAC

Logistics backed CMBS – United Kingdom

Note class	Rating	Amount (GBP m)	% of Notes	CE[1] (%)	Margin over SONIA[2]	Expected maturity	Final maturity
A	AAA_{SF}	200.6	54.2%	45.8%	1.35%	Feb 2030	Feb 2035
B	AA_{SF}	32.7	8.8%	36.9%	1.70%	Feb 2030	Feb 2035
C	A_{SF}	34.2	9.2%	27.7%	2.10%	Feb 2030	Feb 2035
D	$BBB-_{SF}$	54.1	14.6%	13.1%	3.10%	Feb 2030	Feb 2035
E	$BB-_{SF}$	48.4	13.1%	0.0%	4.25%	Feb 2030	Feb 2035
Total notes		370.0					
Issuer loan[3]		19.5				Feb 2030	Feb 2035

[1] Displayed credit enhancement levels result from subordination.
[2] The SONIA reference rate is floored at 0%. For each payment after the notes' expected maturity date, the SONIA reference rate will be capped at 5.0%.
[3] The issuer loan is the vertical risk retention instrument corresponding to 5% of the transaction's total securitised amount.
Scope's quantitative analysis is based on the latest lease portfolio data, available information and documentation up to 5 December 2024. Scope's Structured Finance Ratings constitute an opinion about relative credit risk. Class A notes' rating reflects the timely payment of interest and the ultimate repayment of principal on or before the final maturity date. Class B to E notes' ratings reflect the ultimate payment of interest and principal on or before the final maturity date and timely payment of interest once the instrument becomes the most senior class of notes outstanding. The ratings assigned to the notes do not address excess SONIA, pro rata extension step-up or exit payment amounts in respect of the notes.
See Scope's website for the Scope Ratings Rating Definitions.

Transaction details

Purpose	Financing
Issuer	UK Logistics 2024-2 DAC
Sponsor	Blackstone Group Inc. and affiliates ('Blackstone' or 'BX')
Borrowers	UK and Jersey entities controlled by BX
Asset managers	Indurent and Mileway
Joint lead managers	Merrill Lynch International and Morgan Stanley & Co. International plc
Issuer account bank	U.S. Bank Europe DAC
Agent bank, principal paying agent	U.S. Bank Europe DAC
Servicer, special servicer	CBRE Loan Services Limited ('CBRE')
Liquidity facility provider	Bank of America, N.A., London Branch
Issuer cash manager, information agent	U.S. Bank Global Corporate Trust Limited
Note trustee, issuer security trustee	U.S. Bank Trustees Limited
Closing date	5 December 2024
Payment frequency	Quarterly (17th of February, May, August, November)
Expected first payment date	17 May 2025

The transaction is a GBP 389.5m commercial mortgage-backed securitisation (CMBS) collateralised by two commercial real estate (CRE) senior loans (the Indurent and Mileway loans) backed by logistics properties located throughout the United Kingdom. UK Logistics 2024-2 DAC used the issuance proceeds of five rated notes and an issuer loan to finance the acquisition of the two loans.

Analysts

Adam Plajner
+44 20 3936 8099
a.plajner@scoperatings.com

Benjamin Bouchet
+33 1 86 26 18 76
b.bouchet@scoperatings.com

Investor Outreach

Keith Gilmour
+44 20 3936 8151
k.gilmour@scopegroup.com

Related Methodologies

CRE Loan and CMBS Rating Methodology, November 2023

General Structured Finance Rating Methodology, March 2024

Counterparty Risk Methodology, July 2024

Related Research

European CRE/CMBS: only six of 20 loans have repaid or been refinanced
October 2024

European commercial real estate: debt markets re-open but investor confidence not fully restored
August 2024

Almost 75% of CRE loans in European CMBS fail to meet bank refinancing requirements
May 2024

Real Estate Insight
April 2024

Real estate outlook,
February 2024

European CRE/CMBS outlook,
January 2024

Disclosure/warning

This rating report is accessible to the general public.

Rating rationale (summary)

The ratings reflect: i) the transaction's legal and financial structure; ii) the quality of the underlying collateral in the context of the United Kingdom's macroeconomic environment; iii) the experience and incentives of the transaction's sponsor, Blackstone, and its affiliated asset managers, Indurent and Mileway.

The rated notes benefit mainly from: i) Blackstone and affiliates' robust track record and extensive experience in managing industrial and logistics property portfolios; ii) Indurent loan's diversified property portfolio and granular tenant base as well as Mileway loan's higher occupancy rate; iii) the strong tailwinds for the logistics sector combined with positive rent reversion. The rated notes are negatively impacted mainly by: i) the weak liability structure; ii) Indurent's initial tenant churn; and iii) the risk associated with Mileway's concentrated tenant base.

The transaction is exposed to the following key counterparties: i) Blackstone as sponsor and ultimate owner of the entities paying the ongoing issuer costs, and Mileway and Indurent as asset managers; ii) CBRE as primary and special servicer; iii) U.S. Bank Europe DAC as issuer account bank, agent bank and principal paying agent; iv) an eligible counterparty as hedge counterparty; and v) Bank of America, N.A., London Branch as liquidity facility provider. Counterparty risk is mitigated by the credit quality of the counterparties, structural mechanisms such as replacement rating triggers. We have assessed the credit quality of the counterparties considering public information and our own ratings or assessments where available.

Rating drivers

Positive rating drivers	Negative rating drivers and mitigants
Experienced sponsor and affiliated asset managers. Blackstone is a leading real estate private equity firm and the main sponsor of European logistics CMBS. Mileway and Indurent, founded by Blackstone, have a robust track record and extensive experience in managing logistics and industrial properties and benefitting from rent reversion. **Diversified portfolio of quality properties with good locations.** The secured collateral consists of a total of 63 properties spread throughout the UK. The properties are well located close to at least one of the main UK logistic corridors or to regional centrals. Blackstone is planning to spend capex to improve all EPCs to at least B from an average C rating. **Strong tailwinds for the logistics sector and positive rent reversion.** The logistics sector benefits greatly from a sustained increased warehouse demand because of the secular change in e-commerce. The portfolio is currently 21% under-rented compared to the valuer's ERV, predominantly driven by leases signed before 2022. **Strong main tenants' covenants.** The top 10 tenants, representing 31% of GRI and 46% of GLA, exhibit a weighted average unexpired lease term until break option (WAULB) of 5.6 years, which is longer than the underlying loans' tenor.	**Weak liability structure.** The transaction securitises two non-cross-defaulted, non-cross-collateralised loans with pro-rata allocation of principal proceeds to the loans' shares of each note in most cases. In a scenario where one loan defaults, only the affected loan's principal proceeds will be distributed sequentially. This feature makes the structure weaker compared to multi-loan European CMBS transactions that switch to fully sequential upon one loan being affected. The transaction also features limited to no excess spread. (ESG factor) **Indurent loan's high tenant churn to December 2025.** 17% of the GRI representing 16% of the space is set to expire over the period. It is partially mitigated by its granular tenancy of more than 200 individual tenants and advanced discussions on 18 units representing 7% of the space expected to add a further GBP 1.2m in rental income and increase the WAULB. **Mileway loan's high tenant concentration.** As at 31 July 2024 Mileway loan's property portfolio comprised 32 tenants across 24 properties. Six tenants each accounted for more than 5% of the GRI, with the top 5 tenants totalling 44% of the GRI. **Weak loan covenants.** The Mileway and Indurent loans do not feature financial covenants prior to a permitted change of control ('CoC'). Furthermore, the cash trap mechanism allows for certain costs to be deduced from the amount trapped.

Upside rating-change drivers	Downside rating-change drivers
Lease roll-over management and rental income improvement. A successful management of the lease roll-over and rent reviews may positively impact the ratings. **Strong asset disposal strategy.** An asset disposal strategy that maintains or improves portfolio metrics such as debt yield may improve the ratings.	**Underperformance in reletting.** The ratings may be negatively impacted if properties remain vacant for a longer period or if the managers fail to improve the portfolios' rental income. **Liquidity facility commitment of a year.** The ratings of the class A to C notes, which are covered by the liquidity facility, may be impacted if the commitment is not renewed annually.

Table of content

Rating rationale (summary)
Rating drivers
1. Transaction summary
2. Macroeconomic environment
3. Sponsor overview
4. Asset analysis
5. Key structural features
6. Cash flow analysis and rating stability
7. Sovereign risk
8. Counterparty risk
9. Legal and tax analysis
10. Peer overview
11. ESG considerations
12. Monitoring
13. Applied methodology and data adequacy
Appendix I Peer transactions overview

1. Transaction summary

UK Logistics 2024-2 DAC is a GBP 389.5m CMBS transaction collateralised by two senior non-cross collateralised and non-cross defaulted CRE loans (named Indurent and Mileway) backed by industrial and logistics properties located throughout the United Kingdom. Blackstone is the loan sponsor, and Bank of America Europe DAC and Morgan Stanley Principal Funding, Inc. the loan sellers. The notes' legal final maturity date is 17 February 2035, five years after the two underlying loans' maturity date, in February 2030.[1]

The Indurent loan is an interest-only first-lien senior mortgage loan with a maturity date of 15 February 2030. The loan amount is GBP 225.2m, being the lower of 65% of the total costs and 65% of the portfolio market value ('Portfolio MV'). The Portfolio MV assumes that the properties are sold as a single lot and includes a 5% premium to the aggregate market value of the individual properties ('MV'). The underlying collateral consists of 39 predominantly logistics assets totalling approximately 2.5m sqft of GLA. They are managed by Indurent, an affiliate of the sponsor. The loan would exhibit a debt yield (DY) of 7.0% and an LTV ratio of 60.7% based on a Portfolio MV of GBP 371.0m. The property portfolio exhibited an occupancy level of 82.7%, a WAULB of 4.3 years, and significant in-place rental increase potential (22% under-rented compared to the valuers' ERV) as at the cut-off date.

The Mileway loan is an interest-only first-lien senior mortgage loan with a maturity date of 15 February 2030. The loan amount is GBP 164.2m, being the lower of 65% of the total costs and 65% of the Portfolio MV. The underlying collateral consists of 24 predominantly logistics assets totalling approximately 4.6m sqft of GLA. They are managed by Mileway, an affiliate of the sponsor. The loan would exhibit a DY of 7.9% and an LTV ratio of 62.8% based on a Portfolio MV of GBP 261.5m. The property portfolio exhibited an occupancy level of 92.2%, a WAULB of 4.9 years and meaningful in-place rental increase potential (18% under-rented compared to the valuers' ERV) as at the cut-off date.

The CMBS includes five classes of rated notes denominated in GBP and paying a floating rate indexed to SONIA, as well as an unrated issuer loan provided by Morgan Stanley Principal Funding Inc. The CMBS embeds two distinct waterfalls: i) interest proceeds, paid sequentially; and ii) principal proceeds, paid on a sequential basis for cash trap amounts and with respect to loans affected by a loan failure event, on a reverse-sequential order basis for voluntary prepayments, and on a pro-rata basis in all other cases. At closing, the issuer benefits from a liquidity facility provided by Bank of America, N.A., London Branch, and which can be drawn to cover class A to C notes' interest payment shortfalls, issuer loan's interest shortfall, issuer's expenses shortfalls and property protection shortfalls. The liquidity facility is sized at GBP 19.0m notional, i.e. 6.7% of class A to C notes' and the corresponding issuer loan part's aggregated initial notional.

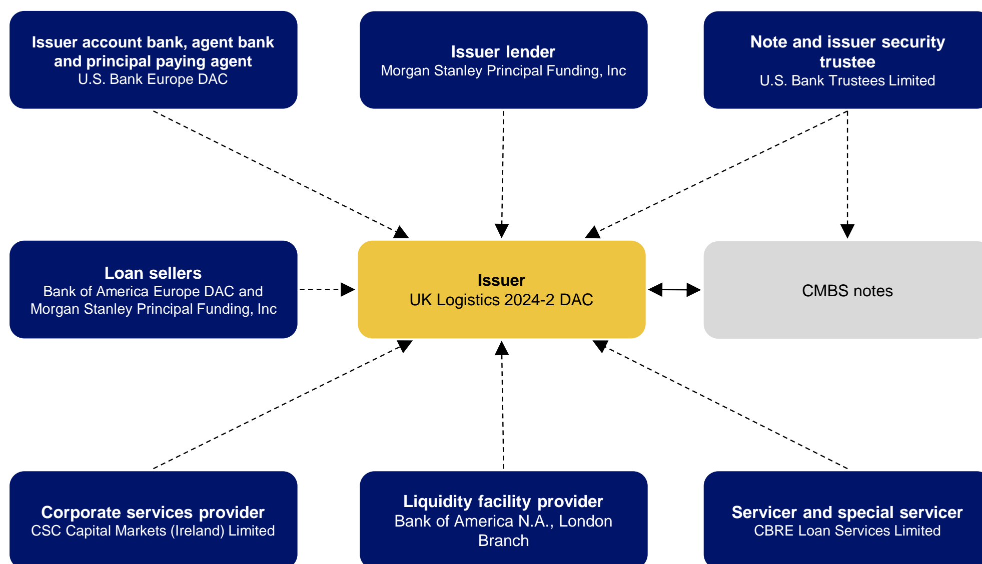
Figure 1: Rated notes' metrics

Note class	NTV[1] (%)	DY (%)	Indurent's loan share		Mileway's loan share	
			Amount (GBP m)	DY (%)	Amount (GBP m)	DY (%)
A	33.4%	13.6%	116.0	12.9%	84.6	14.6%
B	38.8%	11.7%	18.9	11.1%	13.8	12.5%
C	44.5%	10.2%	19.8	9.7%	14.4	10.9%
D	53.5%	8.5%	31.3	8.0%	22.8	9.1%
E	61.6%	7.4%	28.0	7.0%	20.4	7.9%

[1] NTV stands for note-to-value based on the aggregate portfolio values, which includes the portfolio premium.
Source: Scope Ratings, transaction documents

[1] In case the final repayment date of a loan is extended by the servicer or special servicer, the notes' legal final maturity date shall be also automatically extended to ensure that the final note maturity date falls five years after the latest final loan repayment date.

Figure 2: Simplified transaction diagram



Source: Scope Ratings, transaction documents

2. Macroeconomic environment

2.1. UK economic outlook

In 2023, the UK economy stagnated, seeing growth of just 0.1% year-on-year, although output ended the year around 1.8% above 2019 pre-Covid levels. Nonetheless, comparatively high wealth levels, a very-diversified economic base and a flexible labour market continue to be significant factors supporting economic resilience. Scope's growth forecasts displayed in Figure 3 account for the fact that, similar to many other developed economies, the UK economy will nevertheless see its finances strained by higher-for-longer inflation and interest rates, as well as households' increasing vulnerabilities to future economic crises. Much of the new Labour government's policies centre around enhancement of output growth – specifically as concerns home building, investing in infrastructure, and enhancing green energy. The government may also seek light changes of the Brexit agreement to curtail export and import frictions with the European customs union. Such actions may bolster economic-growth potential.

Figure 3 summarises past levels of main economic indicators and Scope's forecasts for the UK.

Figure 3: Scope's forecast for the United Kingdom's main economic indicators

Indicator	2021	2022	2023	2024E	2025F	2026F
Real GDP growth (average)	8.7%	4.8%	0.3%	0.9%	1.5%	1.5%
Headline CPI inflation (average)	2.6%	9.1%	7.3%	2.4%	2.5%	2.4%
Unemployment rate (average)	4.7%	3.9%	4.1%	4.2%	4.2%	4.2%
Base rate (end of period)	0.25%	3.5%	5.25%	4.75%	4.25%	3.75%

Source: Scope Ratings, Office for National Statistics (UK), IMF

For further information, see our Sovereign Outlook 2025, dated 5 December 2024.

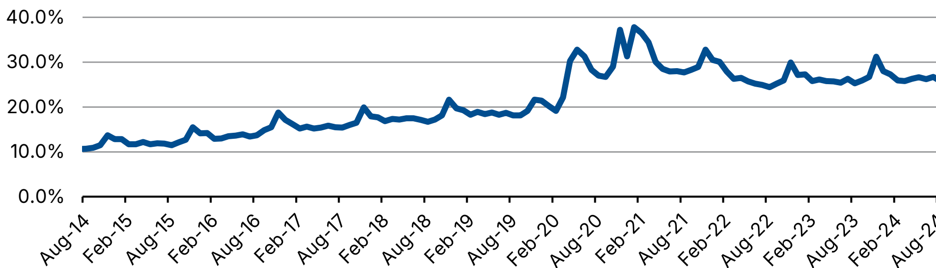
2.2. Industrial and logistics sector

Positive outlook for the industrial and logistics sector

Our outlook is positive on the industrial and logistics sector which continues to benefit from strong fundamentals, with low vacancy rates and inflation-linked rental income, which alleviate the impact of yields reset on valuations.

The UK logistics sector has undergone significant changes over the last 10 years fuelled by the increase of e-commerce, now standing above 25% of total retail sales, and re- or near-shoring following Brexit, and recent geopolitical events.

Figure 4: Internet sales as a percentage of total retail sales

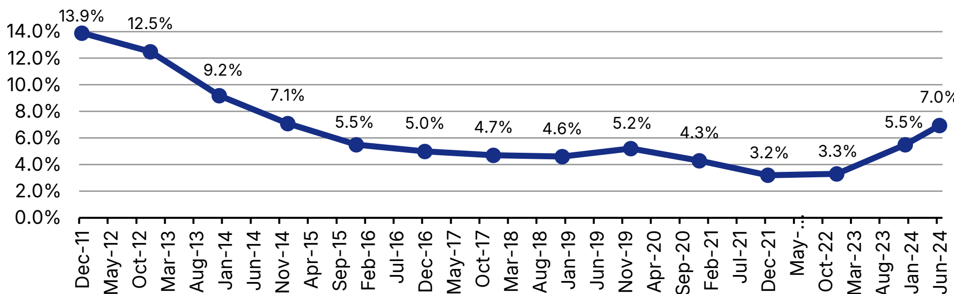


Source: Scope Ratings, ONS

Vacancy rates increasing but remaining below 10%

However, the sector's vacancy rates have increased to 7.0% nationally compared to 3.2 to 5.5% over the last 10 years. This rise is predominantly driven by second-hand stock that no longer meets the modern requirements, including minimum environmental standards, demanded by occupiers.

Figure 5: UK logistics historical vacancy rates

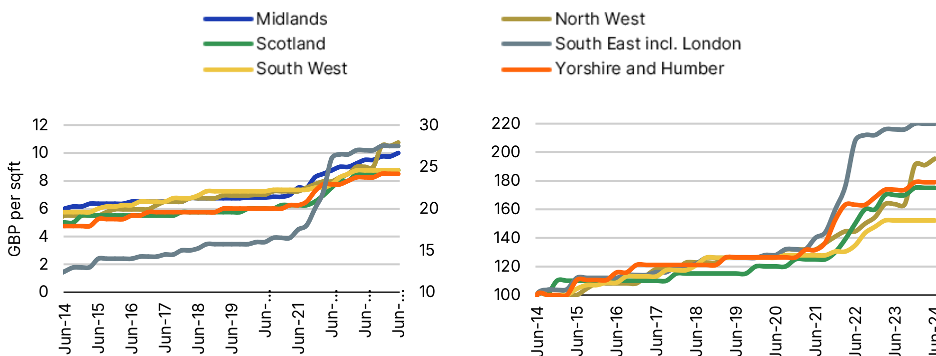


Source: Scope Ratings, Savills

Rental level benefiting from inflation and land scarcity

Despite higher vacancy rates, the sector remains resilient, with strong demand for high-quality, sustainable logistics spaces. Rents have continued to rise, growing by around 6.1% annually in Q2 2024, outperforming historical trends. The rental growth has been particularly robust for newer, grade A facilities, especially in urban areas, where land scarcity and population pressures have kept demand high.

Figure 6: UK logistics rental level (left) and 10-year rental growth (right)

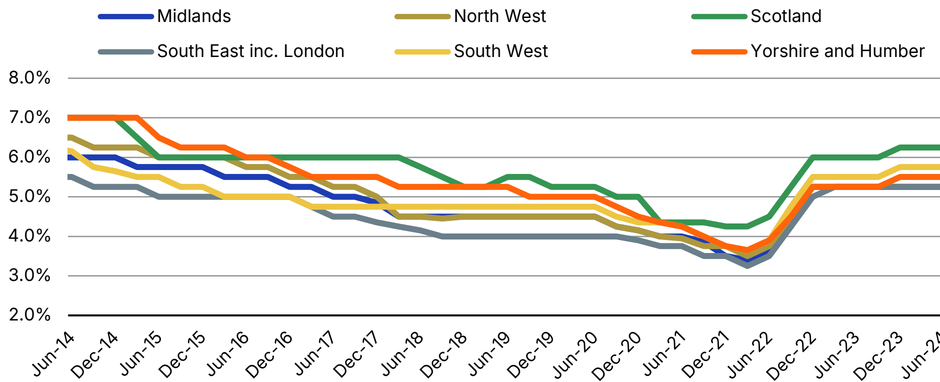


Source: Scope Ratings, CBRE

On the investment side, yields have softened compared to the 2022 record low levels. Average prime industrial yields are now around 5.5% to 6.0%, up from 3.5% in 2022, reflecting the market's adjustment to rising interest rates and economic uncertainty. However, prime locations like London have stabilised after the recent correction, with yields between 5.0% to 6.0%.

Softer yields that have plateaued since December 2022

Figure 7: UK industrial and logistics yield levels



Source: Scope Ratings, CBRE

Industrial outdoor storage (IOS) facilities typically consist of large open spaces with minimal structures, used to store goods, equipment, or vehicles. They cater to industries like construction, logistics, and transportation, and are often strategically located near transportation hubs to optimise efficiency. The demand for IOS has increased significantly, driven by factors such as the ongoing secular change in e-commerce, changes in supply chain strategies, and the need for storage solutions for heavy equipment and vehicles. Rental growth for IOS properties has been notable, with rents in the UK increasing by 47% year-on-year in 2023 according to Savills, reflecting strong demand amidst limited supply. Additionally, the scarcity of suitable sites and zoning regulations continues to challenge the market.

Demand for IOS increasing rapidly driven by e-commerce and supply chain strategies

3. Sponsor overview

Blackstone is the world's largest alternative asset manager, with more than a trillion USD in asset under management[2]. Blackstone's real estate division owns and operates a USD 602bn real estate portfolio[3] across every major geography and sector, including logistics.

Blackstone established Mileway in 2019. Mileway has quickly grown its portfolio through acquisitions and strategic partnerships. By specialising in last-mile logistics real estate, Mileway aims to capitalise on the rapid growth of e-commerce and the increasing importance of efficient supply chain networks. The company seeks to provide essential infrastructure for logistics operators and retailers to optimise their distribution operations and meet the evolving needs of consumers. It is the largest owner of last-mile logistics in Europe, with over 1,600 assets across 10 countries, owning over 150m square feet including a third in the UK alone[3].

Experienced asset managers with a focus on logistics sector

Blackstone established Indurent in 2024 by bringing together the former Industrials REIT and St. Modwen Logistics businesses. Indurent is a provider of industrial and logistics warehousing, providing space for over 2,000 customers, ranging from SMEs to multinationals, and serving all their light industrial, mid and big-box needs, as well as urban logistics requirements across the UK. Indurent's 27m square feet portfolio is managed through its operating platform, which combines technology and a team of experts to maximise efficiency and ensure a customer service of quality.

[2] As of Q2 2024
[3] As of September 2024

Extensive and credit-positive track record in European logistics CMBS

Since 2018, Blackstone has sponsored 17 European CMBS transactions backed by 20 loans secured against logistics properties, including nine transactions in the UK. Blackstone has managed to improve each of these underlying loan's debt yield during their term. Eight of the 20 loans have already repaid or been refinanced, and there has been no default or extension to date (see 10 Peer overview).

4. Asset analysis

4.1. Overview

Loan share mechanism for each class of notes

The transaction is backed by the Indurent and Mileway loans, two GBP-denominated interest-only floating-rate loans with no cross-default and no cross-collateralisation provisions and a maturity date of 15 February 2030.[4] Each rated note has an allocated exposure to each loan and therefore requires receipt of cashflows from both loans to be fully redeemed. For example, 57.8% of class A notes' initial notional is exposed to the Indurent loan and 42.2% to the Mileway loan. More details on the Indurent and Mileway loans can be found in the below figure.

Figure 8: Indurent and Mileway loans overview

	Indurent	Mileway	Total	Structural enhancement		
Loan amount (GBP m)	225.2	164.2	389.5	Loan credit enhancement	N/A	
Loan type	Senior	Senior		Loan liquidity reserve	N/A	
Margin[1]	2.09%	2.09%		Interest rate hedging	100% of notional, strike rate:	
Interest rate type[2]	Floating (SONIA)	Floating (SONIA)			Indurent loan: min. 2.5% Mileway loan: min. 3.5%	
Remaining term to maturity (years)	5.0	5.0				
Lifetime amortisation (p.a.)	0%	0%				
Scheduled maturity	Feb-2030	Feb-2030				
Transaction metrics[3]						
Loan-to-market value	60.7%	62.8%	61.6%	Covenants	Soft	Hard
Interest coverage ratio ('ICR')	min. 1.25x	min. 1.25x	min. 1.25x	Indurent loan LTV	75.7%	After CoC[5]
Debt service coverage ratio	min. 1.25x	min. 1.25x	min. 1.25x	Indurent loan DY	6.0%	After CoC[5]
NOI debt yield	7.0%	7.9%	7.4%	Mileway loan LTV	77.8%	After CoC[5]
NOI investment yield	4.2%	5.0%	4.5%	Mileway loan DY	6.7%	After CoC[5]
Financial occupancy[6] (% of ERV)	63.4%	69.0%	65.8%	Diversification discount	Indurent	Mileway
Physical occupancy (% of GLA)	82.7%	92.2%	88.9%	Asset (#)	0.50%	0.38%
Rental performance (% of ERV for leased units)	78.4%	81.7%	79.5%	Asset type (#)	0.00%	0.02%
WAULB / WAULT[4] (years)	4.3/5.5	4.9/7.8	4.5/6.5	Location (#)	0.13%	0.13%
Collateral details[3]				**Micro location**	**% of market value**	**% of GLA**
Properties (#)	39	24	63	South East	45%	28%
Units (#)	301	47	348	North West	22%	29%
Property market value[7] (GBP m)	353.3	249.0	602.3	Yorkshire	13%	26%
Net floor area (sqft '000)	2,502	4,551	7,053	South West	6%	4%
Freehold properties	34	23	57	Other	14%	13%
Asset type		**% of market value**		**Macro location**	**% of market value**	**% of GLA**
Light industrial	100.0%	67.1%	86.3%	United Kingdom	100%	100%
Industrial outdoor storage	0.0%	32.9%	13.7%			

[1]Calculated as the weighted average margin of the rated notes. [2]Floored at 0%. [3]As at the cut-off date. [4]Weighted average unexpired lease term until first break option, weighted average unexpired lease term until expiry. [5]Determined as the LTV ratio on the CoC date +15%; DY: the higher of i) 85% of the DY at closing, and ii) 85% of the DY on the CoC date. [6]Financial occupancy is defined as the in-place GRI over the total ERV of the properties. [7]Property market value: the aggregate market value of the individual properties, excluding portfolio premium.

Source: Scope Ratings, valuation report, transaction documents

[4] Which may be extended by the servicer or special servicer.

4.2. Secured collateral characteristics

4.2.1. Indurent loan

Diversified logistics property portfolio for Indurent loan

The Indurent loan is secured by 39 industrial properties scattered across the UK with the most exposure to the South East (52% by MV), North West (19%) and South West and Wales (10%) regions. The collateral is predominantly multi-let properties (59% by MV and 56% by GLA) with the remainder being mid-box logistics properties. The portfolio is 83% let by GLA to more than 200 individual tenants. The majority of the vacancy is driven by the new-built assets with practical completion between Q4 2023 and Q2 2024 for which the asset manager is actively looking to lease up. We understand that Indurent is currently in advanced terms negotiations with prospective tenants for a GLA of around 15k sqft. No property is currently under construction.

Figure 9: Indurent loan's geographical and property type breakdown by MV

Source: Scope Ratings, valuation report, transaction documents

Figure 10: Indurent loan's main properties breakdown by MV

Rank	Asset ID	Region	Built[1]	GLA (sqft)	Occupancy	GRI (GBP m)	MV (GBP m)
1	Asset-39	South East	2023	166,062	53.4%	1.07	29.80
2	Asset-25	South East	1990	124,058	100.0%	1.29	26.25
3	Asset-26	North West	2024	153,442	17.1%	0.24	21.13
4	Asset-38	North West	2024	110,386	25.2%	0.33	19.25
5	Asset-7	South East	2004	132,165	100.0%	1.09	17.49
Others			2000	1,816,287	92.0%	13.15	239.39
Total			**2005**	**2,502,400**	**82.7%**	**17.16**	**353.31**

Source: Scope Ratings, valuation report, transaction documents

Figure 11: Indurent loan's main properties photos

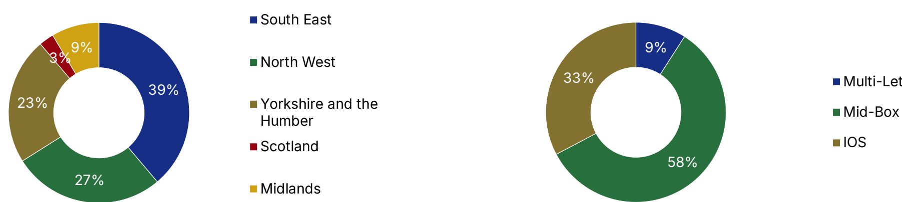
Source: Transaction documents

4.2.2. Mileway loan

The Mileway loan is secured by 24 industrial properties spread across predominantly three regions: South East (39% by MV), North West (27%) and Yorkshire and the Humber (23%). The collateral is predominantly mid-box properties (58% by MV and 32% by GLA), industrial outdoor storage (IOS) facilities (33% by MV and 65% by GLA) with the remainder being multi-let properties. The IOS facilities are predominantly located within close distance of the main ports. The portfolio is 92% let by GLA to 32 individual tenants. The vacancy rate is driven by the mid-box logistic properties which are 88% let compared to the IOS' 94% occupancy and the multi-let properties fully let. No property is currently under construction.

Concentrated portfolio with exposure to IOS properties but strong occupancy level

Figure 12: Mileway loan's geographical and property type breakdown by MV



Source: Scope Ratings, valuation report, transaction documents

Figure 13: Mileway loan's main properties breakdown by MV

Rank	Asset ID	Region	Built[1]	GLA (sqft)	Occupancy	GRI (GBP m)	MV (GBP m)
1	Asset-63	Yorkshire		1,309,059	100.0%	1.85	23.06
2	Asset-40	South East	2000	296,853	100.0%	1.71	20.01
3	Asset-61	North West		783,298	100.0%	0.65	16.90
4	Asset-45	South East	2008	87,181	100.0%	0.73	16.00
5	Asset-51	South East	2011	108,243	100.0%	0.70	13.32
Others				1,966,441	82.1%	7.78	159.72
Total			**2010**	**4,551,075**	**92.2%**	**13.43**	**249.01**

[1] IOS properties do not feature a built-date

Source: Scope Ratings, valuation report, transaction documents

Figure 14: Mileway loan's main properties photos

Source: transaction documents

4.3. Tenancy characteristics

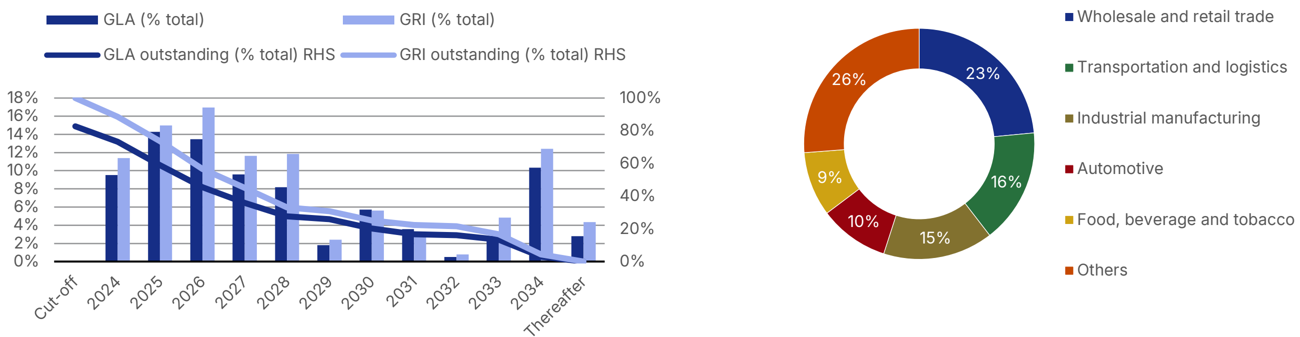
The two loans have different tenancy profiles.

4.3.1. Indurent loan

Granular tenant base but WAULB of 4.3 years, lower than the loan term

Indurent loan benefits from a granular tenant base (more than 200 individual tenants with no tenant representing more than 5% of GRI or GLA) but is exposed to high tenant churn with 17% of the GRI and 16% of the GLA expiring before the end of December 2025. Indurent loan's WAULB is 4.3 years. The top three sectors represent 55% of GRI with the wholesale and retail trade sector accounting for 23% of GRI, transportation and logistics 16% and industrial manufacturing 15%.

Figure 15: Indurent loan's rent expiry profile and sector breakdown by GRI



Source: Scope Ratings, transaction documents

A single tenant in the top 10 by GRI has a WAULB of one year or lower and three tenants show an under-rentedness above 10%. More importantly, the leases signed in 2023 and 2024 are closer to the ERV with an under-rentedness of 13% and 10%, respectively. These levels are well below the portfolio's 23% weighted average under-rentedness according to the valuer.

Figure 16: Indurent leases' under-rentedness breakdown per period and latest years

Period	Pre-2005	2005-2010	2010-2015	2015-2020	2021	2022	2023	2024
GRI (GBP per sqft)	6.99	11.86	6.98	7.29	8.43	8.80	10.86	9.62
ERV (GBP per sqft)	8.75	12.25	9.90	9.82	12.14	11.12	12.44	10.69
Under/over rented	-20%	-3%	-29%	-26%	-31%	-21%	-13%	-10%
WAULB (years)	1.8	1.8	2.0	2.0	3.5	2.4	2.9	7.1

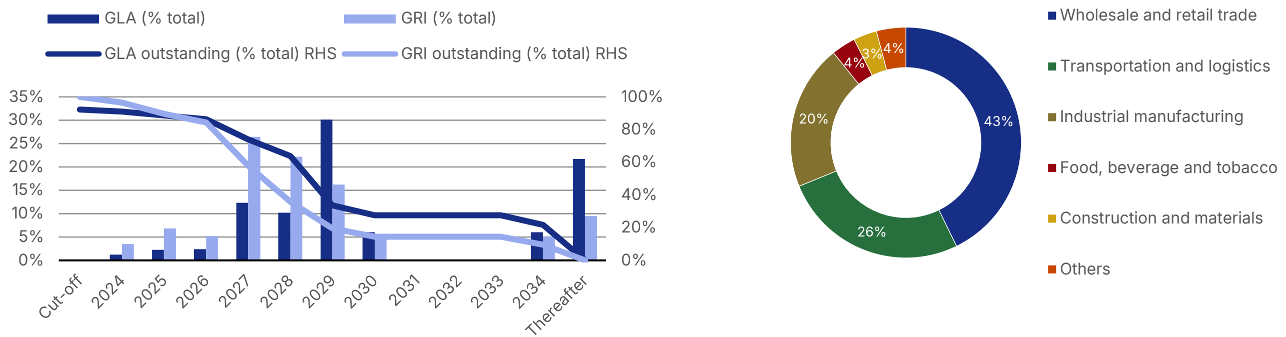
Source: Scope Ratings, transaction documents, valuation report

4.3.2. Mileway loan

Concentrated tenant base but strong WAULB of 4.9 years

Mileway loan's tenant base is smaller than Indurent loan's (32 individual tenants) but benefits from a strong rental income profile with only 6% of the GLA or 16% of the GRI expiring or breaking before December 2026. Mileway loan's WAULB is 4.9 years. While the top three sectors are the same as Indurent loan's, they represent close to 90% of GRI: the wholesale and retail trade sector accounts for 43% of GRI, the transportation and logistics 26% and the industrial manufacturing 20%.

Figure 17: Mileway loan's tenancy roll profile



Source: Scope Ratings, transaction documents

Seven tenants currently weight more than 5% of GRI but not necessarily of GLA as the rent per sqft of IOS properties is significantly lower than for pure logistics assets.

A single tenant in the top 10 by GRI has a WAULB of a year or lower and five of them show an under-rentedness at or above 10%. The latest leases signed in 2023 and 2024 are closer to the ERV with an under-rentedness of 4% and 1%, respectively. These levels are below the portfolio's 16% weighted average under-rentedness according to the valuer.

Figure 18: Mileway leases' under-rentedness breakdown per period and latest years

Period	Pre-2005	2005-2010	2010-2015	2015-2020	2021	2022	2023	2024
GRI (GBP per sqft)	0.00	4.63	6.99	3.67	1.52	7.49	2.44	7.74
ERV (GBP per sqft)	0.00	7.13	8.64	4.69	2.74	8.89	2.55	7.81
Under/over rented	N/A	-35%	-19%	-22%	-45%	-16%	-4%	-1%
WAULB (years)	0.0	3.4	3.5	4.9	7.4	2.1	5.1	8.5

Source: Scope Ratings, transaction documents

4.4. Main structural features of Indurent and Mileway loans

4.4.1. Interest rate and hedging agreements

Interest rate hedged shortly after closing for a minimum period of two years

Both loans pay a floating rate referencing SONIA. To protect against rising rates, the borrowers will enter into interest rate hedge agreements with an eligible hedge counterparty within a month of closing, covering the full outstanding loan balance. The hedge agreements may not expire at the loans' maturity date but will cover a minimum period of approximately two years post-closing. In that case, the borrowers have the obligation to enter into further interest rate hedge agreements. The hedge agreements shall have a maximum hedging rate that is the higher of: i) 2.5% in the case of the Indurent loan and 3.5% in the case of the Mileway loan; and ii) the rate that ensures a hedged ICR of no less than 1.25x at the time the hedge is initiated[5].

4.4.2. Amortisation

No scheduled amortisation unless a CoC has occurred

There is no scheduled amortisation. Upon a CoC, a 0.25% quarterly amortisation of the aggregate outstanding principal amount as at the date of the CoC will start.

4.4.3. Loan covenants

No financial covenants or cash sweep unless a CoC has occurred

There are no financial covenants prior to a CoC. The Indurent and Mileway loans feature cash trap covenants set at 75.7% and 77.8% LTV as well as 6.0% and 6.7% DY, respectively. The cash trap

[5] In case the hedging is in the form of interest rate swap agreement, then if the market prevailing swap rate (fixed leg) at that time is lower than i) and ii), such rate would be the maximum weighted average strike rate.

mechanism allows certain costs to be deducted from the trapped amount. Cash trapped is swept only following a CoC.

4.4.4. Property disposal and release price premium

The loan agreements permit the disposal of properties, subject to the prepayment of principal including a release premium. The release price is 100% of the allocated loan amount (ALA) for the initial 10% by MV, 105% of the ALA for the subsequent 10% and 110% thereafter. The release price following a CoC is 115% of the ALA for all disposals. In most of the scenarios we have envisaged (disposal of the most valuable properties first, the properties featuring the lowest net initial yield, etc.), the overall release price premium ranges between 108.8% and 109.0% for the Indurent loan and 108.5% and 108.8% for the Mileway loans.

Property disposal is permitted with a release price premium estimated at around 109% of the allocated loan amount for each loan

4.4.5. Bank accounts

Both loans' bank accounts are customary for financings of this nature including accounts for rent collection, debt service and cash trap accounts. The bank accounts are all sterling-denominated, and the facility agent has signing rights on the debt service account, the prepayment account, in addition to the cash trap accounts following a CoC. Both loans have cash trap covenant structures that authorise borrowers to use cash trap proceeds not only for corporate expenses, management fees, permitted capex projects, leasing commissions, amongst others, and subject to specific circumstances and annual caps, but also to fund loan buybacks and note purchase. These bank accounts were opened with an eligible bank.

4.4.6. Loan failure event

For both Indurent and Mileway loans, a loan failure event occurs upon the occurrence of a material loan event and/or if the loan has not been repaid in full by the relevant borrowers at maturity date. For as long as such loan failure event is continuing in or following delivery of an acceleration notice, all principal proceeds from the affected loan will be allocated sequentially. As the loans are neither cross-defaulted nor cross-collateralised, proceeds from a non-accelerated loan will continue to be allocated pro-rata.

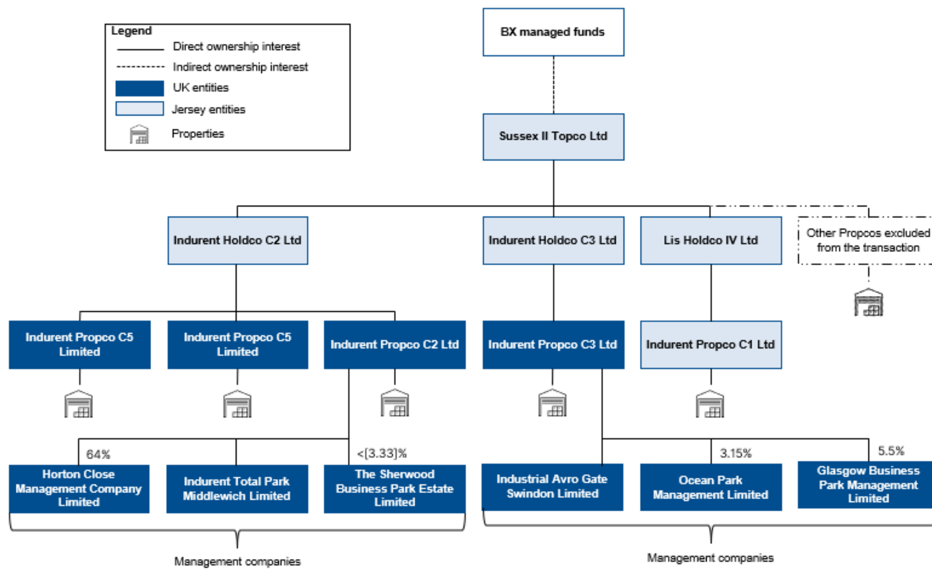
4.4.7. Borrower events of default

The key events of default are standard for a transaction of this nature and include amongst other non-payment, breach of financial covenants (which only apply following a CoC), breach of other obligations (such as hedging requirement, property insurance, etc.), misrepresentation, insolvency and insolvency proceedings, creditor's process, forfeiture with respect to headleases, major damage, and cross-default within each borrower group.

4.5. Borrower structure

Indurent Propco C1 Ltd (incorporated in Jersey) and Indurent Propco C2 Ltd, Indurent Propco C3 Ltd, Indurent Propco C5 Ltd, Indurent Propco C6 Ltd (incorporated in the UK) are borrowers of the Indurent loan. Each borrower under the Indurent loan are UK or Jersey incorporated companies while the Mileway facility only features Jersey incorporated companies.

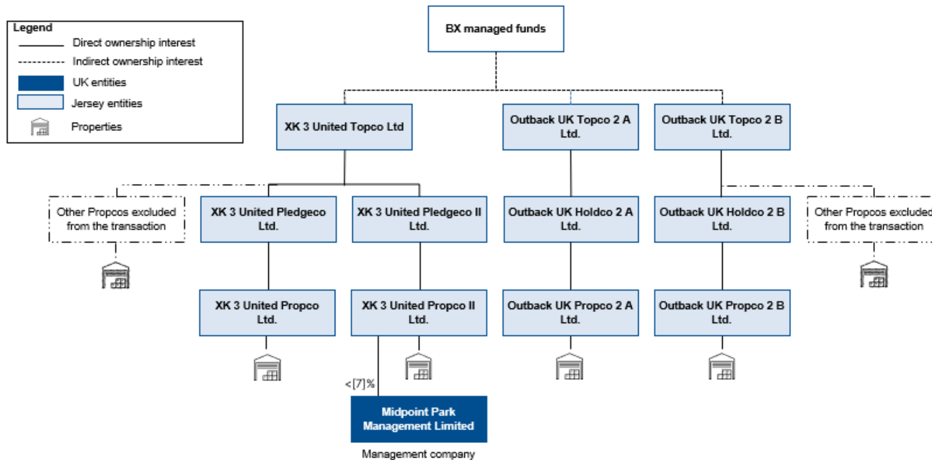
Figure 19: Indurent borrowers ownership structure



Source: Scope Ratings, transaction documents

Outback UK Propco 2 A Ltd, Outback UK Propco 2 B Ltd, XK 3 United Propco Ltd, XK 3 United Propco II Ltd are borrowers of the Mileway loan and all incorporated in Jersey.

Figure 20: Mileway borrowers ownership structure



Source: Scope Ratings, transaction documents

All Indurent and Mileway borrowers are ultimately owned by Blackstone or affiliates of Blackstone. The loans are limited in recourse to the borrower groups and the underlying properties. There is no additional recourse to the sponsor.

5. Key structural features

The CMBS includes five classes of rated notes denominated in GBP and paying a floating rate indexed to SONIA[6], as well as an unrated issuer loan provided by Morgan Stanley Principal Funding Inc., which serves as the risk retention instrument. The issuer also benefits from a GBP 19.0m liquidity facility provided by Bank of America, N.A., London Branch.

[6] SONIA reference rate floored at 0%

5.1. Priority of payments

Prior to the occurrence of a loan failure event or the delivery of a note acceleration notice, the transaction has separate interest and principal waterfalls. Interest is paid sequentially, while principal proceeds are allocated either sequentially, reverse sequentially or pro-rata based on the source of available funds.

Interests and principal on the vertical risk retention issuer loan account for 5% of interest and principal received by the issuer under the loans and will be paid at the same dates when payments are made in respect of the notes.

The priority of payments also features a SONIA excess amount mechanism. After the expected note maturity (17 February 2030), any SONIA interest proceeds exceeding 5.0% due and unpaid to the noteholders are deferrable and subordinated. We excluded SONIA excess, exit payment and pro rata extension step-up amounts from the notes' rated promise and our ratings do not consider non-payment of these amounts as an event of default.

Figure 21: Simplified priorities of payments and available funds pre-note acceleration or loan failure event

Available funds Issuer interest and liquidity facility proceeds	**Available funds** Forced prepayment principal proceeds[1]	**Available funds** Voluntary prepayment principal proceeds[2]	**Available funds** Other principal proceeds
Issuer senior costs and fees	Issuer senior costs and fees	Issuer senior costs and fees	Issuer senior costs and fees
Other senior costs	Other senior costs	Other senior costs	Other senior costs
One quarter of the issuer profit	Redemption of class A notes[3]	Redemption of class E notes[3]	Pro-rata principal redemption of each class of notes[3]
Other counterparty costs	Redemption of class B notes[3]	Redemption of class D notes[3]	
Pay the liquidity facility provider	Redemption of class C notes[3]	Redemption of class C notes[3]	
Pay issuer loan's revenue share	Redemption of class D notes[3]	Redemption of class B notes[3]	
Pay interest on class A notes	Redemption of class E notes[3]	Redemption of class A notes[3]	
Exit payment to the class A notes			
Pay interest on class B notes			
Exit payment to the class B notes			
Pay interest on class C notes			
Exit payment to the class C notes			
Pay interest on class D notes			
Exit payment to the class D notes			
Pay interest on class E notes			
Exit payment to the class E notes			
Pro-rata default interest, pro-rata extension step-up amount to each class of notes			
Rebate of ongoing issuer costs			

[1] Including pursuant to the exercise of a cure right or cash sweep
[2] Including pursuant to property disposals
[3] Up to the amount relevant to the loan's notional slice
Source: Scope Ratings, transaction documents

After the occurrence of a loan failure event, the transaction will switch to a combined interest and principal waterfall, where interest on the affected senior loan portion of the notes is applied sequentially to the notes after the payment of senior costs, followed by sequential allocation of principal receipts. Similarly, upon a note acceleration, the transaction will switch to a combined interest and principal waterfall, but the priority of payments become fully sequential.

Figure 22: Simplified priorities of payments and available funds post-loan failure event or note acceleration

Post-loan failure event All issuer available proceeds	Post-note acceleration All issuer available proceeds
Issuer senior costs and fees	Issuer senior costs and fees
Other senior costs	Other counterparty costs
Other counterparty costs	Pay any amount due to the liquidity facility provider
Pay one quarter of the issuer profit (prior to a security enforcement)	Pay the issuer loan post-acceleration payment amount
Pay the liquidity facility provider	Pay interest and principal due on class A notes
Pay the issuer loan pre-acceleration payment amount	Exit payment to the class A notes
Pay interest on class A notes	Pay interest and principal due on class B notes
Exit payment to the class A notes	Exit payment to the class B notes
Pay interest on class B notes	Pay interest and principal due on class C notes
Exit payment to the class B notes	Exit payment to the class C notes
Pay interest on class C notes	Pay interest and principal due on class D notes
Exit payment to the class C notes	Exit payment to the class D notes
Pay interest on class D notes	Pay interest and principal due on class E notes
Exit payment to the class D notes	Exit payment to the class E notes
Pay interest on class E notes	Pay SONIA excess amount on class A notes
Exit payment to the class E notes	Pay SONIA excess amount on class B notes
Redemption of class A notes[1]	Pay SONIA excess amount on class C notes
Redemption of class B notes[1]	Pay SONIA excess amount on class D notes
Redemption of class C notes[1]	Pay SONIA excess amount on class E notes
Redemption of class D notes[1]	Pro-rata default interest, pro-rata extension step-up amount to each class of notes
Redemption of class E notes[1]	Pay any liquidity subordinated amount
Pay SONIA excess amount on class A notes	Pay the note share of one quarter of the issuer's profit
Pay SONIA excess amount on class B notes	Rebate of ongoing issuer costs
Pay SONIA excess amount on class C notes	
Pay SONIA excess amount on class D notes	
Pay SONIA excess amount on class E notes	
Pro-rata default interest, pro-rata extension step-up amount to each class of notes	
Pay any liquidity subordinated amounts	
Pay one quarter of the issuer profit (following a security enforcement)	
Rebate of ongoing issuer costs	

[1] Up to the amount of the relevant loan's notional slice.
Source: Scope Ratings, transaction documents

5.2. Excess spread and senior costs

There is limited to no excess spread in the transaction as both loans' margin reset to the weighted average margins of their loan share of the notes. Therefore, senior costs are covered by ongoing issuer costs letters with each of Mileway and Indurent's pledgecos covering their portion of the senior costs.

Costs letters cover senior costs and fees

5.3. Liquidity facility

A liquidity facility with a total initial commitment amount of GBP 19.0m is available to fund expense shortfalls, property protection shortfalls, interest shortfalls in connection with interest due on the class A to C notes and associated issuer loan interest shortfalls, according to the relevant priority of payments. Interest shortfalls exclude exit payment and SONIA excess amounts. Property protection shortfalls include all payments deemed necessary by the servicer or special servicer to pay insurance companies or other third parties.

A liquidity facility of GBP 19m is available to cover interest shortfalls on the class A to C notes.

The liquidity facility is provided by Bank of America, N.A., London Branch and will amortise in line with the outstanding class A to C notes' aggregate principal balance. The commitment fee of the undrawn, uncancelled amount of the liquidity commitment is 1.0% per annum. Liquidity drawings

and stand-by drawings bear interest equivalent to SONIA plus a margin of 2.5%. The costs of the liquidity facility are covered by ongoing issuer costs letters.

One-year renewable liquidity facility commitment

The liquidity facility agreement contemplates a one-year commitment which can be extended by the issuer. The liquidity facility provider may, however, decline the extension request. In that case, the issuer shall use its best endeavours to arrange for a replacement liquidity facility provider.

The liquidity facility provides adequate liquidity coverage for the class A notes, which interest payments are not deferrable.

5.4. Available fund cap and interest deferral

Available fund caps on the class E notes

Interests due and payable on the class E notes are subject to a cap equal to the lesser of: i) the interest amount due on the class E notes; and ii) the difference between the available proceeds (other than principal proceeds) and the sum of all amounts paid in priority to the class E notes in accordance with the interest priority of payments.

Interest shortfalls due on any class of notes other than the most senior class of notes (taking into account the class E notes available funds cap) can be deferred and will accrue interest at the same rate as that payable in respect of the related class of notes.

Interests on all the classes of notes but the most senior are deferrable

As a result, the class A notes' assigned rating reflects the timely payment of interest and the ultimate repayment of principal on or before the final maturity date. Class B to E notes' assigned ratings reflect the ultimate payment of interest and principal on or before the final maturity date and timely payment of interest once the instrument becomes the most senior class of notes outstanding.

5.5. Issuer events of default and security package

Standard issuer events of default

The key events of default are standard for a transaction of this nature and include amongst other non-payment of interest on the most senior class of notes, non-payment of interest or principal on the final note maturity date, issuer defaults in the performance or observance of any other obligation, such as incorrect representation or warranty.

The issuer security package is customary for transactions of this nature. It mainly includes a first-ranking mortgage over each property, pledges over the borrowers' groups' accounts, the assignment of rights and receivables (insurance and proceeds from leases) and security over the shares in each obligor.

6. Cash flow analysis and rating stability

We analysed the transaction's cash flows as per the approach detailed in our CRE Loan and CMBS Rating Methodology. We derived the expected loss, expected weighted average life and default probability of the rated instruments by using rating-scenario dependent assumptions.

Term default risk captured through Monte Carlo simulation based on tenants' individual credit quality

Our cash flow modelling considers contracted rental income, and, after lease expiries or tenants' default followed by a void period, an estimated rental income, which is the then-current market rent reduced by haircuts. Tenant solvency in each period is determined by a Monte Carlo simulation which factors in the tenants' individual credit quality. The cost assumptions take into account characteristics of the properties and reflect void costs as well as maintenance capex. The calculated value of each property equals the capitalised net cash flow at an appropriate capitalisation rate using an income valuation approach. The recovery proceeds in case of a default equal to the modelled value of the property portfolio at the end of the foreclosure period net of liquidation costs.

The portfolio's market value is modelled by discounted cash flows

The cash flow analysis also considers the transaction's liability structure, the interest payable on the notes and the liquidity facility.

6.1. Main assumptions

We assessed the tenants' credit quality based on public ratings where available and assumed BB- credit quality for unrated tenants. The tenants' assumed credit quality ranges from BB- to AA-, with an BB- equivalent weighted average credit quality.

We incorporated the valuer's ERV into our analysis. With regards to the contracted rental income, we also considered lease renewals completed post cut-off date. We considered a 10% structural vacancy limiting rental income and property value in the long term. We did not model Indurent and Mileway's cash trap covenants.

Our cost assumptions factor in some maintenance capex in addition to void costs otherwise the leases are considered triple net and the ongoing issuer costs letter to cover senior costs.

Figure 23: Key loan-specific assumptions under assigned rating stresses

Parameter	Loan	BB-	BBB-	A	AA	AAA
Discount rates	Indurent	9.6%	10.4%	11.5%	12.3%	12.9%
	Mileway	9.8%	10.7%	11.8%	12.6%	13.2%
Rental value haircut		7.5%	13.1%	20.6%	26.3%	30.0%
Structural vacancy rate		10.0%				
Non-recoverable costs		N/A				
Non-rated tenant credit quality		BB-				
Void period (months)		9	12	18	21	24
Void costs[1]	Indurent	GBP 1.17 per sqft per year				
	Mileway	GBP 1.27 per sqft per year				
Leasing commissions		3 months				
Maintenance capex		GBP 0.25 per sqft per year				
Senior costs		N/A (covered by the ongoing issuer costs letter)				
Foreclosure period		60 months				
Liquidation costs		1.5% of the outstanding loan balance[2], plus 8.0% of modelled market value for transaction costs, plus additional 1.0% of modelled market value for special servicing costs				

[1] Applies only during the void period
[2] Capped at GBP 1.7m
Source: Scope Ratings

Figure 24: Scope metrics under assigned rating stresses

	BB-	BBB-	A	AA	AAA
Scope value[1] (GBP m)	475.4	409.2	333.4	291.2	263.6
MVD[2]	-21%	-32%	-45%	-52%	-56%
Scope NTV					
Class A	44.4%	51.6%	63.3%	72.5%	80.1%
Class B	51.7%	60.0%	73.7%	84.3%	
Class C	59.2%	68.8%	84.5%		
Class D	71.2%	82.7%			
Class E	81.9%				

[1] Scope value is defined as the combined stressed value of collateral properties as calculated by Scope.
[2] MVD stands for market value decline and compares Scope value to the valuer's aggregate portfolio valuation.
[3] Scope NTV is defined as note's notional divided by Scope value.
Source: Scope Ratings

6.2. Rating sensitivity

We tested the resilience of the assigned ratings against deviations in certain input parameters. This analysis has the sole purpose of illustrating the sensitivity of the credit ratings to input assumptions and is not indicative of expected or likely scenarios. The following figure shows how the results for the rated notes change compared to the assigned ratings for each scenario.

Figure 25: Sensitivity to deviations in main assumptions

Scenario	Deviation from assigned rating in notches				
	Class A	Class B	Class C	Class D	Class E
20% higher rental value haircut	0	0	0	0	0
20% structural vacancy	-1	-1	0	-1	-1
20% higher capitalisation rates	-2	-1	0	0	0
Tenants' credit quality three notches lower	0	0	0	0	0

Source: Scope Ratings

7. Sovereign risk

Sovereign risk does not limit the notes' rating. The risks of an institutional framework meltdown or legal insecurity are not material for the ratings.

Sovereign risk does not limit the notes' rating.

For more insight into our fundamental analysis of the UK economy, see our press release dated 11 October 2024 ('Scope affirms United Kingdom's AA long-term ratings and maintains a Stable Outlook').

8. Counterparty risk

The transaction is exposed to the following counterparties: i) Blackstone as sponsor and ultimate owner of the ongoing costs letters guarantors, and Mileway and Indurent as asset managers; ii) CBRE as primary and special servicer; iii) U.S. Bank Europe DAC as issuer account bank, agent bank and principal paying agent; iv) an eligible counterparty as interest rate cap provider; v) Bank of America, N.A., London Branch as liquidity facility provider; vi) U.S. Bank Global Corporate Trust Limited as issuer cash manager, information agent; and vii) U.S. Bank Trustees Limited as note trustee, issuer security trustee.

The transaction's counterparty risk supports the rated instruments' rating.

Counterparty risk is mitigated by the credit quality of the counterparties, structural mechanisms such as replacement rating triggers. We have assessed the credit quality of the counterparties considering public information and our own ratings or assessments where available.

We do not consider any counterparty exposure to be excessive.

Blackstone is the ultimate owner of the pledgecos which have agreed to cover the senior costs, default interest and each loan ongoing issuer costs via the cost letters for each loan. Blackstone's credit quality (rated A+ by both S&P and Fitch) mitigates the counterparty risk.

CBRE is appointed servicer and special servicer. Loan servicing must be performed in the best interests and for the benefit of the issuer and with a customary standard of care. The appointment of the servicer and special servicer can be terminated on request of the issuer upon a servicing termination event, with the consent of the representatives of the noteholders and with prior notification of the rating agencies. However, no termination or resignation of the servicer or the special servicer will be effective until a replacement servicer or special servicer has been appointed. CBRE's long-standing experience and contractual provisions mitigate the operational risk linked to the servicer and special servicer roles.

Servicing risk is mitigated by CBRE'S experience and contractual provisions.

U.S. Bank Europe DAC is the issuer account bank, agent bank and principal paying agent. Replacement provisions, limited time exposure, and U.S. Bank Europe DAC's credit quality (rated

A1, A+, A+ by Moody's, S&P, and Fitch, respectively) are effective at mitigating U.S. Bank Europe DAC's counterparty risk.

Financial counterparty risk linked to the interest rate cap provider is mitigated by contractual provisions such as minimum credit quality requirements, collateral posting and replacement mechanisms.

Bank of America, N.A., London Branch is the liquidity facility provider. Bank of America N.A.'s credit quality (rated A+ and AA by S&P and Fitch, respectively) effectively mitigates the counterparty risk.

9. Legal and tax analysis

The transaction is governed by Jersey, English, Scots and Irish laws. The legal advisers are Ogier (Jersey) LLP in regard to Jersey law, Clifford Chance LLP in regard to English law, Sheperd and Wedderburn LLP in regard to Scots law and Arthur Cox LLP in regard to Irish law. We have received the transaction's legal opinions, related to both underlying loans and the CMBS. Together with the legal items covered in the representations and warranties section of the offering circular, which are customary for financings of this nature, they provide adequate comfort pertaining to status, binding obligations, no-conflict with other obligations, powers and authority, validity and admissibility in evidence, no default, taxation, and good title to property, among other things.

10. Peer overview

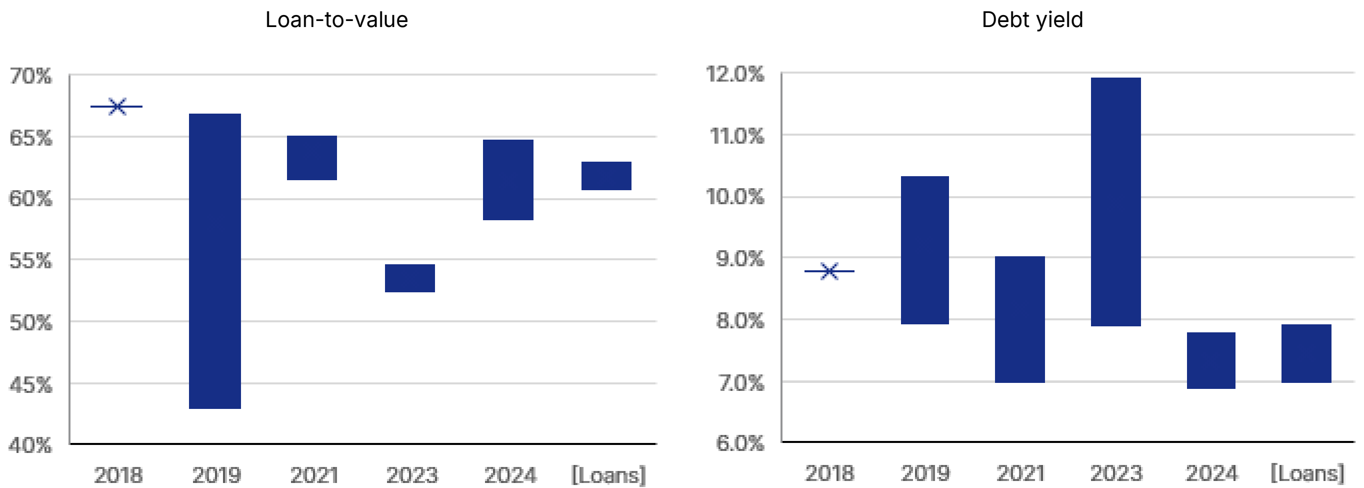
We compare the transaction's metrics with UK logistics CMBS transactions issued since 2018 (10 transaction for 13 underlying loans, see Appendix I).

The transaction's underlying loans' metrics are generally in line with the 2024 transactions but slightly worse than the previous vintages reflecting a tighter structuring: the LTVs[7] of around 65% are higher than the last four years and debt yields, while higher than loans previously originated in 2024, are at the low end of the last six years. Only three loans have exhibited a debt yield at or below 8.0% between 2018 and 2023: the senior loan of Taurus 2019-2 UK (8.0% at closing which increased to 11.2% before refinancing), United IV of Taurus 2021-4 UK (7.0% at closing and 9.3% at the latest reporting date), and the senior loan of Last Mile Logistics 2023-1 UK (7.9% at closing and 9.2% at the latest reporting date).

Vacancy rates are also at the highest compared to the last four years (excluding 2024 issuances) with the highest closing vacancy at 9.30% for the senior loan of Last Mile Logistics Pan Euro Finance since 2020. The initial vacancy can be attributed mainly to the properties which have been completed in the last 12 months, including three of them completed in Q2 2024. Vacancy is expected to reduce once those are let.

[7] Considering market values without portfolio premium.

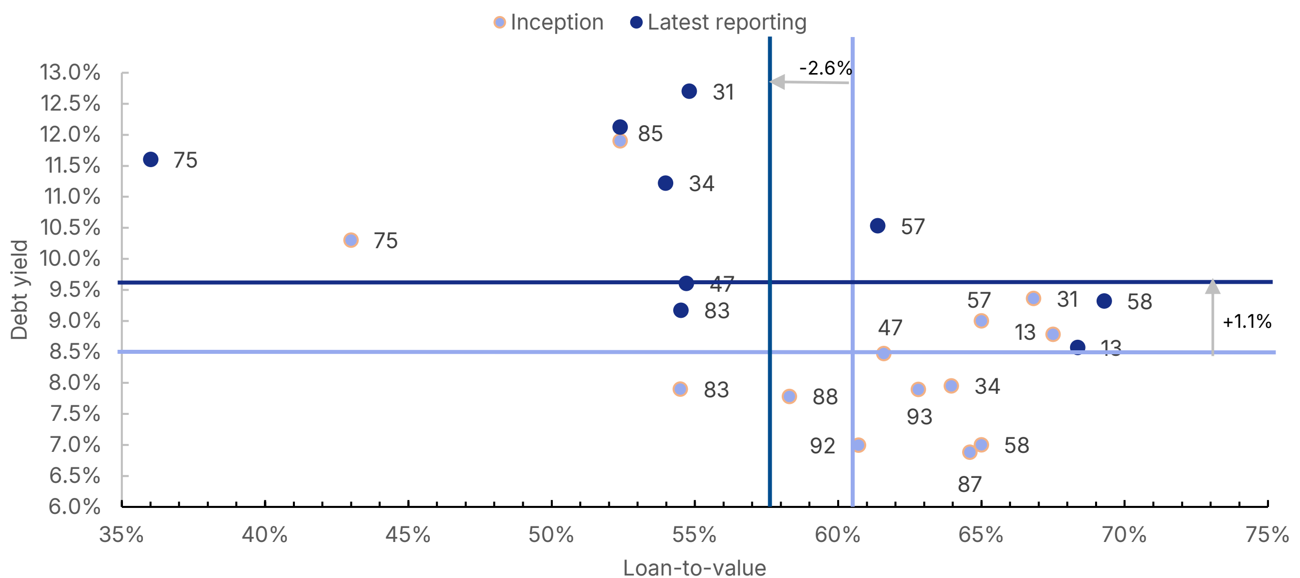
Figure 26: UK logistics loans' LTV and DY metrics by year of issuance



Source: Scope Ratings, Scope CMBS tracker

As highlighted in the sponsor review, Blackstone has shown its ability to increase the DY of all the UK loans securitised with the average DY by deal count increasing by a percentage point from 8.5% to 9.6%. Furthermore, the average LTV decreased 2.6 percentage points from 61.0% to 58.3% with only two loans showing an increase: the senior loan of BAMS 2018-1 and the United IV loan of Taurus 2021-4 UK.

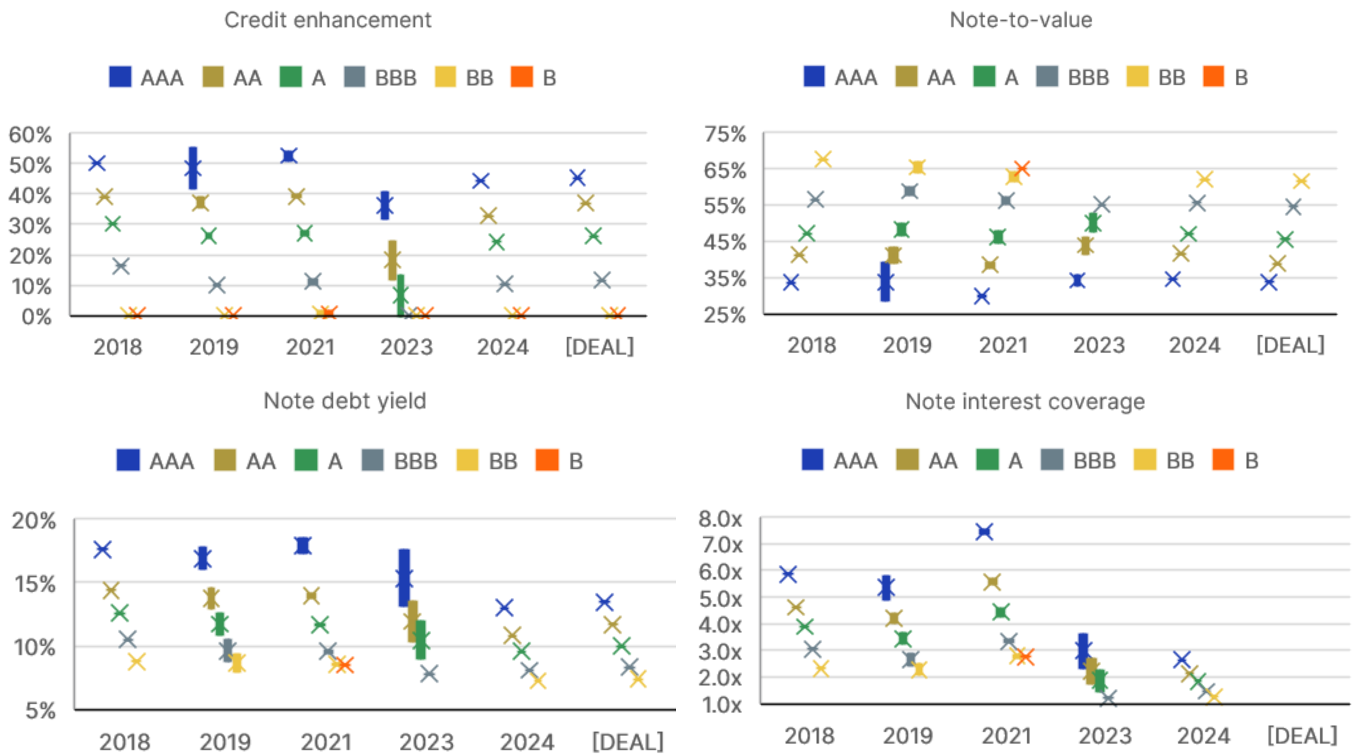
Figure 27: UK logistics loans' LTV and DY metrics[1]



[1] The numbers on the chart correspond to the Loan IDs provided in Appendix I.
Source: Scope Ratings, Scope CMBS tracker

Regarding the rated notes, the credit enhancements are within the range of the 2024 CMBS The. note-to-value ratios are in the low end of the peer range of comparable CMBS classes reflecting an above average equity cushion. Respective classes' debt yield metrics are, however, in the low end of the peer range, which reflects a lower stabilised rental income. Nevertheless, these remain commensurate with the 2023 and 2024 CMBS.

Figure 28: UK logistics CMBS' metrics by year of issuance



Source: Scope Ratings, Scope CMBS tracker

11. ESG considerations

Environmental

Flooding risk covered by insurance policies

We consider this transaction to have moderate environmental risk, driven by the transaction's exposure to physical climate and carbon transition risks. Natural disasters such as floods can damage individual properties, although the risk is mitigated by the diversity of locations and loan requirements to maintain comprehensive insurance. The Red Flag report in connection with the Mileway portfolio notes that some properties have an elevated risk of flooding. As a mitigant, the certificates of title for such properties confirm that the insurance policy for the relevant property covers flooding.

Sponsor's commitment to EPC upgrades

Commercial real estate properties may also currently or in the future face carbon transition risk from local regulations that can lead to costs from energy efficiency compliance and/or penalties for non-compliance. 99.3% of the properties by GLA have an EPC of E or higher, which is the current UK minimum energy efficiency standard (MEES) applicable in England and Wales to market or renew leases. Regarding the assets with EPCs below E (0.7% by GLA), the sponsor has stated its commitment to achieving an EPC B minimum rating within five years with EPC upgrades already budgeted. We note that by 2027, the UK (England and Wales) is expected to increase the MEES for commercial properties to C.

Social

Social credit risks for this transaction are low. Social credit risks include demographic and societal trends. Industrial logistics properties benefit from the rise in e-commerce, which is a secular change in social behaviour.

Governance

We consider governance risks for this transaction as medium. The transaction benefits from experienced counterparties who participated in similar transactions in the past and from the representations and warranties covered by the transaction documentation.

Covenant-lite Mileway and Indurent loans

We note that the underlying loans exhibit a covenant-lite legal structure with an absence of default mechanisms prior to a permitted change of control. Loan cash trap mechanisms allow certain costs to be deducted from the trapped amount. The loans also embed a dynamic release premium that is lower than the observed average release premium for similar transactions, creating exposure to selective asset disposal risks.

At the CMBS level, in a scenario where only one loan defaults, only the affected loan's principal revenue will be distributed sequentially. This feature makes the structure weaker compared to multi-loan European CMBS transactions that switch to fully sequential upon one loan being affected. We also note that interest payments on the issuer loan, the vertical risk retention instrument, are senior to the rated notes' interest payments.

12. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor the transaction's performance based on investor reports and tenancy schedule updates provided by the relevant counterparty as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

13. Applied methodology and data adequacy

We analysed this transaction using our CRE Loan and CMBS Rating Methodology dated November 2023, General Structured Finance Rating Methodology dated March 2024, and Counterparty Risk Methodology dated July 2024. All are available on our website, www.scoperatings.com.

The issuer and its agents have provided us with the following information in the context of the rated transaction.

Figure 29: Main documents and data sources received

Main documents and data sources received
Offering circular
Rating agency presentation
Data tape (tenancy schedule)
Final valuation report – November 2024
Structure charts
Senior facility agreements
Transaction documents
Red Flag reports
Technical due diligence reports
Phase 1 reports
Legal opinions
ABS due diligence 15E report

Source: Scope Ratings

We complemented our analysis with historical performance data on comparable transactions and publicly available information. We have also participated in site visits organised on 28 October and 1 November 2024. The visited ten properties cover almost 30% of the portfolio by market value.

Appendix I Peer transactions overview

Figure 30: UK logistics CMBS transactions and securitised loans

Transaction name	Loan ID	Loan Name	Reporting date	Status
BAMS 2018-1	13	*Senior*	Feb-22	Repaid
ELOC No. 34	31	Scorpio	Nov-23	Repaid
Taurus 2019-2 UK	34	*Senior*	Nov-23	Repaid
Logicor 2019-1 UK	75	*Senior*	Aug-24	
Taurus 2021-1 UK	47	*Senior*	Aug-24	
Taurus 2021-4 UK	58	United IV	Aug-24	
Taurus 2021-4 UK	57	Fulham	Nov-23	Repaid
Stark Financing 2023-1	85	*Senior*	Aug-24	
Last Mile Logistics 2023-1 UK	83	*Senior*	Aug-24	
UK Logistics 2024-1	87	St Modwen	Aug-24	
UK Logistics 2024-1	88	Mileway	Aug-24	
UK Logistics 2024-2	92	Indurent		
UK Logistics 2024-2	93	Mileway		

Source: Scope Ratings, CMBS tracker

Analysts

Adam Plajner
+44 20 3936 8099
a.plajner@scoperatings.com

Benjamin Bouchet
+33 1 86 26 18 76
b.bouchet@scoperatings.com

Investor Outreach

Keith Gilmour
+44 20 3936 8151
k.gilmour@scopegroup.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
scoperatings.com

Phone: +44 20 7824 5180
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts

Disclaimer

© 2024 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, Scope Innovation Lab GmbH and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.