EuroRating affirmed 'A-' long-term credit rating to a secured fixed rate Sukuk securities issue of the company Pentavirate Securities Securitisation Fund (Luxembourg)

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for a Sukuk securities issue
Issuer	Pentavirate Securities Securitisation Fund (Luxembourg)
Type of the rated instruments	secured fixed rate Sukuk securities
Sukuk series ISIN	to be provided
Type of the credit rating	long-term, international scale
Date of rating update	19 February 2024
Rating level	A-
Rating outlook	stable

The presented credit rating is a rating for a Sukuk series (ISIN: to be provided) and relates to the issue of up to $100 million secured fixed rate Sukuk denominated in USD, with the maturity term in 2028 (with a possible extension to 2030). The Sukuk is issued (or to be issued) by the company Pentavirate Securities Securitisation Fund ("Pentavirate Securities" or the "Issuer"), which is a special purpose vehicle (SPV) being a securitisation fund under Luxembourg law, established and represented by its management company Pentavirate Management Sarl ("Pentavirate Management"), a limited liability company.

Pentavirate Securities was incorporated for a specific purpose – to raise funds for the company PropCo (Delaware SPV) ("Property Owning LLC") in the USA, which intends to invest in real estate assets and/or pools of real estate assets that it believes will be suitable for purchase in the USA.

The affirmed 'A-' credit rating does not relate to the credit risk (or probability of default) of the Issuer. The rating concerns the risk of an ultimate loss of a part or all of the Sukuk's principal amount and the rentals (at a fixed rate 5% per annum) by the Sukuk holders in the event of a default of the Issuer.

Key rating drivers

Real estate with existing cash flow: Pentavirate Securities offers a Sukuk fixed-income backed by income-generating existing commercial real estate in the United States.

Solid collateral quality: The Issuer's liabilities to Sukuk holders will be 100% secured on a portfolio of U.S. based self-storage facilities. Due to an increased resilience to economic shifts and a unified type of those assets, they are characterised by a relatively high liquidity and stability of their value.

No capital reserve of the Sukuk issuer: Pentavirate Securities Securitisation Fund is an SPV company, with very little or no equity of its own. This means that ability to repay the Sukuk (annual rentals and nominal value at maturity) will depend entirely on the financial performance and cash flows generated by PropCo (Delaware SPV).

Diversification strategy: PropCo (Delaware SPV) will invest in a portfolio of multiple self-storage projects across different U.S. cities, with individual project values ranging from approximately $10 million to $25 million. This strategy aims to enhance the diversity of the overall portfolio (which will be securing the Sukuk issue), thereby partially mitigating the risk of revenue shortfalls from any individual project.

Risk of property value decline: The Issuer's assets will consist almost entirely of loans extended to PropCo, fully secured by a portfolio of U.S. self-storage properties. However, given the Issuer's limited additional assets (and equity) to mitigate the risk of a decline in the value of the loans' collateral, it pose a potential concern. At Sukuk maturity, there is a risk that the proceeds from the sale of these properties might not meet their initial purchase prices and the nominal Sukuk value.

Pre-selected investment projects: A full overview of financials and pro forma outlines on targeted assets within the Sukuk will be known to the management and investors before they invest in Sukuk. Pentavirate Management has thoroughly researched the market and has identified a pool of investment opportunities in which it plans to utilize the funds raised through the Sukuk issue. Detailed cash flow analyses have been conducted for each project to assess their financial viability.

Conservative approach to financial projections: The management has adopted conservative assumptions in the financial projections. They plan to charge approximately $1.10 per square foot of storage units in 2024, which is below the average market rent of $1.37. Additionally, they anticipate renting out 90% of the storage units, which aligns closely with the U.S. national average occupancy rate for storage facilities. Furthermore, the assumed annual revenue growth of ca. 3% can be assessed as reasonable, particularly considering the projected increase in the U.S. inflation rate during the forecasted years. These conservative assumptions aim to mitigate potential overestimations and present a more prudent picture of the investment's financial performance.

Satisfactory debt service coverage ratio: The ratios derived from the company's financial forecasts, namely the cash flow available for debt service (CFADS) and the debt service coverage ratio (DSCR), can be regarded as satisfactory. This assessment is particularly notable considering the conservative assumptions utilized in the financial projections.

Very large and steadily growing U.S. self-storage market: The self-storage market in the U.S. is very developed (the industry's total annual revenue exceeds $40 billion) and steadily growing. While other real estate asset classes, even those previously considered stable (as office spaces), have taken heavy hits during the Covid-19 pandemic, the self-storage market has been insulated from the impact of broader market changes. It is expected to further grow in an annual average growth rate of 5.5%.

Experienced management team: The Pentavirate Management team possesses extensive knowledge, experience and a proven track record in asset management, asset improvement and financial reporting. This experience enables the team to provide full transparency and make strategic selections for the most attractive investments.

Diverse customer base: Unlike asset classes like office or retail, which typically have a few large tenants occupying a single location, self-storage facilities have a broad customer base, providing an unusual level of stability.

No history of operations: The Issuer, the management company and PropCo (in respect of the Sukuk) are newly incorporated companies. None of those companies has a history of operations, nor revenues or significant assets.

Potential economic recession: In case if the U.S. economy will significantly slow down (or enter into a recession) for a prolonged period and the unemployment rate will rise sharply, the storage spaces can move from being a necessity to a discretionary expense for many tenants. That could result in a potential increase of vacancy rates and would translate to PropCo revenues below the forecasts.

Stable rating outlook

The stable outlook assigned to the credit rating means, that according to current estimates of the EuroRating credit rating agency the rating should most probably remain unchanged in the horizon of the next 12 months.

Major factors that could lead to a rating change

To the most important potential factors that (individually or collectively) could have a positive impact on the assigned credit rating, EuroRating includes: successful investments in selected projects currently generating cash flows; generation of net profits and quick strengthening of the capital position of PropCo and Pentavirate Management; increase in cash reserves and maintenance of a very good liquidity position, creating a substantial buffer beyond Sukuk rental payments and ensuring timely repayment of the Sukuk nominal value (better than forecasted CFADS and DSCR ratios); and an appreciation in the market value of the real estate owned by PropCo.

To the potential factors that could negatively influence the current level of the credit rating, EuroRating includes, among others: a much lower than initially planned Sukuk issuance, leading to a reduced number of investment projects (which would mean a lower than assumed diversification of investments); PropCo generating weaker than forecasted rental income and net profits (in particular – generating losses); actual cash flow available for debt service (CFADS) and debt service coverage ratio (DSCR) falling below the currently conservative forecasts; very unfavourable economic conditions, causing an increase in vacancy rates for self-storage facilities, as well as a potential decline in the market value of self-storage properties; any other substantial threats to the timely payment of Sukuk rental as well as the ultimate repayment of the Sukuk nominal value at maturity.

BEST/WORST RATING SCENARIO

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at:
https://www.eurorating.com/en/ratings/statistics (annexes No. 6-9).

Company profile

Registration data

The Issuer: Pentavirate Securities Securitisation Fund, represented and managed by Pentavirate Management Sarl. **Registered office:** 2C, Parc d'Activités, L-8308 Capellen, Grand-Duchy of Luxembourg. **Company registration number (Luxembourg): O42. Legal Entity Identifier: 2138004BXL9F8ASB8S87**

Management Company: Pentavirate Management Sarl *(société à responsabilité limitée).* **Registered office**: 2C, Parc d'Activités, L-8308 Capellen, Grand-Duchy of Luxembourg. **Company registration number (Luxembourg): B270888.**

Pentavirate Securities Securitisation Fund ("Pentavirate Securities" or the "Issuer") is a special purpose vehicle and was established by Pentavirate Management Sarl (which acts as management company to the Issuer) for a specific purpose – to raise funds (via Sukuk issuance) for the company PropCo (Delaware) ("Property Owning LLC").

As an SPV, Pentavirate Securities is separated from the management company, ensuring that Pentavirate Management Sarl would not be liable for Pentavirate Securities' financial obligations.

Prior to Sukuk issuance Pentavirate Securities hasn't conducted any operating activity and had no revenues or earnings, as well as no assets. At the moment of Sukuk issuance all proceeds from Sukuk will be transferred immediately to Property Owning LLC, which will be responsible for liabilities to Pentavirate Securities with its own assets.

As Pentavirate Securities only asset will be the Sukuk proceeds passed to PropCo (Delaware), the Issuer's ability to pay annual rentals at a fixed rate of 5% and final repayment of the Sukuk will be fully dependent on the financial performance and cash flows generated by the Property Owning LLC. Therefore, the credit risk analysis contained in this report focuses primarily on PropCo (Delaware).

Shareholder structure

Chad Gleason is the founder, the investor and the sole shareholder of the company.

Pentavirate Management Sarl – top managers team

Chad Gleason, CCIM – Managing Director: Mr Gleason is leading the firm's operations across the globe. He previously led SVNRaven Commercial Real Estate, a CRE development and consultancy firm based in Bellevue, Washington, and a member of the SVN Shared Value Network. Mr Gleason holds the prestigious CCIM (Certified Commercial Investment Member) designation which is awarded to elite CRE professionals in advanced real estate finance and market analysis. He was named the 2018 Commercial Real Estate Broker of the Year by the Washington Association of Realtors.

F. Craig Morris – Director of Global Real Estate: Mr Morris leads the acquisitions and operations teams, which delivery a value-add strategy for each individual asset in order to deliver the safest asset-backing in the marketplace. He is the Founder of Axxcess Realty Advisors, a real estate innovation firm that currently oversees self-storage facilities across the country. Additionally, he is a leader at many other real estate companies, including AC Self Storage Solutions, an advisor, owner and manager of self-storage assets, portfolios and funds. Mr Morris was previously Executive Vice President, Global Client Solutions, for Cushman & Wakefield.

Mike Randall, CCIM – Director of Real Estate Investment: Mr Randall has over 40 years of real estate investment experience. Prior to opening his own firm in 2010, Randall Realty Advisors, he spent 27 years at the Institutional Investment Group of Grubb & Ellis Company in Southern California, where he ultimately held the position of Co-Chairman. He has represented some of the West Coast's largest property owners in the acquisition and disposition of their major investment properties, including Bank of America, Citibank, CalSTRS, CalPERS, Samsung, Shin Yen Investments, Heitman Properties, and UBS Realty Investors. Mr. Randall holds the CCIM designation (Certified Commercial Investment Member) as well as past or present professional affiliations with NAIOP, ICSC, and ULI.

Suria El-Bietar – Director of Risk Management: Ms El-Bietar qualifies acquisition targets, manages the financial due diligence for assets, and devises the long-term portfolio strategy for Pentavirate's global funds. A specialist in scaling and operating international portfolios, she has worked with Fortune 500 companies throughout her career to manage their real estate expansion. Previously, she was Managing Director at SVNRaven Commercial Real Estate, where she worked with cross-functional corporate real estate teams, building budgets for business units, and optimizing value through lease administration, capital upgrades and disposition. Ms El-Bietar was also an original team at Starbucks Coffee International, where she spearheaded the opening of more than 22 international markets in Asia, South America, Middle East and Europe.

Islamic finance terminology

- **Sukuk** – an Islamic financial certificate, similar to a bond in Western finance, that complies with Islamic religious law commonly known as Sharia;
- **Sukuk Al Ijara** – rental or lease contracts or conventional lease-revenue bonds. With these Sukuk, the borrower's tangible asset is 'sold' to the financier and then 'leased' back to the borrowers. The borrowers then make regular payments back to the financiers from the income stream generated by the asset.
- **Wakala** – an agency or a delegated authority where a muwakkil (principal) appoints the wakil (agent) to carry out a specific job on behalf of the muwakkil;
- **Wakala agreements** – agency agreements where the muwakkil and the wakil share in the profit and risk of investment loss. Any guarantee on minimum return is not Sharia compliant.

Business model

Pentavirate Securities (the "Issuer"), a securitization fund incorporated in Luxembourg, will periodically issue Sukuk Ijara. Investors will have the opportunity to subscribe to these Sukuk. Additionally, Property Owning LLC (PropCo – a Delaware-based LLC that will be established to own the relevant assets pursuant to the terms of the sale and purchase agreement) will identify certain real estate assets and/or pools of real estate assets (referred to as the "Assets") that it believes will be suitable for purchase.

Pentavirate Securities and Property Owning LLC will enter into a Wakala agreement. In this arrangement, the Issuer (acting as the Muwakkil) will appoint Property Owning LLC (the Wakeel) to utilize the Sukuk issuance proceeds to acquire the legal title in and to the Assets selected by Property Owning LLC. These Assets will be held by Property Owning LLC for and on behalf of the Issuer.

Property Owning LLC will utilize the proceeds of the Sukuk issuance to execute a sale and purchase agreement with specified third-party sellers, under which Property Owning LLC will purchase the relevant Assets. Upon acquiring the relevant Assets, Property Owning LLC will maintain legal title in its name but for and on behalf of the Trustee (acting in the interests of the Sukuk holders).

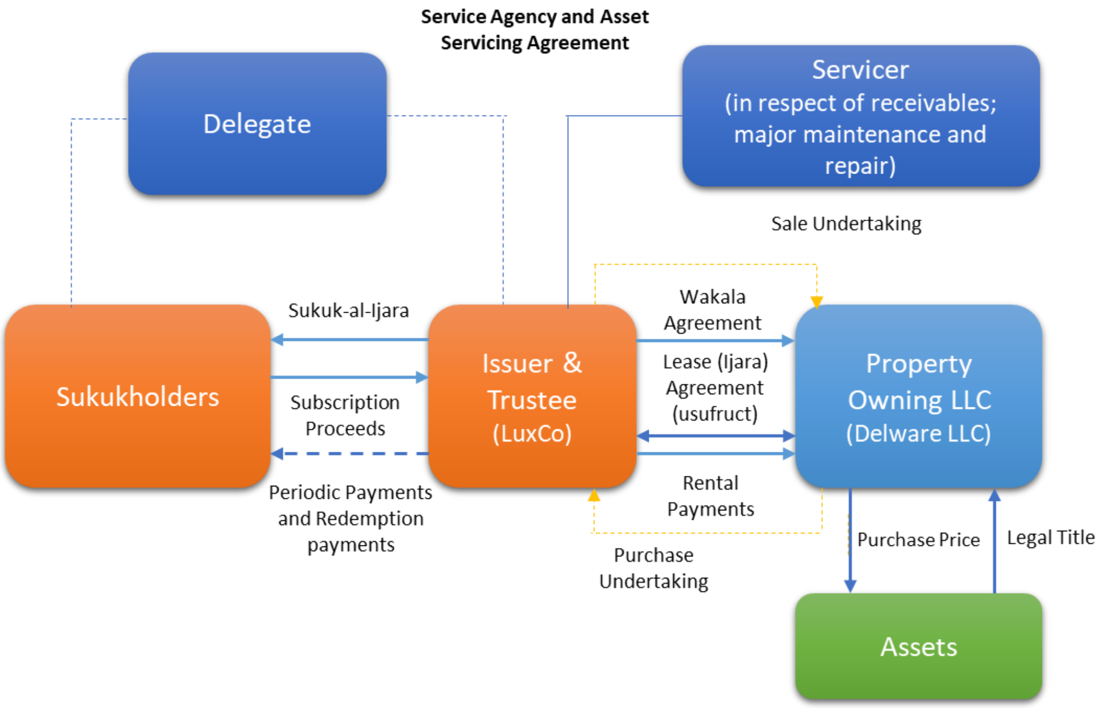
Property Owning LLC targets markets with assets that offer promising opportunities for enhanced management to raise rental rates, (such as Charlotte NC, Nashville TN, Portland OR for example). This approach enables management to offset acquisition costs, bridge the gap to competitive market rents and improve economic vacancy to acceptable levels. The company's straightforward acquisition approach involves gradually increasing existing rents over a period of 18-24 months, fostering a more sustainable economic outlook for the asset.

In accordance with the terms of each lease agreement, the Issuer will lease the usufruct in and to the Assets to Property Owning LLC. Property Owning LLC will make periodic rental payments to the Issuer in exchange for this usufruct right. The Issuer will utilize this rental income to make periodic payments on the Sukuk. Upon the Sukuk's maturity and the corresponding expiration of the lease agreement, Property Owning LLC will be obligated, per the terms of the purchase undertaking, to enter into a sale and purchase agreement. This agreement mandates the transfer of the usufruct right over the Assets from the Issuer to Property Owning LLC at an agreed-upon price, which will be equal to the amount required to redeem the Sukuk in full.

Additionally, upon the maturity of the Sukuk and the corresponding expiration of the lease, the Issuer, as mandated by the sale undertaking, will be obligated to engage in a sale and purchase agreement. This agreement will formally outline the sale of the usufruct right over the Assets from the Issuer to Property Owning LLC at a predetermined price, equal to the amount necessary to fully redeem the Sukuk. In adherence to both the purchase undertaking and sale undertaking as described earlier, the Issuer will utilize the proceeds from the sale to redeem the Sukuk in full.

Sukuk al-Ijara lending and cashflow process

Chart 1. Sukuk al-Ijara transaction structure



Source: Pentavirate Management Sarl

Documentation

Sukuk documents

- Private placement memorandum (including form of final terms)
- Trust deed (and form of supplemental trust deed)
- Programme agreement
- Subscription agreement

Obligor documents

- Wakala agreement
- Sale and purchase agreement
- Lease (Ijara) agreement
- Purchase undertaking
- Sale undertaking
- Service agency and asset servicing agreement

Security documents

- Assignment of rental agreement
- Mortgages over properties

Primary parties

- Property Owning LLC: a Dalware-based LLC that will be established for the purpose of owning the relevant assets pursuant to the terms of the sale and purchase agreement
- Issuer and Trustee: a Luxembourg incorporated securitization fund
- Delegate: will be appointed
- Servicer: Pentavirate LLC
- Sukukholders: the holders of the Sukuk-al-Ijara to be issued by the Issuer from time to time
- Shari'a adviser: Amanie Advisers Ltd.

Key Stages in the transaction structure

1) Sukuk issuance

Under the terms of the programme agreement, subscription agreement and relevant final terms, the Issuer will periodically issue Sukuk-al-Ijara. These issuances will be subscribed to by Sukukholders and will be governed by the trust deed and relevant supplemental trust deed. The Issuer will use the proceeds of the issuance of each series of Sukuk-al-Ijra to enter into the Ijara arrangement with the relevant Property Owning LLC.

2) Wakala arrangement

Periodically, Property Owning LLC will identify certain real estate assets and/or pools of real estate assets. These assets will be carefully selected to ensure that their purpose and use align with the principles of Shari'a, as determined by the Shari'a adviser. Property Owning LLC will assess the suitability of these assets for purchase based on their compliance with Shari'a principles.

The Trustee and the Property Owning LLC will enter into a Wakala agreement. Under this agreement, the Trustee (acting as Muwakkil) will delegate authority to Property Owning LLC (acting as Wakeel) to use the proceeds of the Sukuk issuance for acquiring legal ownership of the assets. These assets, identified by Property Owning LLC, will be held by PropCo on behalf of the Trustee. This arrangement ensures that the Trustee has legal control and ownership of the assets through the appointed agency of Property Owning LLC.

Property Owning LLC is expected to use the proceeds from the Wakala agreement to finalize the acquisition of each of the assets within an anticipated timeframe not exceeding 60 days. Typically, these investments have already been identified and analysed for project profitability. It's important to note that, at this stage, PropCo does not yet own the assets. It only holds a sale and purchase agreement.

3) Sale and purchase agreement

Property Owning LLC will utilize the proceeds from the Sukuk issuance to engage in a sale and purchase agreement with specific third-party sellers. This agreement will enable Property Owning LLC to acquire the relevant assets. A Delaware-based LLC will be established for the sole purpose of owning these assets. Each series will be issued under the charge of a separate compartment of the Issuer, meaning that the Issuer acts in respect of and on account of such compartment. These conditions are applicable independently to each series of Sukuk. The duration of the each compartment associated with the Sukuk is initially set at 5 years, with a possible extension of 2 years subject to the decision of the company's management board. Upon the purchase of the relevant asset, Property Owning LLC will hold legal title in its name but on behalf of the Trustee, who acts for and on behalf of the Sukukholders.

4) Ijara arrangement

Lease (Ijara) agreement: A fixed-term agreement (lease agreement) is signed between Pentavirate Securities and PropCo (Delaware LLC). According to the terms of each lease agreement, the Issuer will lease the usufruct of the assets to Property Owning LLC.

Functioning as an agent, PropCo will acquire specific properties on behalf of the Issuer while retaining legal title in its own name. PropCo will operate these real estate assets and engage with third-party tenants, who will lease the usufruct (the right to act as the legal title owner) from the Issuer and make regular rental payments for the right to use the property. PropCo will be obligated to make regular payments to the Issuer, who will use them to fulfil corresponding obligations on the Sukuk. This payment obligation is unconditional and any failure to comply would constitute a default under both the lease agreement and the Sukuk.

Purchase undertaking: Upon the maturity of the Sukuk and the corresponding expiration of the lease agreement, Property Owning LLC will have a contractual obligation, as stated in the purchase undertaking, to enter into a sale and purchase agreement. This agreement entails acquiring the usufruct right in and to the assets at a price equal to the amount needed to redeem the Sukuk in full. The Issuer will utilize the proceeds derived from the purchase undertaking to entirely redeem the Sukuk.

Sale undertaking: Upon maturity of the Sukuk and the corresponding expiration of the lease, the Issuer will have a mandatory obligation, as described in the sale undertaking, to engage in a sale and purchase agreement. This agreement involves selling the usufruct right in the assets of Property Owning LLC at a price equivalent to the total amount needed for the full redemption of the Sukuk. The proceeds obtained from the sale undertaking will be utilized by the Issuer to completely redeem the Sukuk.

Service agency and asset servicing agreement: The Issuer will enter into a service agency agreement with the servicer. Under this agreement, the servicer will assume the responsibility for conducting any major maintenance and repair of the assets. Additionally, the servicer will handle ongoing servicing of the assets, which includes, among other things, the collection and deposition of all rental amounts due for the assets into the relevant account of Property Owning LLC.

Security

To secure the payment obligations under the lease agreement, Property Owning LLC will assign all rental income generated by the assets for the Trustee's benefit. Furthermore, as an additional layer of security, Property Owning LLC will grant a mortgage over each of the assets in favour of the Trustee.

Listing and admission to trading, clearing systems

The Issuer may apply for the Sukuk to be listed and admitted to trading on a suitable stock exchange. It is anticipated that the Sukuk will be issued in global form and will be held in a common depositary for and on behalf of Euroclear and/or Clearstream, Luxembourg.

Sukuk issuance

- **Sukuk denomination:** Sukuk will be issued with a minimum denomination of $100,000 (one hundred thousand U.S. dollars) unless otherwise specified in the applicable Sukuk final terms.
- **Wakala agreement and asset purchase:** PropCo (Delaware LLC) is expected to utilize the proceeds from the Wakala agreement to complete the acquisition of each of the assets within a timeframe of not more than 60 days.
- **Service agency agreement:** The management will establish a service agency agreement with the servicer, who will be responsible for undertaking major maintenance and repairs of the assets. Additionally, the servicer will be tasked with handling ongoing asset management duties, including collecting and depositing rental payments into PropCo's designated account.
- **Security arrangements:** To secure its payment obligations under the lease agreement, Property Owning LLC will irrevocably assign all rental income generated by the assets to the Trustee. Furthermore, Property Owning LLC will grant a mortgage over each of the assets in favour of the Trustee.
- **Listing and issuance:** The issuer may apply for the Sukuk to be listed and admitted to trading on an appropriate stock exchange. It is anticipated that the Sukuk will be issued in global form and held in a common depositary for and on behalf of Euroclear and/or Clearstream, Luxembourg.

Investment policy

The Issuer will invest in three specific sectors and key core assets that have demonstrated resilience over time, even during the economic stress of the Covid-19 pandemic and global inflation. The funds from the issuance of the first $100 million Sukuk will be entirely allocated to investments in self-storage. Funds from subsequent issuances may also be invested in senior housing and multi-family homes.

Self-storage

Self-storage is a relatively new asset type within the commercial real estate industry, yet it stands out as an attractive asset type. These properties are typically situated in suburban and densely populated urban areas, as well as in-fill locations. This widespread presence allows for access to diverse tenant bases and a flexible cash flow model that can be adjusted multiple times throughout the year to adapt to market demands. Property prices are determined by various factors, including the density and growth rate of the surrounding population, the availability of nearby residential multifamily units, and the strength of the rental market and its associated cash flow. Pentavirate remains optimistic about the future of self-storage in the United States, believing that its efficient asset management can lead to superior performance compared to traditional asset types.

Senior housing

Assisted living is currently the preferred and fastest-growing long-term care option for seniors in the United States. The American Health Care Association estimates that there are approximately 28,900 assisted living communities with nearly 1 million licensed beds in the country today. Senior housing stands out among commercial real estate asset classes for its consistent, stable rental growth that has consistently outperformed other property types. The Covid-19 pandemic has presented an opportunity for acquisitions at lower valuations, offering potential equity growth prospects over the coming years.

Multi-family homes

Historically, multi-family homes have been a popular asset class for investors, with a consistent demand for both urban and suburban properties. Over the past decade, there has been a significant focus on development, resulting in the introduction of over 3.1 million new rental units in the United States. However, the aggressive construction of multifamily properties has slowed down in recent years.

During this period, there was a particular emphasis on catering to the needs of Millennials entering the workforce. This generation sought a lifestyle that prioritized proximity to work and entertainment options. However, as this demographic matures and starts to prioritize space for growing families, the demand for multi-family homes is shifting. This shift has led to continued development in secondary and tertiary markets, as investors recognize the potential in meeting the evolving needs of this population segment.

Self-storage industry trends

Self-storage is a commercial real estate asset class that consists of facilities that provide secure, temporary storage space for personal and business belongings. These facilities offer a variety of unit sizes to accommodate a wide range of needs, from storing household items while moving to housing seasonal equipment or overflow inventory.

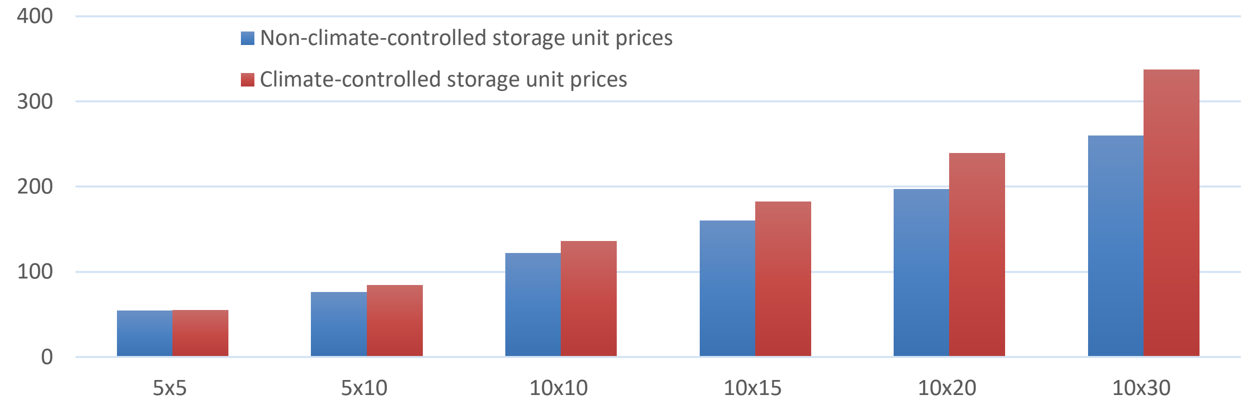
The self-storage industry in the United States has experienced significant growth, with over 1.8 billion square feet of space available in 2023. The market was expected to continue expanding, with an estimated 52.6 million square feet of new storage space to be completed in 2023. Currently, 1 in 5 Americans utilize self-storage, and 15% of Americans have intentions to rent storage units in the future. The average street rate for a 10x10 storage unit is $122 per month and climate-controlled units typically come at a higher cost compared to non-climate-controlled units. The national average rent per square foot for self-storage space is $1.37.

The self-storage industry in the United States has experienced strong growth in recent years, driven by various factors including:

- Evolving demographics: As more people move from larger homes to smaller apartments or downsize in retirement, they need additional space to store their belongings.
- Declining homeownership rates: A growing number of people are renting homes or living in multi-family units, which often have limited storage space.
- Increased consumerism: The rise of online shopping has led to an increase in the amount of stuff people have, further driving demand for storage space.

The self-storage industry is generally considered to be a recession-resistant asset class due to its low operating costs and high occupancy rates. According to Neighbor Blog average occupancy rate for self-storage facilities in the United States is over 96.5%, which provides a stable revenue stream for investors. The U.S. comprises 90% of worldwide self-storage inventory. The self-storage industry had a 7% annual employment growth from 2017 to 2022.

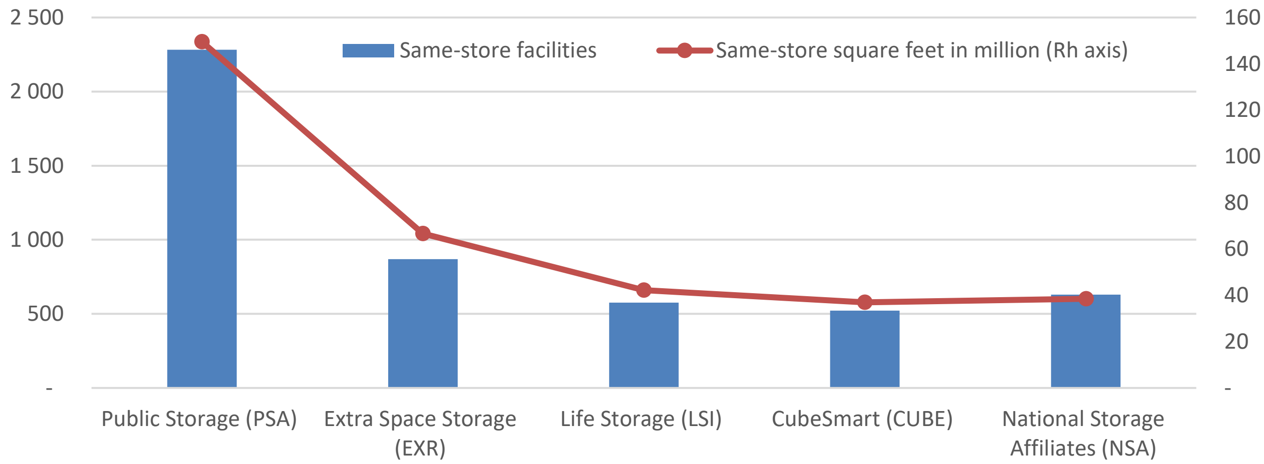
Chart 2. Average monthly rates for climate-controlled/non-climate-cont. and units (Nov. 2023) ($)



Source: www.storagecafe.com/self-storage-industry-statistics; unit size in feet

The average cost for a standard 10x10 feet non-climate-controlled storage unit was $122 in November 2023, reflecting a decrease of -4.7% compared to the same period last year. The climate-controlled 10x10 unit typically incurs a cost of around $136, indicating a -5.6% decrease from the previous year. The national average rent per square foot for self-storage space is $1.37. Units sized 10x10 non-climate-controlled are the most popular, along with 5x5 units.

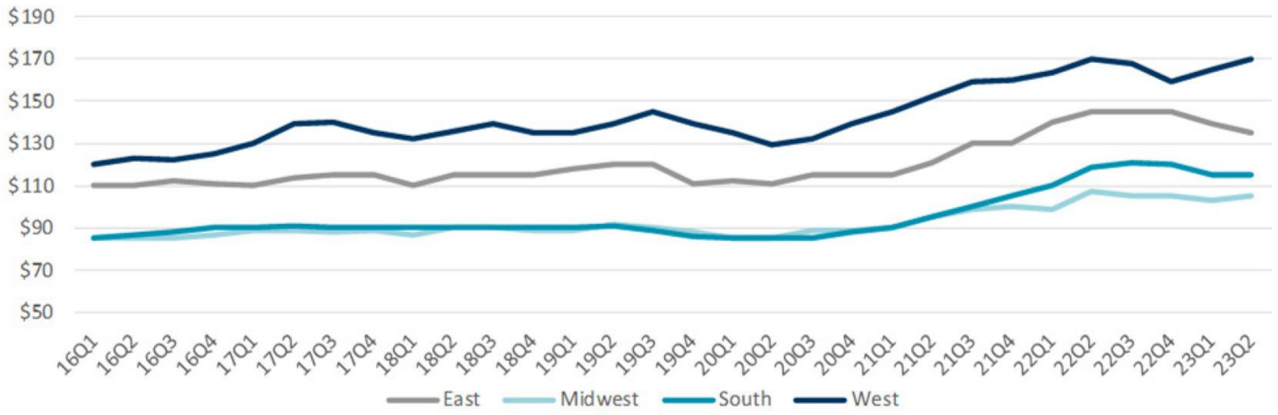
Chart 3. Same-store facilities and sq. ft. (in million) for the five largest self-storage REITs in 3Q22



Source: 2022 REIT Report; CBRE Self Storage Advisory Group

In the American market, the self-storage industry is primarily controlled by the five largest Real Estate Investment Trusts (REITs). Together, these REITs manage nearly 5,000 storage facilities, encompassing a total of 334 million square feet. It is worth mentioning that nearly half of all storage facilities are owned by the top five companies in the industry. Among these industry leaders, Public Storage stands out as it manages approximately 45% of the total storage space.

Chart 4. U.S. storage market asking rent per unit 1Q16- 2Q23

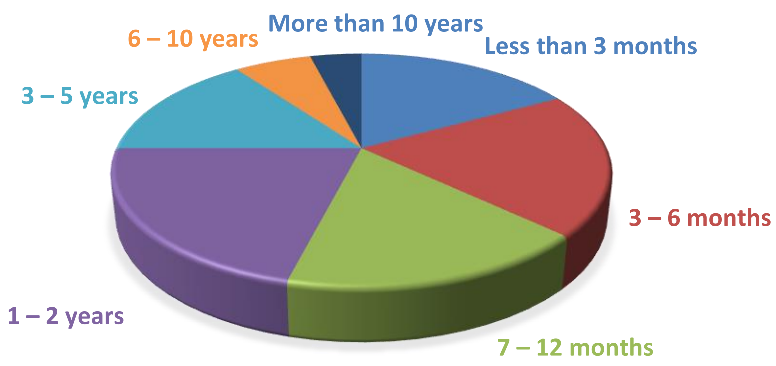


Source: Cushman & Wakefield Self Storage Property Index (SSPI)

The Covid-19 pandemic sparked a surge in rent growth for self-storage units, reaching an unprecedented high of $134 per square foot (psf) in the third quarter of 2022. This represented a noteworthy 9.1% compounded annual growth rate from the pre-pandemic average of $100 psf in the fourth quarter of 2019.

However, this upward trend began to moderate in the fourth quarter of 2022, with average rents declining by 4.5% year-over-year to $126 psf. This deceleration reflected a softening of net demand as individuals and businesses adjusted their storage needs amidst a rebounding economy. Despite this slowdown, average rents demonstrated resilience, showing a slight increase compared to the previous quarter. This suggests that a plateau has been reached in the decline of rental rates, indicating a stabilization in the market.

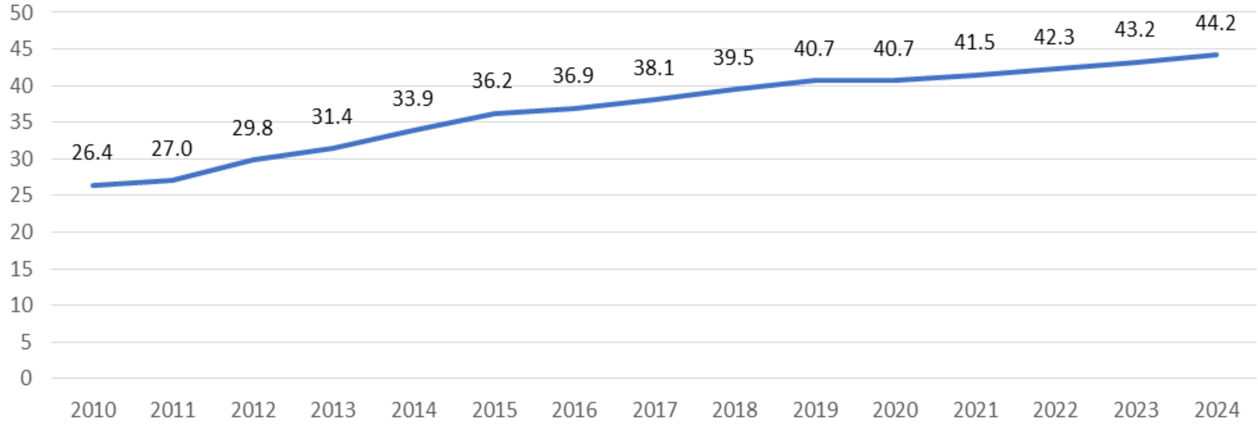
Chart 5. Storage unit rental duration



Source: www.neighbor.com/storage-blog/self-storage-industry-statistics

The average rental duration for a self-storage unit is approximately 14 months, with nearly half of tenants renting for over one year. A small portion, accounting for only 17% of tenants, stores for less than three months, while about 4% store for more than ten years.

Chart 6. U.S. self-storage industry annual revenue and forecasts for 2023-2024 ($ billion)

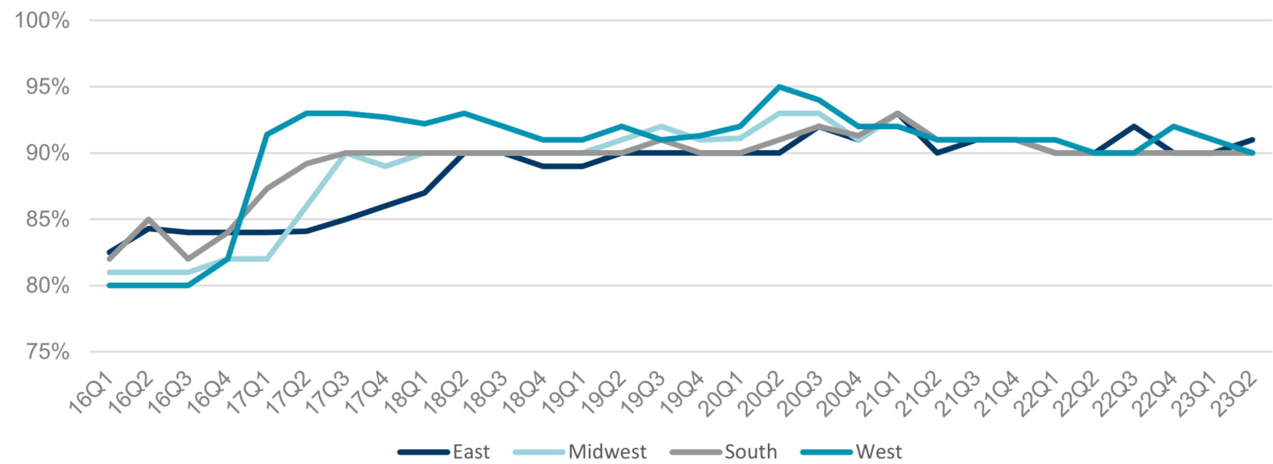


Source: www.neighbor.com/storage-blog/self-storage-industry-statistics

The U.S. self-storage industry is unique as an asset class, as its annual revenue has been growing steadily for many years, including the recent Covid-19 pandemic. That stability spurs new investments in the industry, and as prices and inflation heat up, more and more money is rolling into storage.

The preference for urban living will be driving self-storage demand up in the future. As millennials flock to urban centres, they'll be met with increasingly small, expensive living spaces and adopt a transient lifestyle, moving more frequently than previous generations. Self-storage is the obvious and economical alternative to larger, more expensive living spaces.

Chart 7. US storage market trends occupancy 1Q16- 2Q23



Source: Cushman & Wakefield Self Storage Property Index (SSPI)

The average occupancy rate for self-storage facilities exceeded 90% in 2017 and has consistently remained above that level since then. Factors such as increased migration flows, remote work trends and a thriving residential market have contributed to the sector's strong market fundamentals. In the first quarter of 2021, the occupancy rate reached a peak of 93%. However, as the Federal Reserve took measures to address inflation by raising interest rates, there was a subsequent decline in home sales and an influx of new supply in the market. As a result, occupancy levels stabilized near 90% in the fourth quarter of 2022 and have remained at that level through the second quarter of 2023.

Financial analysis

Pentavirate Securities Securitisation Fund managed by Pentavirate Management Sarl is a newly established Special Purpose Vehicle (SPV) company. As of the date of this report has no significant revenues or assets. It's important to note that Pentavirate Securities is not directly related to PropCo (Delaware SPV) through ownership.

After the Sukuk issuance, Pentavirate Securities will establish a business relationship with PropCo. In this arrangement, Pentavirate Securities will provide a loan to PropCo using the proceeds from the Sukuk. PropCo will take ownership of all properties, manage the generation of sale revenues and bear the majority of operating costs.

Given that the Issuer's ability to fulfil the annual rental payments to Sukuk holders at a fixed rate of 5% and the eventual repayment of the Sukuk is entirely dependent on the financial performance and cash flows generated by PropCo, the credit risk and financial analysis presented in this report primarily focus on PropCo. The assessment will primarily examine PropCo's financial health, cash flow generation capabilities and overall creditworthiness to determine the likelihood of meeting its obligations to Sukuk holders.

PropCo (Delaware SPV)

It is anticipated that PropCo will acquire approximately 6,000 storage units with a total square footage of approximately 1 million square feet using the proceeds of the $100 million Sukuk issue. The company projects an average occupancy rate of 90%, translating to approximately 5,400 occupied storage units.

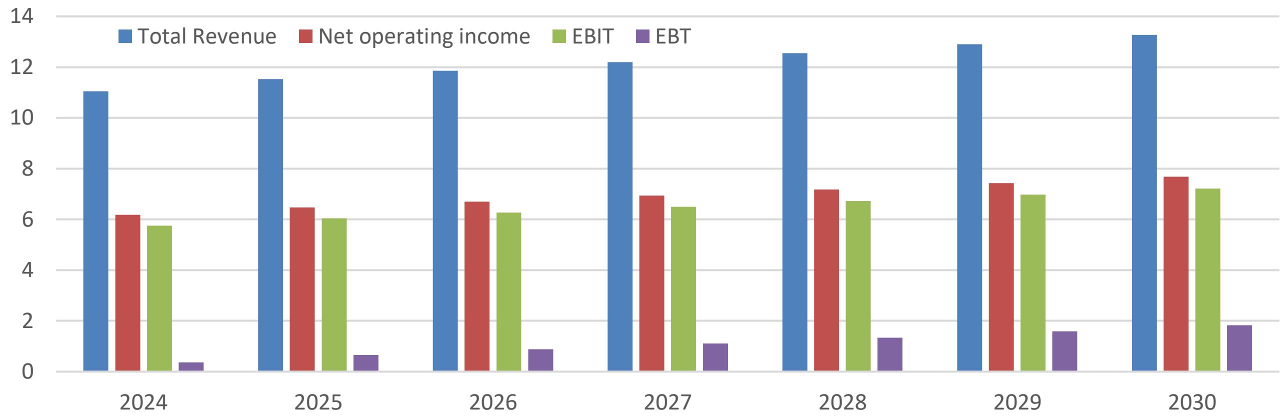
In its financial projections for 2024, the company anticipates a gross storage revenue of over $11 million. As part of its financial strategy, the company has established a rental rate of $1.10 per square foot of storage space. It is worth noting that the national average rent per square foot for self-storage space stands at $1.37. According to EuroRating's assessment, PropCo's chosen rental price provides a significant safety margin for the company's financial forecasts, ensuring a buffer for potential risks and uncertainties. This conservative pricing strategy increases the likelihood of achieving its projected revenue targets.

Based on recent data from the self-storage industry, the U.S. national average occupancy rate for storage facilities in recent years has been around 90% (see: chart 7). PropCo's projected average occupancy rate of 90% aligns closely with this national average occupancy rate, suggesting that it is a realistic projection, especially when considering the attractive rental prices at which PropCo is planning to rent its space.

The projected annual revenue growth of 4.3% in the first year and 2.9% in the following years seems reasonable, particularly given the anticipated rise in the inflation rate in the U.S. during the forecasted period.

In summary, EuroRating believes that the fundamental assumptions incorporated into PropCo's financial forecasts are set at realistic levels, and in some instances, even conservative.

Chart 8. PropCo (Delaware SPV) – pro forma profit and loss forecasts 2024-2030 ($ million)



Source: Pentavirate Management Sarl; EuroRating

The projected sales revenue for 2024 is anticipated to surpass $11 million. In the following year, the company foresees a growth in sales revenue of 4.3% to approximately $11.5 million, with further incremental growth of 3% in the subsequent forecasted years. The company also forecasts other income in the form of tenant insurance premiums in the first two years at around $388 thousand, which is expected to rise to $544 thousand and be maintained at the same level in the subsequent years.

The projected operating expenses are expected to reach $4.9 million in 2024 and are anticipated to increase gradually to $5.4 million in 2028 (or $5.6 million in 2030 if the forecast is extended). The most significant components of the total operating expenses are taxes (ca. 35%) and administration and employee expenses (ca. 30%).

The projected EBIT is expected to reach $5.8 million in the first year, with a forecasted increase to $6.7 million in 2028 (or $7.2 million in 2030 if the forecast is extended). It's important to note that these calculations include an annual cost of CAPEX reserves totalling $200 thousand. These reserves are intended to be held and utilized by PropCo for planned and unforeseen capital expenses, such as repairs and upgrades for the asset. If the reserves are not utilized, they will be returned to Pentavirate Securities only after the Sukuk receives 100% of the coupon and full repayment of Sukuk holders. Additionally, the reserves can be used as an option to enhance Sukuk payments if necessary.

PropCo expects its EBT (Earnings Before Taxes) to experience substantial growth over the forecasted period. Beginning at $369 thousand in 2024, it is anticipated to surge to over $1.3 million in 2028. If the project is extended for an additional two years, the EBT is anticipated to exceed $1.8 million in 2030.

Table 1. PropCo – forecasted margin ratios

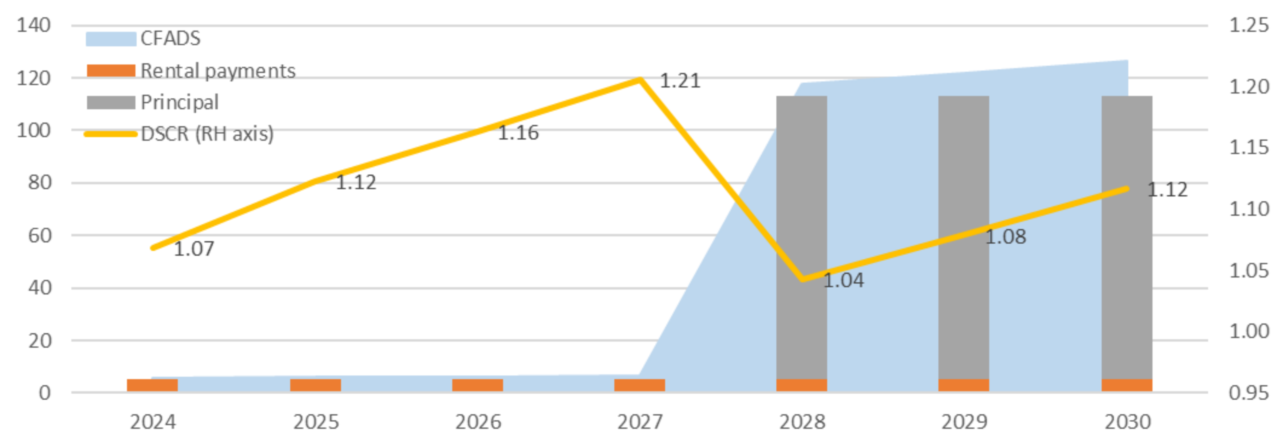
Margin ratios	2024	2025	2026	2027	2028	2029	2030
Net operating margin	55.9%	56.2%	56.5%	56.9%	57.2%	57.6%	57.9%
EBIT margin	52.1%	52.5%	52.8%	53.2%	53.6%	54.0%	54.4%
EBT margin	3.3%	5.7%	7.4%	9.1%	10.7%	12.3%	13.8%

Source: Pentavirate Management Sarl; EuroRating

During the years 2024-2030, both the net operating margin and EBIT margin for PropCo are projected to experience slight increases. The overall level of these margins over the analysed period can be assessed as very good. This indicates that PropCo is forecasted to effectively manage its expenses and generate healthy profits relative to its revenue.

The EBT margin is anticipated to experience significant growth throughout the analysed period, although its level in the initial years should be considered low. As the EBT margin is forecasted to increase over time, the liquidity risk, in terms of the ability to make the 5% rental payment to Sukuk holders, will decrease, which should be assessed positively.

Chart 10. PropCo – forecasted cash flow available for debt service ($ million)



Source: Pentavirate Management Sarl; EuroRating

Cash flow available for debt service (CFADS) is the amount of cash available to service debt obligations due within one calendar year. These obligations include all current rentals payments and principal repayment. The debt service coverage ratio (DSCR) is a measure of the ability of a company to use its operating income to repay all debt obligations in each year.

PropCo is obligated to make annual rental payments of $5.4 million to Sukuk holders between 2024-2027. These payments will be sourced from the operating activities of PropCo. During the same period, the cash flow from operating activities is projected to increase from $5.8 million to $6.5 million. As a result, the DSCR will increase from 1.07 to 1.21. This increase indicates that even with conservative forecasts, PropCo's ability to cover its debt service obligations is deemed satisfactory. However, the first year will be the most challenging in terms of meeting these payment requirements.

The repayment of the initial funds to Sukuk holders is scheduled for 2028 (alongside the rentals for the last year). To achieve this, the company plans to either sell the managed properties or issue another Sukuk, thereby enabling the complete repayment of liabilities to Sukuk holders. In the event that the company is unable to sell the assets for an acceptable price in 2028, the directors have the option to postpone repayment of obligations to Sukuk holders for two years.

Considering the highly developed and consistently growing self-storage market in the U.S., alongside the unified nature of self-storage assets and the relatively high liquidity of the market, in EuroRating's opinion PropCo will not experience significant challenges in identifying potential buyers for its properties upon the maturity of the Sukuk. Even if a new issue of Sukuk securities does not take place, the market conditions are favourable for property sales. Additionally, considering inflation, it is expected that the sale price of the properties will exceed the initial purchase price. This further supports the notion that PropCo is well-positioned to attract buyers and achieve favourable outcomes for the sale of its assets.

Table 2. PropCo (Delaware SPV) – cash flow forecast 2024-2030

	2024	**2025**	**2026**	**2027**	***2028***	***2029****	***2030****
Effective gross income	11 049	11 525	11 854	12 193	12 543	*12 903*	*13 274*
Operating expenses	4 874	5 049	5 152	5 258	5 365	*5 476*	*5 589*
Net operating income	**6 175**	**6 476**	**6 702**	**6 935**	**7 178**	***7 427***	***7 685***
Fund/asset management fee	221	230	237	244	251	*258*	*265*
Capex reserves	200	200	200	200	200	*200*	*200*
Cash flow before debt	**5 754**	**6 045**	**6 265**	**6 491**	**6 727**	***6 969***	***7 219***
Bond amount	5 385	5 385	5 385	5 385	5 385	*5 385*	*5 385*
Net cash flow after bond	**369**	**661**	**880**	**1 106**	**1 342**	***1 584***	***1 834***

** possible extension period*

Source: Pentavirate Management Sarl

Risk factors relating to the Sukuk issue

Absence of regulatory oversight: Pentavirate Securities Securitisation Fund ("the Securitisation Fund**"**) will not be registered under the Securities Act or any other securities laws, including state securities or blue sky laws and non-US securities laws. The investment vehicle through which the investment will be held will not register under the U.S. Investment Company Act of 1940 and accordingly, the provisions of the Investment Company Act will not be applicable to the investment vehicle.

Illiquid and long-term investments: The investments constituting the Sukuk's collateral will be comprised of self-storage facilities in the United States, for which the number of potential purchasers and sellers may be limited. In addition, absent registration, interests will not be freely transferable. The investment in the Securitisation Fund is suitable only for certain sophisticated investors who have no need for liquidity, as the investment requires a long-term commitment with no certainty of return. If Pentavirate Securities were required to liquidate its investments for any reason, including in response to changes in economic or real estate market conditions, it may not be able to sell any portion of the investments on favourable terms.

Risks of real estate investments: Pentavirate is specializing in real estate assets. Deterioration of real estate fundamentals could negatively impact the Securitisation Fund. Furthermore, because real estate like many other long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the fund and its assets. The cash flow and value of the fund will depend on many factors beyond the control of Pentavirate.

Valuations: The net asset value of the Securitisation Fund may be determined by Pentavirate Management. The investment in the Securitisation Fund will be illiquid and without a readily ascertainable market value valuations of the fund may be difficult to verify.

Restrictions on transfer: Interests in the Securitisation Fund may not be transferred or resold except as permitted under the governing agreement of the investment vehicle or as permitted under the U.S. Securities Act of 1933 and other applicable securities laws. There will be no public market for the interests in the investment and no such market is expected to develop in the future.

Rating scale applied by the EuroRating credit rating agency

Rating	Risk description
AAA	Negligible credit risk. Highest level of financial credibility. Rating assigned exclusively where an entity has extremely strong capacity to meet financial commitments.
AA+ AA AA-	Very low credit risk. Very high level of financial credibility. Very strong capacity to meet financial commitments. Low susceptibility to adverse economic conditions.
A+ A A-	Low credit risk. High financial credibility and capacity to meet financial commitments. Average resistance to long-term unfavourable economic financial conditions.
BBB+ BBB BBB-	Moderate credit risk. Good financial credibility and adequate capacity to meet financial commitments in the long term. Increased susceptibility to long-term adverse economic conditions.
BB+ BB BB-	Increased credit risk. Relatively lower financial credibility. Adequate capacity to meet financial commitments under average or favourable economic conditions. High or medium level of debt recovery in the event of default.
B+ B B-	High credit risk. Capability of meeting financial commitments largely conditioned on favourable external conditions. Medium or low level of debt recovery in case of a default.
CCC CC C	Very high credit risk. Very low capability to meet financial commitments even under favourable economic conditions. Low or very low level of debt recovery in case of a default.
D	Extremely high credit risk. Complete lack of capability to meet financial commitments. Without additional external suport the level of debt recovery is very low or close to zero.

Full details on the rating scale and rating definitions applied by the EuroRating credit rating agency are published on the agency's website at: https://www.eurorating.com/en/ratings/rating-scale

Regulatory disclosures

Information on the EuroRating credit rating agency

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Methodology

The presented credit rating is a rating for a secured fixed rate Sukuk securities issue of the company Pentavirate Securities Securitisation Fund (Luxembourg), i.e. it takes into account both: a general credit risk of the Sukuk Issuer (Pentavirate Securities Securitisation Fund), as well as any Sukuk collateral and/or guarantees, as an additional protection for the Sukuk investors.

The presented credit rating does not relate to the credit risk (or probability of default) of the Sukuk Issuer. The rating concerns the risk of an ultimate loss of a part or all of the secured Sukuk's principal amount and the rentals (at a fixed rate 5% per annum) by the Sukuk holders in the event of a default of the Issuer.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Rating methodology for corporations" published in June 2023 and is available at: https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology

The rating definitions and the rating scale used by EuroRating are published on the agency's website at: https://www.eurorating.com/en/ratings/rating-scale

Historical default rates of the public credit ratings issued by the EuroRating credit rating agency can be viewed in the rating performance report at: https://www.eurorating.com/en/ratings/statistics

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: https://www.eurorating.com/en/ratings/methodology/definition-of-default

Solicitation status

The credit rating for the Sukuk issue of Pentavirate Securities Securitisation Fund was solicited by the Issuer and/or its agents. The Sukuk Issuer and/or its agents have participated in the rating process by providing the agency documents, information and explanations concerning its historical, current and possible future economic and financial situation, as well as concerning the Sukuk securities issue.

The main sources of information used in the rating process were financial statements and forecasts of the rated company, the Sukuk securities memorandum (Listing particulars) and other data, information and explanations provided by the rated company and/or its agents.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. The rating was issued without any changes resulting from that disclosure.

Public status of the assigned credit rating for the Sukuk issue / terms of use

The presented credit rating for the Sukuk issue of Pentavirate Securities Securitisation Fund is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published free of charge on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

The terms of use for credit ratings issued by EuroRating are published on the agency's website at:
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Key rating assumptions and limitations

The credit rating for the Sukuk securities issue by the company Pentavirate Securities Securitisation Fund was issued by EuroRating with the basic assumption that the Sukuk securities issue will be carried out successfully (otherwise the company will have no assets nor liabilities and the assigned credit rating for the issuer will not be applicable).

Pentavirate Securities Securitisation Fund is a special purpose vehicle and was established for a specific purpose – to raise funds for the company PropCo (Delaware SPV), which intends to invest in real estate assets (self-storage properties).

It should be noted, that both the Issuer (Pentavirate Securities) and the principal borrower (PropCo) are new companies with no financial history. The analysis conducted and the rating process were based to a large extent on the financial forecasts for the future prepared by the rated entity and/or its agents. Those forecasts have been reviewed by EuroRating in terms of the probability of their potential realization. However, EuroRating does not have a possibility to verify in detail all assumptions made by the rated entity in its forecasts.

Due to the fact, that the credit risk credit risk of Pentavirate Securities (as well as of its Sukuk securities) will depend on the financial performance and cash flows generated by PropCo, the analysis conducted in the rating process and described in this report focused primarily on PropCo.

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Disclaimer

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