

Rated entity:

Bearer notes (Fund X Notes) with ISIN DE000A2RUR32 issued by Paramount Group Real Estate Investments S.A., Compartment 6

Rating:

BB-

Rating outlook / watch:

Outlook stable

Rating summary:

Object of this rating are the Fund X Notes (rating object, notes) issued by Paramount Group Real Estate Investments S.A., Compartment 6 (borrower). The borrower invests the proceeds indirectly in the form of mezzanine capital in commercial real estate. The investments are being made through Paramount Group Real Estate Fund X, L.P. (investment vehicle). The relevant manager is Paramount Group Real Estate Advisor, LLC. The CRA rating of BB-/stable represents a satisfactory level of credit quality and medium investment risk.

CRA identifies increased structural, operational, portfolio and credit risks compared to the assessment of the previous rating action. The ongoing recession and economic uncertainty globally as well as in the US caused by the COVID-19 pandemic further hinders an already halting ramp-up of the investment vehicle's portfolio. In addition, a decline in portfolio valuation slightly impaired the creditworthiness of the rating object. Based on present information and the results of the cash flow analysis CRA deems the borrower's ability still sufficient to fulfil its obligations arising from the rating object. Nevertheless, CRA deviates from the quantitative base-case result of BB+ by two notches acknowledging the increased credit risk due to unrealized portfolio diversification at this stage in combination with substantially increased operational risk at the level of the underlying assets.

Primary key rating driver:

- (+) Possibility of early amortization payments to build up credit enhancement
- (+) Deferrable coupon
- (+) No currency risks within the structure
- (-) Soft investment criteria
- (-) Slight credit impairment resulting from declined portfolio valuation
- (-) COVID-19 driven increase in structural, operational, portfolio and credit risk
- (-) Relatively low cash yield and low diversification of the portfolio
- (-) Low ramp-up speed of the IVV's portfolio

Rating sensitivities:

Best-case scenario: In this scenario, we varied (ceteris paribus) the average collateral quality of the portfolio's loans from CRA Property Grade 3 (PG 3) to PG 2¹ following a ramp up with loans collateralized by high-quality properties, resulting in a quantitative result of BBB+ and a rating of BBB-.

Worst-case scenario: In this scenario, we varied (ceteris paribus) the average collateral quality of the portfolio's loans from CRA Property Grade 3 (PG 3) to PG 4¹ following a ramp up with loans collateralized by below-average properties, and also stressed the expected recovery delays (50% increase to 18 months) in case of loan default, resulting in a quantitative result of B and a rating of CCC.

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the present case, ESG criteria had no comprehensive impact to the rating.

¹ CRA Property Grade 2 (4) here implies a reduction (an increase) in the average rating scenario-specific collateral value haircuts assumed by CRA in its cash flow model, that is from 31% to 23% (39%) for the BB+ rating scenario.

ESG factors with material impact were not identified.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

Rating Date / disclosure to rated entity / maximum validity:

October 29, 2020 / October 29, 2020 / January 9, 2045

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

Initial rating date:

January 31, 2019

Lead-analyst – position / Person approving (PAC):

Matthias Peiß (Lead) – Senior Analyst

Stephan Giebler (PAC) – Senior Analyst

Name & address of legal entity:

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

Status of solicitation:

The rating is a solicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: Yes

With Access to Internal Documents: Yes

With Access to Management: Yes

Rating methodology / Version / Date of application / Link:

[Rating Criteria and Definitions, Version 1.3, January 2018](#)

[Rating Methodology Financial Instruments \(Issue Ratings\), Version 1.3, July 2016](#)

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuing documents
4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.