S&P Global
Ratings

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Summary:

Alstria Office REIT-AG

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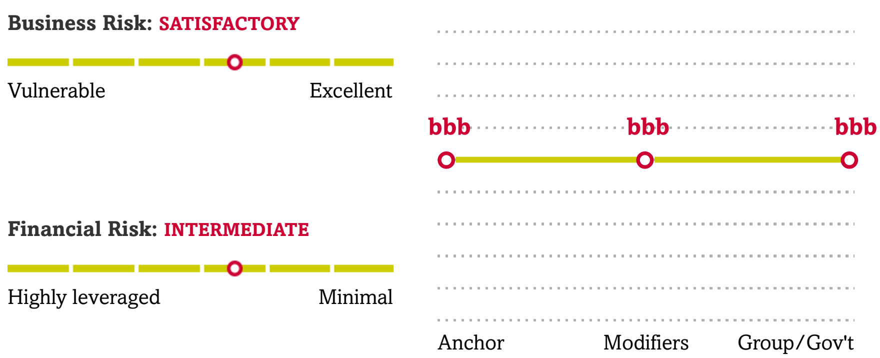

CORPORATE CREDIT RATING

BBB/Stable/--

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• Solid portfolio size, with about €3.2 billion of office assets in mainly German metropolitan cities with good macroeconomic fundamentals. • Long average lease maturities of close to five years, making them above market average. • Some tenant concentration to the City of Hamburg, albeit spread across several lease agreements. • Relatively high vacancy rate of about 9% compared with peers, excluding buildings vacant for renovation needs.	• Moderate leverage with S&P Global Ratings-adjusted ratio of debt to debt plus equity of around 40%-45%. • Robust EBITDA interest coverage ratio of above 4x. • Strong liquidity, supported by the absence of short-term debt maturities and undrawn committed credit lines.

Outlook: Stable

S&P Global Ratings' stable outlook on Alstria Office REIT-AG reflects our view that the company's property portfolio will generate steady cash flows over the next 24 months. Our view is based on the resilient operating performance of Alstria's office buildings, which are mostly in metropolitan areas across Germany and enjoy good economic growth prospects. The outlook also captures our assumption of stable occupancy levels over the forecast period.

We forecast EBITDA interest coverage will remain strong above 4x over the next two years and debt to debt plus equity well below 50%, in line with the company's financial policy. We also expect the company to maintain a stable debt maturity profile.

Downside scenario

We could consider lowering the rating if Alstria's vacancy rate increased to above 10%, excluding vacant buildings for renovation needs, on a sustainable basis or if the company deviates from its stated leverage policy, with EBITDA interest coverage decreasing below 2.5x and debt to debt plus equity higher than50%.

Upside scenario

We could raise the rating if Alstria's leverage dropped significantly, with the ratio of debt to debt plus equity falling below 35%, while EBITDA interest coverage remained comfortably at 3x or higher. Such an improvement could come from a material debt reduction. A positive action may also stem from an increase in overall portfolio size and a marked reduction in the portfolio vacancy to 5% or below.

Our Base-Case Scenario

Assumptions

- Approximately 1%-2% like-for-like rental income growth over the next 12-24 months, stemming from positive GDP growth of about 2.0% in 2017 and 1.7% in 2018, low growth in the consumer price index of 1.9% in 2017 and 1.8% in 2018, while occupancy levels are assumed to remain stable with EPRA (European Public Real Estate Association) occupancy of around 91% (excluding vacant premises for renovation and refurbishment needs);
- Some asset rotation, including disposals of up to €200 million in 2017, mainly of noncore assets from Deutsche Office's portfolio as well as the recent sales of the Kaisergalerie in Hamburg and some smaller acquisitions of up to €100 million in the next few years;
- Flat portfolio revaluation in next 12 months; and
- Cost of debt to remain stable at around 2% thanks to recent refinancing activities.

Key Metrics

	2017e	2018e	2019e
Debt to debt plus equity (%)	42-44	Approx. 40	40-42
EBITDA interest coverage (x)	Approx. 4.5	4.5-4.7	4.5-5.0
EBITDA margin (%)	76-77	76-77	76-77

e--Estimate.

Company Description

Alstria Office REIT-AG is the largest listed office real estate Company in Germany. The company is focused on the acquisition and management of office properties across Germany with locations in mainly metropolitan areas such as Hamburg, Frankfurt, Munich, Berlin, or Stuttgart. The company's portfolio combines 117 assets as of September 2017 at about €3.2 billion.

Alstria became the first German REIT in 2007 and is listed in the SDAX.

Business Risk: Satisfactory

Alstria's business risk profile reflects the company's market standing as the largest-listed office player in Germany, as well as its solid scale and scope with portfolio value as of June 30, 2017, of about €3.2 billion, comprising 117 properties. The buildings are mainly office assets located around metropolitan areas in Germany, such as the Rhine-Ruhr region (29% of the portfolio value), Hamburg (27%), the Rhine-Main region (22%), Stuttgart (13%), and Berlin (4%).

Most of Alstria's assets are in or near city centers where demand for office assets tend to be stronger. They have access to good infrastructure and positive rental growth prospects thanks to low unemployment and solid tenant demand for office spaces. Although Alstria is the largest-listed office player in Germany, its market share remains limited because the German real estate market is highly fragmented. We assess Alstria's office buildings as being of average quality. The properties require some renovation and refurbishment of approximately €40 million-€60 million annually.

The portfolio is characterized by its relatively long average lease length of close to five years, supported by its exposure to tenants from the public sector. That compares positively with the average term of about 3.5 years for office property investors in Germany.

Our business risk assessment is further supported by the absence of speculative development activities in Alstria's portfolio, which limits the risk of revenue volatility. We anticipate limited asset rotation for Alstria in the next few years, due to the absence of well-priced office buildings in the market. We expect the company to sell only some remaining small non-core office buildings, mainly stemming from the Deutsche Office portfolio that Alstria acquired in 2015.

Alstria's tenant base is somewhat concentrated on the City of Hamburg, which accounts for approximately 13% of total annual rental income. We do not consider that this exposure carries any major risk for Alstria's cash flow generation, given that Alstria and the City of Hamburg have an enduring relationship and leases are spread over 20 lease agreements. Nevertheless, with the consolidation of the portfolio of Deutsche Office, some further tenant concentration exists in the portfolio, with Daimler AG (A/Stable/A-1) as the second-largest tenant, accounting for 11% of total rental income, followed by GMG Generalmietgesellschaft mbH (part of Deutsche Telekom AG; BBB+/Stable/A-2) as the third-largest tenant with 9% of total rental income.

Compared with most European rated office players in the strong business risk category, Alstria remains small in size. The company reported an EPRA occupancy ratio of 90.7% as of June 30, 2017 (excluding surface under renovation), which is somewhat below that reported by most rated peers in the European office market.

Alstria's like-for-like property value growth will remain flat in the next 12-24 months, in our view. Although property prices are rising in some major cities in Germany, we still foresee some oversupply in cities like Frankfurt and in the Rhine-Ruhr area.

Financial Risk: Intermediate

Our assessment of Alstria's financial risk profile remains unchanged. The company's recent refinancing activities resulted in a reduction in its cost of debt to 2.0% from 2.8% year-end 2015. We expect the S&P Global Ratings-adjusted ratio of EBITDA interest coverage to remain strong above 4x in the next 12-24 months, supported by the low average cost of debt and that over 90% of interest cost are fixed or hedged. Due to its recent property disposals and our assumption of the convertible bond of €79 million, maturing in 2018, to convert into equity, Alstria's ratio of debt to debt plus equity will likely decrease to approximately 40%-43% in 2017 and closer to 40% in 2018. We expect the company to remain a leverage ratio at or below 45% in the long-term, in line with the company's strategy.

Liquidity: Strong

We continue to view Alstria's liquidity as strong. This is based on its ratio of liquidity sources to uses of above 1.5x over the next 12 months as of June 30, 2017. The strong liquidity is supported by the absence of large debt maturities for the next two to three years, and the company's solid cash balance and available undrawn committed revolving credit lines.

We expect Alstria will maintain ample headroom (greater than 15%) under the financial covenants in its debt agreements.

Listed below, our forecast for Alstria's liquidity sources and uses for the 12 months as of June 30, 2017.

Principal Liquidity Sources	Principal Liquidity Uses
• Unrestricted cash balances of about €52 million and undrawn committed revolving credit facility of €70 million, maturing in more than 12 months; • Our forecast of cash funds from operations of approximately €110 million-€120 million; and • Proceeds from committed asset sales of around €100 million, including the recent sale of the Kaisergalerie in Hamburg.	• Annual capital expenditures of about €40 million-€45 million for renovation and refurbishment, of which we understand most of it is not committed; and • Estimated dividends of around €80 million.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/--

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Moderate (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)

- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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