

Research Update:

German Alstria Office REIT-AG 'BBB+' Rating Placed On CreditWatch Negative After Takeover Offer By Brookfield

November 8, 2021

Rating Action Overview

- German office property company Alstria Office REIT-AG (Alstria) signed an investment agreement with a private fund of Brookfield Asset Management under the latter will make a voluntary public takeover offer for all the shares in Alstria that it does not currently own.
- We believe that the acquisition could result in weaker credit metrics for Alstria, based on our understanding that the company may revise its financial policy to allow more leverage once the transaction is completed.
- We therefore placed on CreditWatch with negative implications our 'BBB+' long-term issuer credit rating on Alstria and the company's senior unsecured debt.
- The CreditWatch indicates at least a one-in-two likelihood of a downgrade, of one or more notches, upon completion of the transaction and should Alstria's revised financial policy no longer be commensurate with the 'BBB+' rating, maintaining a ratio of debt to debt plus equity of below 35% and debt to EBITDA of 9.5x or below.

PRIMARY CREDIT ANALYST

Nicole Reinhardt
Frankfurt
+ 49 693 399 9303
nicole.reinhardt
@spglobal.com

SECONDARY CONTACT

Sophie Nehrer
Frankfurt
+ 49 693 399 9242
sophie.nehrer
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

Rating Action Rationale

The CreditWatch reflects our assumption that Alstria's credit metrics might weaken as a result of Brookfield Strategic Real Estate Partners IV's (Brookfield's) voluntary public takeover offer.

Alstria signed an investment agreement with Alexandrite Lake Lux Holdings S.à.r.l., an entity controlled by Brookfield, which is a private fund of Brookfield Asset Management. Under this agreement, Brookfield would acquire all the shares in Alstria that it does not own. We understand that the takeover, if completed, may prompt Alstria to revise its financial policy to allow higher leverage, and this would likely result in weaker credit metrics. We note that, as per its current financial policy, Alstria has maintained debt-to-debt and equity below 35% and debt to EBITDA close to 9.5x, and these ratios are within the thresholds for the current 'BBB+' rating on Alstria.

We understand that there are no plans to reorganize the company's operational strategy.

Brookfield's representation on Alstria's supervisory board will likely be proportionate to its ownership. We note that there is no domination agreement and that Brookfield supports Alstria's incumbent management board. We understand that Brookfield plans to be a long-term strategic shareholder of Alstria, supporting the company's strategy with limited dividend payouts. If the takeover closes successfully, we may see Brookfield as a managed fund and treat it as Alstria's strategic owner. The transaction is subject to regulatory and shareholder approvals and is expected to close in the first quarter of 2022.

CreditWatch

The CreditWatch reflects our view that the potential acquisition by Brookfield would likely result in weaker credit metrics for Alstria due to a less conservative financial policy. We see at least a one-in-two likelihood of a negative rating action, and a potential downgrade could be one to multiple notches. We will resolve the CreditWatch upon completion of the takeover.

We will lower the rating if the transaction with Brookfield goes through and the company's revised financial policy leads to leverage higher than the level commensurate with the 'BBB+' rating. This would mean ratios of debt-to-debt and equity exceeding 35% and debt to EBITDA deviating materially from 9.5x.

We would likely affirm the 'BBB+' rating on Alstria and remove it from CreditWatch negative if the Brookfield deal falls through, for example because shareholders reject the offer.

Company Description

Alstria is one of the largest listed office real estate companies in Germany. The company is focused on the acquisition and management of office properties across Germany, with locations mainly in, or close to, metropolitan areas such as Hamburg, Frankfurt, Düsseldorf, Berlin, and Stuttgart. Alstria's portfolio comprises 111 assets valued at about €4.7 billion (as of Sept. 30, 2021).

Alstria became the first German REIT in 2007 and is listed on the MDAX. The company's free float is currently 100% according to the definition of Deutsche Börse AG. Brookfield currently holds 8.2% of Alstria's shares.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- German Real Estate Company Alstria Office REIT-AG Upgraded To 'BBB+' On Sustained Low Debt Leverage; Outlook Stable, March 4, 2021

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Alstria Office REIT-AG		
Issuer Credit Rating	BBB+/Watch Neg/--	BBB+/Stable/--
Senior Unsecured	BBB+/Watch Neg	BBB+

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