S&P Global
Ratings

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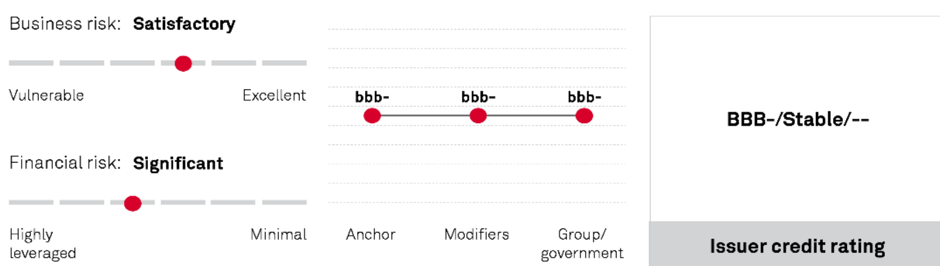
Alstria Office REIT-AG

October 5, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

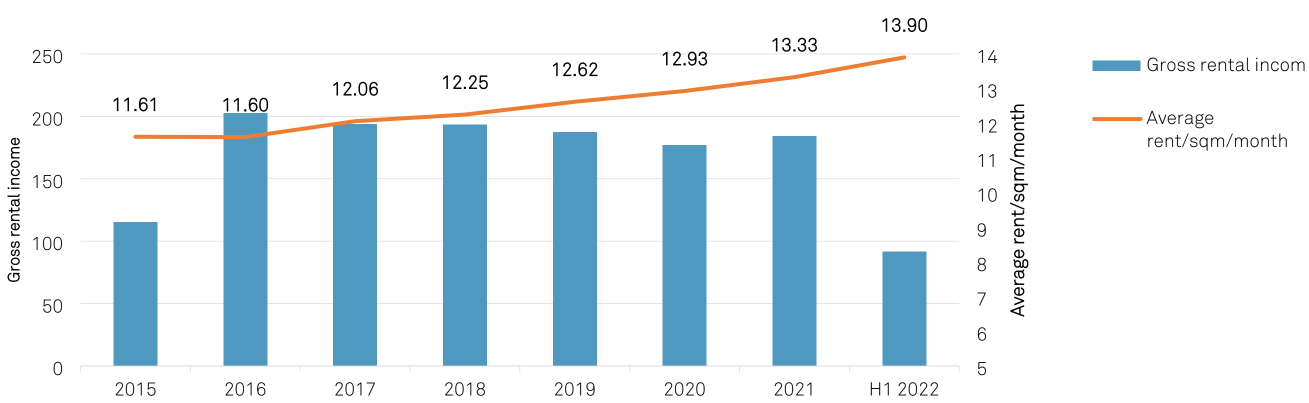
Key strengths	Key risks
Solid portfolio size, with about €4.8 billion of office assets mainly located in German metropolitan cities with good macroeconomic fundamentals.	100% exposure to the office segment, which we view as less resilient than other sectors and where medium-to-long term demand trends remain uncertain.
Consistent strategy of long-term property holding with average lease maturities of close to six to seven years, in line with industry standards.	Some tenant concentration to the City of Hamburg and Daimler AG, although tenant contracts are spread across several lease agreements.
Rental contracts mainly linked to the consumer price index (CPI), which should support a S&P Global Ratings-adjusted EBITDA margin of well above 80% for the next 12-24 months.	Relatively high vacancy rate (about 8%) compared with other investment-grade rated peers, excluding buildings vacant for renovation needs.
Good relationship with banks, with the ability to raise sizable amounts of secured debt at manageable interest rates.	Increase in leverage following the Brookfield acquisition, with debt to debt plus equity at about 50%-55%, and relatively low EBITDA interest coverage at close to 2x.

We believe Alstria Office REIT-AG (Alstria) will keep a moderately high leverage level over the medium term. On Feb. 8, 2022, Brookfield, through its subsidiary Alexandrite Lake Lux Holdings S.a.r.l., completed the takeover of Alstria, and currently it holds around 95% stake of Alstria's equity. The transaction was mainly funded by the raise of a €1,733 million bridge loan at the Alexandrite level, which we include in our adjusted debt figure for Alstria. In September, Alstria paid out a special dividend payment (funded by newly issued secured debt and asset disposals) of €750 million to reduce the bridge loan amount at the holding company level and a further special dividend payment of about €250 million is expected over the course of the next 12 months. We understand that the remaining outstanding amount of approximately €733 million will stay at the holding company level over the medium term. We understand that the company's loan-to-value target remains at 50%-55%, which translates into an S&P Global Ratings-adjusted ratio of debt to debt plus equity of max of 55%. As of June 30, 2022, Alstria’s debt to debt plus equity ratio stood at 47.5%, and we expect the ratio to increase to slightly above 50% during the second half of 2022, remaining broadly stable over the following two years.

Altria’s debt financing capacity is tightening due to increased debt and rising interest rates. In response to multiple macroeconomic events and an inflationary environment during the second and third quarters of 2022, the European Central Bank has raised its interest rates, which had a material impact on the financing conditions in the real estate sector. In that context, Altria was able to secure about €750 million of mortgaged bank debt at interest rates of 3.0%-3.5% versus an average cost of debt of 1.4% pre-issuance, we consider Alstria's relationship with banks as solid and take into account the company´s large headroom under its unencumbered asset base. We believe that the company´s cost of debt will be further negatively impacted by rising interest rates with EBITDA interest coverage becoming tight at only 2x, expected for the next 12-24 months.

We expect Alstria's operating performance to remain broadly stable, benefiting from inflation-linked rental contracts, a resilient tenant base, and good asset localization in and close to German metropolitan areas. In the first half of 2022, Alstria´s rental income grew by 2.7% on a like-for-like basis, with occupancy decreasing slightly to 92.1% from 93.1% at year-end 2021. Its average rent per square meter increased to €13.90 from €13.33 over the same period. Alstria´s leasing profile is well spread, with an average lease maturity of 5.9 years (3% of annual rental income to expiry in 2022 and 10% in 2023). Its long-term exposure to public tenants, such as City of Hamburg, Bundesanstalt für Immobilienaufgaben, or City of Frankfurt (accounting for together 22% of total annual rental income) enable predictable and stable cash flow generation going forward. The growing inflationary environment, forecast at 7.6% growth in Germany in 2022 and 4.1% for 2023, is expected to benefit Alstria’s rental income, as the majority of its rental contracts are linked to CPI. However, a potential economic recession combined with the increase in remote working trends, represents a high threat for further operational growth for the office real estate landlords, and slowing demand could impact occupancy levels and rental income over the medium term. REITs might invest less in further acquisitions, partially driven by increasing construction raw materials and energy supply prices, leading to lower asset rotations and flat to negative property portfolio valuation trend. In the case of Alstria, we expect that the company will be a net seller over the next couple of years.

Alstria Office REIT AG: Rental Income
Euro million



Source: S&P Global Ratings.

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Outlook

The stable outlook reflects our expectation that Alstria's focus on office assets in German metropolitan cities should continue yielding stable rental income. Based on Alstria's financial policy of maintaining LTV of 50%-55%, we keep our expectations of a ratio of debt to debt plus equity to remain below 55% over the next 12-24 months. In addition, considering the current interest rate environment, we forecast EBITDA interest coverage will settle at around 2x and debt to EBITDA will remain high at about 20x-22x over the upcoming periods.

Downside scenario

We could lower the rating if:

- Alstria's debt to debt plus equity exceeds 55% for a prolonged period;
- Debt to annualized EBITDA materially exceeds our base-case projections; or
- EBITDA interest coverage falls to 1.8x or below.

We would also consider taking a negative rating action if liquidity deteriorates or if the company further alters its financial policy, for example, resulting in further substantial dividend payouts.

Upside scenario

We could raise our rating if:

- Debt to debt plus equity decreases well below 50% on a sustainable basis and thanks to a more conservative financial policy;
- Interest coverage ratio improves above 3x; and
- Debt to EBITDA decreases to below 13x.

Our Base-Case Scenario

Assumptions

- German GDP of 1.9% in 2022 and 2.0% in 2023, with unemployment remaining low at around 3.0% over the same period.
- Annual consumer price index growth in Germany of around 7.6% in 2022 and 4.1% in 2023.
- Positive like-for-like net rental income of about 1% in 2022 and 2023, supported by our inflation expectations.
- Occupancy to remain stable at around 92%.
- Annual asset disposals of €100 million-€150 million in the next 12-24 months to support deleveraging plans, in line with the company's strategy.
- Annual capital expenditure (capex) of around €100 million-€150 million.

- Flat like-for-like revaluation over the coming two years, with positive value impact by inflated rents to be offset with some potential yield expansion.
- Average cost of debt to increase but remaining favorably at around 2.0%.

Key metrics

- Debt to debt plus equity of 50%-54% in 2022 and 2023, including any potential debt at the holding;
- Adjusted debt to EBITDA at around 20x-22x in 2022 and 2023; and
- EBITDA interest coverage to settle at around 2x over the forecast horizon.

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, or Stuttgart. Alstria's portfolio comprises 109 assets that value a total of about €4.8 billion (as of June 30, 2022).

Alstria became the first German REIT in 2007 and is listed on the MDAX. The company is controlled by Brookfield (95% equity stake) since February 2022, the remaining 5% is free float. We view Brookfield as a strategic owner, based on its commitment to a long-term ownership and support of Alstria’s strategy with limited dividends and maintaining a disciplined financial policy in line with our rating level.

Alstria Office REIT AG Portfolio Summary

Segment Focus	Office
Total Portfolio Value (€ Bn)	4.8
Total Number of Assets	109
EPRA Vacancy (%)	7.9
Average Lease Maturity (Yrs.)	5.9
Current Valuation Yield (%)	4.2

Source: Company's report as of June 30, 2022

Peer Comparison

Alstria Office REIT-AG--Peer Comparisons

	Alstria Office REIT-AG	CPI Property Group S.A.	Cofinimmo S.A./N.V.	DIC Asset AG	Befimmo S.A.
Foreign currency issuer credit rating	BBB-/Stable/--	BBB-/Stable/--	BBB/Stable/A-2	BB+/Stable/--	BB+/Stable/B
Local currency issuer credit rating	BBB-/Stable/--	BBB-/Stable/--	BBB/Stable/A-2	BB+/Stable/--	BB+/Stable/B

Alstria Office REIT-AG--Peer Comparisons

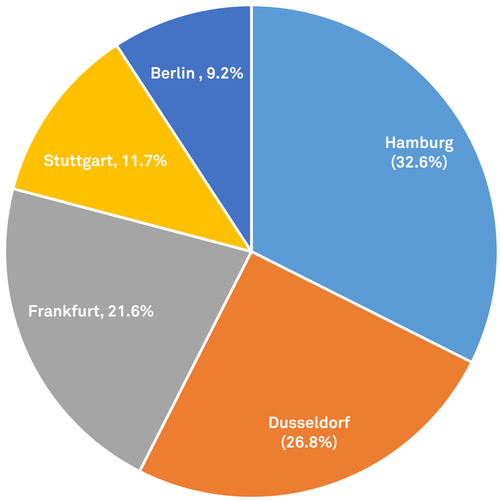
Period	Quarterly	Semiannual	Semiannual	Quarterly	Semiannual
Period ending	2022-06-30	2022-06-30	2022-06-30	2022-06-30	2022-06-30
Revenue	164	643	306	207	128
EBITDA	142	405	212	147	70
Funds from operations (FFO)	112	240	181	77	52
Interest expense	52.1	169.1	33.3	53.6	15.0
Operating cash flow (OCF)	85	401	191	113	34
Capital expenditure	106	248	91	27	127
Dividends paid	7.1	281.2	137.7	43.5	49.7
Cash and short-term investments	320	1,504	20	453	3
Debt	3,082	10,243	2,829	2,951	1,255
Equity	3,409	9,586	3,427	2,059	1,741
Valuation of investment property	--	--	--	--	--
Adjusted Ratios					
EBITDA margin (%)	86.4	63.0	69.5	71.0	54.6
EBITDA interest coverage (x)	2.7	2.4	6.4	2.7	4.7
FFO cash interest coverage (x)	5.0	2.8	6.8	2.9	4.2
Debt/EBITDA (x)	21.7	25.3	13.3	20.1	17.9
Debt/debt and equity (%)	47.5	51.7	45.2	58.9	41.9

Business Risk

The rating reflects the company’s market standing as one of the largest-listed office players in Germany, as well as its solid scale and scope. Its portfolio comprised 109 properties, valued at about €4.8 billion as of June 30, 2022. The buildings are mainly office assets in metropolitan areas in Germany, such as Hamburg (32.6% of the portfolio value), Dusseldorf (26.8%), Frankfurt (21.6%), Stuttgart (11.7%), and Berlin (9.2%).

Alstria Office REIT AG: Geographic Diversity

% of Portfolio Value: June 2022



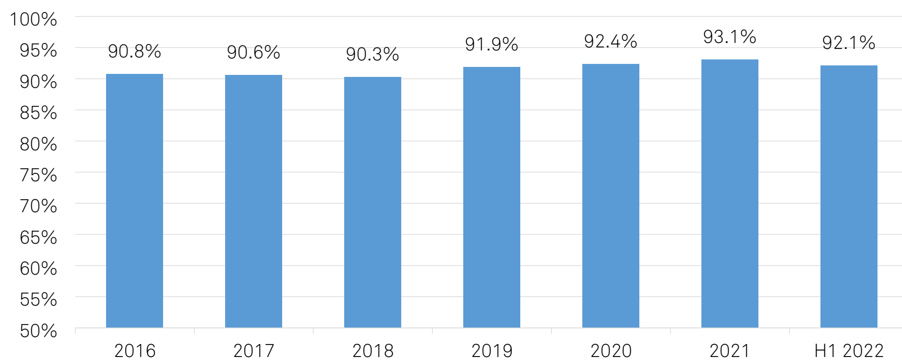
Source: S&P Global Ratings.

Most of Alstria's assets are in or near city centers, where demand for office space tends to be stronger versus secondary or rural areas. They have access to good infrastructure and positive rental growth prospects due to low unemployment, solid tenant demand, and inflation-linked rental contracts. Although Alstria is one of the largest listed office players in Germany, its market share remains limited because of the high German market fragmentation. We assess the asset quality of the company's office building as average and in line with the overall German office market. The properties require some continuous renovation and refurbishment measures, with annual capex estimated at approximately €100 million-€150 million. We view positively the absence of speculative development activities in the company's portfolio, which limits the risk of revenue volatility.

The portfolio is characterized by its relatively long average lease length of close to 5.9 years, supported by its exposure to tenants from public and private sectors. Approximately 22% of annual rent is linked to government tenants, whereas its largest tenant exposure is to the City of Hamburg, accounting for around 12% of annual rents. Its second largest tenant is Daimler (A-/Stable/A-2), accounting for approximately 11% of total annual income. We view the exposure to the City of Hamburg as public sector tenant as favorable and understand that leases with Daimler are spread over eight lease agreements, limiting the risk of cash flow volatility. Top 10-largest tenants generate around 38% of annual rental income.

The company reported an EPRA (European Public Real Estate Association) vacancy of 7.9% as of June 30, 2022 (excluding surface under renovation), which is somewhat above that reported by most rated investment-grade peers in the European office market but is in line with the company's asset-recycling strategy. Alstria has higher geographic, segment, and tenant concentration than those of peers rated in a higher business risk category. However, we believe it enjoys exposure to the top metropolitan cities of Germany, where leasing activity remains solid and new supply limited.

Alstria Office REIT AG: EPRA Occupancy



Source: S&P Global Ratings.

German office prime rents have remained broadly stable or positive in central locations of large urban cities where vacancy remains low. Leasing activity and utilization rates have bounced back since the pandemic, despite the rise of remote working, although they still somewhat lag pre-pandemic levels and differ across cities. Occupancy levels have stabilized and remain on average above 90% in the main metropolitan areas across Germany. Alstria has a moderate amount of lease maturities in the next 12-24 months, accounting for about 3% left in 2022, about 10% in 2023, and about 10% in 2024, of the annualized contractual rental income. We remain cautious about the re-leasing of properties for which lease maturities are upcoming, as well as rent levels for new lettings.

We understand the majority of Alstria's leases are linked to the CPI and we believe, the company's like for like rental growth should benefit from overall higher inflation, partially offsetting any potential impact on rising operational costs.

Financial Risk

Our assessment of Alstria's financial risk profile reflects the company's financial policy of maintaining an LTV of 50%-55% on a consolidated basis (including any potential debt at the direct holding), translated to an S&P Global Ratings-adjusted ratio of debt to debt plus equity of 55% or below.

In our base-case scenario, we forecast that the company's ratio of debt to debt plus equity will be around 50%-54% for the next 12-24 months, including approx. €100 million-€150 million of annual disposals. The forecast also takes into account Alstria's issuance of secured debt of about €760 million in third-quarter (Q3) 2022 and its announced special dividend of €1 billion, of which we understand €750 million has been paid out already in September 2022. In line with the company's strategy, dividend proceeds will be used to reduce the bridge loan of €1.7 billion at the direct holding level to about €700 million.

The current increase of interest rates will likely impact its funding costs, but we expect the company's cost of debt to remain at around 2.0% from 1.4% as of June 30, 2022 (excluding debt at the direct holding level). After the June 2022 reporting date, the company issued €500 million of mortgage loans with a maturity of five years at 3.25% among further secured financing facilities of about €260 million with similar conditions. Therefore, we forecast that its EBITDA interest coverage ratio will settle close to 2x (including interest expenses from debt at the holding level). We understand that the company plans to partially mitigate the higher funding costs with a reduction in common dividend to the minimum legal payout ratio, as required by its German REIT status.

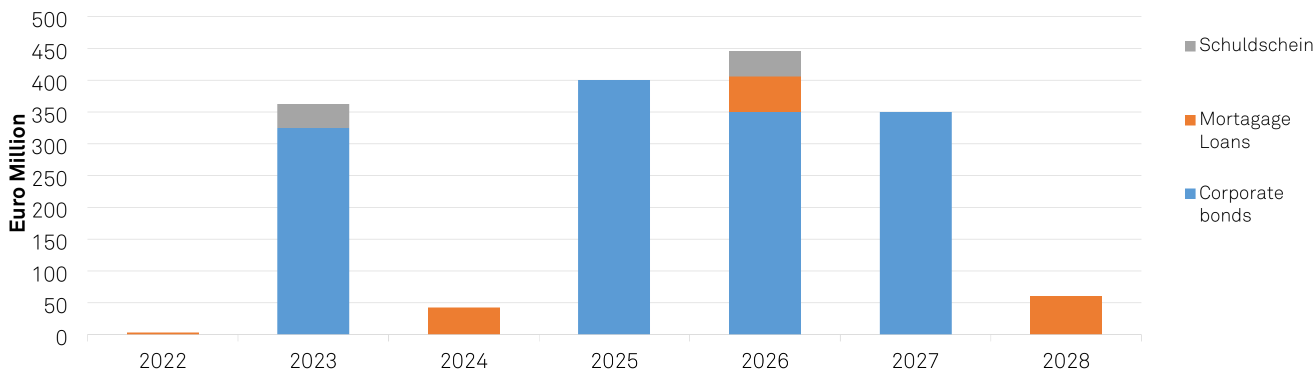
Versus our previous forecast (see "**German Alstria Office REIT-AG Downgraded To 'BBB-' On Brookfield's Completed Takeover; Outlook Stable," Feb. 11, 2022**), we expect asset disposals now to be more spread over the next few years (approx. €100 million-€150 million), taking into account the current market environment and a reduction of the transaction market. Hence, we expect the ratio of debt to EBITDA to remain high at around 20x-22x over our forecast period. That said, we believe Alstria should continue benefiting from a stable cash flow generation and a solid EBITDA margin of over 84%, thanks to its inflation-linked double lease rent contracts.

Debt maturities

The average remaining debt maturity was 3.8 years as of June 30, 2022.

Alstria Office REIT AG: Debt Maturities

As of June 30, 2022



Source: S&P Global Ratings.

Alstria Office REIT-AG--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	179	172	169	163	155	163
EBITDA	155	150	144	139	134	144
Funds from operations (FFO)	128	114	117	114	101	119
Interest expense	45	36	30	27	32	27
Operating cash flow (OCF)	120	122	119	122	103	116
Capital expenditure	32	59	89	117	145	125
Dividends paid	77	80	92	92	94	94
Cash and short-term investments	247	102	133	298	461	314
Debt	1,238	1,366	1,217	1,219	1,240	1,409
Common equity	1,728	1,955	2,684	3,176	3,252	3,367
Valuation of investment property	3,014	3,392	3,968	4,458	4,556	4,776
Adjusted ratios						
EBITDA margin (%)	86.5	87.3	85.0	85.4	86.2	88.3
EBITDA interest coverage (x)	3.4	4.2	4.8	5.2	4.2	5.3
Debt/EBITDA (x)	8.0	9.1	8.5	8.8	9.3	9.8

Alstria Office REIT-AG--Financial Summary

Debt/debt and equity (%)	41.7	41.1	31.2	27.7	27.6	29.5

Reconciliation Of Alstria Office REIT-AG Reported Amounts With S&P Global Ratings' Adjusted Amounts - EUR (Millions)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	SPGR adj. EBITDA	OCF	Dividends	Capex
Period date	2022-06-30									
Company reported amounts	1,663.7	3,408.6	164.1	139.2	232.9	28.6	141.8	84.8	7.1	105.9
Cash taxes paid	-	-	-	-	-	-	(2.4)	-	-	-
Cash interest paid	-	-	-	-	-	-	(27.8)	-	-	-
Lease liabilities	5.1	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(320.0)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	3.2	-	-	-	-	-	-
Debt: Shareholder loans	1,733.0	-	-	-	-	-	-	-	-	-
EBITDA: Gain/(loss) on disposals of PP&E	-	-	-	(15.4)	(15.4)	-	-	-	-	-
EBITDA: Other	-	-	-	14.8	14.8	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(94.7)	-	-	-	-	-
Interest: Shareholder loan	-	-	-	-	-	23.4	-	-	-	-
Total adjustments	1,418.0	0.0	0.0	2.6	(95.3)	23.5	(30.3)	0.0	0.0	0.0
S&PGR adjusted	3,081.7	3,408.6	164.1	141.8	137.7	52.1	111.5	84.8	7.1	105.9

Liquidity

We view Alstria's liquidity as adequate, based on its ratio of sources to uses of above 1.2x over the next 12 months as of June 30, 2022, supported by its large cash reserve and undrawn committed credit lines.

Principal liquidity sources

- Unrestricted cash balance of about €331 million and undrawn committed revolving credit facility of €200 million, maturing in more than 12 months;
- Our forecast of cash FFO of approximately €95 million-€100 million;
- Signed asset disposals of about €65 million; and
- Raised secured loan agreements for about €760 million.

Principal liquidity uses

- Short-term debt maturities of €372 million, mainly including the bond maturity of €325 million in April 2023 and the Schuldschein maturity of €37 million in May 2023.
- Committed capex of about €48 million for the next 12 months;
- Estimated common cash dividend of about €40 million; and
- Payment of special dividend of about €750 million.

Covenant Analysis

Requirements

We understand that Alstria has financial covenants for its existing debt. As of June 30, 2022, Alstria's headroom under its main covenants was solid (more than 10%):

- Consolidated net financial indebtedness over total assets of max. 60%, with a headroom of 22%;
- Secured consolidated net financial indebtedness over total assets of max. 45%, with headroom of 33%;
- Unencumbered assets over uunsecured consolidated net financial indebtedness of minimum 150%, with headroom of 125%;
- Consolidated coverage ratio of minimum range of 1.0x1.8x, reported at 5.5x in June 2022.

We understand that no covenants under the debt agreements or conditions of any secured /unsecured debt have been breached.

Compliance expectations

We understand that Alstria has sufficient headroom under all its financial covenants (more than 10%), as per the latest testing, which we expect it will maintain.

Environmental, Social, And Governance

E-2; S-2; G-2

ESG factors are an overall neutral consideration in our credit rating analysis of Alstria Office REIT-AG. That said, we recognize the company’s sustainability efforts. In 2021, Alstria published its first Carbon Accounting Report and received its first approval from shareholders to use a green dividend for climate-protection projects. The green dividend will be invested in two main projects, aiming to install up to 900 kilowatts of peak of solar panels on Alstria’s buildings (expected by the management to be finished by end of 2022) and to finance up to €750,000 of early research and concept validation for carbon removal projects. Additionally, Alstria remained committed to continue with its plan of reduction absolute scope 1 and 3 greenhouse gas emissions by 2030. As an extra potential project for the future, Alstria is exploring procurement methods that will allow the company to heat its properties, using biogases generated from plants and waste incineration.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2022, Alstria's capital structure comprised about 12.5% secured debt, mainly mortgaged bank loans; and 87.5% unsecured debt, including mainly senior unsecured bonds and promissory notes.

Analytical conclusions

We continue to rate the company's senior unsecured bonds at 'BBB-', in line with the issuer credit rating. This is because the company's exposure to secured debt is limited (pro-forma the recent issuance of €760 million secured debt post reporting date June 2022, secured debt to total fair value assets is around 18% and therefore way below our 40% threshold).

We understand that the leverage of Alstria will remain likely around an LTV of 50% over the next 12 to 24 months. That said, we believe that the level of secured debt remains very limited going forward with the ratio of secured debt to total assets well below 40%, in line with the company's strategy.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Satisfactory
Country risk	Very Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Ratings Detail (as of October 05, 2022)*

Alstria Office REIT-AG	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Issuer Credit Ratings History	
11-Feb-2022	BBB-/Stable/--
08-Nov-2021	BBB+/Watch Neg/--
04-Mar-2021	BBB+/Stable/--
02-Sep-2019	BBB/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.