

Bulletin:

Alstria's Loss Of REIT Status May Further Weaken Credit Ratios Despite Limited Cash Impact

September 20, 2024

This report does not constitute a rating action.

FRANKFURT (S&P Global Ratings) Sept. 20, 2024--S&P Global Ratings said today that Alstria Office REIT-AG (Alstria)'s impending loss of its status as a real estate investment trust (REIT), announced Sept. 18, could further weaken Alstria's credits metrics. In particular, we anticipate a weaker debt-to-debt-plus-equity ratio, although this depends on mitigating measures Alstria may take, as well as majority shareholder Brookfield Corp.'s support and decisions on upstreaming dividends.

Alstria (BB/Negative/--) stated in its press release that it will not be compliant with the minimum 15% free-float requirement to keep its German REIT-status, and will hence lose it by year-end 2024. This was followed by the announced intention of Alstria's largest shareholder Brookfield to initiate a squeeze-out of minority shareholders with the aim of fully owning the company.

After losing its REIT status, Alstria will become a regular taxable entity at the beginning of 2025, and subject to income and trade tax under German law. We believe the impact of this will be at least partly offset by the suspension of mandatory REIT-dividend payments, although we have limited visibility on Brookfield's intention regarding dividend payments at this stage.

Nevertheless, the loss of the REIT status will also trigger an abrupt buildup of deferred tax liabilities of €150 million to €400 million by year-end 2024, depending on the reported property valuation change for fiscal year 2024 and other tax considerations.

We anticipate that the increase of deferred tax liabilities, despite its noncash effect, might erode Alstria's equity position. This would likely burden the already pressured S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio, which was 65.1% as of June 30, 2024, versus our current downside rating threshold of 65%. However, we understand that Brookfield, through its subsidiaries, is open to supporting Alstria's financial position, thereby shielding it from potential negative effects from the loss of the REIT status and mitigating the impact on Alstria's financial profile.

Over the next few months, we will closely monitor the valuation of Alstria's property portfolio, the impact of the loss of its REIT status, and any mitigating actions initiated by Brookfield that might offset pressure on Alstria's credit metrics. At the same time, we still see a risk that Alstria's credit metrics may not recover in the next few months and that liquidity could

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deteriorate if debt maturities are not addressed in a timely manner. This is reflected in our negative outlook on the long-term rating.

Related Research

- Alstria Office REIT-AG, Sept. 13, 2024
- Alstria Office-REIT AG Downgraded To 'BB' On Higher-Than-Expected Property Devaluations; Outlook Negative, March 19, 2024

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