

Tear Sheet:

Alstria Office REIT-AG

September 13, 2024

Alstria's S&P Global Ratings-adjusted EBITDA interest coverage remains under pressure, but we expect it to align with our current rating requirements. While the adjusted EBITDA interest coverage ratio improved in first-half 2024, it remained low at 1.2x on a rolling 12-month basis versus 1.0x at year-end 2023. The improvement mainly stems from the direct holding company Alexandrite Lax Lux Holdings S.a.r.l. reducing debt by about €300 million in fourth-quarter 2023, which we adjust for our credit metrics of Alstria. We forecast an EBITDA interest coverage ratio of about 1.4x over the next 12 months, benefiting from lower interest costs related to the refinanced and reduced hold co loan, and overall, more favorable refinancing conditions. We expect the ratio to align with our 'BB' issuer credit rating, albeit with tight headroom. Excluding the hold co loan from our adjusted metrics, Alstria's EBITDA interest coverage would be significantly higher--about 2.4x.

We expect low-to-mid single-digit devaluations for 2024 and flat valuation movements in 2025. Despite signs of recovery following increased visibility on interest rate movements, which leads to real estate value stabilization, we expect additional property value corrections of about 3%-4% in 2024, and flat thereafter. As of June 2024, Alstria's S&P Global Ratings-adjusted debt-to-debt plus equity was 65.1%, slightly lower versus 66% in December 2023. We understand that no property revaluation has been done in first-half 2024. We estimate Alstria's adjusted debt-to-debt plus equity ratio will remain between 64%-66% over the next 12 months.

Alstria's liquidity remains adequate for the next 12 months, but larger debt maturities are looming in second-half 2025. As of June 30, 2024, Alstria reported small short-term debt maturities of about €5 million and committed capital expenditure (capex) of about €90 million, which can be covered by available unrestricted cash and equivalents of about €97 million. Additionally, Alstria benefits from an undrawn €200 million revolving credit facility and our forecast of about €95 million-€105 million cash funds from operations. Nevertheless, our liquidity assessment may come under pressure in the next quarter when we consider about €440 million of debt maturing within 12 months (mainly third-quarter 2025). Alstria has good track record of timely debt refinancing, supported by good relationship with local banks and recent closed maturity extensions. However, failure to refinance these facilities in a timely manner, could harm the company's liquidity, likely leading to a downgrade.

Alstria's operating performance will remain largely stable thanks to ample public tenant exposure and relatively long average lease terms. Despite our expectation of decreased inflation, we forecast positive like-for-like rental growth of 1%-3% annually for the next few years, supported by stable occupancy levels of 90% to 92%. Alstria benefits from public tenants

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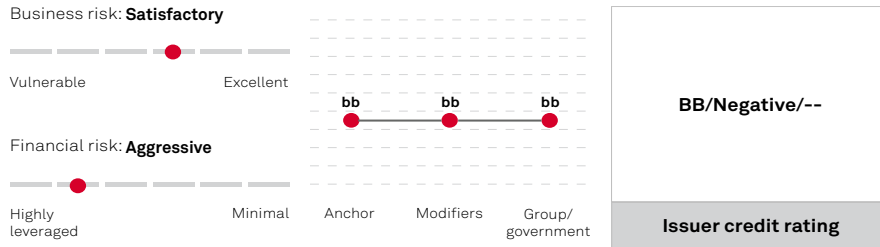
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providing predictable long-term cash inflows (about 28% of annual rental income), and a reported weighted average lease term above five years. We note the company is not currently REIT status compliant, including a minimum free float of 15% by year-end 2024 and a minimum equity ratio of 45% by year-end 2025 (43% at year-end 2023). We have not incorporated the financial impact of losing the REIT status in our base case and will update the market on the effect of our credit metrics once we have more visibility.

Ratings Score Snapshot



Recent Research

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

Company Description

Alstria is one of the largest listed office real estate companies in Germany. The company focuses on acquiring and managing office properties across the country, with locations mainly in, or close to, metropolitan areas such as Hamburg, Frankfurt, Dusseldorf, Berlin, and Stuttgart. Alstria's portfolio combines 106 assets with a market value of about €4 billion (as of June 30, 2024).

Alstria became the first German REIT in 2007 and is listed on the MDAX. As of June 30, 2024, Brookfield Asset Management is the largest shareholder, with 92% direct and indirect ownership.

Outlook

The negative outlook reflects the risk that Alstria's S&P Global Ratings-adjusted credit metrics may not recover in 2024 and that liquidity could deteriorate if 2025 debt maturities are not addressed in a timely manner.

We forecast debt to EBITDA will remain high at about 20x for the next 12 months and that S&P Global Ratings-adjusted ratio of debt-to-debt plus equity will be close to 65%. We expect a slight recovery in its EBITDA interest coverage ratio to about 1.3x-1.4x over the same period.

Downside scenario

We could lower the rating if:

- The company does not sustain debt-to-debt plus equity close to 65%;
- EBITDA interest coverage does not recover to 1.3x or above; or
- Debt to annualized EBITDA materially exceeds our base-case projections.

We would also consider taking a negative rating action if liquidity deteriorate or if a more aggressive financial policy is introduced. We might also consider a negative rating action if key performance ratios deteriorate considerably.

Upside scenario

We could revise our outlook to stable if:

- Debt-to-debt plus equity falls below 65%;
- EBITDA interest coverage ratio improves comfortably above 1.3x; and
- Debt to annualized EBITDA remains within our base-case projections.

We would also view positively an early refinancing of near-term debt maturities while maintaining an average debt maturity of comfortably above three years.

Key Metrics

Alstria Office REIT-AG--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	155	163	159	164	171	180	188	197
EBITDA	134	144	139	147	156	164	172	179
Funds from operations	101	119	94	74	80	85	84	87
Interest expense	32	27	82	146	108	114	122	128
Cash flow from operations	103	116	87	89	108	97	95	98
Capital expenditure	145	125	114	139	120	120	120	120
Dividends	94	94	757	262	--	30	30	30
Debt	1,240	1,409	3,174	3,137	3,111	3,135	3,160	3,213
Equity	3,252	3,367	2,571	1,618	1,605	1,655	1,704	1,755
Adjusted ratios								
EBITDA margin (%)	86.2	88.3	87.1	89.8	91.3	91.3	91.3	91.3
EBITDA interest coverage (x)	4.2	5.3	1.7	1.0	1.4	1.4	1.4	1.4
Debt/EBITDA (x)	9.3	9.8	22.9	21.3	19.9	19.1	18.4	17.9
Debt/debt and equity (%)	27.6	29.5	55.2	66.0	66.0	65.4	65.0	64.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Alstria Office REIT-AG--Financial summary

Period ending	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Reporting period	RTM	RTM	RTM	RTM	RTM	RTM
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	158	156	159	164	166	171
EBITDA	144	139	144	147	150	157
Funds from operations	94	83	88	74	71	80
Interest expense	94	105	122	146	136	133
Operating cash flow	100	104	101	89	102	109
Capital expenditure	128	149	147	139	139	130
Dividends paid	757	760	7	262	262	252
Cash and short-term investments	374	300	288	108	144	97
Debt	3,162	3,192	3,212	3,137	3,124	3,136
Common equity	2,559	2,569	2,537	1,618	1,656	1,683
Valuation of investment property	4,610	4,645	4,625	3,971	4,000	4,032
Adjusted ratios						
EBITDA margin (%)	91.2	89.3	90.4	89.8	90.5	91.8
EBITDA interest coverage (x)	1.5	1.3	1.2	1.0	1.1	1.2
Debt/EBITDA (x)	22.0	22.9	22.3	21.3	20.8	20.0
Debt/debt and equity (%)	55.3	55.4	55.9	66.0	65.4	65.1

Peer Comparison

Alstria Office REIT-AG--Peer comparisons

	Alstria Office REIT-AG	CPI Property Group S.A.	Summit Properties Ltd.	Vivion Investments S.a.r.l.
Foreign currency issuer credit rating	BB/Negative/--	BB+/Negative/--	BB+/Stable/--	BB/Negative/--
Local currency issuer credit rating	BB/Negative/--	BB+/Negative/--	BB+/Stable/--	BB/Negative/--
Period	LTM	LTM	Annual	Annual
Period ending	June 30, 2024	June 30, 2024	December 31, 2023	December 31, 2023
Revenue	171	1,198	186	243
EBITDA	157	714	91	171
Funds from operations (FFO)	80	282	59	94
Interest expense	132.6	395.8	33.6	109.2
Operating cash flow	109	295	34	99
Capital expenditure	130	384	19	40
Dividends paid	251.8	43.9	0.2	--
Cash and short-term investments	97	1,123	269	497
Debt	3,136	10,481	456	1,700

Alstria Office REIT-AG--Peer comparisons

Equity	1,683	7,605	1,048	2,020
Valuation of investment property	4,032	18,623	1,576	3,622
Adjusted Ratios				
EBITDA margin (%)	91.8	59.6	48.8	70.3
EBITDA interest coverage (x)	1.2	1.8	2.7	1.6
Debt/EBITDA (x)	20.0	14.7	5.0	10.0
Debt/debt and equity (%)	65.1	58.0	30.3	45.7

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit ratings analysis of Alstria. Despite being listed, the company is owned and controlled by Brookfield. Although we view Brookfield as a strategic owner, Alstria's corporate structure is less transparent than that of other private and listed rated real estate companies. Environmental and social factors are an overall neutral consideration in our credit rating analysis of Alstria Office REIT-AG. We recognize the company's efforts to follow sustainability guidance outlined in its Sustainability Report 2022/23 and Carbon Accounting Report 2023, while aiming to meet its goals by 2030.

Rating Component Scores

Foreign currency issuer credit rating	BB/Negative/--
Local currency issuer credit rating	BB/Negative/--
Business risk	Satisfactory
Country risk	Very low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024

Alstria Office REIT-AG

- 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: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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