Research Update:

Alstria Office REIT-AG Affirmed At 'BB' On Equity Commitment By Brookfield; Outlook Negative

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Rating Action Overview

- We understand that Alstria Office REIT-AG (Alstria) received an equity commitment letter from its controlling shareholder Brookfield Asset Management, which we expect to materialize ahead of its bond maturity in September 2025.
- The expected equity injection supports the company's current liquidity position and will support its credit metrics in line with our 'BB' rating requirements, once drawn Alstria's liquidity will be adequate, but sizable debt maturities of about €375 million are looming in 2026.
- Therefore, we affirmed our 'BB' long-term issuer credit rating on Alstria and our 'BB+' issue rating on the company's unsecured debt instruments. The recovery rating remains '2'.
- The negative outlook reflects the risk that Alstria's S&P Global Ratings-adjusted credit metrics will not become commensurate with our rating downside thresholds within the next 9-12 months and liquidity deteriorates if its near-term maturities are not addressed in a timely manner.

Rating Action Rationale

We understand that Brookfield has signed an equity commitment letter and will inject common equity to Alstria of about €160 million ahead of Alstria's bond maturity in September 2025. As of Sept. 30,2024, Alstria's S&P Global Ratings-adjusted debt to debt plus equity jumped to about 68% from approximately 65% in previous quarters, driven by the booking of a noncash deferred tax liability of about €225 million following the announced exit from the REIT status at end-2024. The company's reported loan-to-value remained stable at about 57%. We understand that Brookfield has signed an equity commitment letter of approximately €160 million to be injected after the closing of its minority squeeze out process, and ahead of its bond maturity in September 2025. We have revised our forecast and now assume common equity to be injected within our rating outlook horizon by the end of the third quarter of 2025 latest, which will bring back its S&P Global Ratings-adjusted ratio of debt to debt plus equity to below 65%, and therefore supporting its ‘BB’ issuer credit rating. Although remaining very low, we view the company’s increase in EBITDA interest coverage to 1.3x rolling 12 months as of Sept. 30, 2024 as positive, compared with 1.0x at end-2023. This is mainly due to the reduced debt at the holding company as of end-2023 and lower related funding costs, which we include in our calculation of Alstria’s adjusted credit metrics. We forecast Alstria’s EBITDA interest coverage to remain at about 1.4x over the next 12 months, and therefore commensurate with our current rating level. We think that higher refinancing rates for its upcoming debt maturities will be mitigated by positive rental growth and a reduction of gross debt following the anticipated equity injection. We note that Alstria’s cash interest coverage remains comfortable at about 2.0x. We expect the company’s debt to EBITDA to remain high but improve toward 18.0x by end-2025 compared with 20.0x as of Sept. 30, 2024.

Alstria’s liquidity remains adequate, but sizable debt maturities are looming beyond our 12-month forecast horizon. As of Sept. 30, 2024, Alstria’s short-term debt maturities amounted to about €442 million, including €107 million of secured debt maturing in August 2025 and €335 million of senior unsecured bonds maturing in September 2025. Alstria’s liquidity situation is currently strongly supported by the committed equity letter from Brookfield of about €160 million and recently signed new secured loans of around €165 million. We also note that the company’s undrawn committed revolving credit facility (RCF), maturing in more than 12 months, remains available with €200 million but will decrease to €150 million from April 2025 onward, given €50 million will mature in April 2026. We understand that the company is planning to tackle its debt maturities well in advance and has been successful in refinancing bank debt over the last 12-24 months. We note approximately €375 million of debt maturities in 2026, of which €334 million relates to a senior unsecured bond. We expect Alstria to take sufficient steps to address sizable upcoming debt maturities in a timely manner to avoid any liquidity shortage. As of Sept. 30, 2024, Alstria’s average debt maturity (WAM) stood at 3.2 years, close to our requirement of at least three years for the current rating assessment. Including the recently signed secured loans and refinancing activities, once drawn and completed, we expect its WAM to remain above three years going forward. We understand that Alstria‘s headroom under some of its financial covenants, mainly related to loan-to-value (LTV), has decreased below 10%. Following the strong property devaluation in 2023, LTV levels for its covenants under mortgage financing have exceeded 60%, sometimes 70%, with covenants ranging between 65% and 75%. For its unsecured financing, comparable LTV covenant is set at 60.0% with reporting of 57.1% as of Sept. 30, 2024. That said, we do not anticipate a risk of a covenant breach. We understand that all of Alstria‘s financial covenants are soft covenants and do not lead to any default scenario under its debt documentations. A breach of covenants could however entail further cash restrictions and limitations on the usage of operating income for its properties, burdening the company´s liquidity position.

We expect the company’s operating performance to remain broadly stable, despite slowing demand and rising vacancy rates in the German office market. As of Sept. 30, 2024, Alstria reported an increase in its average rent per square meter to €15.12 from €14.61 year-end 2023, mainly supported by extension of expiring leases and new lease contracts. Vacancy rate has remained broadly stable at 8.1% compared with 8.0% in December 2023 We anticipate the operating performance of Alstria to remain overall stable for the next 12 months, benefiting from the overall good location of its assets and long-term lease contracts with public tenants, which generate about 28% of the annual rental income of the company. We forecast that Alstria's rental income will benefit from its large average weighted lease term of more than five years and high rental indexation capacity, leading our forecast of positive like-for-like rental growth to about 2%-3% over the next year, on the back of a broadly stable occupancy rate of about 92%. We anticipate that the office segment in Germany may see some further pressure on occupancy rates because of slowing tenant demand, macroeconomic challenges in the German market, and downsizing of office space. We will closely monitor Alstria's operating performance and any potential effect on its credit metrics.

The recovery rating of Alstria's senior unsecured bonds remains capped at '2'. We maintained our recovery rating on the outstanding three senior unsecured bond issuances combined with a value of about €981 million capped at '2', indicating our expectation of 70%-90% recovery (rounded estimate: 85%) in the event of a payment default. Our issue rating remains at one notch above the 'BB' issuer credit rating.

Outlook

The negative outlook reflects the risk that Alstria's S&P Global Ratings-adjusted credit metrics is not commensurate with our rating downside thresholds within the next 9-12 months and liquidity deteriorates if its near-term maturities are not addressed in a timely manner. This will likely happen if the shareholder's equity commitment will not materialize during the anticipated timeframe. We forecast debt to EBITDA will remain high at about 18.0x for the next 12 months and that S&P Global Ratings-adjusted ratio of debt to debt plus equity will reduce back to just below 65%. We expect its EBITDA interest coverage ratio to remain broadly stable at about 1.3x-1.4x over the same period.

Downside scenario

We could lower the ratings on Alstria, if over the upcoming 12 months:

- The company's adjusted debt-to-debt plus equity ratio remains above 65%;
- EBITDA interest coverage ratio falls below 1.3x; or
- Debt to annualized EBITDA materially exceeds our base-case projections.

We could also consider taking a negative rating action if liquidity deteriorates, in particular, if Alstria does not address its 2026 debt maturities well in advance, or the anticipated equity injection is not completed by August 2025.

Upside scenario

We could revise our outlook to stable if:

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

An outlook revision would also require an early refinancing of near-term debt maturities, supporting an adequate liquidity while maintaining an average debt maturity of comfortably above three years.

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 €4.1 billion (as of Sept. 30, 2024).

Alstria is listed on the MDAX. As of Sept. 30, 2024, Brookfield Asset Management is the largest shareholder, with 95% direct and indirect ownership.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Germany of 1.1% in 2025 and in 2026. German consumer price index to increase at a slower rate 2.3% in 2025 and 1.9% in 2026. We expect unemployment to remain low at about 3.0%-3.5% over the next 24 months.
- Positive annual like-for-like rental income growth of 2.0%-3.0% over the next 12-24 months, supported by inflation and lease renewals, with occupancy rates to remain stable at about 92%.
- Overall flat property valuation for 2024 following the company's public release recently. We forecast flat valuation results in the following years.
- No acquisitions, although we expect minimal disposals of about €30 million in 2025.
- Annual capital expenditure (capex) of €100 million-€110 million over 2024-2025.
- No dividend payments over our forecast horizon, despite the loss of its REIT status in 2024. Equity injection by Brookfield of about €160 million, to be completed by August 2025.
- We maintain our assumption of debt at Brookfield level of about €800 million with annual interest payments of approximately €40 million, to be included in our adjusted credit metrics of Alstria.
- Refinancing of upcoming debt maturities at a cost of about 4.5%-5.5%.
- Average cost of debt to range between 3.0%-3.5%, excluding the debt at the holding company level.

Key metrics

- Debt to debt plus equity of about 68%-69% in 2024 but improving in 2025 to 64%-65%.
- EBITDA interest coverage to remain stable at approximately 1.3x-1.4x over the same period.
- Adjusted debt to EBITDA to remain high at about 18.0x-20.0x in 2024-2025.

Liquidity

Alstria's liquidity remains adequate, based on our calculation that the company's liquidity sources will cover uses by more than 1.2x over the next 12 months as of Sept. 30, 2024.

Principal liquidity sources

- Unrestricted cash balance of about €100 million and an undrawn committed RCF of €200 million, maturing in more than 12 months;
- Forecast cash FFO of approximately €90 million-€100 million;
- Signed secured loan agreements of about €165 million; and
- Equity injection of approximately €160 million, to be completed by August 2025.

Principal liquidity uses

- Short-term debt maturities of €442 million, mainly including the bond maturity of €335 million in September 2025 and secured debt maturities of €107 million in August 2025; and
- Committed capex of about €90 million for the next 12 months.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB/NEGATIVE/--
Local currency issuer credit rating	BB/NEGATIVE/--
Business risk	Satisfactory
Country risk	Very Low Risk
Industry risk	Low Risk
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately Negative
Comparable rating analysis	Neutral
Stand-alone credit profile	bb

Related Criteria

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

Related Research

- Alstria's Loss Of REIT Status May Furthermore Weaken Credit Ratios Despite Limited Cash Impact, Sept. 20, 2024
- 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

Ratings List

Ratings Affirmed	
Alstria Office REIT-AG	
Issuer Credit Rating	BB/Negative/--
Senior Unsecured	BB+
Recovery Rating	2(85%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available toRatingsDirectsubscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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