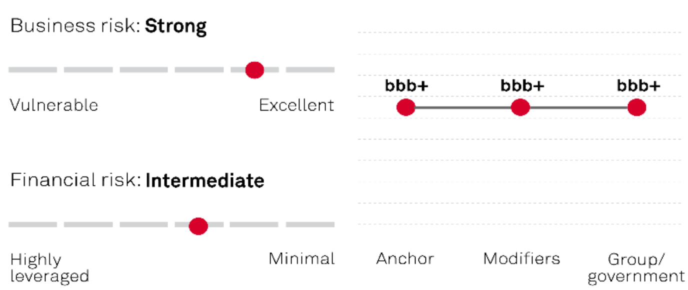
Aroundtown S.A.

December 12, 2022

Ratings Score Snapshot



BBB+/Stable/A-2

Issuer credit rating

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Credit Highlights

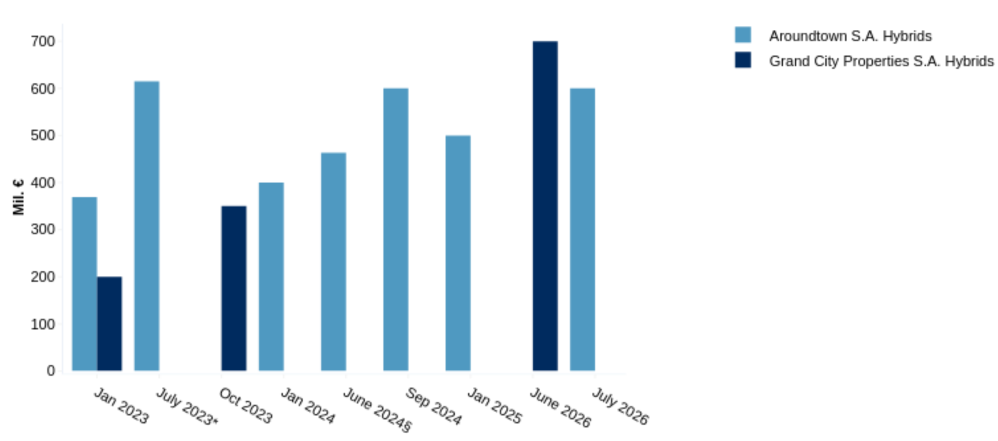
Overview

Key strengths	Key risks
Large portfolio of about €30 billion--fully consolidating Grand City Properties S.A. (GCP)--spread across several segments, including offices, residential, and hotel properties.	Moderate leverage, with S&P Global Ratings-adjusted debt to debt plus equity expected to remain at 48%-50%. Headroom to our rating downside threshold is tight.
Focus mainly on German metropolitan areas and cities that have favorable market fundamentals.	Rising interest rates and worsening economic conditions will likely increase real estate cap rates and therefore lower valuations.
Strong record of developing its portfolio and generating positive like-for-like rental growth.	Despite the consolidation of GCP, about 69% of the portfolio is commercial properties (office, hotels, logistics, and retail), which have been less resilient than residential assets.
Good tenant diversity--the top 10 tenants account for less than 20% of annual rent--good spread across industries, and a long weighted average lease maturity at 7.5 years.	As of September 2022, the office portfolio had a vacancy rate of 10.9% while the residential portfolio had vacancy rate of 4.4%, which is slightly higher than other rated investment-grade peers
Strong liquidity and access to diversified funding sources, with low average cost of debt of 1.3% and a long average debt maturity profile of 5.3 years.	

Aroundtown's segment diversification and low refinancing needs will help to counter the current market uncertainties and economic risks. Tightening financial conditions and faltering economic activity are poised to weigh on asset valuations and limit access to debt capital markets across the real estate universe. In this context, we view Aroundtown's well-diversified property portfolio and actively managed capital structure as buffers against the growing market headwinds. Moreover, Aroundtown's orderly execution of asset disposals, long-dated maturity schedule, and appropriate hedging strategy provide sufficient leeway to sustain a strong deterioration in its credit metrics over our rating horizon, in our view. The company reported like-for-like rental income growth, excluding hotel assets, of 3.4% on Sept. 30, 2022 (2.6% including hotels), and occupancy rates remained broadly stable across its portfolio. We expect Aroundtown's EBITDA growth to be limited, mainly due to the reduction of its EBITDA base caused by its disposal activities. EBITDA is supported by solid indexation and steady, manageable property vacancies.

Our revised forecast includes the group's recent announcement that it would not call hybrid bonds totaling €569 million at their first optional call dates in January 2023. As of Sept. 30, 2022, Aroundtown had a total hybrid stock of about €4.7 billion, representing a capitalization rate of 15%. Of this stock, about €1.4 billion has a first optional call date that falls in 2023. The €200 million hybrid issued at the GCP level and the €369 million outstanding amount of the hybrid issued by ATF Netherlands B.V. both have first call dates falling in January 2023 and, coincidentally, an effective maturity less than 20 years after that date. Thus, they will no longer meet our minimum effective maturity requirement for maintaining intermediate equity content under our hybrid methodology after their respective call dates and we will classify them as 100% debt, rather than 50%. This change to our equity content will cause the headline financial metrics to deteriorate marginally, but is not based on the company's noncall decision. In addition, even hybrid instruments we regard as having no equity content still provide a qualitative benefit in our rating analysis. Both instruments offer a subordinated and relatively long-dated element to the balance sheet and features that allow Aroundtown to conserve further cash, if needed. We factor this in when assessing Aroundtown's overall creditworthiness. We have also fully incorporated the reset rate of 3.637% plus five-year mid swap for the €200 million bond and 4.375% plus five-year swap for the €369 million bond in our forecast interest expense. For the moment, we have assumed that Aroundtown will replace the $641.5 million hybrid instrument that has a first call date in July 2023 and the €350 million hybrid instrument that has a first call date in October 2023 (issued by GCP), with a similar equity-like instrument for now (maintaining 50% equity treatment) at a coupon of at least 8%. The accounting impact on Aroundtown's ratio of debt to debt plus equity is about 1.0%-1.5%. We will continue to monitor the company's announcements regarding hybrid first call decisions, as well as any changes to the market environment, and update our analysis accordingly.

Aroundtown S.A.: Hybrid Call Dates (Including Grand City Properties S.A.)



*In U.S. dollars, converted to euros. §In sterling, converted to euros. Source: S&P Global Ratings, Company Reports.

We expect credit metrics to remain commensurate with our 'BBB+' rating, but that headroom will tighten. Furthermore, we assume Aroundtown will fund any future capital expenditure (capex) and its limited upcoming debt maturities from its current high cash balance, further disposals, and a funding mix that is in line with its existing financial policy and our current rating. Our forecast is that debt to debt plus equity will remain at 48%-49% in the next 12 to 24 months (47.5% at Sept. 30, 2022). At the end of September 2022, Aroundtown reported a total portfolio like-for-like revaluation of 1.3% compared with the same period in the previous year. EBITDA interest coverage is likely to be around 3x (3.7x on Sept. 30, 2022), supported by the company's:

- Long average debt maturity profile (5.3 years);
- Low cost of debt (1.3% as of Sept. 30, 2022, overall stable from 1.2% at the same period last year); and
- Use of fixed rates or hedging (98%).

The main effect on the company's EBITDA interest coverage stems from the reassessment of hybrid capital after its first optional call date in our forecasts--we assume the noncall of the January 2023 hybrids and assess coupon payments at 100% interest expense at the reset rate, while also assuming the replacement of hybrids that have later first optional call dates in 2023 and 2024. EBITDA interest coverage could be further affected if the company decides not to call more hybrids at their first call date, or replacement costs could be significantly higher than we currently assume. We expect debt to EBITDA to progressively fall to 15x over the next few years--from 16.2x on Sept. 30, 2022, and 17.7x at year-end 2021--as the group benefits from the full consolidation of GCP. Furthermore, we have noticed that Aroundtown has been providing more vendor loans to buyers, to enable the disposal of the property in its pipeline. As of Sept. 30 2022, it had about €500 million in vendor loans outstanding. We remain cautious about the use of vendor loans, but understand that the exposure should not increase materially going forward.

Outlook

The stable outlook indicates that we expect Aroundtown to continue generating positive like-for-like rental growth on the back of its indexation-linked commercial lease agreements and overall unchanged occupancy levels, supporting a stable and predictable cash flow.

Despite economic headwinds, which have increased pressure on its property valuations, we believe the company will take sufficient measures to remain in line with its relatively prudent financial policy.

Our base-case scenario assumes that the company will approach its upcoming hybrid first optional call dates as described below.

Downside scenario

We would downgrade the company if, on a prolonged basis:

- Debt to debt plus equity increased to 50% or higher;
- Debt to EBITDA deviated materially from our forecast;
- EBITDA interest coverage falls toward 2.4x or below; or
- Its operating environment deteriorates significantly, leading to a strong increase in vacancy rates in its commercial property portfolio or a stronger devaluation of its asset base than we currently anticipate.

Upside scenario

We would upgrade the company if Aroundtown commits to a more conservative financial policy that includes improving credit metrics and maintaining them at the following levels:

- Debt to debt plus equity at close to 40%;
- The EBITDA interest coverage ratio at 3.8x or above; and
- Debt to annualized EBITDA below 13x.

Any upgrade would also depend on the company sustaining a portfolio that is similar in terms of scale and diversification to that of peers in a higher rating category, as well as exhibiting high governance standards.

Our Base-Case Scenario

Assumptions

- Real GDP in Germany to decline by 0.5% in 2023 and increase by 1.0% in 2024; we forecast a consumer price index in Germany of 7.3% in 2023 and 3.0% in 2024.
- Real GDP in the U.K. to decline by 1.0% in 2023, and increase by 1.3% in 2024; we forecast a consumer price index in the U.K. of 7.0% in 2023 and 0.9% in 2024.
- Annual like-for-like rental income growth of 1.5%-2% overall in the coming two years, factoring in a progressive recovery in Aroundtown's hotel assets and some benefits from its commercial indexation-linked rental contract.
- Overall occupancy levels to stay stable at about 92%-93% in the coming 12-24 months. That said, we believe occupancy levels in Aroundtown's office and commercial real estate assets could experience a slight drop of 1%-2% over our forecast horizon.
- After an overall flat revaluation result in 2022, a devaluation of 4%-5% for 2023 and a further drop of 2%-3% in 2024.
- Total annual capex of about €500 million-€550 million over the next couple of years, mainly linked to repositioning activities and modernization of existing assets.
- Gross EBITDA margins of about 56%-58%, with only minor impact on cost inflation, not recoverable from its tenants.
- Net seller position in 2022 and 2023 (it has signed asset disposals of about €1.1 billion for the year to date). We expect disposals to amount about €500 million-€800 million in 2023.
- No further significant increase in vendor loans provided to the buyers of its disposal exposure.
- No additional material share buybacks.
- No significant amount of new debt issuances, excluding hybrids.
- Noncall of its hybrids that have a first optional call date in January 2023, and replacement of the remaining hybrids that have first call dates in July and October 2023 with an equivalent instrument that would be treated as being at least 50% equity.
- Stable dividend policy, following a payout policy of 75% of reported funds from operations (FFO).
- Average cost of debt to remain below 2%, at least until end-2024, thanks to limited refinancing needs (excluding hybrid coupon payments).

Key metrics

Aroundtown S.A.--Key Metrics*

Mil. €	2020a	2021a	2022e	2023f	2024f
EBITDA	851.4	840.8	900-1,000	900-950	900-950
EBITDA margin (%)§	60.8	58.7	58-59	56-57	56-57
Cash dividends	21.9	329.4	~360	~450	~400
Debt	11,906.1	14,862.6	~15,000	14,000-15,000	14,000-15,000

Debt to EBITDA (x)	14.0	17.7†	~16	~15.5	15.0-15.5
EBITDA interest coverage (x)	3.1	3.5	3.5-4	~3	~3
Debt to debt plus equity (%)	45.1	47	47-48	48-49	~49

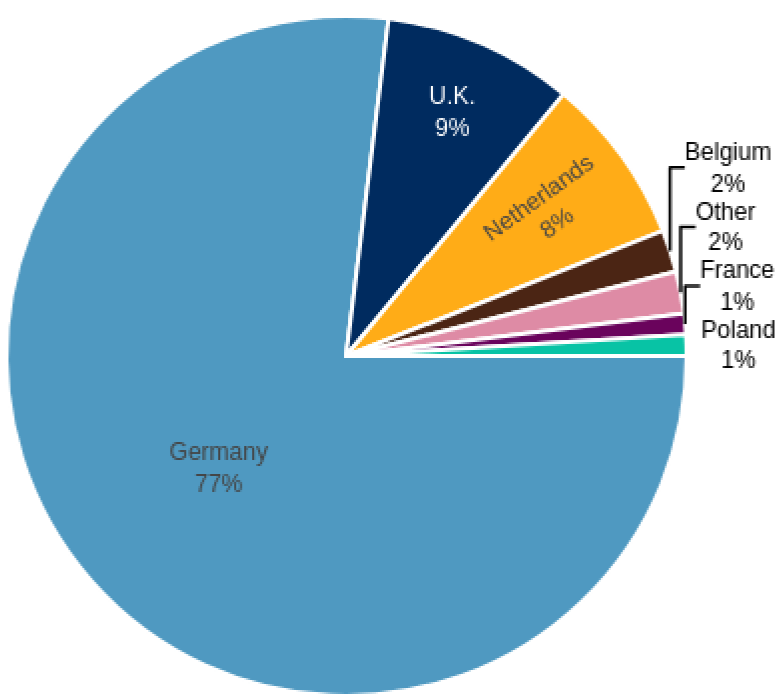
*All figures adjusted by S&P Global Ratings. §Margin is based on gross revenue. †Debt to EBITDA affected in this period by the consolidation of GCP a--Actual. e--Estimate. f--Forecast.

Our credit metrics reflect the full consolidation of GCP from the third quarter of 2021. Previously, we consolidated GCP proportionally.

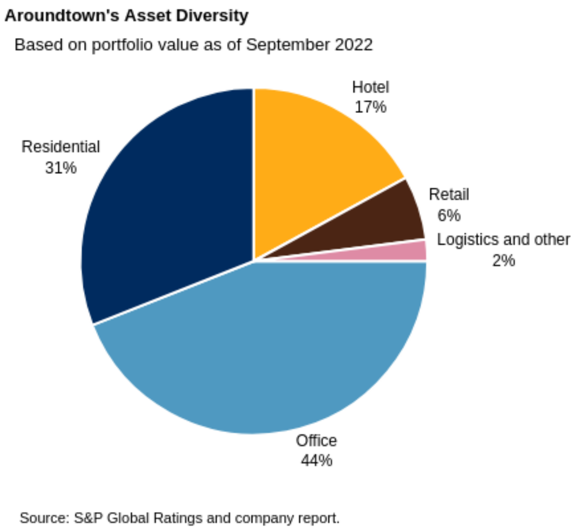
Company Description

Aroundtown is the largest listed Germany-based commercial real estate company. It focuses on investing in rental-income-generating properties, mainly in Germany. Aroundtown carries out its residential investments through its 59% holding in GCP.

Aroundtown's Geographic Diversity
Based on total portfolio value as of September 2022



Source: S&P Global Ratings and company report.



Aroundtown is incorporated in Luxembourg and listed at the Prime Standard on the Frankfurt Stock Exchange. As of Sept. 30, 2022, the largest shareholder was Aroundtown's founder Mr. Yakir Gabay, who held a 15% stake through Avisco Group PLC and Vergepoint. The company owns 30% of its own shares (including 12% through TLG Immobilien AG) and the remaining 55% is free float.

Peer Comparison

Aroundtown S.A.--Peer Comparison--Operating Metrics

	Aroundtown S.A.	Vonovia SE	Icade S.A.	Covivio	Heimstaden Bostad AB
Business risk profile	Strong	Excellent	Strong	Strong	Strong
Financial risk profile	Intermediate	Significant	Intermediate	Intermediate	Significant
Portfolio value (bil. €)	29	95	12.2*	17.8*	~31.0
Geographic diversity	Mainly Germany (26% Berlin, 14% North Rhine-Westphalia, 7% Frankfurt, 7% Munich), 8% Netherlands, 8% London	89% Germany, 8% Sweden, 3% Austria	Offices: France 100%	France: 32%, Italy: 15%, Germany: 38%, Other European countries: 15%*	30% Sweden, 25% Germany, 22% Denmark, 9% Netherlands, 7% Czech Republic, 6% Norway, 2% (Finland, U.K., Poland)
			Health care: France 85%, Outside (Italy, Spain, Portugal) 15%*		

Asset diversity	44% office, 31% residential, 17% hotel, 8% logistics, retail and other	100% Residential	Offices: 67%, health care: 33%*	Offices: 54.8%, German residential: 30.2%, hotels: 14.8%*	93% residential, 7% commercial.
Occupancy	1	1	Office: 87.2%, health care: 100%	1	1
Top-10 tenants (% of rental income)	<20%	N.A.	~34.1% (offices) §	~32% §	N.A.
WALT	7.4 years	N.A.	Office: 3.9 years, health care: 7.9 years	7 years	N.A.

WALT--Weighted average lease term. N.A.--Not available. All figures are as of September 2022. *Data as of June 2022. §Data as of December 2021.

Aroundtown S.A.--Peer Comparisons

	Aroundtown S.A.	Vonovia SE	Icade S.A.	Covivio	Heimstaden Bostad AB
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Local currency issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Period	Quarterly	Quarterly	Semiannual	Annual	Quarterly
Period ending	2022-09-30	2022-09-30	2022-06-30	2021-12-31	2022-09-30
Revenue	1,588	3,926	1,708	637	1,173
EBITDA	927	2,364	615	542	590
Funds from operations (FFO)	563	1,621	507	385	313
Interest expense	250.1	532.3	94.2	--	220.4
Operating cash flow (OCF)	526	1,731	286	366	399
Capital expenditure	442	2,248	945	463	781
Dividends paid	282.0	1725.5	254.6	--	340.9
Cash and short-term investments	2,318	1,245	1,097	929	429
Debt	14,991	45,859	6,883	7,799	16,386
Equity	16,593	37,425	8,860	9,194	15,073
Valuation of investment property	--	--	--	--	--
Adjusted Ratios					
EBITDA margin (%)	58.3	60.2	36.0	85.0	50.3
EBITDA interest coverage (x)	3.7	4.4	6.5	3.8	2.7
FFO cash interest coverage (x)	3.1	3.8	6.1	4.2	2.6
Debt/EBITDA (x)	16.2	19.4	11.2	14.4	27.8
Debt/debt and equity (%)	47.5	55.1	43.7	45.9	52.1

Business Risk

Aroundtown's portfolio benefits from large scale and scope. It is diversified across multiple property types, including commercial (69% of portfolio value) and residential assets (31%), worth about €29.3 billion as of September 2022. Aroundtown carries out its residential investments through its 59% stake in GCP. At the end of September 2022, GCP owned 65,088 residential units, mainly in Germany, with a total value of €9.7 billion. We have fully consolidated GCP in our analysis of Aroundtown since the third quarter of 2021 (previously, it was proportionately consolidated). The group's total portfolio comprises more than 500 commercial assets and 152 hotels, totaling about 10.0 million square meters (including residential). The company fully integrates TLG Immobilien AG and owns a minority stake of 30.3% in Globalworth Real Estate Investments Ltd. (BBB-/Negative/--) through a consortium with CPI Property Group S.A. (BBB-/Stable/--). Globalworth is an office landlord focused on Romania and Poland and has a portfolio of about €3.2 billion (including development projects).

Aroundtown's sizable portfolio is well diversified across asset types and regions across Germany, mainly in or close to metropolitan areas. We consider the areas of Aroundtown's greatest exposure--namely Berlin (26% of its portfolio value), North Rhine-Westphalia (14%), Frankfurt (7%), and Munich (7%)--to have supportive economic fundamentals, including low unemployment rates and solid demand characteristics. The company has some exposure to the Netherlands (about 8% of the portfolio, mainly office assets) in the Randstad area, primarily comprising the three largest Dutch cities (Amsterdam, Rotterdam, and Utrecht). It also has some exposure to London (8% of total portfolio, mainly residential and hotel assets).

During 2022, Aroundtown followed through on its noncore and mature assets disposal plan, aimed at strengthening the quality of its property portfolio. The proceeds were earmarked for future debt repayments and funding share buybacks. The company signed €1.1 billion in disposals in the first nine months of 2022. About €1.3 billion have closed, including about €470 million signed in 2021. Disposals, which mostly took place at book value, mainly comprise office properties (30%), development sites/land (32%), retail assets (20%), and hotels (14%).

Our assessment is further supported by the portfolio's long lease structure; its weighted-average lease term (WALT) is 7.4 years. For its office assets, Aroundtown's WALT is 4.3 years; while for its hotel assets it is longer, at 14.8 years with a fixed lease structure only. Although its German residential leases have no fixed contractual term, the average residential tenancy is very long, at more than 10 years.

The commercial and hotel tenant base is relatively strong and diverse across industries, with approximately 3,500 tenants. The two largest tenants are still Group Pierre & Vacances Center Parcs (not rated) and Siemens AG (A+/Stable/A-1+), which account for about 6% and 3% of total annual rental income, respectively. There is no further tenant dependency--the 10 largest commercial and hotel tenants represent less than 20% of total rental income.

We consider Aroundtown's strong operating record--it has reported like-for-like rental income growth of about 3%-4% for the past few years, supported by increasing occupancy rates in its existing premises and rental increases for in-place contracts and new leases. However, overall vacancy rates in Aroundtown's commercial portfolio remain slightly higher than peers at a similar rating level, at 10.9% for its office assets on Sept. 30, 2022. This is mainly a result of previous acquisitions and its repositioning strategy. The hotel portfolio is taking longer to recover from the pandemic than initially expected--rent collection is still heavily impaired by the mobility restrictions during the first quarter of 2022.

Our assessment also incorporates Aroundtown's exposure to the Germany economy, due to its concentration there. That said, we recognize that it has expanded geographically into the Netherlands and the U.K. in recent years. Together, these now account for 17% of the overall portfolio. In our view, commercial properties are less resilient than residential assets, especially in regulated markets such as Germany, although some protection is provided because rental contracts can be partly indexed against the consumer price index.

Financial Risk

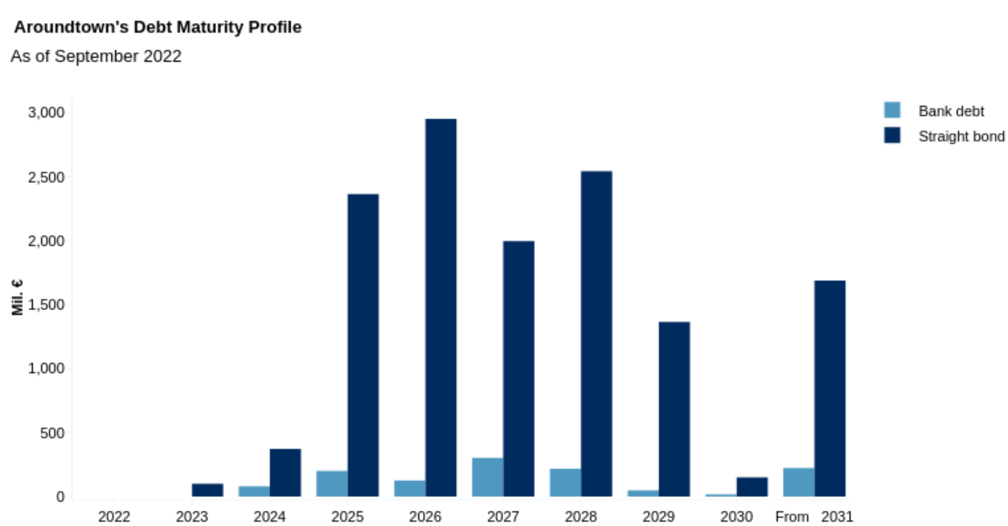
Our assessment of Aroundtown's financial risk profile reflects the company's moderate financial policy and commitment to maintaining its debt-to-debt-plus-equity ratio below 50% on a sustainable basis (or reported loan to value of no more than 45%). We assume the company will fund capex from disposals, and maintain its funding mix in line with its existing financial policy and our current rating.

We forecast debt to debt plus equity will remain tight at 48%-50% in the next 12 to 24 months (47.5% at Sept. 30, 2022), mainly because of our assumptions regarding the upcoming first optional call dates in January 2023, and because we expect to see a portfolio devaluation of 4%-5% in the next 12 months. We do not forecast that further share buybacks will be material. The company's long average debt maturity profile (5.3 years as of Sept. 30, 2022) and its extremely low cost of debt (1.3%) should support EBITDA interest coverage of well above 2.4x for the next 24 months (3.7x at Sept. 30, 2022). That said, the coverage ratio is predicted to decline from an expected 3.8x at end-2022, mainly because coupon payments for the hybrids that have first call dates in 2023 and 2024 will significantly increase. In a rising rate environment and with an average cost of debt that is historically low, we expect that decline to continue beyond 2024 as the company faces refinancing needs and will likely return to the capital market for primary issuances as well as supplementing its bank financing. For now, headroom against our 2.4% EBITDA interest coverage threshold remains substantial. We expect debt to EBITDA to decrease to 15x-16x over the next 12-24 months (from 16.2x on Sept 30, 2022, and 17.7x on Dec. 31, 2021), as the group benefits from the full consolidation of GCP.

The company has well-diversified funding sources, including through solid banking relationships, and a good record of accessing both equity and debt capital markets in the past couple of years. Aroundtown's proportion of unencumbered assets is relatively high, at 83% of the total rent, or €23.5 billion.

We now fully consolidate the financials of GCP because we think this better reflects the two companies' business and financial ties, and we think Aroundtown's long-term strategy includes remaining a major shareholder in GCP. We also apply our group rating methodology to the two entities, and consider GCP as a highly strategic subsidiary of Aroundtown.

Debt maturities



Source: S&P Global Ratings and company report.

Aroundtown S.A.--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	426	713	958	1,115	1,400	1,432
EBITDA	273	462	617	762	851	841
Funds from operations (FFO)	178	325	411	478	475	472
Interest expense	69	104	161	195	274	243
Operating cash flow (OCF)	186	347	417	503	433	401
Capital expenditure	58	110	184	269	351	447
Dividends paid	34	155	226	209	22	329
Cash and short-term investments	833	842	1,600	3,039	3,261	3,240
Debt	3,801	5,973	8,036	9,934	11,906	14,863
Common equity	3,889	6,914	9,501	12,506	14,497	16,791
Valuation of investment property	6,929	12,275	17,023	21,443	24,602	29,272
Adjusted ratios						
EBITDA margin (%)	64.0	64.7	64.4	68.3	60.8	58.7
EBITDA interest coverage (x)	4.0	4.5	3.8	3.9	3.1	3.5
Debt/EBITDA (x)	13.9	12.9	13.0	13.0	14.0	17.7
Debt/debt and equity (%)	49.4	46.3	45.8	44.3	45.1	47.0

Reconciliation Of Aroundtown S.A. 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	2022-09-30									
Company reported amounts	14,776.2	15,339.0	1,588.1	1,867.3	1,843.1	191.1	926.6	792.2	281.9	442.3
Cash taxes paid	-	-	-	-	-	-	(97.4)	-	-	-
Cash interest paid	-	-	-	-	-	-	(207.5)	-	-	-
Lease liabilities	167.9	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)	2,365.0	(2,365.0)	-	-	-	59.0	(59.0)	(59.0)	(59.0)	-

Reconciliation Of Aroundtown S.A. 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
Accessible cash and liquid investments	(2,318.3)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	5.6	-	-	-	-	-	-
Dividends from equity investments	-	-	-	37.7	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	(87.1)	-	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(207.5)	-	-
Noncontrolling/ minority interest	-	3,618.7	-	-	-	-	-	-	-	-
EBITDA: Gain/ (loss) on disposals of PP&E	-	-	-	(65.6)	(65.6)	-	-	-	-	-
EBITDA: Other	-	-	-	(831.3)	(831.3)	-	-	-	-	-
Dividends: Other	-	-	-	-	-	-	-	-	59.1	-
Total adjustments	214.6	1,253.7	0.0	(940.7)	(896.9)	59.0	(363.9)	(266.5)	0.1	0.0
S&PGR adjusted	14,990.8	16,592.7	1,588.1	926.6	946.2	250.1	562.7	525.7	282.0	442.3

Liquidity

We assess Aroundtown's liquidity as strong because we forecast that the fund's liquidity sources will exceed its uses by well above 1.5x over the next 12 months and by more than 1x over the following 12 months.

The company benefits from the absence of large debt maturities in the next three years and enjoys a high cash balance and a significant portion of liquid available assets.

Principal liquidity sources

From Sept. 30, 2022:

- About €2,318 million of cash and liquid market investments;
- Our forecast of about €600 million-€650 million in cash FFO for the next 12 months;
- Undrawn backup facilities for an amount of €975 million, maturing in more than 12 months; and
- Proceeds from signed asset disposals of about €300 million.

Principal liquidity uses

From Sept. 30, 2022:

- About €108 million of short-term debt maturities, including regular debt amortization;
- Our forecast of €500 million-€550 million of capex for property, plant, and equipment and property investment, of which we understand most is not committed;
- About €400 million-€450 million of dividend distributions (excluding perpetual notes), conservatively assumed as full cash payment; and
- Share buybacks amounting to about €70 million, already completed post reporting date.

Covenant Analysis

Requirements

As of Sept. 30, 2022, Aroundtown is compliant with financial covenants in its debt documentation.

Compliance expectations

We estimate headroom for the next quarters will remain significant, at 30% or more.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of Aroundtown. The company has embedded ESG into its strategy, although few of the assets in its portfolio have green building certifications; about 5% of the commercial portfolio as of Sept. 30, 2022, which is below other European peers. That said, Aroundtown constantly deploys capex to modernize its portfolio and maintain high environmental standards. It has continued its pilot project in the Netherlands, which aims to get the Dutch portfolio green-certified. By Sept. 30, 2022, 30% had been certified to BREEAM standards. The company's energy investment program installs infrastructure to reduce greenhouse gas emissions on its properties through the creation and storage of green energy (photovoltaic; electric vehicles; combined heat and power; and combined cooling, heat, and power). Aroundtown's goal is to reduce its total carbon emissions by 40% by 2030 (from 2018).

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept. 30, 2022, 84% of Aroundtown's assets, by rent, were unencumbered, and the reported capital structure comprised:

- Equity, including perpetual notes and mandatory convertible notes (56%)
- Bonds (40%); and
- Bank debt (4%).

Analytical conclusions

As of Sept. 30, 2022, Aroundtown's ratio of secured debt to total assets was about 3%, well below our 40% threshold for notching the issue rating. This is why we equalize the ratings on the senior unsecured debt with our 'BBB+' issuer rating.

For the outstanding subordinated hybrids, we assign intermediate equity content (50% equity; 50% debt) and notch the issue rating down by two notches to 'BBB-', one notch for subordination and one for deferability. We understand that the company sees a very low likelihood of deferring hybrid coupon payments at this stage. If the likelihood of coupon payments increases, we will reassess our ratings on Aroundtown.

We assess Aroundtown's $250 million mandatory convertible notes due 2023 as having high equity content (100% equity). We assess Aroundtown's $250 mandatory convertible notes due 2023 as having high equity content (100% equity).

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Low
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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

Related Research

- Bulletin: Aroundtown's Decision To Not Redeem Hybrids On First Call Dates In January 2023 Does Not Affect Credit Quality, Nov. 29, 2022

Ratings Detail (as of December 12, 2022)*

Aroundtown S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
07-Dec-2017	BBB+/Stable/A-2
21-Dec-2016	BBB/Stable/A-2
16-Jun-2016	BBB/Stable/--

*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.