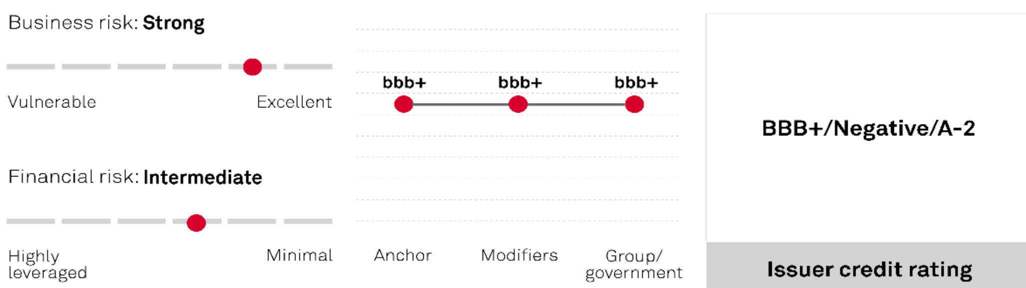
Aroundtown S.A.

December 12, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Large portfolio of about €26 billion--including Grand City Properties S.A. (GCP)--spread across several segments, including offices, residential, and hotel properties.	S&P Global Ratings-adjusted debt to debt plus equity expected to remain close to 51% in 2024 (52% as of Sept. 30, 2023), slightly above our downside threshold of 50% for the current rating.
Focus mainly on German metropolitan areas and cities that have favorable market fundamentals, which help generate strong positive like-for-like rental growth.	Macroeconomic uncertainties and higher interest rates could put further pressure on portfolio valuations over the next 12 months.
Good tenant diversity--the top 10 tenants account for less than 20% of annual rent--spread across industries, with a long weighted average lease maturity of 7.2 years.	Despite the full consolidation of GCP, about 68% of the portfolio is commercial properties (office, hotels, logistics, and retail), which have been less resilient than residential assets.
Strong liquidity with cash and liquid assets of €2.8 billion as of Sept. 30, 2030, covering debt maturities well until the second quarter of 2026.	

We expect Aroundtown S.A.'s (AT's) debt-to-debt-plus-equity ratio to remain slightly above our downside threshold of 50%, but we understand the company will take measures to reduce it to below 50% over the next 12-18 months. In 2024, we anticipate that the S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio will remain close to 51% (52% as of Sept. 30, 2023). This mainly reflects our reassessment of the equity content of the 2023 noncalled perpetual notes as 100% debt, as well as our assumptions of an approximately 7%-8% like-for-like asset devaluation in 2023 (versus 6% as of the first nine months of 2023) and another 2.0% in 2024.

We understand that the company did not perform a valuation process in the third quarter but will include an updated valuation result in its full-year results. We forecast that its debt to debt plus equity will drop just below 50% in 2025, mainly supported by its financial policy commitment to keep the reported loan to value (LTV) at 45% or below. The deviation between the company's stated reported financial policy and our adjusted ratio of debt to debt plus equity continues to widen because of the hybrid treatment. However, we expect the company to take sufficient steps to remain within our rating requirements.

Our assumptions include suspending dividends in 2023, a buyback of about €1.3 billion of senior bonds year-to-date at a discount averaging 20%, and targeting higher asset disposals. We also assume about €900 million in asset disposals in 2023 (€710 million up to third-quarter 2023) followed by about €500 million in 2024.

Despite higher funding costs for the sector, we continue to forecast that AT's EBITDA interest coverage will remain above our downside threshold of 2.4x in the next 24 months, albeit with tight headroom. The company's long average debt maturity profile of 4.6 years; relatively high exposure to fixed/hedged interest rates at 83%, albeit declining; and low cost of debt will continue to support EBITDA interest coverage of 2.8x for 2023 (2.9x for the rolling 12 months as of Sept. 30, 2023). That said, the coverage ratio will decline to about 2.5x in 2024 and 2025. This is mainly because of significantly higher hybrids reset coupon rates following first call dates in 2023 our reassessment of hybrid coupons as full interest of noncalled hybrids, and the higher cost of debt (1.4% margin plus three-month Euribor) on its year-to-date signed new bank loans of €1.0 billion, out of which the company has drawn about €790 million during the first nine months of 2023. We expect AT's debt to EBITDA to improve to 13.0x-13.5x in 2024 because we assume higher EBITDA generation stemming from strong like-for-like rental growth and slightly lower debt levels, partially mitigated by asset disposals.

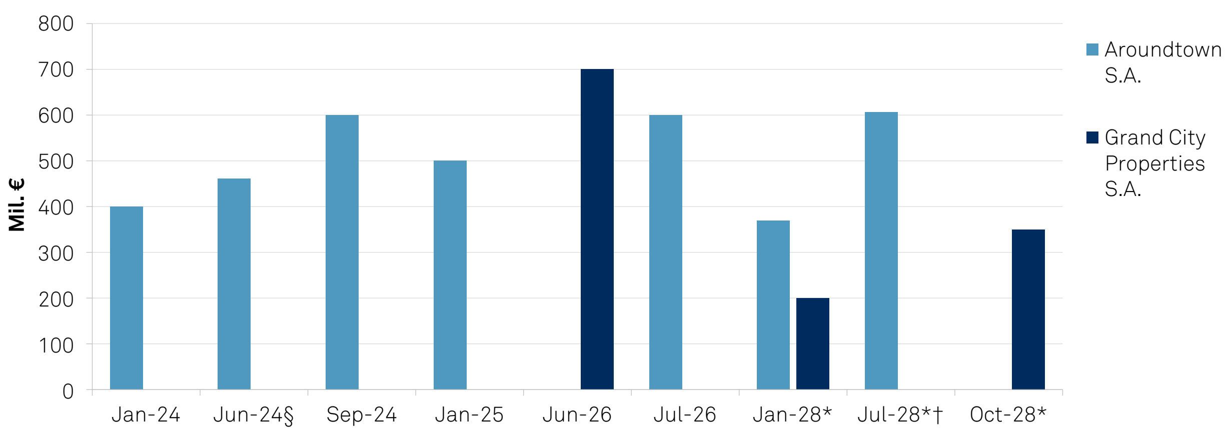
AT maintains strong liquidity, mainly supported by a high cash balance and liquid assets, covering debt maturities until first-half 2026. The company benefits from a high unrestricted cash position on the balance sheet of about €2.8 billion as of Sept. 30, 2023, and additional €300 million of disposal proceeds to be received (excluding vendor loans) post reporting date. Those sources will sufficiently cover upcoming debt maturities until mid-2026. Furthermore, the company recently bought back senior unsecured bonds of about €1.3 billion at an average discount of 20%, addressing its debt maturities beyond the time horizon for our strong liquidity assessment. We understand that AT had a solid covenant headroom of well above 15% under all its financial covenants.

We assume AT will not call the January 2024 hybrid, but we still assume a replacement of hybrid instruments with a first call date later in 2024. Following the noncall of its hybrids with first call date in 2023, and our reassessment of equity content to low because of a drop in effective maturity below 20 years, the company's hybrid stock with no equity treatment increased to about €1.48 billion compared with its total hybrid stock of €4.7 billion, including full consolidation of GCP. The decision not to call the four hybrid bonds year-to-date affected AT's debt-to-debt-plus-equity ratio by about 2%-3%, although we recognize that the hybrids can still play an equity-like role. The group indicated that its decision reflects the current market conditions, and we believe that the coupon on a newly issued hybrid instrument to replace the existing notes would significantly exceed the reset rates applicable under the terms and conditions of those hybrid bonds, which would weigh on the company's funding costs.

We think the hybrid bonds continue to qualitatively benefit the group's credit quality. For our base case, we assume the company's hybrid bond with first call date in January 2024 of €400 million will not be called, but we maintain our assumption that other hybrid bonds with later first call dates will be replaced, albeit at materially higher coupons of about 10%. 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 next call dates (including Grand City Properties S.A.)

As of Sept. 30, 2023



*Not called in 2023, next reset date in 2028. §In sterling, converted to euros. †In U.S. dollars, converted to euros.
Source: S&P Global Ratings, company reports.

AT's operating performance remains solid, despite the uncertain macroenvironment. AT posted a solid 3.5% like-for-like increase in its rental income in its third-quarter results, supported mainly by the inflation-linked nature of part of its office segment, which had a like-for-like rental income contribution of 4.8%. The company's lease length in the office segment stood at 4.2 years and is in line with the industry average. As of Sept. 30, 2023, only 2% of leases will mature in fourth-quarter 2023 and about 8% in 2024. However, the hotel segment still lags pre-pandemic levels, with expected rent collection for 2023 of only 85%-90% (versus 69% as of Dec. 31, 2022) although we expect it to improve to 100% by 2024. Although we expect occupancy levels will remain broadly stable at 91.5%-92.0% (versus 92.1% as of third-quarter 2023), benefiting from solid demand for its residential assets, we think the office segment could experience a 1% or 2% drop in occupancy rates because of macroeconomic uncertainties and the reduction in office space by tenants for cost-saving measures.

Outlook

The negative outlook reflects a one-in-three likelihood of a downgrade in the next 12-18 months if AT's credit metrics deteriorate beyond our base-case assumptions, with debt to debt plus equity remaining above 50% and EBITDA interest coverage falling below 2.4x on a prolonged basis. This could happen because of a stronger-than-expected devaluation of AT's properties, a weakening operational performance with vacancies increasing strongly, or a further delay in the full recovery of its hotel assets.

Downside scenario

We would downgrade AT if, over a prolonged period:

- Debt to debt plus equity remains above 50%;
- Debt to EBITDA deviated materially from our forecast;
- EBITDA interest coverage fell below 2.4x; or
- The operating environment deteriorated significantly, leading to a strong increase in vacancy rates in AT's commercial property portfolio or a stronger devaluation of its asset base than we currently anticipate.

Upside scenario

We would revise the outlook to stable if AT achieves, on a prolonged basis:

- A debt-to-debt-plus-equity ratio below 50%;
- EBITDA interest coverage above 2.4x;
- Debt to EBITDA in line with our forecast; and
- A solid operating environment with stable occupancy levels, positive like-for-like rental income growth, and higher visibility of future property values.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Germany of 0.6% in 2024 and 1.4% in 2025. We forecast rising consumer price index growth of 2.8% in 2023, reducing to about 2.0% in 2025.
- Real GDP in the U.K. to decline by 0.5% in 2023 and increase to 1.5% in 2024; we forecast a consumer price index rise of 6.0% in 2023 and 1.5% in 2024.
- Annual like-for-like rental income growth of about 3%-3.5% in 2023 and 2.5%-3.0% in 2024, factoring in benefits from the company's commercial indexation-linked rental contract, solid tenant demand for residential assets, and additional recovery in the hotel assets.
- Overall occupancy levels to stay broadly stable at about 92%-93% in the coming 12-24 months. That said, we believe occupancy levels in the commercial real estate segment may contract slightly by 1%-2% over the next 12-18 months.
- Property portfolio devaluation of 7%-8% for 2023 and a further drop of about 2% in 2024.

- Total annual capital expenditure (capex) of about €300 million to €400 million over the next couple of years, mainly linked to repositioning activities and modernization of existing assets.
- Asset disposals to amount to €900 million (€710 million signed year-to-date 2023) in 2023 and another €400 million-€500 million in 2024.
- No further significant increases in vendor loans provided to the buyers of its disposal exposure. We conservatively forecast that the outstanding vendor loan will be received at 50% in 2024 and 50% in 2025, although we understand that the company expects it to be received by end-2024.
- Limited new debt issuances and no share buybacks.
- All hybrids with its first call dates in 2023 treated as 100% debt in our forecasts. We assume the January 2024 hybrid will not be called and the remaining hybrids with first call date in 2024 and after will be replaced with an equity-like instrument at a cost of about 10%.
- No shareholders dividend for 2023 as announced by the company, and from 2024 a payout of 75% of reported funds from operations (FFO) as per its current dividend policy.
- Average cost of debt to remain about 2.2%-2.3% (excluding hybrid coupon payments) for the next 12 months, thanks to limited refinancing needs and a high portion of fixed or hedged debt.

Key metrics

Aroundtown S.A.--Forecast summary

Period ending	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**
(Mil. EUR)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	1,115	1,400	1,432	1,610	1,630	1,671	1,710	1,756
Gross profit	889	1,111	1,040	936	1,024	1,069	1,095	1,124
EBITDA	762	851	841	914	969	1,013	1,047	1,079
Interest expense	195	274	243	258	340	413	431	451
Debt	9,934	11,906	14,863	14,709	14,233	13,560	13,120	12,960
Equity	12,506	14,497	16,791	15,349	13,322	13,120	13,500	13,920
Adjusted ratios								
EBITDA margin (%)*	68.3	60.8	58.7	56.8	59.5	60.6	61.2	61.4
Debt/EBITDA (x)	13.0	14.0	17.7	16.1	14.7	13.4	12.5	12.0
EBITDA interest coverage (x)	3.9	3.1	3.5	3.5	2.8	2.5	~2.5	~2.5
Debt/debt and equity (%) - including non-call Jan. 2024 hybrid	44.3	45.1	47.0	48.9	51.7	50.8	49.3	48.2
Debt/debt and equity (%) - assumed non-call on all 2024 hybrids	44.3	45.1	47.0	48.9	51.7	52.8	51.3	50.2

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--Euro.
*Based on gross rental income.

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

Company Description

AT is the largest listed Germany-based commercial real estate company, and it focuses on investing in rental-income-generating properties, mainly in Germany. AT carries out its residential investments through its 63% holding in GCP as of Sept. 30, 2023.

AT is incorporated in Luxembourg and listed at the Prime Standard on the Frankfurt Stock Exchange. As of end-September 2023, the largest shareholder was AT's founder Mr. Yakir Gabay, who held a 15% stake through Avisco Group PLC and Vergepoint followed by Stumpf Capital GmbH owning about 10%. The company owns 29% of its own shares (including 12% through TLG Immobilien AG) and the remaining 46% is free float.

We note that Stumpf Capital GmbH, controlled by Austrian Georg Stumpf, has recently acquired 10% in AT, which reduced the free float from 56% to 46%. We understand that Stumpf has no board seat.

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	Satisfactory	Strong	Strong
Financial risk profile	Intermediate	Significant	Intermediate	Intermediate	Significant
Portfolio value (bil. €)	26	95	7.4*	16.4*	~29.3
Geographic diversity	Mainly Germany (25% Berlin, 14% North Rhine-Westphalia, 7% Frankfurt, 7% Munich), 7% London, 9% Netherlands	89% Germany, 8% Sweden, 3% Austria	100% France	France: 36%, Italy: 16%, Germany: 42%, other European countries: 6%*	27% Sweden, 25% Germany, 22% Denmark, 8% Netherlands, 7.5% Czech Republic, 5% Norway, 5% (Iceland, Finland, U.K., Poland)
Asset diversity	41% office, 32% residential, 20% hotel, 7% logistics, retail and other	100% residential	Offices: 73%, business park: 24%, others: 3%*	Offices: 54%, residential: 30%, hotels: 16%*	100% residential
Occupancy (%)	92.1	97.9	87	95.8	98.1
Top-10 tenants (% of rental income)	<20	N.A.	~34 §	~30 §	N.A.
WALT	7.2 years	N.A.	3.7 years	7 years	N.A.

WALT--Weighted average lease term. N.A.--Not available. All figures are as of September 2023. *Data as of June 2023. §Data as of December 2022.

Aroundtown S.A.--Peer Comparisons

	Aroundtown S.A.	Vonovia SE	Icade S.A.	Covivio	Heimstaden Bostad AB
Foreign currency issuer credit rating	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Negative/--
Local currency issuer credit rating	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Negative/--
Period (Rolling twelve Months)	Quarterly	Quarterly	Semiannual	Annual	Quarterly
Period ending	2023-09-30	2023-09-30	2023-06-30	2022-12-31	2023-09-30
Revenue	1,619	3,328	1,728	630	1,406
EBITDA	917	2,197	478	533	861
Funds from operations (FFO)	526	1,400	332	410	352
Interest expense	311.6	736.5	109.6	135	457.4
Capital expenditure	390	1,146	472	377	745
Dividends paid	32.6	414.6	410.2	353	411.5
Cash and short-term investments	2,799	747	667	343	588
Debt	14,462	44,450	4,804	7,729	16,997
Equity	13,371	31,400	7,812	9,443	12,712
Valuation of investment property	26,033	86,141	7,418	17,394	28,810
Adjusted Ratios					
EBITDA margin (%)	56.7*	66.0	27.6	84.7	61.2
EBITDA interest coverage (x)	2.9	3.0	4.4	3.9	1.9
Debt/EBITDA (x)	15.8	20.2	10.1	14.5	19.7
Debt/debt and equity (%)	52.0	58.6	38.1	45.0	57.2

*Based on gross rental income.

Business Risk

AT's portfolio benefits from its large scale and scope. It is diversified across multiple property types, including commercial (68% of portfolio value) and residential assets (32%), worth about €26 billion as of Sept. 30, 2023.

AT carries out its residential investments through its 63% stake in GCP. At the end of September 2023, GCP owned 63,418 residential units, mainly in Germany, with a total value of €8.9 billion. The group's total portfolio comprises more than 500 commercial assets and 150 hotels, totaling about 9.5 million square meters (including residential). The company owns a minority stake of 30.3% in Globalworth Real Estate Investments Ltd. (BB+/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 €3.1 billion (including development projects).

AT's sizable portfolio is well diversified across Germany, mainly in or close to metropolitan areas. We consider the areas of AT's greatest exposure--namely Berlin (25% 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 9% 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 (7% of total portfolio, mainly residential and hotel assets).

The company continued with disposal activity in 2023 and used the proceeds to strengthen its liquidity position and reduce net leverage. It signed €710 million in disposals in the first nine months of 2023 and closed about €960 million, including about €530 million signed in 2022.

Disposals, which mostly took place at book value, mainly comprised office properties (33%), residential (20%), development sites/land (15%), retail assets (21%), and hotels (10%).

Our assessment is further supported by the portfolio's long lease structure; its weighted-average lease term (WALT) is 7.2 years. For its office assets, AT's WALT is 4.2 years, while for its hotel assets it is 13.9 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 3,000 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.

AT has a 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 AT's commercial portfolio remain slightly higher than peers at a similar rating level, at 12.2% for its office assets on Sept. 30, 2023. 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 and full recovery is expected only in 2024.

Our assessment also incorporates AT's exposure to the German economy, due to its concentration there. That said, it has expanded into the Netherlands and the U.K. in recent years, which together now account for about 7% 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 reported loan to value of no more than 45% (41% as of third-quarter 2023). 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.

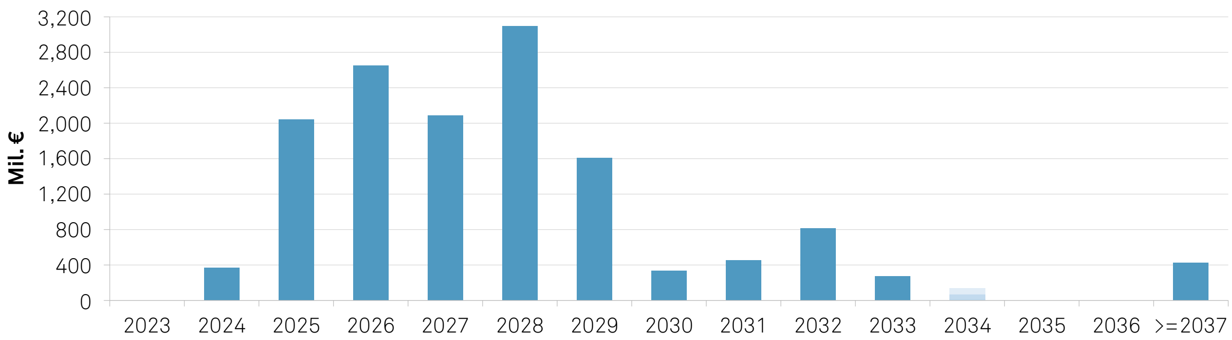
We forecast debt to debt plus equity will remain close to 51% in the next 12 to 18 months (52% as of Sept. 30, 2023), mainly because of our assumptions regarding the upcoming first optional call dates in January 2024, and because we expect to see a portfolio devaluation of 7%-8% for 2023 and about 2% for 2024. The company's long average debt maturity profile (4.6 years as of Sept. 30, 2023) and its relatively low cost of debt (2.2%) should support EBITDA interest coverage of slightly above 2.4x for the next 24 months (2.9x at Sept. 30, 2023). That said, the coverage ratio is predicted to decline from an expected 2.8x at end-2023, mainly because of the significantly higher hybrid coupon reset rates from their first call dates and our treatment of 100% interest for coupons of hybrids not being called. Amid the rising rate environment and with a low average cost of debt, we expect that decline to continue when the company faces larger refinancing needs, and we think AT will likely return to the capital market for primary issuances as well as supplementing its bank financing.

We expect headroom to our 2.4x EBITDA interest coverage threshold will tighten over the next 12 to 24 months but remain in line with our rating expectations. In addition, we think debt to EBITDA will decrease to 13x-13.5x in 2024 (from 15.8x on Sept. 30, 2023), as the group benefits from the full higher EBITDA generation from positive like for like rental growth, partially mitigated by disposal of assets.

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. AT's proportion of unencumbered assets is relatively high, at 75% of the total portfolio, or €19.1 billion.

Debt maturities

Debt maturity profile
As of Sept. 30, 2023



Source: Company report.

Aroundtown S.A.--Financial Summary

Quarter ending	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Revenues	396	411	409	403	413	394
EBITDA	245	221	225	223	233	237
Funds from operations (FFO)	177	116	147	97	147	140
Interest expense	62	62	72	77	78	90
Operating cash flow (OCF)	168	111	150	85	130	129
Capital expenditure	134	94	120	89	97	84
Dividends paid	8	230	7	5	4	17
Cash and short-term investments	2,198	2,318	2,709	3,034	2,520	2,799
Debt	15,282	14,991	14,709	14,683	14,310	14,462
Common equity	16,495	16,593	15,350	15,102	13,785	13,371
Valuation of investment property	29,568	29,251	28,117	27,864	26,270	26,033
Adjusted ratios*						
EBITDA margin (%)§	59.8	58.3	56.8	56.4	55.1	56.7
EBITDA interest coverage (x)	3.7	3.7	3.5	3.4	3.2	2.9
Debt/EBITDA (x)	16.3	16.2	16.1	16.1	15.9	15.8
Debt/debt and equity (%)	48.1	47.5	48.9	49.3	50.9	52.0

*Based on rolling 12 months. §Margin is based on gross revenue.

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	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Period date	2023-09-30									
Company reported amounts	14,084	13,283	1,619	805	(2,458)	220	917	778	33	390
Cash taxes paid	-	-	-	-	-	-	(100)	-	-	-
Cash interest paid	-	-	-	-	-	-	(207)	-	-	-
Lease liabilities	248	-	-	-	-	-	-	-	-	-
Debt-like hybrids	1,130	(1,130)	-	-	-	46	(38)	(38)	(38)	-
Intermediate hybrids (equity)	1,799	(1,799)	-	-	-	46	(47)	(47)	(47)	-
Accessible cash and liquid investments	(2,799)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	5	-	-	-	-	-	-
Dividends from equity investments	-	-	-	20	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	131	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	11	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(207)	-	-
Noncontrolling/ minority interest	-	3,017	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(43)	(43)	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	940	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	404	-	-	-	-	-
Dividends: other	-	-	-	-	-	-	-	-	85	-
Total adjustments	378	88	-	113	1,313	92	(392)	(291)	(0)	-

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	14,462	13,371	1,619	917	(1,145)	312	526	487	33	390

Liquidity

We assess AT'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 12 months and enjoys a high cash balance and a significant portion of liquid available assets.

Principal liquidity sources

From Sept. 30, 2023:

1. About €2,799 million of cash and liquid market investments;
2. Our forecast of about €630 million-€680 million annually in cash FFO for the next 12-24 months;
3. Undrawn backup facilities for an amount of €650 million, maturing in more than 12 months; and
4. Cash proceeds from signed asset disposals of about €300 million.

Principal liquidity uses

From Sept. 30, 2023:

5. About €385 million of short-term debt maturities, including regular debt amortization;
6. Our forecast of €300 million€400 million annually of capex for property, plant, and equipment and property investment, of which we understand most is not committed; and
7. No cash dividends for next 12 months followed by €250 million in cash dividends in following 12 months.

Covenant Analysis

Requirements

As of Sept. 30, 2023, AT 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 factors have an overall neutral influence on our credit rating analysis of AT. The company has embedded ESG into its strategy, although few of the assets in its portfolio have green building certifications--about 17% of the commercial portfolio as of Sept. 30, 2023--which is below other European peers. That said, AT 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, 2023, 100% of the Dutch offices has been certified to Building Research Establishment Environmental Assessment Method standards. We understand that the company has started green certifications at German assets as well. 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). AT'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, 2023, 75% of AT's assets by portfolio value were unencumbered, and the reported capital structure comprised:

- Equity, including perpetual notes and mandatory convertible notes (54%);

- Bonds (39%); and
- Bank debt (7%).

Analytical conclusions

As of Sept. 30, 2023, AT's ratio of secured debt to total assets was less than 5%, 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 no equity content for instruments with first call date in 2023 and intermediate equity content (50% equity; 50% debt) for all other hybrid instruments 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 AT.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Negative/A-2
Local currency issuer credit rating	BBB+/Negative/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: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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

- 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

- Grand City Properties S.A., Dec. 6, 2023
- Aroundtown Outlook Revised To Negative On Tightening Leverage Headroom And Market Uncertainty; Affirmed At 'BBB+', June 21, 2023

Ratings Detail (as of December 12, 2023)*

Aroundtown S.A.	
Issuer Credit Rating	BBB+/Negative/A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
21-Jun-2023	BBB+/Negative/A-2
07-Dec-2017	BBB+/Stable/A-2
21-Dec-2016	BBB/Stable/A-2

*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.