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Research Update:

German Real Estate Company Aroundtown Property Holdings PLC Assigned 'A-2' Short-Term Rating

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Overview

- Aroundtown Property Holdings PLC (ATP) owns and manages a portfolio of €4.6 billion, consisting of commercial, residential, and hotel properties.
- We think that ATP has a good track record of accessing the equity and capital markets and strong liquidity, with no major debt maturities within the next few years.
- We are assigning ATP our 'A-2' short-term corporate credit rating.

Rating Action

On Dec. 21, 2016, S&P Global Ratings assigned its 'A-2' short-term corporate credit rating to Germany-based commercial real estate company Aroundtown Property Holdings PLC (ATP).

The 'BBB' long-term corporate credit rating and stable outlook are unchanged.

Rationale

The 'A-2' short-term rating reflects our 'BBB' long-term rating on ATP and our view of the company's strong liquidity profile.

ATP's business risk profile, in our opinion, is underpinned by the company's good scale and diversification across multiple property types. In recent years, the group's portfolio value has increased substantially through acquisitions and improvements to properties. Considering recent committed acquisitions, we estimate that, as of November 2016, the total group portfolio comprises about 84,000 residential units, over 200 multi-tenant commercial assets, and 56 hotels with about 8,800 rooms, valued at over €6 billion, based on a proportionate share of the minority-owned residential business.

Our financial risk profile assessment reflects our expectation that ATP will maintain leverage (debt to debt plus equity) well below 50%, and a favorable EBITDA interest coverage ratio above 4x, in the long term. We proportionately consolidate the 35%-owned Grand City Properties' financials, since we think this better reflects the two companies' business and financial ties and we believe ATP's long-term strategy is to remain Grand City Properties' majority shareholder.

Liquidity

We assess ATP's liquidity as strong, based on our estimate that funding sources will exceed uses by more than 1.5x over the next 12 months. ATP's liquidity position is mostly supported by substantial cash balances and liquid investments, its committed undrawn credit lines, and positive cash funds from operations (FFO). ATP has low loan amortization and no large debt maturities in the next few years.

As of Sept. 30, 2016, we calculate ATP's liquidity sources as mostly consisting of:

- About €274 million of unrestricted cash and marketable securities; and
- Our forecast of €190 million-€200 million in cash FFO for the next 12 months.

This compares with potential liquidity uses of:

- About €62 million of debt amortization and short-term debt maturities; and
- Our forecast of €20 million-€30 million of capital expenditures, most of which we understand are not committed.

The liquidity assessment also includes recent financing activities of over €1 billion, including the €500 million issuance of perpetual notes, tap issuance of the series E senior unsecured bonds of €150 million, and €500 million of issuances of series F senior unsecured notes.

We assume that the company will use most of the proceeds from the issuances for its growth strategy and, to some extent, to refinance debt.

We expect ATP will maintain substantial headroom under the financial maintenance covenants in its various debt agreements.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/A-2

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)

- Liquidity: Strong (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Neutral (no impact)

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - General: Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

New Rating

Aroundtown Property Holdings PLC.

Corporate Credit Rating --/--/A-2

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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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225;

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