S&P Global
Ratings

RatingsDirect®

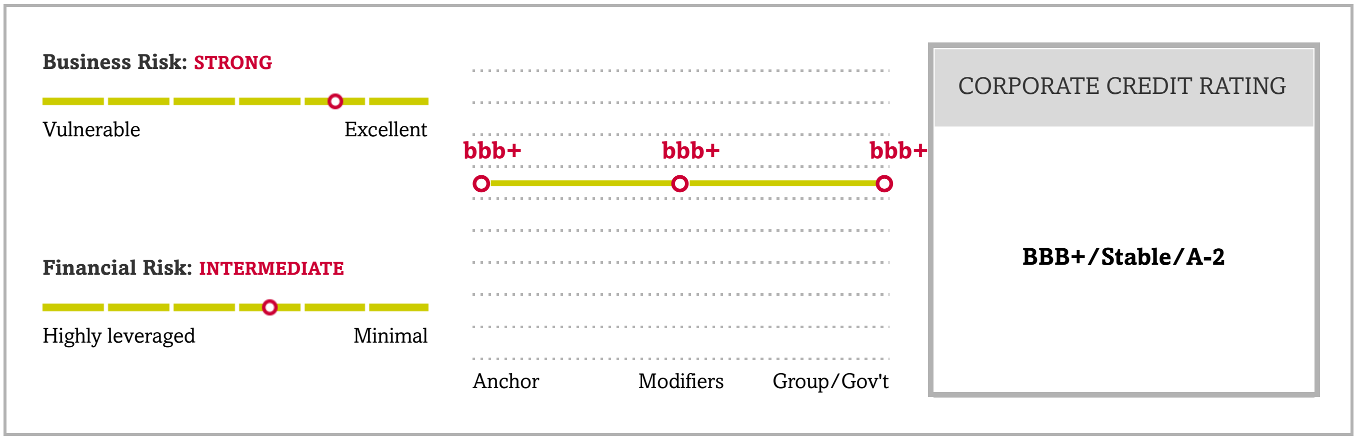
Grand City Properties S.A.

Primary Credit Analyst:
Nicole Reinhardt, Frankfurt (49) 069 33 999 303; nicole.reinhardt@spglobal.com

Secondary Contact:
Franck Delage, Paris (33) 1-4420-6778; franck.delage@spglobal.com

Table Of Contents

Grand City Properties S.A.



Rationale

Business Risk: Strong	Financial Risk: Intermediate
• Large residential asset portfolio of approximately €5.8 billion, with about 87,000 apartments, mainly focused on the midrange segment. • Well-diversified investment portfolio, chiefly spread in and around German metropolitan areas and midsize cities, with favorable demand for residential real estate and underlying healthy macroeconomic fundamentals. • Strong operational track record, with like-for-like rental income growth sustainably over 3%, as well as improving occupancy rates in the past few years. • No exposure to development activities and investments largely reflecting apartment improvements and renovation. • Full geographic dependence on one economy, Germany, with vacancy rates of 7.3% that are still higher than those of other rated peers and the market.	• Moderate financial policy, with an S&P Global Ratings-adjusted debt-to-debt plus equity ratio just below 45%. • Sound EBITDA interest coverage ratio exceeding 4x, supported by a continuously low interest-rate environment and cost of debt of only 1.5%. • A long-term debt maturity profile of about 7.5 years and very good access to bank financing and to equity and debt capital markets. • Strong liquidity, underpinned by the absence of large upcoming debt maturities in the next 12 to 24 months, and sufficient available cash and committed undrawn revolving credit facilities.

1957472 | 301742784

Outlook: Stable

The stable outlook on German real estate company Grand City Properties (GCP) reflects S&P Global Ratings' opinion that steady tenant demand in GCP's main locations should continue to support rental income growth over the next 12-24 months and that leverage should remain in line with the company's financial policy with S&P Global Ratings-adjusted ratio of debt-to-debt plus equity below 45% and an EBITDA interest coverage ratio of at least 3.5x.

Under our base-case scenario for the next 12 months, we forecast positive like-for-like rental income growth of about 3%, based on an increase in average rents and some further improvement in occupancy rates.

Downside scenario

We could lower our ratings on GCP if it failed to maintain its adjusted financial policy or if debt to debt plus equity increased to 45% or more as a result of large debt-financed acquisitions and an easing financial policy. We could also consider a downgrade if the company substantially increased its acquisitions of turnaround properties, resulting in less stable cash flows and a trend back to increasing vacancy levels closer to 10% or more.

We could also lower our ratings if GCP continued to issue hybrid instruments, leading it to exceed our threshold of 15% capitalization on a forward-looking basis. This would lead us to view its hybrid notes as having minimal equity.

Upside scenario

We could raise the ratings if GCP's portfolio showed strong progress in reducing vacancy rates further, to below 5%, with a portfolio size getting closer to that of other residential companies that we rate at a higher level. An upgrade would also depend on the company continuing to reduce its leverage, with the ratio of debt to debt plus equity at about 35%, and maintained that level as part of a more conservative financial policy, while keeping a strong EBITDA interest coverage of above 3.5x.

Our Base-Case Scenario

S&P Global Ratings' forecasts relatively low real GDP growth for Germany for the next two years: 2.1% in 2017 and 1.7% in 2018. Inflation should pick up slightly to 1.7%-1.8% over the same period.

We anticipate supply and demand dynamics to continue to be supportive for German residential landlords in the near term, underpinning rental income growth and stable occupancy levels.

Assumptions	Key Metrics
• Gross rental income of about €470 million for 2017 and slightly more than €500 million for 2018, including some completed acquisitions during the year and some further forecast portfolio growth of roughly €200 million to €300 million annually • Positive like-for-like rental income growth of 3.5%-4.0% for 2017 and 3.0%-3.5% for the following year. We believe this will result mainly from some increase in rental levels of existing as well as new leases, and a further reduction in vacancy rates to about 7% for the overall portfolio in the next 12 months. • Mid-to-high single digit asset valuation growth for the next 12-24 months, due to the good fundamentals of the German residential market and its favorable demand trends in GCP's key regions, such as Berlin, Cologne, and Dresden, where supply from new property developments remains limited. • A stable adjusted EBITDA margin of about 53% in 2017 and 2018, excluding gains on revaluation and asset disposals. We base the margin calculation on gross rental income as reported by GCP, including overhead received from tenants, such as heating costs, waste, and recycling fees.	• Debt to debt plus equity of 42%-44% in the next 12-24 months; • EBITDA interest coverage of close to 5x in the same period; and • Debt to EBITDA of 9x-10x in the same period.

Company Description

GCP is a Luxembourg-incorporated property investment company, focusing on investing and managing properties in the German residential real estate market. As of Oct. 31, 2017, its total portfolio value amounted to about €5.8 billion, consisting mainly of 87,000 owned units located in densely populated areas, with a focus on the state of North Rhine-Westphalia (29% of portfolio value), Berlin (22%), and the cities of Dresden, Leipzig, and Halle (together 17%).

The company is listed on the MDAX on the Frankfurt stock exchange.

Business Risk: Strong

GCP's business risk profile is underpinned by its large income-producing asset portfolio of about €5.8 billion as of Sept. 30, 2017, generating stable and recurring cash flows across Germany. The company benefits from a broad geographic spread across densely populated regions with good growth prospects in Germany. It focuses on mainly metropolitan areas with favorable macroeconomic fundamentals and strong demand for residential premises. The company has consequently markedly reduced vacancy rates to 7.3% from 8.1% at the same time a year ago. GCP has no exposure to development activities. Investments mainly relate to maintenance and renovation of acquired premises.

Our assessment also reflects GCP's geographic presence in well-balanced regions with healthy rental growth prospects, such as North Rhine-Westphalia (29% of portfolio value),including cities such as Cologne, Duisburg, and Dortmund; Berlin (22% of portfolio value), and the cities of Dresden, Leipzig, and Halle (17%). Demand continues to outpace supply of new property developments in GCP's core regions, further facilitating improvements in occupancy rates.

GCP's property portfolio has expanded to 87,000 owned units over the last 12 months, and, like its residential property peers, it has very good asset and tenant diversity. We view the asset quality of most apartments in GCP's portfolio as average, reflecting that the company still has some exposure to lower quality premises, which points to GCP's previous acquisition strategy. Vacancy rates declined to 7.3% at the end of September 2017 from 8.1% on the same date a year earlier but remain high compared with levels at other residential real estate companies that S&P Global Ratings rates, such as Vonovia SE (BBB+/Stable/A-2) or Deutsche Wohnen SE (A-/Stable/A-2).

Our Base-Case Operating Scenario

Tenant demand for midsize affordable apartments should remain solid in Germany, with rents growing steadily in 2017-2018, thanks to low supply of new assets and an increasing number of households in most of the large cities where GCP operates.

We see some increase in GCP's revenues in 2017 due to the full-year rent contributions from acquisitions completed in 2016 and positive like-for-like growth from rerenting, renewals, and some further gradual vacancy reduction.

Peer comparison

Table 1

Grand City Properties S.A. Peer Comparison

	Grand City Properties S.A.	Deutsche Wohnen SE	Vonovia SE	Buwog AG	Akelius Residential Property AB
Rating on Nov. 29, 2017	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/--	BBB/Stable/A-2
Data source (RTM)	Sept. 30, 2017	Sept. 30, 2017	Sept. 30, 2017	July 31, 2017	Sept. 30, 2017
(Mil. €)					
Revenues	482.7	839.3	2,181.3	324.6	434.6
EBITDA	242.8	554.5	1,077.2	177.6	228.6
Funds from operations (FFO)	162.6	333.0	707.7	87.1	86.0
Interest expense	52.8	155.8	348.0	55.7	142.4
Net income from continuing operations	474.9	1,644.6	3,235.6	302.9	1,015.7
Operating cash flow	145.3	154.2	627.3	84.1	34.1
Capital expenditures	72.7	(70.8)	871.9	51.2	296.0
Free operating cash flow	72.6	225.0	(244.6)	42.9	(262.0)
Dividends	95.4	268.3	(7.6)	69.3	832.6
Discretionary cash flow	(22.8)	(43.4)	(236.9)	(26.3)	(1,094.6)

Table 1

Grand City Properties S.A. Peer Comparison (cont.)					
Cash and short-term investments	536.0	395.0	272.0	443.0	114.0
Debt	2,549.2	6,550.6	14,542.7	1,834.1	4,707.4
Equity	3,248.4	9,147.5	15,326.1	2,323.3	4,430.7
Debt and equity	5,797.6	15,698.1	29,868.8	4,157.4	9,138.1
Valuation of investment property	5,803.9	18,316.9	31,553.5	4,699.6	10,114.0
Adjusted ratios					
12-month revenue growth (%)	15.3	10.9	37.1	3.9	(9.6)
EBITDA margin (%)	50.3	66.1	49.4	54.7	52.6
Return on capital (%)	4.3	3.5	3.5	4.1	2.5
EBITDA interest coverage (x)	4.6	3.6	3.1	3.2	1.6
Debt/EBITDA (x)	10.5	11.8	13.5	10.3	20.6
FFO/debt (%)	6.4	5.1	4.9	4.7	1.8
Debt/debt and equity (%)	44.0	41.7	48.7	44.1	51.5

RTM--Rolling 12 months.

Financial Risk: Intermediate

Our assessment of GCP's financial risk profile is based on our forecast of an adjusted ratio of debt-to-debt plus equity of 42% to 44% in the next 12-24 months and a sustained sound EBITDA interest-rate-coverage ratio of well above 4x over the same period. These ratios are in line with the company's financial policy, which limits its target for debt to debt plus equity to 45%. In view of the currently favorable equity and debt capital markets, we consider that management has the means to undertake moderately sized acquisitions without increasing leverage in the company's capital structure. We assume that the percentage of net operating income generated from unencumbered assets will remain above 50% in the near term.

Thanks to ongoing refinancing activities and the general low interest-rate environment in Germany, GCP has improved its cost of debt further to 1.5% as of Sept. 30, 2017, while keeping a long average debt maturity profile of 7.5 years.

In addition, the capital structure benefits from well-diversified funding sources, including mortgage debt, convertible and straight bonds, perpetual notes, and straight common equity. The company has a proven very good track record in accessing both equity and debt capital markets, in the last couple of years.

The company's large amount of unencumbered assets, representing 60% of total portfolio value, provides financial flexibility and limited subordination of its senior unsecured debt.

Our Base-Case Cash Flow And Capital Structure Scenario

In our base-case scenario, we forecast that GCP should maintain an EBITDA-interest-coverage ratio of close to 5x in the next two years. This mainly reflects our forecast of a growing EBITDA base and stable cost of debt following recent refinancing activities.

We forecast a ratio of debt to debt plus equity of below 45%, positively affected by asset valuations and a balanced mix of equity and debt for operational purposes, such as capital expenditures, and further net growth.

Financial summary

Table 2

Grand City Properties S.A. Financial Statistics					
Industry Sector: Real Estate Investment Trust or Company					
	--Rolling 12 months--				
(Mil. €)	**30-Sep-17**	**30-Jun-17**	**31-Mar-17**	**31-Dec-16**	**30-Sep-16**
Revenues	482.7	467.0	453.6	435.7	418.8
EBITDA	242.8	241.0	233.8	224.7	220.9
Funds from operations (FFO)	162.6	161.8	157.6	150.5	144.2
Interest expense	52.8	50.3	48.9	47.9	44.7
Net income from continuing operations	474.9	417.2	553.1	544.8	490.9
Cash flow from operations	145.3	148.1	152.0	146.9	143.0
Capital expenditures	72.7	66.2	65.2	59.6	57.1
Free operating cash flow	72.6	81.9	86.8	87.3	85.9
Dividends	95.4	21.4	21.4	38.4	55.5
Discretionary cash flow	(22.8)	60.5	65.4	48.8	30.4
Cash and short-term investments	536.0	454.2	480.6	630.3	643.6
Debt	2,549.2	2,342.4	2,308.8	2,140.8	2,181.0
Equity	3,248.4	3,037.7	2,820.0	2,731.4	2,624.0
Debt and equity	5,797.6	5,380.1	5,128.9	4,872.1	4,804.9
Valuation of investment property	5,803.9	5,393.0	4,948.0	4,768.5	4,694.7
Adjusted ratios					
EBITDA margin (%)	50.3	51.6	51.5	51.6	52.8
Return on capital (%)	4.3	4.6	4.7	4.8	5.0
EBITDA interest coverage (x)	4.6	4.8	4.8	4.7	4.9
Debt/EBITDA (x)	10.5	9.7	9.9	9.5	9.9
FFO/debt (%)	6.4	6.9	6.8	7.0	6.6
Debt/debt and equity (%)	44.0	43.5	45.0	43.9	45.4

Liquidity: Strong

We assess GCP's liquidity as strong. We forecast that the company's liquidity sources will exceed its funding needs by well above 1.5x over the next 12-24 months. Its liquidity position is supported by a substantial cash balance and marketable securities and the absence of large debt maturities in the next few years. In addition, GCP's liquidity is underpinned by undrawn committed credit lines maturing in more than 12 months.

As of Sept. 30, 2017, we calculate GCP's liquidity sources as mostly comprising:

- About €536 million of cash and liquid investments;
- €215 million of undrawn committed credit lines, maturing in more than 12 months;

- Our forecast of approximately €200 million in cash funds from operations for the next 12 months; and
- €25 million of committed asset disposals.

This compares with potential liquidity uses of:

- €65 million-70 million of short-term debt, including debt amortization;
- Our forecast of €80 million to €100 million of capital expenditures, although we understand that most of this amount is not committed; and
- Committed acquisitions of about €300 million.

We expect GCP will maintain significant headroom--more than 15%--under the financial maintenance covenants in its various debt agreements.

Debt maturities

Table 3

Grand City Properties S.A. Debt Maturities

As of Sept. 30, 2017	(Mil. €)
Fourth-quarter 2017	0
2018	60
2019	15
2020	215
2021	385
Thereafter	2,083
TOTAL DEBT	2,758

Covenant Analysis

We expect GCP will maintain significant headroom--more than 15%--under the financial maintenance covenants in its various debt agreements.

Other Credit Considerations

Combining our business and financial risk profile assessments, we apply the lower of two possible anchors, or initial analytical outcomes, to GCP. Consequently, our anchor for GCP is 'bbb+', rather than 'a-', based on our view that the company's business risk is positioned lower than those of peers in the same category, such as Vonovia or Deutsche Wohnen. This difference is due to the much smaller scale and scope of the company's portfolio, as well as its substantially lower portfolio occupancy rates.

Ratings Score Snapshot

Corporate 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+

Modifiers

- **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)

Reconciliation

Table 4

Reconciliation Of Grand City Properties S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Rolling 12 months ended Sept. 30, 2017--									
Grand City Properties S.A. reported amounts.										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	2,740.8	3,287.5	482.7	246.4	762.1	41.5	246.4	201.5	95.4	72.7
S&P Global Ratings' adjustments										
Interest expense (reported)	--	--	--	--	--	--	(41.5)	--	--	--
Interest income (reported)	--	--	--	--	--	--	0.5	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(27.9)	--	--	--
Intermediate hybrids reported as equity	332.9	(332.9)	--	--	--	11.3	(11.3)	(10.3)	(10.3)	--
Surplus cash	(536.0)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	1.0	--	--	1.0	--	--	--
Non-operating income (expense)	--	--	--	--	0.5	--	--	--	--	--

Table 4

Reconciliation Of Grand City Properties S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	(45.9)	--	--
Non-controlling interest/Minority interest	--	293.8	--	--	--	--	--	--	--	--
Debt - Accrued interest not included in reported debt	7.2	--	--	--	--	--	--	--	--	--
Debt - Issuance cost	4.2	--	--	--	--	--	--	--	--	--
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	--	(4.7)	(4.7)	--	(4.7)	--	--	--
D&A - Asset valuation gains/(losses)	--	--	--	--	(520.0)	--	--	--	--	--
EBIT - Income (expense) of unconsolidated companies	--	--	--	--	3.7	--	--	--	--	--
Dividends - Other	--	--	--	--	--	--	--	--	10.3	--
Total adjustments	(191.6)	(39.1)	0.0	(3.6)	(520.4)	11.3	(83.8)	(56.2)	0.0	0.0

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from Operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	2,549.2	3,248.4	482.7	242.8	241.7	52.8	162.6	145.3	95.4	72.7

PP&E--Plant, property, and equipment.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- 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
- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Nov. 19, 2013

- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of November 29, 2017)

Grand City Properties S.A.	
Corporate Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Subordinated	BBB-
Corporate Credit Ratings History	
21-Dec-2016	BBB+/Stable/A-2
23-Nov-2016	BBB+/Stable/--
13-Jun-2016	BBB/Positive/--
24-Jul-2015	BBB/Stable/--
21-Nov-2014	BBB-/Stable/--
14-Feb-2014	BB+/Stable/--
27-Nov-2013	BB/Stable/--
20-Feb-2013	BB-/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.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com