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Research Update:

Aroundtown S.A. Downgraded To 'BBB' On Revised Disposal Expectations And Tight Credit Metrics; Outlook Stable

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Rating Action Overview

- Germany-based real estate company Aroundtown S.A. (AT) will unlikely meet the expected deleveraging path in 2025 as assumed in our previous base case. This is due to slower-than-expected disposal proceeds year-to-date, constrained by an ongoing lacking transaction market, and headwinds for the German commercial real estate market.
- Consequently, we have updated our base case and now forecast that the company's S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio will remain slightly above 50%, and EBITDA interest coverage below 2.4x over the next 12-24 months which is beyond our previous base case and remains outside our expectations for the 'BBB+' rating.
- In addition, we note that vacancy rates for its office assets continued increasing to about 12.7% in 2024 (12.8% in 2023) compared with 11.8% in 2022, representing 38.0% of AT's total portfolio value. Despite solid operational performance for its residential and hotel segment (56% of total property portfolio value as of Dec. 31, 2024), we think that the current weaker growth outlook for the German economy will hinder operational performance for its commercial portfolio, including office and retail assets (together 42% of total property portfolio value), to improve beyond our forecast over the next 12-24 months.
- We therefore lowered our long-term issuer credit ratings on AT and its senior unsecured notes to 'BBB' from 'BBB+', and our issue ratings on the subordinated hybrid bonds to 'BB+' from 'BBB-'. We affirmed our short-term rating at A-2.
- The stable outlook on AT reflects our expectation that the company will continue to generate stable and predictable income from its existing assets with stable operating performance. As a result, we forecast that AT will maintain a debt-to-debt-plus-equity ratio of approximately 50%-52%, a debt-to-EBITDA ratio in the range of 13.0x-14.0x, and EBITDA interest coverage between 2.2x-2.3x over the next 12-24 months.

Rating Action Rationale

Our rating action follows our revised base case in which we do not expect AT to be commensurate with our requirements of a 'BBB+' rating, underpinned by a delayed disposal and deleveraging progress (see "Aroundtown S.A." published on Dec 11, 2024, on RatingsDirect). We understand that year to date, AT has signed about €90 million of asset sales and closed €120 million from its remaining €330 million signed but not closed sales in the year 2024. Despite its successful strategy and good track record of disposals (€3.5 billion of disposals closed since 2022), we think that recent market volatility and a weakening German economy will hinder AT to complete about €1.1 billion of previously expected asset sales as most of it was assumed to be closed by mid-2025. We also do not anticipate that the company would supplement the expected shortfall from disposals with equity or equity-like instruments, or other measures. Therefore, we have revised our base case and lowered our disposal expectations to about €500 million-€700 million for fiscal year 2025 (ending Dec. 31) and no disposals in 2026. Consequently, we forecast that S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio to remain slightly above 50% over the next 12-24 months. We further note that despite its successful execution of disposals in previous years, leverage remained elevated due to asset devaluation pressure, ongoing acquisition outflows, provision of vendor loans, and capital expenditure (capex) spending. For instance, in 2024, the company's €740 million of received sales proceeds were partially offset following about €147 million of cash acquisitions and about €346 million of capex, limiting its ability to reduce gross debt from sales proceeds as initially planned. We understand that the company has still about €550 million of vendor loans to be received which we assume to be received equally over 2025 and 2026, compared with our previous forecast of €300 million-€350 million of vendor loans cashed in in the first half of 2025. We understand that the company has received almost €100 million from assets backed loans so far this year.

Our revised base case expects AT's EBITDA interest coverage ratio to remain below 2.4x, following limited reduction in gross debt, reduced disposal expectations, and a continuously higher interest rate environment. In 2024, AT reported an S&P Global Ratings-adjusted EBITDA interest coverage ratio of approximately 2.2x, in line with our expectations and remaining below our rating threshold of 2.4x. We had previously anticipated that its EBITDA interest coverage will improve to about 2.5x by mid-2025, with most of the following efforts executed in the first part of 2025:

- The company would utilize its substantial cash reserves for debt repayment in the first quarter of 2025 and use cash from expected asset disposals and vendor loans receivable to reduce gross debt and lower its absolute gross cash interest expenses. However, we note that absolute gross debt levels increased slightly in 2024, rising to €14.5 billion from €14.2 billion in 2023, (our revised base case assumes now €420 million of S&P adjusted interest expense versus €390 million before) making an improvement for the expected time horizon now highly unlikely.
- We assumed EBITDA to amount to about €965 million, supported by solid operating performance, including its commercial portfolio, as well as sales of assets with higher vacancies. We revised our base case to a more stable occupancy levels from its office assets with slowing rental growth and reduced dividend income from its associated companies and joint ventures. We observed that the company's reported revenue for 2024 was lower than our forecast. While EBITDA was in line with expectations, the decline in EBITDA due to

reduced revenue was offset by dividend income from associated companies and joint ventures. However, we assume lower dividend income in 2025 as part of the assets being acquired in 2024 from associated companies and joint ventures. Therefore, we expect EBITDA to be lower of about €20 million-€30 million for 2025 compared with our previous forecast.

- We previously assumed limited acquisitions in 2025, but we note that the company already completed acquisitions of about €180 million year to date. Therefore, we assume cash acquisition about €300 million for 2025.

We understand that the company is still committed to its financial policy, and we forecast that the company will use available cash proceeds to cover upcoming debt maturities, however, we see it as unlikely that expected sales proceeds will improve its credits metrics to the requirements for a 'BBB+' rating anymore.

Our adjusted ratio does not include cash interest income, in line with our criteria, and we do not include it in our ratio calculation. However, we estimate that the cash interest income--if netted off interest expenses--could have a positive effect of about 0.3x-0.4x on our EBITDA interest coverage calculation historically.

AT's operating performance remains solid; however, we expect its commercial segment, particularly its office properties, will remain challenged amid economic headwinds. AT posted a solid 2.9% like-for-like increase in its rental income in its full year 2024 results, mainly driven by residential segment like for like rental growth of about 4.4%. The performance of its hotel assets recovered strongly and is back to pre-pandemic levels as we see like for like growth recorded around 2.9% in 2024. The company's lease length in the office segment stood at 4.3 years and is in line with the industry average, and we note that about 11.0% of leases expiring in 2025 an about 10.0% in 2026. We view positively that AT´s office properties still see like-for-like rental growth (1.8% in 2024) despite an increase in vacancy rates since 2022, but we see a risk that positive rental reversion may be reverted if vacancies continue to increase. Although we expect occupancy levels for its total portfolio will remain broadly stable at 92.0%-92.5% (92.5% as of Dec. 31, 2024), benefiting from solid demand for its residential and hotel assets. We expect office segment to remain under pressure due to slowing tenant demand and macroeconomic challenges in the German market, as well as the widening gap between assets in prime and secondary locations and corporate downsizing their office space. We understand that the company expects that the vacancy in its office segment to decrease based on lease negotiations but we remain cautious on upcoming lease expiries and a potential time gap to new tenant occupying vacant space. AT's tenant base is broad and diversified across all segments and the exposure to public and large corporate tenants, representing 75% of office space in its office segment support cash flow visibility and stability. The recent announcement of the German government investment program could benefit the office segment in the long term, but it is less likely to have a positive affect over our forecasted period. The German government expects economic stagnation in 2025 and has lowered its growth forecast to 0% last week. S&P Global Ratings currently assumes GDP growth of 0.5% for 2025.

AT maintains strong liquidity. The company benefits from a high unrestricted cash position on the balance sheet of about €3.6 billion as of Dec. 31, 2024, and an additional €420 million of disposal proceeds to be received (€330 million signed in 2024 and €90 million signed year to date, excluding vendor loans) post reporting date. The company also has about €775 million available under revolving credit facilities that mature beyond 12 months. Those sources will sufficiently cover upcoming debt maturities until end-2026. We understand that AT had a solid covenant headroom of well above 15% under all its financial covenants. We note that the company's weighted average debt maturity has decreased to 3.8 years (4.7 years including cash and cash equivalent) from 4.0 years, with nearly €4.0 billion in debt maturing until end of 2026 (€1.6 billion in 2025, of which €270 million belongs to Grand City Properties S.A. [GCP]; and €2.4 billion in 2026, of which about €537 million belongs to GCP). While we still assume a large portion of this debt will be repaid by using available cash, we think that the company will need to start raising new debt by 2026 to cover these maturities. The company has reported an unrestricted cash balance of €3,641 million year-end 2024, of which €1,514 million is sitting at its subsidiary, GCP. We think that cash at GCP has limited accessibility to repay debt at AT, given our assumptions that GCP will not distribute any dividends over our forecasted horizon and its significant minority stake of 38%.

Outlook

The stable outlook on AT reflects our expectation that the company would continue to generate stable and predictable income from its existing assets. Our base-case scenario assumes that AT will sustain a stable operating performance, benefiting particular from its residential portfolio. As a result, we forecast that AT will maintain a debt-to-debt-plus-equity ratio of approximately 50% to 52%, a debt-to-EBITDA ratio in the range of 13.0x-14.0x, and EBITDA interest coverage between 2.2x and 2.3x over the next 12-24 months.

Downside scenario

We could downgrade AT if, on a prolonged basis:

- Debt to debt plus equity increased toward 60%;
- EBITDA interest coverage decreased toward 1.8x; or
- Debt to EBITDA deviated materially from our forecast.

Rating pressure would also stem from a deterioration in AT's operating environment, leading to a further increase in vacancy rates in its commercial property portfolio or a further devaluation of its asset base than we currently anticipate.

We could also take a negative rating action if unexpected events weaken creditworthiness, such that available cash is not used to lower leverage in favor of increased material corporate spendings, such as acquisitions, and share buybacks/dividends.

Upside scenario

We could upgrade AT if, on a prolonged basis:

- Debt to debt plus equity improved to well below 50%;
- EBITDA interest coverage improved above 2.4x; and
- Debt to EBITDA moved toward 13.0x.

A continuing strong operating environment would also be supportive, with an improvement in occupancy levels, particularly the commercial portfolio, positive like-for-like rental income growth, and flat or positive portfolio value growth in its property portfolio.

Company Description

AT is the largest listed Germany-based commercial real estate company. It focuses on investing in rental-income-generating properties, mainly in Germany. AT carries out its residential investments through its 62% holding in GCP as of Dec. 31, 2024. The group mainly focuses primarily on offices (38% of the portfolio's value on Dec. 31, 2024), residential (34%), hotel properties (22%), and retail/logistics (6%). It also owns other assets that mostly comprise land banks and development assets, which are included in the above respective segments.

AT is incorporated in Luxembourg and listed at the Prime Standard on the Frankfurt Stock Exchange. As of Dec. 31, 2024, the largest shareholder was AT's founder Mr. Yakir Gabay, who held a 15% stake through Avisco Group PLC and Vergepoint Ltd. 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 and has no board seat.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Germany of 0.3% in 2025 and 1.4% in 2026. We forecast consumer price index (CPI) growth of 2.4% in 2025, reducing to below 2.2% in 2026.
- Real GDP in the U.K. of 0.8% in 2025, increasing to 1.5% in 2026. We forecast the CPI of 3.3% in 2025 and 3.3%% in 2026.
- Annual like-for-like revenue growth of about 2.2%-2.5% in 2025, moderating to 2.0% in 2026, factoring in benefits from the company's commercial indexation-linked rental contract, solid tenant demand for residential assets, and positive momentum in the hotel assets.
- Occupancy sustained near current levels of 92%-93% in the coming 12-24 months, with stable or marginal improvement expected in occupancy levels in the commercial real estate segment.
- About 1.0% like-for-like portfolio devaluation in 2025, mainly driven from its office portfolio where we think that demand may remain subdued, partially offset by flat valuations in all other segments. We forecast flat valuation for the overall portfolio in 2026.
- Prudent capex with €350 million assumed each year annually for next few years.
- Asset disposals of about €500 million–€700 million in 2025 (€90 million signed and €120 million closed from last year sales so far in 2025 from €330 million signed in 2024 which was not closed end of 2024) most of it closed and cashed in during the year. No disposal assumed for the following years.
- Acquisitions of €300 million in 2025 and €400 million in 2026 and no acquisitions assumed the years after.
- 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 2025 (€250 million) and 50% in 2026 (€300 million), although we understand that the vendor loans repayments' weighted average is the end of 2025.
- We assume no shareholders dividend or share buy backs for 2025 to support the credit metrics and about €150 million to €200 million of dividends in 2026.

- We assume about €8 million-€10 million annually of dividend received from associated companies and joint ventures, benefiting S&P Global Ratings-adjusted EBITDA.
- Replacement of hybrids that have first call dates in 2026 with an equivalent instrument that would be treated as being at least 50% equity with a coupon of 5%-6%.
- The average cost of debt is projected to rise to 2.5% over the next 12-18 months from 2% as of Dec. 31, 2024. This increase is based on expected higher costs associated with new refinancing, estimated to be about 4.0%-4.2% in 2026 and approximately 3.5%-3.8% in 2027.

Key metrics

Period ending	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**	**Dec-31-2027**
(Mil. EUR)	2023a	2024a	2025e	2026f	2027f
Revenue	1,564	1,497	1,531	1,577	1,625
EBITDA	903	944	935-945	960-970	995-1005
Funds from operations (FFO)	498	509	436	441	509
Interest expense	392	430	415-425	415-425	435-440
Capital expenditure (capex)	351	365	355	355	355
Free operating cash flow (FOCF)	127	134	175	153	199
Debt	14,619	13,581	12,950-13,000	13,100-13,200	13,200-13,400
Equity	12,059	12,491	12,700-12900	12,900-13,000	13,000-13,200
Adjusted ratios					
Annual revenue growth (%)	(0.3)	(4.3)	2.3	3.0	3.1
Gross EBITDA margin (%)	57.7	63.0	61.1	61.3	61.3
Debt/EBITDA (x)	16.2	14.4	13.5-14.0	13.5-14.0	13.0-13.5
EBITDA interest coverage (x)	2.3	2.2	2.2-2.3	2.2- 2.3	2.2-2.3
Debt/debt and equity (%)	54.8	52.1	50-52	50-52	50.-51

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 1.0x over the following 12 months. The company benefits from high cash balance and a significant portion of liquid available assets to cover the upcoming debt maturities.

Principal liquidity sources

From Dec. 31, 2024:

- About €3,642 million of cash and liquid market investments;
- Our forecast of about €650 million-€675 million annually in cash FFO for the next 12-24 months;

Principal liquidity uses

From Dec. 31, 2024:

- About €1,649 million of short-term debt maturities, including regular debt amortization;

- Undrawn backup facilities of €775 million, maturing in more than 12 months; and
- Cash proceeds from signed asset disposals of about €420 million, to be received in the next 12 months.
- Our forecast of €300 million-€350 million annually of capex, of which we understand most is not committed; and
- €220 million-€230 million of hybrid coupon payments in next 12 months. No cash common dividends for next 12 months.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2024, 71% of AT's assets by portfolio value were unencumbered.

Analytical conclusions

As of Dec. 31, 2024, AT's ratio of secured debt to total assets was less than 7.2%, 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 that remain outstanding after the exchange where the effective maturity became less than 20 years (as of Dec. 31, 2024 about €559.0 million) and intermediate equity content (50% equity; 50% debt) for all other hybrid instruments with an outstanding amount of €3.9 billion, and notch the issue rating down by two notches to 'BB+' (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 deferral increases, we will reassess our ratings on AT.

Rating Component Scores

Rating Component Scores

Component	
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 Risk
Industry risk	Low Risk
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Aroundtown S.A., Dec. 11, 2024
- Bulletin: Aroundtown’s Proposed Tap Under Perpetual Exchange Offer Has Intermediate Equity Content, Sept. 10, 2024
- Aroundtown’s Proposed USD And GBP Hybrid Notes Under Exchange Offer Assigned ‘BBB-’ Rating, April 22, 2024
- Aroundtown’s Proposed Hybrid Notes Under Exchange Offer Assigned ‘BBB-’ Rating, April 2, 2024
- Grand City Properties’ Proposed Hybrid Notes Under Exchange Offer Assigned ‘BBB-’ Rating, April 2, 2024

Ratings List

Ratings list		
Downgraded; Outlook Action		
	To	**From**
Aroundtown S.A.		
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2
Downgraded		
	To	**From**
Aroundtown S.A.		
Senior Unsecured	BBB	BBB+
Aroundtown S.A.		
Aroundtown Finance S.a r.l		
AT Securities B.V.		
ATF Netherlands B.V.		
Subordinated	BB+	BBB-

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