Not Yet Fixed, But Improving

European Real Estate Companies

S&P Global Ratings

Franck Delage

Marie-Aude Vialle

Nicole Reinhardt

Teresa Strömberg

Daniella Vasilevski

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This report does not constitute a rating action

Contents

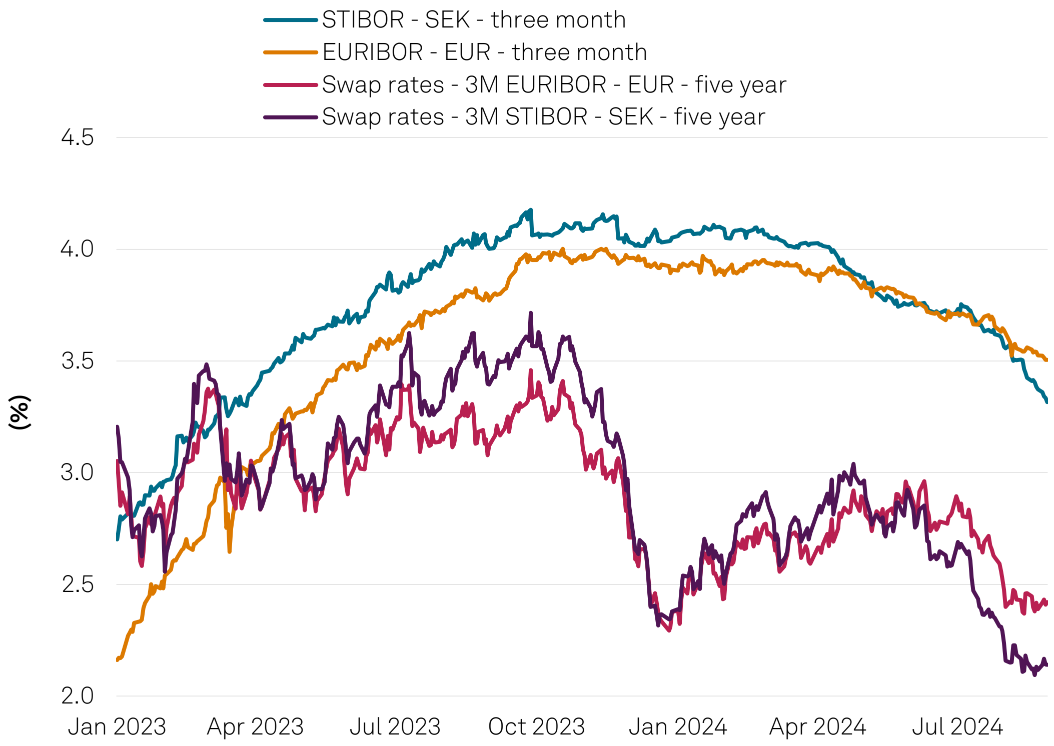
Key Takeaways

- Our ratings on 26% of EMEA REITs have a negative outlook, which remains high but is down from the peak of 33% in December 2023. The ratings on 33% of Nordic REITs have a negative outlook, indicating that risks remain for the Nordic real estate sector following the interest rate spike over 2022-2024.
- Geopolitical risks could threaten the sector recovery if they: 1) Lead to unexpected economic deterioration; 2) Prompt a widening of government yields/spreads (thus pressuring asset valuations); 3) Drag on commercial real estate (CRE) investment.
- 47% of EMEA REITs' interest coverage ratios will remain under pressure over 2025-2026, as companies continue to refinance debt maturities at higher rates, but to a lower degree than in 2023-24. Some refinancings will remain difficult.
- Refinancing risks are decreasing. REITs' renewed access to capital markets, after a period of muted transaction activity, is indicative of better pricing and the return of investor interest in debt offerings. Investment market should also resume as funding conditions improve.
- LTV (debt to debt + equity) and debt to EBITDA ratios should decline, thanks to value stabilization and rising revenue and free cash flows.
- Property yields are stabilising in most real-estate sectors, but we expect further devaluation of assets with rent and/or occupancy pressures, such as 'non-prime offices'. Any material surge in government yields, as a result of geopolitical risks for example, could also delay property yields' stabilization.
- Valuation movements will be driven more by cash-flow expectations than rate movements, with rent continuing to rise over our forecast horizon, albeit at a slower pace than previously.

EMEA

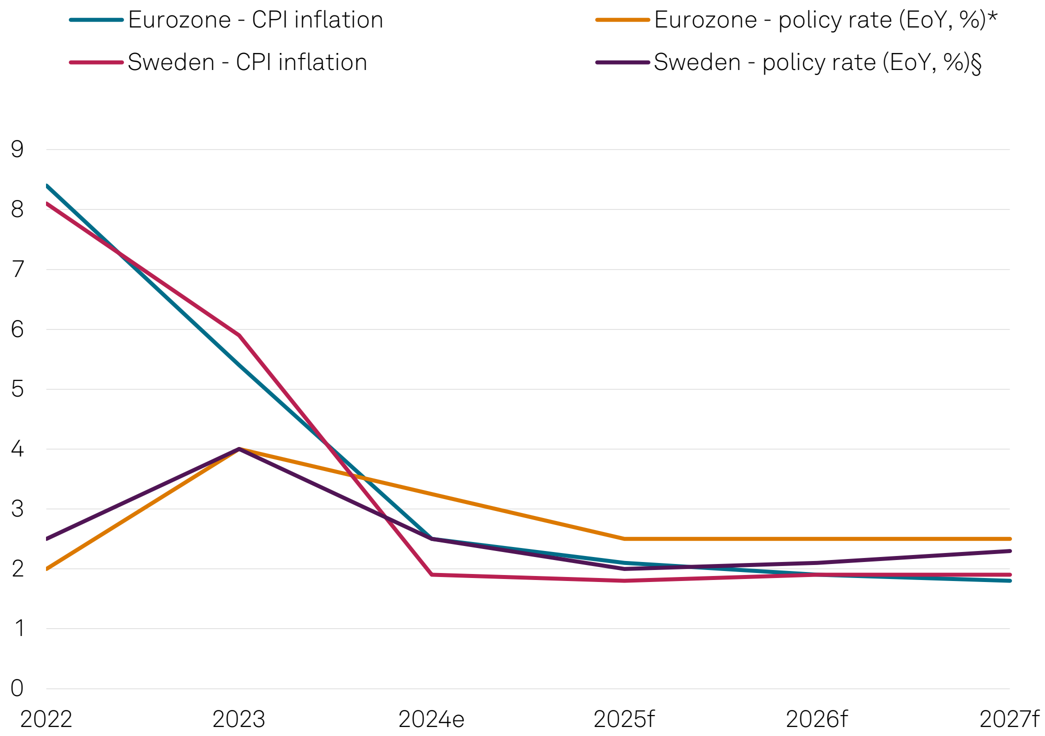
Interest Rates | Still Lower Than In 2023, More Cuts Anticipated

Swap rates are back at 2%-2.5%, 100-110 bps below EUR/STIBOR



Bps--Basis points. STIBOR--Stockholm Interbank Offered Rate. EURIBOR--Euro Interbank Offered Rate. SEK--Swedish krona. Source: S&P Global Ratings.

We expect more rate cuts by the ECB

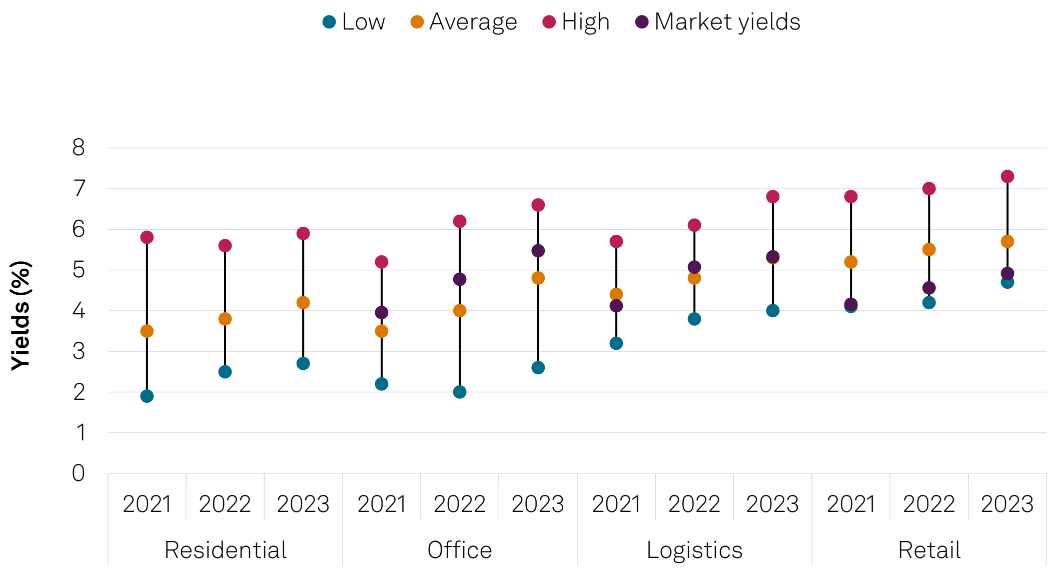


*ECB deposit rate, with forecasts based on S&P Global Ratings' latest assumptions. §Sveriges Riksbank central rate, with forecasts based on market expectation survey by Kantar Prospera. CPI--Consumer price index. e--Estimate. ECB--European Central Bank. f--Forecast. Source: S&P Global Ratings.

Property Yields | Stabilizing After Two Years Of Significant Expansion

The decline in long-term rates should stop CRE yield expansion, as risk premiums are mostly rebuilt

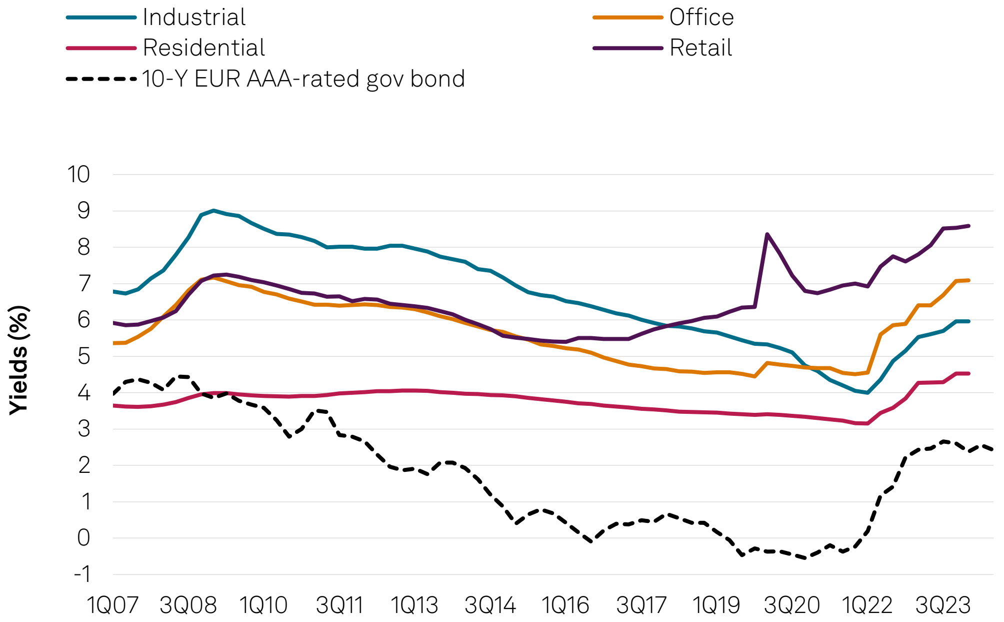
Rated REITs' yield evolution by segment



As of Q1 2022 and 2023. Includes only REITs rated by S&P Global Ratings. Sources: Company reports, market yields by Cushamn & Wakefield, S&P Global Ratings.

Real estate yields by segment in major European cities

'AAA' rated euro area, 10-year government bond average yields (%)

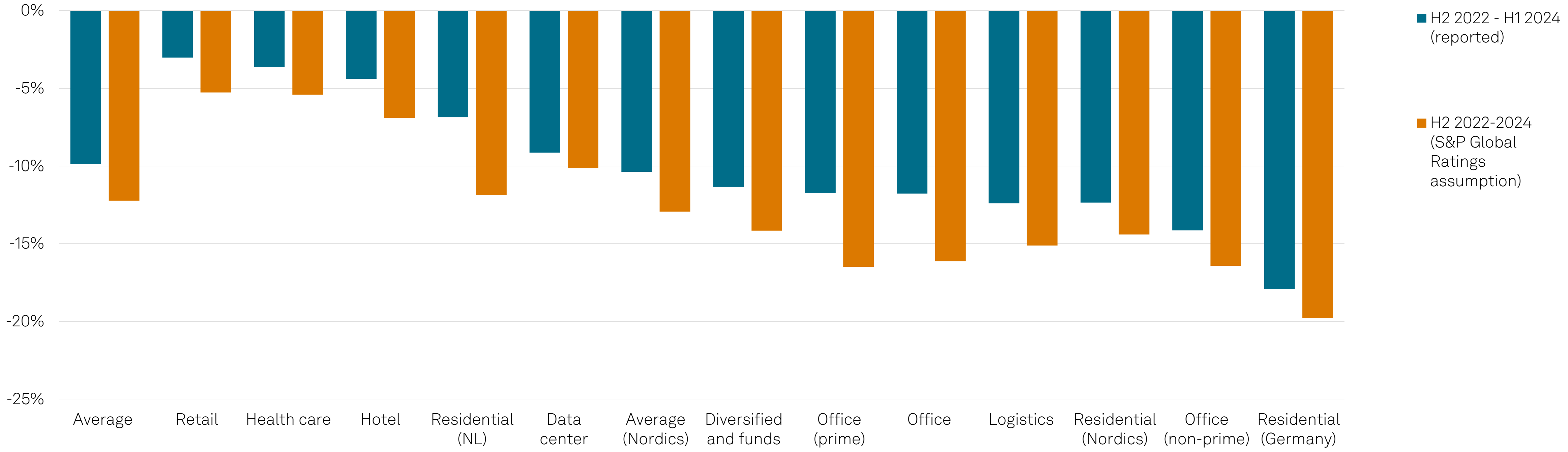


As of Sept. 2, 2024. Sources: European Property Yields by green Street, 'AAA' rated European government bond yields. S&P Global Ratings.

Asset Valuations | We Expect Residual Correction In H2-24 Before Stabilization

S&P Global Ratings expects further residual valuation declines in 2024

Rated EMEA REITs' valuation change, reported and S&P Global Ratings' assumption (June 30, 2022-Sept. 2, 2024)



*Non-prime refers to an average portfolio quality that is lower than other rated office peers. Includes only REITs rated by S&P Global Ratings. Source: S&P Global Ratings.

S&P Global Ratings

Operating Trends | Rental Growth And Devaluation Should Lose Steam In 2025

Property segment	Operating expectations in 2025*	Revenue and valuations in 2025*
Retail	• Rental growth should decelerate as indexation fades and retailers' margins remain under pressure. Disinflation should support consumption and footfall. • Retailers should continue to be selective regarding physical stores, supporting landlords' focus on higher quality assets (i.e., destination shopping centers). • Valuations should be stable as yields have already expanded and rental growth normalizes.	Revenue: 2% to 3% Valuations: 0%
Office	• Vacancies could stabilize at end-2025, as utilization rates also stabilize and economies recover. • Polarization between prime and non-prime assets will likely continue. Scarcity and strong demand for prime and green office assets in CBDs will still support rent growth. • Valuations should stabilize for prime assets and continue to decrease for non-prime assets, due to the latter's lower cash flows and higher capex needs.	Revenue: 2% to 3% (prime) / -5% to 0% (non-prime) Valuations: 0% (prime) / -6% to -4% (non-prime)
Residential	• Lagging indexation (particularly in Germany) and a growing housing shortage (more demand, less supply) should support rent growth and occupancy. Limited tenant rotation should cap growth from rent renewals. • Environmental regulations may require significant capex for older residential units. • Valuations should stabilize, with rising market rents and transactional evidences offsetting potential residual rate effects.	Revenue: 2% to 4% Valuations: 0%
Logistics	• Tenant demand could decelerate further due to the geopolitical and economic context and lower e-commerce growth, but it should continue to outpace supply. • Urban localizations and "last-mile" assets should continue to outperform. • Valuations could stabilize, with higher market rent offsetting potential residual rate effects.	Revenue: 2% to 3% Valuations: 0%

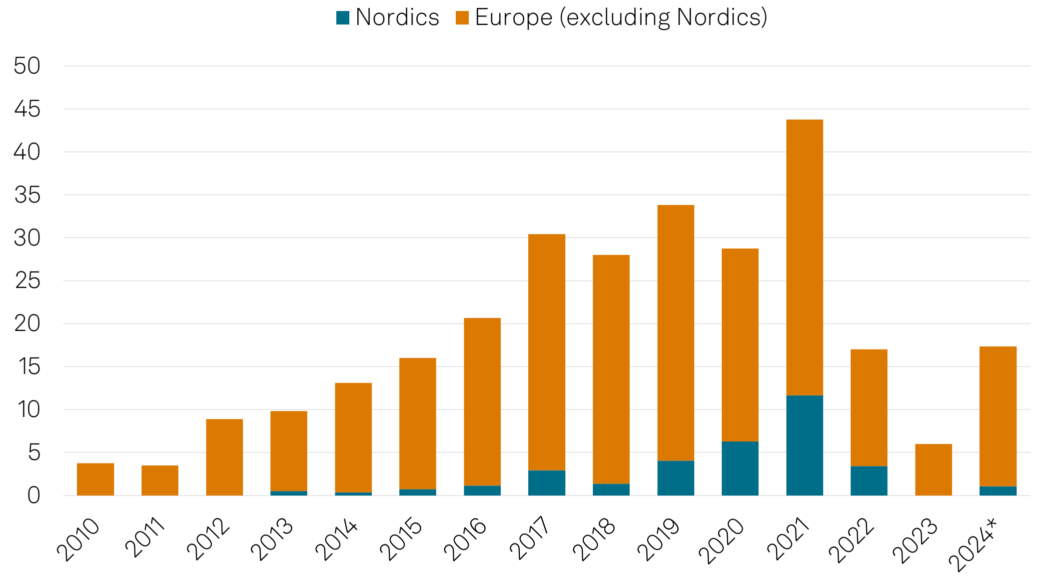
*Average assumptions on S&P rated European real estate companies, as of January 7, 2025, rent and valuation assumptions are like-for-like.

Capital Markets | Transaction Activity Rebounds After A Tricky Period

- REITs' bond market issuance has climbed following two-years of weak activity, though levels remain far their recent peak in 2021.
- REITs' bond spreads have narrowed (after a dramatic widening) amid renewed market optimism.

Bond markets reopened to REITs, with healthy demand

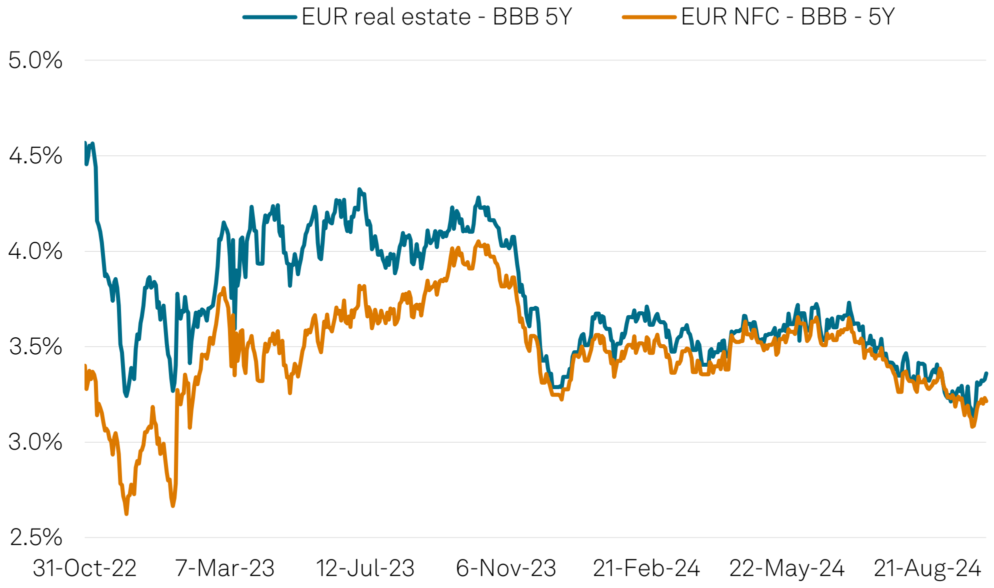
Bond issances by rated European REITs as of Oct. 31, 2024 (bil. €)



*As of Oct. 31, 2024. Includes only REITs rated by S&P Global Ratings. Sources: Company reports, market yields by Cushamn & Wakefield, S&P Global Ratings.

REITs' bond yields normalized and spreads narrowed

European REITs' bond yields* versus other corporates§

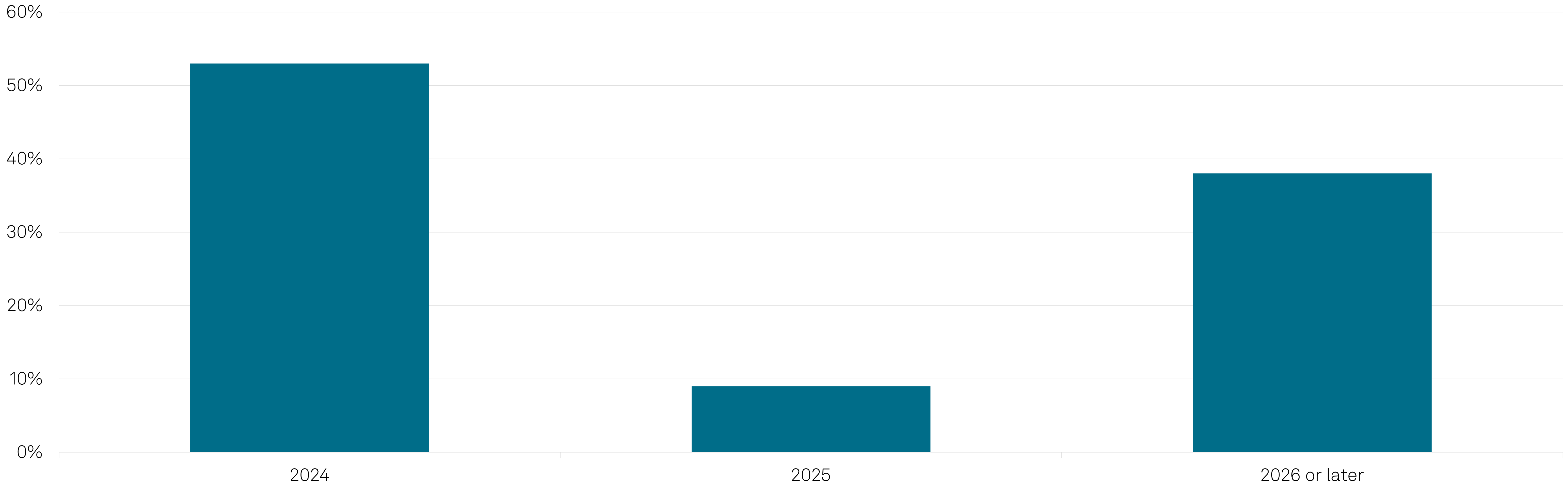


As of Oct. 14, 2024. *Yields on 'BBB' five-year bonds. §Corporates (nonfinancial). Source: S&P Global Ratings.

Interest Coverage (ICR) | Most ICRs Reached Their Low Point In 2024

Over half of rated European REITs' ICRs likely bottomed in 2024

Percentage of S&P Global Ratings' rated European REITs whose ICR should reach its trough, by year, as of Dec. 17, 2024

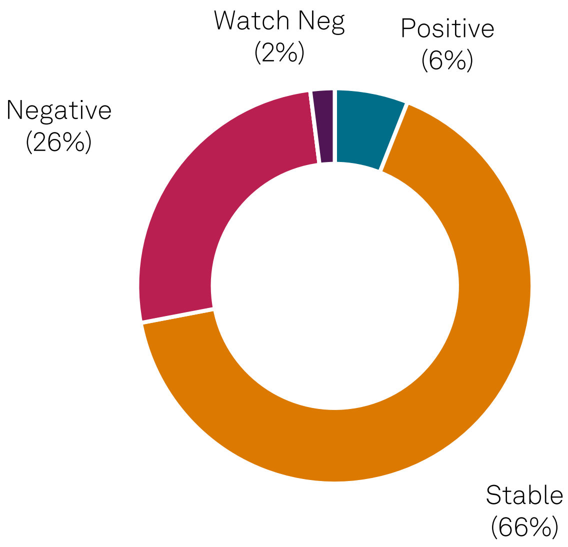


As of Dec. 17, 2024. Includes only REITs rated by S&P Global Ratings. Source: S&P Global Ratings.

Rating Outlook | Negative Bias Is Decreasing But Remains High

EMEA REITs: 26% of ratings on negative outlook, down from a peak of 33%

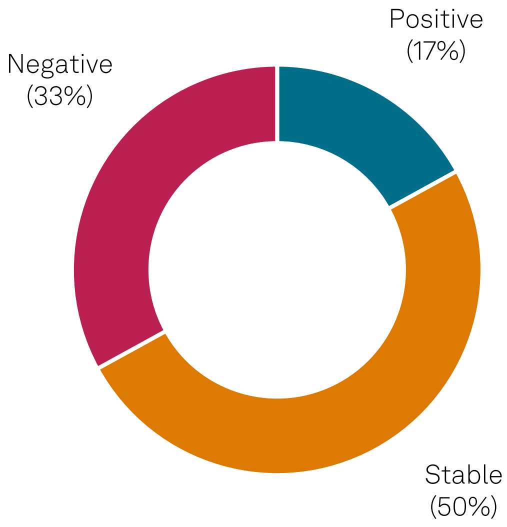
S&P Global Ratings' outlook and credit watch distribution for rated European REOCS



As of Jan. 7, 2025. Includes only REOCs rated by S&P Global Ratings. Source: S&P Global Ratings.

Nordic REITs: 33% of ratings on negative outlook, down from a peak of 55%

S&P Global Ratings' outlook and credit watch distribution for rated Nordic REOCs



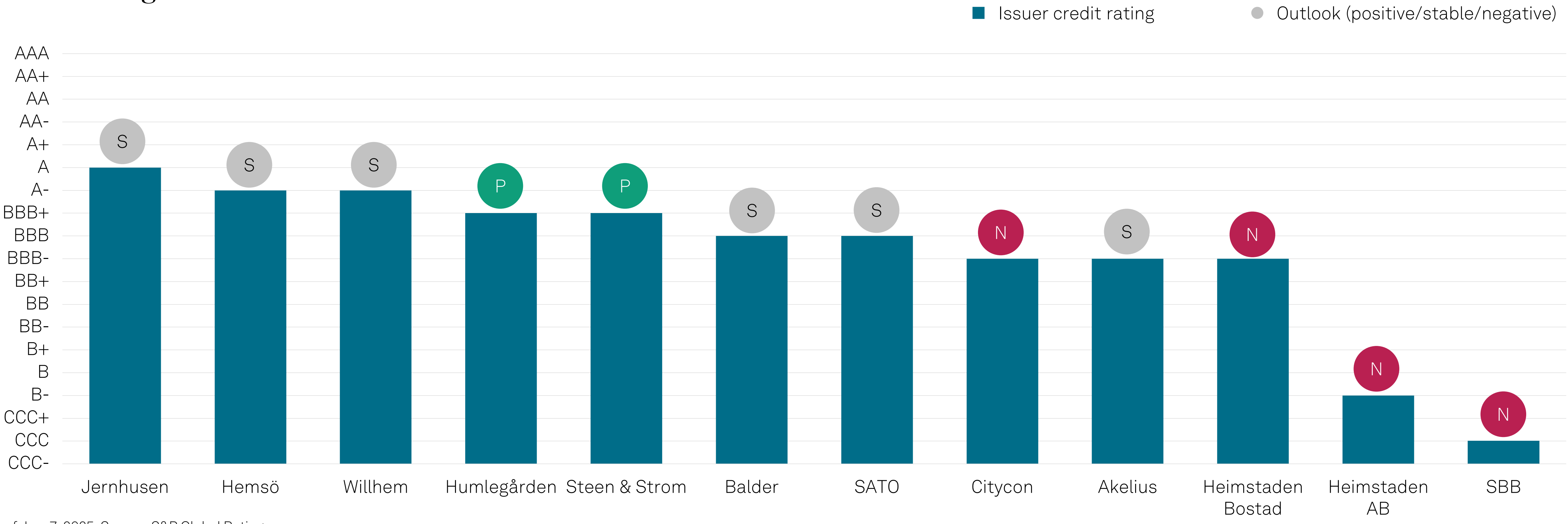
As of Jan. 7, 2025. Includes only REOCs rated by S&P Global Ratings. Source: S&P Global Ratings.

Nordics

Overview | Ratings And Outlook Distribution For Rated Nordic REOCs

- Negative outlooks are driven by rising cost of debt and weakening credit metrics.
- Positive outlooks are driven by positive developments on credit metrics (Humlegården) and rating actions on parent companies (Klepierre).

Most ratings on Nordic REOCs have a stable outlook



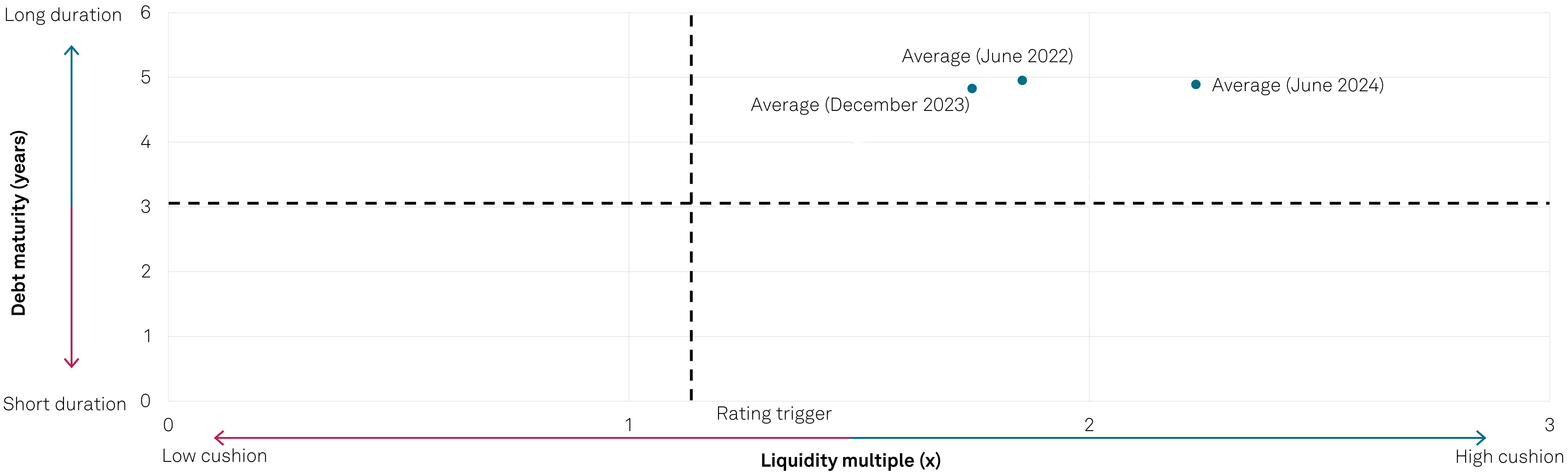
As of Jan. 7, 2025. Source: S&P Global Ratings.

Liquidity | Most Nordic REOCs Managed Refinancing Risk Relatively Well

Over June 2022 to June 2024:

- Six Nordic issuers (of 11) saw their liquidity multiple increase
- Nine Nordic issuers (of 11) saw their debt maturity decrease (by 0.5 years, on average)

Liquidity multiple* and average debt maturity



*Liquidity multiple as per S&P Global Ratings' definition. Source: S&P Global Ratings.

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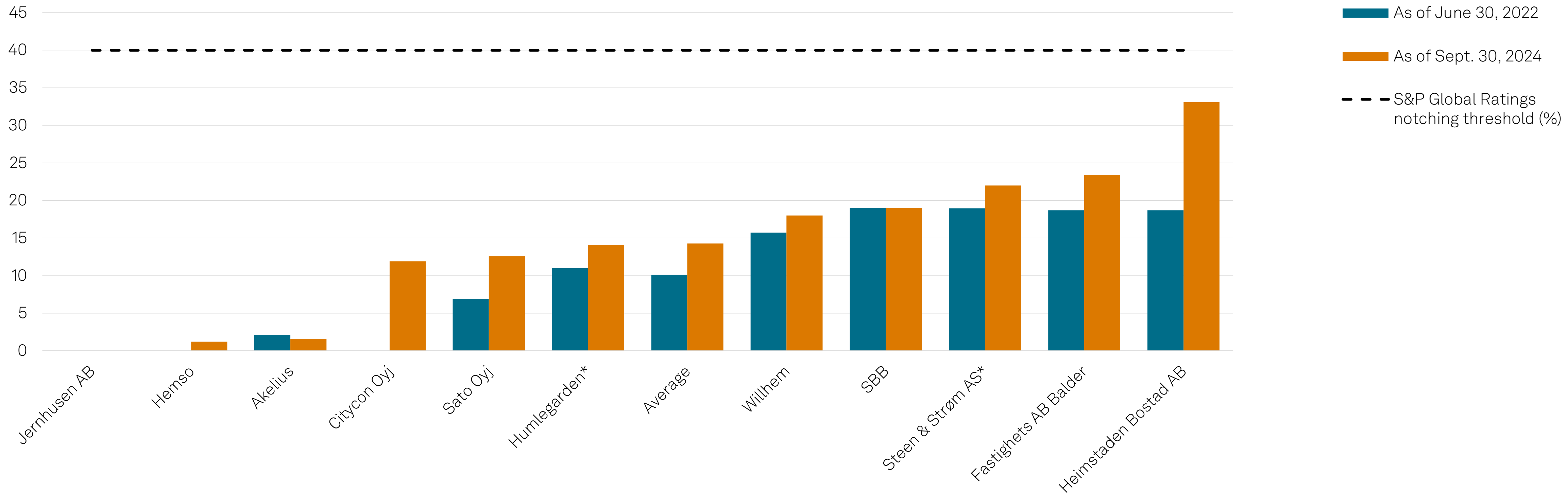
Secured Debt | Average Secured Debt Ratios Has Increased Four Percentage points Since June 30, 2022

Secured debt ratios has increased across most rated Nordic REOCs

Secured debt to total assets, as reported by rated Nordic REOCs (x)

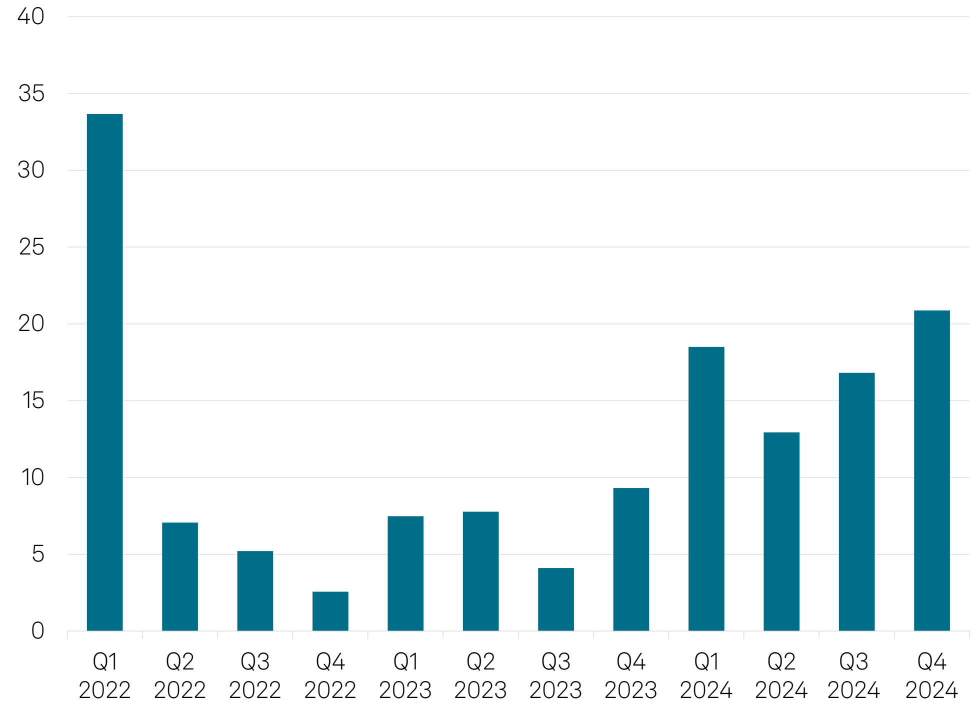


*As of June 30, 2024. Includes only REOCs rated by S&P Global Ratings. Source: S&P Global Ratings.

Funding | REOC's Funding Remains Diversified, Issuance Volume Is Lagging

Bond issuance by rated Nordic REOCs is rebounding

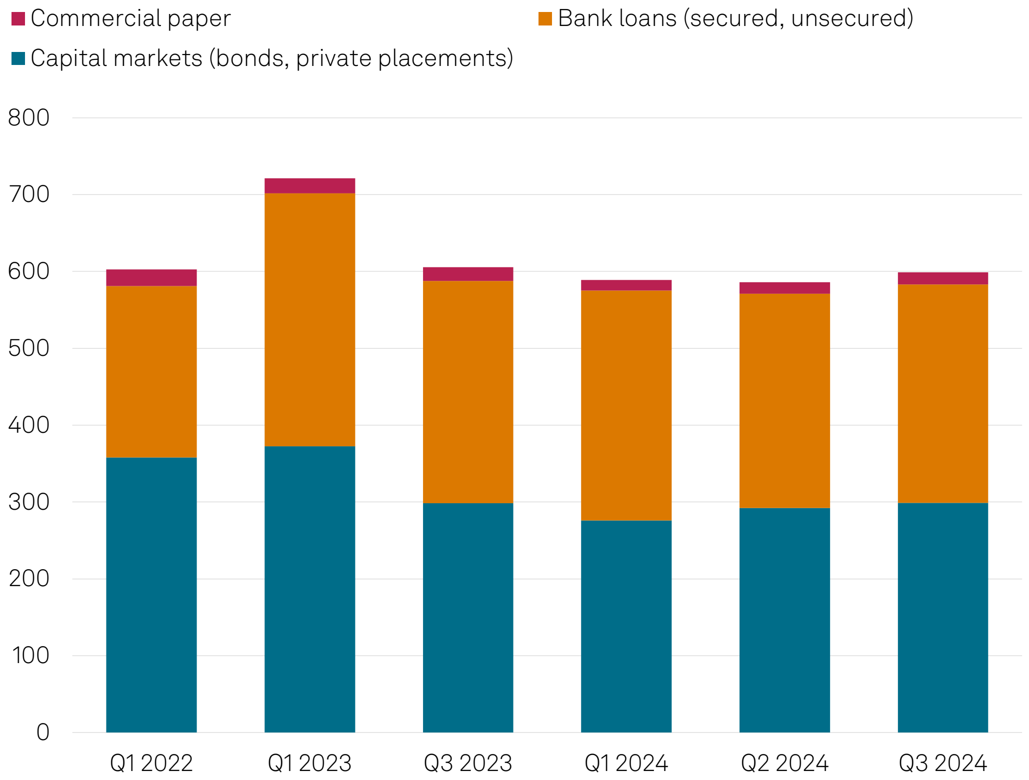
Bond issuances by quarter, as of Jan. 7, 2025. (bil. SEK§)



*As of Dec 17, 2024. §All currencies converted to SEK. Includes only REOCs rated by S&P Global Ratings
Source: S&P Global Ratings.

REOCs' funding mix has become more balanced

Rated REOCs' outstanding debt composition (mil. SEK§)



§All currencies converted to SEK. Includes only REOCs rated by S&P Global Ratings. Source: Company reports. S&P Global Ratings.

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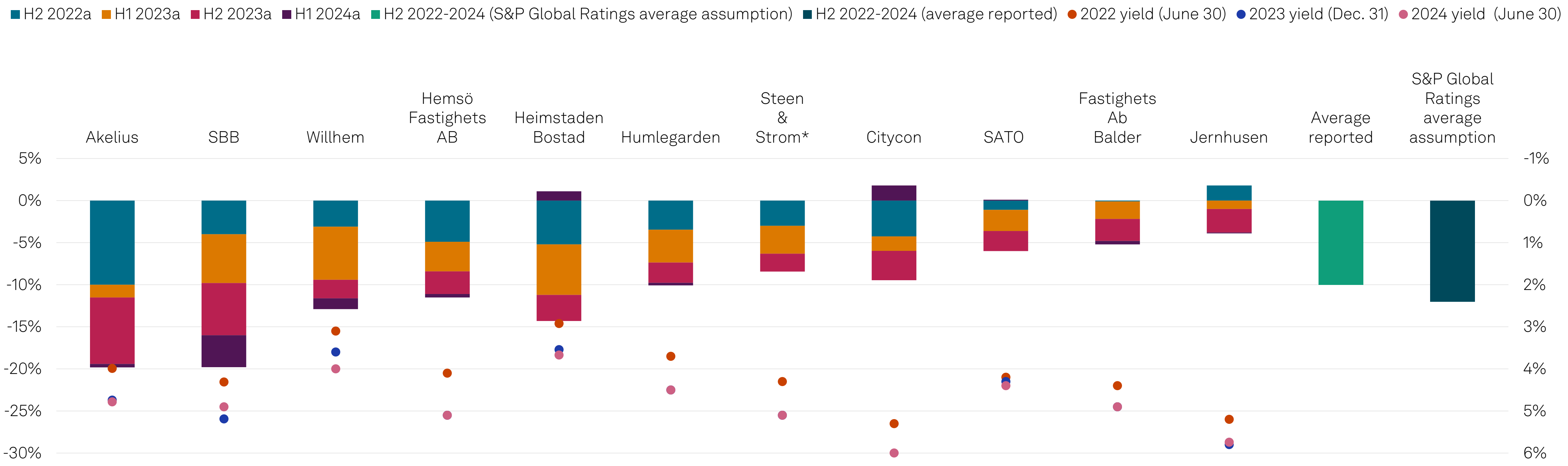
Asset Valuations | Nordic Declines Slightly Outpaced Europe's Average, But Pressure Is Easing

Value declined 10% and yields expanded 70 bp on average

Valuation change at rated Nordic REOCs (%) as of June 2022), yield requirement§ (%) as of Oct. 14, 2024



*N/A when data was not yet available. §As reported by the company. Includes only S&P Global Ratings-rated REOCs. Source: S&P Global Ratings.

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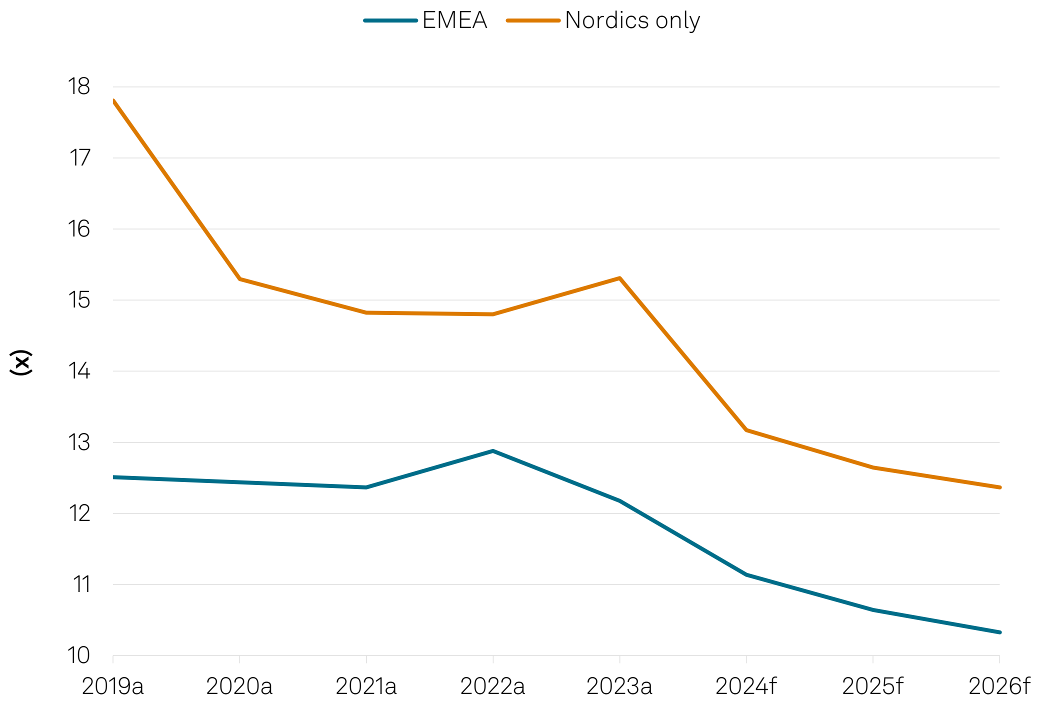
Leverage | Improving Nordic Leverage, FFO/Debt Below European Peers

Debt to EBITDA will continue to improve due to rising revenue, lower capital expenditure

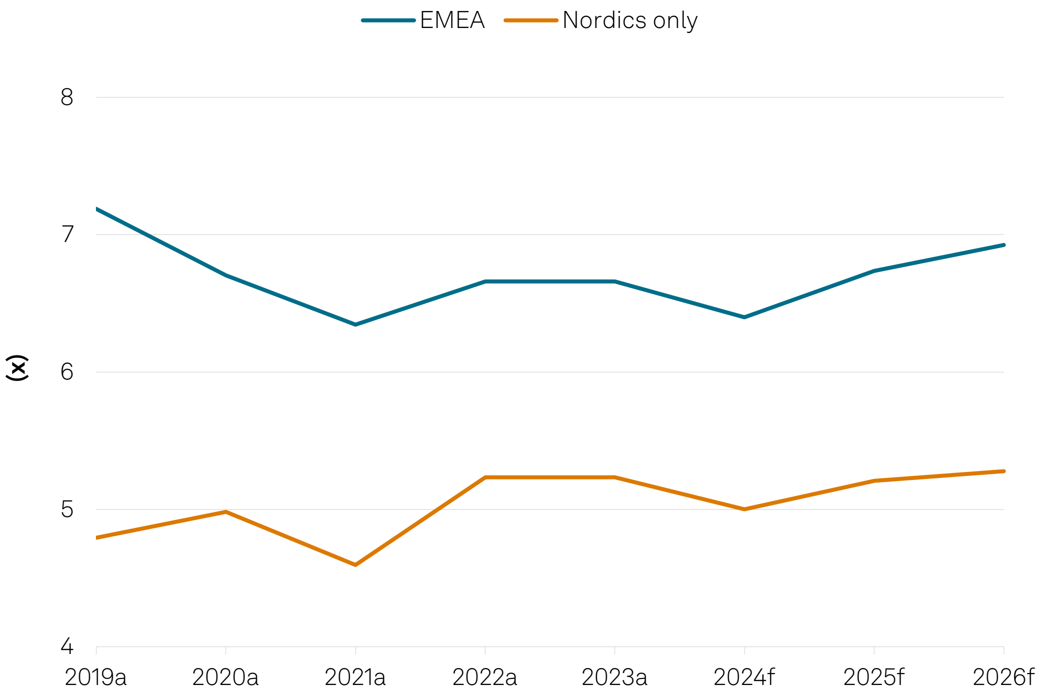
Average S&P Global Ratings-adjusted debt to EBITDA for rated REITs (x)



As of Dec. 17, 2024. Includes only S&P Global Ratings-rated REITs. a--Actual. f--Forecast. Source: S&P Global Ratings.

FFO to debt is constrained by growing revenues and deleveraging

Average S&P Global Ratings-adjusted FFO to debt for rated REITs (x)

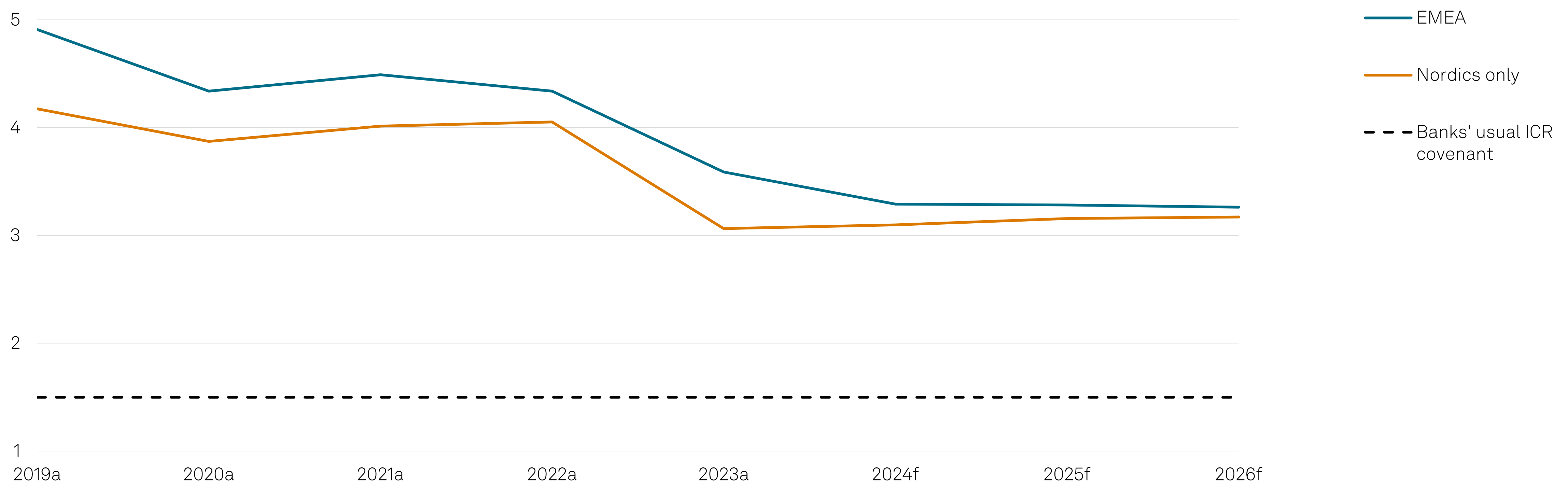


As of Dec. 17, 2024. Includes only S&P Global Ratings-rated REITs. a--Actual. f--Forecast. Source: S&P Global Ratings.

Interest Coverage (ICR) | A Slower Decline In 2025, Following 2023's Dip

Nordic ICRs have reached the bottom ahead of those of continental peers

Average S&P Global Ratings-adjusted EBITDA to interest ratio for rated REITs (x)

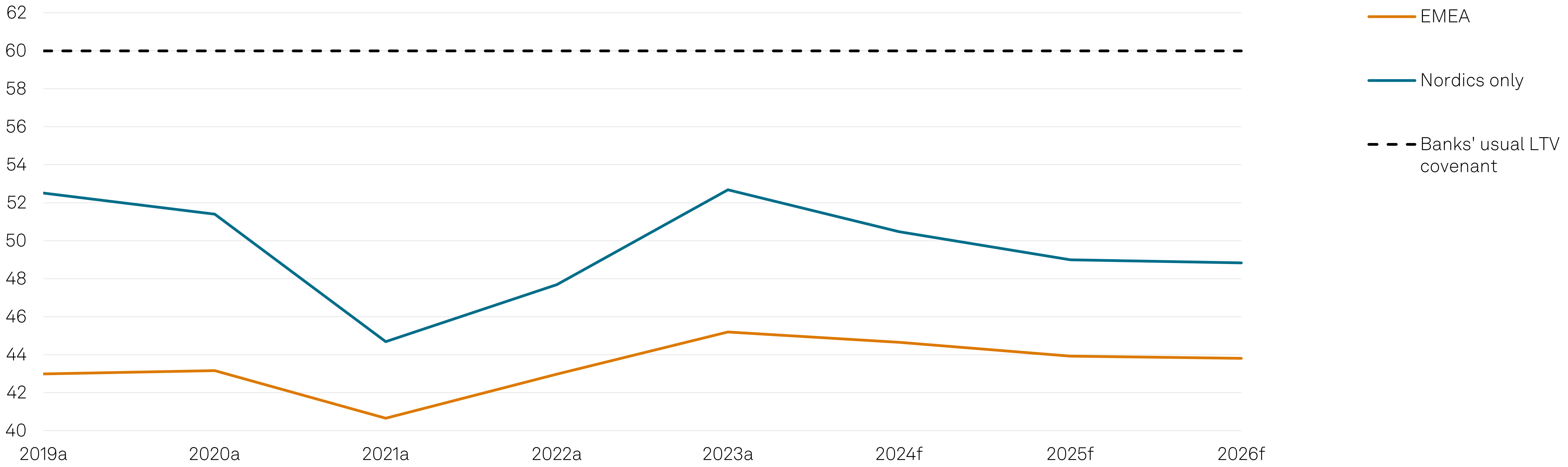


As of Dec. 17, 2024. Includes only S&P Global Ratings-rated REITs. a--Actual. f--Forecast. ICR--Interest coverage ratio. Source: S&P Global Ratings.

Leverage | Loan To Value (Debt To Debt Plus Equity) Should Decrease, Credit Headroom Has Reduced

Average debt to debt plus equity ratio should stabilize at four to six percentage points above 2021's low level

Average S&P Global Ratings-adjusted debt to debt plus equity ratios for rated REITs



As of June 30, 2024. Includes only S&P Global Ratings-rated REITs. a--Actual. f--Forecast. LTV--Loan to value. Source: S&P Global Ratings.

Appendix

REITs | Related Research

- Real Estate Brief: How Political And Geopolitical Risks Could Affect European Commercial Real Estate, Dec. 18, 2024
- EMEA Office REITs: How Credit Stories Have Evolved, Dec. 17, 2024
- Industry Credit Outlook Update Europe: Real Estate (REITs), July 18, 2024
- Most European REITs' Valuations Should Bottom Out In 2024, July 10, 2024
- Highlights From Our 2024 European Real Estate Conference, June 20, 2024
- German Residential REITs Remain Supported By Funding Access And Solid Rent Fundamentals, May 31, 2024
- AI In Real Estate: What To Watch As Adoption Accelerates, May 28, 2024
- Swedish Real Estate: The End Of The Slump Could Soon Be In Sight, Feb. 29, 2024

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Analytical Contacts

Franck Delage

Managing Director

+33 (6) 24 77 5263

franck.delage@spglobal.com

Paris

Marie-Aude Vialle

Director

+33 (6) 15 66 9056

marie-aude.vialle@spglobal.com

Paris

Teresa Strömberg

Associate Director

+46 76 8537697

teresa.stromberg@spglobal.com

Stockholm

Nicole Reinhardt

Director

+49 693 399 9303

nicole.reinhardt@spglobal.com

Frankfurt

Daniella Vasilevski

Credit Analyst

+46 72 146 31 21

daniella.vasilevski@spglobal.com

Stockholm

spglobal.com/ratings