

**Rating Action: Moody's upgrades Castellum to Baa2, the outlook is stable**

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Stockholm, June 05, 2019 -- Moody's Investors Service ("Moody's") has today upgraded Swedish real estate company Castellum AB's issuer rating to Baa2 from Baa3. Concurrently, Moody's has upgraded the ratings on the Euro Medium Term Note Programme to (P)Baa2 from (P)Baa3 and the senior unsecured bond to Baa2 from Baa3. The outlook is stable.

"Castellum's upgrade to Baa2 reflects a track record in sustaining a stronger credit profile in line with the requirements of the Baa2 rating while at the same time making meaningful net investments into a further portfolio repositioning and increasing Nordic diversification " says Maria Gillholm, a Moody's Vice President -- Senior Credit Officer, and lead analyst for Castellum.

**RATINGS RATIONALE**

Castellum AB's Baa2 issuer rating reflects 1) the large diversified position in the Swedish real estate market with an increasing Nordic presence; 2) strong positions in the office markets in which it operates, including meaningful holdings in Stockholm and Gothenburg; 3) offices are mostly located in inner city locations or attractive suburbs of Sweden's three largest cities while the majority of warehouse/logistics assets are in some of Sweden's largest logistic hubs including the harbor in Gothenburg, Stockholm and Orebro; 4) significant exposure (24%) towards governmental tenant which provide for a stable cash-flow stream on a long term basis; 5) good track record of access to local and international debt, including the recent EUR bond issuance that helped to increase the share of unencumbered assets as well as access to equity capital; 6) solid debt protection metrics such as Moody's adjusted debt/assets of below 45% and EBITDA fixed charge coverage of 4.5x.

Counterbalancing these strengths are 1) Castellum's a high but decreasing proportion of office properties in relatively small cities across Sweden that may underperform in a downturn and where investor appetite will dry up more quickly; 2) somewhat high economic vacancy in some cities i.e. 10% in Oresund region but overall economic vacancy of 6.7% which is similar to other rated peers; 3) a solid but somewhat aggressive growth strategy with a sizable development pipeline, although spread of various assets and a good pre-let ratio in a European context of above 50%; 4) still somewhat short but improving debt maturity schedule.

**Rating outlook**

The stable outlook reflects our expectation that leverage remain below 45% with prospects to improve towards low-40% as we still see positive momentum in the Swedish real estate market and EBITDA fixed charge around 4x in the next 12 to 18 months. We positively view Castellum's comfort zone of effective leverage being at a distance below 45% from its financial policy of a maximum loan-to-value of 50%. We also expect continued strong occupier demand for the company's properties and robust investor appetite for Swedish commercial real estate to sustain Castellum's cash flows and asset values.

**Factors that could lead to an upgrade**

- Sustaining effective leverage below 40%, as measured by Moody's-adjusted gross debt/assets, with financial policies that support the lower leverage
- Fixed charge coverage above 4.5x on a sustained basis
- Increasing senior unsecured borrowing to increase the pool of unencumbered assets to above 60% whilst at the same time further improving liquidity and the average length of its debt maturity profile

**Factors that could lead to a downgrade**

- Effective leverage sustained above 45%
- Fixed charge coverage sustained below 3.5x

- Heavy reliance on short-term funding, especially if it is no longer backed by undrawn longer-dated credit facilities

- Weaker market fundamentals, resulting in falling rents and asset values

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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