MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Ba1 CFR to Summit Germany Limited; stable outlook

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London, 15 January 2018 -- Moody's Investors Service ("Moody's") has today assigned a first-time corporate family rating (CFR) of Ba1 to Summit Germany Limited ("Summit Germany" or the "Issuer"), a publicly-listed commercial real estate company based in Germany. At the same time, Moody's assigned a Ba1 rating to the proposed issuance of €250 million senior unsecured notes maturing 2025 to be issued by Summit Germany. The outlook on the ratings is stable.

"The Ba1 Corporate Family Rating reflects the company's relatively small but well diversified portfolio of commercial real estate assets in major cities and secondary locations in Germany" says Emmanuel Savoye, a Moody's Assistant Vice President and lead analyst for Summit Germany.

Summit Germany is a publicly-listed commercial real estate company with focus on office (77% of gross asset value as of September 2017), retail (7%) and logistics properties (16%) spread predominantly around the top seven cities in Germany. As of September 2017, the company's portfolio comprised 85 individual properties with a total lettable floor space of approximately 0.9 million square meters and an aggregated portfolio value of €1.0 billion. The weighted average lease term (WALT) amounted to 4.2 years. As of September 2017, the company generated an annual net rental income of €65.5million and had over 50 employees. The company is listed on the London AIM stock exchange with a market capitalization of €591 million as of 12 January 2018.

The net proceeds of the notes will mainly be used to refinance part of the company subsidiaries' secured debt including debt of Deutsche Real Estate AG. The transaction is credit positive because it will lengthen Summit Germany's average debt maturity to 6.7 years, decrease its average borrowing costs to approximately 2.6% and increase its unencumbered asset pool to 65%.

The assigned Corporate Family Rating assumes that the notes will be issued successfully. The rating assigned to the notes assumes there will be no material variations to the draft legal documentation. However, Moody's understand that the size of the issuance remains subject to market conditions.

RATINGS RATIONALE

The Ba1 CFR reflects (i) the company's relatively small but well diversified portfolio of commercial real estate assets in major cities and secondary locations in Germany, which is focused on office but also includes retail and logistics properties, (ii) good cash flow generation provided by a high yielding property portfolio and leading to a strong fixed charge coverage ratio of 4.9x, (iii) robust fundamentals for commercial real estate in Germany, (iv) the company's business model, including a positive track record in active property management which has led to a decline in vacancy rates of the core portfolio to 7.5%, as well as tenant and asset granularity which reduces risk and (v) an adequate liquidity profile pro-forma for the bond and adequate effective leverage of around 40% for the assigned rating.

These positive factors are offset by (i) the somewhat opportunistic business model leading to the acquisition of properties offering value creation opportunities through active portfolio management; (ii) the value-added nature of the portfolio, as reflected by the high yield generated, small average size of the properties, and mostly non-central locations within Germany's largest cities, (iii) the company's relatively small size also compared to other investment grade peers, (iv) minority interest for part of the portfolio.

Moody's expects the notes to be unsecured and rank pari passu with all other unsecured obligations of the issuer. The notes will not be guaranteed by any of Summit's subsidiaries including Deutsche Real Estate AG. However, the notes will benefit from financial covenants including a maximum Loan to Value ratio of 60% and a maximum Secured Debt to Total Asset ratio of 45%.

Deutsche Real Estate AG will be outside the restricted group. However, Summit Germany controls Deutsche Real Estate AG as it holds a share in excess of 80% in the company. Furthermore, any additional indebtedness at Deutsche Real Estate AG level will be included in the calculation of the loan-to-value notes covenant, effectively limiting additional indebtedness at this level. Whilst no material debt is expected at the level of this subsidiary, Moody's note that any future debt will be structurally senior to the notes.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the company will continue to generate stable cash flows and maintain good liquidity while keeping high occupancy levels and a balanced growth strategy. The outlook also reflects a favourable German macroeconomic environment and strong property market fundamentals.

FACTORS THAT COULD LEAD TO AN UPGRADE

A rating upgrade could result from an increase in scale and diversification, and continuing a track record of increasing occupancy and rents while maintaining a large proportion of the portfolio in central locations of the top 7 German cities. An upgrade would also require a track record of operating at a Moody's adjusted debt / gross assets of around 40% with financial policies that support that leverage, while maintaining a fixed charge coverage (FCC) above 4.0x.

FACTORS THAT COULD LEAD TO A DOWNGRADE

The rating could come under pressure if Moody's adjusted debt / gross assets is sustained well above 50%, or fixed charge coverage decreased below 2.5x. The rating could also come under pressure if the asset quality within the portfolio deteriorated and/or if the vacancy rate increased.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Emmanuel Savoye
Asst Vice President - Analyst
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square

Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Mario Santangelo
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454