Brack Capital Properties N.V.

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Corporate Credit Rating	ilA+/Stable

Rationale

Business Risk	Financial Risk
• Operations in the income-producing real estate market in Germany – a consistently stable market with positive growth prospects in upcoming years. • Wide geographic spread over a large number of German cities and regions, and adequate diversification between residential and commercial properties. • Some dependence on two major tenants accounting together for about 25% of rental income. • High occupancy rates in the residential and commercial portfolios, and high average lease duration of commercial portfolio.	• Consistent growth in cash flow from operations. • Expected improvement in financial metrics due to recognition of development project revenues. • Good access to German banks and local capital market. • The fact that all assets are encumbered, which adversely affects financial flexibility, in our opinion.

Outlook: Stable

The stable rating outlook reflects our assessment of the company's operating cash flow generation ability, among other things in light of recent acquisitions which increased total cash flow from properties, and of the current gap between yield on properties and financing costs. The stable outlook also reflects our assessment that the company will maintain adjusted ratios of debt to debt and equity of 60%-65% and EBITDA interest coverage of about 2x, and "adequate" liquidity.

Upside Scenario

We believe a rating upgrade may be possible if the company continues to prudently and conservatively expand its asset portfolio in the next few years, while implementing a clear financial policy supporting a permanent reduction in leverage to 55%-60% and a permanent improvement in EBITDA interest coverage to about 3x.

Downside Scenario

We would consider a rating downgrade if the company aggressively acquired new assets, while increasing leverage beyond our expectations. Entering into large new development projects could also adversely affect the rating.

Standard & Poor's Base-Case Scenario

In our base-case scenario we expect the coverage ratio to continue to improve in 2015-2016, with the delivery of additional stages in the Düsseldorf development project and the recognition of revenues thereof.

Principal Assumptions

- 2% annual same-property NOI (net operating income) growth.
- Additional recognition of revenues from the development project in 2015-2016 – at least € 115 million.
- Increased debt of around € 50-100 million per annum due to continued asset acquisition.

Key Metrics

	2014A	2015E	2016E
Debt/debt and equity	63.8%	60%-61%	58%-62%
EBITDA/interest	2.7x	2.7x-3.2x	2.5x-3.2x
Debt/EBITDA	12x	10x-11x	11x-12x

A – Actual, E – Estimate.

Business Risk

Operation in the German residential rental market, a stable segment in a positive market, with diversification into the commercial rental market characterized by high occupancy rates and long-term contracts

The company's business profile is supported by its focus on operations in Germany, one of the most stable economies in the world today, with a real estate market that is favorable for investors. We look favorably upon the company's residential portfolio, due to consistently high occupancy rates (about 96%), high tenants diversification (around 9,200 different tenants, compared to 8,600 last year), and due to our assessment that the portfolio is relatively immune to volatility at times of crisis.

The company's commercial asset portfolio is also characterized by consistently high occupancy rates (96%) and good geographic spread across Germany, but we believe it is somewhat dependent on two major tenants that together account for around 25% of rental income. Nevertheless, all assets have long-term rental contracts, and the aforementioned two major tenants carry long leases, between 10 and 15 years. We believe that the company will continue to implement its policy of expansion through acquisition of new rental properties in the upcoming years, while stabilizing and improving yields, as seen in the past.

We believe the residential development project in Düsseldorf entails larger industry and operational risks than the company's rental activity. However, progress in the past year, including the delivery of most first stage apartments and income recognition which has enabled the company to meet its profitability goals, as well as significant marketing of future stages, moderate the risk, in our opinion, compared to the prevailing risk at the time of our previous report.

Financial Risk

Consistent improvement in cash flow from operations, maintaining leverage together with expansion of the asset portfolio

The company's financial risk profile is supported both by continued growth in operating cash flow from the income-producing asset portfolio, and by significant growth in total cash flow due to delivery of apartments in the Düsseldorf residential development project. Cash flow after interest amounted to about € 50 million in 2014, compared to € 20 million in 2013. As of March 31, 2015, the company's balance sheet leverage ratio (the adjusted ratio of debt to debt and equity) was about 62%, the debt to EBITDA ratio was 11x, and the EBITDA interest coverage ratio was 2.7x, all commensurate with the current rating.

Table 1.

Brack Capital Properties N.V. -- Financial Summary					
	2014	**2013**	**2012**	**2011**	**2010**
(Mil. €)	**--Fiscal year ended Dec. 31--**				
Revenues	153.6	67.7	55.4	39.3	26.7
EBITDA	55.7	34.1	28.9	20.9	13.6
Funds from operations (FFO)	35.5	15.3	14.2	8.2	3.6
Interest Expense	20.5	19.2	14.8	13.2	11.9
Net income from continuing operations	47.5	27.9	14.7	34.3	12.2
Cash flow from operations	51.3	19.8	9.2	8.4	4.0
Debt	668.3	555.1	426.6	388.4	133.1
Equity	379.2	340.4	288.9	256.4	166.8
Debt and equity	1,047.5	895.5	715.5	644.7	299.9
Adjusted ratios					
Annual revenue growth (%)	126.7	22.2	41.0	47.3	3.5
EBITDA margin (%)	36.3	50.4	52.1	53.1	51.0
Return on capital (%)	5.6	4.2	4.0	4.5	4.6
EBITDA interest coverage (x)	2.7	1.8	1.9	1.6	1.1
Debt/EBITDA (x)	12.0	16.3	14.8	18.6	9.8
FFO/debt (%)	5.3	2.8	3.3	2.1	2.7
Cash flow from operations/debt (%)	7.7	3.6	2.2	2.2	3.0
Debt/debt and equity (%)	63.8	62.0	59.6	60.2	44.4

Liquidity: Adequate

We assess Brack Capital Properties' liquidity as "adequate" according to our methodology. This assessment is mainly based on the current level of cash, the company's ability to generate large positive cash flows from its ongoing operations, the low level of annual debt maturities, and good access to the local capital market and the German banking system. Nonetheless, we believe that the fact that all of the company's assets are encumbered adversely affects its financial flexibility. However, the fact that most of the loans against assets are non-recourse and with no cross-default mitigates this factor, in our opinion.

Our scenario does not include refinancing of unsecured debt or bond issuances, nor does it include future asset acquisition. We note that the major bank loan maturities in the upcoming period are non-recourse and therefore provide the company with financial flexibility. In addition, the company received a general confirmation for refinancing some of its bank loan maturities.

In our base-case scenario, we assume that the company's principal sources and uses from April 1, 2015, until March 31, 2016, are as follows:

Principal Liquidity Sources	Principal Liquidity Uses
• About € 68 million in cash and liquid investments; • About € 25 million in bank balances (received); • Operating cash flow of about € 40 million for the entire period (including proceeds from the residential development project and after loan repayment thereof).	• Bond maturities of around € 16 million and bank loan maturities of about € 64 million for the entire period; • Other expenses of about € 10 million (including dividend payments to non-controlling rights holders); • Capital expenditure of about € 6 million for the entire period; • Acquisition of 430 residential units (signed agreement) at about € 7 million (after receiving the required funds).

Modifiers

Diversification portfolio effect: Neutral

Capital structure: Neutral

Liquidity: Neutral

Financial policy: Neutral

Management/Governance: Neutral

Comparable ratings analysis: Neutral

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the company's financial statements which we use to calculate coverage ratios. The main adjustments we made on Brack Capital Properties N.V.'s consolidated 2014 data are:

- Deducting surplus cash and cash equivalent, as we define them, from reported financial debt.
- Deducting asset valuation gains on investment real estate from operating income.
- Deducting interest expenses from cash flow from operations (reclassification).

Table 2.

Reconciliation Of Brack Capital Properties N.V. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)

--Fiscal year ended Dec. 31, 2014--							
Brack Capital Properties N.V. reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**
Reported	720.4	279.6	54.1	77.3	20.3	54.1	70.5
Standard & Poor's adjustments							
Interest expense (reported)	--	--	--	--	--	(20.3)	--
Interest income (reported)	--	--	--	--	--	0.3	--
Current tax expense (reported)	--	--	--	--	--	--	--
Surplus cash	(54.6)	--	--	--	--	--	--
Capitalized interest	--	--	--	--	0.2	(0.2)	--
Non-operating income (expense)	--	--	--	0.3	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(19.2)
Non-controlling Interest/Minority interest	--	99.6	--	--	--	--	--
Debt - Accrued interest not included in reported debt	2.5	--	--	--	--	--	--
EBITDA - Other	--	--	1.6	1.6	--	1.6	--
D&A - Asset Valuation gains/(losses)	--	--	--	(23.3)	--	--	--
Total adjustments	(52.1)	99.6	1.6	(21.5)	0.2	(18.6)	(19.2)
Standard & Poor's adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	668.3	379.2	55.7	55.9	20.5	35.5	51.3

Related Criteria And Research

- National And Regional Scale Credit Ratings, September 22, 2014
- Criteria For Rating Non-Financial Corporate Issuances On Standard & Poor's Maalot's Local Rating Scale, September 22, 2014.
- The Connection Between Global And Local Scale Ratings, February 2013
- Standard & Poor's National And Regional Scale Mapping Tables, September 30, 2014
- Corporate Methodology: Ratios And Adjustments, November 19, 2013
- Corporate Methodology, November 19, 2013
- Key Credit Factors For The Real Estate Industry, November 19, 2013

Rating Details (As of 19-July-2015)	
Brack Capital Properties N.V.	
Issuer rating	ilA+/Stable
Series A, B, C bonds	ilA+
Rating history	
23-June-2014	ilA+/Stable
3-April-2013	ilA+/Stable
23-April-2012	ilA/Stable