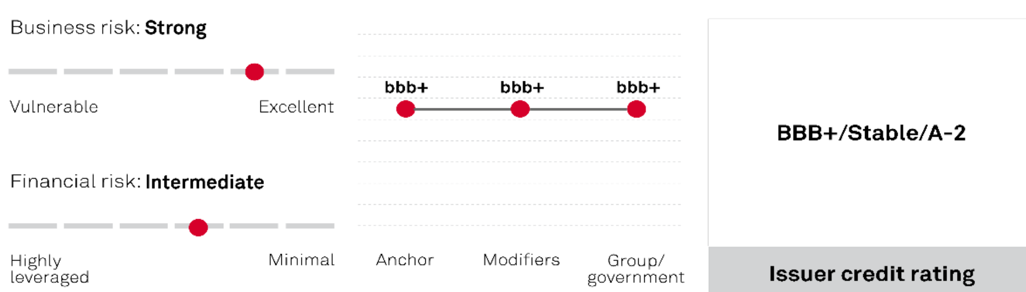
Grand City Properties S.A.

December 6, 2022

Ratings Score Snapshot



PRIMARY CONTACT

Nicole Reinhardt
Frankfurt
49-693-399-9303
nicole.reinhardt
@spglobal.com

SECONDARY CONTACT

Manish Kejriwal
Dublin
353-0-1-568-0609
manish.kejriwal
@spglobal.com

Credit Highlights

Overview

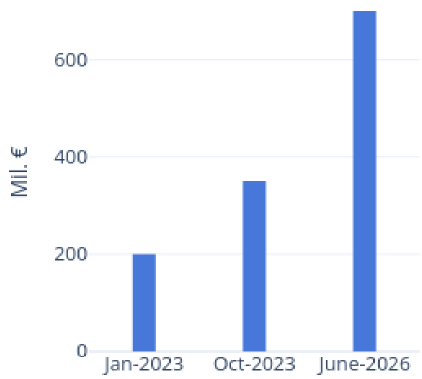
Key strengths	Key risks
Exposure to the regulated German residential segment, which continues to benefit from strong market fundamentals, such as demand-supply imbalance and a relatively high share of renting households.	Exposure to the non-regulated London market (currently 19% of total gross asset value) where occupancy and market rents could be more volatile than for the regulated German market.
Large portfolio of average-quality residential assets mainly located in or close to metropolitan German cities and in London, valued at €9 billion at Sept. 30, 2022.	Inflation and the energy crisis will likely pressure the group's tenants and rent affordability, which could limit future rental growth and weigh on EBITDA margins.
Strong track record of positive like-for-like rental income growth, supported by a highly diversified asset and tenant base and long tenant stays.	Although occupancy has improved consistently in recent quarters to 95.6%, it is still weaker than that of similar rated peers, with average rent at €8.30 per square meter.

Moderate leverage and financial policy, with debt to debt plus equity expected to remain below 45%, and a strong liquidity position.	Relatively high ratio of debt to EBITDA, expected at 13x-14x in the coming years, compared with that of peers operating in a similar yield environment.

Grand City Properties' (GCP's) operating performance remains resilient, although inflationary pressure and the energy crisis will likely reduce rent affordability. S&P Global Ratings expects residential landlords will continue to report sustained positive rental growth and occupancy levels, supported by limited new supply and solid demand for rental properties. This shows the stability of residential portfolios, and it is why we continue to consider this property segment, especially in regulated markets such as Germany, among the most resilient. GCP reported like-for-like net rent growth of 3.1% as of Sept. 30, 2022, with vacancy levels reaching the lowest levels over the past few years (4.4% at end-September 2022 from 7.1% at end-December 2018). That said, current high inflation in Germany and the U.K. as well as strongly rising utility costs will likely deteriorate tenant's rent affordability. We believe this could slow rental growth for GCP, where lease contracts are typically not linked to inflation. We also think potential future needs for higher investments due to requirements to meet national climate targets could pressure the cost basis for residential real estate players, including GCP. At the same time, we think GCP's exposure to the non-regulated London market could bring certain volatility to GCP's operations. The pandemic's impact on the U.K. residential real estate market was greater than on the residential property markets in other European countries such as Sweden, the Netherlands, and Germany. However, we understand that GCP's London exposure is now saturated and will remain at 19% of the group's total gross asset value (up from 13% at year-end 2019).

Following GCP's recent announcement, our revised forecast includes the non-call of GCP's €200 million hybrid bond with an optional first call date in January 2023. As of Sept. 30, 2022, GCP had a total hybrid stock of €1.25 billion, representing a capitalization rate of 13%. Of this stock, €550 million approaches first optional call dates in 2023. Given the company's recent announcement, our revised forecast now includes its €200 million hybrid bond as 100% debt from its first call date in January 2023 versus 50% currently: given that its effective maturity will fall below 20 years from that date, the minimum maturity requirement for maintaining intermediate equity content will no longer be met as per our corporate hybrid methodology. We have fully incorporated the reset rate of 3.637% plus five- year mid swap in our forecast interest expense. For the second €350 million hybrid instrument with a first call date falling in October 2023, we assume that GCP will replace the hybrid bond with a similar equity-like instrument (maintaining 50% equity treatment) at a coupon of at least 8%. The accounting impact on its ratio of debt to debt plus equity is 1%. We will continue to monitor the company´s announcement regarding hybrid first call decisions.

Grand City Properties S.A.--Hybrid Call Dates Start From January 2023



Source: S&P Global Ratings, Company Report.

In line with its moderate financial policy, we expect GCP's credit metrics to remain relatively stable in the coming years despite asset devaluation risk. At the end of September 2022, the company's debt to debt plus equity was 43.6% (stable from 43.7% at end-2021) and its debt to EBITDA was 13.6x (rolling 12 months; 13.5x at end-2021). These levels remain commensurate with our existing ratings, but we note tighter headroom in credit metrics compared with previous periods, such as 2020. We have revised our forecast and assume GCP will only do limited asset rotation going forward. In light of the current rising interest rate environment, we incorporate a flat like-for-like asset revaluation for full-year 2022 and about 5% devaluation in 2023 with another 2.5% devaluation in 2024. We assumed that GCP will not do further share buybacks and will be able to conserve cash through offering its shareholders scrip dividends. Therefore, we forecast that the company's debt to debt plus equity will remain just about or below 45% in the coming years. The company's long average debt maturity profile of more than five years and low cost of debt (1.2% as of September 2022), with 95% being at fixed rates or hedged, will continue to support its healthy EBITDA interest coverage ratio of about 3.5x-4.5x over the forecast period (5.2x at September 2022). We believe the main impact on its EBITDA interest coverage will be from the reassessment of hybrid capital post first optional call dates. We expect GCP's debt to EBITDA will remain at 12x-13x, slightly higher than in previous periods where it was about 11x.

We continue to view GCP as a highly strategic subsidiary of Aroundtown S.A. (BBB+/Stable/A-2). Aroundtown continued to increase its stake in GCP to 59% at the end of September (from 45% at the end of September 2021). We think Aroundtown's stake in the company, combined with the absence of a strong minority shareholder and the presence of several of Aroundtown's leadership in GCP's management bodies, gives Aroundtown the ability to influence GCP's strategy and disposition of cash flow. Therefore, we continue to apply our group rating methodology in our assessment of GCP's creditworthiness, and we regard the company as a highly strategic subsidiary of Aroundtown. This is because we think GCP is almost integral to the group's identity and future strategy (GCP represented 14% of Aroundtown's gross asset value, proportionally consolidating GCP, at end-September 2022). We think Aroundtown is likely to support GCP under almost all foreseeable circumstances. That said, we note the significant stake still owned by other shareholders and the independence of GCP's funding strategy, with no cross-default clauses in the existing debt instruments. Our assessment of the group does not currently have a positive or negative influence on the final rating of the company, given that we view the credit quality of Aroundtown as comparable to GCP's.

Outlook

The stable outlook on GCP reflects that of Aroundtown. We expect Aroundtown's diversification to support positive like-for-like rental growth on the back of its indexation-linked commercial lease agreements and overall unchanged occupancy levels, supporting a stable and predictable cash flow. At the same time, we expect GCP's portfolio to sustain steady demand and occupancy levels. Our outlook is supported by both Aroundtown's and GCP's relatively prudent financial policies.

In our base case, we also assume the company's approach to upcoming hybrid first optional call dates as described below.

Downside scenario

We could downgrade GCP if:

- We lower the rating on Aroundtown while the composition of GCP's shareholding structure and management bodies remained broadly as they are now.
- GCP's stand-alone operating performance deteriorated significantly, with higher vacancy in its portfolio and credit metrics deviated significantly from our base case--specifically, if debt to debt plus equity did not stay below 45% and EBITDA interest coverage would fall toward 2.4x or below on a prolonged basis.

Upside scenario

Ratings upside for GCP is linked to Aroundtown achieving a higher rating, and the shareholder structure and composition of GCP's management bodies.

Although it would not result in an upgrade, we could revise upward GCP's stand-alone credit profile to 'a-' from 'bbb+' if:

- Debt to debt plus equity improved to about 35% as part of a more conservative financial policy and debt to EBITDA improved from current levels, while EBITDA interest coverage stayed comfortably above 3.8x; or
- The portfolio showed strong growth, significantly exceeding €10 billion without raising existing leverage. We would expect the new assets to be of at least the same quality as the existing ones, and that such growth would dilute GCP's exposure to assets with renovation potential that generally exhibit higher vacancy rates, allowing the group's average vacancy rate to fall below 5%.

Our Base-Case Scenario

Assumptions

- A real GDP decline of 0.5% in Germany in 2023, followed by an increase of 1% in 2024. We forecast the consumer price index (CPI) in Germany at 7.3% and 3.0%, respectively, for those years.
- A real GDP decline of 1% in the U.K. in 2023, followed by 1.3% growth in 2024. We forecast the CPI in the U.K. at 7% and 0.9% in those years.
- Like-for-like rental income growth of 3.5% in 2022 and then about 2.0% in the coming years.
- Stable occupancy levels of 95% in the coming years.
- Flat like-for-like performance in the overall portfolio's market valuation for 2022 and a 5% devaluation in 2023 and a further 2.5% devaluation in 2024, on the back of expected yield expansion following an increasing interest rate environment.
- Total capital expenditure (capex) of €80 million-€100 million a year, mainly linked to repositioning activities and modernization projects in existing assets. We expect maintenance capex to remain stable at about €40 million per year.
- Overall steady or slightly decreasing gross EBITDA margins of 54%-55% in the next few years, due to some impact on its cost base from current inflation, partially offset by increasing rents and stable operating performance.
- Portfolio value to reach about €9.9 billion by year-end 2022 and about €9.0 billion-€9.5 billion in 2023. We assume some portfolio growth this year due to already finalized acquisitions of about €260 million and asset disposals over the next 24 months of about €160 million.

- No additional share buybacks.
- No significant amount of new debt issuances, excluding hybrids.
- Non-call of the €200 million hybrid with first optional call date in January 2023 and replacement of the €350 million hybrid with first optional call date in October 2023 with an at least same equity-like instrument (50% equity treatment).
- Stable dividend policy, with cash distributions to shareholders following a pay-out policy of 75% of reported funds from operations. This should translate into dividends of about €160 million per year. We assume about 55%-60% of the dividends to be scrip dividends, in line with the recent acceptance rate.
- The average cost of debt to remain broadly stable at about 1.2%-1.5%, excluding hybrid coupon payments.

Key metrics

Grand City Properties S.A.--Key Metrics*

Mil. €	2020a	2021a	2022e	2023f	2024f
EBITDA	299.8	298.6	~315	320-330	325-335
EBITDA margin (%)§	56.0	56.9	56-57	56-57	56-57
Cash dividends	70.2	53.7	~60	~65	~65
Debt	3,216.9	4,026.4	~4,150	~4,150	~4,000
Debt to EBITDA (x)	10.7	13.5	~13	~13	11.5-12.5
EBITDA interest coverage (x)	4.3	5.1	4.9	~4.0	3.5-4.0
Debt to debt plus equity (%)	39.6	43.7	~43	~45	44-45

*All figures adjusted by S&P Global Ratings. §Margin is based on gross revenue. a--Actual. e--Estimate. f--Forecast.

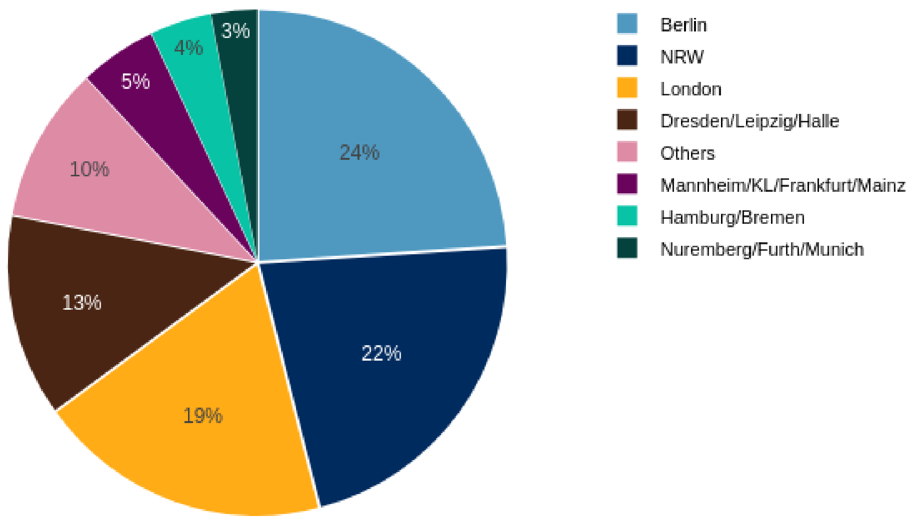
GCP decided to offer a scrip dividend again this year. As a result, the company issued new shares for a total value of approximately €99 million (calculated using closing share price on 15th July 15, 2022, multiplied by 7,360,307 shares issued). GCP paid the remainder of the dividend, €56.3 million, in cash in July 2022. This explains the lower amount of cash dividend distributed from 2020 compared with other years. We assume some scrip dividend distributions in subsequent years.

Company Description

GCP is a Luxembourg-based investment company, focusing on investing in and managing properties with upside potential in the German residential real estate market. The total portfolio as of September 2022 consisted of 65,088 units, mostly located in densely populated areas, with a focus on Berlin (24% of portfolio value), North Rhine-Westphalia (22%), London (19%), and Dresden/Leipzig/Halle (13%). GCP is one of the top players in the German residential market, with a total owned portfolio valued at approximately €9.7 billion.

Grand City Properties S.A.-- Geographic Diversity

Distribution by value; as of September 2022



Source: S&P Global Ratings, Company report.

The company is listed on the SDAX on the Frankfurt stock exchange. At the end of September 2022, the shareholder structure comprised a free float of 39%; Aroundtown, through its subsidiary Edolaxia Group, owned a 59% stake; and treasury shares accounted for 2%.

Peer Comparison

Grand City Properties S.A.--Peer Comparison

	Grand City Properties S.A.	Vesteda Residential Fund FGR	Vonovia SE	Heimstaden Bostad AB
Business risk profile	Strong	Strong	Excellent	Strong
Financial risk profile	Intermediate	Intermediate	Significant	Significant
Portfolio value	€9.7 billion	€10.1 billion	€95.3 billion	SEK337 billion/ €31 billion
Geography	Germany 81%, U.K. 19%	100% Netherlands	89% Germany, 8% Sweden, 3% Austria	30% Sweden, 25% Germany, 22% Denmark, 9% Netherlands, 7% CR, 6% Norway, 2% (Finland, U.K., Poland)
Segment	100% residential	100% residential	100% residential	100% residential.
Occupancy	96%	99%	98%	98%

Ratings data as of Nov. 29, 2022. Operational data as per latest company report. SEK—Swedish krona.

Grand City Properties S.A.--Peer Comparisons

	Grand City Properties S.A.	Vesteda Residential Fund FGR	Vonovia SE	Heimstaden Bostad AB
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Period	Quarterly	Annual	Quarterly	Quarterly
Period ending	2022-09-30	2021-12-31	2022-09-30	2022-09-30
Revenue	560	347	3,926	1,173
EBITDA	307	239	2,364	590
Funds from operations (FFO)	226	206	1,621	313
Interest expense	59.5	40.0	154.6	60.5
Operating cash flow (OCF)	163	199	1,731	399
Capital expenditure	70	204	2,248	781
Dividends paid	56.3	186.0	0.0	5.2
Cash and short-term investments	386	109	1,245	429
Debt	4,179	2,121	45,859	16,386
Equity	5,405	7,553	37,425	15,073
Valuation of investment property	--	9717.0	98663.7	31021.2
Adjusted Ratios				
EBITDA margin (%)	54.8	68.9	60.2	50.3

Grand City Properties S.A.--Peer Comparisons

EBITDA interest coverage (x)	5.2	6.0	4.4	2.7
FFO cash interest coverage (x)	5.2	7.4	3.8	2.6
Debt/EBITDA (x)	13.6	8.9	19.4	27.8
Debt/debt and equity (%)	43.6	21.9	55.1	52.1

Business Risk

GCP's business risk profile is underpinned by its large income-producing asset portfolio of about €9.7 billion as of Sept. 30, 2022, generating stable and recurring cash flows across Germany. The company benefits from a broad geographic spread across densely populated regions, with good growth prospects in Germany. It focuses mainly on metropolitan areas with favorable macroeconomic fundamentals and solid demand for residential premises.

GCP is present in regions with healthy rental growth prospects, such as North Rhine-Westphalia--which includes cities such as Cologne, Duisburg, and Dortmund--as well as Berlin, and the cities of Dresden and Leipzig. Demand continues to outpace supply of new property developments in GCP's core regions, further facilitating improvements in occupancy rates (overall vacancy reduced to 4.4% in September 2022, from 5.1% on Dec. 31, 2021).

The company has expanded its operations to London, which now represent 19% of the total gross asset value as of Sept. 30, 2022 (up from 13% at year-end 2019). Although the exposure is small compared with the overall portfolio size, we believe that challenging macroeconomic conditions could affect rent and valuation given our view of the market as more volatile and challenging than regulated markets like Germany. Vacancy rates in GCP’s London portfolio returned to pre-pandemic levels of 4% as of Sept. 30, 2022, after having increased to 8.6% as of end-2020 and only reducing somewhat to 6.0% as of September 2021. This surpassed the overall average vacancy rate in GCP's portfolio. We expect GCP will remain mainly a player in Germany but note that the exposure to London could bring some instability to its operations. That said, we do not forecast U.K. exposure to increase beyond 20% in the long term, in line with the company's strategy.

We see the asset quality of most apartments in GCP's portfolio as in line with the German average, reflecting that the company still has some exposure to lower-quality premises, which points to GCP's previous acquisition strategy. Vacancy rates remain high compared with levels at other residential real estate companies we rate, such as Vonovia SE and Deutsche Wohnen SE. We acknowledge that this is related to GCP's acquisitive profile and previous value-added strategy, which saw it constantly add above-average-vacancy assets to its portfolio. That said, we note GCP's improvements on vacancy, which stood at 4.4% at the end of September compared with 7.1% at the end of 2018.

GCP has limited exposure to development activities. Investments relate mainly to the maintenance and renovation of acquired premises. GCP's property portfolio now comprises of 65,088 owned units and, like its residential property peers, it has broad asset and tenant diversity. In addition, GCP's assets are rented at approximately 15% below the market average rates, providing them headroom in a market downturn scenario, where rents would start declining. There is scope for rent to increase closer to market levels with the annulment of the Berlin rent freeze. We think the residential asset class, especially in Germany, is more resilient than commercial properties, which are more cyclical and vulnerable to economic downturns.

Financial Risk

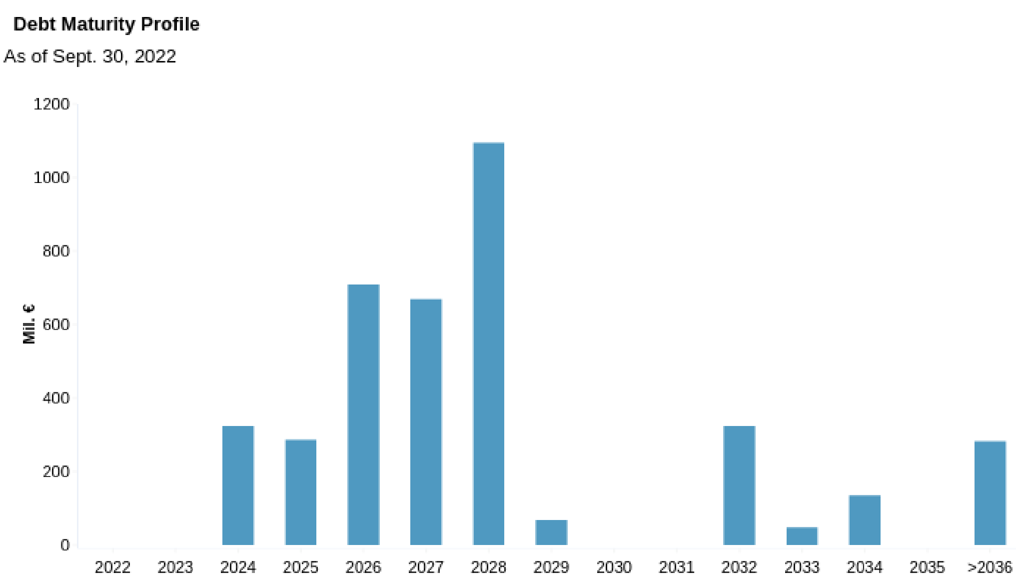
Our assessment of GCP's financial risk profile reflects the company's moderate financial policy of maintaining its debt-to-debt-plus-equity ratio at or below 45% on a sustainable basis.

We expect GCP's credit metrics to remain relatively stable in the coming years, in line with its moderate financial policy, but we note reduced headroom in credit metrics compared to previous years. We forecast that the company's debt to debt plus equity will remain at about 44%-45% in the coming years, mainly due to our reassessment of the equity content of the €200 million hybrid bond at its first call date in January 2023 and our assumptions of about 5% asset devaluation in 2023 and a further 2.5% devaluation in 2024, partially offset by asset sales of about €150 million over the same period and the payment of some scrip dividend. The company's long average debt maturity profile, high exposure to fixed/hedged interest rates, and low cost of debt will continue to support a healthy EBITDA interest coverage ratio of about 4.0x-4.5x. That said, the coverage ratio will decline from currently 4.9x, mainly due to the impact of significantly increased hybrid coupon payments for hybrids with first call dates in 2023 and 2024. We expect GCP's debt to EBITDA will remain at 13x-14x, slightly higher than in previous periods when it was about 11x.

GCP has a solid capital structure with no significant debt maturities until 2026 (average debt maturity of 6.2 years) and a low cost of debt on Sept. 30, 2022, of 1.2% (slightly increased from 1.0% for the same period last year; excluding hybrid coupon payments). GCP's proportion of unencumbered assets is relatively high at about 90% (about €9 billion) of the total portfolio value. The company has well-diversified funding sources, which include mortgage debt, convertible and straight bonds, perpetual notes, and straight common equity. GCP has also demonstrated a very good track record of accessing both equity and debt capital markets in the last few years.

Partly offsetting these strengths is the company's somewhat weaker cash flow generation, mainly due to the low-yield profile of its assets compared with those of other residential peers operating in a higher yielding environment (such as the U.S.) or other commercial landlords.

Debt maturities



Source: Company report.

Financial Summary

Grand City Properties S.A.—Financial Summary						
Quarter ending	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Revenue	131	130	135	133	139	152
EBITDA	75	75	77	76	76	78
Funds from operations (FFO)	53	49	61	52	55	59
Interest expense	14	15	15	14	15	15
Cash flow from operations	39	40	49	38	40	37
Capital expenditure	17	24	15	14	23	18

Cash and short-term investments	1,355	1,264	1,107	549	453	386
Debt	3,539	3,955	4,026	3,974	4,106	4,179
Equity	4,773	4,911	5,178	5,231	5,360	5,405
Valuation of investment property	8,387	8,894	9,339	9,389	9,801	9,730
Adjusted ratios						
EBITDA margin (%)*	57	57	57	57	56	55
EBITDA interest coverage (x)	5	5	5	5	5	5
Debt/EBITDA (x)	12	13	13	13	14	14
Debt/debt and equity (%)	43	45	44	43	43	44

*Margin is based on gross revenue.

Reconciliation Of Grand City Properties S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts - EUR (Millions)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	SPGR adj. EBITDA	OCF	Dividends	Capex
Period date	2022-09-30									
Company reported amounts	3,882.2	5,360.8	559.5	367.9	895.6	47.0	306.6	217.2	56.3	69.8
Cash taxes paid	-	-	-	-	-	-	(26.2)	-	-	-
Cash interest paid	-	-	-	-	-	-	(41.7)	-	-	-
Lease liabilities	58.7	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)	625.0	(625.0)	-	-	-	12.4	(12.4)	(12.4)	(12.4)	-
Accessible cash and liquid investments	(386.5)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	2.4	-	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(41.7)	-	-
Noncontrolling/ minority interest	-	669.1	-	-	-	-	-	-	-	-
EBITDA: Gain/ (loss) on disposals of PP&E	-	-	-	(63.7)	(63.7)	-	-	-	-	-

Reconciliation Of Grand City Properties S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts - EUR (Millions)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	SPGR adj. EBITDA	OCF	Dividends	Capex
D&A: Asset valuation gains/(losses)	-	-	-	-	(540.1)	-	-	-	-	-
Dividends: Other	-	-	-	-	-	-	-	-	12.4	-
Total adjustments	297.2	44.1	0.0	(61.3)	(603.8)	12.4	(80.3)	(54.1)	(0.0)	0.0
S&PGR adjusted	4,179.4	5,404.9	559.5	306.6	291.8	59.5	226.3	163.1	56.3	69.8

Liquidity

We assess GCP's liquidity as strong because we forecast that the fund's liquidity sources will exceed its funding needs by at least 1.5x over the next 12 months, and by more than 1x over the subsequent 12 months.

The company benefits from the absence of large debt maturities in the short term. In addition, GCP has very high cash balances.

Principal liquidity sources

- About €386.5 million of unrestricted cash and liquid market investments and an additional €300 million undrawn under its committed credit facilities, maturing in more than 12 months.
- Our forecast of about €180 million-€200 million in cash funds from operations for the next 12 months.

Principal liquidity uses

- About €3.4 million of short-term debt maturities, including regular debt amortization.
- Our forecast of €80 million-€100 million of capex for property, plant, and equipment, and property investments, most of which is not committed.
- About €166 million of common dividend distribution, assuming full cash payment.

Covenant Analysis

Requirements

GCP has several covenants under its bond and bank loan documentation. The straight bonds and convertible bonds are unsecured and have the following covenants:

- Limitation of debt: Total debt to assets of less than or equal to 60%.
- Limitation on secured debt: Secured debt to total assets of less than or equal to 45%.
- Interest coverage ratio: Adjusted EBITDA to net cash interest of greater than or equal to 2.0x.
- Maintenance of unencumbered assets: Unencumbered assets to unsecured net debt of greater than or equal to 125%.

Compliance expectations

GCP complied with all its covenants as of Sept. 30, 2022. We expect GCP will maintain significant headroom (more than 30%) under the financial maintenance covenants in its various debt agreements.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of GCP. The company has exposure to residential assets in Germany, including Berlin and other metropolitan cities, where social and political debates on rent affordability may increase regulation and regulatory risk and could hinder like-for-like rental growth for GCP. We believe that social aspects will continue to be a key consideration in the company's future performance, but we think the company's focus on affordable rents and its geographical spread in Germany's regions should minimize the potential impact. Aroundtown's significant stake in GCP (59% as of September2022) is factored into our rating. However, we do not believe there has been any negative influence over GCP over the past few years.

Group Influence

Aroundtown's stake in GCP was 59% at the end of September 2022 (45% at the end of September 2021). We think Aroundtown's stake in the company, combined with the absence of a strong minority shareholder and the presence of several of Aroundtown's leadership in GCP's management bodies, gives Aroundtown the ability to influence GCP's strategy and disposition of cash flow. Therefore, we continue to apply our group rating methodology in our assessment of GCP's creditworthiness, and we regard the company as a highly strategic subsidiary of Aroundtown. This is because we think GCP is almost integral to the group's identity and future strategy. We think Aroundtown is likely to support GCP under almost all foreseeable circumstances. That said, we note the significant stake still owned by other shareholders and the independence of GCP's funding strategy, with no cross-default clauses in the existing debt instruments. Our assessment of the group does currently not have a positive or negative influence on the final rating of the company given that we view the credit quality of Aroundtown as comparable to GCP's.

Issue Ratings--Subordination Risk Analysis

Capital structure

GCP's proportion of secured debt remains limited and its ratio of secured debt to total assets was 2.2% as of Sept. 30, 2022, well below our 40% threshold.

Analytical conclusions

We continue to align the ratings on the senior unsecured debt with our 'BBB+' issuer credit rating.

We assign intermediate equity content to GCP's outstanding subordinated hybrid instruments. The issue rating of 'BBB-' is two notches below our issuer credit rating, 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 payment deferral increases, we will reassess the hybrid bond ratings.

Rating Component Scores

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
Industry risk	Low
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of December 06, 2022)*

Grand City Properties S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Subordinated	BBB-

Ratings Detail (as of December 06, 2022)*

Issuer Credit Ratings History

21-Dec-2016	BBB+/Stable/A-2
23-Nov-2016	BBB+/Stable/--
13-Jun-2016	BBB/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.