S&P Global
Ratings

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Research Update:

Grand City Properties Downgraded To 'BBB' Following Same Action On Parent; Outlook Stable

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Rating Action Overview

- On April 29, 2025, we lowered our ratings on real estate company Aroundtown S.A. (AT), the parent of Grand City Properties S.A. (GCP), to 'BBB' from 'BBB+' due to sustained tight credit metrics and a delayed disposal path.
- We continue to view GCP as a highly strategic subsidiary of AT and almost integral to the group's current identity and future strategy.
- We therefore lowered our long-term ratings on GCP and its senior unsecured notes to 'BBB' from 'BBB+', and our rating on its subordinated debt to 'BB+' from 'BBB-', while affirming our 'A-2' short-term ratings; we continue to assess GCP's stand-alone credit profile at 'bbb+'.
- The stable outlook on GCP reflects that on AT, as well as our expectation that the company will continue to generate stable and predictable income from its existing assets and that its overall operating performance will remain stable.
- We forecast Aroundtown will maintain a debt-to-debt-plus-equity ratio of approximately 50%-52%, a debt-to-EBITDA ratio of 13.0x-14.0x, and EBITDA interest coverage of 2.2x-2.3x over the next 12-24 months.

Rating Action Rationale

Our long-term issuer credit rating on GCP moves in line with that on its parent Aroundtown. We lowered our rating on AT to 'BBB' based on a slower-than-expected deleveraging path and a challenging transaction market that will keep its already tight credit metrics beyond our downside threshold for a ‘BBB+’ rating. Despite AT's successful disposal strategy and good track record (€740 million in disposals closed in 2024 and €1.2 billion in 2023), we think recent market volatility and a weaker German economy will hinder the company's ability to complete about €1.1 billion in previously expected asset sales in 2025, most of which we assumed would close by midyear 2025. We do not anticipate the company will supplement this expected shortfall with equity, equity-like instruments, or other measures. Therefore, we revised our base case and lowered our disposal expectations to about €500 million-€700 million for fiscal year 2025 (ending Dec. 31), and no disposals in 2026. Consequently, we forecast the S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio to remain slightly above 50% over the next 12-24 months.

We also expect AT’s EBITDA gross interest coverage ratio to remain about 2.2x-2.3x below our ratings threshold of 2.4x, following the absence of gross debt reduction, reduced disposal expectations, and a continuously higher interest rate environment. We understand the company is still committed to its financial policy and deleveraging path, and forecast it will use available cash proceeds to cover upcoming debt maturities. However, we think it is unlikely that expected sales proceeds will improve credit metrics to those required for a ‘BBB+’ rating (see "Aroundtown S.A. Downgraded To 'BBB' On Revised Disposal Expectations And Tight Credit Metrics; Outlook Stable," published April 29, 2025).

We continue to view GCP as a highly strategic subsidiary of Aroundtown. We think AT's stake in the company (62% as of Dec. 31, 2024), combined with the absence of a strong minority shareholder and the involvement of several AT leaders in GCP's management, allows AT to influence GCP's strategy and cash flow disposition. Therefore, we continue to apply our group rating methodology in our assessment of GCP's creditworthiness, and regard the company as a highly strategic subsidiary of AT. This is because we consider GCP to be almost integral to the group's identity and future strategy, and think AT would likely support GCP under almost all foreseeable circumstances. Therefore, we factor AT's weaker creditworthiness in the issuer credit rating on GCP by positioning it one notch lower than its 'bbb+' stand-alone credit profile (SACP). The stable outlook reflects our view that AT’s credit metrics should remain at the 'BBB' rating level over the next 12-24 months.

GCP has created headroom under our downside threshold of 45% for debt to debt plus equity, with regards to its ‘bbb+’ SACP. On Dec. 31, 2024, GCP reported an S&P Global Ratings-adjusted debt-to-debt plus equity ratio of 43.5%, which improved materially from the 49.3% reported on Dec. 31, 2023. This is primarily attributed to GCP successfully exchanging its non-called hybrid notes, which allowed us to reassess its equity content to 50% from 0%. GCP has also suspended common dividends and executed asset disposals and achieved slightly positive like-for-like portfolio value growth of 0.5% in 2024. We think this ratio will likely remain below 45%, at 42% in 2025 and 43% in 2026. This is because we expect valuations to remain flat this year, and a large portion of vendor loans (€66 million received so far in this year out of €125 million outstanding as of Dec. 31, 2024) and signed sales--approximately €125 million in 2024 --will be received during 2025. Additionally, we do not expect the company will resume common dividends until 2026. Our forecast also includes about €200 million in acquisitions for 2025 and about €300 million-€400 million in 2026, should an opportunity arise. We anticipate GCP's debt to EBITDA ratio to remain between 10.0x and 11.0x in 2025 (11.1x as of Dec. 31, 2024), and EBITDA gross interest coverage ratio at about 2.6x-2.7x (2.7x as of Dec. 31, 2024) over the next 12 to 24 months. This is based on our expectation of increased EBITDA generation driven by solid like-for-like rental growth of 2.5%-3.0% annually. We also anticipate a slight reduction in gross debt, since we assume that a significant portion of vendor loans and signed sales will be realized within the next 12 months, and a large part of cash will be used for repaying gross debt.

We expect GCP's operating performance to remain resilient, supported by positive fundamentals in residential markets. In 2024, the company reported like-for-like rental growth of 3.8%, with a stable occupancy rate of 96.2% for its overall portfolio (96.2% in 2023). We anticipate GCP's operating performance will remain solid, underpinned by positive rental growth and existing supply and demand imbalances in Germany's and London's residential markets. We expect positive like-for-like rental growth of 2.5%-3.0% annually in 2025 and 2026, thanks to strong uplifts in rent renewals, slowly increasing indexation, and stable and sustained occupancy of about 96.0%-97.0%.

GCP maintains strong liquidity. The company benefits from a high unrestricted cash position of about €1.5 billion on the balance sheet as of Dec. 31, 2024, an undrawn revolving credit facility of €200 million, and about €125 million in disposal proceeds to be received (excluding vendor loan) after the reporting date. Those sources will sufficiently cover upcoming debt maturities for the next two-to-three years. We understand GCP has solid headroom, well above 15%, under all its financial covenants, and we expect this to be maintained.

Outlook

The stable outlook on GCP reflects that on AT. It also reflects our expectation that the company will continue to generate stable and predictable income from its existing assets. In our base-case scenario, we assume AT will sustain a stable operating performance, benefiting in particular from its residential portfolio. As a result, we forecast AT will maintain a debt-to-debt-plus-equity ratio of approximately 50%-52%, a debt-to-EBITDA ratio of 13.0x-14.0x, and EBITDA interest coverage of 2.2x-2.3x over the next 12-24 months.

Downside scenario

We could downgrade GCP if AT's:

- Debt to debt plus equity increased toward 60%;
- EBITDA interest coverage decreased toward 1.8x; or
- Debt to EBITDA deviated materially from our forecast.

There would also be ratings pressure if AT’s operating environment deteriorated, leading to a further increase in vacancy rates in its commercial property portfolio or a greater devaluation of its asset base than we currently anticipate.

We could also take a negative rating action if unexpected events weaken creditworthiness, such that available cash is not used to reduce leverage but instead for increased material corporate spending, such as on acquisitions or share buybacks/dividends.

Although this would not result in a downgrade due to expected group support, we could revise our assessment of GCP’s SACP to 'bbb' from 'bbb+' if, on a prolonged basis:

- GCP's stand-alone operating performance significantly deteriorated, with higher vacancies in its portfolio, and credit metrics that deviated significantly from our base case. Specifically, if debt to debt plus equity did not stay below 45% on a sustained basis and EBITDA interest coverage fell to 2.4x or below.

Upside scenario

An upgrade hinges on AT achieving, on a prolonged basis:

- Debt to debt plus equity well below 50%;
- EBITDA interest coverage above 2.4x; and

- Debt to EBITDA toward 13.0x.

A continuing strong operating environment would also support an upgrade, including improvements in occupancy levels--particularly in the commercial portfolio--positive like-for-like rental income growth, and flat or positive portfolio value growth in its property portfolio.

Although it would not result in an upgrade, we could revise our assessment of GCP's SACP to 'a-' from 'bbb+' if:

- Debt to debt plus equity improved to about 35% as part as a more conservative financial policy, and debt to EBITDA improved from current levels, while EBITDA interest coverage moved toward 3.8x; or
- The portfolio showed significant growth, exceeding €10 billion without increasing existing leverage. We would expect the new assets to match the quality of the existing portfolio, and this growth to dilute GCP's exposure to assets with renovation potential, which typically have higher vacancy rates, allowing the group's average vacancy rate to remain below 5%.

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 and London. As of Dec. 31, 2024, the total portfolio consists of 60,820 units, primarily located in densely populated areas, including Berlin (23% of portfolio value), North Rhine-Westphalia (21%), London (20%), and Dresden/Leipzig/Halle (14%). GCP is one of the leading companies in the German residential market, with a total owned portfolio valued at approximately €8.6 billion as of Dec. 31, 2024. The company is listed on Frankfurt Stock Exchange's SDAX. As of Dec. 31, 2024, the shareholder structure comprises a free float of 38%, while AT, through its subsidiary Edolaxia Group, owns a 62% stake.

Rating Component Scores

Rating Component Scores

Component	
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/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong

Rating Component Scores

Component	
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Aroundtown S.A. Downgraded To 'BBB' On Revised Disposal Expectations And Tight Credit Metrics; Outlook Stable, April 29, 2025
- Grand City Properties S.A., Dec. 11, 2024

Ratings List

Ratings list		
Downgraded; Outlook Action		
	To	**From**
Grand City Properties S.A.		

Ratings list		
Issuer Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2
Downgraded		
	To	**From**
Grand City Properties S.A.		
Senior Unsecured	BBB	BBB+
Grand City Properties S.A.		
Grand City Properties Finance S.a r.l.		
Subordinated	BB+	BBB-

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