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CREDIT OPINION
12 June 2020

Update

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RATINGS

Castellum AB

Domicile	Sweden
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Castellum AB

Update to discussion of key credit factors

Summary

Castellum AB's Baa2 issuer rating reflects 1) the large diversified position in the Swedish real estate market with an increasing presence in Denmark and Finland; 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 Gothenburg, Stockholm and Orebro; 4) significant exposure (23%) towards governmental tenants which provide for a stable cash-flow stream on a long term basis; 5) adequate liquidity and good track record of access to local and international capital markets 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 4.9x.

Counterbalancing these strengths are 1) Castellum's 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. 9.5% in Oresund region but overall economic vacancy of 6% (excluding project developments, 4.6% also including rent discounts) which is similar to other rated peers and 3) a somewhat aggressive growth strategy with a sizable development pipeline, although spread over various assets and a good pre-let ratio of 81% which is high in a European context of above 50%. Additionally, Covid-19 increases macroeconomic downside risk, the drop in GDP will directly impact hotel and retail assets as well as potentially offices. More expensive financing or loss of rental revenues due to bankruptcies may lead to yield widening and could ultimately result in higher leverage.

Credit strengths

» Fourth largest Swedish real estate company by market value and high level of unencumbered assets

» Geographically diversified portfolio of predominantly office properties located in inner city areas or attractive suburbs of the three largest cities of Sweden, Copenhagen, Denmark and Helsinki, Finland

THIS REPORT WAS REPUBLISHED ON 16 JUNE 2020 WITH A CORRECTED WORDING AROUND DEBT MATURITIES.

» Strong market position in warehouse/logistics sector, with properties located at important roads and in logistics hubs

» Good-quality portfolio with a large degree of environmental certifications, increasing cost efficiency

» Moderate and controlled development programme that will create value

» Strong EBITDA fixed charge coverage and adequate liquidity

» Track record of accessing private and public debt markets, and raising public equity

Credit challenges

» High vacancy rate in some cities but overall a moderate vacancy of 7.8%

» A proportion (15% to total office share) of office space located in smaller cities that may underperform in a downturn

» Somewhat elevated leverage leaving little headroom for underperformance or more aggressive growth, but strong fixed charge coverage

» Short-dated debt maturity profile

Rating outlook

The stable outlook incorporates no significant impact on values or net debt/EBITDA from Covid-19. The stable outlook reflects our expectation that leverage will remain well below 45% with prospects to improve towards low-40% 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

Key indicators

Castellum AB

Castellum AB

USDbn	12/31/2016	12/31/2017	12/31/2018	12/31/2019	3/31/2020(L)	Forward View [1]
Gross Assets (USD Billion)	$8.6	$10.2	$10.4	$10.6	$10.2	$10.3 - $10.5
Unencumbered Assets / Gross Assets	0.0%	22.6%	50.9%	54.3%	57.8%	60%
Total Debt + Preferred Stock / Gross Assets	49.3%	45.8%	43.9%	42.1%	43.8%	44% - 45%
Net Debt / EBITDA	13.2x	11.1x	10.5x	10.4x	10.6x	10.5x - 11x
Secured Debt / Gross Assets	27.1%	18.9%	13.4%	7.3%	10.0%	9% - 10%
Fixed Charge Coverage	3.5x	3.7x	4.3x	4.8x	4.9x	4.5x - 4.6x

[1] This represents Moody's view and not the opinion of the issuer.
[2] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2016.
Source: Moody's Financial Metrics™

Profile

Castellum is a major listed real estate company in Sweden with a market capitalisation of SEK49. billion as of 10 June 2020. The company's SEK96 billion portfolio of office, retail, warehouse and logistics properties spans 4.3 million square metres and generates about SEK5.8 billion in rental income annually (Q1 2020). The company has a decentralised organisational structure and a strong presence in five growth regions in Sweden and Denmark. In addition, Castellum did its first acquisition in Helsinki, Finland during 2018.

Detailed credit considerations

One of the largest listed Swedish real estate companies with a geographically diversified portfolio of mostly office properties

Castellum is one of the largest real estate companies in Sweden with a property portfolio valued at SEK 96 billion as of 31 March. It owns 580 properties, comprising approximately of 90% office and logistics units, retail assets 7% and reminder light industry. The portfolio is well diversified across 6 high-growth submarkets across Sweden and Copenhagen, Denmark and Helsinki, Finland. The company's large scale has enabled it to achieve its aim of being one of the top three real estate companies based on market value in most of its submarkets. We believe its decentralised organisational structure and strong presence in local markets give it a competitive advantage by keeping it close to its tenants and helping it to develop deep local property market expertise. Following its major 2016 acquisition of Norrporten for approximately SEK26 billion (including debt), Castellum has raised its proportion of revenue derived from public sector tenants to 23% as well as enhanced its position in neighboring Denmark via an expanded property portfolio in the capital city of Copenhagen but also to Finland and Helsinki.

Large, good quality commercial portfolio in attractive cities

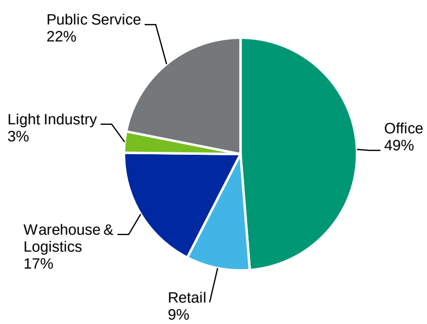
We have assigned Castellum a “Baa” rating for the sub-factor Market Positioning and Asset Quality and an “A” rating for size (gross assets), reflecting: its top three position in all of its markets, with 15%-22% of rents being renegotiated per year; the good quality of its office portfolio; and the adequate share (approximately 36% based on square meters) of certified properties predominantly Miljöbyggnad Silver which is the second highest certification. However, Castellum has a high proportion of office properties in relatively small cities across Sweden as well as somewhat high economic vacancy of 9.5% in Oresund. Despite that, overall economic vacancy of 6% (excluding development projects) is similar to other rated peers.

The company has a well-defined strategy of focusing on large, flexible (open work space), environmentally friendly office properties that are situated in vibrant inner-city locations near transport hubs in the three growth markets of Stockholm, Gothenburg and Malmo, some medium-sized Swedish cities, and Copenhagen, Denmark. The majority of its property portfolio is located in inner city Stockholm (around 17% of the portfolio value) and in growth-oriented suburbs (around 25% of the portfolio value) of the Swedish capital, such as Sundbyberg, Solna Strand and Hagastaden with the newly built Karolinska Universitetssjukhuset. The company also has holdings in inner city Gothenburg and Malmo as well as in attractive suburbs, such as Hyllie. The company's position in logistics portfolio is increasingly important due to the rapid increase in e-commerce. Moreover, Castellum entered the coworking sector with their acquisition of United Spaces.

Majority of Castellum's revenue generated from office properties in Sweden's three major metropolitan areas

Exhibit 2

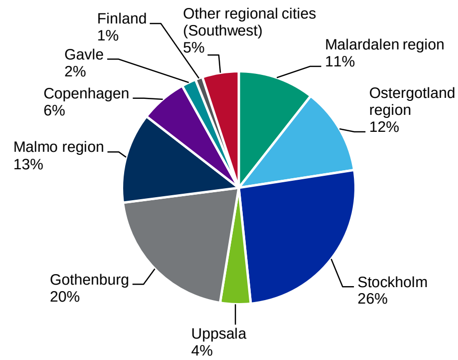
Distribution by rental revenue as of 31 December 2019



Source: Company data and Moody's Investors Service estimates

Exhibit 3

Distribution by property value as of 31 December 2019



Source: Company data and Moody's Investors Service estimates

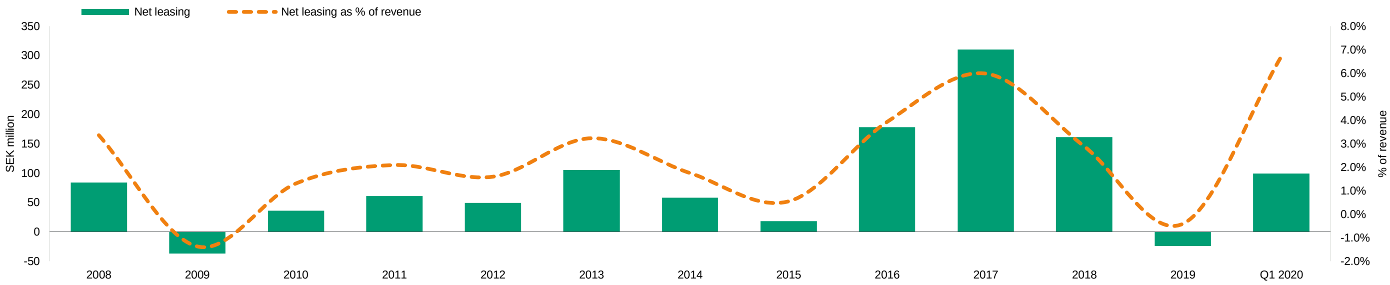
Exhibit 4

Regional cities see employment growth below Stockholm, but similar to Gothenburg and Malmo, while unemployment rates generally exceed Stockholm area

Source: Company data, Evidens, SCB, Moody's Investors Service estimates

Castellum's large tenant base and long average lease maturity profile of 4 years are credit positives. The company's approximately 5,700 lease agreements are diversified across contract size, geography, type of premises, length of contracts, and industry. The single largest lease is 2% of rental income, and around 23% of rental income comes from government-related entities, such as municipalities and universities, which we view ultimately as having the credit risk of Sweden (Aaa stable).

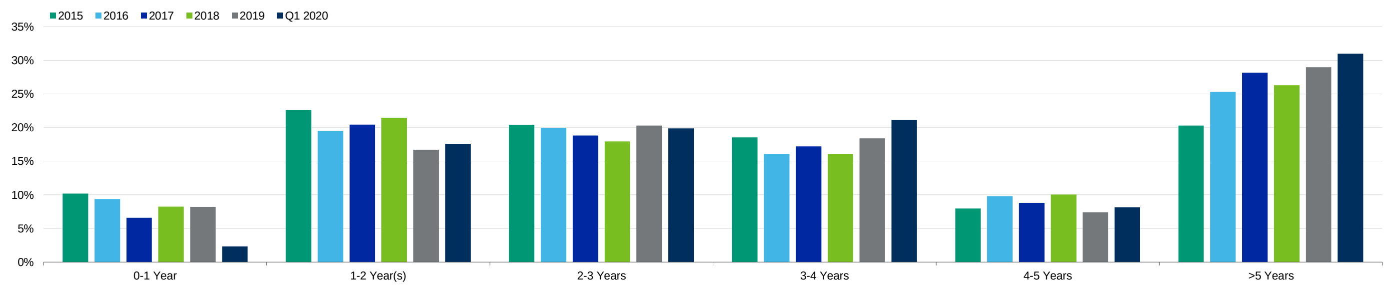
Exhibit 5
Net leasing trend still strong but momentum reversing in 2019 and again in Q1 2020



Source: Company data

The company sustained strong leasing activity throughout 2018, signing SEK400 million in new leases compared with SEK600 million for 2017, with notable strength in regional cities such as Örebro, Jönköping and Uppsala. A large number of contracts were also signed in the Stockholm region and generally at significantly higher rentals than in-place leases. However, 2019 net leases were slightly negative at -SEK24m followed by a strong Q1 2020 of SEK99m.

Exhibit 6
Castellum has steadily pushed out lease maturities in recent years with most 2020 expirations already renegotiated as per Q1 2020

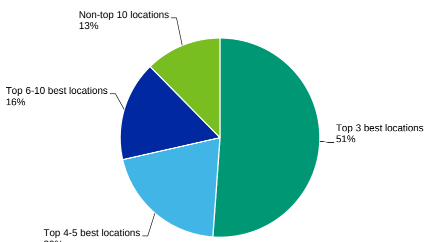


Source: Company data

Strong market position in warehousing/logistics

The warehouse/logistics portfolio provides asset diversification and exposes the company to higher yielding assets with different underlying economic drivers than offices. The company owns one of the largest logistics portfolios in Sweden and the platform is well positioned for continued growth. Nearly 80% of the logistics portfolio is located around Stockholm and Gothenburg where demand for logistics services is greatest and rental growth is strongest.

Exhibit 7
More than 70% of Castellum's warehouse and logistics assets are located in the top five most attractive logistics areas in Sweden
Based on 2019 rental value and logistics ranking by Inteligent Logistik



Logistic area ranking Sweden	Castellum locations	Summary description
Top 3 best locations	Greater Gothenburg, Orebro	Gothenburg: largest import/export harbour in Nordic region. Orebro: excellent infrastructure, largest combi terminal in Sweden, located in geographic centre of country.
Top 4-5 best locations	Stockholm North, Helsingborg	Stockholm North: Proximity to capital region, Sweden's No. 1 cargo airport Arlanda. Constrained access for road transportation. Helsingborg. No. 2 container port in Sweden.
Top 6-10 best locations	Jonkoping, Vaggeryd, Stockholm South, Vasteras, Malmo, Lund.	Jonkoping: Earlier top ranking but losing momentum. Train connection from Gothenburg, several combi terminals. Stockholm South: large population base, port access, several combi terminals. Constrained by land limitations. Vasteras: No. 1 inland port, major cargo ariport. Malmo: Cooperation with Copenhagen port, available land for new developments, centre for car imports.

Source: Company data, Intelligent Logistik

Weaker macroeconomic environment may negatively affect cash flows and asset values

The company continued to report strong rental performance for the first quarter 2020 however it booked only SEK3 million of revaluation gains in Q1 2020 compared with SEK689 million in 2019. Lacking a comparison object in the property valuation gains, Castellum has chosen not to make any general changes to required yields at the start of the quarter and just made individual adjustments at the property level.

We expect a a weaker economic environment with contracting GDP due to Covid-19 in the next 12 months with a sharp recovery in 2021. Due to Castellum's low exposure towards hotel, retail and restaurants we expect no significant implications for the time being. Additionally, Castellum's exposure towards logistics and government tenants would offset moderate negative effect from Covid-19.

We expect real GDP growth to decline to -3.8% in 2020, following 1.2% growth in 2019. Consequently, Sweden is likely to deviate from the euro area and G-20 advanced economies, where we forecast decline for 2020 of -6.5% and -4.0%, respectively.

Moderate and controlled development programme that will create value

We expect the company to maintain its disciplined approach to development and maintain its pipeline around its current 4% of total assets. The company had total ongoing projects of SEK3.9 billion as of the first quarter of 2020 with SEK2.3 billion remaining investment before completion. The ability to develop properties at materially more attractive yields than can be found in a competitive investment market will enhance value and provide the company with newer buildings on longer leases. Development risk is limited by the company's strategy of maximising pre-lets before starting developments, coupled with strong occupier markets and still limited supply of commercial properties in Sweden.

Track record of accessing private and public debt markets, and raising public equity

We view the company's strong banking relationships and frequent issuances under its domestic MTN and commercial paper programme as key credit strengths. Furthermore, the company has proven its ability to tap its granular and liquid equity base, having raised more than SEK6 billion of equity in 2016 for the Norrporten acquisition. In addition, the company pays out less cash to shareholders than many of its European peers, and unlike real estate investment trusts (REITs) has no legal obligation to pay a high proportion in dividends, giving it more leeway to use funds from operations to reduce leverage if needed. Castellum's dividend pay out is more in line with Swedish peers and hovers around 56%.

Aggressive growth strategy through acquisitions improves scale and diversification but introduces risks

The company has more than doubled its size of its portfolio since 2013, most notably through the acquisition of Norrporten AB for SEK26 billion in 2016. The increased size brings many benefits, including better geographic spread, a larger, more diversified tenant base, and better economies of scale at both the property level and for accessing debt markets. Nonetheless, we expect the company to integrate its recent acquisitions before embarking on any further large purchases. Furthermore, we expect the portfolio to stabilise over time as the company completes its disposals programme and finalises its repositioning strategy.

High proportion of office properties located in smaller cities that may underperform in a downturn

Although not an immediate or major concern, some of the company's office properties located in smaller cities may underperform if and when the economic cycle turns. The underperformance could be driven by weaker occupational demand and a narrower occupier base in those smaller towns, leading to higher vacancy rates and weaker rents compared with larger cities. Furthermore, investment volumes in smaller towns tend to dry up more quickly in a downturn, with yields softening more than in larger cities such as Stockholm and Gothenburg, leading to proportionately larger drops in value. Regardless, we believe an experienced management team that has navigated previous downturns will successfully protect value should our concerns materialise.

Improving leverage, while fixed charge coverage remains strong

The company's most recent effective leverage as measured by Moody's-adjusted estimated gross debt/assets was 43.8% as of 31 March 2020, down significantly from 49.3% as of 31 December 2016. We expect the company to maintain leverage at or well below 45% and to operate within its established financial policy not to exceed a loan-to-value (LTV) ratio of 50%. In this respect we understand that the company feels more comfortable at the 45% level, and would only accept a higher leverage in exceptional situations.

We expect the company to sustain its strong fixed charge coverage ratio, which has been consistently above 3.0x since 2015 and reached an estimated 4.9x as of 31 March 2020, supported by a continued low interest rate environment in Sweden and EBITDA growth. The company's financial policy is to maintain a reported interest coverage ratio of at least 2.0x.

Short-dated debt maturity profile and heavy reliance on short-term debt

As of March 31, 2020 the average duration as of March 31 of the company's debt is still somewhat low at 4.0 year and its hedging profile is at 3.2 years, making the company vulnerable to any rise in interest rates. The rating incorporates an expectation that the average debt maturity profile will be maintained or extended about 4 years through a variety of funding sources.

The company's short average debt maturity is affected by a steady 10% reliance on commercial paper in its debt funding mix, even though it has decreased from 26% as of March 2018. However, the SEK4.4 billion of outstanding commercial paper is around 280% covered by undrawn revolving credit facilities (RCFs) with a staggered maturity profile between 2021 and 2023. There is no maturing RCF until 2022 with the latest ones renegotiated in Q1 2020. The company's average cost of debt as of 31 March 2020 was 1.9%, down from 2.2% as of 31 March 2018.

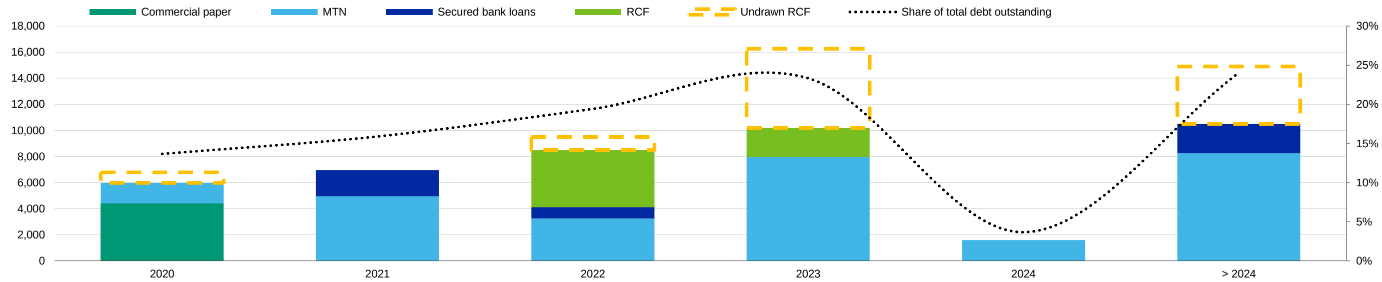
The unencumbered assets are at 58% and are expected to increase to around 60% in the next 12-18 months through refinancing of secured bank debt on the capital market. We note that commercial paper drawings are always backed by secured and long term revolving credit facilities for which assets have already been pledged.

Liquidity analysis

We view the reliance on short-term funding as credit negative and a potential threat to liquidity because it increases the duration mismatch between funding sources and the long-term nature of real estate assets. Castellum's liquidity is adequate and supported by committed credit lines of SEK18.9 billion which cover SEK4.4 billion drawing under the commercial paper program as well as other debt and development costs coming due in the next 12 months. The company has a high level of short-term debt that represents 14% of its outstanding liabilities and, therefore, a relatively short-dated maturity profile of three years. Over time, we expect the company to rely more on long-term sources of funding.

The company has ample headroom under its financial covenants, which require an LTV ratio not exceeding 65% and an interest coverage ratio of at least 150%. As of 31 March 2020, Castellum's LTV and interest coverage ratios, as defined by credit agreements, were 44% and 5.0x, respectively.

Exhibit 8
Castellum has a diversified funding mix with ample undrawn RCFs to cover commercial paper and near-term bond maturities



Source: Company data.

Rating methodology and scorecard factors

The principal methodology used in this rating was the Global Rating Methodology for REITs and Other Commercial Property Firms published in September 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The company is rated Baa2 in line with the scorecard indicated outcome forward view.

Castellum AB

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current LTM 3/31/2020		Moody's 12-18 Month Forward View As of 6/10/2020 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$10.2	A	$10.3 - $10.5	A
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa
b) Operating Environment	A	A	A	A
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	57.8%	Ba	60%	Baa
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	43.8%	Baa	44% - 45%	Baa
b) Net Debt / EBITDA	10.6x	Caa	10.5x - 11x	Caa
c) Secured Debt / Gross Assets	10.0%	A	9% - 10%	A
d) Fixed Charge Coverage	4.9x	A	4.5x - 4.6x	A
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] Moody's financials from FY2018 report and adjustments as per Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations.
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 10

Category	Moody's Rating
CASTELLUM AB	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

Peers

Exhibit 11

Rating Factors - Peers

REITs and Other Commercial Property Firms Industry Grid [1]	Castellum [2]	Atrium Ljungberg [2]	CA Immo [2]	MERLIN Properties [2]	Fabege[2]
Factor 1 : Scale (5%)	**Measure**	**Measure**	**Measure**	**Measure**	**Measure**
a) Gross Assets (USD Billion)	$10.5 - $11	$5.3 - $5.4	$6.0 - $6.5	$14 - $15	$8.2 - $8.4
Factor 2 : Business Profile (25%)					
a) Market Positioning and Asset Quality	Baa	Baa	A	Baa	A
b) Operating Environment	A	A	Baa	Baa	A
Factor 3 : Liquidity and Access To Capital (25%)					
a) Liquidity and Access to Capital	Baa	Ba	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	60%	48% - 49%	60% - 65%	78% - 80%	27% - 30%
Factor 4 : Leverage and Coverage (45%)					
a) Total Debt + Preferred Stock / Gross Assets	43% - 44%	43% - 45%	37% - 40%	41% - 42%	39% - 40%
b) Net Debt / EBITDA	9x - 10x	12.2x - 12.4x	10.0x - 11.0x	11x - 12x	13x - 13.5x
c) Secured Debt / Gross Assets	12% - 13%	19% - 21%	15% - 20%	8% - 9%	23% - 25%
d) Fixed Charge Coverage	4x - 4.5x	4.6x - 4.7x	3.0x - 3.5x	3x - 3.5x	3.6x - 3.9x
Rating:					
a) Indicated Rating from Grid	Baa2	Baa3	Baa3	Baa2	Baa2
b) Actual Rating Assigned	Baa2	Baa2	Baa2	Baa2	Baa2
c) Gap	0	+1	+1	0	0

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view; not the view of the issuer.
[3] Debt includes a portion of hybrid securities considered to have debt like features as explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.
[4] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.
Source: Moody's Financial Metrics™

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
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