MOODY'S INVESTORS SERVICE

CREDIT OPINION
21 January 2020

Update

Rate this Research

RATINGS

Fastpartner AB

Domicile	Sweden
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
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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Fastpartner AB

Update to Discussion of Key Credit Factors

Summary

Fastpartner AB's (Fastpartner) Ba1 corporate family rating reflects (1) the company's medium-sized property portfolio, with a very well-defined strategy of focusing on office buildings in attractive inner city and on the fringe to CBD locations and good secondary locations in the Greater Stockholm area; (2) attractively located logistics properties, although these account for only a small proportion of the overall portfolio; (3) an established track record of activity in its segment; (4) favourable real estate market fundamentals; (5) a leverage of 52%, as measured by Moody's-adjusted gross debt/total assets, as well as a strong EBITDA fixed-charge coverage of 3.2x as of 30 September 2019; (6) adequate liquidity with sources covering uses for the next 18 months.

The company's strengths are partly offset by (1) its geographical concentration, although in the strongest growth area in Sweden; (2) a somewhat high vacancy rate of 8.1% as of end-September 2019 (8.7% including project properties); (3) some tenant concentration; (4) high Moody's adjusted net debt/EBITDA of 13x; (5) a low but growing unencumbered asset ratio and a short-dated average debt maturity profile.

Credit strengths

» A well-defined strategy focused on Greater Stockholm and the office sector

» A limited development programme

» Long track record with entrepreneurial management and majority owner Sven-Olof Johansson

» Strong fixed-charge coverage and moderate effective leverage

» Change to a more conservative financial policy of net debt/market value of 50%

» Track record of raising equity and good access to banks and the domestic bond market

Credit challenges

- Limited geographical diversification; reliance on the economic prospects of only one, although the most important, city in Sweden
- Good fundamentals in secondary locations in Greater Stockholm
- A somewhat high vacancy rate of 8.7%, an indication of the secondary locations that it owns
- Some tenant concentration, with the five largest tenants (excluding public sector tenatns) accounting for around 13% of revenue
- Weak liquidity, as reflected in a relatively short debt maturity profile
- Small but growing pool of unencumbered assets
- Favourable but slowing economic growth in Sweden which will likely lead to the real estate market softening over the next 12-18 months, with yields and vacancy levels mostly stabilising and lease growth slowing

Rating outlook

The stable outlook reflects our expectation that the company will remain focused on leverage, as measured by total debt/gross assets, to further improve towards or below 50% in the coming quarters, thereby creating a buffer against any future industry downturn, which will likely affect the investment market more quickly than the occupier market, where Fastpartner will continue to profit from healthy rent levels and some progress in reducing vacancies. We also expect the company continuing to expand its pool of unencumbered assets to above 30% by 2020 when refinancing bank debt by bonds. The stable outlook also incorporates our expectation that Fastpartner will continue to generate stable cash flow that will support gradually declining net debt/EBITDA, increase occupancy levels and continue to rebalance the portfolio towards large, well-located high-quality office properties while following a balanced growth strategy. In addition, the outlook reflects the good macroeconomic environment in Sweden as well as favourable occupier and investment markets.

Factors that could lead to an upgrade

- Further positive rating action will hinge on Fastpartner achieving and sustaining leverage well below 50% as measured by total debt/gross assets and more towards 45% at this point in the property cycle which is heavily affected by record low yields and with a corresponding declining trend in debt/EBITDA.
- Additionally, a higher rating would require the company's Moody's adjusted fixed-charge coverage ratio well above 3.5x and increasing the pool of unencumbered assets to well above 30% of total assets.
- With regards to the company's debt maturity profile, a higher rating would require less reliance on commercial papers and an extended debt maturity schedule, while liquidity sources is covering the next 18 months uses including debt maturities, capex and dividends

Factors that could lead to a downgrade

- Sustaining leverage above 55% as measured by Moody's-adjusted gross debt/total assets
- Moody's fixed-charge coverage ratio dropping to below 2.5x on a sustained basis
- Weakening liquidity, or continued or increased reliance on short-term debt
- Market fundamentals weaken, resulting in falling rents and/or asset values

Key indicators

Exhibit 1

Key indicators for Fastpartner

	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Sep-19)[1]	12-18 Month Forward View[2]
Real Estate Gross Assets (USD billion)	$1.90	$2.05	$2.58	$2.67	$2.82	$3.1 - $3.2
Amount of Unencumbered Assets	4.9%	7.8%	5.5%	14.4%	18.3%	29% - 30%
Debt / Real Estate Gross Assets	62.6%	55.1%	53.6%	51.9%	51.6%	51% - 52%
Net Debt / EBITDA	12.7x	11.0x	11.7x	11.8x	13.0x	11.4x - 11.7x
Secured Debt / Real Estate Gross Assets	49.8%	43.4%	34.3%	30.0%	28.6%	21% - 22%
EBITDA / Fixed Charges	2.7x	2.9x	3.4x	3.5x	3.2x	3.7x - 3.8x

[1] LTM September 2019 numbers are preliminary.
[2] 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™

Profile

Fastpartner AB is a listed real estate company established in 1996, following a merger between Fastighetspartner NF and Landeriet. The company is headquartered in Stockholm and owns, develops and manages a commercial property portfolio across Sweden's largest growth markets, predominantly Stockholm, as well as in Göteborg and Malmö, Sweden's second- and third-largest cities, respectively. Fastpartner also has holdings in Gävle and Norrköping. The company owned a portfolio of 202 commercial properties, spanning more than 1.48 million square metres, valued at SEK26.1 billion as of 30 September 2019. The properties generated around SEK1.23 billion in revenue in the first 9 months of 2019, with a reported yield of 4.7%. Fastpartner is listed on the Nasdaq Stockholm Large Cap market and had a market capitalisation of SEK18.3 billion as of 9 January 2020. The largest shareholder in Fastpartner is the CEO of the company, Sven-Olof Johansson, with a stake of around 72% as of 30 September 2019.

Detailed credit considerations

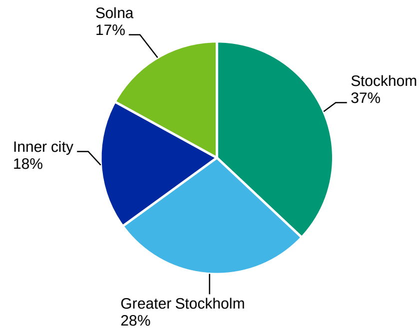
Medium-sized office portfolio, focused on secondary locations in Greater Stockholm

Fastpartner is a medium-sized real estate company in Sweden's fragmented real estate market. It has a clear business model focused on acquiring, developing and investing in office properties in the Greater Stockholm area, Sweden's most attractive property market, which represents around 79% of the company's rental value. In particular focusing on office buildings in attractive inner city and on the fringe to CBD locations and good secondary locations. The company's portfolio also includes properties in Göteborg and Malmö, and in medium-sized cities such as Gävle and Norrköping. The second-largest management unit after Stockholm is Gävle, accounting for 7% of rental value. Other asset classes prioritised by the company are industrial, logistics and warehouse properties. Fastpartner has five large, well-located logistics properties close to important infrastructure hubs, located in proximity to Göteborg, Stockholm, or the main transportation routes.

Fastpartner invests in offices in suburban locations in Stockholm that have good infrastructure and more central locations in smaller cities. The company believes it can extract more value from such areas through higher yields because the company is cash flow oriented, and also from expected increases in demand and rent. To some extent, this explains the company's relatively high vacancy rate of 8.7% including project development (especially taking into account that the property market in Stockholm is at a peak) and an average property yield of 4.7%.

In addition, the company has five office buildings attractively located in central Stockholm, with a market value of SEK4.7 billion that operate as liquidity insurance (which the company could sell in case of liquidity needs). In connection with its office properties, and serving its tenants, Fastpartner owns city centre properties located close to public rail transportation links. Most of the city centre tenants are necessity providers, such as grocery stores, pharmacies and health clinics run by the municipalities of Vallentuna and Sigtuna, Stockholm city and Stockholm County Council.

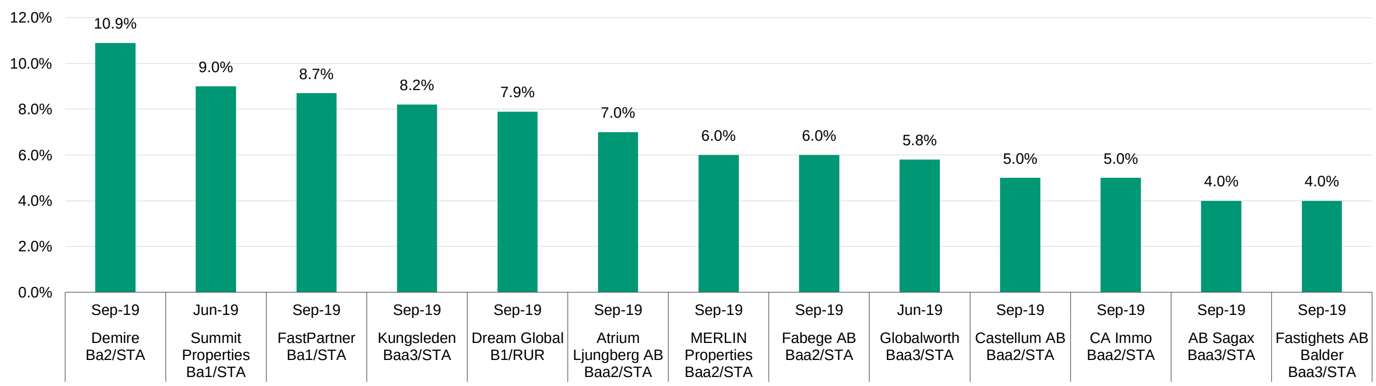
Exhibit 2
Fastpartner's property split within and around Stockholm



Source: Company data

Fastpartner's strategy is to buy properties with relatively high vacancy rates in good locations, which reduces the purchase price, but also increases the risk of elevated vacancy rates for a longer period. The company then refurbishes or reconfigures the use of the asset to make it more attractive to tenants. Reducing vacancy rates has been slow, but reconfiguring the use of properties requires detailed development plans, which can take 18-24 months. We believe that the structural vacancy rate in its property portfolio, given the quality and nature of the assets, is 7%-8% compared with 5% for most other portfolios based in Stockholm CBD. Fastpartner has as a strategy acquired properties with vacancy where the company has paid less for the property and then refurbished and relet the space. The rating incorporates our expectation that the occupancy rate will improve gradually, supported by favourable market conditions. The rate of improvement might be lower than what the market would suggest because of Fastpartner's strategy of acquiring properties with high vacancy rates.

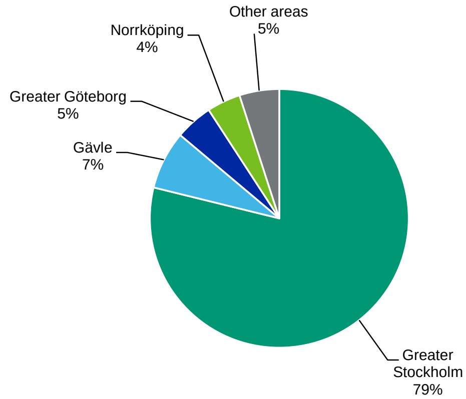
Exhibit 3
Fastpartner's vacancy rate compared with its European peers that we rate
Economic vacancy (EPRA vacancy, if available)



Date represents point in time for vacancy rate.
Source: Company data

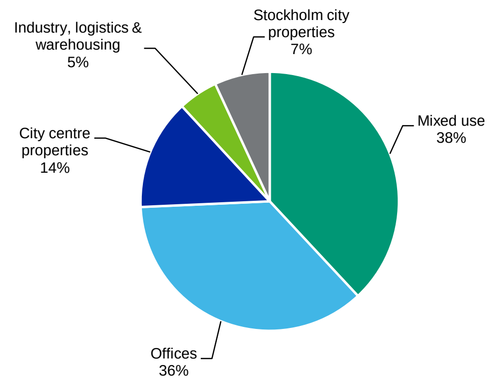
We have assigned a Ba score for the sub-factor Market Position and Asset Quality to reflect its average position as a medium-sized property owner focusing on real estate in the suburbs, although these are part of the most attractive market in the greater Stockholm area in Sweden, including the properties in Stockholm CBD. The average yield of 4.7% and elevated vacancy rates reflect the fact that the company's assets are predominantly located outside of the city.

Exhibit 4
Most of Fastpartner's properties are located in the greater Stockholm area
Rental value as of September 2019



Source: Company Data

Exhibit 5
Largest share of properties are Mixed Use and Offices
Rental value as of September 2019



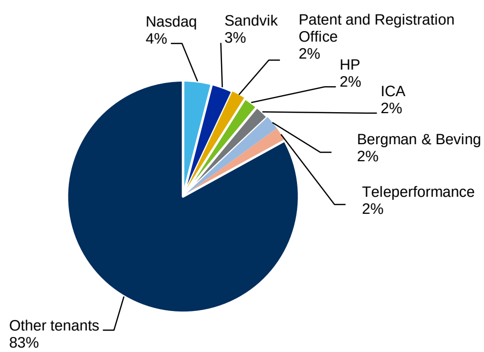
Source: Company Data

Concentration risk and elevated vacancy rate, partly mitigated by large holdings in the fast growing Stockholm area

We have assigned a Baa rating for the sub-factor Operating Environment in our scorecard, reflecting the company's significant geographical concentration in Sweden and in particular the Stockholm market. This is partly mitigated owing to Sweden being Aaa rated and Stockholm being the country's strongest real estate market. We are comfortable with the level of concentration in Stockholm, which generates around a 45% of Sweden's GDP, and we expect Fastpartner to benefit from positive and overall economic and property trends in this area.

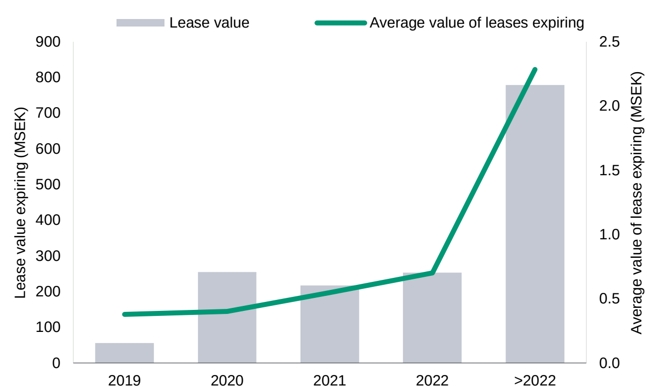
Fastpartner has some customer concentration, with its five largest tenants representing around 13% of its rental income, 9% is derived from the public sector, which has high credit quality, somewhat mitigating concentration risk. The remaining 76% of Fastpartner's rental revenue is spread among a large number of tenants operating across a broad range of industry sectors.

Exhibit 6
Tenant split by total rental revenue
As of September 2019



Source: Company Data

Exhibit 7
Lease maturity structure
As of September 2019



Source: Company Data

Fastpartner's average remaining lease period for commercial properties is 5.3 years, which is somewhat short but slightly longer than most Swedish office peers. Lease maturities are evenly spread, with around 30% expiring in 2020-21 and almost 50% after 2022. Almost 100% of lease volume is index linked, with the initial rent representing a floor for future lease renewals.

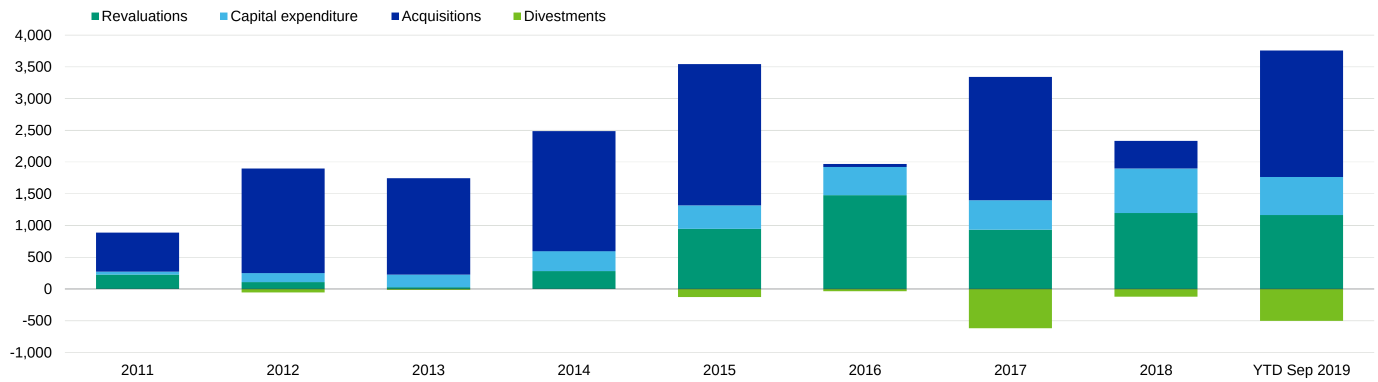
Controlled development activities

Fastpartner acquired properties for SEK1.38 billion per year on average between 2012 and 2018. Most of the expected future growth in the company's portfolio will come from acquisitions. The company estimates that it will acquire assets totaling around SEK1.5 billion in 2020. Furthermore, the company expects to invest around 100 million per year in adapting its properties in connection with renegotiating or signing new leases.

Exhibit 8

Fastpartner's portfolio growth has historically mostly been driven by acquisitions

Changes in property portfolio annually



Source: Company data

Leverage in line with the rating assigned

Fastpartner's Moody's-adjusted gross debt/total assets stood at 51.6% as of 30 September 2019, with SEK14.3 billion in Moody's-adjusted gross debt and total adjusted assets of SEK27.8 billion. Fastpartner issued D-shares to the amount of SEK 714 million in December 2019 which will enable the company to grow the portfolio further while at the same time enable improved leverage metrics. We expect Fastpartner, from time to time, to make acquisitions during this period and consequently maintain Moody's adjusted Gross Debt/Total Assets around 51%-52%. In the absence of acquisitions, this ratio will improve towards 50% because of strong cash flow generation assumed to reduce debt in 2020-2021.

Fastpartner has a net loan/value policy of below 50% and the company reported a net loan/value of 49.1% as of 30 September 2019. The company's reported net LTV ratio is defined as net interest bearing debt (gross debt - cash, marketable securities and short-term interest bearing assets) divided by the market value of investment properties. To maintain this financial policy, the company is prepared to reduce or cut dividends or sell assets.

Moody's-adjusted net debt/EBITDA was a high 13.0x as of 30 September 2019, which maps to a Ca score in our methodology grid. The high figure partly reflects the fact that the company acquired some larger properties, which means that the debt is taken on direct on the balance sheet but the assets do not yet generate EBITDA. Fastpartner's policy for net debt/EBITDA is below 10x.

Good track record of access to equity and debt capital

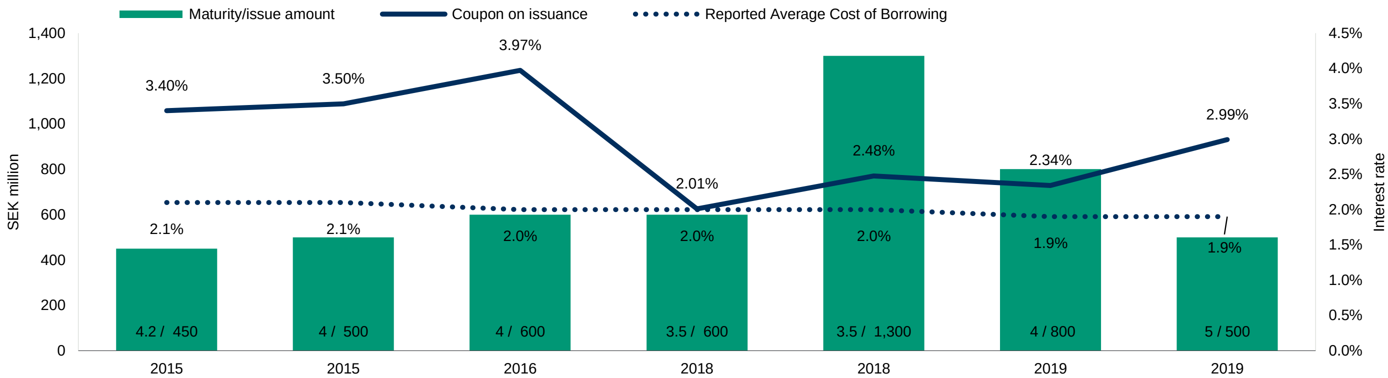
Fastpartner's access to Liquidity and Access to Capital is adequate, mapping to Baa on our scorecard. The company can access all sources of private and public capital, is a frequent issuer and has a track record in the domestic bond market. The company's shares are quoted on the Nasdaq OMX Stockholm exchange, and its largest shareholder is Sven-Olof Johansson, who holds a 72% stake through his investment company Compactor Fastigheter (Compactor). Fastpartner's remaining shareholders include large institutional investors Länsförsäkringar Fondförvaltning AB, Nordea Investment Funds and Swedbank Robur Fonder AB.

We consider Fastpartner's access to equity capital to be somewhat weaker than other widely held real estate companies with institutional investors because of the presence of a dominant shareholder. Concentrated ownership can be problematic from a strategic perspective or when the company requires a capital injection. We acknowledge that Sven-Olof Johansson has been CEO since 1997, has adequate experience and is highly involved in the business. Excluding the value of Fastpartner's properties, we estimate net assets of around SEK1.8 bn at Compactor. Compactor's current share (130.7 million shares) in Fastpartner as of 9 January 2020 (SEK97.25

per share) is worth SEK12.7 billion. We estimate that Compactor has some ability to support Fastpartner. Additionally, Compactor could accept the dilution of its ownership in Fastpartner to further support Fastpartner if needed. Nevertheless, Fastpartner received a significant equity injection of SEK760 million as of year-end 2016, which significantly reduced its debt.

Exhibit 9

Fastpartner has issued several floating rate, unsecured bonds in the domestic Swedish market since 2010



Source: Company data

Strong fixed-charge coverage, but sensitive to changes in interest rates, given reliance on short-term debt

Fastpartner has a policy of keeping interest coverage at a minimum of 2.0x. As of 30 September 2019, the company registered a Moody's-adjusted fixed-charge coverage of 3.2x, thus mapping to Baa in our methodology grid. We include 100% of the preference dividend as a fixed charge in the EBITDA fixed charge. The company also achieves this strong interest coverage ratio by a very short-dated debt maturity profile, which we consider to be negative because it exposes Fastpartner to the risk of changing interest rates. In combination with the generally very long tenor of its assets, this constitutes a mismatch between assets and liabilities.

Fastpartner's average cost of debt was a low 1.9% as of 30 September 2019, and the company used interest rate swap hedges for around 16% of its debt. The interest rate swaps are not stapled to its debt, but are managed separately and on a short-dated profile of around 2.0 years compared with its average debt maturity of 3.7 years as per the most recently available data.

Fastpartner renegotiates around 15%-20% of its leases per year. The company's EBITDA will also gradually increase owing to its ability to renegotiate rents at higher levels. A large share of the contracts in Fastpartner's portfolio was renegotiated between three and five years ago, when lease levels were generally lower. Even though this upside is limited to around 15%-20% of the portfolio each year, it is the most important contributing factor to smoothing property cycle peaks and troughs, and stabilising real estate companies' net operating income.

Liquidity analysis

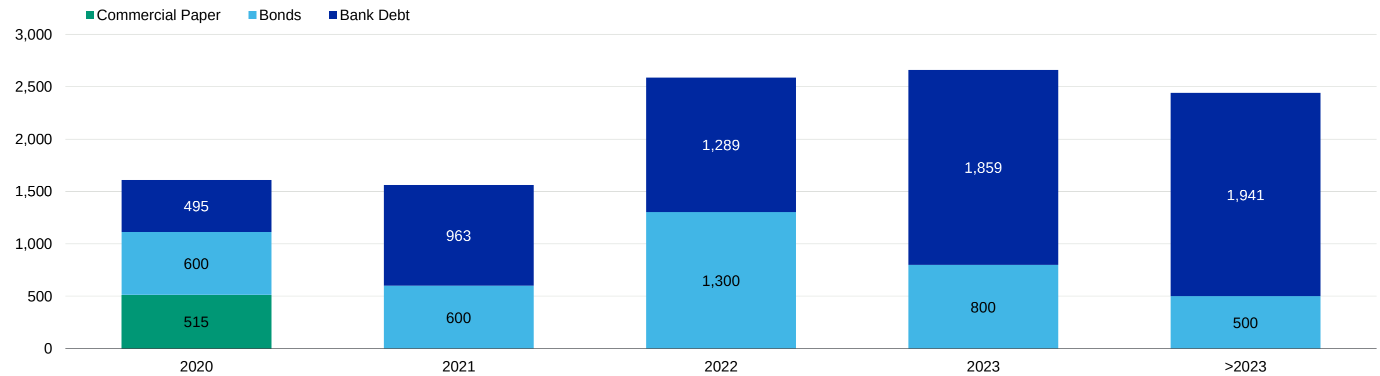
Adequate liquidity but heavy reliance on short-term debt

Fastpartner's liquidity is supported by (1) good access to debt capital, in particular bank debt; (2) diversified banking relationships, which have so far enabled it to roll over debt; and (3) access to the Swedish bond market. Fastpartner sources of liquidity for the next 18 months includes, SEK300 million of cash and marketable securities, around SEK1.4 billion of funds from operations, a SEK2 billon RCF maturing in October 2021 and a SEK275 million overdraft facility. The company's sources cover expected cash outlays during the same period consisting of SEK1.7 billion in commercial paper maturing, SEK2 billion of bonds and bank debt maturing, SEK202 million in dividends and around SEK345 million capital expenditures. We expect the company to cover 18 months of liquidity uses.

In conjunction with the launch of a SEK2 billion commercial paper programme in November 2017, Fastpartner entered into a SEK2 billion secured revolving credit facility. The facility had an original maturity on 30 October 2020 and as of end September 2019 the maturity was extended to 30 October 2021. Its purpose is to provide a backup liquidity facility covering all issuances under the commercial paper programme. Although longer than 12 months, the tenor of this facility is relatively short, given the long-term assets that it finances, and we would expect its maturity to be rolled over 12 months before it matures.

Exhibit 10

Fastpartner's funding mostly consists of secured bank debt, complemented by a commercial paper programme and bonds
Debt maturities as of September 2019



Debt maturities represent amounts following the refinancing of SEK1.4 billion of bank debt with maturity in October 2020. The maturities were extended to October 2021 and 2022.
Source: Company data

The large share of short-term debt maturities reflects the reliance on short-term secured bank facilities, especially commercial paper. The average debt maturity is due 2022 and we regard this as low. Bank loan facilities are subject to covenants, and there is ample capacity, including a minimum interest coverage ratio of 1.6x-2.0x, and solvency, as defined by equity in relation to total assets of greater than 25%. The bonds have a covenant for solvency above 20%. However, the facilities contain repeating material adverse clauses that, in theory at least, could limit their availability.

Fastpartner has a low but improving unencumbered asset base, representing around 18% of total assets, mapping to a Caa score in our methodology grid. We expect the unencumbered assets to increase to about 30% during the next 12-18 months as maturing debt is assumed to be refinanced mainly through bond issuances and that mortgage pools are rebalanced if bank debt is refinanced, thereby releasing unencumbered assets. Unencumbered assets are low because the company has a pool of the majority of the assets at the bank as security, with varying loan to value ratio. Nevertheless, we only view assets that are mortgage free and in the company's full control to sell or use as collateral if required as unencumbered.

Fastpartner's dividend policy is to distribute at least one-third of profit before tax and unrealised changes in value to common shareholders, taking into account both its liquidity situation and overall financial position. The company has also issued preference shares, which entitle holders to preferential rights ahead of ordinary shares. Based on our treatment under our Hybrid Equity Credit methodology and as we rate Fastpartner, the preference shares are treated as 100% equity in debt ratios. However, we include dividends on preference as a fixed charge when calculating the EBITDA fixed-charge coverage ratio. Funds from operations dividend payout ratio expected to be maintained around 42%. While we believe that shareholders will continue to take dividends, Fastpartner is not a real estate investment trust, and we expect it to reduce or stop paying ordinary dividends, if needed.

Structural considerations

Fastpartner has a relatively high proportion of secured debt, creating subordination for holders of unsecured bonds. As of 30 September 2019, the company had an estimated coverage of unsecured debt by unencumbered assets at a low 0.79x.

Rating methodology and scorecard factors

The principal methodology used in this rating was 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.

Fastpartner's corporate family rating of Ba1 is in line with the scorecard indicated outcome under the forward view.

Exhibit 11

Rating grid for Fastpartner

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current LTM 9/30/2019		Moody's 12-18 Month Forward View As of 12/18/2019 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$2.8	Baa	$3.1 - $3.2	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Ba	Ba	Ba	Ba
b) Operating Environment	Baa	Baa	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	18.3%	Caa	29% - 30%	B
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	51.6%	Ba	51% - 52%	Ba
b) Net Debt / EBITDA	13.0x	Ca	11.4x - 11.7x	Caa
c) Secured Debt / Gross Assets	28.6%	Ba	21% - 22%	Ba
d) Fixed Charge Coverage	3.2x	Baa	3.7x - 3.8x	Baa
Rating:				
a) Indicated Outcome from Scorecard		Ba2		Ba1
b) Actual Rating Assigned				Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 9/30/2019(L); Source: Moody's Financial Metrics™
[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™

Appendix

Exhibit 12

Peer comparison

	FastPartner Ba1 / STA		Kungsleden AB Baa3 / STA		AB Sagax Baa3 / STA		Demire Ba2 / STA		Fabege Baa2 / STA	
	LTM Sep-19	**Forward View [1]**	**LTM Jun-19**	**Forward View [1]**	**LTM Jun-19**	**Forward View [1]**	**LTM Sep-19**	**Forward View [1]**	**LTM Jun-19**	**Forward View [1]**
Gross Assets	$2.8	$3.1 - $3.2	$4.1	$4.1 - $4.3	$3.9	$4.1 - $4.3	$1.7	$1.7 - $1.8	$8.0	$8.5 - $9.0
Amount of Unencumbered Assets	18.3%	29% - 30%	32.5%	40%	59.2%	59% - 61%	43.9%	44% - 46%	26.1%	40% - 45%
Total Debt + Preferred Stock /Gross Assets	51.6%	51% - 52%	48.1%	46% - 48%	45.6%	44% - 46%	48.7%	47% - 50%	38.5%	36% - 38.5%
Net Debt / EBITDA	13.0x	11.4x - 11.7x	11.2x	10.5x - 11.5x	7.1x	7.0x - 7.4x	12.9x	12.5x - 13.5x	14.6x	12.5x - 13.0x
Secured Debt /Gross Assets	28.6%	21% - 22%	27.6%	20.0%	13.6%	14% - 16%	24.3%	23% - 25%	25.6%	20% - 22%
Fixed-Charge Coverage	3.2x	3.7x - 3.8x	4.4x	4.5x	4.4x	5.0x - 5.2x	1.5x	2.3x - 2.5x	3.9x	3.8x - 4.0x

[1] 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 13

Category	Moody's Rating
FASTPARTNER AB	
Outlook	Stable
Corporate Family Rating	Ba1

Source: Moody's Investors Service

REPORT NUMBER 1207849

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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