

## CREDIT OPINION

28 May 2024

Update



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### RATINGS

#### Fastpartner AB

Domicile	Sweden
Long Term Rating	B1
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 following rating affirmation and changed outlook to stable

### Summary

On 16th of May 2024, we affirmed [Fastpartner AB's](#) ("Fastpartner") B1 corporate family rating and changed the outlook to stable from negative. The action was prompted by the company's relatively robust operating performance reflected in rising rental income while financial flexibility has been secured in banks loan.

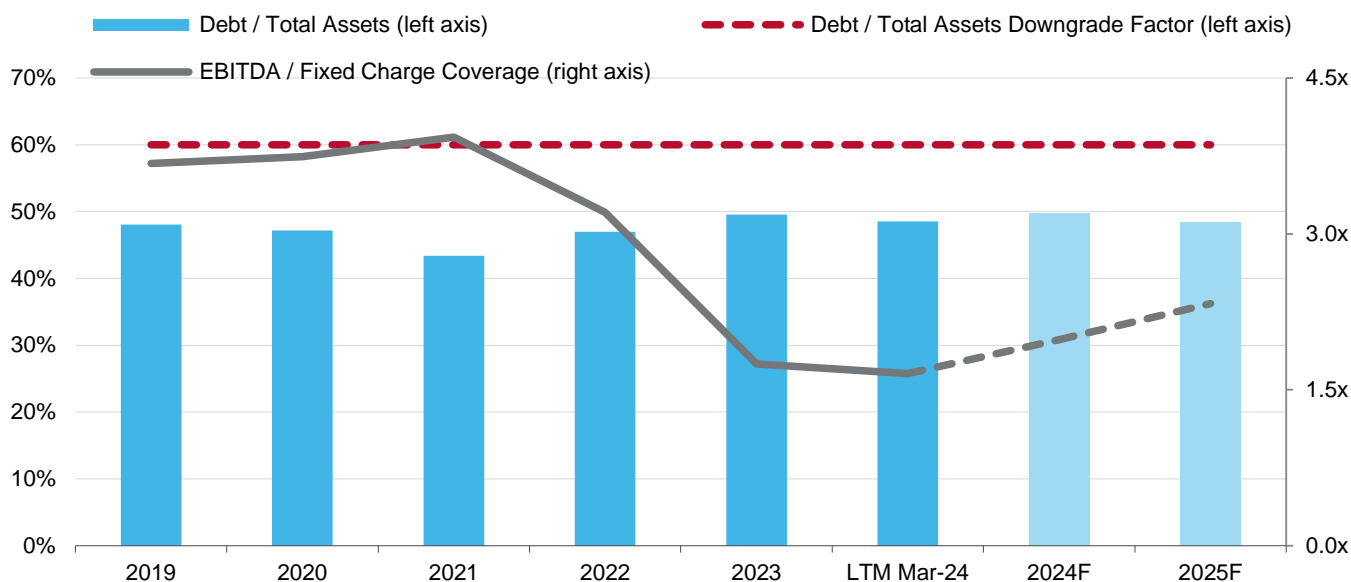
The B1 rating reflects Fastpartner's medium-sized property portfolio, with a well-defined strategy of focusing on office buildings in attractive inner city areas and on the fringe to central business district (CBD) locations and good secondary locations in the Greater Stockholm area; its attractively located logistics properties, although these account for only a small proportion of the overall portfolio (17% of rental value); still a solid operating performance.

The company's strengths are partly offset by its geographical concentration, although with concentration in the strongest growth areas in Sweden and a relatively high vacancy rate of 7.4% as of the end of March 2024. We expect that the company will improve its property quality further through refurbishment, which should help to reduce the vacancy rate. Close to 90% of Fastpartner's rents are CPI-linked and for 2024 the indexation will be 6%, supporting Fastpartner's good rental growth. Therefore we expect Fastpartner to improve rents further and together with a reduction of occupancy rates net debt/EBITDA is expected to improve to around 11x over the next 12-18 months. We expect the effective leverage will be stable at below 50% in the next 12-18 months. Interest rates remain elevated and continue to constrain Fastpartner's interest coverage ratio.

Exhibit 1

**Interest coverage has deteriorated in 2023 amid rapidly increased interest rates**

Moody's-adjusted debt/total assets and EBITDA/fixed-charge coverage\*



\*The rating trigger indicates rating pressure downward for levels of total debt/total assets above 60%.

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated. LTM = Last 12 months.

Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

## Credit strengths

- » A well-defined strategy that focuses on Greater Stockholm and the office sector
- » A limited development programme
- » Long track record with entrepreneurial management and majority owner Sven-Olof Johansson
- » Track record of raising equity, and good access to banks. The widening credit spreads in the domestic bond market is coming down and is no starting too look attractive.

## Credit challenges

- » Further downside risks at the macro level potentially leading to a reduction in rent levels and occupancy, and lower market value
- » Uncertainties around how work from home will develop in the longer term, which could lead to increasing yields, lower rents and higher vacancies in office properties
- » Limited geographical diversification, with reliance on the economic prospects of only one, although the most important, city in Sweden
- » Improved but still a somewhat high vacancy rate of 7.4%, an indication of assets in secondary locations
- » Some tenant concentration, with the five largest tenants (excluding public-sector tenants) accounting for around 12% of rental value

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

- » Rapidly weakening EBITDA interest coverage due to low degree of hedging

### Rating outlook

The stable outlook reflects the expectation of EBITDA interest coverage being at the lowest point of 1.7x and will start improving in the next two quarters. Also, the EBITDA interest coverage is at some distance from the covenants in the bank loan documentation. We expect Fastpartner to proactively refinance upcoming debt maturities.

## Factors that could lead to an upgrade

A rating upgrade is unlikely at this stage and will require progress on addressing upcoming refinancing needs, an improved headroom to financial covenants, and protecting a material buffer of unencumbered property assets to secure refinancing independent of capital markets debt. Furthermore, a positive rating action requires an improvement in credit metrics, driven by cash preserving measures and further operating performance improvements.

## Factors that could lead to a downgrade

The rating could be downgraded if:

- » Breach of interest coverage covenants. The company does not make timely and material progress in addressing its upcoming debt maturities, especially its unsecured borrowings
- » Moody's-adjusted fixed charge coverage is not maintained at above 1.5x
- » Moody's-adjusted gross debt/total assets rise above 60% level
- » Weak operating performance and a vacancy rate that is persistently and materially above market levels

## Key indicators

Exhibit 2

### Fastpartner AB

(in SEK millions)	2019	2020	2021	2022	2023	LTM Mar-24	2024F	2025F
Gross Assets	29,986.5	33,148.3	37,922.1	38,124.0	36,027.4	36,251.9	35,333.5	35,448.4
Unencumbered Assets / Gross Assets	16.3%	17.3%	33.1%	32.8%	29.1%	27.1%	27.0%	27.2%
Total Debt + Preferred Stock / Gross Assets	48.1%	47.2%	43.4%	47.0%	49.5%	48.5%	49.8%	48.5%
Net Debt / EBITDA	12.1x	12.1x	12.4x	12.8x	11.5x	10.9x	11.0x	10.6x
Secured Debt / Gross Assets	27.1%	26.8%	19.3%	22.9%	28.7%	30.7%	31.5%	30.3%
Fixed Charge Coverage	3.7x	3.7x	3.9x	3.2x	1.7x	1.7x	2.0x	2.3x

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Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

## Profile

Fastpartner AB is a listed real estate company that was established in 1996 following a merger between Fastighetspartner NF and Landeriet. The company is headquartered in Stockholm, and it owns, develops and manages a commercial property portfolio across Sweden's largest growth markets, predominantly Stockholm, and in Göteborg and Malmö, the country's second- and third-largest cities, respectively. Fastpartner also has holdings in Gävle, Uppsala and Norrköping. The company owned a portfolio of 223 commercial properties, spanning more than 1.57 million square metres, valued at SEK33.9 billion as of 31 March 2024. Fastpartner is listed on the Nasdaq Stockholm large cap market and had a market capitalisation of SEK15.5 billion as of 16 May 2024. The largest shareholder in Fastpartner is the CEO of the company, Sven-Olof Johansson, with a stake of around 72% as of Q1 2024 hold via Compactor Fastigheter AB.

## Detailed credit considerations

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

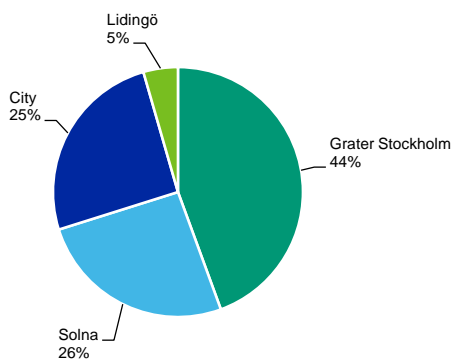
Fastpartner is a medium-sized real estate company in Sweden's fragmented real estate market. It has a clear business model that focuses on acquiring, developing and investing in office properties in the Greater Stockholm area, Sweden's most attractive property market, which represents around 80% of the company's rental value. Fastpartner focuses on office buildings in attractive inner city locations 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, Uppsala and Norrköping. The second-largest management unit after Stockholm is Gävle, accounting for 9% 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. Fastpartner believes it can extract more value from such areas through higher yield locations because the company is cash flow oriented, and also from expected increases in occupancy and rent. To some extent, this explains the company's relatively high vacancy rate of 7.4% including project development (especially taking into account the fact that the property market in Stockholm is at a peak) and an average yield requirement of 5.2%.

In addition, the company has seven office buildings attractively located in central Stockholm, with a market value of around SEK6.9 billion and serving as liquidity insurance (which Fastpartner 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 providers of essential services, such as grocery stores, pharmacies and health clinics run by the municipalities of Vallentuna and Sigtuna, Stockholm city and Stockholm County Council.

Exhibit 3

#### Fastpartner's property split within and around Stockholm (Q1 2024)

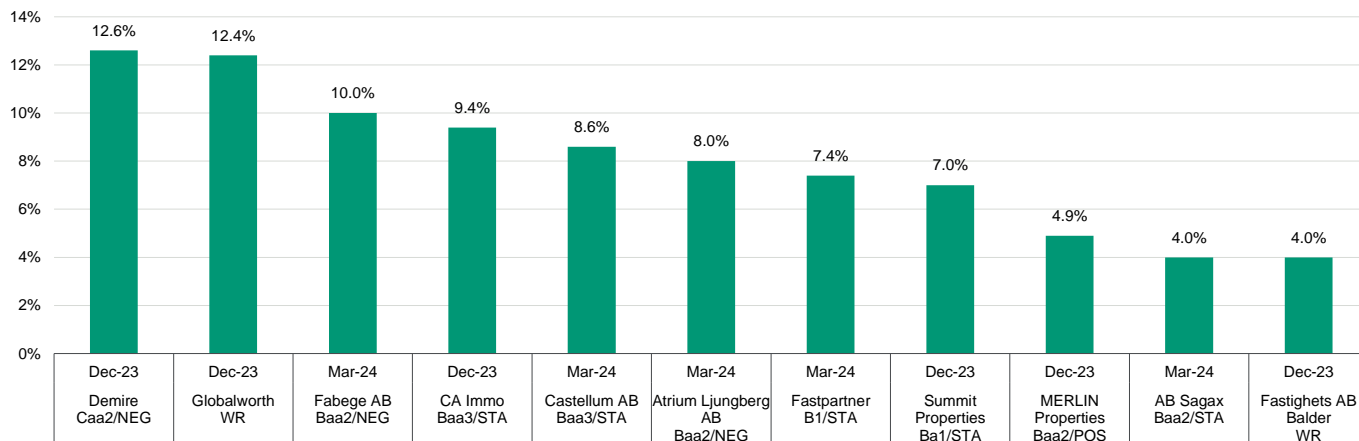


Source: Company filings

Fastpartner's strategy is to buy properties with relatively high vacancy rates in good locations, which reduces the purchase price, but increases the risk of high vacancy rates for a longer period. The company then refurbishes or reconfigures the use of the asset to make it more attractive to tenants. Vacancy rate reduction has been slow because reconfiguring the use of properties requires detailed development plans, which can take 18-24 months. 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. The rating incorporates our expectation that the occupancy rate will improve gradually, although the pace may be slower than initially expected because of the currently weaker economic environment.

Exhibit 4

**Fastpartner's vacancy rate (including project development) compared with that of its European peers we rate**  
**Economic vacancy (EPRA vacancy, if available)**

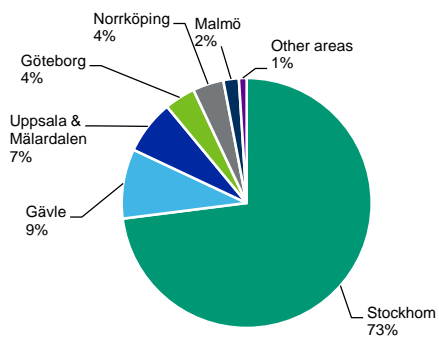


Data represents point-in-time vacancy rate.  
 Source: Company filings

We have assigned a Ba score for the subfactor Market Position and Asset Quality to reflect the company's 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 requirement of 5.2% and high vacancy rates reflect the fact that the company's assets are predominantly located outside of the city.

Exhibit 5

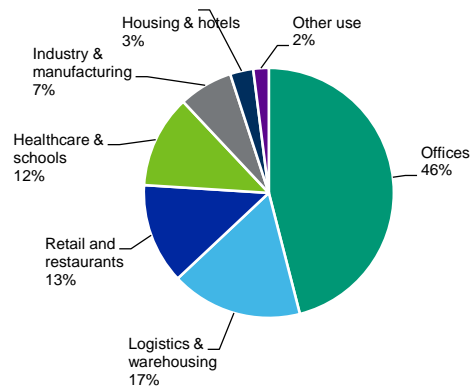
**Most of Fastpartner's properties are located in the Greater Stockholm area**  
**Rental value breakdown by region (Q1 2024)**



Source: Company filings

Exhibit 6

**Mixed use and offices account for the largest share of properties**  
**Rental value breakdown by type of premises (Q1 2024)**



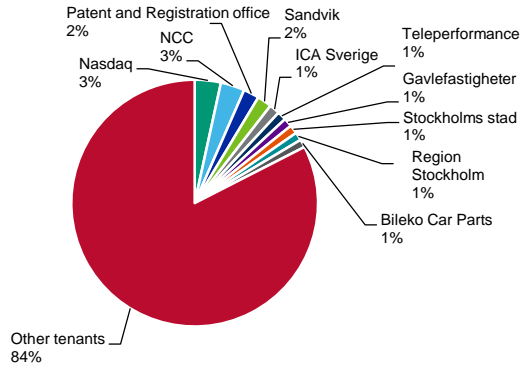
Source: Company filings

**Concentration risk and somewhat high vacancy rate, mitigated by large holdings in the fast-growing Stockholm area**

We have assigned a Baa score for the subfactor Operating Environment in our scorecard, reflecting the company's significant geographical concentration in Sweden, in particular the Stockholm market. This risk is mitigated by the fact that Sweden is Aaa rated and Stockholm is the country's strongest real estate market. The company has a good level of concentration in Stockholm, which generates around 45% of Sweden's GDP, and we expect Fastpartner to benefit from positive overall economic and property trends in this area.

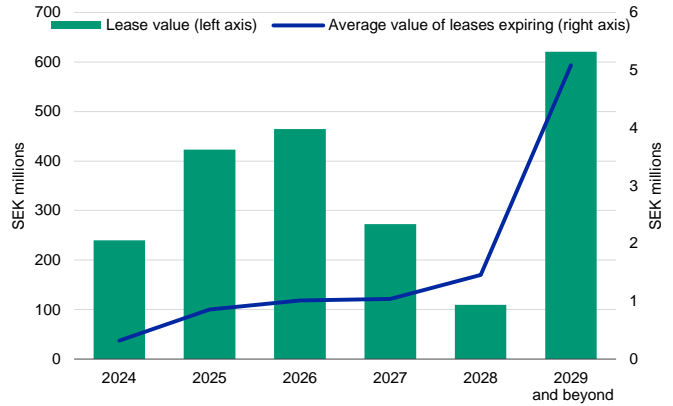
Fastpartner has some customer concentration, with its ten largest tenants accounting for around 17% of its rental value, of which 5% is derived from the public sector, which has high credit quality, somewhat mitigating the concentration risk. The remaining 83% of Fastpartner's rental value is spread among a large number of tenants operating across a broad range of industry sectors.

Exhibit 7  
**Tenant split by total rental value (Q1 2024)**



Source: Company filings

Exhibit 8  
**Lease maturity structure (2023)**



Source: Company filings

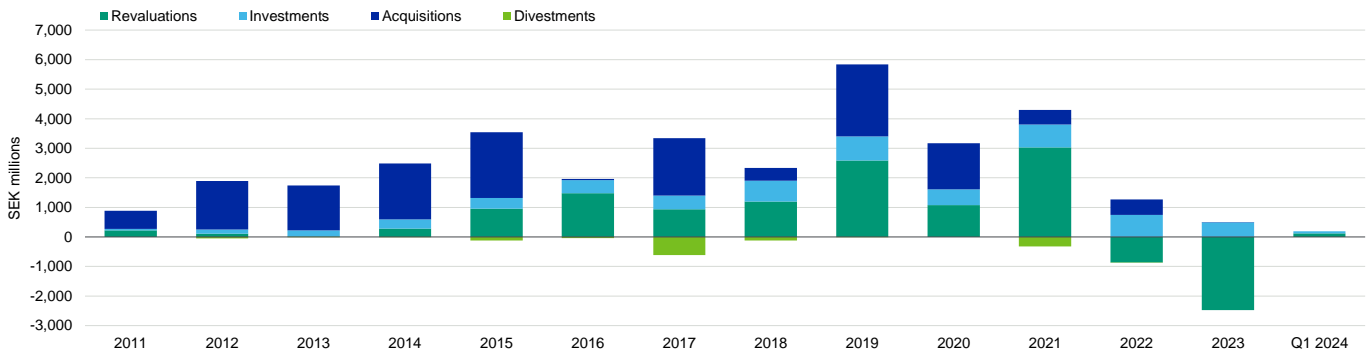
Fastpartner's average remaining lease period for commercial properties is 4.2 years (December 2023), which is somewhat short but slightly longer than that of most Swedish office peers. Around 29% of lease maturities will expire in 2024-25. Almost 100% of the lease volume is index linked, with the initial rent representing a floor for future lease renewals.

**Portfolio evolution will be derived from investments and acquisition volume will be muted going forward**

Fastpartner's property acquisitions amounted to SEK1.3 billion a year on average between 2012 and 2022. We expect the company to significantly reduce capex spend in order to shield the balance sheet, towards around SEK250 million per year (compared to historical levels of above SEK 1 billion).

Since the peak in June 2022, the company has reported around 11% of cumulative valuation declines. Although we expect that most of the yield decompression and valuation decline has bottomed out following improving interest rate environment, we do not rule out additional 2-3% valuation decline in 2024.

Exhibit 9  
**Fastpartner's portfolio growth has historically mostly been driven by acquisitions**  
**Changes in property portfolio annually**



Source: Company filings

### Leverage metrics are weakening

Fastpartner has a policy of maintaining net loan-to-value (LTV) of less than 45%, and Moody's estimate the net LTV to be around 51% as of 31 March 2024. 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. In 2024, Fastpartner paid 1.00 on the A-share and a dividend of SEK 5.0 per common stock of the "D-share".

Moody's-adjusted net debt/EBITDA has improved to around 11x as of 31 March 2024, which maps to a Caa score in our methodology grid following curbed dividends and investments, together with solid revenue growth in 2023. We expect the company to remain at around 11x net debt/EBITDA over the coming 12-18 months.

### Good track record of access to equity and debt capital

Fastpartner's Liquidity and Access to Capital score is B in our scorecard. The company can technically access all sources of private and public capital. The capital markets has been inaccessible for the last two years but is now looking more attractive with decreasing credit spreads. The company's shares are listed 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 AB (Compactor). Fastpartner's remaining shareholders include large institutional investors Länsförsäkringar Fondförvaltning AB, Third AP-Fund and Swedbank Robur Fonder AB.

Fastpartner's access to equity capital is somewhat weaker than that of other widely held real estate companies with institutional investors because of the presence of a dominant shareholder, Sven-Olof Johansson, through the holding company Compactor. Compactor is the CEO's Sven-Olof Johansson's holding company. 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 relevant experience and is highly involved in the business. Excluding the value of Fastpartner's properties, we estimate net assets of around SEK3.5 billion at Compactor. Compactor's share (131 million shares) in Fastpartner as of Q1 2024 was around 72%. We estimate that Compactor has some ability to support Fastpartner, considering relatively low financial leverage at Compactor. Additionally, Compactor could accept the dilution of its ownership in Fastpartner to further support Fastpartner if needed. Nevertheless, Fastpartner injected SEK1 billion of equity in 2021, which has kept leverage at a lower level.

### Fixed-charge coverage in decline. Sensitive to changes in interest rates, given the company's reliance on short-term debt and low degree of hedging

Fastpartner's debt portfolio is currently only hedged to around 18% (including fixed term loans and bonds) from variable to fixed. About 13% or SEK 2.1 billion of Fastpartner's total debt will be maturing the next 18 months. Furthermore, about SEK 1.9 billion of this maturing debt is financed on the Swedish commercial paper and bond market, which has been less liquid and with significantly higher spreads lately. We expect that Fastpartner will proactively and timely refinance its upcoming debt maturities.

Fastpartner has a policy of keeping interest coverage at a minimum of 1.8-2.0x depending on the bank, the current LTM value of 1.7x maps to Ba in our methodology grid. Fastpartner's short dated maturity profile creates a mismatch between its assets and liabilities.

Fastpartner's average cost of debt was 4.7% as of 31 March 2024, and the company used interest rate swap hedges for around 18% of its debt. The interest rate swaps are not stapled to its debt, but are managed separately.

Fastpartner renegotiates around 15%-20% of its leases per year. The company's EBITDA will also increase gradually because of its ability to renegotiate rents at higher levels but also as a result of the CPI-linked contracts. A large share of the contracts in Fastpartner's portfolio was renegotiated between three and five years ago, when lease levels were generally lower. Although 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.

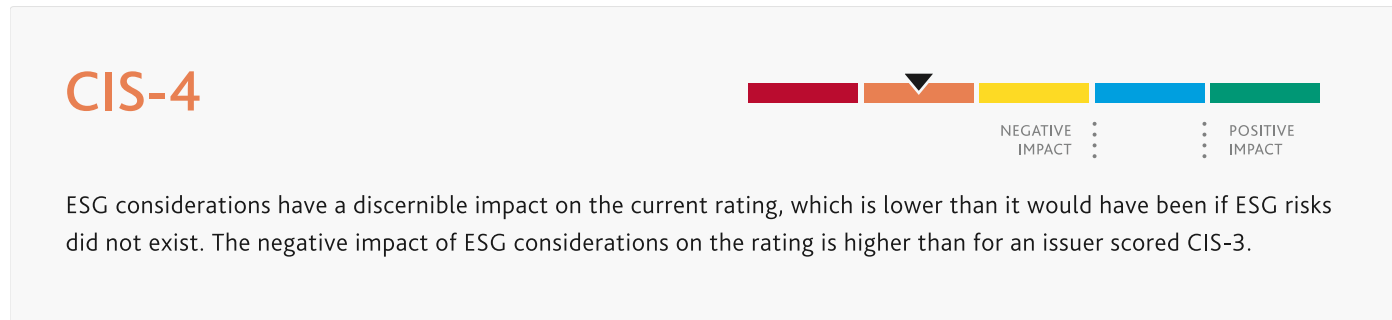


## ESG considerations

### Fastpartner AB's ESG credit impact score is CIS-4

Exhibit 10

#### ESG credit impact score



Source: Moody's Ratings

ESG considerations have a negative impact on Fastpartner's rating (**CIS-4**), with a potentially larger impact in the future. This reflects the company's moderately negative carbon transition risks, potential challenges from hybrid-working models and concentrated ownership.

Exhibit 11

#### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

**E-3:** Fastpartner's exposure towards carbon transition risk is limited and in line with most of the peers in the real estate industry in the Nordics. The company target to achieve net zero carbon by 2030. Based on the portfolios market value the share of certifications is 40.6% in the end of 2021. The goal is 80% of certified buildings by 2025.

### Social

**S-3:** credit exposure to social considerations is limited. Tenants demand for Fastpartner's properties is vulnerable to increasing hybrid-working and an accelerated shift towards ecommerce. However, the secondary locations is expected to suffer more than others prime location and high environmental friendly content. We recognize Fastpartner's ability to adjust and adopt to evolving social issues.

### Governance

**G-4** reflects a credit exposure to governance as negative due the CEO being a significant owner 71.2% and represented in the board. Overall, this constitutes a key man risk. However, the CEO has through its investment holdings company Compactor which has low effective leverage participated in several equity injections in Fastpartner to strengthen credit quality and this is credit positive. However, the company has not adjusted the financial policy in the context of rising interest rates.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

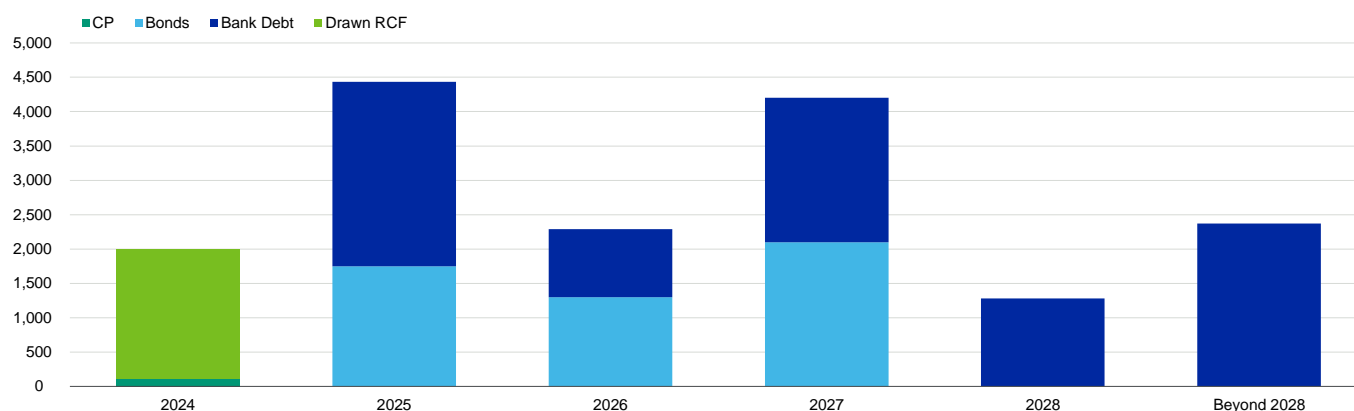
## Liquidity analysis

### Fastpartner needs a long-term strategy for upcoming debt maturities

Fastpartner is facing significant liquidity outflows over the next 18 months of in total around SEK 2.7 billion (largely maturing a bond, bank debt, commercial paper, dividends, and capex). Fastpartner has debt maturities of SEK 2.1 billion corresponding to 13% of total debt during the next 18 months. Estimations of Q1 2024 include access to around SEK 3.5 billion of liquidity, including cash of SEK 11 million, SEK 1.9 billion of undrawn committed facilities and we expect the company to generate cash flow of about SEK 720 million, which covers the liquidity outflows mentioned above. However, there is a sizeable maturity wall starting from 2025, which needs to be addressed early on – and which could put further pressure on coverage ratios in case capital markets have not improved, and interest rates have not eased from current levels.

Exhibit 12

#### Fastpartner's funding mostly consists of secured bank debt, complemented by a commercial paper programme and bonds Debt maturities, SEK million (Q1 2024)



Source: Company filings

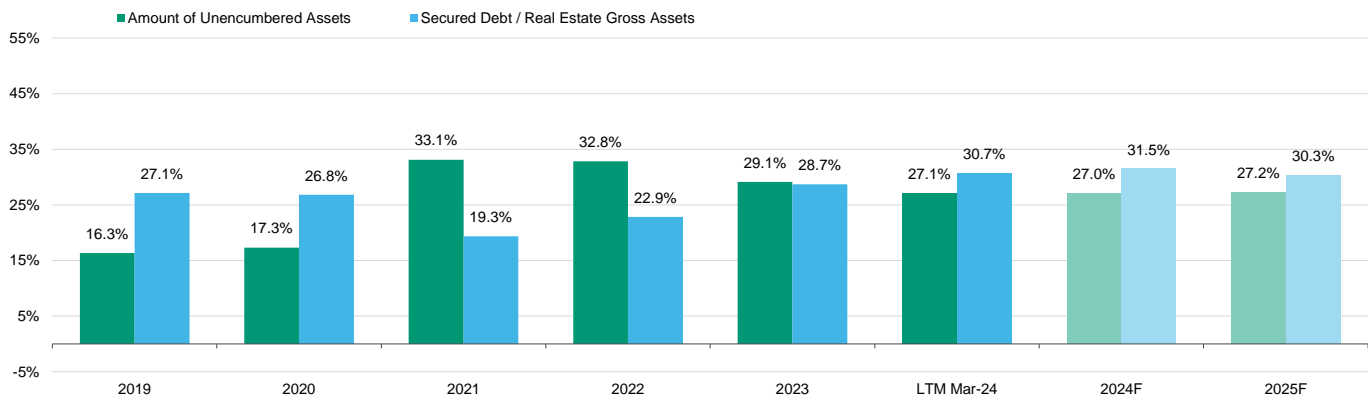
The large share of short-term debt maturities reflects the company's reliance on short-term secured bank facilities, banks and RCFs. Bank loan facilities are subject to covenants, a minimum interest coverage ratio and solvency, as defined by equity in relation to total assets. The bonds have a covenant for solvency. However, the facilities contain repeating material adverse clauses that, in theory at least, could limit their availability. Covenant headroom is tightening but we expect the company to proactively address; i.e. renegotiate the covenants.

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. 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. The continued payout of sizeable dividends is currently constraining Fastpartner's liquidity profile.

In 2021, Fastpartner managed to substantially increase the amount of unencumbered assets to 33%, from 17% in 2020, while at the same time reducing the proportion of secured financing in the funding mix. The change was attributable to several unsecured bond issuances during the first half of 2021. While we expect the secured funding to gradually increase as the issuer will need to refinance maturing bonds in the bank system, we expect the issuer to be able to manage the unencumbered assets ratio by increasing the amount pledged on existing properties.

Exhibit 13

**Gradual increase in unencumbered assets over time in combination with a decline in secured financing**  
**Unencumbered assets and secured debt over time**



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**Structural considerations**

Fastpartner has a relatively high proportion of secured debt, creating subordination for holders of unsecured bonds. As of 31 March 2024, the company had an estimated coverage of unencumbered assets over unsecured debt of 1.9x.

## Methodology and scorecard

Fastpartner's scorecard-indicated outcome is Ba3 using the REITs and Other Commercial Real Estate Firms rating methodology, with data as of 31 March 2024 and on a forward-looking basis. The rating assigned is one notch below the current and forward looking scorecard-indicated outcome. The one-notch gap reflects the further negative ratings pressure on EBITDA interest coverage and limited buffers to covenants in bank loan documentation.

Exhibit 14

### Fastpartner AB

REITs and Other Commercial Real Estate Firms Industry Scorecard			Current LTM Mar-24		Moody's 12-18 month forward view	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score	Measure	Score
a) Gross Assets (\$ billions)	3.4	Baa	3.3	Baa		
<b>Factor 2 : Business Profile (25%)</b>						
a) Market Positioning and Asset Quality	Ba	Ba	Ba	Ba		
b) Operating Environment	Baa	Baa	Baa	Baa		
<b>Factor 3 : Liquidity and Access To Capital (25%)</b>						
a) Liquidity and Access to Capital	B	B	B	B		
b) Unencumbered Assets / Gross Assets	27.1%	B	27%	B		
<b>Factor 4 : Leverage and Coverage (45%)</b>						
a) Total Debt + Preferred Stock / Gross Assets	48.5%	Baa	49-50%	Baa		
b) Net Debt / EBITDA	10.9x	Caa	10-11x	Caa		
c) Secured Debt / Gross Assets	30.7%	B	30-32%	B		
d) Fixed Charge Coverage	1.7x	Ba	2-2.3x	Ba		
<b>Rating:</b>						
a) Scorecard-Indicated Outcome		Ba3		Ba3		
b) Actual Rating Assigned						B1

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Source: Moody's Ratings

## Ratings

Exhibit 15

<u>Category</u>	<u>Moody's Rating</u>
<b>FASTPARTNER AB</b>	
Outlook	Stable
Corporate Family Rating	B1

Source: Moody's Ratings

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