

Real Estate Company Akelius Residential Property AB's Proposed Unsecured Subordinated Hybrid Notes Assigned 'BB+' Rating

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- We are assigning our 'BB+' issue rating to the proposed unsecured subordinated hybrid notes to be issued by Swedish residential real estate company Akelius Residential Property AB (publ) (Akelius).
- The issue rating on the proposed notes is two notches below the 'BBB' long-term rating on Akelius, reflecting our view of the notes' subordination and interest deferability.

FRANKFURT (S&P Global Ratings) March 14, 2018--S&P Global Ratings said today that it has assigned its 'BB+' long-term issue rating to the proposed deferrable subordinated hybrid notes to be issued by Sweden-based Akelius Residential Property AB (BBB/Stable/A-2).

The completion and size of the transaction will be subject to market conditions, but we anticipate that it will reach up to the benchmark size of approximately €500 million. Akelius plans to use the proceeds to fund the company's growth and cover refinancing needs.

We classify the proposed notes as having intermediate equity content until their first call date in 2024, because they meet our criteria in terms of their subordination, permanence, and optional deferability during this period (see "Hybrid Capital Handbook: September 2008 Edition," published on Sept. 15, 2008, on RatingsDirect).

Consequently, in our calculation of Akelius' credit ratios we treat 50% of the

principal outstanding and accrued interest on the hybrids as equity rather than debt. We also treat 50% of the related payments on these notes as equivalent to a common dividend.

We arrive at our 'BB+' issue rating on the proposed notes by deducting two notches from our 'BBB' issuer credit rating (ICR) on Akelius. Under our methodology:

- We deduct one notch for the subordination of the proposed notes, because the ICR on Akelius is investment grade (that is, 'BBB-' or above); and
- We deduct an additional notch for payment flexibility to reflect that the deferral of interest is optional.

In addition, we note the inclusion of a mandatory deferral clause in the company's outstanding senior unsecured debt documentation regarding dividend payments on their subordinated debt, including the proposed hybrid issuance and both preference and common shares, if certain financial ratios are not met.

We deduct only one notch for deferability because we consider the likelihood of Akelius deferring interest payments as low, and we expect the company will keep a substantial cushion between their financial ratios and the thresholds for mandatory deferral. Should our view on this change, we may significantly increase the number of downward notches applied to the issue ratings.

RELATED CRITERIA

- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

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