Corem Property Group AB
Kingdom of Sweden, Real Estate

SCOPE BBB- NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA interest cover	2.6x	2.5x	2.0x	2.1x
Scope-adjusted debt/EBITDA	27.9x	17.8x	12.9x	11.3x
Scope-adjusted loan/value ratio	52%	54%	51%	49%

Rating rationale

The issuer rating affirmation is based on the company's strong operations in commercial real estate and current focus on managing its balance sheet through disposals and debt retirement to help preserve credit metrics. Corem sold SEK 15.7bn of assets during 2023, including a SEK 1.2bn stake in Castellum and shares in joint venture Klövern, which led to a SEK 1.4bn cash inflow. After factoring in the latest disposals during Q4 2023, we expect the Scope-adjusted loan/ value (LTV) ratio to improve to around 50% by YE 2023 from 54% at YE 2022. Further disposals in 2024 should bring the figure below 50%. The Negative Outlook remains in place and is based on the adverse impact that the economic environment is having on the company's financial risk profile, with interest coverage expected to remain under pressure. The Scope-adjusted interest cover ratio stood at 2.5x at YE 2022 but has fallen to 2.0x at Q3 2023, a level we expect to remain unchanged at YE 2023. The recent steering interest rate action by Sweden's central bank suggesting a peak in rates provides better visibility for the year to come, however we caution that refinancing of upcoming debt might happen at higher levels than previously achieved. Nevertheless, we expect coverage to recover somewhat from 2024 after EBITDA improves due to rent increases made possible by the contractual linking of rents to the consumer price index. We also expect coverage to benefit from Corem continuing to reduce its overall debt load during 2024.

Outlook and rating-change drivers

The Negative Outlook continues to factor in the higher risk of the Scope-adjusted EBITDA interest cover ratio declining and remaining below 2.2x. The Outlook also incorporates our expectation that Corem will maintain the disposal strategy since late 2022 that has helped reduce debt significantly. We understand the issuer is aiming to reduce debt by releasing further capital through asset disposals, which could partly compensate for the weaker interest cover depending on the measures' eventual impact on the LTV.

A downgrade could be triggered if the Scope-adjusted EBITDA interest coverage remains below 2.2x while the company is unable to reduce the LTV to below 50%. A downgrade could also be driven by a further deterioration of the company's business risk profile triggered by additional asset disposals beyond our base case.

A positive rating action, i.e., a return of the Outlook to Stable, would require the Scope-adjusted EBITDA interest coverage ratio to improve to above 2.2x in 2025, while the LTV does not significantly exceed 50%. It further requires the company's business risk profile to stabilize including no significant asset disposals beyond our base case. An upgrade is considered unlikely at this point in time.

Rating & Outlook

Issuer BBB-/Negative

Analyst

Thomas Faeh
+47 9305 3140
t.faeh@scoperatings.com

Related Methodology

Corporate Rating Methodology; October 2023

European Real Estate Methodology; January 2023

Scope Ratings GmbH

Karenslyst allé 53
N-0279 Oslo

Phone +47 2162 3142

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
22 Dec 2023	Affirmation	BBB-/Negative
19 June 2023	Outlook change	BBB-/Negative
20 June 2022	Affirmation	BBB-/Stable

Rating and rating-change drivers

Positive rating drivers

- Medium-sized CRE company (second in Sweden by CRE asset value) with good access to capital markets
- Moderate tenant diversification, with top three and top 10 tenants accounting for 9.5% and 16.8% respectively
- Scope-adjusted EBITDA margin on a triple-net basis at 70% in FY 2023
- Property locations in large metropolitan areas and sought-after logistics hubs warrant good liquidity if chosen for disposal
- Disposal strategy to result in deleveraging, with LTV ratio expected below 50%

Negative rating drivers

- Relatively high vacancy rate in portfolio, somewhat mitigated by stability over time
- Relatively short WAULT (slightly below average in the Nordic peer group), exposing the company to ongoing reletting risk
- Scope-adjusted debt EBITDA interest cover currently around 2.0x, supported by positive operating cash flows – but under pressure from increasing refinancing costs that is somewhat mitigated by a hedging ratio of 58% at Q3 2023

Positive rating-change drivers

- A positive rating action, i.e., a return of the Outlook to Stable, would require the Scope-adjusted EBITDA interest coverage ratio to improve to 2.2x or above in 2025, while the Scope-adjusted loan/value ratio does not significantly exceed 50%. It further requires the company’s business risk profile to stabilize including no significant asset disposals beyond our base case. An upgrade is considered unlikely at this point in time.

Negative rating-change drivers

- A downgrade could be triggered if the Scope-adjusted EBITDA interest coverage remains below 2.2x while the company is unable to reduce the Scope-adjusted loan/value ratio to below 50%. A downgrade could also be driven by a further deterioration of the company’s business risk profile triggered by additional asset disposals beyond our base case.

Corporate profile

Corem Property Group AB is one of the largest property companies in Sweden since its acquisition of Corem Kelly (previously known as Klövern AB) in an all-share merger in June 2021. Corem’s portfolio is balanced between office and logistics spaces, in addition to some retail exposure. The company owns and manages around 360 properties across Sweden, with low exposure to Denmark and New York City. Corem is headquartered in Stockholm and listed on Stockholm’s large-cap stock exchange.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	2.5x	2.6x	2.5x	2.0x	2.1x	2.2x
Scope-adjusted debt/EBITDA	15.5x	27.9x	17.8x	12.9x	11.3x	10.8x
Scope-adjusted loan-to-value ratio	55%	52%	54%	51%	49%	49%
Scope-adjusted EBITDA in SEK m						
EBITDA	629	1,721	2,746	2,758	2,874	3,000
Operating lease payments	0	0	0	0	0	0
Other items	33	0	0	0	0	0
Scope-adjusted EBITDA	**662**	**1,721**	**2,746**	**2,758**	**2,874**	**3,000**
Funds from operations in SEK m						
Scope-adjusted EBITDA	662	1,721	2,746	2,758	2,874	3,000
less: (net) cash interest paid	-262	-638	-1,057	-1,344	-1,269	-1,297
less: cash tax paid per cash flow statement	-7	-3	-13	-80	-369	-369
add: dividends from associates	0	0	0	0	0	0
Change in provisions	-12	-41	-37	-39	0	0
Funds from operations (FFO)	**465**	**1,149**	**1,698**	**1,315**	**1,236**	**1,333**
Free operating cash flow in SEK m						
Funds from operations	465	1,149	1,698	1,315	1,236	1,333
Change in working capital	-62	41	534	-626	0	0
less: capital expenditure (net)	-741	-1,771	-2,903	-873	-635	-649
less: divestments	60	1,133	2,303	15,802	3,281	0
less: dividends preferred shares (mandatory)	-72	0	0	0	0	0
Free operating cash flow (FOCF)	**-350**	**552**	**1,632**	**15,218**	**3,482**	**285**
Net cash interest paid in SEK m						
Net cash interest per cash flow statement	262	638	1,057	1,344	1,269	1,297
add: interest component, operating leases	0	0	0	0	0	0
add: interest expense hybrids	0	20	44	69	69	69
Net cash interest paid	262	658	1,101	1,413	1,337	1,365
Scope-adjusted debt in SEK m						
Reported gross financial debt	9,814	47,564	49,096	37,353	34,432	34,221
add: subordinated (hybrid) debt	0	631	631	631	631	631
less: cash and cash equivalents	-15	-571	-979	-2,390	-2,718	-2,559
add: derivatives	455	337	22	10	10	10
Other items	0	0	0	0	0	0
Scope-adjusted debt (SaD)	**10,254**	**47,961**	**48,770**	**35,603**	**32,354**	**32,302**

Table of contents

Environmental, social and governance (ESG) profile[1]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend
Green leaf (ESG factor: credit-positive)
Red leaf (ESG factor: credit-negative)
Grey leaf (ESG factor: credit-neutral)

ESG profile

Corem is committed to meeting the UN's Sustainable Development Goals with specific targets: complete reliance on renewable energy by 2030, achieving climate neutrality in the value chain by 2035 and reducing energy consumption to a maximum of 65 kWh/sq m by 2030. As of Q3 2023, 93% of its energy already comes from renewable or climate-compensated sources. The company prioritises resource efficiency through renovation and recycling, employing environmental certifications (e.g. Swedish Green Building Council's Miljöbyggnad, BREEAM, LEED) for new construction and refurbishments. These efforts enhance the portfolio's appeal and boost profitability by maintaining gross rental levels and improving the net rent ratio.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and by extension, its credit quality.

Business risk profile: BBB-

Industry risk profile: BB

Corem faces modest industry risk that is primarily tied to the cyclicality of the commercial real estate sector. The company's main activities involve managing office and logistics buildings.

Medium-to-large commercial real estate company with good access to external capital

Corem is a sizeable commercial real estate company boasting a core property value of SEK 66.2bn (EUR 5.8bn) and Scope-adjusted total assets of SEK 74.6bn (EUR 6.5bn) as of September 2023. In addition to a total lettable area of 2,602,000 sq m, the company also possesses unused building rights that are earmarked for future development.

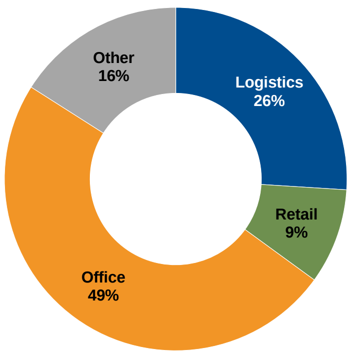
In late 2021, Corem initiated a joint venture management company with ALM Equity, focusing on residential unit development under the old name of Corem Kelly (Klövern). Corem transferred properties worth SEK 5.4bn, with a lettable area of 123,000 sq m, to the joint venture in Q2 2022 and maintained approximately 51% ownership of the joint venture. In August 2023 NREP acquired 51% of shares from Corem, ALM Equity and Broskeppet Bostad for SEK 2.5bn and invested SEK 1bn via a direct share issue, diluting Corem's ownership to 17% in return for a cash payout of SEK 1.4bn.

The company's substantial size provides diversification in terms of tenants and locations. This bolsters its resilience to cash flow volatility stemming from economic cycles, industry changes, regulatory shifts and tenant issues. Additionally, Corem's robust presence in capital markets is evident from regular issuances of class A, B, and D shares, preference shares, secured and unsecured bonds in the Swedish markets, a SEK 5bn commercial paper programme, and bank loans and private placements with Nordic and European banks in SEK, DKK and USD.

One of the largest Swedish CRE companies, with good tenant visibility

The acquisition of Klövern AB in 2021 has expanded Corem's visibility and market reach, aligning it more closely with major competitors. With a dominant position in most areas and a significant market share in Stockholm, Corem can attract new tenants, offer more opportunities to existing ones and better cater to changing needs. High market shares contribute to tenant retention, ensuring stable occupancy and reducing capital expenditure associated with tenant turnover.

Figure 1: Asset type diversification by sq m as at Q3 2023



Sources: Corem, Scope

Good geographical diversification, with a home country bias

Corem has a robust geographical presence, with 79% of assets by fair value in Sweden (as at Q3 2023) and international exposures in Copenhagen (10%)[2] and New York (11%). Its performance is primarily influenced by macroeconomic developments in Sweden and

[2] two large properties (approx. 61,300 sq m) sold in November 2023, after Q3 2023 reporting.

Denmark – two mature and stable economies with strong welfare systems. This softens the impact of economic shocks, which in turn reduces rental losses.

Before their merger, Corem was strongly focussed on logistics while Corem Kelly was predominantly active in office real estate. The merger resulted in a more balanced and diversified company, reducing the previous emphasis on a single property type. In terms of rental space, Corem is now balanced between logistics (26% as at Q3 2023) and office (49%), with some exposure to retail (9%) and other properties (16%). By market value, the office segment accounts for 70%, logistics for 14%, retail for 4% and other exposures for 12%.

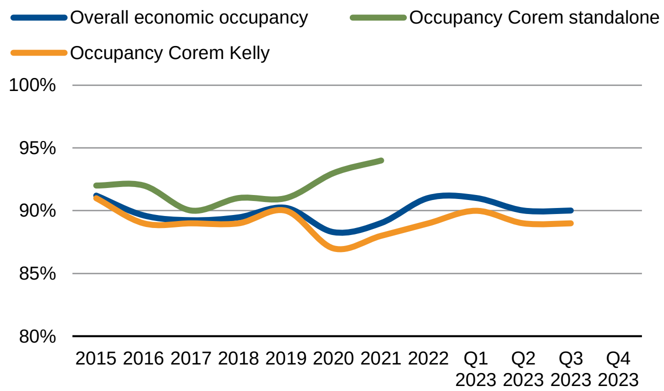
Moderate to good tenant diversification

Corem's tenant diversification is moderate, with the top three tenants contributing 9.5% and the top 10 tenants contributing 16.8% of total rent as per latest annual report. Ericsson represents 6.4% of total rent spread across 12 properties and 29 contracts, with a perceived moderate-to-good credit quality. The top 20 tenants, all assessed as investment-grade, include five government agencies or government related companies (AA/AAA). Overall tenant quality based on credit losses is low investment-grade. Consequently, the risk of significant cash flow deterioration due to a single tenant's default or delayed payments is considered marginal.

Asset quality benefits from 'A' locations

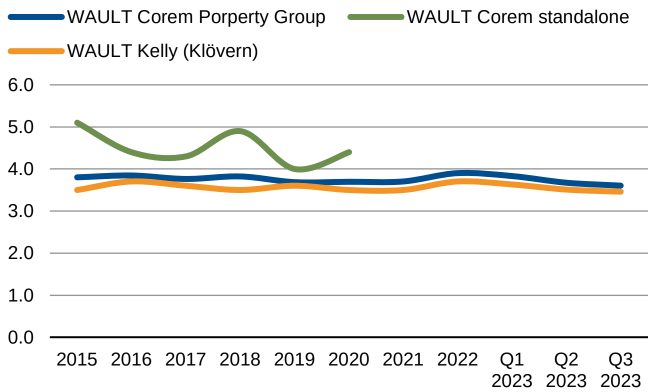
Corem's portfolio is predominantly focused on major metropolitan areas (Stockholm, Malmö, Copenhagen, Gothenburg, and New York), which constitute 69% of its holdings in Sweden and Denmark as at Q3 2023. These cities are considered 'A' locations from an investor's standpoint. On the logistics side, additional locations outside metropolitan areas are classified as 'A' locations from a tenant's perspective. The significant presence in large, liquid markets enhances the portfolio's fungibility, limiting potential asset haircuts in distress scenarios.

Figure 2: Economic occupancy rate



Sources: Corem, Scope

Figure 3: WAULT in years



Sources: Corem, Scope

Below-average occupancy

The company's economic occupancy rate has hovered around 90% which is relatively low for a traditional buy-and-hold company, especially for office space. The stability of occupancy across the cycle mitigates related risks to some extent as it proofs the moderate attractiveness of the issuer's portfolio.

Short WAULT, but average for the Nordics

As of the end of September 2023, Corem's WAULT (weighted average unexpired lease term) stood at 3.6 years, shorter than European peers and slightly below the Nordic peer average of four years. However, the stability of Corem's WAULT during countercyclical movements in offices and logistics over the past five years helps mitigate this shorter duration.

Corem's profitability was high versus peers in 2017-19, at around 76% as measured by the Scope-adjusted EBITDA margin (including dividends from long-term holding Klövern in revenue/EBITDA). Profitability fell somewhat to around 70% during streamlining in 2019. Profitability since the merger has been diluted by Corem Kelly's lower margins and impacted by acquisition-related one-off effects in 2021. On a triple-net basis (excluding billed-through utility costs), the adjusted EBITDA margin stood at 67% for 2021 and 68% in 2022. Based on achieved margins during the first three quarters of 2023, we expect profitability to climb to 70% and remain at or above that level going forward. This expectation is based on the company's strong cost focus, which resulted (among other things) in the reduction of its workforce by around 50 FTEs as at Q3 2023 on a twelve month basis.

Financial risk profile: BB+

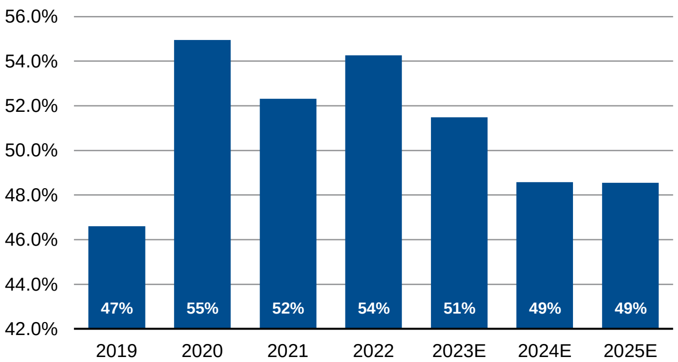
Leverage (LTV ratio) decreasing towards 50% and below

Corem's management quickly changed its strategy from growth to managing the balance sheet when the tide turned in the property markets. It cashed out relatively early, selling an entire portfolio worth SEK 5.35bn to Blackstone, which it communicated in November 2022 and transferred in 2023. During the course of 2023 the company disposed of assets worth SEK 15.7bn, using the proceeds to reduce debt.

After merging with Klövern, Corem deleveraged to 52% at YE 2021, with leverage reaching a low of 51% in Q1 2022. Fair value depreciations later in the year slowly moved the LTV ratio up towards 54% by year-end 2022.

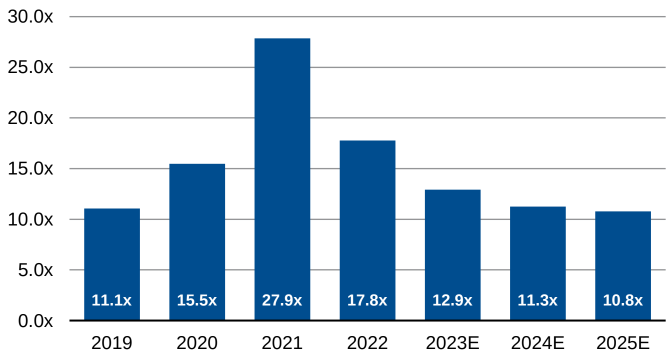
Thanks to significant disposals and related debt reductions expected at SEK 12bn for 2023, the company has managed to counter significant fair value depreciations and lower its LTV ratio to an expected 51% at year-end 2023. Such depreciations, especially in Q3 2023, appeared to be higher than for peers. This can be attributed to the breadth of transactions Corem did throughout the year, which likely took its fair values closer to where they should be compared to some peers with further adjustment potential. We expect further disposals in 2024, which would bring the LTV ratio down to 49% in our calculations.

Figure 4: Scope-adjusted loan/value ratio (%)



Sources: Corem, Scope estimates

Figure 5: Scope-adjusted debt/EBITDA ratio



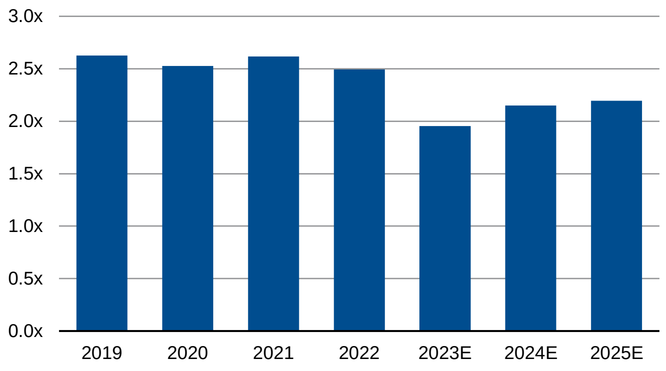
Sources: Corem, Scope estimates

The Scope-adjusted debt/EBITDA ratio increased to 15x-17x after the merger with Corem Kelly, which had a standalone Scope-adjusted debt/EBITDA ratio of 17x-18x. With current deleveraging, the ratio is expected to reach 12.9x at end-2023. Based on further estimated debt reductions, we assume levels of around 11x beyond that time. Given the company's primary focus on buy-and-hold logistics and office properties, we do not assign significant weight to this ratio.

Corem's debt protection, historically in the mid BBB category (2.4x-2.6x), has remained stable over 2018-2022. Like many of its Nordic counterparts, the company's preference for floating rates, coupled with record-low interest rates and a short funding profile, resulted in comparatively low cash interest payments. Despite a significant increase in base rates in the second half of 2022, Corem achieved interest cover of 2.5x in 2022.

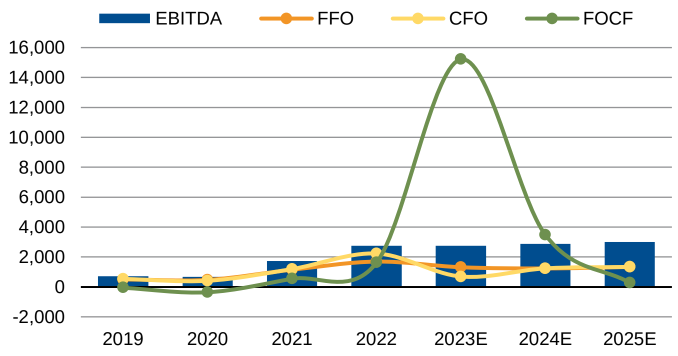
We highlight Corem's hedging of 60% of its floating exposure at YE 2022, which has been kept stable throughout 2023 (Q3 2023 at 58%), mitigating base-rate risk somewhat. Given significant disposals and related debt repayment while hedges remain unchanged, this ratio will increase to above 60% in 2024. Nevertheless, factoring in the steep increase in the base rate for 2023, interest cover is expected to drop to 2.0x at FY 2023. This is somewhat mitigated by significant disposals throughout the year, with a related reduction in (the most expensive) debt. After that, we see a recovery towards 2.1x in 2024 and 2.4x in 2025, again based on CPI rental increases lifting EBITDA while base rates are expected to have peaked.

Figure 6: Scope-adjusted EBITDA/interest cover ratio (x)



Sources: Corem, Scope estimates

Figure 7: Cash flows



Sources: Corem, Scope estimates

Scope-adjusted FOCF has been positive for the observed five-year history. It is expected to be highly positive in 2023 due to already done and further signed divestments. For 2024 and 2025, we have anticipated the abovementioned maintenance/mandatory capex of SEK 650m. In the absence of planned divestments in 2025, this will bring FOCF down to 2021 levels, still in positive territory.

Adequate liquidity

Like many Nordic peers, Corem relies on short-term funding, and such needs are met through RCFs and credit facilities or historically the sale of marketable securities, while long-term requirements are addressed with secured bank debt or unsecured bonds.

As of Q3 2023, the secured LTV ratio stood at 45%, providing a reasonable possibility to increase debt on existing properties if needed for refinancing (within the company's framework of up to a 70% LTV ratio on certain bank loans).

Corem had SEK 13.8bn of short-term debt at Q3 2023, of which SEK 4.1bn was senior unsecured. Unsecured maturities over the next 12 months include a SEK 0.8bn bond in November (already repaid), a SEK 1.4bn bond in mid-April 2024 and a SEK 1.9bn bond in late April 2024. These are covered by achieved disposal proceeds (net proceeds SEK 3bn), cash on the balance sheet (SEK 0.6bn), undrawn long-term credit facilities (SEK2.7bn) and free operating cash flows. The remainder of maturing debt is secured, and the likelihood that banks will not refinance is low as shown by the issue of SEK 8.3bn in secured debt during 2023.

Corem maintains positive relationships with major Nordic banks, and the banks have shown a willingness to replace lost loan volume resulting from debt repayment on secured properties or loan facilities.

Considering these factors, liquidity is deemed adequate.

Balance in SEK m	2023E	2024E	2025E
Unrestricted cash (t-1)	979	2,390	2,718
Marketable securities (t-1)	1,099	0	0
Open committed credit lines (t-1)	3,252	3,050	3,050
Free operating cash flow	15,218	3,482	285
Short-term debt (t-1)	14,728	12,921	9,911
Coverage	**140%**	**69%**	**61%**

Appendix: Peer comparison (as at last reporting date)

	Corem Property Group	Norwegian Property ASA	Fastpartner	Inmobiliaria Colonial SOCIMI
	BBB-/Neg	BBB-/Stable	BB/Negative	---/---*
Last reporting date	30 Sept 2023	31 Mar 2023	30 June 2023	31 Dec 2022
Business risk profile				
Scope-adjusted total assets (EUR m)	6'400	2,540	3,100	13,309
Portfolio yield	6.7%	4.5%	6.2%	2.7%
Gross lettable area ('000s sq m)	2,602	505	1,563	1,688
No. of residential units	n/a	na	na	na
No. of countries active in	3	2	1	2
Top three tenants (%)	9.5%	22%	9.0%	10.2%
Top 10 tenants (%)	16.8%	48%	18.6%	25.8%
Office (share NRI)	49%	67%	46%	96.0%
Retail (share NRI)	9%	8%	12%	3.0%
Residential (share NRI)	na	0%	0%	0.0%
Hotel (share NRI)	na	0%	4%	na
Logistics (share NRI)	25%	6%	24%	0.0%
Others (share NRI)	16%	19%	14%	1.0%
Property location	'A' and 'B'	A	Mainly 'A'	A
EPRA occupancy rate (%)	89%	95%	93%	96%
WAULT (years)	3.6	5.0	4.5	5.0
Tenant sales growth (%)	na	na	na	na
Like-for-like rent growth (%)	na	na	na	7.%
Occupancy cost ratio (%)	na	na	na	na
Scope-adjusted EBITDA margin[3]	70%	80%	68%	77%
EPRA cost ratio (incl. vacancy)	na	na	na	21.9%
EPRA cost ratio (excl. vacancy)	na	na	na	20.1%
Financial risk profile				
Scope-adjusted EBITDA interest cover (x)[8]	2.0x	3.1x	1.9x	3.1x
Scope-adjusted loan/value ratio (%)	55%	40%	48%	38%
Scope-adjusted debt/EBITDA (x)[8]	14.6x	14.8x	12x	17.9x
Weighted average cost of debt (%)	4.6%	2.1%	4.5%	1.7%
Unencumbered asset ratio (%)	na	204%	220%	>250%

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

[3] Includes all GLA surfaces, above and below ground

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer