

Akelius Residential Property AB

The ratings reflect Akelius Residential Property AB's prime and mid-market position in rented residential markets that are characterised by high disposable incomes, positive demographic trends and income growth.

The local markets exhibit low vacancy rates, often regulated – below-market – rents, low tenant turnover and reversionary rental income growth. These characteristics provide Akelius with defensive rental income and a rental growth profile that underpins its rating. Its large EUR12.5 billion portfolio provides wide geographic and regulatory diversification. These positives are balanced by high cash flow leverage, reflecting its lower-yielding portfolio.

Key Rating Drivers

Berlin Rent Freeze Unlawful: In April 2021, Germany's Federal Constitutional court ruled that the Berlin state government's decision to enact the Berlin rent freeze was unconstitutional and that rents are already adequately regulated at the national level. The decision reverses the expected EUR23 million loss of annual rental income for Akelius and creates the possibility to demand the return of rent from tenants who received mandated rent relief.

The resultant higher rents will moderately improve leverage metrics and rental growth while reducing the difference between in-place rent and market rents.

High Cash Flow Leverage: Akelius' net debt/rental-derived EBITDA of 23.4x at end-2020 is higher than commercial real estate office and retail peers', reflecting the inherently low income-yield in the company's quality residential portfolio. This current leverage is unaided by its ambitious redevelopment programme, which has left vacancies high as apartments are held empty for renovation and complex projects.

Fitch expects Akelius's leverage to decline to 23x when management has implemented its plans to halve vacancies by end-2022, and to below 22x in 2023 on reversionary and index-linked rental growth.

Strong Liquidity: The ratings are supported by strong liquidity (EUR0.9 billion at end-1Q21), a 2.0x interest coverage at end-2020 with additional flexibility in the form of its hybrid coupons (Fitch includes 100% in interest paid), a lack of dividend requirement and a portfolio with inherent options to monetise apartments held for renovation.

Regulated Rental Markets: Akelius' portfolio is focused on regulated residential markets, where rents often are below-market and vacancies are low due to limited supply. The resultant regulated rents remain stable even in economic downturns and produce reversionary or index-linked rental growth. Akelius has historically been able to unlock reversionary rental growth by capex (a trigger in many jurisdictions) or by resetting rents to market when units become vacant. Leases are typically renewed on a rolling basis but can be cancelled with a few months' notice; however, below-market rents and limited supply lead to low tenant churn.

Low-Yielding Portfolio: The portfolio quality, stability of rents, and potential for rental uplifts is reflected in its low income yields. Fitch estimates a topped-up 2.5% net initial yield (NIY) adjusted for apartments held vacant for renovation. This is well below office and retail yields and even many residential peers'. The UK-rated peer Grainger plc (BBB-/Stable) has around 3%

Ratings

Rating type	Rating	Outlook	Last rating action
Long-Term IDR	BBB	Stable	New Rating 25 Mar 2021
Short-Term IDR	F2		New Rating 25 Mar 2021
Senior Unsecured	BBB+		New Rating 25 Mar 2021
Subordinated	BBB-		New Rating 25 Mar 2021

[Click here for full list of ratings](#)

Applicable Criteria

- [Corporate Rating Criteria \(December 2020\)](#)
- [Corporates Recovery Ratings and Instrument Ratings Criteria \(April 2021\)](#)
- [Corporate Hybrids Treatment and Notching Criteria \(November 2020\)](#)

Related Research

- [Spotlight: Akelius Residential AB \(March 2021\)](#)
- [Annington Limited \(February 2021\)](#)
- [Grainger plc \(December 2020\)](#)
- [Fitch Ratings 2021 Outlook: EMEA Property and Real Estate \(December 2020\)](#)
- [Corporates Recovery Ratings and Instrument Ratings Criteria \(April 2021\)](#)

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NIY, comprising a mix of regulated 2% and market-rented 4% income-yielding residential properties. As a result, Akelius has higher leverage than that of peers operating commercial assets for the same rating.

High Geographical Diversification: Akelius' portfolio is spread across Scandinavia (Sweden, Denmark, 25% of portfolio value), Germany (32%), UK (8%) and France (3%), in the US (16%) and Canada (15%). This provides material geographical and regulatory diversification. Its focus on major cities, which are expected to grow faster than country averages and display high disposable incomes, provides positive and resilient fundamentals. Demand for residential properties for rent has remained high in these cities.

Ongoing Vacancy Reduction: New management plans to halve current (mainly renovation-related) vacancies, which will increase its rental income by EUR25 million by end-2022 by completing existing projects. Previously, a high pace of acquisitions, increased complexity of projects and bottlenecks in capacity to complete renovations, kept vacancies high for a number of years.

Progress was made in 2019 and 2020 as management reduced vacancies to 6.9% at end-1Q20 (end-2018: 9.6%). Only a limited share of vacant apartments need renovation to be rented (management estimates about 5% of vacant apartments), although it is more profitable to renovate and lease-out to lock-in higher rent.

Limited Covid-19 Impact: The impact from Covid-19 on collection rates has been limited, especially in its core Scandinavian and European markets where regulated rents combined with strong social security have supported collections. At the same time like-for-like rental growth was 3.6% in 2020 while valuations remained flat as valuation growth in Germany and Canada compensated for cyclical losses in the US and UK. Strong rental performance during 2020 illustrates the resilience of a diversified portfolio of regulated residential assets.

Adjusted Financial Targets: Akelius adjusted its financial targets to allow for higher leverage – 45% loan-to-value (LTV) by company reporting – as it transitions to a less renovation-intensive strategy and to capture the rental income potential of its apartments. This is equivalent to a Fitch-adjusted LTV below 50%. This is expected to leave limited rating headroom on a net debt/EBITDA basis, although we see the potential for further rental growth and management's flexibility to adapt the level of acquisitions to market developments.

Active in Capital Markets: Akelius has demonstrated strong access to capital as it has gradually transitioned from a mostly secured debt structure. At end-1Q20 roughly half of its portfolio (EUR6.6 billion) was unencumbered with the remainder pledged to 22 banks in select countries. Its average interest rate was 1.86% (2020: 1.95%) and average debt maturity at 6.4 years at end-1Q20 (2020: 5.7 years).

Debt Instrument Rating Uplift: We apply the EMEA real estate sector-specific one-notch uplift to Akelius's senior unsecured debt to reflect our expectations of high recoveries. This reflects these assets' location in highly liquid residential markets, Akelius's unencumbered asset/unsecured debt of 2.2x (including assets pledged for its undrawn revolving credit facility, or RCF) and limited secured debt. We understand from management that the secured RCFs will be mainly undrawn over time and, when needed, used to replace maturing unsecured or secured debt.

Hybrids Notched-Off IDR: Akelius's two hybrid bonds (EUR1 billion in total) are rated a net one notch below the Issuer Default Rating (IDR). The ratings reflect the hybrids' deeply subordinated status to senior creditors, with coupon payments deferrable at the discretion of the issuer and long maturity date. The single-notching of the hybrids reflects expected strong recoveries as per our EMEA real estate sector uplift combined with the hybrids' greater loss severity than senior obligations'. The securities qualify for 50% equity credit in accordance with Fitch's hybrid criteria.

Financial Summary

Akelius Residential Property AB

(EURm)	Dec 19	Dec 20	Dec 21F	Dec 22F
Gross revenue	399	380	474	507
Operating EBITDA margin (%)	55.9	59.5	60.6	61.8
Operating EBITDA (before income from associates)	223	226	287	313
Operating EBITDA/interest paid (x)	1.7	2.0	2.4	2.4
Total net debt with equity credit/operating EBITDA (x)	22.4	23.4	22.8	21.4

F – Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Akelius is a large residential landlord with 44,000 units in metropolitan cities across Europe, the US and Canada, providing wide diversification. The portfolio value at EUR12.5 billion is larger than Annington Limited's (BBB/Stable; EUR9 billion) and materially larger than Grainger's (EUR3.5 billion), both located in the UK, and Peach Property Group AG's (BB-/Stable; EUR2 billion), located mainly in the North Rhine-Westphalia region of Germany.

Fitch forecasts 2022 rental-derived cash flow leverage at around 23x versus 18x for Peach and 23x for Grainger. Fitch expects this metric to improve to below 22x in 2023 as renovation projects are completed and let. Akelius's properties have lower average income yields than these two peers', reflecting its higher share of regulated rents than Grainger's and its location in more attractive prime cities in comparison to Peach's secondary cities. NIY on Grainger's regulated and market-rent portfolio is 2% and 4% respectively, which corresponds to a blended 3% yield. Peach's average NIY yield is around 3.5%.

Akelius's adjusted EBITDA margin (adjusted for service income) at 60% is below peers' and reflects the company's presence in regulated markets with below-market rents and thus a higher share of non-recoverables, and inefficiencies linked to its renovation-driven vacancy rate. Vacancy improvement in 2021 and 2022 are expected to improve EBITDA margin as additional rent and service income is collected. However, we expect margins to remain lower than that of Grainger's private rented sector portfolio, which has market rents, Grainger's regulated portfolio, and Annington's Ministry of Defence-covenanted portfolio with no maintenance obligations. The geographical diversification of Akelius's portfolio, which balances out city-specific developments such as the Berlin rent freeze, stands out as a material rating benefit compared with peers'.

Navigator Peer Comparison

Issuer	Business profile							Financial profile						
	IDR/Outlook	Operating Environment	Management and Corporate Governance		Property Portfolio	Rental Income Risk Profile	Asset-Liability Matching	Access to Capital	Profitability	Financial Structure	Financial Flexibility			
Akelius Residential Property AB	BBB/Stable	aa	bbb+	a	a	bbb+	a-	bbb	bbb+	bbb	bbb+	bbb		
Annington Limited	BBB/Stable	aa-	a-	bbb	a	a	a-	bb	bbb	bbb	bbb+	bbb		
Grainger plc	BBB-/Stable	aa-	a	bbb	bbb	bbb+	bb+	bbb+	bbb-	bbb	bbb	bbb		
Peach Property Group AG	BB-/Stable	aa+	bbb	bbb	a-	bbb+	bb+	a	b+	bbb	bbb	bbb		
SBB	BBB-/Positive	aa	bbb-	bbb-	a-	bb+	bbb+	bbb+	bb	bbb+	bbb+	bbb		

Source: Fitch Ratings.

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Net debt/rental-derived EBITDA below 20x
- EBITDA net interest coverage above 2.5x (2020: 2.0x)

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Net debt/rental-derived EBITDA above 23x
- EBITDA net interest coverage below 1.75x
- The EMEA real estate sector senior unsecured debt instrument uplift may be removed if unencumbered assets to unsecured debt declines below 2.0x, by pledging more assets or a sustained drawdown on secured RCFs without replacing existing debt.

Liquidity and Debt Structure

Reasonable Liquidity: Akelius had EUR0.9 billion in available liquidity at end-1Q21, more than covering its EUR187 million maturities within twelve months, and EUR46 million within two years. Available liquidity consisted of EUR17 million in readily available cash and EUR868 million in committed undrawn credit facilities. Roughly half (EUR6.6 billion) of Akelius's portfolio is unencumbered, with the remainder pledged to banks. Average debt maturity was 6.4 years and average interest rate 1.86% at end-1Q21.

ESG Considerations

Akelius has an ESG Relevance Score of '4' for Governance Structure, which reflects its concentrated ownership and board dependence. This has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Fitch-Defined Liquidity Ratio

(EURm)	31 December 2020
Fitch-defined available cash	250
+ Undrawn portion of committed facility	844
+ Expected FCF ^a	-310
+ Uncommitted capex/developments ^b	360
-/+ Analyst adjustments	-
Total sources	784
12-month debt maturities ^c	233
Total uses	0
Fitch-defined liquidity ratio	3.4x

^a Including all capex (committed and uncommitted)

^b Adding back the uncommitted capex

^c Excluding CHF200 million that matured in 1Q21 and has already been repaid

Source: Fitch Ratings, Fitch Solutions, Akelius

Scheduled Debt Maturities (EURm)	Original 31 December 2020
2021	233
2022	647
2023	118
2024	642
2025	1,200
Thereafter	2,703
Total	5,543

Source: Fitch Ratings, Fitch Solutions, Akelius

Key Assumptions

Fitch's Key Assumptions Within its Rating Case for the Issuer

- Rental growth, derived from a reduction in vacancy, of EUR25 million by end-2022 as ongoing development projects are completed
- Following the initial vacancy reduction, rental income to grow 3% a year to reflect the portfolio's prime locations, reversionary potential and capex
- Capex amounting to EUR50 million a year plus an additional EUR500 million in total to complete the bulk of ongoing redevelopment projects over 2021-2022.
- Cost savings from announced job cuts to mainly affect balance-sheet capitalised costs rather than income statement profits.

Financial Data

Akelius Residential Property AB

(EURm)	Historical			Forecast		
	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23
Summary income statement						
Gross revenue	373	399	380	474	507	524
Revenue growth (%)	0.0	7.0	-4.8	24.6	7.0	3.3
Operating EBITDA (before income from associates)	233	223	226	287	313	329
Operating EBITDA margin (%)	62.5	55.9	59.5	60.6	61.8	62.9
Operating EBITDAR	238	223	226	287	313	329
Operating EBITDAR margin (%)	63.8	55.9	59.5	60.6	61.8	62.9
Operating EBIT	230	219	222	283	309	325
Operating EBIT margin (%)	61.7	54.9	58.4	59.7	61.0	62.1
Gross interest expense	-143	-135	-117	-119	-129	-129
Pretax income (including associate income/loss)	634	464	72	164	181	196
Summary balance sheet						
Readily available cash and equivalents	13	28	250	72	66	29
Total debt with equity credit	6,062	5,030	5,543	6,610	6,763	6,695
Total adjusted debt with equity credit	6,062	5,030	5,543	6,610	6,763	6,695
Net debt	6,049	5,002	5,293	6,538	6,697	6,666
Summary cash flow statement						
Operating EBITDA	233	223	226	287	313	329
Cash interest paid	-136	-132	-114	-119	-129	-129
Cash tax	-3	-23	-6	-6	-7	-7
Dividends received less dividends paid to minorities (inflow/(out)flow)	0	0	0	0	0	0
Other items before FFO	3	1	-18	0	0	0
Funds flow from operations	60	29	88	162	178	193
FFO margin (%)	16.1	7.3	23.2	34.2	35.2	36.8
Change in working capital	12	-20	24	0	0	0
Cash flow from operations (Fitch defined)	72	9	112	162	178	193
Total non-operating/non-recurring cash flow	0	0	0			
Capital expenditure	-356	-478	-392			
Capital intensity (capex/revenue) %	95.4	119.8	103.2			
Common dividends	-809	0	-113			
Free cash flow	-1,093	-469	-393			
Net acquisitions and divestitures	-886	1,435	13			
Other investing and financing cash flow items	-50	-10	-118	0	0	0
Net debt proceeds	1,212	-722	734	1,067	153	-68
Net equity proceeds	814	-228	-5	0	0	0
Total change in cash	-3	6	231	-178	-6	-37
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	26.0	22.4	23.4	22.8	21.4	20.3
Total adjusted debt/operating EBITDAR (x)	25.5	22.6	24.5	23.0	21.6	20.3
Total adjusted net debt/operating EBITDAR (x)	25.4	22.4	23.4	22.8	21.4	20.3
Total debt with equity credit/operating EBITDA (x)	26.0	22.6	24.5	23.0	21.6	20.3
FFO adjusted leverage (x)	25.6	25.2	27.6	23.5	22.0	20.8
FFO adjusted net leverage (x)	25.5	25.0	26.3	23.3	21.8	20.7
FFO leverage (x)	26.1	25.2	27.6	23.5	22.0	20.8
FFO net leverage (x)	26.1	25.0	26.3	23.3	21.8	20.7
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-2,051	957	-492	-1,407	-337	-162
Free cash flow after acquisitions and divestitures	-1,979	966	-380	-1,245	-159	31
Free cash flow margin (after net acquisitions) (%)	-530.6	242.1	-100.0	-262.9	-31.3	5.9
Coverage ratios						
FFO interest coverage (x)	1.3	1.2	1.8	2.4	2.4	2.5
FFO fixed-charge coverage (x)	1.3	1.2	1.8	2.4	2.4	2.5
Operating EBITDAR/interest paid + rents (x)	1.7	1.7	2.0	2.4	2.4	2.5
Operating EBITDA/interest paid (x)	1.7	1.7	2.0	2.4	2.4	2.5
Additional metrics						
CFO-capex/total debt with equity credit (%)	-4.7	-9.3	-5.1	-3.0	-0.7	2.1
CFO-capex/total net debt with equity credit (%)	-4.7	-9.4	-5.3	-3.0	-0.7	2.1

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

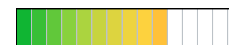
The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

FitchRatings

Akelius Residential Property AB

ESG Relevance:



Corporates Ratings Navigator
EMEA Real Estate and Property



Bar Chart Legend:

Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		↑	Positive
■	Higher Importance	↓	Negative
■	Average Importance	↕	Evolving
■	Lower Importance	□	Stable

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific-funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Property Portfolio

aa-	Portfolio Liquidity and Ability to Leverage Assets	a	Good institutional appetite (buyers/sellers/lenders) in best markets, indicating liquidity and ability to leverage assets.
a+	Investment Granularity	a	Very high portfolio granularity. Top 10 assets comprise less than 20% of net rental income or value.
a	Geographic Strategy	a	Track record of benefiting from geographic diversification. Exposure to at least four markets displaying different economic and business cycles with appropriate scale.
a-	Asset Quality	a	Mainly prime and good secondary. Lowest-yielding asset class.
bbb+	Development Exposure	a	Committed development cost to complete of 5% of investment properties for average risk projects.

Liability Profile

a	Debt Maturity Profile	bbb	Average debt tenor between five to seven years. No year represents more than 20% of total debt.
a-	Fixed/Floating Interest Rate Liability Profile	a	Fixed or hedged debt above 75% of total debt. Evidence of consistent policy through the cycle.
bbb+			
bbb			
bbb-			

Profitability

a-	FFO Dividend Cover	bbb	1.1x
bbb+	Asset Class Volatility	bbb	Portfolio values change less than 30% peak to trough with a track record of recovery
bbb			
bbb-			
bb+			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintaining a conservative policy with only modest deviations allowed.
a-	Liquidity Coverage	a	1.25x
bbb+	Recurring Income EBITDA Interest Cover	bbb	1.75x
bbb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bbb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a	Management Strategy	a	Coherent strategy and good track record in implementation.
a-	Governance Structure	bb	Board effectiveness questionable with few independent directors. "Key person" risk from dominant CEO or shareholder.
bbb+	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb	Financial Transparency	a	High quality and timely financial reporting.
bbb-			

Rental Income Risk Profile

aa-	Occupancy	a	Limited occupancy volatility through cycles. Occupancy consistently above 95%. Track record of limited tenant defaults.
a+	Lease Duration, Renewal and NOI Volatility	bbb	Lease duration (or average tenure for residential) of five to eight years with most renewed, sustained net rental income growth and/or average volatility.
a	Lease Expiry Schedule	a	Smoothed lease maturity profile with no large lease expiries in the medium term.
a-	Tenant Concentration and Tenant Credit	a	Top 10 tenants comprise less than 15% of annual base rent revenue; below-average tenant credit risk.
bbb+			

Access to Capital

a+	Sources of Capital	bbb	Solid access to all common and preferred equity, unsecured bonds/bank debt, secured debt, and/or joint ventures.
a	Unencumbered Asset Pool	a	Leveragable unencumbered pool with no adverse selection.
a-	Absolute Scale	a	Rent-yielding property assets of at least EUR5bn.
bbb+			
bbb			

Financial Structure

a-	Loan-To-Value	a	40%
bbb+	Unencumbered Asset Cover	bbb	2.0x
bbb	Managing Balance Sheet Through the Cycle	a	Proven track record of balance-sheet management through the cycle. Maintenance of a suitable LTV taking asset volatility into account.
bbb-	Net Debt/Recurring Operating EBITDA	ccc	>11.0x
bb+			

Credit-Relevant ESG Derivation

				Overall ESG	
Akelius Residential Property AB has 1 ESG rating driver and 6 ESG potential rating drivers					
key driver	0	issues	5		
driver	1	issues	4		
potential driver	6	issues	3		
not a rating driver	2	issues	2		
	5	issues	1		

- Board independence and effectiveness; ownership concentration
- Sustainable building practices including Green building certificate credentials
- Portfolio's exposure to climate change-related risk including flooding
- Shift in market preferences
- Strategy development and implementation
- Complexity, transparency and related-party transactions

Showing top 6 issues
For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Akelius Residential Property AB has 1 ESG rating driver and 6 ESG potential rating drivers

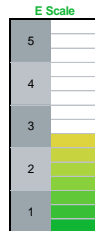
- ➔ Akelius Residential Property AB has exposure to board independence risk which, in combination with other factors, impacts the rating.
- ➔ Akelius Residential Property AB has exposure to unsustainable building practices risk but this has very low impact on the rating.
- ➔ Akelius Residential Property AB has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Akelius Residential Property AB has exposure to shifting consumer preferences but this has very low impact on the rating.
- ➔ Akelius Residential Property AB has exposure to strategic risk but this has very low impact on the rating.
- ➔ Akelius Residential Property AB has exposure to group transparency risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale	
key driver	0	issues	5		
driver	1	issues	4		
potential driver	6	issues	3		
not a rating driver	2	issues	2		
	5	issues	1		

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1 n.a.		n.a.
Energy Management	1 n.a.		n.a.
Water & Wastewater Management	1 n.a.		n.a.
Waste & Hazardous Materials Management; Ecological Impacts	3	Sustainable building practices including Green building certificate credentials	Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility
Exposure to Environmental Impacts	3	Portfolio's exposure to climate change-related risk including flooding	Property Portfolio; Profitability; Financial Structure; Financial Flexibility



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

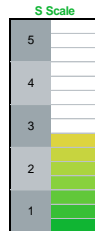
The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The **Credit-Relevant ESG Derivation** table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

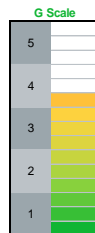
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1 n.a.		n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Data security	Property Portfolio; Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility
Labor Relations & Practices	2	Impact of labor negotiations and employee (dis)satisfaction	Rental Income Risk Profile; Profitability; Financial Flexibility
Employee Wellbeing	1 n.a.		n.a.
Exposure to Social Impacts	3	Shift in market preferences	Property Portfolio; Rental Income Risk Profile; Profitability; Financial Structure; Financial Flexibility



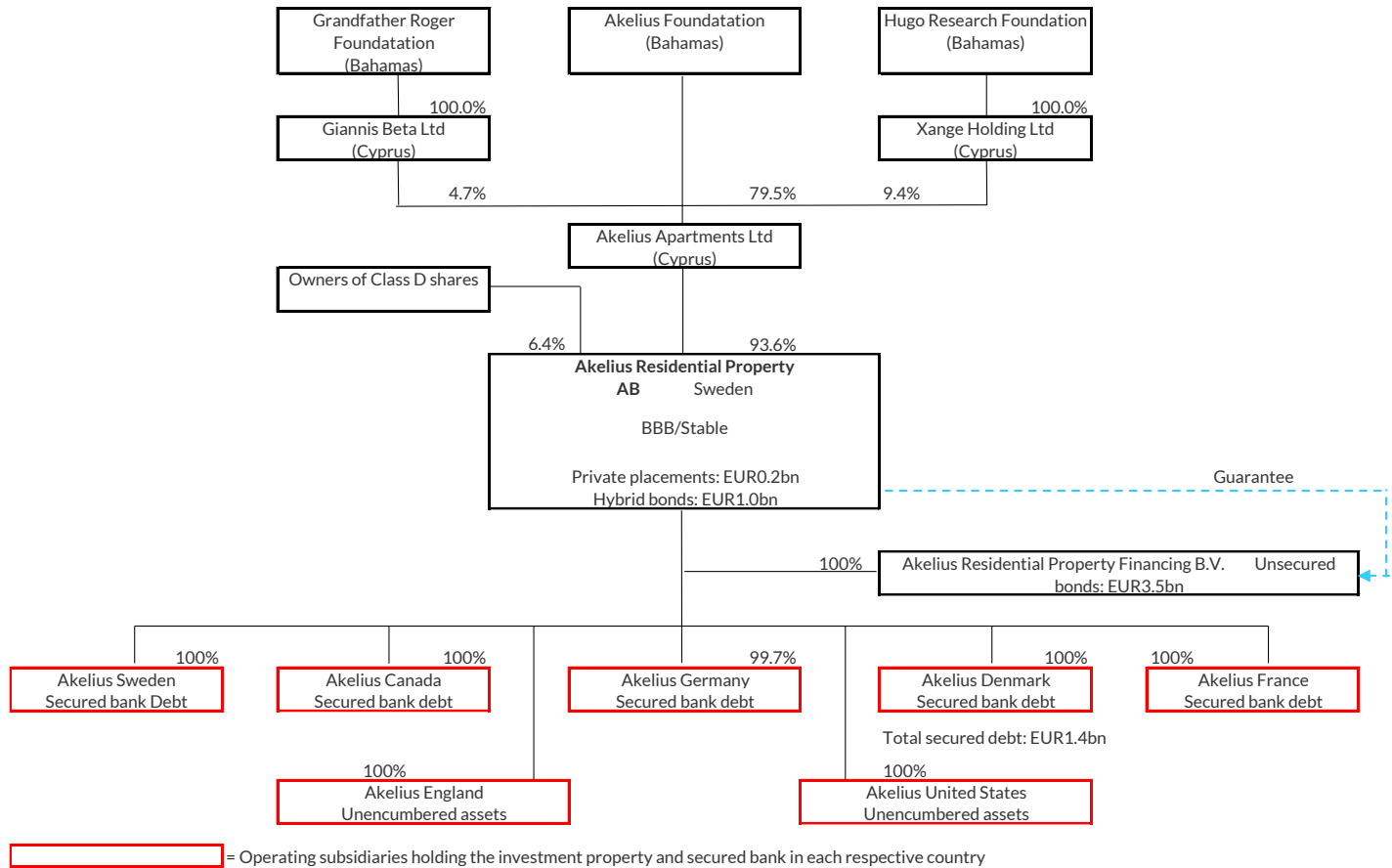
Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	4	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, Akelius, as of December 2020

Peer Financial Summary

Company	IDR	Financial statement date	Gross revenue (EURm)	Operating EBITDA (before income from associates) (EURm)	Operating EBITDA margin (%)	Operating EBITDA/interest paid (x)	Total net debt with equity credit/operating EBITDA (x)
Akelius Residential Property AB	BBB						
		2020	380	226	59.5	2.0	23.4
		2019	399	223	55.9	1.7	22.4
		2018	373	233	62.5	1.7	26.0
Annington Limited	BBB						
	BBB	2020	228	208	91.1	1.7	18.3
	BBB	2019	223	204	91.6	1.7	18.1
	BBB	2018	219	195	89.2	1.4	19.0
	BBB	2017	224	201	90.1	1.4	17.2
Grainger plc	BBB-						
		2020	250	135	53.9	3.2	9.2
		2019	257	122	47.5	2.9	10.2
		2018	313	125	39.9	3.6	7.8
Peach Property Group AG	BB-						
	BB-	2020	50	23	41.5	1.0	59.8
	B+	2019	35	11	30.8	1.0	64.2
		2018	26	9	36.5	1.2	47.9
		2017	15	-1	-4.3	-0.1	-521.9
SBB - Samhallsbyggnadsbolaget i Norden AB	BBB-						
	BBB-	2020	489	309	63.1	2.5	15.7
	BBB-	2019	188	106	56.4	1.7	47.2
	BB	2018	164	95	57.8	1.6	16.4
		2017	139	84	60.0	1.9	18.5

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Fitch Adjustments and Reconciliation Table for Akelius Residential Property AB

(EURm)	Notes and Formulas	Reported Values	Sum of Adjustments	CORP - Lease Treatment	Adjusted Values
31 December 2020					
Income Statement Summary					
Revenue		380			380
Operating EBITDAR		226			226
Operating EBITDAR After Associates and Minorities	(a)	226			226
Operating Lease Expense	(b)	0			0
Operating EBITDA	(c)	226			226
Operating EBITDA After Associates and Minorities	(d) = (a-b)	226			226
Operating EBIT	(e)	222			222
Debt and Cash Summary					
Total Debt with Equity Credit	(f)	5,557	-14	-14	5,543
Lease-Equivalent Debt	(g)	0			0
Other Off-Balance-Sheet Debt	(h)	0			0
Total Adjusted Debt with Equity Credit	(i) = (f+g+h)	5,557	-14	-14	5,543
Readily Available Cash and Equivalents	(j)	250			250
Not Readily Available Cash and Equivalents		0			0
Cash Flow Summary					
Operating EBITDA After Associates and Minorities	(d) = (a-b)	226			226
Preferred Dividends (Paid)	(k)	0			0
Interest Received	(l)	1			1
Interest (Paid)	(m)	-114			-114
Cash Tax (Paid)		-6			-6
Other Items Before FFO		-19			-19
Funds from Operations (FFO)	(n)	88			88
Change in Working Capital (Fitch-Defined)		24			24
Cash Flow from Operations (CFO)	(o)	112			112
Non-Operating/Nonrecurring Cash Flow		0			0
Capital (Expenditures)	(p)	-392			-392
Common Dividends (Paid)		-113			-113
Free Cash Flow (FCF)		-393			-393
Gross Leverage (x)					
Total Adjusted Debt/Operating EBITDAR ^a	(i/a)	24.6			24.5
FFO Adjusted Leverage	(i)/(n-m-l-k+b)	27.6			27.6
FFO Leverage	(i-g)/(n-m-l-k)	27.6			27.6
Total Debt with Equity Credit/Operating EBITDA ^a	(i-g)/d	24.6			24.5
(CFO-Capex)/Total Debt with Equity Credit (%)	(o+p)/(i-g)	-5.0%			-5.1%
Net Leverage (x)					
Total Adjusted Net Debt/Operating EBITDAR ^a	(i-j)/a	23.5			23.4
FFO Adjusted Net Leverage	(i-j)/(n-m-l-k+b)	26.4			26.3
FFO Net Leverage	(i-g-j)/(n-m-l-k)	26.4			26.3
Total Net Debt with Equity Credit/Operating EBITDA ^a	(i-g-j)/d	23.5			23.4
(CFO-Capex)/Total Net Debt with Equity Credit (%)	(o+p)/(i-g-j)	-5.3%			-5.3%
Coverage (x)					
Operating EBITDA/(Interest Paid + Lease Expense) ^a	a/(-m+b)	2.0			2.0
Operating EBITDA/Interest Paid ^a	d/(-m)	2.0			2.0
FFO Fixed-Charge Coverage	(n-l-m-k+b)/(-m-k+b)	1.8			1.8
FFO Interest Coverage	(n-l-m-k)/(-m-k)	1.8			1.8

^aEBITDA/R after dividends to associates and minorities.

Source: Fitch Ratings, Fitch Solutions, Akelius Residential Property AB

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