Nordic Credit Rating

CORPORATE: REAL ESTATE

Sweden
13 Feb. 2020

Initial Rating Report

Svensk FastighetsFinansiering AB (publ)

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N-1+

PRIMARY ANALYST
Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

SECONDARY ANALYST
Daniel Johansson
+46732324378
daniel.johansson@nordiccreditrating.com

RATING RATIONALE

Our 'BBB+' long-term issuer rating on Svensk FastighetsFinansiering AB (publ) (SFF) reflects the company's commitment to and role for its five owners, the company's low risk appetite, the creditworthiness and continuous support provided by its owners, and the security available for senior secured bondholders. SFF is a joint venture with common stock divided equally among Fabege AB (Fabege), Catena AB (Catena), Diös Fastigheter AB (Diös), Platzer Fastigheter Holding AB (Platzer) and Wihlborgs Fastigheter AB (Wihlborgs). The company is a financing vehicle for its owners, issuing secured debt and secured green bonds for selected commercial real estate (CRE) properties associated with its owners' core business. While SFF is a finance company, NCR assesses the company using its real estate methodology given SFF's and its owners' risk profile is associated with factors specific to CRE.

While there are material linkages, guarantees and liquidity commitments, NCR's view of SFF's creditworthiness is not directly connected to that of its aggregate owners, nor restricted by the weakest owner(s). Rather, SFF maintains its own liquidity reserves, mandated minimum equity requirements and ability to sell all the properties in its portfolio for the benefit of its investors. We view SFF on a standalone basis based on the secured assets in its existing pool and risk appetite defined within its bond covenants. In addition, we add an additional notch to the final rating reflecting further credit support accruing regularly to SFF from its owners and outside of the pool of security available to bondholders.

We expect SFF to grow by around 10% per annum through 2021 and to increase its loan-to-value (LTV) levels given higher LTV on newly financed properties. Because the issuance of senior secured bonds requires 10% minimum equity requirements to maintain liquidity buffers, NCR does not adjust gross debt levels for cash on the balance sheet as we view this as restricted cash.

OUTLOOK

Our stable outlook for SFF reflects our view that the CRE market and the creditworthiness of its owners are generally stable, our expectation that the company's LTV metrics will remain below 60% and the company's risk appetite will remain low given restrictions within the company's bond covenants.

POTENTIAL POSITIVE RATING DRIVERS:

- Improved portfolio quality and/or diversification as the portfolio grows.
- Longer and more diverse debt maturity profile.
- Reduced portfolio-level LTV below 50%.

POTENTIAL NEGATIVE RATING DRIVERS:

- Increased risk appetite, or changes/non-compliance with portfolio covenants.
- Deterioration in the creditworthiness or withdrawal of one or more of the owners.
- Portfolio-level LTV increasing to 60%, potentially due to a market correction.

Figure 1. SFF key credit metrics, 2015–2021e

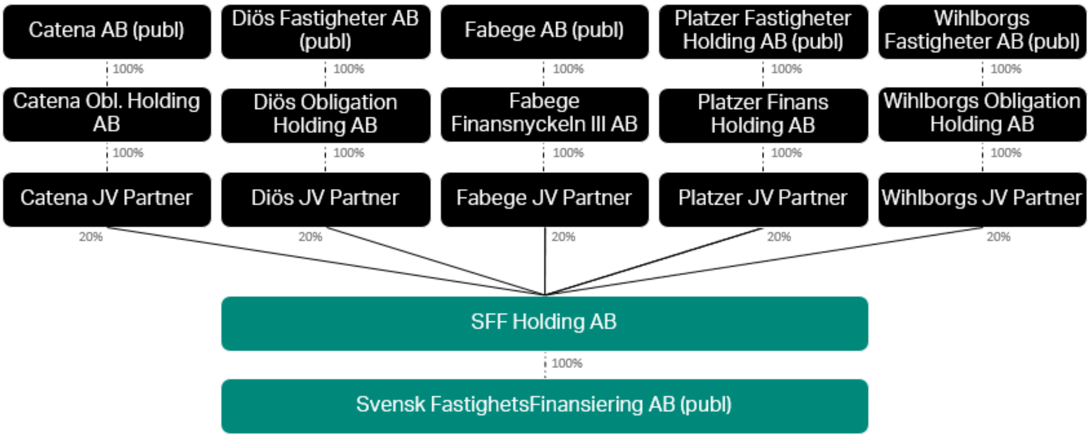
	2015	2016	2017	2018	2019e	2020e	2021e
Total assets (SEKbn)	3.9	7.0	10.2	10.5	9.9	10.9	12.0
Security value (SEKbn)	5.8	11.6	15.6	18.0	17.2	18.6	20.1
Gross debt (SEKbn)	3.5	6.3	9.2	9.5	8.8	9.7	10.7
LTV (%)	60.7	54.1	58.8	52.6	51.5	52.5	53.4

Based on NCR estimates and company data. e – estimate. All metrics are adjusted in line with NCR methodology.

COMPANY PROFILE

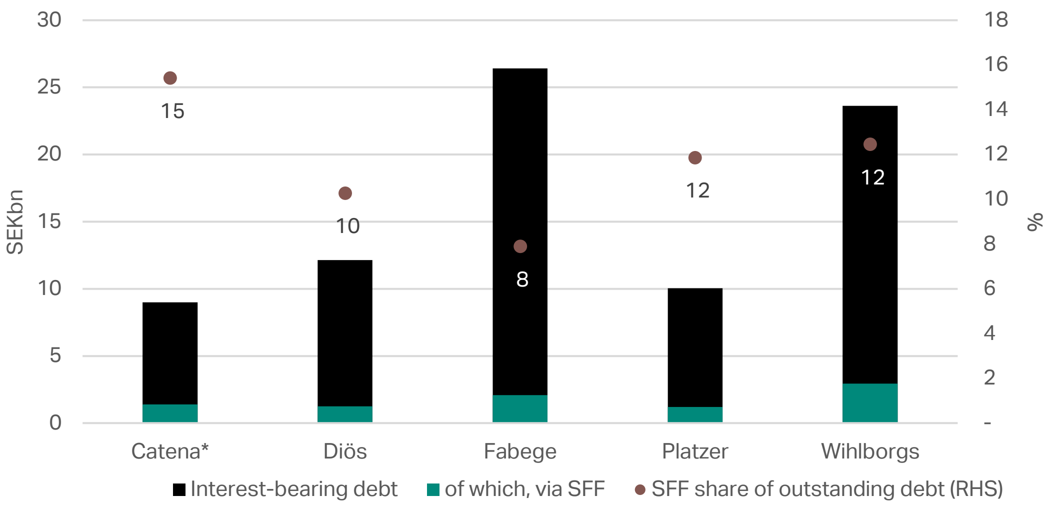
SFF is a joint venture founded in 2014 with common stock divided equally among Fabege, Catena, Diös, Platzer and Wihlborgs. The company is a financing vehicle for its owners, issuing secured debt and green bonds for selected CRE properties associated with its owners' core business in accordance with the prospectus for its medium-term note (MTN) program. SFF is the only source of secured capital market financing for each of its owners and by pooling the assets of the owner companies provides its owners with an alternative to bank financing. The company's administration is managed by Hansan AB, which is owned by Backahill, a major shareholder in four of SFF's owner companies. SFF's board of directors includes the CFOs of the five owner companies and the CEO of SFF, who is also employed by Hansan.

Figure 2. SFF legal structure



SFF is an established debt issuer in Sweden with SEK 8.8bn outstanding bonds with security in 46 properties across the country with a market value of SEK 17.2bn, as of 31 Dec. 2019. The company finances 8-15% of its owners' outstanding interest-bearing debt, providing a meaningful alternative to bank financing, commercial paper and long-term senior unsecured financing. Of the company's owners, only Fabege and Wihlborgs have their own MTN programs. We expect that SFF's role as financier of its owners' properties could increase with improved access to longer-term financing and as its owners achieve their environmental objectives, given SFF's green MTN framework.

Figure 3. SFF owners' interest-bearing debt and share of debt financed by SFF, as of 31 Dec. 2019



Source: SFF data and company reports. *Catena's interest-bearing debt is as of 30 Sep 2019.

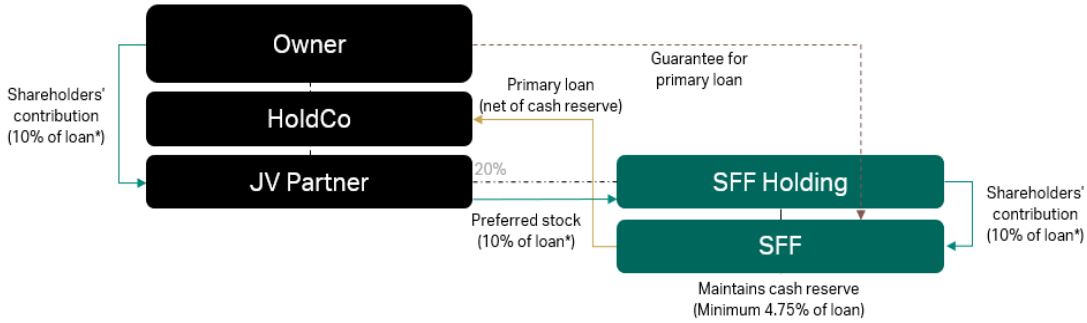
SFF issues debt secured by mortgage certificates of specific, otherwise unencumbered properties and pledged shares in directly related property-owning subsidiaries which are 100% owned and managed by its owners. Each bond is associated with specific properties, but also backed by the entire pool of properties and by the creditworthiness of its ultimate owners, via guarantees within the structure and a legal requirement that owners add security, replace or remove properties from SFF's portfolio that no longer fulfil property-level covenants.

TRANSACTION STRUCTURE AND COVENANT DETAILS SUPPORT THE RATING

The issuance of senior secured bonds to finance the owners' properties follows a strict process to ensure the company maintains 10% minimum equity requirements, property- and portfolio-level covenants, and liquidity buffers. In addition, the owners provide guarantees throughout the structure ensuring that SFF will receive timely payment so long as its owners do not default on their obligations to SFF. The details of the capitalisation and transaction processes are described below. SFF's fulfilment of covenants and processes is monitored by a security agent, Intertrust (Sweden) AB and confirmed by law firm Glimstedt Stockholm in a formal legal opinion for each bond prior to disbursement of funds to SFF.

Despite interlinkages in the ownership of SFF's owners, there is no contractual obligation for the five owners to support each other within the structure. We note, however, that if one or more owners were to default, SFF would maintain the ability to sell all of the properties pledged within the pool (not just those of the distressed company) and holds liquidity buffers in the event of delayed payment or delays in the realisation of security.

Figure 4. The flow of capital proceeds from an owner to SFF prior to issuing a loan

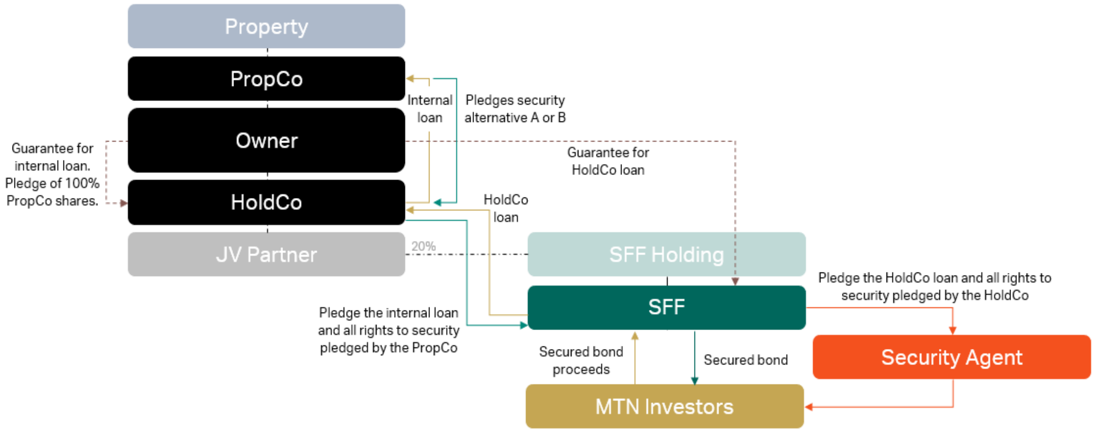


*Shareholders' contributions and preferred stock are 10% of the loan plus 10% of the preferred stock (ca 11%) to maintain a 10% equity ratio.

In the capitalisation process (Figure 4):

- SFF receives an injection of preferred stock from an owner via the owner's joint venture company. To ensure a 10% equity ratio the injection is 11.1% of the loan amount (10% of the loan plus 10% of the capital).
- SFF maintains a cash reserve of a minimum of 4.75% of the loan amount (depending on security pledged and STIBOR levels).
- SFF issues a loan (primary loan) with the net funds from the preferred stock injection and the cash reserves to the owner's SFF holding company. Primary loans are fully cancellable, and proceeds can be used to add liquidity to SFF, if necessary.

Figure 5. The flow of proceeds and security from a PropCo to MTN investors

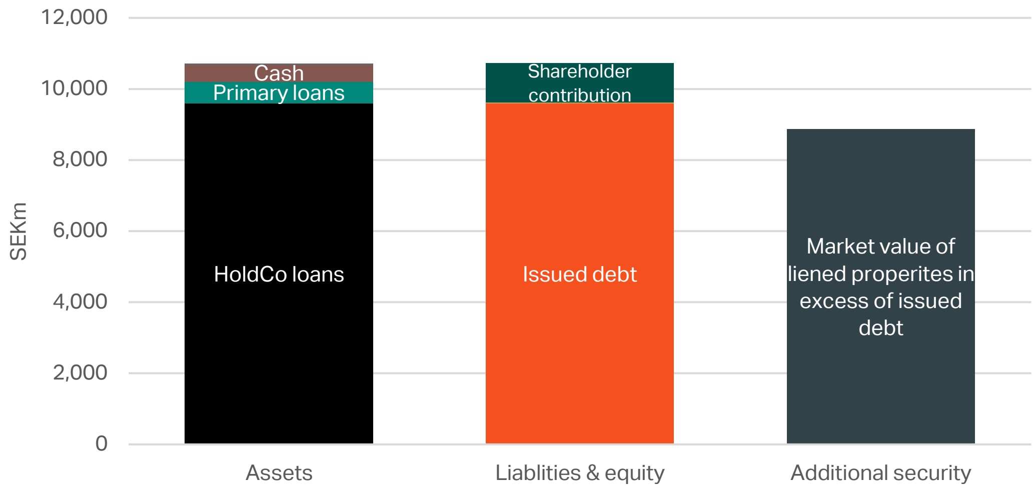


In the debt issuance process (Figure 5):

- A property company (PropCo) within an owner group determines a need to finance a particular property with a loan amount that fulfils all property- and portfolio-level covenants.
- SFF issues a senior secured bond to MTN investors (each bond can include loans associated with several properties from multiple owners).
- The proceeds from the secured bond are lent to the owner's SFF holding company (HoldCo loan) in exchange for pledges from the HoldCo and with a guarantee from the owner to SFF.
- The proceeds from the HoldCo loan are lent to the PropCo (Internal loan) in exchange for pledges from the PropCo and with a guarantee from the owner to the HoldCo.
- The PropCo pledges are either:
    - Type A: All outstanding mortgage certificates equalling at least 100% of the loan amount plus 1% of the loan amount in additional cash reserves; or
    - Type B: All outstanding mortgage certificates equalling between 50-100% of the loan amount plus a pledge of 100% of the shares in the PropCo. When using this option, an undated and unsigned application for additional mortgage certificates up to 100% of the loan are submitted to the security agent.
- SFF pledges the HoldCo loan, the PropCo loan, the HoldCo guarantee from the owner, the mortgage certificates and the shares in the PropCo to the security agent, which is responsible for monitoring the pool of secured assets.
- Corporate law firm Glimstedt Stockholm issues a legal opinion confirming that all steps of the process are completed satisfactorily before funds are transferred to SFF's account.

SFF's balance sheet as of June 2019 (Figure 6) reflects the transactions described above. As shown in Figure 6, issued debt is equal to HoldCo loans, preferred stock is 11.4% of issued debt (10.2% of assets), cash and equivalents are 5.1% and primary loans are 6.3% of issued debt, respectively. In addition, the company, via its owners and third-party valuations, reports an excess market value of liened properties that is 92.5% of the outstanding debt.

Figure 6. SFF balance sheet and additional security as of 30 Jun. 2019



Source: Company data

PROPERTY-LEVEL COVENANTS

Property-level covenants define which properties can be financed and specific requirements that are to be fulfilled when a loan is initiated or refinanced. In our view, the LTV limits in Figure 7 could only be put under pressure if one or more of the owner companies were unable to add security to the pool to reduce the LTV to within limits or they did not have the ability to finance the property with other means outside of SFF. This supports our view that the likelihood of SFF breaching property-level covenants is a direct reflection of the creditworthiness of each of the owners.

The limits reflect SFF's view of the underlying risk of each type of property by requiring lower LTV, higher occupancy rates, and longer leasing contracts for more volatile property types. The restrictions include the maximum LTV when a loan is initiated (or refinanced) and make it clear when the security agent initiates the process of adding additional cash to reduce the net debt on a property and/or exchanging collateral when a loan is to be cancelled. The property-level covenants also clearly state minimum occupancy rates for each property type and the minimum weighted-average lease term (WALE).

Individual properties undergo a desktop valuation quarterly (at least once by an approved external firm), with a complete valuation of an approved third-party once per calendar year. If a property's value declines such that LTV exceeds 75% (70% for industrial properties, hotels and restaurants), the security agent:

- submits a pre-filled application for mortgage certificates on the property up to 100% of the loan amount and requests related stamp tax fees from the borrower; and
- requests additional funds from the borrower, reducing the net loan amount, and restoring the LTV to below initial maximum limits (see Initial LTV (max) in Figure 7) or repaying the entire loan.

If a property's value declines such that LTV rises above 77% (72% for industrial properties, hotels and restaurants) it is grounds for a cancellation and repayment of the loan if LTV levels are not restored to the initial maximum limits or the loan is repaid entirely within three months.

Figure 7. Property-level covenants (%)

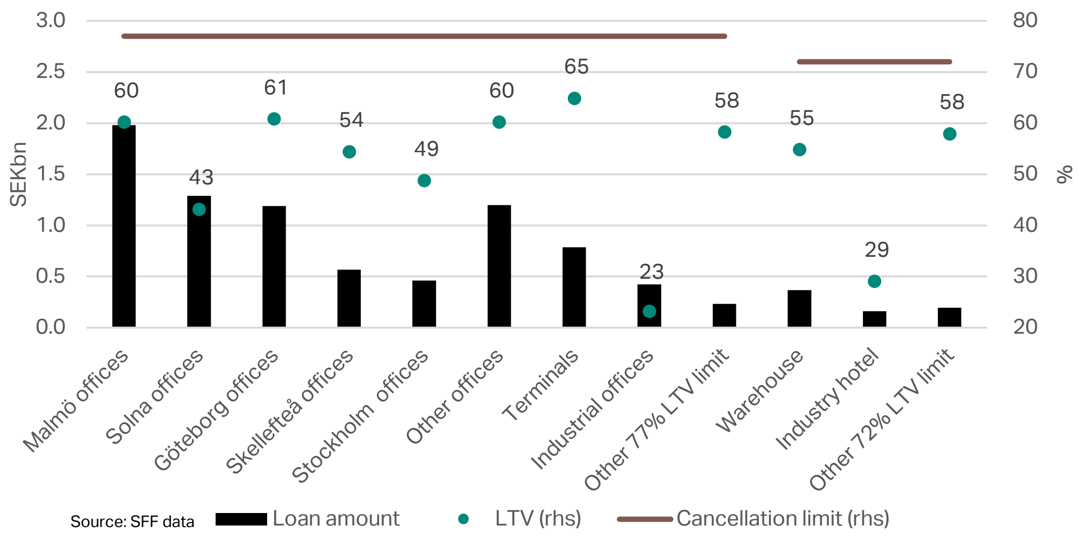
Property Type	Initial LTV (max)	Security agent notice (max LTV)	Loan cancelled (max LTV)	Vacancy rate (max)	WALE, months (min)*	Share of loan amount (max)
Hotels and restaurants	60	70	72	5	30	5
Industry properties, warehouses	60	70	72	5	24	20**
Logistics properties	65	75	77	5	24	
MFH with offices, offices, industrial offices	67	75	77	10	24	
Care or cultural facilities, schools, terminals	70	75	77	10	24	
Multi-family housing	72	75	77	10	24	

*WALE must be over 30 months for all properties with more than 85% rental income from a single tenant. **The combined share of these property types can be a maximum of 20% of outstanding loans.
MFH-multi-family housing

In addition to the covenants in Figure 7, individual properties must:

- be within pre-defined priority markets for each of the owner companies (see Figure 11);
- be free from any other encumbrance by other creditors, with SFF holding first-lien priority;
- have appropriate insurance coverage;
- be free from development or construction that negatively affects the rental income of the property;
- have less than 20% of rental income associated with the borrower's owner; and
- have a WALE of over 30 months when rental income from a single tenant exceeds 85% of the property's rental income.

Figure 8. Property type loan amounts and maxium LTV covenants, as of end-2019



Source: SFF data

PORTFOLIO-LEVEL COVENANTS

SFF's prospectus also outlines specific covenants at the portfolio level designed to limit the concentrations to specific owners, regions or property types in the pool of assets. Portfolio-level covenants are not associated with market valuations and, as such, prevent new properties being added to the pool, rather than excluding existing properties, as with property-level LTV restrictions.

- Logistics and industrial properties may account for a maximum of 20% of outstanding loans (11% as of end-2019).
- Hotels and restaurants may account for a maximum 5% of outstanding loans (0% as of end-2019).
- At least 65% of all office related exposures (Swedish property tax codes 321, 325, 326) should be associated with Sweden's three-largest cities (Stockholm, Gothenburg or Malmö) and surrounding regions (82% as of end 2019).
- No sponsor may account for more than 50% of outstanding loans (Wihlborgs accounted for 33% as of end-2019).

SFF has 15 bank days to resolve breaches of its portfolio covenants, with the exception of the covenant prohibiting more than a 50% share by a single owner, which is allowed 20 bank days for resolution.

NCR believes that a change in ownership would likely force the company to adjust its portfolio covenants, for example if Fabege, Platzer or Wihlborgs were to withdraw from SFF, the share of loans in the major cities would require a much larger volume from the other two owners. These companies are also material contributors to lower-risk properties in the portfolio which could affect our view of the strengths and weaknesses of the portfolio of assets financed by SFF.

OPERATING ENVIRONMENT DEPENDENT ON MARKET FOR SWEDISH OFFICES

Operating environment scores 'bbb'

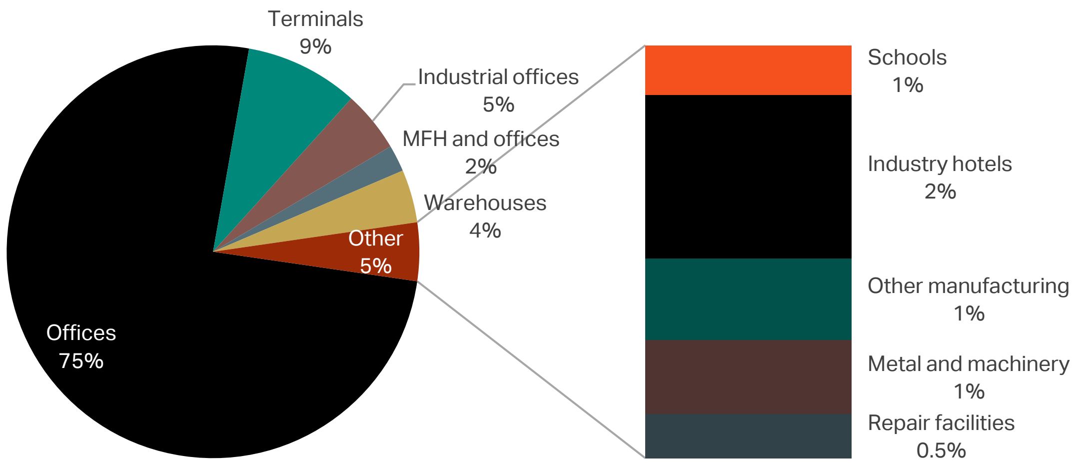
SFF finances its owners' properties and is exposed to the Swedish CRE market directly based on specific properties in its portfolio and indirectly via owner guarantees. When considering the risks in SFF's operating environment NCR considers the share of loans to potentially volatile properties (warehouses, specialized industrial buildings) and regions with modest growth expectations, where finding new tenants for existing properties could prove difficult. SFF's own profile is also dependent on the owners' loan-weighted share of SFF's loan book given the responsibilities of the owners to maintain covenants.

The CRE market in Sweden is driven by the wider economy, the general unemployment rate and companies' general demand for, and ability to pay for, office space. Sweden's GDP growth has been relatively strong for over a decade, resulting in decreasing unemployment rates and strong demand. CRE valuations have been revised upwards as interest rates have fallen and investor demand has pushed down yields. We also note that international buyers have invested heavily in Swedish real estate and pension funds have revised their investment strategies to include a higher share of real estate assets as they pursue higher returns, which has inflated valuations further. With the central bank indicating low interest rates for the next few years and having demonstrated a willingness to push policy rates as low as negative 50bps, NCR expects valuations to be increasingly stable for years to come.

The Swedish economy shows signs of cooling through 2021 and with stable interest rates, an increase in unemployment rates could negatively affect demand for office space and increase vacancy levels. In addition, longer-term demand trends could decline due to demand for more flexible working environments and more efficient use of existing office space. An additional risk factor for office properties could come from the steady decline of certain retail properties, driven by increased e-commerce and changing customer behaviour, which could result in conversions of retail space to office space, increasing the stock of office space.

However, SFF's property-specific covenants prevent new lending to or refinancing of properties with material vacancies, while LTV covenants are likely to be triggered if vacancies increase at existing properties. For this reason, much of the risk associated with potential decline in demand or value of the properties SFF finances is dispersed to the owners which would have to find alternative financing or increase cash to reduce property-level LTV to continue financing via the company. In addition, downside risk is somewhat mitigated by the company's geographical restrictions requiring 65% of office properties to be located in the three major cities (82% as of end-2019) where demand can be expected to be higher and benefit from urbanisation trends.

Figure 9. SFF's portfolio security by property type and loan amount, as of end-2019



Source: SFF data. MFH-multifamily housing

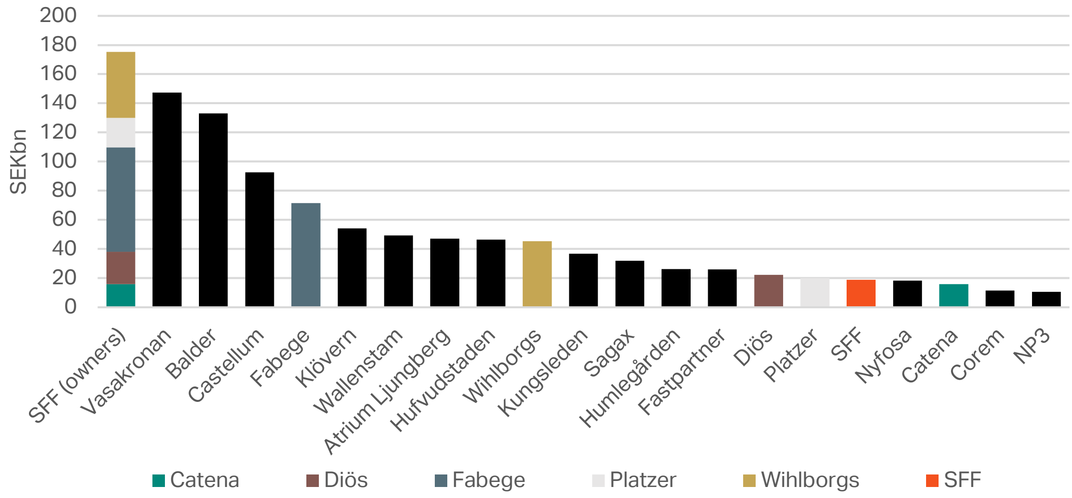
While office space dominates the portfolio, industrial, manufacturing and warehouse properties represented 11% of SFF's lending exposure as of end-2019. In addition, 9% of the company's exposures are to terminals at Sweden's major rail intersections. The current increase in e-commerce that is negatively affecting the retail segment has positively affected the logistics and warehouse segments, where continued demand supports low vacancy levels and stable rent levels. However, while trends support the ability to find alternative tenants for warehouses and terminal buildings, manufacturing properties are often specialised and might be more difficult to find alternative tenants for. These higher-risk properties remain a modest part of SFF's portfolio and downside risk is mitigated by minimum lease contract requirements and property-level covenants.

MARKET POSITION AND DIVERSIFICATION SHOULD IMPROVE AS SFF GROWS

Competitive position scores 'bbb-'

SFF's market position is defined by the breadth of its owners and the value the company provides by giving its owners access to financing. SFF's pool of security includes 46 properties across Sweden with a market value of SEK 17.2bn, as of 31 Dec. 2019. Compared with its Swedish CRE peers, SFF's pool is relatively modest in size, but considering the market value of properties within the owner aggregate indicates the breadth of the owner base, which provides guarantees and support within the structure. In addition, the owners' aggregate portfolio demonstrates the potential for SFF to add considerably to its existing portfolio. Further, increases in Swedish banks' capital requirements for CRE exposures supports SFF's competitive position in terms of being an attractive secured funding provider for its owners.

Figure 10. SFF and Swedish CRE peers' property portfolios by market value, Q2/Q3 2019



Source: SFF data, company reports

By its nature, SFF is primarily exposed to commercial office properties across Sweden in its owners' priority markets (Figure 11). While the owners' market coverage and portfolio-level covenants ensure some geographical diversification across Sweden, SFF's current property pool of 46 commercial properties is relatively narrow compared with those of larger Nordic real estate companies.

Figure 11. SFF owners' priority markets

OWNER	PRIORITY MARKET
Catena	Logistics properties and warehouses along major freeways (E4, E6, E20 and E22) between Malmö, Helsingborg, Gothenburg and Stockholm. As well as terminal buildings at major railway intersections (Nässjö, Katrineholm and Hallsberg).
Diös	Office properties in the northern cities of Borlänge, Falun, Gävle, Luleå, Skellefteå, Sundsvall, Umeå and Östersund.
Fabege	Office properties in central Stockholm, specifically Stockholm city, Södermalm, Norrmalm, Östermalm, Kungsholmen, Hammarby Sjöstad and Solna.
Platzer	Office properties in Gothenburg, Mölndal and Härryda municipalities.
Wihlborgs	Office properties in Malmö, Lund, Helsingborg and Burlöv municipalities.

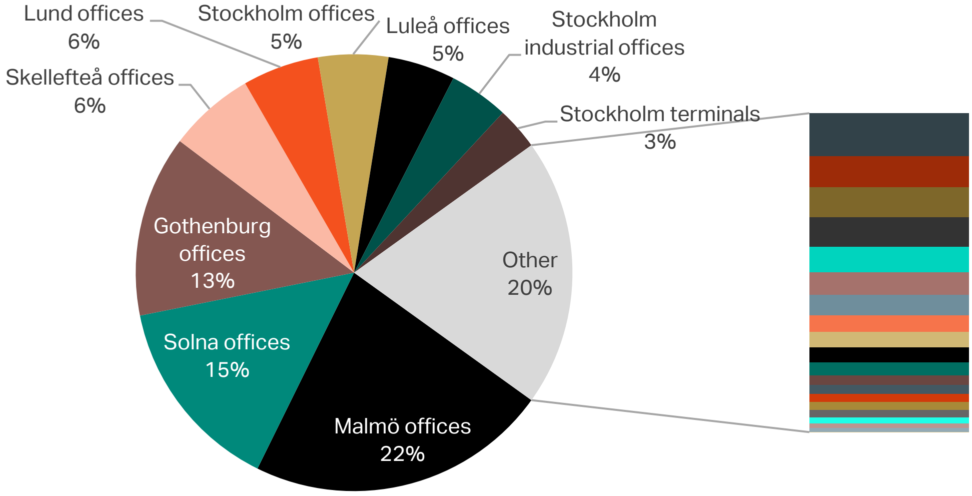
While there are no limits to single-name concentrations across the portfolio, property-level covenants reduce the company's exposure to specific tenants. This is managed in part by requirements for longer lease contracts for properties with dominant tenants as well as by the double-default protection of the owners via guarantees to SFF in respect of the HoldCo and primary loans and requirements to ensure LTV limits are maintained and/or properties are removed from SFF's pool and existing loans are repaid.

SFF'S SECURITY PORTFOLIO HAS A MIX OF TIER 1 AND TIER 2 PROPERTIES

Portfolio assessment

The security for SFF's outstanding bonds is a pool of mortgage certificates of specific, otherwise unencumbered properties and pledged shares in directly related property-owning subsidiaries which are 100% owned and managed by one or more of the five owners. In total, the pool includes 46 properties across Sweden with a market value of SEK 17.2bn, as of 31 Dec. 2019, which limits the diversity of the portfolio and underlying tenants compared with larger real estate companies.

Figure 12. Portfolio property types and region by loan amount, as of end-2019



Source: SFF data

We consider most of the assets in the pool to be well-located properties in Sweden's major cities, with a mix of properties in tier 1 and tier 2 locations. We note that the portfolio-level covenants ensure that the portfolio remains diverse and focused primarily on offices in Stockholm, Gothenburg and the Öresund region in southern Sweden. In addition, the inclusion of properties owned by Catena and Diös into the pool is reflected by exposures to terminals, warehouses and office properties in northern Sweden. We anticipate that the mix of assets will remain diverse and of similar quality but note that our assessment of the portfolio could change as new attractive properties are added to the pool and the size and breadth of the overall pool increases.

Lease terms are mandated to be at least two years at financing, and we note that many of the largest single-name contracts are on longer lease agreements. We also note that some of the tenants are government-related entities, but we view the tenant quality of the portfolio as a neutral factor. The current leasing requirements exceed SFF's current debt maturity profile, but we believe that a commitment to longer lease terms could be necessary as the company extends its debt maturity profile to ensure stable property valuations throughout the term of the loan.

Covenants restrict development of properties that negatively affects the property value, which we consider a strength in our risk appetite assessment. However, given the owners' collective focus on sustainability we expect the owners to make value-adding improvements to some existing properties to ensure eligibility for green financing and attractiveness for customers.

OPERATING EFFICIENCY CONSIDERED NEUTRAL

Operating efficiency

NCR sees the company's earnings performance as a neutral factor given very low fixed costs and the fact that nearly all expenses are associated with the issuance of bonds and the administration of associated security. According to its financial policy, SFF is not designed to make profits, and adjusts its administration fees accordingly to minimize net financing costs for the owners. The company's income is comprised of token interest charges for the primary loans to the HoldCos. These charges are used to pay administration costs and can be adjusted at any time by a board decision if expenses exceed or fall short of expectations. SFF also invests cash into low-risk financial assets, which has led to negative investment results in recent years (bank accounts, Swedish covered bonds and bonds and certificates from the government, Sweden's municipality credit company, Kommuninvest, and domestic municipalities rated AA- or higher). Issuance fees to banks are reflected in a minor difference between the principal amount on outstanding bonds and loans to its owners.

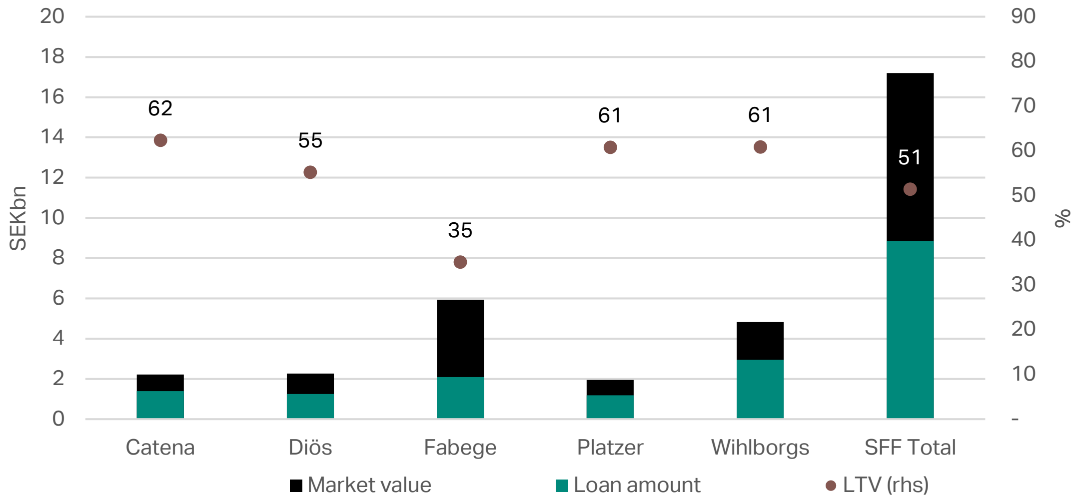
NCR also considers the occupancy rates of the portfolio in its assessment of SFF's operating efficiency. As shown in Figure 7, property-level covenants prohibit new lending or refinancing to properties exceeding maximum vacancy limits of 5-10%. Once a property is financed by SFF, LTV covenants will capture any decline in occupancy leading to a decline in property values. As such, occupancy risks are dispersed to the owners which would have to find alternative financing or increase cash to reduce property-level LTV to continue financing properties with increasing vacancies via SFF.

FINANCIAL RISK PROFILE DRIVEN BY LTV, COVENANTS AND CASH

Financial risk profile scores 'bbb'

SFFs financial risk profile is defined by its current LTV levels and its portfolio-level LTV limits. NCR considers the LTV levels without netting debt for cash and primary loans because, in our view, the requirement to maintain 10% equity ratios does not permit free use of the cash on hand. However, we note that if a company were to default, forcing SFF to sell properties, the company would also forfeit its preferred shares and the associated cash reserves and primary loan assets would be available to repay MTN investors.

Figure 13. Market value, loan amount and LTV by owner, as of December 2019



Source: SFF data

SFF's LTV limits are specified at the property level and vary by owner company and property type (Figure 8). The average reported LTV during 2019 was 52.3% and stood at 51.5% at the end of the year. SFF's LTV levels have been falling steadily since the company was established, in large part due to increasing market values of previously financed properties.

We anticipate that LTV levels will increase as new properties are added in the coming years. SFF's ultimate growth will depend on the demand from its owners, however, we assume that they will grow by 10% per annum and finance new properties at an average of 65% LTV. In addition, we do not project any changes in the value of existing properties. Accordingly, we project LTV to increase from 51.5% to 53.4% by 2022.

In terms of SFF's other key credit metrics as determined by NCR, we note that the company was not created to generate earnings and interest expenses are directly passed through from the HoldCo loans to the MTN investors, ensuring perfect net interest coverage as long as the owners can make coupon payments. Given our view of the owner collective having credit assessments of bbb/bb, we do not anticipate any problems with coupon payments and note that SFF maintains considerable cash buffers as well as access to a subordinated SEK 50m credit facility commitment from its owners.

SFF is mandated to maintain a 10% equity ratio, which is upheld by the issuance of preferred shares equal to approximately 11.1% of the loan amount to the joint venture partners by SFF Holding AB. We view the preferred stock, which is passed to SFF via shareholder contributions, as 100% equity. The preferred shares have no coupon payments, do not affect the owners' 20% voting rights, and are resolved when the HoldCo loans are repaid to SFF.

RISK APPETITE IS DEFINED BY PROPERTY AND PORTFOLIO LIMITS

Risk appetite is modest given the restrictions within the structure

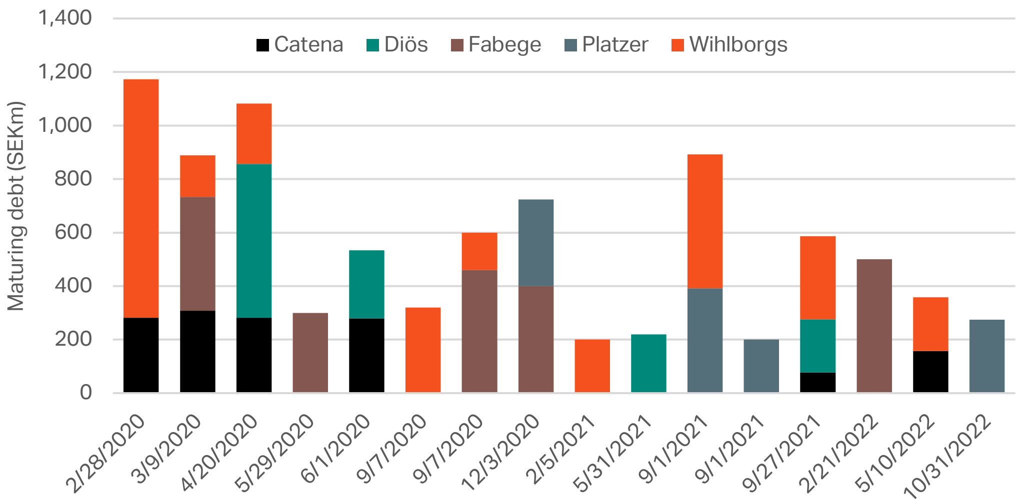
SFF's risk appetite is clearly defined by the covenants defined in its prospectus (described in detail above) and, along with the factors described below, is supportive of a somewhat higher financial risk assessment than a purely ratio-driven assessment. Some limits exist at the individual property level, while others are defined in terms of the composition of the entire portfolio. Our risk appetite assessment considers the strength of the various checks and balances within the structure as well as the oversight of the security agent, the owners and the legal review associated with each loan. In our view, SFF has low risk appetite, which contributes positively to our view of the overall financial risk assessment.

We believe that the company's owners intend to maintain existing risk levels and ensure that the properties within the structure maintain a high quality. We note that the company has evidence that the various triggers within the structure work and have resulted in additional security where vacancies have affected the valuations of single properties.

We also note that the excess cash and fully cancellable primary loans are not reflected in the financial ratios given that we consider them restricted. However, we note that if an owner were to default, forcing SFF to sell properties, the owner would also forfeit its preferred shares and the associated cash reserves and primary loan assets would be available to repay MTN investors.

LIQUIDITY

Figure 14. SFF debt maturity profile by owner loan, as of 31 Dec. 2019



Source: Company data

We assess SFF's liquidity profile as adequate, though we note that the short maturity profile and high share of near-term refinancing is a material standalone weakness that requires commitments of available liquidity from the company's owners. We expect SFF to extend and diversify its maturity structure with improved access to a broader investor base and note that the owners maintain material additional liquidity in excess to SFF's maturing bonds.

As of 1 Jan. 2020, the average debt maturity was just short of one year, with 64% of loans due to mature in 2020. If SFF were a standalone entity, this would be a material concern and we see room for improvement in the company's maturity profile to reduce the burden of large maturities on its owners.

We note that SFF is only permitted to issue additional interest-bearing debt that is subordinated to the MTN program and relies heavily on its owner companies to reduce refinancing risk. Four months prior to loan maturity, SFF formally notifies its owners of the coming maturity and the owner company provides confirmation three months prior to maturity that it will have available cash and or available bank facilities if SFF is unable to issue bonds in the capital markets. If an owner were unable to provide such assurances, SFF, via the security agent, could commence the process of selling the associated property to ensure repayment of the loan. As the sales process could be time consuming, SFF has the ability to use existing cash and to cancel all primary loans to generate further cash to ensure timely payment to MTN investors until proceeds from the sale are finalized.

We estimate the following primary liquidity sources for the next 12 months;

- cash and equivalents of SEK 486m;
- a subordinated credit facility from the owner companies of SEK 50m;
- fully cancellable primary loans of SEK 602m; and
- owner liquidity commitments of at least the maturing debt made three months prior to maturity.

We anticipate liquidity to be used for the following over the coming 12 months:

- SEK 5.6bn of debt maturities (spilt by owner is shown in Figure 15).

NCR assesses the adequacy of SFF's liquidity in terms of its own internal short-term credit assessments of the owners. Given our view of the owner collective having credit assessments of bbb/bb and the available liquidity within each company, we view the short-term liquidity of these companies to be adequate to mitigate SFF's refinancing risk during 2020. The owner commitments for SFF's maturing bonds is shown in Figure 15. These 2020 commitments can be compared to the reported cash and available credit facility of each company as of 31 Dec. 2019.

Figure 15. Maturing SFF debt and available liquidity of each owner, SEKm as of 31 Dec 2019

	SFF debt maturing during 2020	SFF debt maturing after 2020	Cash and equivalent	Available credit facility	Unused Commercial Paper program	Available liquidity	Total interest-bearing debt
Catena*	1,151	235	484	1,000	1,205	**2,689**	8,987
Diös**	829	419	0	1,835	1,665	**3,500**	12,145
Fabege	1,585	500	24	4,580	3,020	**7,624**	26,414
Platzer	324	866	268	1,661	1,450	**3,379**	10,033
Wihlborgs	1,733	1,210	280	3,106	0	**3,386**	23,628
Aggregate	**5,622**	**3,230**	**1,056**	**12,182**	**7,340**	**20,578**	**81,207**

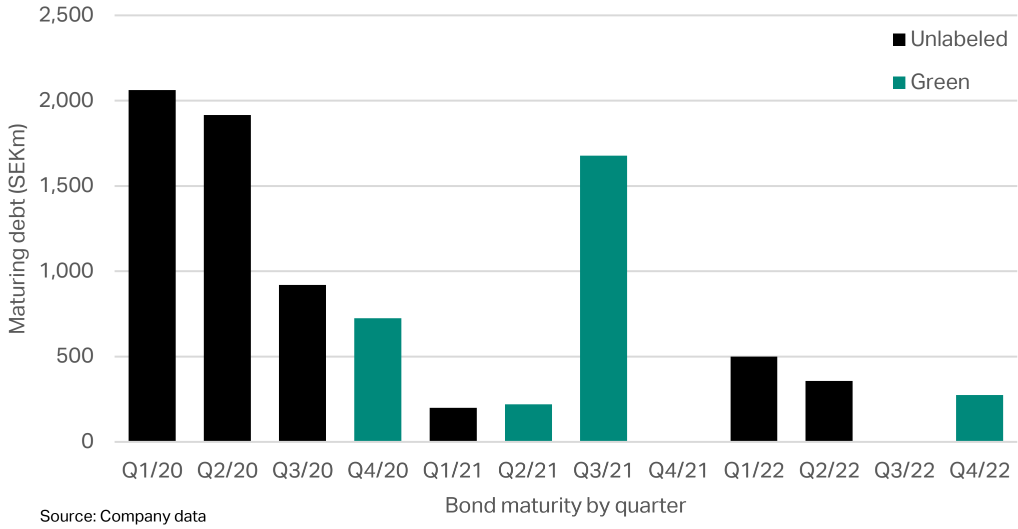
*As of 30 Sep 2019. **Diös increased its commercial paper program by SEK 1.5bn after 31 Dec 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Given SFF's nature, the company's sustainability and environmental, social and governance (ESG) initiatives are heavily dependent on its owners' financing demands and the efforts of its servicing company, Hansan. Administrative backup for the external administrator is provided by the largest owners, if necessary. We believe that the structure is thoroughly managed according to the terms of the prospectus by each of the administrating companies and the board of directors, consisting of the CFOs of each owner and the company's CEO (also employed at Hansan).

SFF's environmental profile is dependent on the type of properties its owners would like to finance via SFF. However, the owners each have a stated objective to improve their own environmental profile by improving energy efficiency and increasing the share of environmentally certified properties under management. As such, SFF has a relatively high share of outstanding green bonds which it has issued under its own green framework (certified medium-green by CICERO) since 2015. As of 31 Dec. 2019, SFF had eight outstanding green bonds totalling SEK 3.9bn, one third of its outstanding bond volume (see Figure 16). All of these properties are certified using the Leadership in Energy and Environmental Design (LEED), BREEAM, or the Swedish "Miljöbyggnad" (environmental building) certification system. We anticipate that SFF will become a larger issuer of green bonds as its owner companies fulfil their respective environmental targets.

Figure 16. SFF debt maturity profile for green and unlabeled bonds, as of 31 Dec. 2019



Source: Company data

SUPPORT, OWNERSHIP AND CREDIT ENHANCEMENT

NCR reflects continual support from the owners by assigning an additional notch to SFF's rating to reflect the credit enhancement not reflected elsewhere within the assessment. In particular, we consider the access to additional liquidity at the owners, the ability of the owners to replace non-performing assets and/or add additional security. Furthermore, while we note that there are no guarantees between the owners, the security agent has the ability to sell any of the pool properties for the benefit of MTN investors, which could trigger alternative solutions given the ownership ties between the five companies. Upon SFF's inception, the five owners were partly owned by Swedish billionaire Erik Paulsson and/or his family's private investment company, Backahill. While Backahill relinquished ownership of Platzer in 2017, it has historic ties to the company.

Owner profiles can be found at the end of this report.

ISSUE RATINGS

SFF is financed only by secured senior obligations. As such, the 'BBB+' rating assigned to SFF is also applicable to all outstanding and future bonds issued within the company's MTN program.

Figure 17. Scoring summary sheet

Subfactors	Impact	Score
Operating environment	20.0%	bbb
Market position, size and diversification	12.5%	bbb-
Portfolio assessment	12.5%	bbb-
Operating efficiency	5.0%	bbb
Business risk assessment	50.0%	bbb-
Ratio analysis		bb
Risk appetite		a
Financial risk assessment	50.0%	bbb
Indicative credit assessment		bbb
Liquidity		-
ESG		-
Peer comparison		-
Standalone credit assessment		bbb
Support analysis		+1
Issuer rating		BBB+
Outlook		Stable
Short-term rating		N-1+

Issue rating	Issue rating
Senior secured	BBB+

Figure 18. SFF financial statements

SEKm	2016	2017	2018	2019e	2020e	2021e
INCOME STATEMENT						
Sales, general & admin. expenses	-6	-7	-7	-7	-8	-8
EBITDA	-6	-7	-7	-7	-8	-8
Interest costs	-24	-43	-52	-73	-74	-82
Net profit	-2	-0	0	1	1	1
BALANCE SHEET						
Long-term financial assets	5,446	6,233	7,015	3,433	8,120	10,182
Cash and cash equivalents	320	460	492	462	508	559
Total current assets	1,538	3,980	3,520	6,467	2,767	1,791
Total assets	**6,985**	**10,214**	**10,535**	**9,901**	**10,888**	**11,974**
Total equity	699	1,022	1,064	995	1,095	1,205
Long-term interest-bearing debt	5,134	5,875	6,616	3,230	7,639	9,579
Total current liabilities	1,151	3,316	2,855	5,676	2,154	1,190
Total equity and liabilities	**6,985**	**10,214**	**10,535**	**9,901**	**10,888**	**11,974**
CASH FLOW STATEMENT						
Pre-tax profit	-2	-0	0	1	1	1
Operating cash flow	-64	0	1	10	1	1
Cash flow from investment activities	-1,708	-3,095	-285	619	-885	-974
Cash flow from financing activities	1,915	3,235	315	-659	931	1,024
Cash and cash equivalents (initial)	176	320	460	492	462	508
Cash flow for the year	**144**	**140**	**32**	**-30**	**46**	**51**
Cash and cash equivalents (end)	320	460	492	462	508	559

Based on NCR estimates and company data. e-estimates. All metrics are adjusted in line with NCR methodology.

Owner profiles

CATENA AB

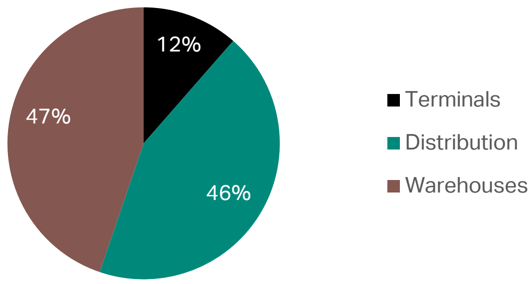
Catena manages and develops logistics properties – terminals, distribution and warehouse facilities – in Sweden's largest cities and connecting rail- and roadways. With 43% of revenues stemming from top 10 tenants, the property portfolio is less diversified than those of its peers, though we note that third-party logistics companies aggregate some of the underlying tenant risk. The average remaining lease term is above five years and 72% of rental revenue derive from contracts with more than three-year remaining lease-terms. Since merging with Tribona in 2016, the portfolio has continued to grow, resulting in improvements in earnings and leverage metrics.

Figure 19. Catena key metrics

	2015	2016	2017	2018	LTM*
Property portfolio ('000 sqm)	817	1,491	1,662	1,792	1,829
Property value (SEKbn)	4.8	10.8	13.1	14.7	16.3
Vacancy (%)	5	7	5	4	4
Average debt maturity (years)	2.5	1.5	1.9	1.4	1.6
EBITDA margin (%)	70	69	72	73	74
Adjusted net debt/EBITDA (x)	9.9	11.6	11.7	10.3	10.2
Adjusted EBITDA/interest (x)	3.7	2.4	3.1	3.4	3.7
Adjusted LTV (%)	67.0	58.5	56.9	55.9	54.4

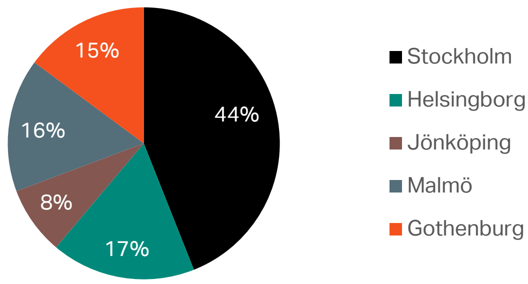
Based on company and NCR data. All metrics adjusted according to NCR methodology. *30 Sep 2019

Figure 20. Catena property profile by lettable area, Sep. 2019



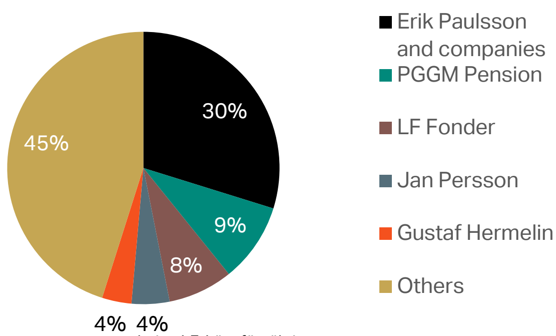
Source: company data

Figure 21. Catena geographical profile by rental income, LTM through Sep. 2019



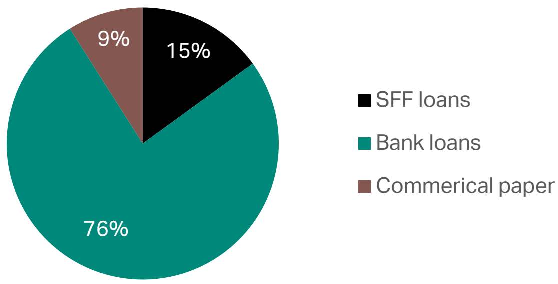
Source: company data

Figure 22. Catena ownership structure, Dec. 2019



Source: company website. LF-Länsförsäkringar

Figure 23. Catena interest-bearing debt, Sep. 2019



Source: SFF and company data

DIÖS FASTIGHETER AB

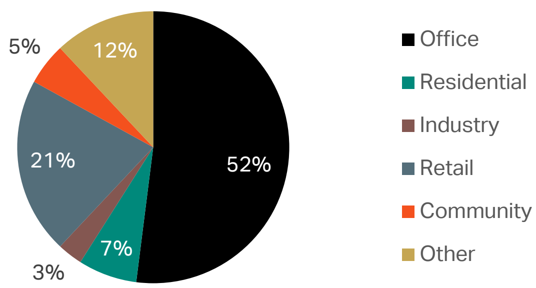
Diös focuses on property management and development in the cities along the north-eastern coast of Sweden as well as the inland regions of Dalarna and Östersund. The company's portfolio is more diversified across property types than other owners and only 16% of revenues stem from top 10 tenants, which are primarily government or government-related tenants. The average remaining lease-term is 3.6 years and the portfolio has a relatively high vacancy ratio (9%) compared with those of SFF's other owners. Despite stable lettable space, property values have improved in recent years, as have earning and leverage metrics and the company has the highest interest coverage ratio of the owners.

Figure 24. Diös key metrics

	2015	2016	2017	2018	2019
Property portfolio ('000 sqm)	1,463	1,354	1,553	1,464	1,483
Property value (SEKbn)	13.4	13.7	19.5	20.8	22.9
Vacancy (%)	12	10	9	9	9
Average debt maturity (years)	2.4	1.8	2.4	2.0	1.6
EBITDA margin (%)	55	55	59	59	60
Adjusted net debt/EBITDA (x)	11.6	10.8	11.0	10.6	11.1
Adjusted EBITDA/interest (x)	3.4	3.6	5.4	6.1	6.9
Adjusted LTV (%)	62.4	58.7	56.9	54.3	54.0

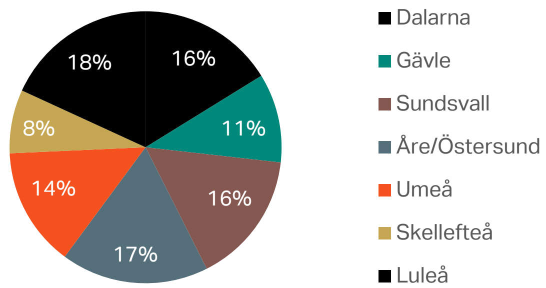
Based on company and NCR data. All metrics adjusted according to NCR methodology.

Figure 25. Diös property profile by rental income, 2019



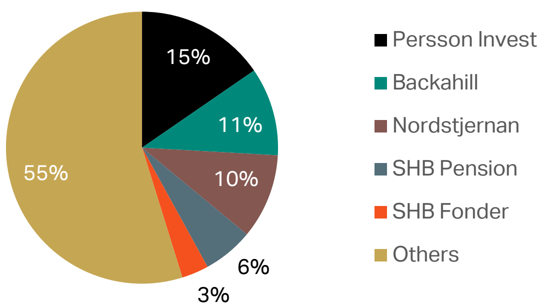
Source: company data

Figure 26. Diös geographical profile by rental income, 2019



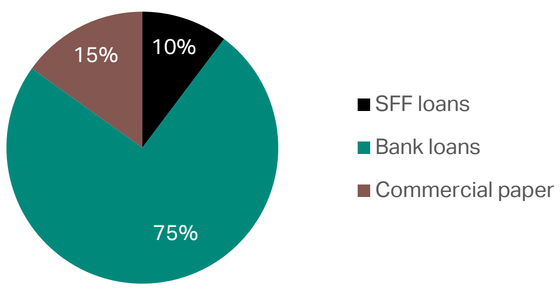
Source: company data

Figure 27. Diös ownership structure, Dec. 2019



Source: company website SHB-Svenska Handelsbanken

Figure 28. Diös interest-bearing debt, Dec. 2019



Source: SFF and company data

FABEGE AB

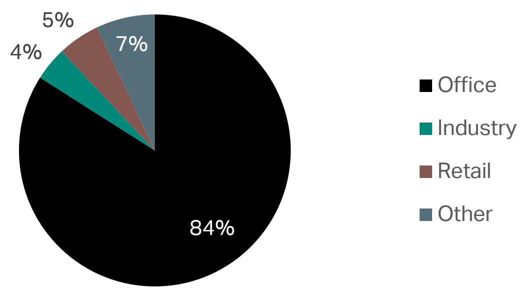
While not the largest owner by lettable area, Fabege is the largest of SFF's five owners in terms of property value at SEK 74.3bn at 31 Dec. 2019. The company focuses on office space in central Stockholm and the connected areas of Solna and Hammarby Sjöstad. The company has improved credit metrics in recent years and has the lowest LTV level of the sponsors at 35.5%, with a steadily improving operating margin. Fabege is the only publicly rated company among the owners and has extended its average debt maturity profile to 5.8 years, the longest of the five owners. The company's top 10 tenants represent 34% of the annual revenues and vacancy levels are stable at 6%.

Figure 29. Fabege key metrics

	2015	2016	2017	2018	2019
Property portfolio ('000 sqm)	1,092	1,062	1,136	1,252	1,255
Property value (SEKbn)	40.3	47.8	57.9	67.6	74.3
Vacancy (%)	7	6	6	6	6
Average debt maturity (years)	4.1	3.8	4.0	5.0	5.8
EBITDA margin (%)	68	68	70	71	72
Adjusted net debt/EBITDA (x)	15.4	15.3	15.3	14.6	13.0
Adjusted EBITDA/interest (x)	2.2	2.5	2.9	3.7	4.4
Adjusted LTV (%)	52.2	45.8	42.3	38.8	35.5

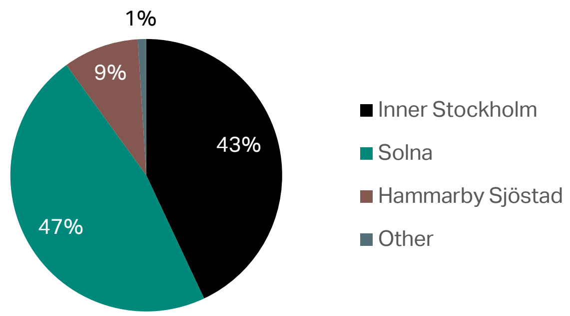
Based on company and NCR data. All metrics adjusted according to NCR methodology.

Figure 30. Fabege property profile by rental income, 2019



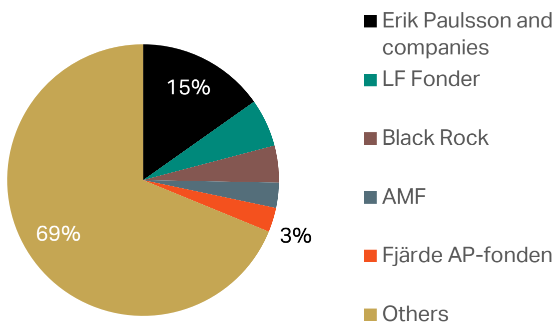
Source: company data

Figure 31. Fabege geographical profile by market value, Dec. 2019



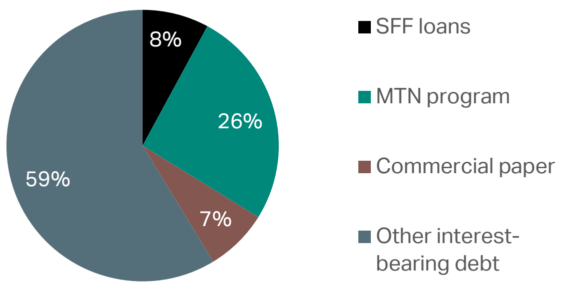
Source: company data

Figure 32. Fabege ownership structure, Dec. 2019



Source: company webstie. LF-Länsförsäkringar

Figure 33. Fabege interest-bearing debt, Dec. 2019



Source: SFF and company data

PLATZER FASTIGHETER AB

Platzer focuses on commercial real estate within Gothenburg, representing one of the more geographically concentrated portfolios of the five owners. The company manages and develops 68 properties worth over SEK 20bn as of 31 Dec. 2019, with 55% of the revenues stemming from office space. The company's top 20 tenants represented 34% of rental income in 2019 and the average remaining lease term of the portfolio as of 31 Dec. 2019 was 3.4 years.

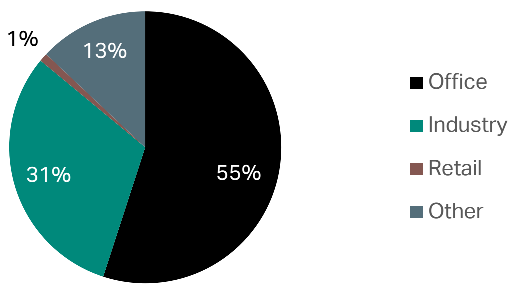
Platzer is the only owner without current ties to Erik Paulsson and associated companies which sold their ownership share in Platzer in 2017. The current ownership structure represents the long-term relationship with the Ernström Group which took Platzer private in 2001 and combined with Länsförsäkringar (LF) Gothenburg and Bohuslän (the second-largest owner) and Backahill-owned Brinova to create Platzer in its current form in 2008.

Figure 34. Platzer key metrics

	2015	2016	2017	2018	2019
Property portfolio ('000 sqm)	465	801	805	821	825
Property value (SEKbn)	9.8	13.6	15.6	18.4	20.5
Vacancy (%)	9	6	6	5	6
Average debt maturity (years)	1.9	2.0	1.6	2.2	2.4
EBITDA margin (%)	68	68	68	70	70
Adjusted net debt/EBITDA (x)	13.5	16.8	12.1	13.0	12.4
Adjusted EBITDA/interest (x)	3.0	3.2	3.5	3.6	4.3
Adjusted LTV (%)	55.7	57.6	52.9	51.5	47.7

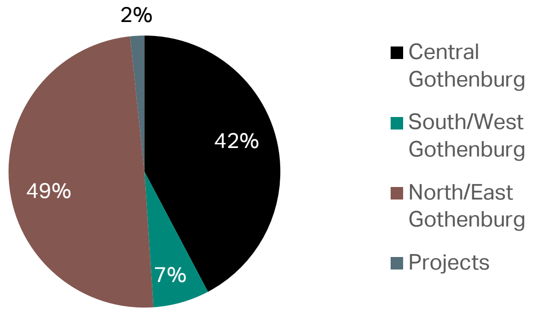
Based on company and NCR data. All metrics adjusted according to NCR methodology.

Figure 35. Platzer property profile by lettable area, Dec. 2019



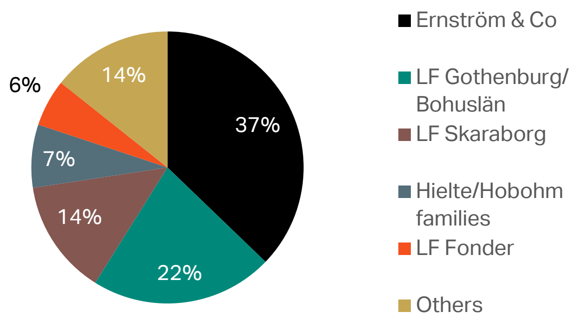
Source: company data

Figure 36. Platzer geographical profile by rental income, 2019



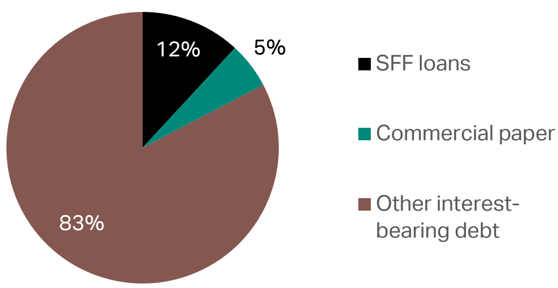
Source: company data

Figure 37. Platzer ownership structure, Dec. 2019



Source: company website. LF-Länsförsäkringar

Figure 38. Platzer interest-bearing debt, Dec. 2019



Source: SFF and company data

WIHLBORGS FASTIGHETER AB

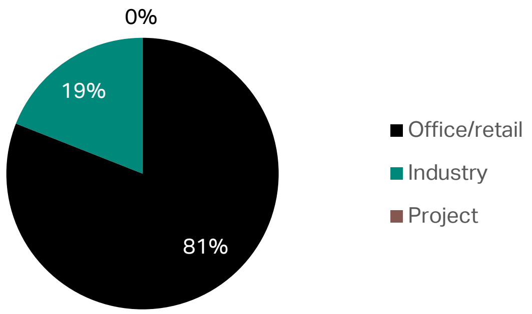
Wihlborgs property focus is on the Öresund region including Sweden's largest southern cities and Copenhagen across the Öresund Bridge. Most of the portfolio comprises office and retail space (81%), with the majority of the remaining properties associated with industrial properties and warehouses. The property portfolio is valued at SEK 45.5bn as of 31 Dec. 2019. Wihlborgs improved its net interest coverage during 2019 due to strong improvement in EBITDA and materially lower interest costs.

Figure 39. Wihlborgs key metrics

	2015	2016	2017	2018	2019
Property portfolio ('000 sqm)	1,746	1,800	2,067	2,106	2,181
Property value (SEKbn)	28.6	32.8	38.6	42.1	45.5
Vacancy (%)	9	9	7	7	7
Average debt maturity (years)	4.8	5.9	6.2	6.0	5.7
EBITDA margin (%)	71	72	71	70	69
Adjusted net debt/EBITDA (x)	11.6	11.8	12.3	12.1	11.3
Adjusted EBITDA/interest (x)	3.3	3.3	3.4	4.0	6.4
Adjusted LTV (%)	56.6	52.8	53.0	53.7	51.3

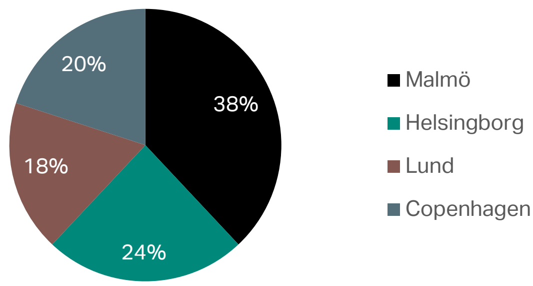
Based on company and NCR data. All metrics adjusted according to NCR methodology.

Figure 40. Wihlborgs property profile by rental income, 2019



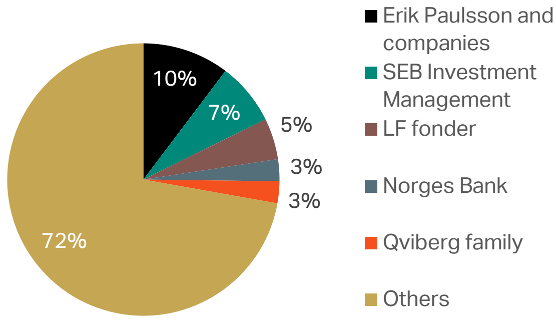
Source: company data

Figure 41. Wihlborgs geographical profile by rental income, 2019



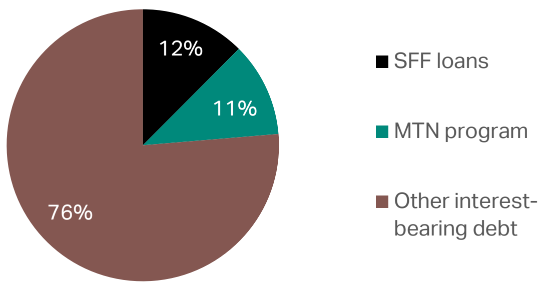
Source: company data

Figure 42. Wihlborgs ownership structure, Dec. 2019



Source: company website. LF-Länsförsäkringar

Figure 43. Wihlborgs interest-bearing debt, Dec. 2019



Source: SFF and company data

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 13 Feb. 2020.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
Primary analyst:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Mille O. Fjeldstad, +4799038916, mille.fjeldstad@nordiccreditrating.com
Methodology used when determining the credit rating:	NCR's Corporate Methodology published on 14 Aug. 2018 NCR's Rating Principles published on 16 Sep. 2019 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity
Conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity.
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
Legal exemption from liability:	Disclaimer © 2020 Nordic Credit Rating AS (NCR, the agency). All rights reserved. All information and data used by NCR in its analytical activities come from sources the agency considers accurate and reliable. All material relating to NCR's analytical activities is provided on an "as is" basis. The agency does not conduct audits or similar warranty validations of any information used in its analytical activities and related material. NCR advises all users of its services to carry out individual assessments for their own specific use or purpose when using any information or material provided by the agency. Analytical material provided by NCR constitutes only an opinion on relative credit risk and does not address other forms of risk such as volatility or market risk and should not be considered to contain facts of any kind for the purpose of assessing an issuer's or an issue's historical, current or future performance. Analytical material provided by NCR may include certain forward-looking statements relating to the business, financial performance and results of an entity and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. Forward-looking statements contained in any analytical material provided by NCR, including assumptions, opinions and views either of the agency or cited from third-party sources are solely opinions and forecasts which are subject to risk, uncertainty and other factors that could cause actual events to differ materially from anticipated events. NCR and its personnel and any related third parties provide no assurance that the assumptions underlying any statements in analytical material provided by the agency are free from error, nor are they liable to any party, either directly or indirectly, for any damages, losses or similar, arising from use of NCR's analytical material or the agency's analytical activities. No representation or warranty (express or implied) is made as to, and no reliance should be placed upon, any information, including projections, estimates, targets and opinions, contained in any analytical material provided by NCR, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained in any analytical material provided by the agency. Users of analytical material provided by NCR are solely responsible for making their own assessment of the market and the market position of any relevant entity, conducting their own investigations and analysis, and forming their own view of the future performance of any relevant entity's business and current and future financial situation. NCR is independent of any third party, and any information and/or material resulting from the agency's analytical activities should not be considered as marketing or a recommendation to buy, sell, or hold any financial instruments or similar. Relating to NCR's analytical activities, historical development and past performance does not safeguard or guarantee any future results or outcome. All information herein is the sole property of NCR and is protected by copyright and applicable laws. The information herein, and any other information provided by NCR, may not be reproduced, copied, stored, sold, or distributed without NCR's written permission.

NORDIC CREDIT RATING AS

nordiccreditrating.com

OSLO

Biskop Gunnerus' gate 14A
0185 Oslo
Norway

STOCKHOLM

Engelbrektsgatan 9-11
114 32, Stockholm
Sweden