Svensk FastighetsFinansiering AB (publ)

Full Rating Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N3

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RATING RATIONALE

Our 'BBB+' long-term issuer rating on Svensk FastighetsFinansiering AB (publ) (SFF) reflects the company's purpose as a financing vehicle for its owners, five of Sweden's largest real-estate companies. The rating also reflects the company's low risk appetite, the creditworthiness and continuous support provided by its owners, and the collateral available for senior secured bondholders. The rating is also indicative of the relatively long average remaining lease term and the high occupancy rates of the properties in the pledged portfolio, as well as the stable operating environment.

These strengths are partially offset by an increasingly high net loan-to-value (LTV) ratio for the rating level, at 49.5% as of 31 Dec. 2022, and the company's short debt maturity profile, with large maturities concentrated in single years and quarters.

Although SFF is a finance company, Nordic Credit Rating (NCR) assesses the company using its real-estate methodology, given that SFF's and its owners' risk profiles are associated with factors specific to real estate. Despite material linkages, guarantees and liquidity commitments, NCR's view of SFF's creditworthiness is not directly connected to that of its overall owners, nor restricted by the weakest owner(s). SFF maintains its own liquidity reserves, mandated minimum equity requirements, and the ability to sell all the properties in its portfolio for the benefit of its medium-term note (MTN) investors. We view SFF on a standalone basis, founded on the secured assets in its existing pool and the risk appetite defined in its MTN prospectus. Moreover, we add an upward notch to the final rating to reflect further credit support accruing regularly to SFF from its owners and outside the pool of collateral available to bondholders.

STABLE OUTLOOK

The stable outlook reflects our expectations of stable performance by both SFF's property segments and its owners. Net LTV is elevated, but we believe the owners will add sufficient collateral to ensure the financial risk profile is maintained. We expect SFF to maintain sufficient diversity in its collateral pool, and for loan and collateral volumes to increase once markets allow. We see the company's risk appetite remaining low, given the restrictions in SFF's MTN prospectus. Furthermore, we expect SFF to remain an attractive funding source for its five owners and its current ownership to stay unchanged.

POTENTIAL POSITIVE RATING DRIVERS

- Sustainable reduction in NCR-adjusted net LTV to below 45%.
- Improvement in portfolio quality and/or a greater proportion of pledged residential properties.
- Greater number of pledged properties, together with improved tenant diversification.

POTENTIAL NEGATIVE RATING DRIVERS

- Deterioration in the creditworthiness or withdrawal of one or more of the owners.
- Increase in NCR-adjusted net LTV to above 55% over a protracted period.
- Collateral pool value and diversification remaining at or below levels around 2023 expectations.

Figure 1. SFF key credit metrics, 2019–2025e

SEKm	2019	2020	2021	2022	2023e	2024e	2025e
NCR-adj. total assets	9,968	9,326	9,430	6,954	5,250	6,255	7,260
NCR-adj. collateral value	17,200	15,091	16,524	11,020	7,212	8,799	10,617
NCR-adj. gross debt	8,876	8,290	8,395	5,918	4,208	5,208	6,208
NCR-adj. gross LTV (%)	51.6	54.9	50.8	53.7	58.4	59.2	58.5
NCR-adj. net LTV (%)	48.8	51.9	48.0	49.5	51.8	53.8	54.0

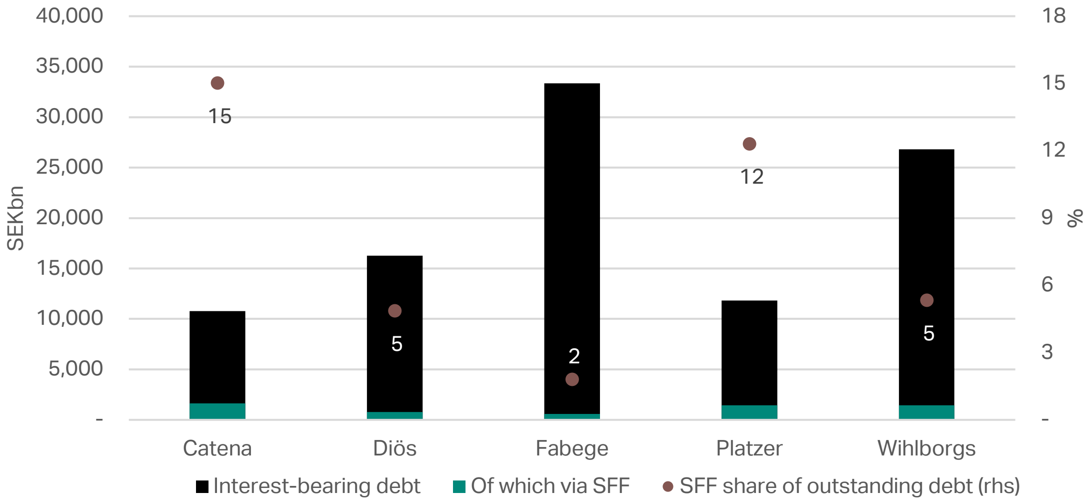
Based on NCR estimates and company data. e–estimate. LTV–loan-to-value ratio. All metrics adjusted in line with NCR methodology.

ISSUER PROFILE

SFF is a joint venture founded in 2014 with common stock divided equally among Catena AB (publ), Diös Fastigheter AB (publ), Fabege AB (publ), Platzer Fastigheter Holding AB (publ) and Wihlborgs Fastigheter AB (publ). The company is a financing vehicle for its owners, issuing secured bonds with collateral in the form of selected properties associated with its owners' core businesses in accordance with the prospectus for its MTN programme. By pooling the assets of the owner companies, SFF provides its owners with an alternative to bank financing and is the only source of secured capital market financing for each of its owners. The company's administration is managed by its service agent Hansan AB, owned by Backahill AB (the investment company of Erik Paulsson's family), which is a major shareholder in four of SFF's five owner companies. SFF's board of directors includes the CFOs, or similar roles, of the five owner companies and the CEO of SFF, who is also employed by Hansan AB.

SFF is an established debt issuer in Sweden, with SEK 5.9bn of outstanding bonds with collateral in 25 properties across Sweden valued at SEK 11bn, as of 31 Dec. 2022. SFF bonds as a share of the owner companies' interest-bearing debt was 2–15% as of 31 Dec. 2022. In particular, Fabege has decreased its share, but we believe that SFF remains a meaningful alternative to bank financing, commercial paper and senior unsecured bond financing for its owners.

Figure 2. SFF owners' interest-bearing debt and share of debt financed by SFF, 31 Dec. 2022



Source: companies, SFF.

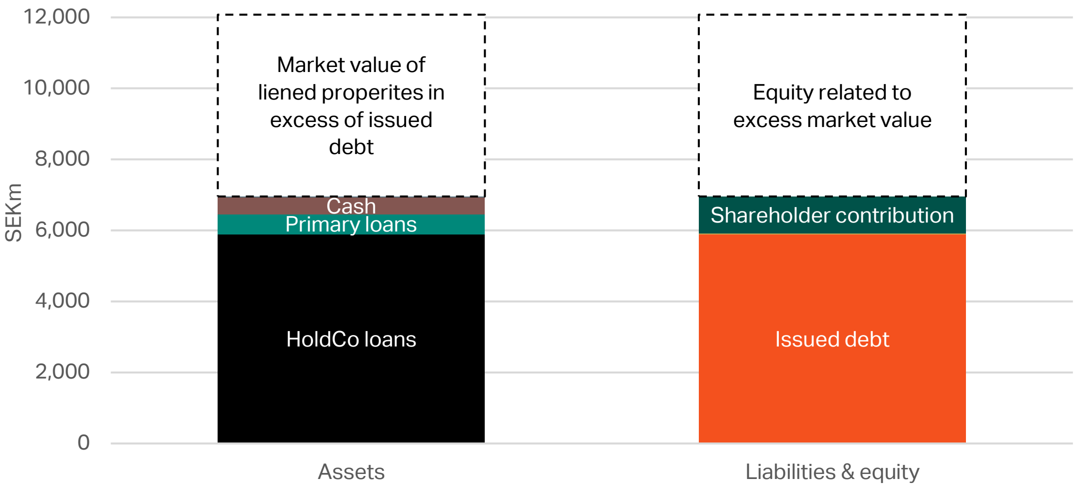
SFF issues debt secured by mortgage certificates of specific, otherwise unencumbered, properties and pledged shares in directly related property-owning subsidiaries that are 100% owned and managed by their owners. Each bond is associated with specific properties, but also backed by the entire pool of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

TRANSACTION STRUCTURE AND COVENANT DETAILS

For details of the transaction and covenant structure, please refer to Appendix II.

SFF's balance sheet as of 31 Dec. 2022 (Figure 3) reflects the transactions. At all times, issued debt is equal to HoldCo loans, due to the pass-through structure of SFF. As of 31 Dec. 2022, preferred stock was 17.6% of issued debt (14.9% of assets), cash and equivalents were 7.9% and primary loans were 9.6% of issued debt, respectively. In addition, the company, via its owners and third-party valuations, reported an excess market value of liened properties amounting to 87.0% of outstanding debt.

Figure 3. SFF balance sheet and additional collateral, 31 Dec. 2022



Source: company.

Property level covenants

Figure 4. SFF's property level covenants (%)

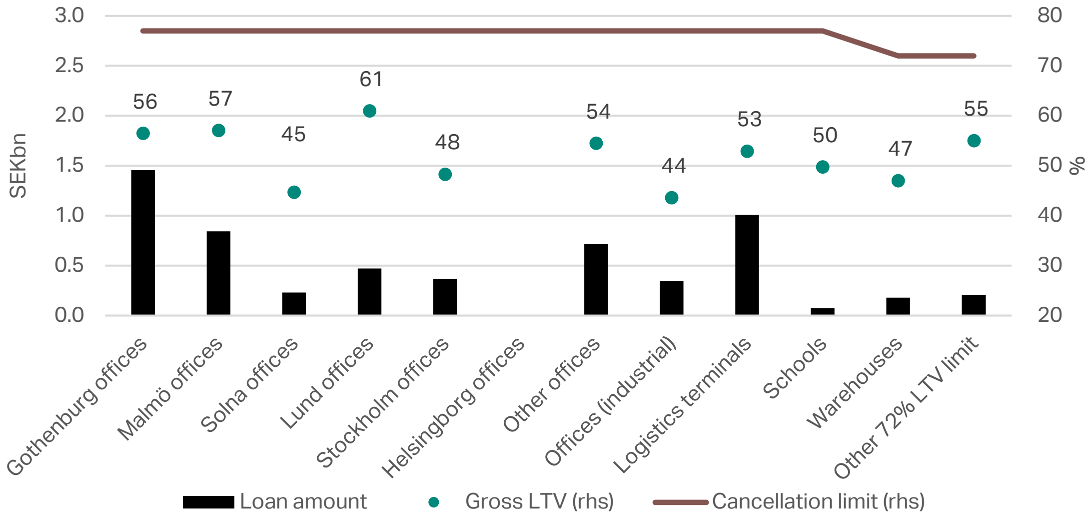
Property type	Initial LTV (max.)	Security agent notice (max. LTV)	Loan cancelled (max. LTV)	Vacancy rate (max.)	WALE, months (min.)*
Hotels and restaurants	60	70	72	5	30
Industrial properties, warehouses	60	70	72	5	24
Logistics properties	65	75	77	5	24
MFH with offices, offices, industrial offices	67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

Source: company. All LTV figures are on a gross basis. WALE–weighted-average lease expiry. MFH–multi-family housing. *WALE must be over 30 months for all properties with more than 85% rental income from a single tenant.

In addition to the covenants in Figure 4, individual properties must:

- be within pre-defined priority markets for each of the owner companies (see Figure 9);
- 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 where rental income from a single tenant exceeds 85% of the property's rental income.

Figure 5. SFF property type by loan amount, gross LTV, and max. LTV covenants, 31 Dec. 2022



Source: company.

Portfolio level covenants

In addition to property level covenants, SFF's MTN 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 therefore prevent new properties from 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 (6.6% as of 31 Dec. 2022).
- Hotels and restaurants may account for a maximum 5% of outstanding loans (0% as of 31 Dec. 2022).
- 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 and Malmö) and surrounding regions (83% as of 31 Dec. 2022).
- No sponsor may account for more than 50% of outstanding loans (Catena accounted for 28% as of 31 Dec. 2022).

SFF has 15 working days to resolve any breaches of its portfolio covenants, except for the covenant prohibiting more than a 50% share by a single owner, which must be resolved within 20 working days.

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 pledged office properties in major cities would require a much larger volume from the other two owners. These three owner companies are also material contributors to lower-risk properties in the portfolio, so a change in ownership could affect our view of the strengths and weaknesses of the portfolio financed by SFF.

BUSINESS RISK ASSESSMENT

Business risk assessment 'bbb-'

SFF is exposed to the Swedish property market both directly, through pledged properties, and indirectly, through owner guarantees. When assessing the business risk of SFF, NCR considers the characteristics of the properties in the secured portfolio as well as SFF's market position and its benefits for its owners. Our business risk assessment reflects SFF's exposure to mainly office properties in prosperous municipalities. It also reflects a mix of tier 1 and tier 2 locations, and the substantial benefits SFF provides for its owners.

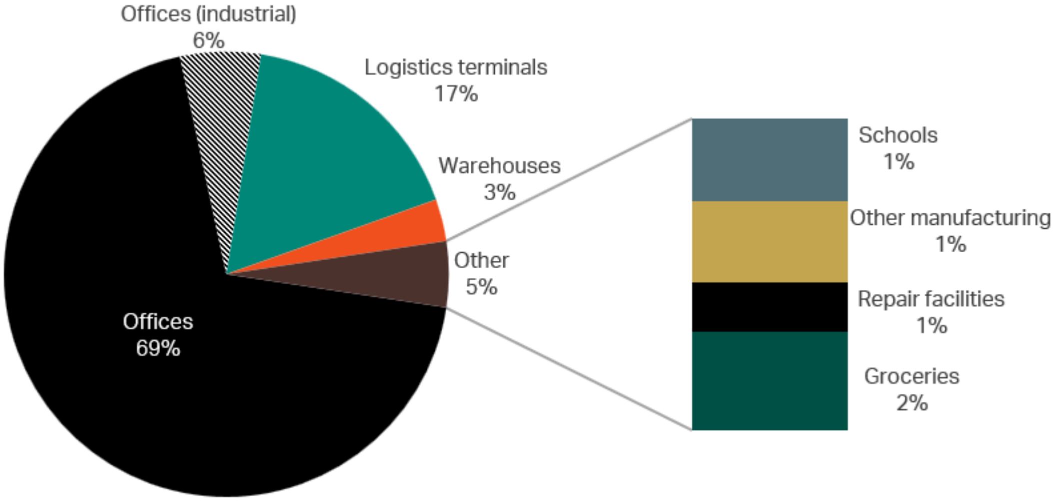
Operating environment dependent on Swedish office market

Operating environment 'bbb-'

As of 31 Dec. 2022, 69% of SFF's secured property portfolio consisted of office properties (75% including industrial offices), based on loan amounts. In recent years, Sweden's office sector has benefited from benign economic conditions, falling interest rates, steady yield compression and increasing rent levels.

However, while there has been a greater return of employees to offices following the pandemic than we initially expected, there is still uncertainty about the future of office space. Prime rents remain stable so far, but vacancy rates have been rising in 2022, with the exception of Stockholm's central business district and Malmö. We expect yields to widen in the real-estate market as a whole, as well as in the office segment. We believe vacancies are likely to increase somewhat through the widely expected recession in 2023 and we factor this into our assessment.

Figure 6. SFF's portfolio collateral by property type and loan amount, 31 Dec. 2022



Source: company.

Although office space dominates SFF's portfolio, 17% of exposure relates to logistics terminals along Sweden's major highways or railway intersections. E-commerce has been growing for some years, a trend which was accelerated by the Covid-19 pandemic. While growth is now diminishing somewhat, both as an increase in share and in nominal terms of consumer spending overall, we expect e-commerce to continue to account for a growing share of total consumer spending. The logistics segment has been growing rapidly in Sweden in recent years, and we believe attractive locations are vital to attract tenants. For prime properties, we expect strong demand to support low vacancies and the ability to raise rents as costs increase.

SFF's industrial and warehousing exposures are largely dependent on the overall performance of the Swedish economy. We expect them to follow the economic cycle, with increased vacancies and a reduced ability to pass on costs through rent increases compared with the other segments, over the next couple of years.

In terms of municipality exposure, the vast majority of SFF's pledged properties are located in municipalities whose populations are expected to grow much faster than the national average. We believe that the strong fundamentals of SFF's geographical locations reduce the risk of a broad decline in demand for SFF's properties.

The market risk in SFF's portfolio is reduced further by the property-specific covenants that prevent new lending to or refinancing of properties with significant vacancies, while LTV covenants are likely to be breached if vacancies at existing properties increase substantially. Consequently, much of the risk associated with declining property values is passed through to the owners, which would have to find alternative financing or add collateral to reduce property level LTV below initial levels.

Figure 7. SFF loan amount from top 10 municipal exposures, 31 Dec. 2022

Municipality	Share of loan amount	Population, 2021	Expected population change among 15–64-year-olds, 2021–2040	Unemployment, Dec. 2022
Gothenburg	28%	587,549	10.9%	7.2%
Stockholm	16%	978,770	13.3%	6.2%
Malmö	14%	351,749	15.3%	12.3%
Lund	8%	127,376	9.6%	5.9%
Burlöv	5%	19,753	13.3%	11.1%
Luleå	5%	78,867	0.0%	5.0%
Skellefteå	5%	73,393	-4.4%	3.4%
Haninge	4%	95,658	16.9%	7.2%
Solna	4%	84,187	13.9%	4.3%
Järfälla	3%	83,170	16.9%	8.2%
Total/Sweden average	**92%**	**10,452,326**	**6.3%**	**6.6%**

Source: company, Statistics Sweden and the Swedish Public Employment Service.

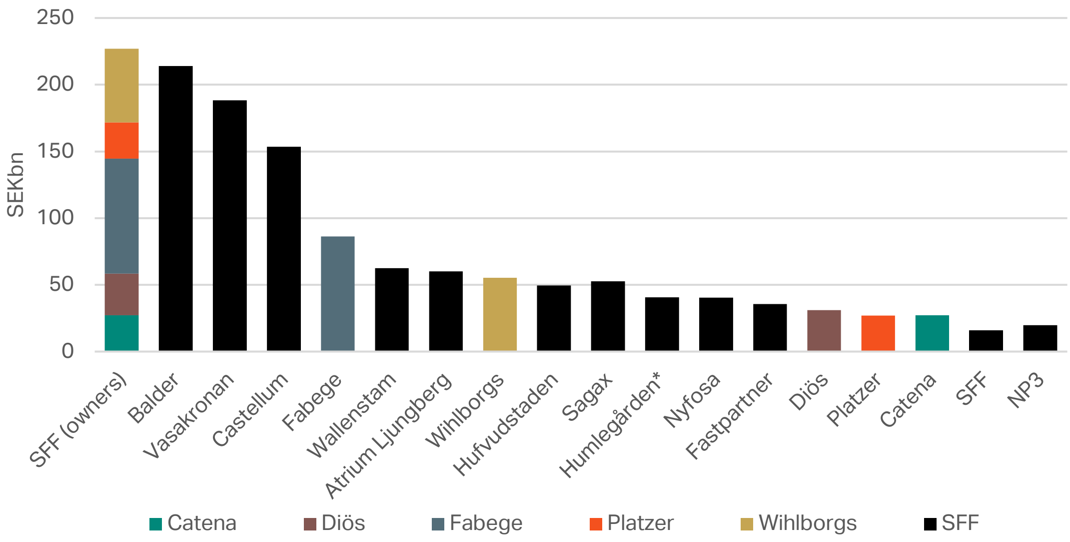
Substantial market diversification among owners, but high tenant concentration in pledged portfolio

Market position, size and diversification 'bb+'

SFF's market position is defined by the scope of its owners and the benefit that the company provides by giving its owners access to financing. SFF's pool of collateral is made up of 25 properties across Sweden with a market value of SEK 11bn as of 31 Dec. 2022. Compared with its Swedish peers, SFF's portfolio of pledged properties is relatively modest in size and has decreased significantly over the past year. The substantial market value of properties within the owner aggregate indicates the breadth of the owners, which provide guarantees and support within the structure. In addition, the owners' aggregate portfolio demonstrates the potential for SFF to add considerably to its existing portfolio. In our view, the decrease in portfolio size is due to difficulties on the capital markets, rather than owner unwillingness or inability.

SFF provides its owners with an alternative source of financing, increasing the diversification of their funding. However, for SFF to remain an enduring attractive source of financing for its owners, the company must also offer competitive terms compared with those of secured bank financing. The financial benefit for SFF's owners varies over time. At the time of writing, we expect financing through SFF to be significantly more expensive for the companies compared with bank financing. However, we believe it is important to the owner companies to have a diversified funding structure, and issuing bonds through SFF is cheaper for most of them than issuing bonds by themselves. Nonetheless, we expect bonds maturing in the first half of 2023 to not be refinanced through SFF, and for SFF to not issue any new bonds until 2024.

Figure 8. SFF peer group breakdown by property values, 31 Dec. 2022



Source: companies. *as of 30 Jun. 2022.

For a property to be eligible for financing via SFF it has to be located in its respective owner's priority market (see Figure 9). While the owners' market coverage and portfolio level covenants ensure some geographical diversification across Sweden, SFF's current property pool of 25 properties is relatively narrow compared with those of larger Nordic real-estate companies.

Figure 9. SFF owners' priority markets

Owner	Priority market
Catena	Locations along major highways (E4, E6, E20 and E22) between Malmö, Helsingborg, Gothenburg and Stockholm, as well as logistics terminals at major railway intersections (Nässjö, Katrineholm and Hallsberg).
Diös	More northerly cities of Borlänge, Falun, Gävle, Luleå, Skellefteå, Sundsvall, Umeå and Östersund.
Fabege	Central Stockholm (Stockholm City, Södermalm, Norrmalm, Östermalm and Kungsholmen), Hammarby Sjöstad and Solna (Solna Business Park and Arenastaden).
Platzer	Gothenburg, Mölndal and Härryda municipalities.
Wihlborgs	Malmö, Lund, Helsingborg and Burlöv municipalities.

Source: company.

As of 31 Dec. 2022, the portfolio's 10 largest tenants accounted for 48% of rental income, indicating a high degree of tenant concentration. We note that there are no limits on tenant concentrations across the portfolio. However, under the property level covenants, if more than 85% of a property's rental income comes from one tenant, the WALE (weighted-average lease expiry) must exceed 30 months at the point of financing, instead of the typical 24 months. We also note that the portfolio has limited property diversification, due to its reliance on a few properties with low LTV levels that ensure compliance with portfolio covenants.

Portfolio dominated by offices in Sweden's three major cities

Portfolio assessment 'bbb'

SFF's bonds are secured by a pool of mortgage certificates of specific, otherwise unencumbered, properties and pledged shares in directly related property-owning subsidiaries that are 100% owned and managed by one or more of the five owners.

Figure 10. SFF portfolio property types and municipalities by loan amount, 31 Dec. 2022

Source: company.

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 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 in the pool is reflected by exposures to logistics terminals, warehouses, and office properties in more northernly parts of 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 properties are added to the pool.

As of 31 Dec. 2022, the average remaining lease term in SFF's portfolio was 4.3 years, which is substantially longer than the minimum two years required at each point of financing. We note that some of the tenants are government-related entities, but view the tenant quality of the portfolio as a neutral factor.

Covenants state that properties are to be free from development that has an adverse effect on rental income, which we consider a strength. However, given the owners' collective focus on sustainability, we expect the owners to make value-adding improvements to some existing properties in order to ensure eligibility for green financing and to remain attractive to tenants.

Strong occupancy rate, margins considered neutral

Operating efficiency 'bbb+'

NCR considers SFF's earnings performance a neutral factor given its very low fixed costs and the fact that nearly all expenses are associated with the issuance of bonds and the administration of associated collateral. According to its financial policy, SFF is not designed to make profits, and adjusts its administration fees accordingly to minimise net financing costs for the owners. The company's income consists of token interest charges for the primary loans to the HoldCo's. 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. The cash reserves held by SFF are invested in low-risk financial assets (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.

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 via SFF, LTV covenants will capture any decline in occupancy leading to a decline in property values. Vacancy risks are consequently passed through 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. As of 31 Dec. 2022, the aggregate vacancy rate of SFF's portfolio was 2%, well below the vacancy limits for new lending or refinancing.

FINANCIAL RISK ASSESSMENT

Financial risk assessment 'bbb'

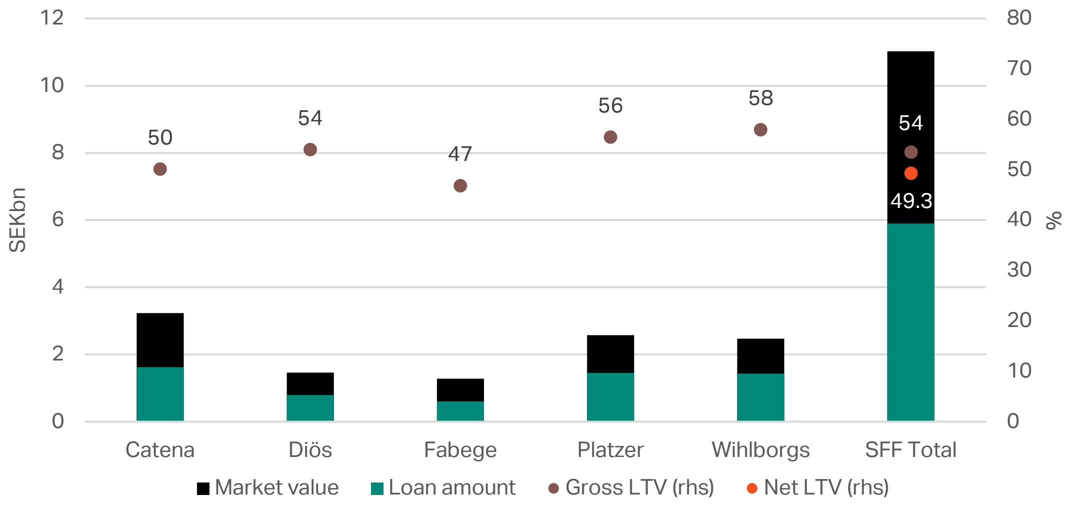
Our financial risk assessment balances SFF's increasingly high financial gearing for the rating level (measured as net LTV) and its low risk appetite, clearly outlined by portfolio and property level covenants. We consider the strength of the various checks and balances within the structure, as well as the oversight of the security agent, the owners and the legal review associated with each loan, as supportive of a somewhat stronger financial risk assessment than a purely ratio-driven assessment.

Increasingly high financial gearing, but significant headroom under covenants

Ratio analysis 'bb'

Our assessment of SFF's financial risk profile takes account of the company's LTV ratio (gross and net) and its property level LTV limits. Our calculations of net LTV subtract 100% of cash, since, although they are restricted, SFF's cash reserves can only be used for the benefit of bondholders. If SFF were to be liquidated, cash reserves and primary loans would be used to repay MTN investors. However, we do not adjust LTV for primary loans as these loans are associated with credit risk.

Figure 11. SFF market value, loan amount and LTV by owner, 31 Dec. 2022



Source: company.

SFF's LTV limits are specified at the property level and vary by owner company and property type (Figure 5). At year-end 2022, reported gross LTV was 53.5%, leaving significant headroom under LTV covenants ranging between 72% and 77% (the cancellation limit). At the same reporting date, we estimate net LTV to be 49.3%. We anticipate that property values will decline as yield requirements increase, factoring in a decrease in values of existing portfolio securities of 5.1% in 2023, 3.2% in 2024, and 0% in 2025. We also expect that the owner companies will allocate a higher share of collateral for new issues of bonds in 2024 and 2025 to counteract the increasing LTV. We assume that the loan portfolio will decline by 29% in 2023, as only part of the maturing bonds are refinanced, and grow by 24% in 2024 and 19% in 2025 as all bonds are refinanced, and SEK 1bn of new bonds are issued each year. Accordingly, we project net LTV increasing to 54% in 2025. This also factors in an increase in cash, as SFF's net profit is increasing due to higher interest rates. We expect the company to keep this excess profit to strengthen its cash reserves, as reserve requirements are increasing due to higher interest rates.

In terms of SFF's other key credit metrics as determined by NCR, we note that the company is not intended to generate earnings, while interest expenses are passed directly through from the HoldCo loans to the MTN investors, ensuring perfect net interest coverage as long as the owners can make coupon payments. We have credit assessments on the owners ranging from 'bbb-'/'bb+', and note that they all have substantial credit facilities with their banks. Consequently, 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.

Transaction structure and covenant details support the rating

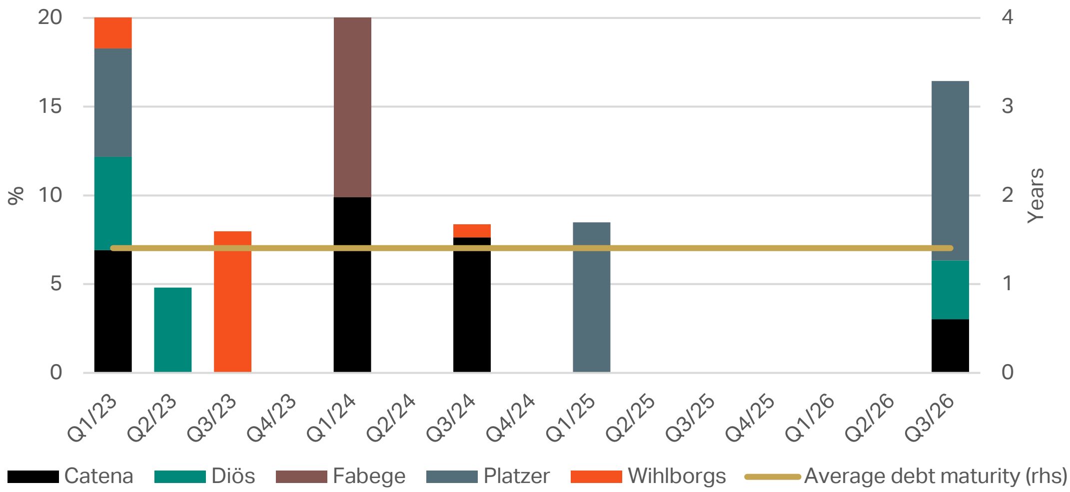
Risk appetite 'a'

SFF's risk appetite is closely connected with the transaction structure and covenants stipulated in SFF's MTN prospectus (described in detail in Appendix II). This framework is, in our view, supportive of a stronger financial risk assessment than a purely ratio-driven assessment. 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.

We view the various covenants within the structure as adequate, while the processes outlined satisfactorily ensure that pledged securities are managed in an orderly fashion. Furthermore, we note that, although property level covenants, other than the LTV covenant, are only applicable at the point of financing, they continually ensure that the pledged portfolio maintains a high quality, as loans are refinanced regularly. For example, if the occupancy of a specific property were to decline substantially, we would expect this to be captured by the LTV covenant. However, in the event that this were not detected, such deterioration would be captured at refinancing as the property no longer meets the minimum occupancy requirement, resulting in the property being excluded from the collateral package. This ensures that the quality of the collateral package is continually restored. SFF conducts an assessment of the need for loan loss provisions in accordance with IFRS9, which uses macroeconomic models to estimate the risk of losses in the loan portfolio of a financial institution. At year-end 2022, SFF has not needed to make any provisions.

We believe that SFF's owners intend to maintain existing risk levels and note that the company has evidence that the various triggers within the structure work and have resulted in additional cash collateral where vacancies have affected the valuations of single properties. Given that we do not expect SFF to refinance maturing bonds in the first half of 2023, there is a need for the owners to refinance internally. As of 31 Dec. 2022, SFF's average debt maturity was 1.4 years, with 34% of loans due to mature in 2023. If SFF were a standalone entity, we would view the company's short debt maturity profile as a material concern. However, the risk is mitigated by the policy that affected owners must ensure they have cash or bank facilities to cover the maturity three months in advance. At year-end 2022, all owner companies had substantial credit facilities with banks.

Figure 12. SFF debt maturity profile by owner loan, 31 Dec. 202



Source: company.

ADJUSTMENT FACTORS

Adjustment factors neutral

Adjustment factors are assessed as neutral and have no effect on our standalone credit assessment.

Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario under which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs. We typically expect an investment grade company to cover all liquidity needs over the coming 12 months.

We assess SFF's liquidity profile as adequate, with a liquidity surplus of SEK 200m over the coming 12 months. This is dependent on commitments of available liquidity from the company's owners, and we note that the short debt maturity profile and high proportion of near-term debt maturities would be a material standalone weakness were it not for these. For all maturities in the first half of 2023, not only those within three months, the owners concerned have provided liquidity assurance (see Appendix II for further details). All owner companies had substantial credit facilities at year-end 2022.

Additionally, we believe the majority, if not all, of the pledged properties are of sufficiently high quality to enable refinancing through alternative funding channels, such as the banking system, reducing refinancing risk.

We estimate the following primary funding sources for the 12 months ending 31 Dec. 2023, totalling SEK 2.2 bn:

- SEK 464m in estimated cash at year-end 2022;
- SEK 50m in an unutilised credit facility from the owner companies;
- SEK 836m in matured bonds refinanced by owners;
- SEK 692m in borrowings and owner assurances since year-end 2022; and
- SEK 191m in estimated minimum fully cancellable primary loans.

We estimate the following uses of funds for the 12 months ending 31 Dec. 2023, totalling SEK 2bn:

- SEK 2bn in servicing of debt maturities.

Environmental, social and governance factors

ESG factors adequate

Given the nature of SFF, 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 AB. SFF follows Swedish governance guidelines (*Svensk kod för bolagsstyrning*) but has decided to deviate from some of these guidelines, such as the inclusion of independent board members. We consider the deviations minor and reasonable given the nature of SFF's operations.

SFF's environmental profile is dependent on the type of properties its owners finance via SFF. However, the owners each have a stated objective to improve their own environmental profile by enhancing energy efficiency and increasing the share of environmentally certified properties under management.

Figure 13. SFF ESG considerations

Issue	Risk	Mitigating efforts	Result
Governance	Unintended breach of covenants.	Oversight of security agent and legal advisor. Board members have veto rights on any board decision.	Carefully managed structure. No issues in the past. Unanimous board decisions.
Increased environmental focus of financial markets	Adverse effect on financing possibilities or higher financing costs due to subpar environmental efforts.	Established green bond framework certified medium green by CICERO.	As of 31 Dec. 2022, outstanding green bonds totalling SEK 2.9bn, or 49% of outstanding debt.

Source: company. ESG factors in corporate ratings.

OWNERSHIP ANALYSIS

Ownership positive

NCR reflects continual support from SFF's owners by assigning an additional notch to SFF's standalone credit assessment to reflect the credit enhancement not reflected elsewhere within the assessment. In particular, we factor in the requirement for the owners to replace non-performing assets and/or provide additional collateral if LTV levels were to rise, and for the owners to confirm available liquidity/bank facilities three months prior to any loan maturity. Furthermore, although 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, together with the strong ownership ties between the five companies, provides incentives for the owners to resolve any issues collectively. Upon SFF's inception, the five owners were partly owned by Swedish businessman Erik Paulsson and/or his family's private investment company, Backahill AB. Although Backahill AB relinquished ownership of Platzer in 2017, it has historic ties to the company.

Owner profiles can be found below.

ISSUE RATINGS

SFF is financed only by secured senior obligations. Our 'BBB+' long-term issuer rating on SFF is also assigned to bonds issued within the company's MTN programme.

METHODOLOGIES USED

(i) Corporate Rating Methodology, 18 Feb. 2022.
(ii) Rating Principles, 24 May 2022.
(iii) Group and Government Support Rating Methodology, 18 Feb. 2022.

RELEVANT RESEARCH

(i) Sweden's real-estate sector faces growing challenges, 13 Dec. 2022.

Appendix I: Owner profiles

CATENA AB (PUBL)

Catena manages and develops logistics properties – terminals, distribution and warehouse facilities – in Sweden's largest cities and along connecting railways and highways. Catena was assigned a public rating by NCR in 2021. See Catena's NCR issuer page for further information.

PLATZER FASTIGHETER HOLDING AB (PUBL)

Platzer focuses on commercial properties in Gothenburg, representing one of the more geographically concentrated portfolios of the five owners. Platzer was assigned a public rating by NCR in 2021. See Platzer's NCR issuer page for further information.

DIÖS FASTIGHETER AB (PUBL)

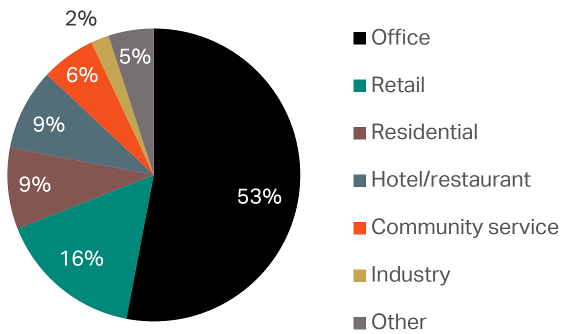
Diös focuses on property management and development in the cities along the north-eastern coast of Sweden, as well as the inland regions of Dalarna and Östersund. The company's portfolio is more diversified across property types than other owners and only 17% of revenues stem from top 10 tenants, which are primarily government or government-related entities. The average remaining lease term is 4.3 years, while the portfolio vacancy of 9% is among the higher of SFF's owners.

Figure 14. Diös key metrics

	2017	2018	2019	2020	2021	LTM*
Property portfolio ('000 sqm)	1,553	1,464	1,483	1,455	1,511	1,623
Property value (SEKbn)	19.5	20.8	22.9	24.5	28.0	31.1
Vacancy (%)	9	9	9	9	11	9
Average debt maturity (years)	2.4	2.0	1.6	2.5	2	2.4
EBITDA margin (%)	59	59	60	61	62	62
NCR-adjusted net debt/EBITDA (x)	11.0	10.6	11.1	11.7	11.2	11.8
NCR-adjusted EBITDA/net interest (x)	5.4	6.1	6.9	7.0	6.6	4.6
NCR-adjusted net LTV (%)	57.0	54.3	54.1	54.4	48.7	52.0

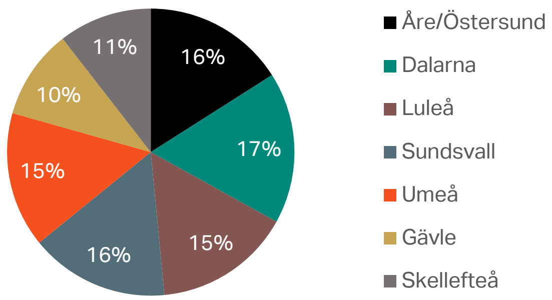
Based on company and NCR data. All metrics adjusted according to NCR methodology. *LTM–last 12 months as of 31 Dec. 2022.

Figure 15. Diös property types by rental value, 31 Dec. 2022



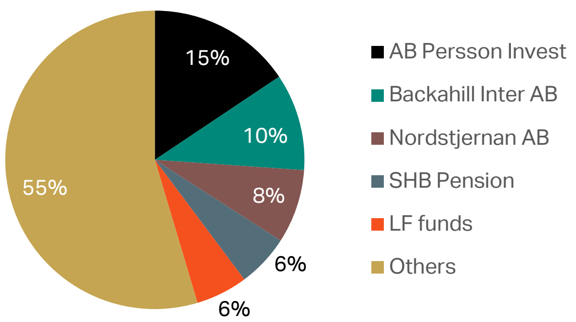
Source: company.

Figure 16. Diös locations by rental value, 31 Dec. 2022



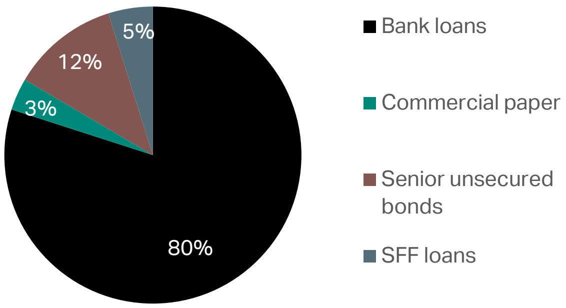
Source: company.

Figure 17. Diös ownership structure, 31 Dec. 2022



Source: company. LF–Länsförsäkringar. SHB–Handelsbanken.

Figure 18. Diös interest-bearing debt, 31 Dec. 2022



Source: company.

FABEGE AB (PUBL)

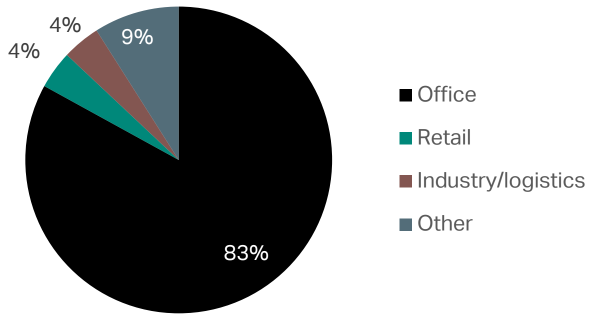
While not the largest owner by lettable area, Fabege is the largest of SFF's five owners in terms of property value, at SEK 86.3bn as of 31 Dec. 2022. The company focuses on office space in central Stockholm and the connected areas of Solna, Hammarby Sjöstad and Flemingsberg. The company has improved credit metrics in recent years and, although increasing, has the lowest LTV level of the sponsors, at 39%. The company's top 10 tenants account for 27% of rental revenues. Vacancy levels rose in 2020 and were 11% at 31 Dec. 2022.

Figure 19. Fabege key metrics

	2017	2018	2019	2020	2021	LTM*
Property portfolio ('000 sqm)	1,136	1,252	1,255	1,245	1,247	1,290
Property value (SEKbn)	57.9	67.6	74.3	76.6	83.3	86.3
Vacancy (%)	6	6	6	9	10	11
Average debt maturity (years)	4	5	5.8	5.2	4.9	4.7
EBITDA margin (%)	70	71	72	72	70	62
NCR-adjusted net debt/EBITDA (x)	15.3	14.6	13.3	13.6	15.2	16.8
NCR-adjusted EBITDA/net interest (x)	2.9	3.7	4.2	4.1	3.9	3.2
NCR-adjusted net LTV (%)	42.5	38.8	36.4	35.5	36.8	39.0

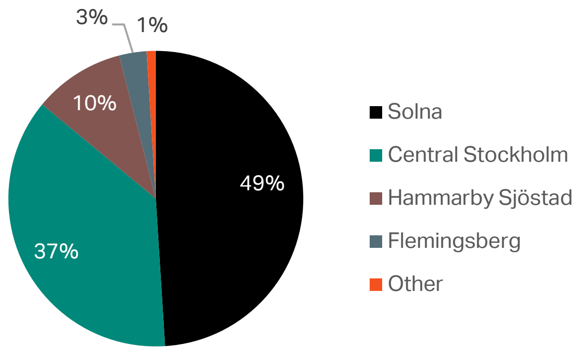
Based on company and NCR data. All metrics adjusted according to NCR methodology. *LTM–last 12 months as of 31 Dec. 2022.

Figure 20. Fabege property types by rental income, 31 Dec. 2022



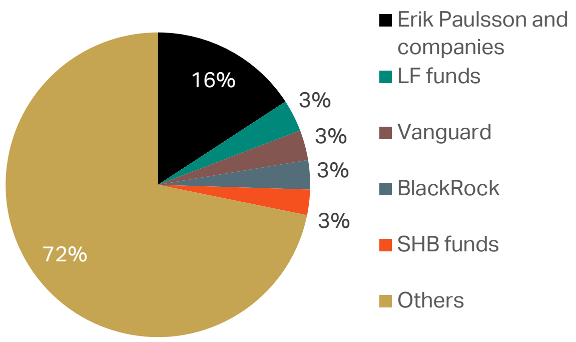
Source: company.

Figure 21. Fabege locations by market value, 31 Dec. 2022



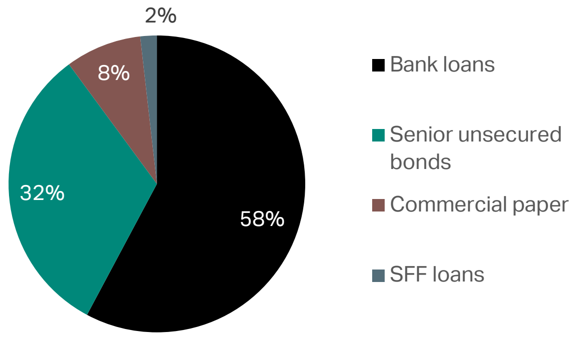
Source: company.

Figure 22. Fabege ownership structure, 31 Dec. 2022



Source: company. SHB-Handelsbanken. LF–Länsförsäkringar.

Figure 23. Fabege interest-bearing debt, 31 Dec. 2022



Source: company.

WIHLBORGS FASTIGHETER AB (PUBL)

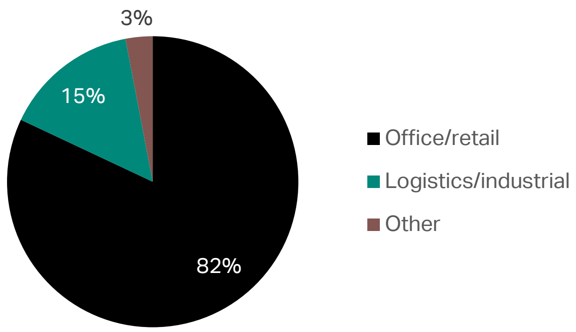
Wihlborgs' property focus is on the Öresund region, including Sweden's largest southern cities and Copenhagen in Denmark, across the Öresund Bridge. Most of the portfolio comprises office and retail space (82%), with the remaining properties associated with logistics or industrial properties. As of 31 Dec. 2022, the property portfolio was valued at SEK 55.2bn. Wihlborgs' net interest coverage has improved in recent years due to a considerable increase in EBITDA and materially lower interest costs.

Figure 24. Wihlborgs key metrics

	2017	2018	2019	2020	2021	LTM*
Property portfolio ('000 sqm)	2,067	2,106	2,181	2,103	2,143	2,229
Property value (SEKbn)	38.6	42.1	45.5	46.1	50.0	55.2
Vacancy (%)	7	7	7	9	8	7
Average debt maturity (years)	6.2	6.0	5.7	6.1	6.0	6.1
EBITDA margin (%)	71	70	69	70	69	67
NCR-adjusted net debt/EBITDA (x)	12.4	12.1	11.4	10.3	10.9	11.9
NCR-adjusted EBITDA/net interest (x)	3.4	4.0	6.3	6.8	7.0	5.8
NCR-adjusted net LTV (%)	53.0	53.8	51.6	47.9	46.1	48.4

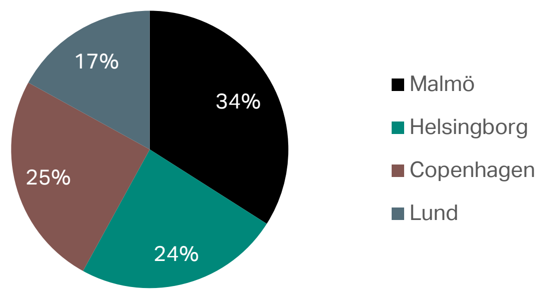
Based on company and NCR data. All metrics adjusted according to NCR methodology. *LTM–last 12 months as of 30 Sep. 2021.

Figure 25. Wihlborgs property types by rental value, 31 Dec. 2022



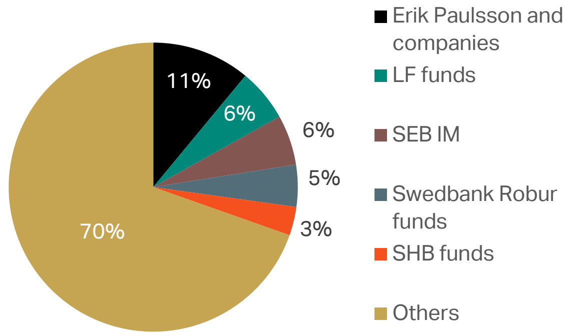
Source: company.

Figure 26. Wihlborgs locations by rental value, 31 Dec. 2022



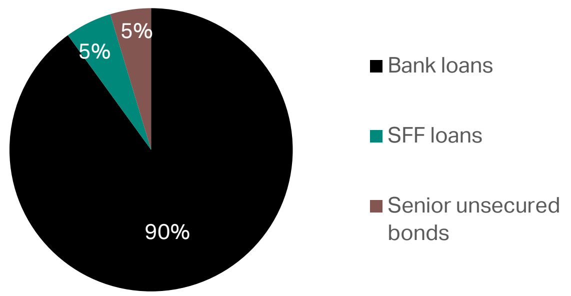
Source: company.

Figure 27. Wihlborgs ownership structure, 31 Dec. 2022



Source: company. LF–Länsförsäkringar. SHB–Handelsbanken.

Figure 28. Wihlborgs interest-bearing debt, 31 Dec. 2022



Source: SFF and company.

Appendix II: Transaction structure and covenant details

SFF's issuance of senior secured bonds follows a strict process to ensure that 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 as long as its owners do not default on their obligations to SFF. SFF's fulfilment of covenants and processes is monitored by Intertrust (Sweden) AB, acting as security agent, and confirmed by law firm Born Advokater in a formal legal opinion for each bond prior to the disbursement of funds to SFF. Each calendar quarter, SFF submits a compliance certificate to the security agent, ensuring that property and portfolio level covenants are met.

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 not meet their obligations to SFF, SFF would maintain the ability to sell all of the properties pledged within the pool (not just those of the distressed company). SFF has liquidity buffers in the event of delayed payment or delays in the realisation of collateral .

The details of the capitalisation and transaction processes are described below, followed by a description of property and portfolio level covenants.

Capitalisation and debt issuance

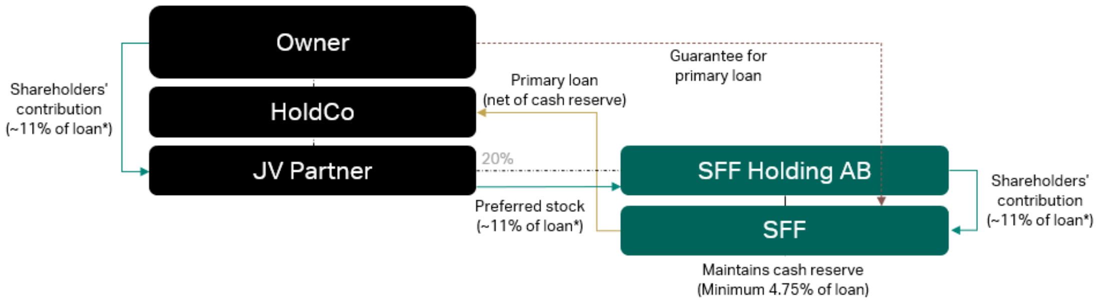
In the capitalisation process:

SFF Holding AB receives an injection of preferred stock from an owner via the owner's joint venture company. The proceeds are then used as an equity injection in SFF. To ensure a 10% equity ratio in SFF, the injection is approximately 11.1% of the loan amount to be issued (10% of the loan plus 10% of the capital).

SFF maintains a cash reserve of a minimum of 5.75% of the loan amount (depending on collateral pledged and STIBOR levels).

SFF issues a loan (primary loan) to the owner's SFF holding company corresponding to the net proceeds from the equity injection less the cash reserve. Primary loans are fully cancellable at SFF's discretion, and proceeds can be used to add liquidity to SFF if necessary.

Figure 29. Flow of capital proceeds from an owner to SFF prior to issuing a loan



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

In the debt issuance process**Error! Reference source not found.**:

A property company (PropCo) within an owner group determines the need to finance a particular property 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.

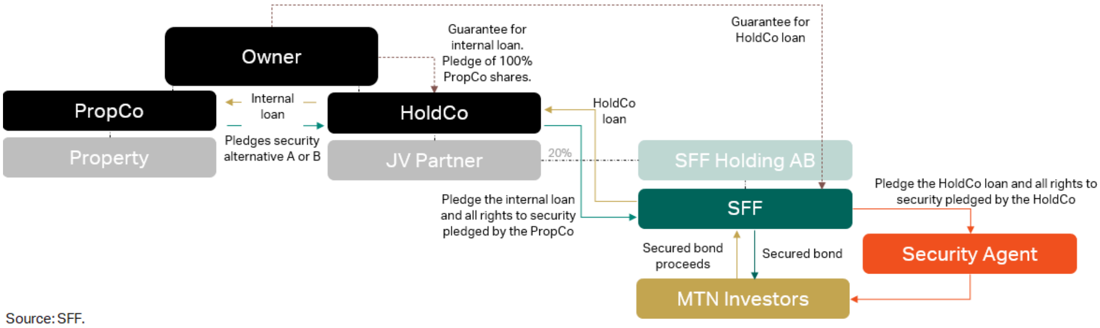
The PropCo pledges are either:

- Type A: All outstanding mortgage certificates corresponding to at least 100% of the loan amount plus 1% of the loan amount in additional cash reserves; or
- Type B: All outstanding mortgage certificates corresponding to 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 is 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 Born Advokater issues a legal opinion confirming that all steps of the process have been completed satisfactorily before funds are transferred to SFF's account.

Figure 30. Flow of proceeds and collateral from a PropCo to MTN investors



Source: SFF.

Liquidity assurance

SFF's refinancing risk is further reduced by the process stipulated prior to an upcoming debt maturity. Four months before a loan maturity, SFF formally notifies its owners of the forthcoming maturity, whereupon the owner company provides confirmation, at least three months prior to maturity, that it will have available cash and/or available bank facilities to repay the loan in the event that SFF is unable to issue bonds in the market. If an owner is unable to provide such assurances, SFF could, via the security agent, 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 cancel all primary loans to generate further cash to ensure timely payment to MTN investors until proceeds from the sale are finalised.

Figure 31. SFF key financial data, 2018–2022

SEKm	FY	FY	FY	FY	FY	LTM
Period-end	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021	31 Dec. 2022	31 Dec. 2022
INCOME STATEMENT						
Rental income	–	–	–	–	–	–
Other income	–	–	–	–	–	–
Total costs from operations	–	–	–	–	–	–
Net operating income	–	–	–	–	–	–
Administrative expenses	-7	-7	-7	-7	-7	-7
Administrative expenses, project portfolio	–	–	–	–	–	–
EBITDA	-7	-7	-7	-7	-7	-7
Share of profit in associated companies and joint ventures	–	–	–	–	–	–
Interest expenses	-52	-73	-76	-81	-107	-107
Interest income	60	81	84	87	115	115
Interest expenses, shareholder loans	–	–	–	–	–	–
Financial costs from leasing	–	–	–	–	–	–
Other financial costs	–	–	–	–	–	–
Changes in investment property	–	–	–	–	–	–
Gain (loss) on financial assets held at fair value	–	–	–	–	–	–
Disposals of investment properties	–	–	–	–	–	–
Gain (loss) on derivatives	–	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–	–
Restructuring activities	–	–	–	–	–	–
Income (expense) on discontinued operations	–	–	–	–	–	–
Pre-tax profit	0	1	0	-1	1	1
Current taxes	–	–	–	–	–	–
Deferred taxes	-0	-0	-0	0	-0	-0
Net profit	0	1	0	-1	1	1
BALANCE SHEET						
Investment property	–	–	–	–	–	–
Other non-current assets	7,015	3,453	6,543	4,614	4,466	4,466
Total non-current assets	7,015	3,453	6,543	4,614	4,466	4,466
Cash and cash equivalents	492	486	464	464	464	464
Other current assets	3,028	6,030	2,319	4,353	2,024	2,024
Total current assets	3,520	6,515	2,784	4,817	2,488	2,488
Total assets	10,535	9,968	9,326	9,430	6,954	6,954
Total equity	1,064	1,090	1,036	1,035	1,036	1,036
Non-current borrowings	6,616	3,230	6,182	4,356	3,898	3,898
Non-current borrowings, shareholder loans	–	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–	–
Other non-current liabilities	–	–	–	–	–	–
Total non-current liabilities	6,616	3,230	6,182	4,356	3,898	3,898
Total current liabilities	2,855	5,649	2,109	4,039	2,020	2,020
Total equity and liabilities	10,535	9,968	9,326	9,430	6,954	6,954
CASH FLOW STATEMENT						
Pre-tax profit	0	1	0	-1	1	1
... of which changes in investment property	–	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–	–
Tax paid	–	–	–	–	–	–
Adjustment for items not in cash flow	–	–	–	–	–	–
Cash flow from operating activities before changes in working capital	0	1	0	-1	1	1
Changes in working capital	1	3	-3	0	-1	-1
Cash flow from operating activities	1	4	-3	-0	1	1
Cash flow from investment activities	-285	559	607	-102	2,486	2,486
Cash flow from financing activities	315	-569	-626	102	-2,486	-2,486
Cash and cash equivalents at beginning of period	460	492	486	464	464	464
Cash flow for period	32	-6	-22	-0	1	1
Cash and cash equivalents at end of period	492	486	464	464	464	464

Source: company. FY–full year. LTM–last 12 months.

Figure 32. SFF rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	bbb-
Market position, size and diversification	12.5%	bb+
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		Adequate
ESG		Adequate
Peer comparisons		Neutral
Stand-alone credit assessment		**bbb**
Support analysis		+1 notch
Issuer rating		**BBB+**
Outlook		Stable
Short-term rating		**N3**

Figure 33. Capital structure ratings

Seniority	Rating
Senior secured	BBB+

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