

CREDIT OPINION

12 August 2021

Update

 Rate this Research

RATINGS

Kungsleden AB

Domicile	Sweden
Long Term Rating	Baa3 , Possible Upgrade
Type	LT Issuer Rating - Dom Curr
Outlook	Rating(s) Under Review

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Kungsleden AB

Update following placing the rating on review for upgrade

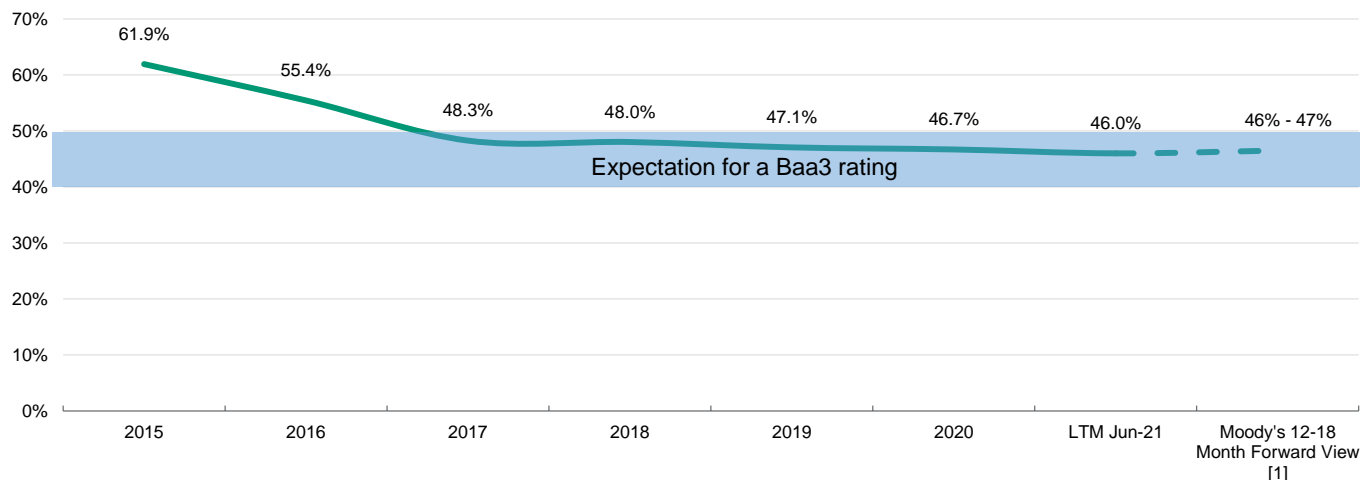
Summary

On August 4th 2021 Moody's placed the Baa3 long-term issuer rating of [Kungsleden AB](#) (Kungsleden) on review for upgrade after the offer announcement made by its rated peer [Castellum AB \(Castellum, Baa2 stable\)](#) to acquire all shares in Kungsleden. We see the transaction as credit positive for Kungsleden as it will create a combined company with scale of around SEK140 billion pro forma as of end of June 2021 focused on the office segment. Moreover, Kungsleden will benefit from the combined group's financial policy commensurate with a Baa2 rating guidance and improved access to capital and funding sources.

Kungsleden AB's Baa3 rating primarily reflects the improving quality and geographical diversification of its commercial property portfolio, which was valued at about SEK43 billion as of 30 June 2021. The company's properties are increasingly concentrated in clusters in attractive inner-city locations and good secondary locations in or around growing Swedish cities, which together account for about 50% of the country's population. Properties in Stockholm County make up the largest share of the portfolio's value at 46%, while the Stockholm inner-city location accounts for 19%. The company has continued divesting of noncore assets, and its strategy of focusing exclusively on the four growth markets of Stockholm, Göteborg, Malmö and Västerås is credit positive. Kungsleden's controlled development programme and a few high-quality acquisitions will continue to gradually enhance its portfolio, while a good weighted average lease maturity of 4.1 years as of June 2021 provides rental income visibility. The unencumbered assets were at 33% as of 30 June 2021 from 2% in September 2017. Another credit strength is Kungsleden's strong fixed-charge coverage of 4.4x. Additionally, the change of LTV policy to 45% is credit positive. We expect leverage, as measured by total debt/gross assets, to remain, between 46% and 47%, over the next 12-18 months.

Kungsleden's rating is also constrained by the office portfolio being mostly located in secondary locations of Sweden's largest cities, which account for 86% of rental value; the company's exposure to industrial/warehouse properties (20%), although they have relatively long leases, and creditworthy counterparties such as [ABB Ltd.](#) (A3 stable); the moderately high vacancy rate of 7.6%, excluding development properties (10% including development properties), especially in view of the mature stage of the property cycle; some tenant concentration; and high net debt/EBITDA of 11.5x as of June 2021.

Exhibit 1

Moody's-adjusted debt/total assets

[1] This represents Moody's forward view, not the view of the issuer.

Sources: Moody's Financial Metrics and Moody's Investors Service estimates

Credit strengths

- » Good fundamentals in the portfolio's inner-city locations and secondary locations in growth cities
- » A medium-sized and geographically diversified portfolio focusing on office and industrial/logistics properties
- » Stable rental revenue, supported by an evenly spread lease maturity profile
- » Continued rebalancing of the portfolio towards more attractive assets and focusing on four main cities
- » Adequate liquidity and strong fixed-charge coverage
- » Revised updated LTV policy of 45%

Credit challenges

- » Weaker economical environment with contracting GDP in the next 12 months, because of the coronavirus outbreak, but a sharp recovery in 2021
- » Somewhat high and increasing net debt/EBITDA
- » A moderately high vacancy rate for this point in the property cycle of 7.6% (including development projects 10%)
- » Some tenant concentration, with the 10 largest tenants accounting for 21% of total rental value
- » Relatively short-dated debt maturity profile of 3.9 years and moderate interest-fixing period compared with European peers (above five years), but in line with most Swedish peers

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Rating outlook

The rating review will focus on (1) our credit view of the combined entity, (2) the perceived level of financial support from the new owner towards its rated subsidiary if Kungsleden remains a stand-alone entity or alternatively whether Kungsleden would be more closely integrated within Castellum and (3) the impact of the changing ownership structure on the combined operations, strategy and financial profile.

Factors that could lead to an upgrade

An upgrade can result from a perceived combined stronger business and financial profile as a consequence of the completed merger. Absent the completion of the transaction, factors that could lead to an upgrade include:

- » the company expanding and enhancing the size and quality of its real estate portfolio while sustaining leverage well below 45%, as measured by Moody's-adjusted gross debt/assets, and observing financial policies that support the lower leverage
- » sustaining a well-spread debt maturity profile and refinancing secured borrowing with senior unsecured lending, leading to an increase in unencumbered assets towards 50%

Factors that could lead to a downgrade

Given the review for upgrade, a downgrade is unlikely at this point. Absent the completion of the transaction, the rating could be downgraded if:

- » the company's operating performance deteriorates, or property market fundamentals weaken sharply without counterbalanced by lower leverage
- » gross debt/total assets rise to around or above 50% on a sustained basis or EBITDA/fixed charge coverage drops below 3.5x on a sustained basis
- » liquidity weakens or reliance on short-term debt increases
- » market fundamentals weaken, resulting in falling rents and asset values

Key indicators

Kungsleden AB

Kungsleden AB

USD Billion	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	LTM Jun-21	12-18 Month Forward View [1]
Gross Assets	\$3.3	\$3.9	\$4.0	\$4.2	\$5.2	\$5.2	\$5.3 - \$5.5
Unencumbered Assets / Gross Assets	0.0%	0.0%	31.5%	33.2%	32.8%	33.3%	40% - 45%
Total Debt + Preferred Stock / Gross Asset:	55.4%	48.3%	48.0%	47.1%	46.7%	46.0%	46% - 47%
Net Debt / EBITDA	10.9x	10.4x	11.0x	11.8x	11.6x	11.5x	11.2x - 11.7x
Secured Debt / Gross Assets	47.9%	38.6%	29.1%	25.8%	24.2%	23.7%	20.0%
Fixed Charge Coverage	3.0x	3.3x	4.0x	4.4x	4.3x	4.4x	4.1x - 4.5x

[1] This represents Moody's forward view, not the view of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Profile

Kungsleden is a Stockholm-headquartered, listed commercial real estate company that was established in 1994. The company owns, develops and manages a commercial property portfolio located in Sweden's largest growth markets, predominantly Stockholm, as well as Göteborg, Malmö and the Mälardalen region. As of end June 2021, the company's property portfolio had a market value of SEK43 billion.

Detailed credit considerations

Castellum's announced acquisition is credit positive for Kungsleden's credit profile

On 2 August Castellum announced that it has launched a public offer to acquire all shares in Kungsleden. Total offer value amounts to SEK 26.86 billion and will be paid up to 70% via shares in Castellum, with the remainder 30% to be paid in cash. The bid represents a premium of ca. 20% compared to Kungsleden's share price during the last 90 trading days and is recommended by Kungsleden's board of directors.

We view the transaction as initially credit positive for Kungsleden, as it will create a combined company with a notable scale of around SEK140 billion pro forma end of June 2021 or SEK 157 billion, if considering recent acquisitions and Castellum's share in Entra ASA. The combined entity will benefit from a strong overlap in terms of cities and asset classes that will likely offer operational and financial synergies along the integration process. The combined entity will remain focused on the office segment in strong locations including Stockholm (32% of GAV), benefitting as well from an important component of rental income derived from public sector tenants (23% as estimated by the acquiring company). The combined property portfolio will remain broadly diversified across other asset classes such as warehouses and logistics properties (13%), retail (7%), a development project portfolio (6%) and others (3%). As part of the targeted capital recycling measures if the merger is successful, the combined company is planning to dispose non-core assets which will likely improve the overall portfolio composition and strategic focus in terms of locations and asset classes.

If the acquisition by Castellum materializes, Kungsleden will be part of a group that features a solid financial profile with a policy that effectively targets a net LTV below 45% (commensurate with a Baa2 rating guidance) and that also has a much stronger access to capital markets than currently Kungsleden does on a standalone basis. Accordingly, under the potential new ownership structure Kungsleden would benefit from greater access to diverse funding sources supporting the combined company's growth prospects and its diversification towards unsecured funding that will ultimately expand the combined company's unencumbered asset base.

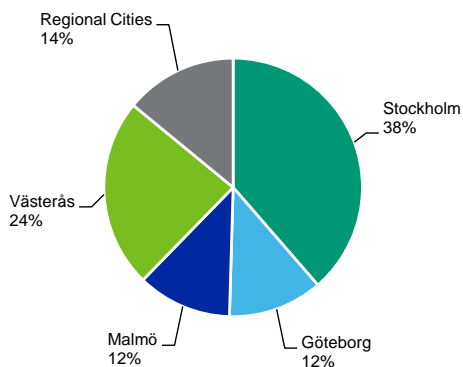
A medium-sized, diversified commercial property portfolio

Kungsleden owns a medium-sized SEK43 billion real estate portfolio, comprising 207 properties that span around 2 million square meters and generate around SEK2.5 billion in annual rental income. The holdings are located in the inner-city (19%) and the remainder in primary suburbs and secondary locations of Sweden's three largest and fastest-growing cities of Stockholm, Göteborg and Malmö, as well as in the fifth-largest city of Sweden, Västerås. The four growth markets of Stockholm, Göteborg, Malmö and Västerås account for 86% of the portfolio's rental value (see Exhibit 3). The company aims to increase its focus on offices in its existing portfolio and expects to increase the value of the portfolio above SEK55 billion over the next five years.

Based on market value, offices made up 73% of the company's portfolio as of 30 June 2021, logistics/warehouses 17%, retail 4% and other 6%. Based on rental value, offices accounted for 69% of the total, industrial/logistics/warehouses 20%, retail 6% and other 5% (see Exhibit 4).

Exhibit 3

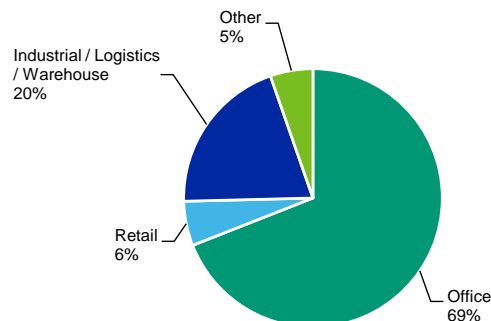
Balanced portfolio across Sweden's largest city regions
Rental value by region as of 30 June 2021



Source: Company data

Exhibit 4

Office and industrial/logistics/warehouse properties represent most of the portfolio
Rental value by asset class as of 30 June 2021



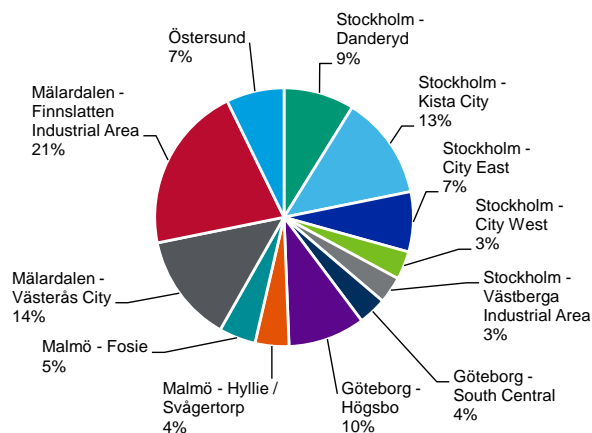
Source: Company data

Kungsliden focuses on the long-term ownership of properties in well-connected inner-city locations and good secondary locations in metropolitan areas. It also seeks to provide good services and facilities. The company has been rebalancing its portfolio by buying properties to create clusters in a few select areas. As of 30 June 2021, around 70% of its portfolio was located in 12 clusters. As part of its rebalancing strategy, the company disposed of above SEK9 billion worth of nonmetropolitan properties during the last eight years while also growing its portfolio significantly. The repositioning and streamlining of the portfolio started in 2012. As such, the company's current strategy of focusing on clusters and offices, while gradually increasing its development pipeline, has a relatively short history. In the future, the company intends to acquire selected properties to increase the size of its clusters and achieve cost efficiencies. Five of Kungsliden's clusters are in Stockholm, while the Finsslätten cluster is the largest at 237,000 square metres (see Exhibits 5 and 6).

Exhibit 5

Largest Kungsliden clusters are located in the city of Västerås in the Mälardalen region

Distribution of clusters as of 30 June 2021 (square meters)



Sources: Company data and Moody's own geographical split up

Exhibit 6

Major Kungsliden clusters in Mälardalen and the Stockholm region

Cluster overview as of 30 June 2021

Select Cluster	Cluster Description
Danderyd	With 100,000 sq.m of leasable area across 4 office buildings, Kungsliden is the largest commercial property owner in Danderyd, a suburb located 15 kilometers north of downtown Stockholm. The area is well-connected via public transport and lies in direct proximity to the E18 freeway. In the close vicinity, Skandia Fastigheter is conducting major redevelopments of Mörby Centrum.
Kista City	Kista is located 11 kilometers north of Stockholm next to freeways E4 and E18, and in between the airports of Arlanda and Bromma. The area, which hosts a major shopping mall and approximately 1,300 companies predominantly operating within the ICT sector, is well-connected also via metro, commuter train, and in the future a new cross rail line. Kungsliden has 147,000 sq.m of leasable area.
Västerås City	With 154,000 sq.m of leasable area Kungsliden is the largest property owner in Västerås, a Mälardalen city located approximately 100 kilometers from Stockholm. The company owns both offices and hotels with reference tenants since several years being large industrial company ABB, and the City of Västerås.
Finnlätten Industrial Area	Finnlätten is an industrial area close to Västerås in which Kungsliden holds 237,000 sq.m of office and storage properties. Major industrial firms such as ABB, Westinghouse, Bombardier, Alstom, and Siemens operate in the area.

Source: Company data

Sweden's largest property markets are highly fragmented with many medium-sized and large real estate companies competing with one another, making it difficult for a company to achieve a strong position. However, Kungsliden is the largest commercial real estate owner in Västerås and Danderyd.

Kungsliden's total investments for 2021-23 amounts to SEK4.2 billion and includes tenant improvements, maintenance and project development. The flexibility in the investments are significant and committed capex coming 18-months are approximately SEK0.6 billion compared to SEK 2.0 billion planned investments. The potential to grow organically provides the company with a degree of stability and predictability, and makes it less reliant on acquisitions in a highly competitive investment market. The company's concentration risk in Sweden is largely offset by its geographic diversification and exposure to varied underlying economic drivers.

The company's industrial/logistics properties are focused on four hubs located along important roads: Västberga in Stockholm, Fosie in the south of Malmö, Finnlätten in Västerås and Högbo/Sisjön in Göteborg. Intelligent Logistik views these locations as being among the top 15 most attractive logistics sites in Sweden.

Concentration risk partly mitigated by properties' mix of locations

Kungsliden's focus markets of Stockholm, Göteborg and Malmö are the largest cities in Sweden in terms of population and GDP, and are growing in terms of number of people and businesses. Västerås, which Kungsliden also focuses on, is Sweden's fifth-largest city. Proximity to a well-educated workforce and a creative environment should underpin demand for Kungsliden's office space in these cities.

However, Kungsliden's strategy is to invest in locations that are mostly outside the city centers because the company believes that more value can be created in these areas from higher yields, an expected increase in demand and rental increases. This explains, to some extent, Kungsliden's moderately high vacancy rate of 7.6% and average property yield of 4.4% as of June 2021.

Kungsliden's largest holdings are in the Stockholm area, which represented 38% of rental value and 46% of total market value as of June 2021 (see Exhibit 3). However, we are comfortable with this level of concentration in Stockholm, which generates about a third of

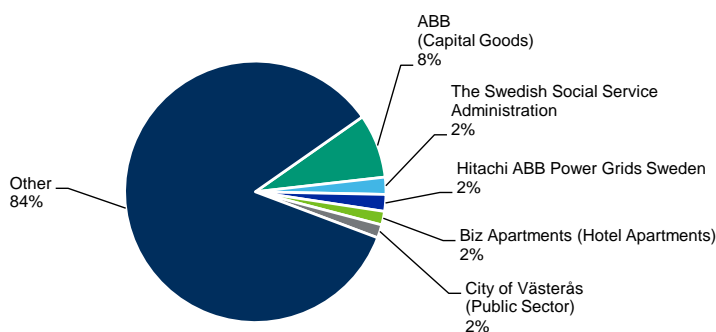
Sweden's GDP, because we do not believe it will lead to a significant divergence from overall economic and property trends. Moreover, Stockholm is likely to outperform other Swedish regions in terms of population and economic growth. The city is one of Sweden's strongest property markets, with strong corporate demand for office space, which will continue to drive rental growth.

Kungsliden has some customer concentration, with its 10 largest tenants representing around 21% of its rental value. ABB Ltd., the company's largest tenant, accounts for 8% of rental value and has a remaining lease period of four years (see Exhibit 7). However, ABB has divested a significant part of its activities to Hitachi, which reduced concentration. Hitachi is currently the third largest tenant of Kungsliden with 2% of rental value. However, 18% of the company's rental value comes from government-related entities, such as municipalities and universities, which is credit positive.

Exhibit 7

Kungsliden's largest tenants

Rental value as of June 2021



*percentages may not add up to 100% due to rounding

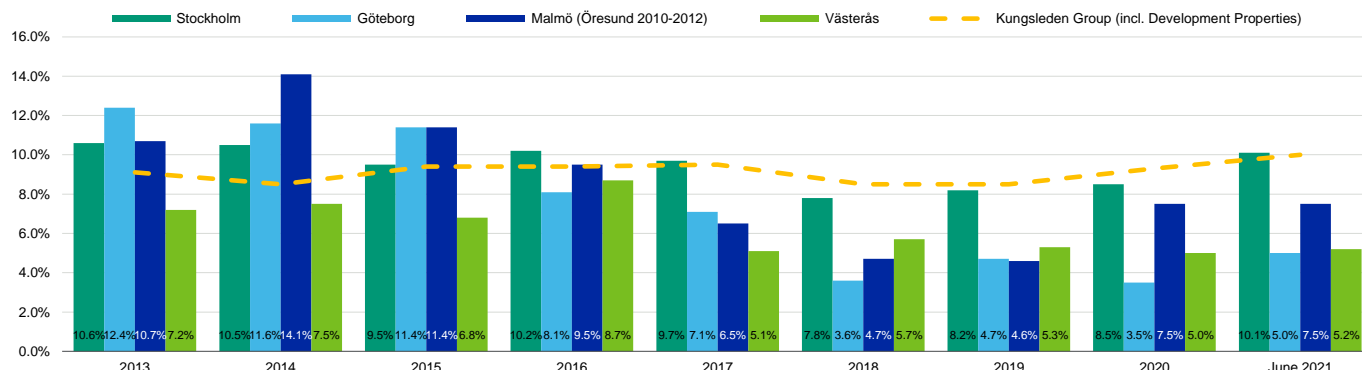
Source: Company data

The usual length of Kungsliden's office leases is three to five years. Lease agreements for storage, logistics and industry are somewhat longer, at five to 10 years. The lease maturities are evenly spread, with about 10%-20% expiring per year. The company's average remaining lease period is 4.1 years, about the average for the Swedish market, spread across around 1,500 tenants that operate in a broad range of sectors.

Kungsliden has a vacancy rate of 7.6% excluding development properties (including development projects 10%), which is somewhat high at this mature point in the property cycle but in line with some of its Swedish peers (see Exhibit 8). We expect the company to continue its reletting activities and to improve its occupancy rate supported by currently favourable market conditions. The fact that the vacancy rate is not lower could be indicative of structural issues in some markets, such as oversupply or property quality. For example, the vacancy rate in Kista is as high as 11%.

Exhibit 8

Vacancy rates across regions
Vacancy rate including project properties



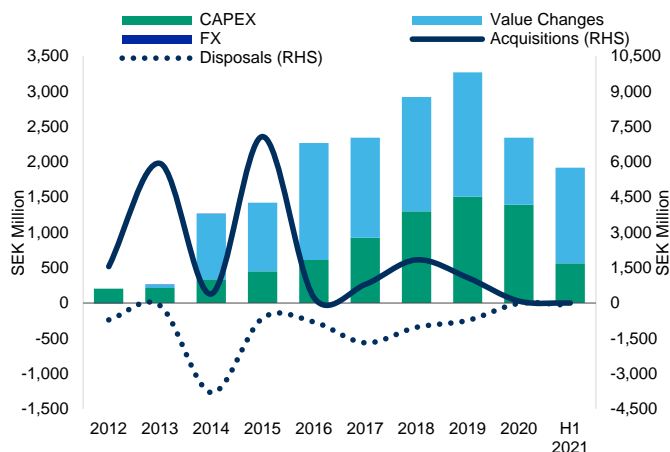
Source: Company data

Controlled development activities

The company expects to invest in its existing portfolio, increasing its fair value to around SEK55 billion by 2025. The investment programme amounts to around SEK4.2 billion over 2021-23, SEK1.8 billion of which is for developments. Of this amount, SEK1.4 billion is for committed developments, corresponding to 3.2% of total assets. Kungsleden's development projects include redevelopments, extension projects and new construction. The company has a pre-let ratio for development projects of at least 50% before construction has started, which reduces risk. A large proportion of the increase in the portfolio's value has been because of increasing future market rents, which has increased the future net operating income (NOI). The share of the change in value attributable to the increase in NOI has gradually increased and now accounts for more than half of the total.

Exhibit 9

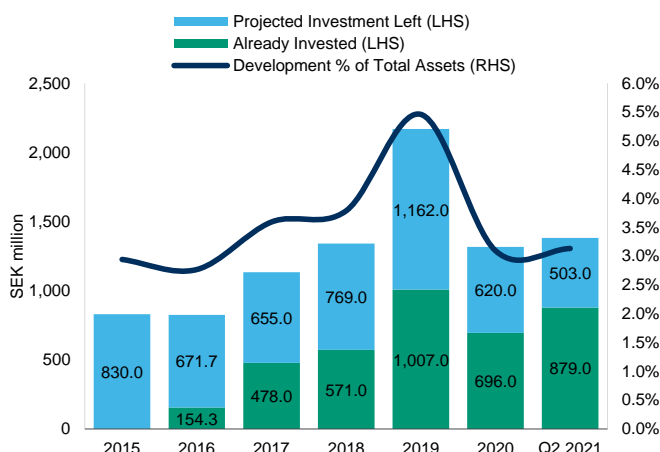
Property portfolio evolution



Source: Company data

Exhibit 10

Development project pipeline



Source: Company data

Largest shareholder contributes to stability and access to capital

Kungsleden's shares are quoted on the NASDAQ OMX Stockholm exchange. Ownership is fairly diversified, with around 59% of the company's shareholders being Swedish and 41% being foreign shareholders (44% institutional investors, 9% pension & insurance and 19% private investors). Although the diversified ownership structure is positive, Gösta Welandson is the largest shareholder, controlling 14.5% of the votes and capital, and guaranteed to underwrite all of Kungsleden's last rights issue of SEK1.6 billion in 2017. Access to capital has improved as a result of several bond issuances, which increased the share of reported unsecured bonds to 47% of debt as of June 2021, compared with 5% in December 2015. In the first quarter of 2018, Kungsleden also issued its first green bond, amounting

to SEK2.5 billion, as part of its increased bond issuance. The share of green financing corresponds to 42% of the total borrowings. Kungsliden scores Baa for Liquidity and Access to Capital in our methodology grid.

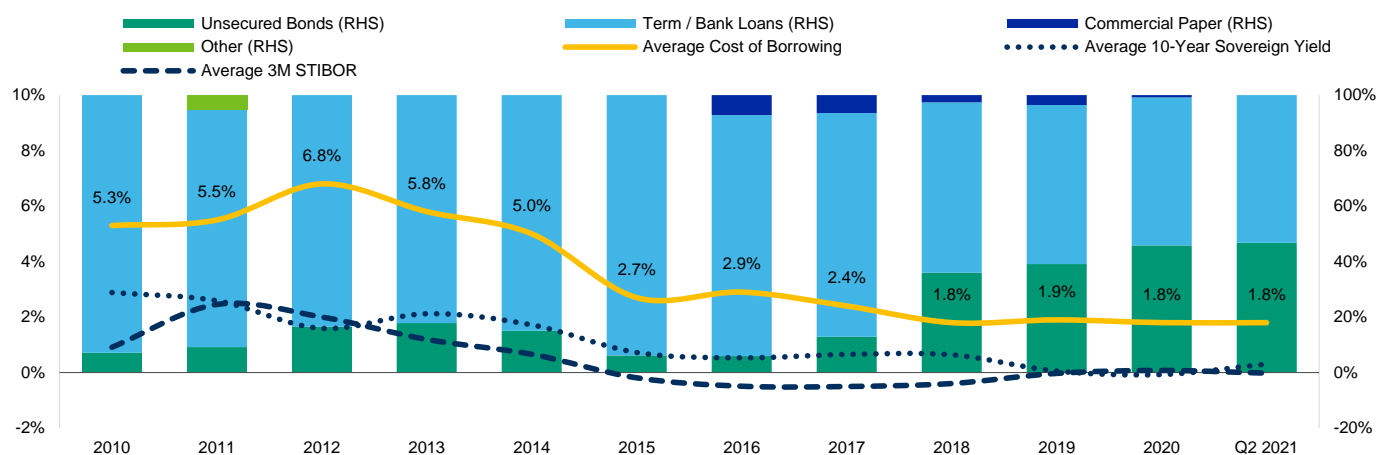
Strong fixed-charge coverage

Kungsliden has a policy of keeping interest coverage above 2.5x. Its Moody's-adjusted fixed-charge coverage ratio was 4.4x as of June 2021, up from 3.3x as of December 2017. Kungsliden renegotiates about 15%-20% of leases a year and, consequently, its EBITDA will gradually increase through its ability to renegotiate rents at higher levels at this point in the cycle. A large share of the contracts in Kungsliden's portfolio were renegotiated three to five years ago when lease levels were generally lower. Although this upside is limited to about 15%-20% of the portfolio each year, it is the most important factor contributing to real estate companies' stable net operating income. We expect the company to maintain the fixed-charge coverage ratio between 4.1x-4.5x, corresponding to a score of Baa-A in our methodology grid over the next 18 months.

The company's average cost of debt was around 1.8% as of June 2021. Kungsliden used interest swap hedges for about 59% as of June 2021, including fixed rate loans. The company's interest-rate swaps are not stapled to its debt, but are instead managed separately and on a similarly dated profile of 3.2 years compared with the average debt maturity of 3.9 years as of 30 June 2021. The company's interest-fixing period is on the low side compared with that of its European peers, but slightly stronger compared with that of some of its Swedish peers. Increased bond issuances under the company's medium-term note (MTN) programme and refinancing debt at lower rates, coupled with a low interest rate environment, have significantly reduced Kungsliden's cost of borrowing to 1.8% as of June 2021 from a peak of 6.8% in 2012 (see Exhibit 11).

Exhibit 11

Kungsliden's average cost of borrowing and debt structure



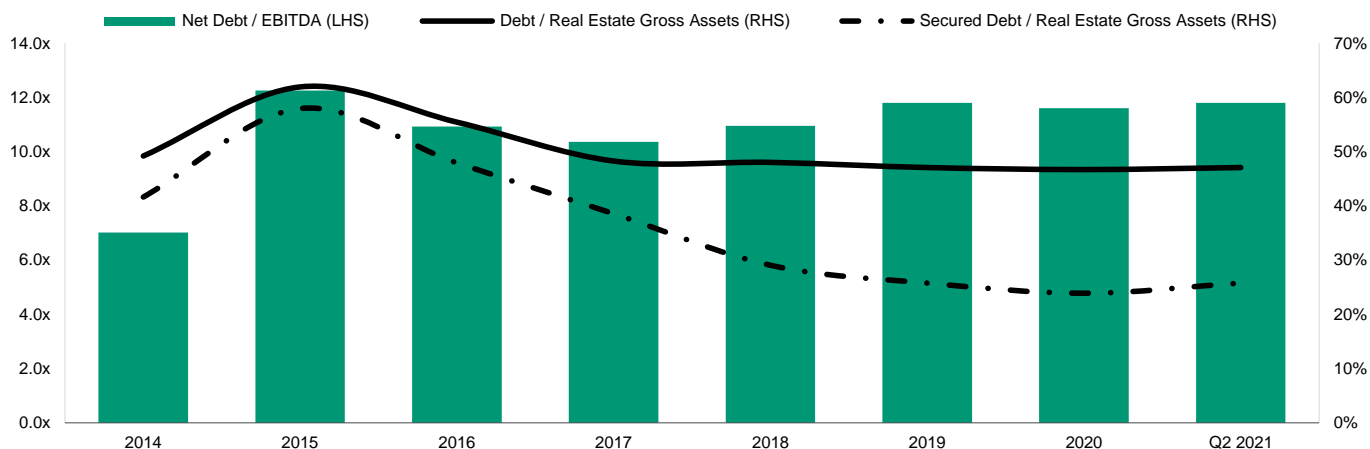
Debt (RHS) represents percentage of total debt for a period.

Sources: Company data, the Riksbank and FactSet

Moderate leverage

Kungsliden's Moody's-adjusted gross debt/total assets was at 46.0% as of June 2021, with SEK20 billion in Moody's-adjusted gross debt and total adjusted assets of around SEK44.1 billion (see Exhibit 12). We expect this ratio to be around 46/47% in the next 12-18 months as the company develops its portfolio, leading to increased EBITDA and property values. We do not include any revaluations in our forward-looking grid.

Exhibit 12

Moderating gross debt/total assets, although still fairly elevated net debt/EBITDA

Source: Moody's Financial Metrics™

Kungsliden announced in February 2021 a change of the public net loan/value policy from 50% to 45%. We view the revised more restrictive LTV target as credit positive because it indicates Kungsliden's intention to maintain lower leverage over time than we previously expected. To maintain this financial policy, the company is prepared to cut dividends, dispose of assets, amortise debt, reduce its development programme and, to a lesser extent, issue equity, as it has carried out two rights issues, the last one in 2017. Kungsliden canceled the dividend payment in 2020 because of the coronavirus outbreak, sending a strong message that the company protects its balance sheet when needed. They subsequently paid out dividend and repurchased shares in total amount of SEK472m (SEK513m in 2019) on the back of strong operating performance in the year.

Kungsliden's Moody's-adjusted effective leverage, defined as total debt in relation to total assets, is likely to be between 46-47% during 2021-22. This ratio maps into the Baa score on our methodology scorecard.

The company's Moody's-adjusted net debt/EBITDA was a high 11.5x as of June 2021, partly reflecting its involvement in development projects, which require capital but do not generate EBITDA yet. In addition, the company has divested high-yielding, nonstrategic properties and acquired lower-yielding properties with greater long-term rental value growth potential as part of its business strategy. However, because of the rapid and significant market value increases for most real estate companies in the past three years, we place emphasis on net debt/EBITDA. The rental revenue element in Kungsliden's value adjustment was around 47% in 2020 and 53% in H1 2021. This trend is important because in the initial stage of the property cycle, this factor is low and increases over time and will initially offset increasing yields to some extent. Rental levels have increased the most in the Stockholm area and consequently property companies with most exposure to this area will have a higher degree of rental revenue in their yield compression. Although market values will stabilise or eventually fall, property companies' rental revenue will continue to rise for a period because of a lag effect. As of December 2020, 99.1% of Kungsliden's rental value was indexed to inflation (excl. parking and residential).

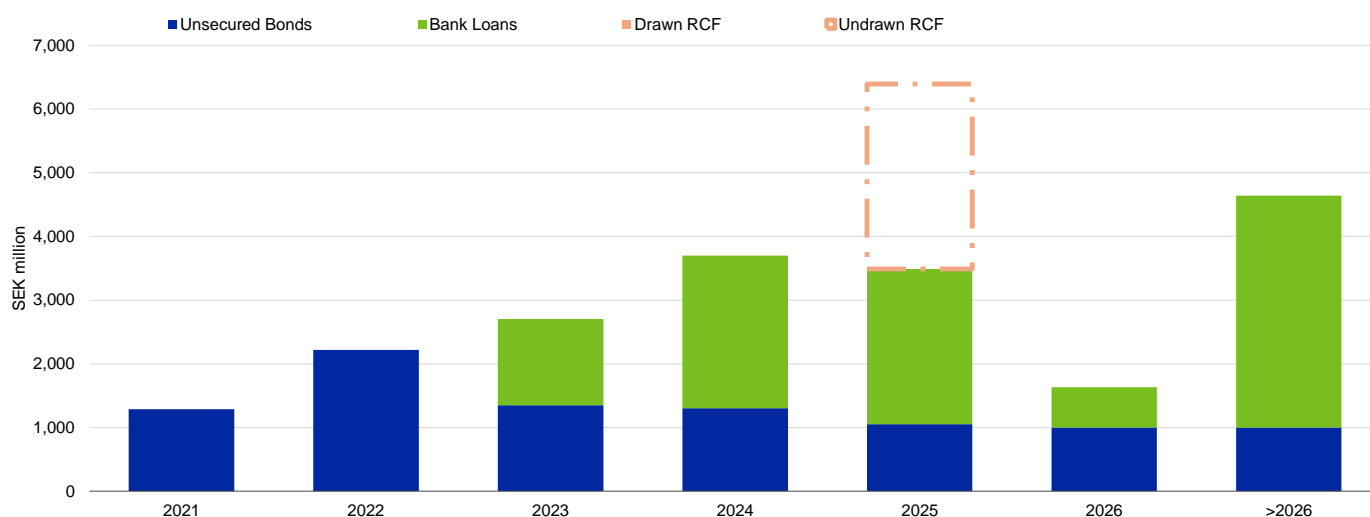
Kungsliden has a diversified funding mix, consisting of commercial paper, loans from commercial banks and mortgage banks, private placements, and bonds. As of June 2021, it had SEK6.2 billion in bank debt, SEK3.1 billion in mortgage loans, SEK1.1 in private placements, SEK9.2 billion in senior unsecured bonds and no commercial paper outstanding.

Kungsliden has increased its SEK5 billion MTN programme to SEK15 billion to extend its debt maturities and continuously repay secured debt. Kungsliden's refinancing needs during 2021 and 2022 include SEK1.3bn and SEK2.2bn of bonds respectively. The heavy bond issuance increased the unencumbered assets to above 33% as of June 2021 from a very low 2% as of September 2017.

Exhibit 13

Most of the funding currently through secured bank borrowings

SEK million as of June 2021



Source: Company data

Kungsleden's own debt have different sets of covenants. ICR > 1.5x and equity/total assets > 20% at the group level and LTV ratio not to exceeding 65%. The company has adequate capacity under its financial covenants. This covenant package is standard for Swedish real estate companies. Kungsleden has no covenants in the MTN documentation.

Liquidity analysis

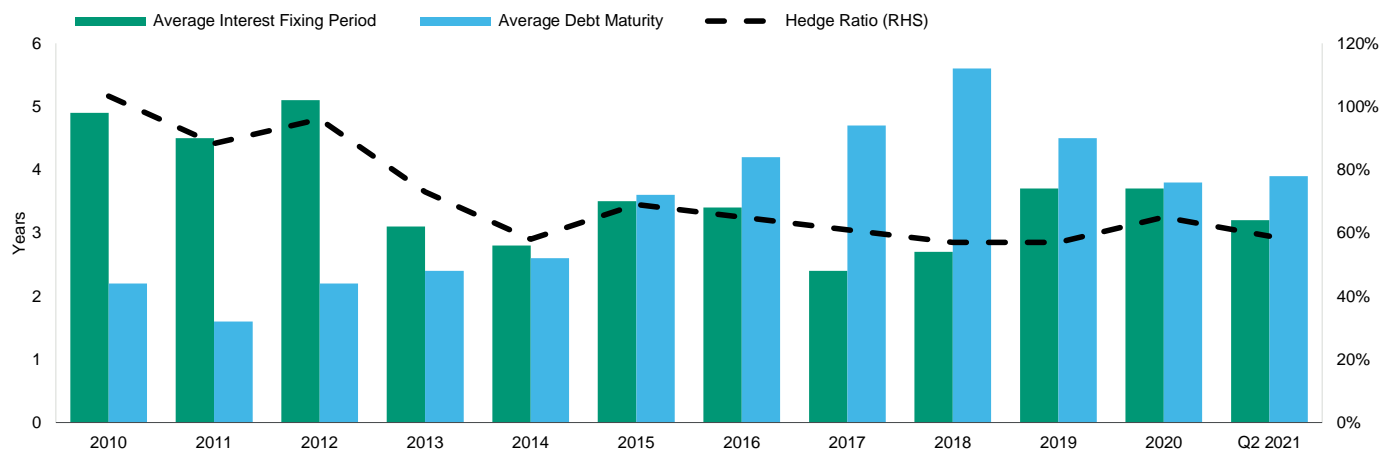
Adequate liquidity reflects capital spending flexibility but decreasing debt-maturity profile

Kungsleden has adequate liquidity, reflecting stable cash flow generation, a relatively even pace of maturing debt and part of its total RCF being tied up as a backup for issued commercial paper, thereby limiting its availability. However, Kungsleden's cash position of SEK901 million, available RCF of about SEK2.9 billion maturing in 2025 and expected cash flow generation of SEK2.0 billion could cover all cash shortfalls in the coming 18 months. Liquidity is supported by the company's good access to debt capital, both bank and bond debt, and its diversified banking relationships. Also, the company has shown an ability to access the equity market on several occasions. Over the next three years, we expect the funds from operations payout ratio to be around 45%. We expect Kungsleden to continue paying above SEK500m of dividends per year.

Kungsleden's unencumbered asset ratio, a measure of liquidity, reached 33% of total assets as of June 2021 following the company's issuance of unsecured bonds. We expect Kungsleden to increase the share of unencumbered assets over time towards 40%.

Kungsleden's weighted debt maturity profile has decreased to 3.9 years as of June 2021 from above 5 years in 2018, which is in line with most of its Swedish real estate peers but short in the context of the long-term nature of its assets. The company started to use a commercial paper programme in 2016, which weakened this ratio. The outstanding amount of commercial paper is backed up by unused committed bank lines, which are fully secured with mortgage deeds with a longer duration. Around 18% of the company's debt will mature in 2021-22. The company has also increased its unsecured bond issuances, which has helped diversify its funding sources and improve its access to capital.

Exhibit 14

Moderate interest-fixing period and historically stable hedge ratio

Source: Company data

Environmental, social and governance (ESG) considerations

Kungsliden is a publicly listed company on the stock exchange Nasdaq Stockholm AB — it has one influential shareholder but besides that the company is fairly widely held by institutional and private investors.

The company's portfolio benefits from 45% of ESG certifications that underpin its occupancy and good quality.

The real estate segment is weakened by the coronavirus outbreak-driven economic shock given its sensitivity to changes in GDP, employment prospects, and business and consumer confidence. Against the backdrop of an economic contraction in 2020, the uncertainty around the pace of recovery in 2021 and the expected rise in unemployment rates, we expect knock-on effects on occupier demand for commercial properties and a potentially more restrained investment sentiment. Pressure on market rents and valuations could put a greater strain on Kungsliden's credit metrics. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Structural considerations

Kungsliden historically had a high proportion of secured debt, creating subordination for unsecured bondholders. As of December 2017, Kungsliden's coverage of unsecured assets/unsecured debt was 0.19x. This ratio increased significantly to above 1.5x as of June 2021 after refinancing.

Rating methodology and scorecard

The principal methodology used in this rating was the Global Rating Methodology for REITs and Other Commercial Property Firms, published in July 2021. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

The company is rated Baa3, in line with the scorecard-indicated outcome in our forward-looking view.

Rating factors

Kungsleden AB

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current LTM 6/30/2021		Moody's 12-18 Month Forward View As of 8/3/2021 [3]	
	Measure	Score	Measure	Score
Factor 1 : Scale (5%)				
a) Gross Assets (USD Billion)	\$5.2	Baa	\$5.3 - \$5.5	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Baa	Baa	Baa	Baa
b) Operating Environment	Baa	Baa	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	33.3%	B	40% - 45%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	46.0%	Baa	46% - 47%	Baa
b) Net Debt / EBITDA	11.5x	Caa	11.2x - 11.7x	Caa
c) Secured Debt / Gross Assets	23.7%	Ba	20%	Baa
d) Fixed Charge Coverage	4.4x	Baa	4.1x - 4.5x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Ba1		Baa3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations

[2] As of 6/30/2021(L); Source: Moody's Financial Metrics™

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Exhibit 16

Rating factors - Peer comparison

Real Estate / REIT Industry Grid	Kungsleden AB [2]		AB Sagax [2]		Summit Properties Limited [2]		Castellum [2]		Inmobiliaria Colonial SOCIMI, S.A. [2]	
Factors as of:	Forward View		Forward		Forward		Forward		Forward	
Factor 1 : Scale (5%)	Measure	Score	Measure	Score	Measure	Score	Measure	Score	Measure	Score
a) Gross Assets (USD Billion)	\$5.3 - \$5.5	Baa	\$5.3 - \$6.0	Baa	\$1.7 - \$1.9	Ba	\$12.5 - \$13.5	A	\$13.2-\$14.0	A
Factor 2 : Business Profile (25%)										
a) Market Positioning and Asset Quality	Baa	Baa	Ba	Ba	Ba	Ba	Baa	Baa	A	A
b) Operating Environment	Baa	Baa	Baa	Baa	Baa	Baa	A	A	Baa	Baa
Factor 3 : Liquidity and Access To Capital (25%)										
a) Liquidity and Access to Capital	Baa	Baa	Baa	Baa	Ba	Ba	Baa	Baa	Baa	Baa
b) Unencumbered Assets / Gross Assets	40% - 45%	Ba	63% - 65%	Baa	50%-55%	Ba	60% - 65%	Baa	89% - 90%	A
Factor 4 : Leverage and Coverage (45%)										
a) Total Debt + Preferred Stock / Gross Assets [3]	46% - 47%	Baa	44% - 46%	Baa	38% - 40%	Baa	41% - 44%	Baa	42% - 43%	Baa
b) Net Debt / EBITDA	11.2x - 11.7x	Caa	7.5x - 8.5x	Ba	7.5x - 8.3x	Ba	11x - 12x	Caa	16.8x-17.8x	Ca
c) Secured Debt / Gross Assets	20%	Baa	13% - 14%	Baa	15% - 20%	Baa	4% - 5%	A	4% - 5%	A
d) Fixed Charge Coverage [4]	4.1x - 4.5x	Baa	5.0x - 6.0x	A	4.5x - 5.0x	A	5x - 5.5x	A	2.7x - 3.0x	Baa
Rating:										
a) Indicated Outcome from Scorecard		Baa3		Baa3		Ba1		Baa2		Baa2
b) Actual Rating Assigned		Baa3		Baa3		Ba1		Baa2		Baa2
Gap		0		0		0		0		0

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] This represents Moody's forward view, not the view of the issuer. Forward views as published on latest Moody's Credit Opinion for the relevant peer.

[3] Debt includes a portion of hybrid securities considered to have debt-like features as explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations.

[4] Fixed Charges include capitalised interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Ratings

Exhibit 17

<u>Category</u>	<u>Moody's Rating</u>
KUNGSLEDEN AB	
Outlook	Rating(s) Under Review
Issuer Rating - Dom Curr	Baa3 ¹

[1] Placed under review for possible upgrade on August 4 2021

Source: Moody's Investors Service

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