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Research Update:

Blackstone Property Partners Europe Holdings Outlook Revised To Stable On Asset Disposals; Ratings Affirmed At 'BBB'

May 28, 2024

Rating Action Overview

- In April 2024, Blackstone Property Partners Europe Holdings S.a.r.l. (BPPEH) signed a major sale of prime retail asset in Milan, it also closed some logistics assets in 2024 through April worth approximately €1.9 billion in total. The company expects to complete the disposal of the retail asset in the next three months and net proceeds of €1.6 billion is anticipated in aggregate from these dispositions.
- BPPEH expects to use the proceeds primarily to repay net approximately €1.4 billion of outstanding debt in next six months, which will cover the larger part of 2025-2026 debt maturities.
- The above transactions, coupled with the sale of logistics assets in the second half of 2023 for close to €0.6 billion, should improve the company's S&P Global Ratings-adjusted debt-to-debt-plus-equity ratio to 44.0%-45.0% from 51.1% as of Dec 31, 2022. EBITDA interest coverage should also improve to 2.7x-2.8x from 2.5x, recovering well within our 'BBB' ratings threshold.
- Therefore, we revised our outlook on BPPEH to stable and affirmed our 'BBB' long-term issuer credit rating on BPPEH and 'BBB' senior unsecured debt rating.
- The stable outlook reflects our view that BPPEH will likely continue to generate stable and predictable income and successfully dispose of assets. This should help BPPEH improve its debt-to-debt plus equity ratio to 44.0%-45.0%, EBITDA interest coverage to 2.7x-2.8x, and debt to EBITDA of about 13.0x over the next 12 months.

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Rating Action Rationale

BPPEH's asset disposals should allow the company to improve and maintain its debt to debt plus equity to 44.0%-45.0% and EBITDA interest coverage ratio above 2.7x over the next two years, which is commensurate with our 'BBB' rating. From the second half of 2023, the company has sold assets worth approximately €2.4 billion, including:

- The agreed sale of the Montenapoleone 8 retail asset in Milan to global luxury group Kering S.A (A-/Stable/A-2) for approximately €1.3 billion in April 2024. The asset mainly consists of high street retail and generated a net operating income of about €14.4 million for the year 2023.
- The sale of 17 logistics assets totaling over 553,000 square meters (sq m) across France, Germany, and the Netherlands for about €526 million in 2024 through April.
- The sale of 14 logistics assets totaling over 549,000 sq m primarily across Germany, France, and Italy for about €562 million in the second half of 2023.

BPPEH expects to use the net proceeds of approximately €1.6 billion to repay €1.4 billion of outstanding debt, which will cover the larger part of 2025-2026 debt maturities. Therefore, we forecast debt to debt plus equity to improve to 44.0%-45.0% in the coming 12 months (compared with 51.1%% as of end-2022 and 48.5% as of end-2023). We also expect EBITDA interest coverage to increase to 2.7x-2.8x in 2024 and to above 3.0x in 2025 from 2.5x as of Dec. 31, 2023. Our base case incorporates potential further slight declines in asset values of 3%-4% in 2024 and flat valuation in 2025 and beyond, and no significant debt issuances in the next 12-18 months. We think that the sales would materially strengthen the company's credit metrics, however, the sale of retail asset will increase its reliance on logistics as its exposure will increase to about 60% from 57% currently. We assume resilient growth for the logistics segment over the next few years. We understand that BPPEH could consider making for dividend payments if headroom under credit metrics permits, therefore we assume around €600 million-€650 million of dividend payments for the next two years.

The operating fundamentals in the European logistics market remain robust, which supports strong operating performance. BPPEH reported solid like-for-like rental income growth at 9% per sq m in 2023, mainly driven by positive indexation, leasing activity, and upward rent reviews of existing leases, as well as maintaining occupancy of about to 93% as of end-2023. The company also achieved a strong positive releasing spreads in the retail portfolio in 2023. We expect an overall like-for-like rental growth of 4.0%-5.0% in 2024 and 2.0%-3.0% in 2025, this is mostly spurred by leases either linked to the consumer price index (CPI) or the domestic equivalent, or subject to regular rent reviews (more than 90% of total leases) and positive reversions, especially as the portfolio is about 23% under-rented compared with current market levels. The company has reported that growing rents should support EBITDA and cash flow generation over the next two years.

We anticipate that BPPEH's liquidity will remain adequate. BPPEH's liquidity is mainly supported by cash and cash equivalents of €380 million, and €600 million undrawn under the revolving credit facility (RCF), as of March 31, 2024. In January 2024, BPPEH completed a tender offer across its €650 million 2.2% fixed-rate notes due July 2025 and £350 million 2.0% fixed-rate notes due October 2025. BPPEH accepted all offers received for a total nominal value of €407 million and a total cash consideration of €387 million, reflecting a discount of approximately 5%. BPPEH also redeemed its €500 million 2.0% notes due Feb. 15, 2024. With the use of proceeds from recent disposals there are no big debt maturities in the next 12-18 months. Average gross cost of debt remained stable around 2.0% as of end-2023 (1.9% as of end-2022), mainly due to low refinancing needs over the next 12 months. BPPEH keep its weighted average debt maturity above three years ,3.9 years as of end- 2023 and pro forma debt repayment will improve to above four years. BPPEH's current capital structure comprises of 89% unsecured debt, which means it has the flexibility to consider secured funding if access to capital markets cannot support its refinancing needs.

Blackstone Property Partners Europe (BPPE), the parent company of BPPEH, still has outstanding redemption requests from equity investors. Redemption requests are, however, satisfied at the discretion of the general partner of the fund, after giving due consideration to the fund's liquidity and leverage. This gives BPPEH the flexibility to protect the long-term value of the portfolio in the interests of stakeholders. Furthermore, as per the fund's documents, the fund is not required to sell assets to satisfy redemption requests. Therefore, we do not see material risks related to redemptions at this stage and we understand that the fund has seen a stabilization in overall redemption requests recently as the market outlook for the real estate sector improves. BPPE's structure is established as an open-ended perpetual life fund and investors have delegated the management and investment decision-making process to BPPE's general partner. We understand that leverage at BPPE should be below 50%, accounting for the recent closed and agreed disposals and associated debt repayments.

Outlook

The stable outlook reflects our view that BPPEH will likely continue to generate stable and predictable income from its assets in good locations. We also expect the company to benefit from leases mostly indexed to inflation or regular rent reviews, and the wide-ranging diversification within its portfolio. In addition, our base-case scenario factors in that BPPEH will continue to improve its operating performance, while maintaining its financial ratios and high-quality asset profile. Therefore, we forecast that BPPEH will maintain debt to debt plus equity of around 44.0%-45.0%; debt to EBITDA around 13.0x; and EBITDA interest coverage around 2.7x-2.8X in the next 12-24 months.

Downside scenario

We could lower our rating on BPPEH in the next 12 months if on a prolonged basis:

- Debt to debt plus equity increases above 50%;
- EBITDA interest coverage falls below 2.4x; or
- Debt to EBITDA deviates significantly from our base case.

This could happen if BPPEH fails to execute its current deleveraging measures or experiences higher portfolio devaluation than we currently assume.

Upside scenario

We could take a positive rating action if the company adopts a significantly more conservative financial policy such that:

- EBITDA interest coverage remains comfortably above 3.0x;
- Debt to EBITDA decreases to about 11.0x;
- Debt to debt plus equity decreases to 40% or below over a sustained period; and
- BPPEH maintains the scale and underlying diversity of its portfolio, with robust operating performance indicators.

We could also raise the rating if BPPEH significantly expands its portfolio and increases its diversification while maintaining its financial ratios and high-quality asset profile. An upgrade would also entail portfolio expansion focusing on prime assets in markets across Europe that benefit from sustained demand.

Company Description

BPPEH is a wholly owned subsidiary of BPPE, an open-ended, core plus fund managed by Blackstone Inc. (A+/Stable/--). BPPEH had a gross asset value of €13.5 billion as of Dec. 31, 2023 (about €12.0 billion pro forma asset sales) primarily across the logistics, residential, office, and retail sectors mainly in Western European countries.

Our Base-Case Scenario

Assumptions

- Real GDP growth for the eurozone to 0.7%-1% and the U.K. to 0.3%-0.5% in 2024, increasing to 1.2%-1.5% in 2025. Unemployment rates of about 6.5%-7.0% in the eurozone and 4.0%-4.5% in the U.K. over the next 12-24 months. CPI of about 2.5%-3.0% in the eurozone and 2.0% in the U.K. in 2024, and 2.0%-2.5% in 2025.
- Like-for-like rental growth of about 4.0%-5.0% in 2024 and about 2.0%-3.0% in 2025. Good market fundamentals for logistics and residential assets, improving occupancy for residential assets after refurbishments, and positive indexation via inflation-linked leases and rent reviews support rental growth. The continued challenging local market dynamics partly offset growth.
- Widening capitalization rates mitigated by positive cash flow from rental growth. Therefore, we expect a further portfolio devaluation of about 3%-4% for 2024 and flat valuation thereafter.
- Capital expenditure (capex) of around €200 million-€230 million in 2024 includes mainly maintenance and refurbishment capex, followed by around €130 million in 2025.
- Committed acquisitions of around €55 million-€60 million in 2024, mainly related to UK residential assets agreed acquisitions.
- Assets disposals of around €1.9 billion in 2024--€526 million from the logistics portfolio sale, which closed in 2024 through April; and €1.3 billion from the Montenapoleone 8 sale, which is expected to close in July 2024.
- EBITDA margins to improve to about 79%-80%, benefiting from the absence of one-off costs related to acquisitions, the reducing rent free, and other assets management cost after sale of retail and logistics assets.
- Dividend payments of about €600 million-€650 million over the next two years.
- Stable cost of debt around 2.0% for the next 12-18 months, as the company would like to repay a large part of the debt maturities from assets sales proceeds.

Key metrics

Blackstone Property Partners Europe Holdings S.a r.l.--Forecast summary

	Period ending Dec. 31				
(Mil. EUR)	**2022a**	**2023a**	**2024e**	**2025f**	**2026f**
Revenue	480	514	498	507	525

Blackstone Property Partners Europe Holdings S.a r.l.--Forecast summary

EBITDA	366	390	397	409	425
Funds from operations (FFO)	222	147	240	265	257
Interest expense	133	155	145	123	145
Cash flow from operations	212	73	268	256	245
Capex	136	180	227	128	86
Dividends	270	17	150	475	375
Debt	6,691	6,638	5,247	5,443	5,559
Equity	6,413	7,044	6,875	6,466	6,153
Adjusted ratios					
EBITDA margin (%)	76.3	75.8	79.6	80.6	81.0
Debt to EBITDA (x)	18.3	17.0	13.2	13.3	13.1
FFO to debt (%)	3.3	2.2	4.6	4.9	4.6
EBITDA interest coverage (x)	2.8	2.5	2.7	3.3	2.9
Debt to debt and equity (%)	51.1	48.5	43.3	45.7	47.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro. Capex--Capital expenditure.

Liquidity

We assess BPPEH's liquidity as adequate. We anticipate that liquidity sources will likely cover uses by more than 1.2x in the 12 months from March 31, 2024. BPPEH's large cash balance, fully undrawn RCF, and no obligation to pay dividends support our assessment. We also consider BPPEH's policy is to obtain hard commitments for the unsecured bank facility around the signing of each investment.

Principal liquidity sources

- About €380 million of cash and liquid investments;
- We forecast about €230 million-€250 million of FFO;
- The €600 million undrawn portion of the RCF, maturing after 12 months; and
- About €1,500 million of proceeds from committed assets sales to be completed over the next six months.

Principal liquidity uses

- Debt repayment of about €1,4 billion in the next 12 months;
- About €200 million of capex, which is not fully committed;
- €59 million in acquisition spend as part of committed acquisition pipeline over the next 12 months; and
- €230 million-€250 million of dividend, although it is discretionary and not committed.

Environmental, Social, And Governance

Environmental and social factors are an overall neutral consideration in our credit analysis of BPPEH. However, governance aspects are a moderately negative consideration in our analysis of the company. The limited transparency and public disclosure around the ownership structure and complex structure constrains the score--especially compared with other open-ended funds, as unit holders are part of the parent fund (BPPE), where transparency is limited.

With regard to environmental factors, BPPEH is carrying out a capex program across its residential platforms in Germany and the Netherlands, aimed at achieving A or B energy labels upon full renovations. We understand that approximately 30% of residential assets currently have an Energy Performance Certificates (EPC) rating of C or higher. BPPEH is collecting data for its logistics portfolio to evaluate and execute the installation of solar panels in its assets. We note that 75% of logistics assets have an EPC rating of C or higher. It is likely that environmental standards will form part of real estate asset quality because energy-efficient buildings are significantly easier to lease or sell than those with weaker environmental credentials.

Issue Ratings--Subordination Risk Analysis

Analytical conclusions

We expect BPPEH's secured debt to remain lower than 40% of total assets (about 5% as of Dec. 31, 2023). As a result, although unsecured debt issuance is structurally subordinated to other debt obligations, the subordination does not affect the rating on the unsecured debt.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/--
Local currency issuer credit rating	BBB/Stable/--
Business risk	Satisfactory
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Blackstone Property Partners Europe Holdings Outlook Revised To Negative On Increased Leverage; Affirmed At ‘BBB’, June 23, 2023

Ratings List

Ratings list

Ratings Affirmed; Outlook Action

	To	From
Blackstone Property Partners Europe Holdings S.a.r.l.		
Issuer Credit Rating	BBB/Stable/--	BBB/Negative/--
Ratings Affirmed		
Blackstone Property Partners Europe Holdings S.a.r.l.		
Senior Unsecured	BBB	