

CREDIT ANALYSIS

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Bundesimmobiliengesellschaft m.b.H. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Bundesimmobiliengesellschaft m.b.H.

Vienna, Austria

Ratings

Bundesimmobiliengesellschaft m.b.H.

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aaa
Debt Ratings	
Senior Unsecured	Aaa
Commercial Paper -Dom Curr	P-1

Summary Rating Rationale

Bundesimmobiliengesellschaft mbH's (BIG) Aaa and P-1 ratings are based on the medium-term expectation: (i) that the 100% ownership by the Republic of Austria will continue; (ii) that it will maintain stable revenues and a generally predictable cost structure; and (iii) that BIG will be able to adequately service the debt related to the agreed acquisition of state properties such as schools and university buildings with the revenue from operations and some refinancing, within the framework of BIG's projections.

The company is 100% owned by the Republic of Austria and is of strategic importance due to the property management services it provides. The business model is heavily based on government-related revenues. Furthermore, the activities cannot be separated from government policy. The strong interest of the state also manifests itself in strong oversight and the ability to nominate senior management.

Note: This report focuses on BIG's consolidated accounts.

Rating Outlook

The outlook on the ratings is stable.

Issuer Overview

BIG was created by law in 1992 with the objective of centralising property management for Austria's public sector, with a view to improving efficiency and, more specifically, the cost-efficiency of various government departments. The underlying premise was that requiring departments to pay and account for their usage of buildings would force them to rationalise their use of space and allow surplus stock to be put to alternative use or sold.

BIG consists of a holding company, Bundesimmobiliengesellschaft mbH (BIG), and – following the successful merger by incorporation of its subsidiary BIG Services, or IMB (Immobilienmanagementgesellschaft des Bundes) in 2006 – two main subsidiaries, BIG Finanzdienstleistungen GMBH and BIG Entwicklungs-Und Verwertungs GMBH, which are both 100% owned by BIG and consolidated into its accounts. The group also consolidates an array of companies related to particular buildings and projects.

Following a revision of the act regulating BIG's activities in 2000, the entity now owns the properties previously leased from the state. The purchase price was set at €2.4 billion, with the transfer completed during 2003. The purchase was financed with debt. Moody's views €2.4 billion as a fair price for the transferred assets, taking into account the specialist nature of the properties (i.e., they possibly have a lower resale value) and future investment needs. Moreover, if BIG sells any of the transferred assets with a positive margin over the purchase price, it has to pay a share of the gain to the state, i.e., a formulaic calculation of the share, taking into account the gain on the disposal. The agreement with the state was revised as of 1 January 2005, allowing BIG to offset some costs prior to paying out around 80% of the gain.

BIG has undertaken several initiatives toward continued rationalisation of its business model and internal procedures, seeking ever-higher efficiency and effectiveness in all its activities. The company took all necessary steps to ensure a successful transition to IFRS for the first time in 2007.

BIG has responsibility for managing the Austrian Republic's real estate, with a portfolio largely dominated by schools and universities (63%) and other federal tenants such as prisons, police stations and court houses (37%) as of end of 2010. BIG's activities involve renting out the buildings to the various government entities, carrying out renovations and new investments, and handling sales of redundant buildings and land. BIG's holdings include a small residential property portfolio, mainly comprising the current and former homes of civil servants and other public sector employees (2%). BIG also offers facilities management services if required by the tenants.

Around €786 million will be spent in Austrian real estate during 2011-13. Key priorities continue to be the project development with strategic partners and optimisation of key business, i.e., leasing of real estate to the federal Republic's administration.

Key Rating Considerations

BIG's Aaa and P-1 ratings are based on the following factors:

- » The 100% ownership of BIG by the Republic of Austria provides comfort that the owner will support the entity in the event of a problem arising.
- » The business model is almost entirely based on government-related revenues. The Austrian public sector remaining the main tenant of BIG, providing revenue/margin stability.
- » State supervision and control over the activities of BIG, reflected in strong oversight and the ability to nominate senior management. It determines policy (tasks and obligations) of the entity, while taking financial stability into account.
- » The company is of strategic importance due to the services it provides.

The state's ownership could only be reduced below 100% through a change in the law pertaining to BIG. Although this is not impossible, to date the government has not signalled any intention to implement such a change, as BIG is regarded as a vital instrument in the management of the state's properties. BIG's accounts are audited by the Federal Audit Office.

There are no plans to extend the entity's activities to the private sector to a material degree. Although the law permits BIG to carry out commercial property marketing and development, such activities are supposed to be of a subsidiary nature and there are currently no plans to expand commercial activities beyond asset sales of surplus or unused properties and land. In fact, BIG's management reiterated that activities will remain focused on the state, either in terms of new projects or further state asset purchases. Only a few activities will involve the development of projects for third parties.

Financial Position and Performance

2010 results deteriorated from previous years; reflecting the Austrian government's economic stimulus program

The 2010 operational results (EBIT €217 million), reported in line with the IFRS principles, were slightly down compared with 2009 (EBIT €252 million), but in line with the 2008 level (€219 million). The contained volatility of revenues reflects the above mentioned characteristics of the business with its strong reliance on predictable government-related revenues. Pre-tax profit was €158.6 million, up from €124.6 million in 2009 and €56.5 million in 2008, mainly driven by lower interest rate costs and a change in the approach for the accounting of derivatives.

Pre-tax profits likely to remain and develop positively in and after 2011, in line with BIG's mission

Expectations based on the new 5-year business plan include a lower pre-tax profit close to 2010 results, with a steady recovery until 2014. 2011 forecasts continue to reflect higher maintenance costs, higher depreciation and deferred rental payments by the central government. The recovery afterwards is based on higher rental income after the realisation of new investments and upgrade of existing stock and the second rental adjustment in 2011 under the five-year rent-adjustment mechanism, although BIG is not meant to be a profit maximiser.

Rental Income and Occupancy

Rental income is the mainstay of BIG's income, representing a stable 82% of operating revenues in 2010. Of this, 98% comprises rents received from the state, i.e., from various ministries that use the buildings, although the universities now pay BIG directly from their government-allocated annual operating budgets. As such, the universities have become the direct payers, although the funds still stem from the Ministry of Education. Including such indirect payments, the Ministry for Education accounts for the majority (71%) of BIG's rental income in the form of schools and universities, followed by other federal tenants (27%) and other tenants (2%). Rents are paid monthly or quarterly for all properties; all residential tenants pay rent on a monthly basis.

In 2010, BIG sold properties worth €40.5 million, of which €20.8 million was paid to the Federal Republic as required by the agreement signed with the state.

There are options for giving notice under the rental agreements; the notice period is one year for tenants, covering 70% of the total revenue. However, the tenants are deemed to be relatively stable, since the ministries need the properties as a base from which to provide services such as education. The notice periods for new projects or major renovations benefit from a clause that forbids the tenant from giving notice during the debt amortisation period (usually 20-25 years).

Rental Levels Take Into Account a Reasonable Margin and the Need for Investment

Rents have been fixed on a "market" basis, while taking into account the relatively specialised nature of the properties, and – as of 2003 – indexed to a designated consumer price index with a one-year time lag (currently CPI 1996). Adjustments are only permitted if they are 5% above this index, and the adjustment will then be in full. As such, the potential for rental increases is not considered to be particularly flexible. The first rental adjustment under this ruling was implemented in 2006, driving a corresponding increase in rental revenue following the small declines in 2004 that were a result of the gradual sell-off of non-core rental properties. The next adjustments, due to take place in 2011 and 2016.

Increased Operating Costs as Planned

BIG's management successfully kept operating costs at an acceptable level through a focus on cost efficiency until 2006. In 2007-10, higher personnel expenses, expenses related to materials, building and services, and depreciation were responsible for slightly lower operating margins. Such declines were already forecast in the company's business plan. Personnel expenses are expected to further grow in 2011-15 due to standard salary increases and one-off pension payments. The headcount, 831 in 2010, is expected to remain broadly stable over the planning period. Cost for materials, building and services are expected to remain slightly elevated in 2011, but should decrease afterwards due to lower maintenance costs. The key reason for this is the anticipated investment versus initial planning as a part of BIG's required contribution to the stimulus package adopted by the federal government to sustain the national economy

The other main cost item is interest expense, which is less flexible as it relates to the relatively "inflexible" debt stock accumulated to fund previous asset purchases and future investment needs. Financial expenses (including interest, expenses from financial assets and expenses from associated entities) were significantly up in 2008 compared with previous periods as the turbulences at the financial markets resulted in fair value adjustments under IFRS. In 2009 interest costs were down again, with 2010 being even lower. However, the financial result in 2010 was strongly influenced by a positive one-off effect regarding the accounting of derivatives. Expectations are for a return to levels seen in previous years.

BIG invested €223 million on maintenance in 2010, the majority of which was spent on schools and universities. BIG has also invested nearly €380 million in development projects and construction. At present, over 100 construction projects are being projected or undertaken, amongst which are the new construction of the University of Economics in Vienna, two other university projects in Linz and Innsbruck, school centres and court houses in various municipalities in Austria.

Most of BIG's investments are calculated for a period of 25 years, with a strong focus on sustainability, which translates into a strong focus on keeping maintenance costs at low and stable levels. After the implementation of the central government economic stimulus programme, maintenance will start to drop to levels of around €180-195 million annually for 2011-15, brining predictability to the financial plan in the long term.

Debt & Liquidity

Debt Set Up to Stabilise after Economic Stimulus is Phased out

BIG's stock of debt has grown rapidly since 2000 due to its purchase of properties from the central government; financial debt totalled €3.7 billion at the end of 2010, at a higher level compared with previous years. Based on its long-term budgets, BIG's debt is expected to stabilise and start to decline slightly in 2012, reflecting lower investments during that phase.

By the end of 2010, 81% of the overall exposure was at fixed rates with almost all debt euro-denominated. The maturity profile shows one relevant peak, in 2013, but it is otherwise reasonably stable. Maturing issues tend to be refinanced and are generally well absorbed in the market as a consequence of the closeness of the issuer to the state. BIG has enjoyed the flight to quality phenomenon during the recent liquidity crunch, confirming investors' preference for a solid issuer class. Interest rates and currency exposures are limited through the use of financial derivatives with high-quality counterparties (with ratings ranging from Aaa to Aa).

Overall Adequate Liquidity Profile

BIG's cash flows are predictable, with 98% of the rental income (the mainstay of BIG's income) coming from the state and paid quarterly. Cash outflows, mostly project financing and debt servicing, are also predictable. Mismatches are funded via BIG's €1 billion Euro Commercial Paper Programme (rated P-1). Additionally, BIG can still use short-term drawing rights with banks. Uncommitted bank lines are in place.

Application of Joint-Default-Analysis

As a reflection of the application of Moody's Joint Default Analysis methodology for Government-Related Issuers, BIG's rating is composed of two principal inputs: a baseline credit assessment (BCA) of 1 (on a scale of 1 to 21, where 1 represents the lowest credit risk) and Moody's assessment of a high likelihood of extraordinary support by the Austrian State (Aaa, stable outlook) to prevent a default by BIG.

- a. Moody's assigns a very high likelihood of extraordinary support from the Federal Republic of Austria, reflecting
 - The 100% ownership of BIG by the Republic itself
 - The fact that Austria remains the main tenant of BIG, and hence provides revenue/margin stability

- The fact that the federal government determines the company's policy (tasks and obligations), while taking financial stability into account
 - The supervision and control of BIG's activities by the state
- b. Moody's also assigns a very high default dependence between the BIG and the Federal Republic of Austria, reflecting the total reliance of its revenue structure on rental income from Austrian public institutions.

About Moody's Sub-Sovereign Ratings

National and Global Scale Ratings

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".mx" for Mexico. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "[Mapping Moody's National Scale Ratings to Global Scale Ratings](#)".

The Moody's Global Scale rating for issuers and issues in local currency allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

Country Ceilings for Foreign Currency Obligations

Moody's assigns a ceiling for foreign-currency bonds and notes to every country (or separate monetary area) in which there are rated obligors. The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. In most cases, the ceiling will be equivalent to the rating that is (or would be) assigned to foreign-currency denominated bonds of the government. Ratings that pierce the country ceiling may be permitted, however, for foreign-currency denominated securities benefiting from special characteristics that are judged to give them a lower risk of default than is indicated by the ceiling. Such characteristics may be intrinsic to the issuer and/or related to Moody's view regarding the government's likely policy actions during a foreign currency crisis.

Baseline Credit Assessment

Moody's baseline credit assessment incorporates the Government Related Issuer's (GRI) intrinsic credit strength and accounts for all aspects of the entity's existing (or anticipated) activities, including benefits (such as regular subsidies or credit extension) and/or detriments associated with the government relationship. In effect, the baseline credit assessment reflects the likelihood that a GRI would require extraordinary support.

Extraordinary Support

Extraordinary support is defined as action taken by a supporting government to prevent a default by a Government Related Issuer (GRI) and could take different forms, ranging from a formal guarantee to direct cash infusions to facilitating negotiations with lenders to enhance access to needed financing.

Extraordinary support is described as either low (0 - 30%), moderate (31 - 50%), strong (51 -70%), high (71 - 90%) and very high (91 - 100%).

Default Dependence

Default dependence reflects the likelihood that the credit profiles of two obligors may be imperfectly correlated. Such imperfect correlation, if present, has important diversifying effects which can change the joint-default outcome. Intuitively, if two obligors' default risks are imperfectly correlated, the risk that they would simultaneously default is smaller than the risk of either defaulting on its own.

In the application of joint-default analysis to GRIs, default dependence reflects the tendency of the GRI and the supporting government to be jointly susceptible to adverse circumstances leading to defaults. Since the capacity of the government to provide extraordinary support and prevent a default by a GRI is conditional on the solvency of both entities, the more highly dependent -- or correlated -- the two obligors' credit profiles, the lower the benefits achieved from joint support. In most cases GRIs demonstrate moderate to very high degrees of default dependence with their supporting governments, which reflects the existence of institutional linkages and shared exposure to economic conditions that draw credit profiles together.

Default dependence is described as either low (30%), moderate (50%), high (70%) and very high (90%).

Rating History

Bundesimmobiliengesellschaft m.b.H		
Date	Rating	Action
Long Term Issuer Rating		
06 JUN 2001	Aaa	New rating
Senior Unsecured - foreign		
03 SEP 2001	Aaa	Rated after sale
Senior Unsecured - domestic		
27 SEP 2002	Aaa	Closing date
Senior Unsecured MTN - domestic		
06 SEP 2002	Aaa	Rating assigned
Backed Senior Unsecured - foreign		
19 AUG 2008	Aaa	Rating assigned
Commercial Paper - domestic		
09 JAN 2002	P-1	New short-term rating

Annual Statistics

Bundesimmobiliengesellschaft m.b.H.					
EUR million	2006 realized	2007 realized	2008 realized	2009 realized	2010 realized
Total Financial Debt (Fair Value IAS 39)	3,201,248.0	3,185,409.8	3,361,260	3,291,164	3,714,696
Debt due within one year	453,884	492,016	81,738	428,890	370,119
Debt due after one year	2,747,364	2,693,394	3,279,523	2,862,275	3,344,578
Profit and Loss (Consolidated - TEUR)					
revenue	708,513	740,932	757,824	797,073	799,447
changes in inventory	9,392	4,164	4,542	-1,998	5,479
other own costs capitalized	4,100	5,017	5,554	5,909	6,544
other operating income	18,447	22,399	21,813	22,122	34,276
Operating Revenues (EUR 000's)	740,452	772,512	789,732	823,108	845,746
material costs	-230,532	-247,391	-305,886	-334,416	-366,901
staff costs	-22,620	-25,175	-26,539	-30,870	-31,971
depreciations	-155,167	-161,886	-166,259	-173,301	-180,418
impairments	-1,935	-43,973	-32,159	-9,259	-34,181
write-ups	0	4,845	0	17,012	9,194
other operating expenses	-61,484	-32,212	-39,704	-40,813	-24,804
Operating Costs	-471,738	-505,793	-570,547	-571,646	-629,081
	0	0	0	0	0
Operating Profit	268,713	266,719	219,185	251,461	216,665
Results from associated companies	-381	-1,047	5,807	1,782	804
financing income	84,347	48,738	239,412	27,366	366,833
financing expenses	-192,898	-199,911	-407,863	-155,989	-425,673
Financial Results	-108,552	-151,172	-168,451	-128,623	-58,840
Pre-tax Profits	159,780	114,500	56,541	124,620	158,629
income Tax	-40,084	-35,109	-14,062	-30,183	-40,428
Consolidated Result	119,696	79,391	42,479	94,438	118,201

Bundesimmobiliengesellschaft m.b.H.

EUR million	2006 realized	2007 realized	2008 realized	2009 realized	2010 realized
Balance Sheet (TEUR)					
Assets:					
Investment property rented out	3,436,544	3,660,956	3,783,581	3,800,442	3,938,304
Investment property in the development stage	745,221	458,850	367,373	450,564	477,320
Tangible assets	10,640	22,855	22,041	46,251	44,441
Intangible assets	8,098	7,146	6,306	5,738	4,935
Shares in associated companies	10,864	12,407	10,457	55,926	98,034
Other financial assets	37,846	39,037	203,057	193,528	660,546
Active deferred taxes	17,773	32,863	41,484	44,448	30,272
Long term assets	4,266,986	4,234,114	4,434,299	4,596,897	5,253,851
Inventory	13,965	17,959	13,314	11,277	16,718
Receivables for effective profit tax	22,327	8,422	51,292	0	0
Receivables and other assets	71,244	64,476	55,720	74,951	71,433
Liquid funds	3,871	74,688	58,185	38,754	45,407
Short term Assets	111,406	165,545	178,511	124,981	133,557
Total assets	4,378,392	4,399,659	4,612,810	4,721,878	5,387,408
Liabilities:					
Nominal capital	226,000	226,000	226,000	226,000	226,000
Revenue reserves	486,790	566,131	608,481	702,996	819,680
minority shares			7	7	
Equity	712,790	792,131	834,488	929,003	1,045,680
Financial liabilities	2,747,364	2,693,394	3,279,523	2,862,275	3,344,578
Provisions for personnel	7,961	8,259	7,384	7,818	8,233
Other provisions	5,000	5,000	26,993	26,659	20,919
Investment grants from public funds	42,299	58,609	82,957	109,903	141,961
Trade payables	1,518	2,178	2,423	2,193	3,233
Other liabilities	121,164	76,188	37,697	28,538	40,817
Indirect deferred taxes	0	0	0	0	0
long-term liabilities	2,925,305	2,843,629	3,436,976	3,037,384	3,559,740
Financial liabilities	453,884	492,016	81,738	428,890	370,119
Provision for effective income tax	0	0	0	520	4,291
Trade payables	123,464	116,939	136,937	138,851	187,723
Other liabilities	162,950	154,944	122,672	187,231	219,855
Short-term liabilities	740,297	763,899	341,346	755,491	781,987
	4,378,392	4,399,659	4,612,810	4,721,878	5,387,408

Moody's Related Research

Analysis:

- » [Austria, March 2010 \(123202\)](#)

Rating Methodologies:

- » [The Application of Joint Default Analysis to Government Related Issuers, April 2005 \(92432\)](#)
- » [The Application of Joint Default Analysis to Government Related Issuers, April 2005 - German version \(92806\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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