S&P Global Ratings

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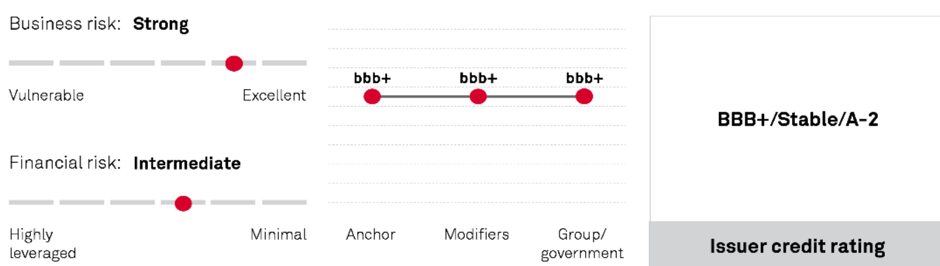
Societe Fonciere Lyonnaise S.A.

May 19, 2022

Ratings Score Snapshot



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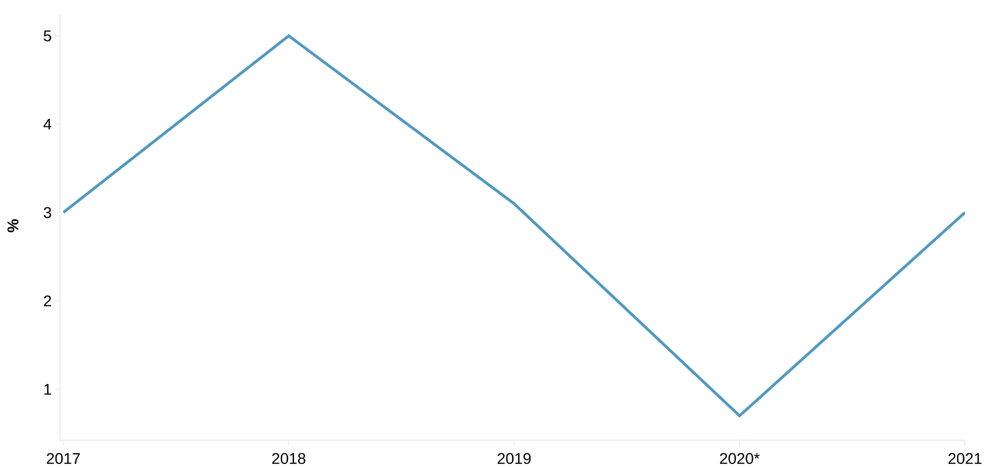
Credit Highlights

Overview

Key strengths	Key risks
Large, prime-quality office real estate portfolio of €7.6 billion, with good locations in the Paris central business district (CBD) and high environmental standards, providing solid and stable cash flows.	Evolving office sector dynamics with expanding working-from-home trend, dampening demand for office space over the medium-to-long term.
Still-favorable demand-supply imbalance in Paris' CBD, offsetting the office property sector's cyclicality and current challenges.	Limited number of assets (18) and high revenue reliance on the top-10 tenants (41% of rental income), resulting in higher vacancy risk than more diversified players.
Prudent financial policy and investment programs, translating into S&P Global Ratings-adjusted debt to debt plus equity well below 40% (24.8% at Dec. 31, 2021).	Geographical concentration, with operations restricted to the city of Paris (98% of portfolio), albeit a robust market.
Large amount of undrawn bank lines sufficient to cover refinancing needs; high hedging rate and low cost of debt should also limit the impact of the rise in interest rate on EBITDA interest coverage.	Higher leverage at controlling shareholder Inmobiliaria Colonial (Colonial), which owns 98.3% of the group following the asset swap with Predica, and to which the rating is aligned.

We anticipate Societe Fonciere Lyonnaise S.A. (SFL) will see a few tenant departures in the next two years, especially in retail, following strong operating performance in 2021 that was supported by solid occupancy. Demand for offices properties in Paris (98% of SFL's portfolio) remained very strong in 2021, with total investments in the Paris region at about €14.7 billion, wherein office assets accounted for 85%. The rental market registered good performance, with stabilized immediately available supply driving fairly stable vacancy of 7.4% in 2021, although we note sharp contrast between the Paris center and some suburb areas. The favorable market conditions and SFL's centrally located portfolio translated into robust like-for-like growth in rental income of 3.0% in 2021, including both releasing and indexation, and a solid occupancy rate of 98.0% as of Dec. 31, 2021 (versus 93.7% in 2020); the latter improved further to 98.6% as of March 31, 2022. Strong demand for prime, well-located office assets in Paris also supported solid like-for-like portfolio valuation uplift of 5.7% in 2021 for SFL's portfolio. That said, given the challenged economic conditions and evolving office sector dynamics with working-from-home becoming more a permanent practice in the office sector, upside in rent negotiations in the office portfolio could be more limited in our view. That said, we anticipate that high inflation will be largely passed on to SFL tenants through lease indexation and should support rental growth in the next couple of years. Overall, we expect occupancy to temporarily deteriorates in SFL's portfolio in next 12-36 months, due to some tenant departures in units that the company will likely renovate along with some tenant exits on lease expiry (17% of leases have a break option in 2022 and about 12% in 2023). Given SFL's reliance on a limited number of assets (18 as of 2021), its occupancy tends to be somewhat more vulnerable than that of larger and more diversified players, although this is partly mitigated by the fact that most SFL assets tend to be multitenant.

Societe Fonciere Lyonnaise's Like-for-Like Rental Income Growth



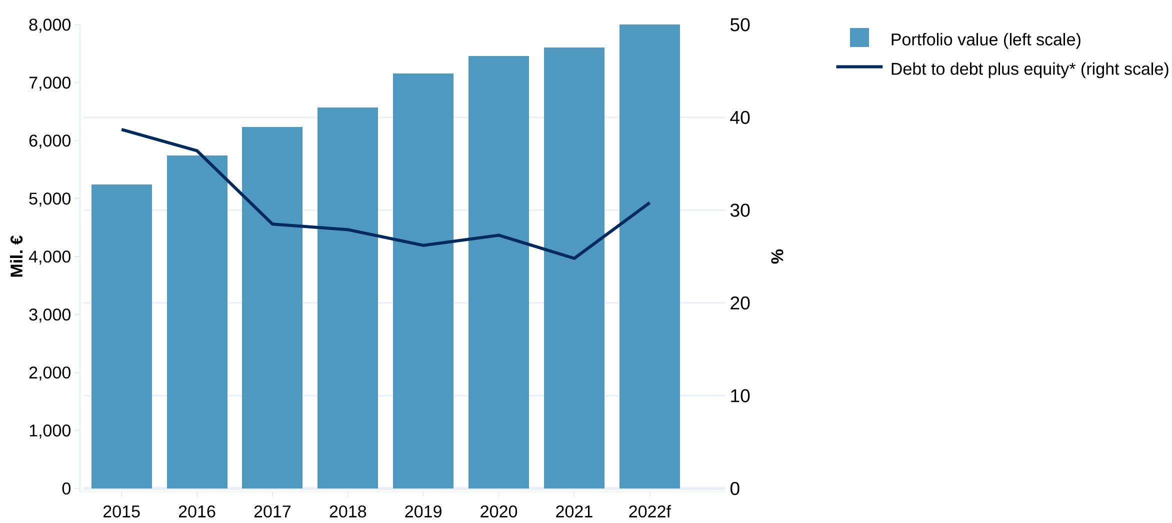
Source: Company report. *Excluding the impact of COVID-19-related measures; down by 3.8% on a like-for-like basis.

SFL's acquisition of the Pasteur building is well in line with SFL's quality portfolio. SFL and Primonial Reim France entered into an agreement during the first quarter of 2022, and we understand that the sale of Pasteur building to SFL was finalized at the end of April 2022. The property has a total surface area of more than 39,500 square meters and is fully occupied by Amundi under a 12-year, noncancellable lease effective from Feb. 1, 2022. The expected purchase price of €484 million (including rights) will be funded by company's available credit lines. The acquisition is in line with company's growth strategy, which has been constrained in the last couple of years by the lack of opportunities in low-yield environment in Paris' CBD for assets with good growth potential. The building has also good environmental characteristics, and we understand that SFL is in the process of obtaining green certifications for it in line with the rest of its portfolio. We consider the acquisition will continue to support the SFL's prime quality portfolio, with strong operating dynamics, given the existing lease in place, driving immediate rental contribution. This should partly offset the revenue loss from operating assets that are to undergo redevelopment over next 12-24 months.

SFL continues to enjoy significant headroom under its financial policy and our rating thresholds. Quality assets fitting SFL's strategy remain scarce, which explains the limited number of acquisitions over the past few years and low leverage as compared with its financial policy. As of year-end 2021, S&P Global Ratings-adjusted debt to debt plus equity stood at 24.8% (27.3% as of year-end 2020), while we understand the company's financial policy is to maintain a reported loan-to-value (LTV) ratio of up to 40%

(translating into 43%-44% S&P Global Ratings-adjusted debt to debt plus equity). Credit ratios were also largely supported by favorable Paris office market conditions supporting solid operating performance in 2021 along with strong like-for-like portfolio valuation uplift of about 5.7% for the year. Debt to EBITDA reached 12.9x at the end of 2021 (12.5x at the end of 2020), constrained to some extent by the very low portfolio yield at the end of 2021 (topped up net initial yield of about 2.9%). Considering some moderate organic growth assumptions for the coming two years along with Pasteur acquisition in 2022, we believe SFL's credit metrics should remain commensurate with the rating with significant headroom.

Societe Fonciere Lyonnaise S.A's Credit Metrics Can Absorb Upcoming Acquisition



f--Forecast. *S&P Global Ratings adjusted. Source: S&P Global Ratings and company reports.

Despite an upcoming bond maturity and the recent acquisition, we expect SFL's liquidity will remain strong and the cost of debt low over the next two years. The company has a €290 million senior unsecured bond maturing in November 2022 and cash requirement of about €500 million for the Pasteur acquisition, which closed in April 2022. However, we note that the company's large undrawn credit lines of €1.5 billion along with available cash balance of €242 million as of end of March 2022 largely cover these cash requirement and other debt maturities until 2025. We therefore maintain our view of SFL strong liquidity, although with tightened headroom. Similarly, the high hedging rate (99% of the debt was hedged against interest rate risks at Dec. 31, 2021) should limit pressure from the rise in interest rates, and we note SFL currently has a very low cost of debt (1.2% as of Dec. 31, 2021) and solid EBITDA interest coverage (4.1x in 2021), which also provides some headroom.

Outlook

The stable outlook on SFL reflects our view of the consolidated Colonial group, because we consider SFL a core subsidiary to the group and align our final rating with that on Colonial. At the group level, the stable outlook reflects our view that Colonial will be able to continue delivering stable and predictable income, despite economic uncertainty, supported by a high-quality portfolio, mainly in the CBDs of Paris, Madrid, and Barcelona, and its robust tenant base.

We also expect that SFL will remain core to Colonial's strategy, especially following Colonial's acquisition of the remaining minority stake in SFL during 2021, bringing its stake in SFL to 98.3% from 81.7%. If anything, we expect SFL's stand-alone credit metrics will be slightly better than those at the group level, with debt to debt plus equity and EBITDA interest coverage remaining sustainably below 40% over the next two years, and higher than 4.0x in the next two years.

Downside scenario

We could consider a downgrade of Colonial, and therefore SFL, if on a prolonged basis:

- Colonial's EBITDA interest coverage drops and stays below 2.4x;
- Colonial's debt to debt plus equity increases meaningfully above 45%; or
- We see material divestment or dilution of Colonial's Paris operations.

Upside scenario

Considering Colonial's stake in SFL, ratings upside could happen if, on a sustained basis:

- Colonial's EBITDA interest coverage increases above 3.8x;
- Colonial's debt to debt plus equity decreases below 35%; and
- Colonial ensures a stronger, more diversified cash flow base, as well as a new financial policy consistent with these stronger credit metrics.

Our Base-Case Scenario

Assumptions

We consider corporate confidence, unemployment, and the consumer price index (CPI) among the most important macroeconomic factors for office property owners. We expect the French economy will continue recovering from the pandemic over the next two years, albeit at a slower pace than initially expected given the impact of the Russia-Ukraine conflict. We forecast real GDP in the country will improve by 2.7% in 2022, after a rebound of 7.0% in 2021 and following a pandemic-induced 8.0% drop in 2020. At the same time, we expect unemployment will decrease to 7.4% in 2022 from 7.9%-8.0% in 2020-2021, which should continue to support corporate demand for office real estate assets. Of SFL's assets, 82% are in Paris' CBD, which benefits from above-average macroeconomic indicators compared with the rest of France. CPI inflation should stand at about 5.1% in 2022 versus about 2.1% during 2021, from 0.5% during 2020, which would benefit indexed lease contracts.

- An overall rise in net rental income of about 5%-6% in 2022 compared to 2021. This assumes that inflation should be mostly passed on to tenants as most of SFL leases are index-linked. We forecast, however, still a small drop on a like-for-like basis in 2022-2023, including some tenant departures already scheduled and some potential delays in releasing some assets with break options in 2022-2023 (29% of lease maturities in 2022-2023). This drop shall be partially offset though by rental contribution from the Pasteur acquisition from April 2022. We expect like-for-like rental growth to pick up gradually in 2024, because of delivery of properties under development and commercialization of units that become vacant in 2022 and 2023.
- Portfolio value to remain broadly flat on a like-for-like basis in coming 12-24 months, supported by high inflation to some extent but limited by a potential rise in interest rates. We believe that further yield compression in Paris' CBD should be limited, given the current record low level and impact from interest rates.
- Development capital expenditure (capex) of about €120 million-€125 million for 2022 and €60 million-€70 million each for 2023-2024 for ongoing renovation and refurbishment projects (Louvre Saint Honoré, Biome, and Rives De Seine).
- Pasteur acquisition assumed for 2022 for about €470 million-€490 million. No acquisitions assumed thereafter.
- EBITDA margins stabilizing at 84%-85% over the next 12-24 months.
- Annual cash dividends of about €170 million-€180 million each over 2022-2023.

Key metrics

Societe Fonciere Lyonnaise S.A.--Key Metrics*

Mil. €	2020a	2021a	2022e	2023f	2024f
EBITDA margin (%)	85.9	79.8	83-85	83-85	83-85

Debt to EBITDA (x)	12.5	12.9	15-16	15-16	12-13
EBITDA interest coverage (x)	4.4	4.1	4.5-5.0	4.5-5.0	5.0-5.5
Debt/debt+equity (%)	27.3	24.8	30-32	30-32	30-32

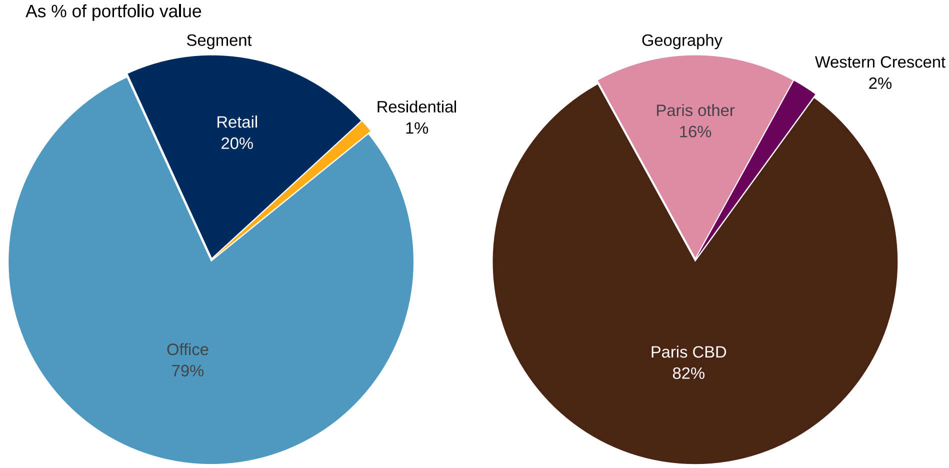
*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

SFL is a French real estate investment trust, specializing in the leasing of office facilities and related retail assets (ground floors of office buildings). The company is one of the four largest listed players in France's office real estate market. Its portfolio value reached €7.6 billion at year-end 2021 (excluding transfer costs), of which 79% corresponds to its office assets. SFL is listed on the Euronext Paris stock exchange (free float represented 1.4% at year-end 2021) and had a market capitalization of €3.7 billion on April 7, 2022. Its main shareholder is Spanish real estate company Colonial, which owns and manages an office portfolio of €12.0 billion in France and Spain. Colonial currently owns about 98.3% of SFL

Societe Fonciere Lyonnaise's Portfolio Breakdown

As % of portfolio value



Source: Company reports. CBD--Central business district.

Peer Comparison

Societe Fonciere Lyonnaise S.A. -- Peer Comparison -- Financial Metrics

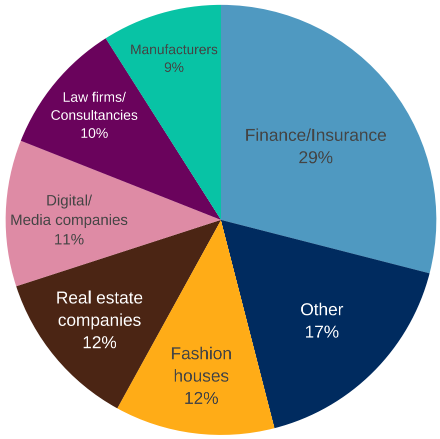
	Societe Fonciere Lyonnaise S.A.	Gecina	Icade S.A.	Covivio
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/--
Period	Annual	Annual	Annual	Annual

Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	174.6	617.7	1,661.6	637.4
EBITDA	139.3	482.3	618.0	541.6
Funds from operations (FFO)	104.9	376.6	507.0	384.6
Interest expense	34.0	93.3	97.4	143.4
Cash flow from operations	110.4	386.0	522.7	365.5
Capital expenditure	130.4	356.5	1,026.7	462.9
Dividends paid	97.5	391.3	279.3	339.6
Cash and short-term investments	114.9	15.1	655.8	929.0
Debt	1,803.9	7,091.2	7,043.3	7,799.0
Equity	5,484.0	12,983.2	8,639.3	9,194.0
Valuation of investment property	7,496.1	17,983.5	15,183	17,703.0
Adjusted ratios				
EBITDA margin (%)	79.8	78.1	37.2	85.0
EBITDA interest coverage (x)	4.1	5.2	6.3	3.8
Debt/EBITDA (x)	12.9	14.7	11.4	14.4
Debt/debt and equity (%)	24.8	35.3	44.9	45.9

Business Risk

SFL's business risk profile is underpinned by its relatively large portfolio, valued at €7.6 billion at Dec. 31, 2021 (excluding transfer costs). We also view particularly positively SFL's strong focus on Paris' CBD, where about 82% of its portfolio is located and which has proven more resilient to the economic downturn and disruption from the pandemic than secondary locations on Paris' periphery. Most of the company's assets are large: half are more than 10,000 square meters (sqm) and almost all are more than 5,000 sqm. Consequently, most are multitenant assets, providing some diversity in the company's rental income distribution. The portfolio is also modern and very energy efficient (100% of revenue-generating properties are certified to the BREEAM In-Use international standard, with most of them having “very good” or “excellent” levels) because the company's strategy is to refurbish recently acquired assets to create value. SFL's retail portfolio (18% of rental income) consists mainly of ground-floor shops in the group's office buildings, which generally provide steady footfall and stable cash flow in normal conditions, thanks to their prime locations.

Societe Fonciere Lyonnaise's Tenant Spread

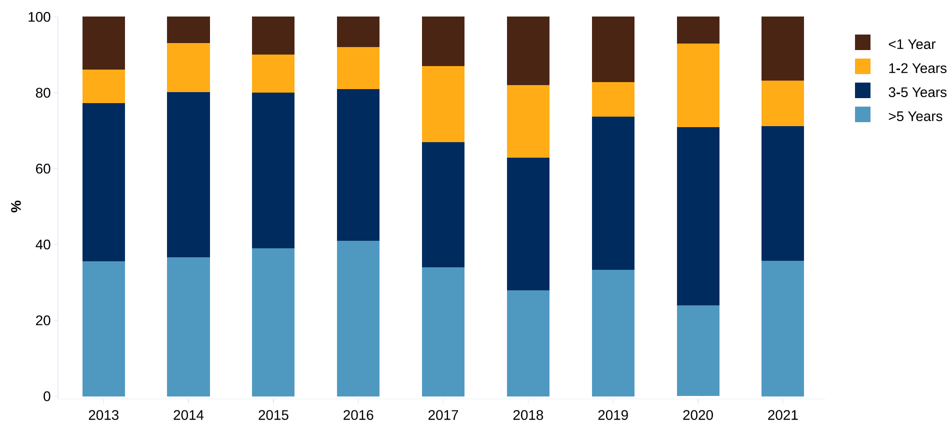


Source: Company report.

The company's strong asset quality ensures attractiveness to tenants and investors, and an overall good competitive advantage in the Paris office market. This is particularly key with rising flexible office and work-from-home practices. An office must increasingly justify its use as an alternative to working from home; almost to the same extent as shopping centers have to justify the journey to their location when shoppers can simply buy goods online. We also believe that the limited supply of large premium-quality office buildings in the Paris CBD, combined with still-sustained corporate demand, should continue supporting occupancy rates.

SFL's business strategy, focusing on the Paris office market and a limited number of assets (18 as of Dec. 31, 2021), makes its portfolio subject to business-confidence-related volatility. Counterparties are quite concentrated compared to other investment-grade companies, since SFL's top-10 tenants contributed about 41% of total rent in 2021. As a result, the departure of one main tenant could materially affect SFL's occupancy rate and rental income, especially from major single-tenant assets, as seen at year-end 2020 when occupancy dropped to 93.7% from 97.4% at year-end 2019.

Societe Fonciere Lyonnaise S.A.--Leases Due For Renewal

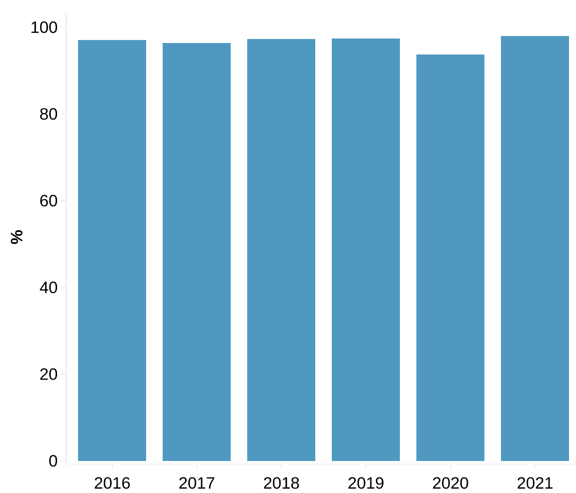


Source: Company Report

The company was consistently able to replace its existing tenants or extend leases at an equal or higher rent until 2021, thanks again to its particularly solid asset quality, market position, and rental reversionary potential. The average lease term of 5.3 years at year-end 2021 supports short-term revenue predictability. We anticipate however some pressure in occupancy in existing assets in the next 12-36 months given upcoming lease maturities, with about 17% of leases having a break option in 2022 and about 12% in 2023, as of Dec. 31, 2021. We understand some tenant exits are already scheduled with some work being planned to renovate assets, which implies a period of work of 12-24 months on average with no rental income generated during that time.

Overall, we anticipate that SFL's active asset management and track record of historical low vacancy rates in the Paris CBD should mitigate this temporary drop in rental income due to tenant exit.

Societe Fonciere Lyonnaise Has A Track Record Of Strong Occupancy



Source: Company report.

SFL has some development exposure, with 20% of the portfolio undergoing development at Dec. 31, 2021. These properties consist mainly of its current flagship projects: Cézanne Saint-Honoré (90% pre-let, to be delivered during the second quarter of 2022), Biome office (ongoing commercialization), the retail part of the Louvre Saint-Honore asset (100% pre-let), and Rives de Seine (following tenant departure at the end of 2022), with expected delivery over 2022-2025. Although there is development risk associated with SFL's portfolio, we note relatively high preleasing, which provides some cash flow visibility on deliveries.

Financial Risk

SFL's credit metrics held strong within our intermediate financial risk category in 2021, supported by 3.0% like-for-like rental growth and solid occupancy of about 98% at the end of 2021 and 98.6% as of March 31, 2022. The company's S&P Global Ratings-adjusted debt to debt plus equity improved to 24.8% at year-end 2021, from 27.4% at year-end 2020. This reflects the impact of a positive 5.7% portfolio revaluation during the year due to further yield compression as well as €263 million of disposals, offset by €160 million of development capex and €97.58 million of cash dividends. This ratio remains low compared to industry standards for peers in Continental Europe, and to the company's financial policy of a 40% maximum LTV (translating into 43%-44% S&P Global Ratings-adjusted debt to debt plus equity). We understand SFL seeks acquisition opportunities in Paris' CBD like the recently completed Pasteur acquisition, which will increase the ratio in the next couple of years to about 30%-32%, still leaving ample headroom under its financial policy.

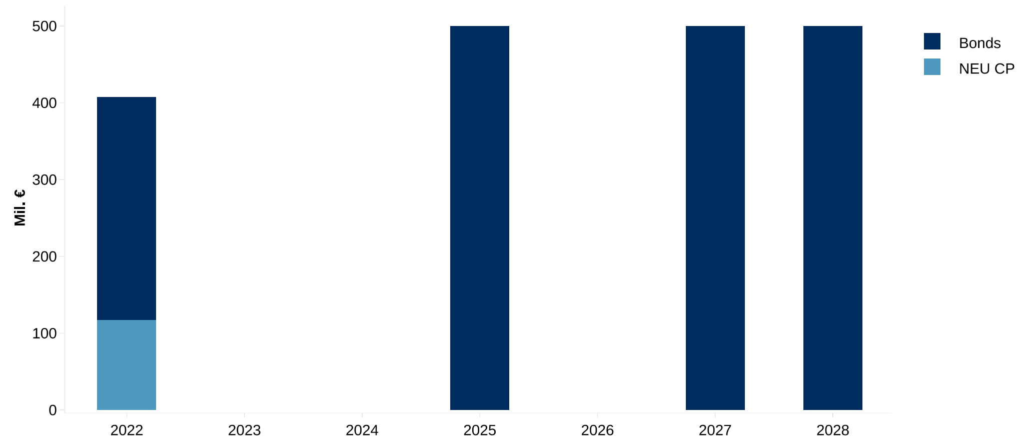
We take into account SFL's established track record of disciplined leverage, with our adjusted debt to debt plus equity ratio staying below 40% since 2014, while EBITDA interest coverage has been strong (4.1x at Dec. 31, 2021) since then because of low interest rates (1.23% at year-end 2021 versus 1.5% at year-end 2020). We expect EBITDA interest coverage will remain well above 4.0x in 2022-2023, supported by lower interest expenses and additional contributions from delivery of development projects, the recent acquisition, partially mitigating upcoming tenant departures. In our view, impact from a potential rise in interest rates should be limited on SFL's EBITDA interest coverage over the next two years, given its high hedging rate (99% of the debt hedged against interest rate risk) and limited need for refinancing due to its large credit lines and cash balance.

In addition, SFL's cash flow is low and its debt to EBITDA is somewhat weak, in the 13x-16x range, depending on the timing of project deliveries and re-letting processes, which is also linked to its record low-yield assets (2.9% European public real estate topped up net initial yield at year-end 2021).

Debt maturities

SFL's average debt maturity is 4.6 years. SFL needs to address its near-term maturity of unsecured bond at the rate of 2.25% of €290 million in November 2022. This debt maturity can be repaid through undrawn bank lines.

Societe Fonciere Lyonnaise's Debt Maturities At Year-End 2021



Source: Company report. NEU CP--Negotiable European commercial paper.

Societe Fonciere Lyonnaise S.A.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	198	196	194	199	182	175
EBITDA	173	167	166	176	157	139
Funds from operations (FFO)	118	109	121	131	115	105
Interest expense	46	43	37	32	35	34
Cash interest paid	48	41	29	29	28	28
Operating cash flow (OCF)	84	123	123	142	107	110
Capital expenditure	66	208	38	65	134	130
Free operating cash flow (FOCF)	18	(84)	85	78	(27)	(20)
Discretionary cash flow (DCF)	(87)	(138)	(29)	(53)	(159)	(157)
Cash and short-term investments	20	16	25	54	15	115
Gross available cash	20	16	25	54	15	115
Debt	1,999	1,690	1,748	1,790	1,955	1,804
Common equity	3,494	4,239	4,512	5,037	5,197	5,484
Adjusted ratios						
EBITDA margin (%)	87.3	85.3	85.6	88.8	85.9	79.8
Return on capital (%)	3.3	2.9	2.7	2.6	2.2	1.9
EBITDA interest coverage (x)	3.7	3.9	4.5	5.6	4.4	4.1
FFO cash interest coverage (x)	3.5	3.6	5.2	5.5	5.1	4.7

Societe Fonciere Lyonnaise S.A.--Financial Summary

Debt/EBITDA (x)	11.5	10.1	10.6	10.1	12.5	12.9
FFO/debt (%)	5.9	6.4	6.9	7.3	5.9	5.8
OCF/debt (%)	4.2	7.3	7.0	8.0	5.5	6.1
FOCF/debt (%)	0.9	(5.0)	4.8	4.3	(1.4)	(1.1)
DCF/debt (%)	(4.3)	(8.2)	(1.7)	(3.0)	(8.1)	(8.7)

Reconciliation Of Societe Fonciere Lyonnaise S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	1,902	4,387	175	136	390	28	139	110	97	130
Cash taxes paid	-	-	-	-	-	-	(6)	-	-	-
Cash interest paid	-	-	-	-	-	-	(28)	-	-	-
Postretirement benefit obligations/ deferred compensation	2	-	-	0	0	0	-	-	-	-
Accessible cash and liquid investments	(115)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	0	0	6	0	0	-	0
Share-based compensation expense	-	-	-	4	-	-	-	-	-	-
Noncontrolling/ minority interest	-	1,097	-	-	-	-	-	-	-	-
Debt: other	15	-	-	-	-	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(255)	-	-	-	-	-
Total adjustments	(98)	1,097	0	4	(255)	6	(34)	0	0	0
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	1,804	5,484	175	139	134	34	105	110	97	130

Liquidity

We assess SFL's liquidity as strong and estimate that the ratio of liquidity sources to uses at March 31, 2022, will be above 1.5x in the next 12 months, and above 1x in the following 12 months. We believe the company has well-established solid relationships with banks, good access to debt capital markets, and generally prudent risk management. Moreover, we expect SFL will maintain strong headroom (above 15%) under all maintenance covenants, and that it has some ability to absorb high-impact, low-probability events without refinancing.

Principal liquidity sources

- About €241.9 million of cash and equivalents.
- About €1.1 billion and €0.7 billion of undrawn bank lines maturing beyond the next 12 and 24 months, respectively. This is the amount of credit lines left following the Pasteur acquisition completed in April 2022.
- Our forecast of €120 million-€130 million of funds from operations.

Principal liquidity uses

- €560.6 million of debt maturities.
- About €100 million-€110 million in maintenance and renovation capex.
- About €170 million-€180 million of forecast dividends

Covenant Analysis

Requirements

We expect that the company will maintain adequate headroom, greater than 10%, under all remaining covenants.

Compliance expectations

SFL has to comply with debt covenants and acceleration clauses under its credit lines including:

- LTV of less than or equal to 50% (22.0% at Dec. 31, 2021)
- Interest coverage equal to or greater than 2.0x (4.9x at Dec. 31, 2021)
- Secured LTV of less than or equal to 20% (0% at Dec. 31, 2021)
- An unrestricted property portfolio value greater than or equal to €2.0 billion (€8.1 billion at Dec. 31, 2021)

Environmental, Social, And Governance

ESG Credit Indicators

Environmental	Social	Governance
E-1 E-2 E-3 E-4 E-5	S-1 **S-2** S-3 S-4 S-5	G-1 **G-2** G-3 G-4 G-5
- Climate transition risk - Other environmental factors	- N/A	- N/A

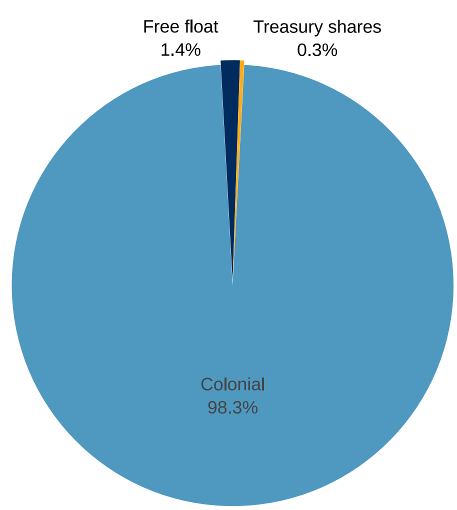
N/A—Not available.ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a positive consideration in our credit rating analysis of SFL, due to the greater centrality and energy efficiency of its assets than peers'. Of its assets, 98% are located in Paris (82% in its central business districts), and therefore benefit from close proximity to public transport. All of the company's assets are also BREEAM In-Use certified (at least "very good"), and 81% of its leases are qualified as green leases, which increase the properties' attractiveness to a wide range of occupants and investors. These attributes support our view of the company's strong competitive position in the office market.

Group Influence

Spanish real estate company Colonial has a 98.3% controlling stake in SFL. As a result, we apply our group rating methodology to SFL. We view SFL as a core entity of Colonial.

Societe Fonciere Lyonnaise S.A.--Ownership Structure At Year-End 2021



Source: Company Report

Colonial acquired the remaining minority stake in SFL mid-2021, which increased its shareholding to 98.3% from 81.7% previously. Concomitantly, the board of SFL was reduced to six members, including four from Colonial.

We understand that Colonial views SFL as a long-term investment and intends to remain a controlling shareholder. Although we understand there are no plans to change SFL's independent funding policy and listing status for the moment, we view SFL as strongly influenced by Colonial's management decisions and overall group credit profile. This is because of the absence of a single minority shareholder.

In addition, out of Colonial's €12 billion office portfolio, about 60% relates to SFL assets. Our rating on Colonial is therefore based on a consolidated view of SFL's assets. Colonial has higher leverage than SFL, which we believe would likely constrain SFL's potential stand-alone credit improvement.

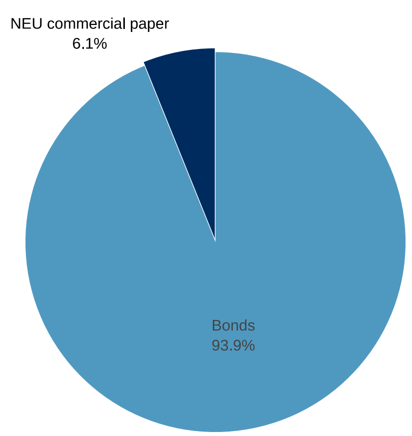
Overall, we view SFL as integral to Colonial's current identity and future strategy. The rest of the group is likely to support SFL under any foreseeable circumstance, in our view. Therefore, we align our rating on SFL with that on Colonial.

Issue Ratings--Subordination Risk Analysis

Capital structure

At Dec. 31, 2021, SFL's debt structure comprised bonds (94%) and negotiable European commercial paper (6%).

Societe Fonciere Lyonnaise S.A.--Debt Structure At Year-End 2021



Source: Company Report; NEU--Negotiable European

Analytical conclusions

We rate SFL's senior unsecured bonds 'BBB+', in line with the long-term issuer credit rating. The company's ratio of secured debt to total fair value assets at year-end 2021 was 0%, well below our threshold of 40% for notching ratings on unsecured debt.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Low
Industry risk	Low
Competitive position	Strong
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	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- ARCHIVE | General Criteria: Group Rating Methodology, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- **Bulletin: Inmobiliaria Colonial And Subsidiary SFL Strengthen ESG Commitments By Aligning Their Financing Strategies**, Jan. 13, 2022
- **Bulletin: Inmobiliaria Colonial Increases Direct Exposure To Paris Office Market Via SFL Without Impairing Metrics Significantly**, June 4, 2021

Ratings Detail (as of May 19, 2022)*

Societe Fonciere Lyonnaise S.A.

Ratings Detail (as of May 19, 2022)*

Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
27-Oct-2017	BBB+/Stable/A-2
19-Apr-2017	BBB/Positive/A-2
02-Jul-2015	BBB/Stable/A-2
Related Entities	
Inmobiliaria Colonial, Socimi, S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.