S&P Global
Ratings

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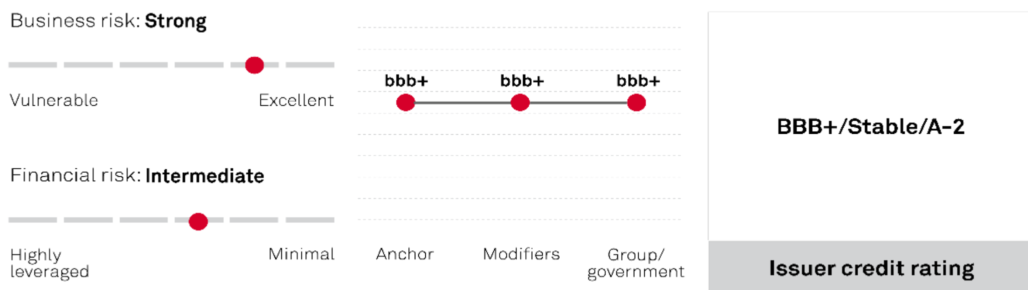
Societe Fonciere Lyonnaise S.A.

May 15, 2023

Ratings Score Snapshot



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Credit Highlights

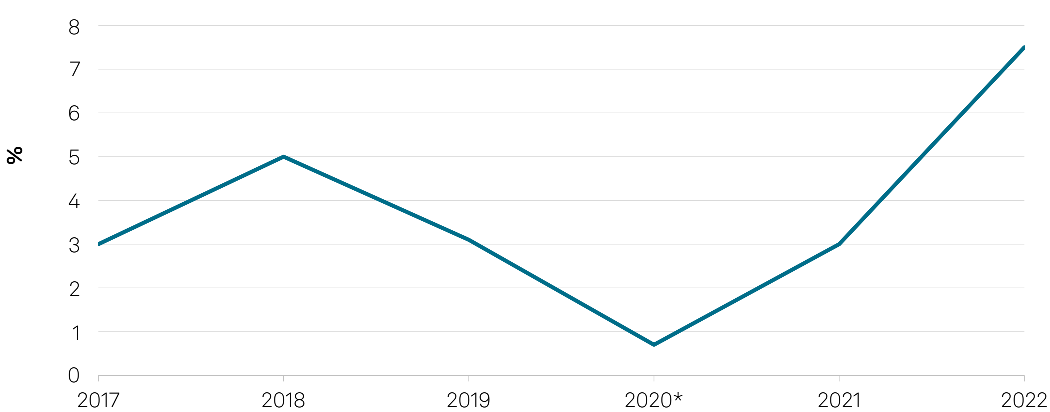
Overview

Key strengths	Key risks
Large, prime-quality office real estate portfolio of €8.2 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 work-from-home trends, dampening demand for office space over the medium-to-long term.
Strongly benefits from the current polarization trend in the Paris office market with a high demand-supply imbalance in the CBD, mitigating the office property sector's cyclicality and current challenges.	Geographical concentration (99% of the portfolio in the city of Paris), limited number of assets (18) and high revenue reliance on the top-10 tenants (43% of rental income) that can result in higher volatility in vacancies 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% (30.9% at Dec. 31, 2022).	Risk of pressure on valuations in the context of rising interest rate and given it operates in a very low yield environment (net initial yield slightly expanded to 3.1% from 2.9% in 2022).
Large amount of undrawn bank lines sufficient to cover refinancing needs, however, staggered debt maturities and prudent hedging practices are expected to only partly mitigate the effects of the rise in interest rate on EBITDA interest coverage, forecast to drop to 3.0x-3.5x in 2023 versus 5.1x at Dec. 31, 2022.	Higher leverage at controlling shareholder Inmobiliaria Colonial (Colonial), which owns 98.3% of the group and to which the rating is aligned.

S&P Global Ratings expects Societe Fonciere Lyonnaise S.A. (SFL)'s operating performance to remain solid, despite challenging conditions in the office sector, supported by the lack of high-quality office buildings with high environmental standards in central and attractive parts of Paris. SFL's portfolio strongly benefits from the current polarization trend in the office market, given its focus on Paris' CBD, which has proved very resilient in the past couple of years compared to Parisian secondary areas. This is given the lack of supply of high-quality office buildings with high environmental standards in this attractive and well connected location. SFL reported like-for-like rental growth of 10.2% in first-quarter 2023 versus first-quarter 2022, mainly driven by rent indexation as well as the gradual recovery in occupancy to 99.3%. Including the Pasteur acquisition, overall rental income increased 17.2% year on year in first-quarter 2023. For full-year 2022, like-for-like rental growth was 7.5%, resulting from the combined effect of relatively higher indexation and improvements in occupancy to 99.5% against 98% in 2021. We forecast SFL's rental income will expand 7%-8% in 2023, supported by high indexation to inflation and the full-year contribution from the Pasteur acquisition, and partially offset by our forecast of a slight decline in occupancy levels in 2023. Overall, we expect occupancy to temporarily deteriorate in SFL's portfolio in the next 12-24 months, due to some tenant departures in buildings that the company will likely renovate along with potential tenant exits on lease expiry (11% of leases have a break option in 2023 and about 12% in 2024). Given SFL's reliance on a limited number of assets (18 as of 2022), its occupancy tends to be somewhat more vulnerable than that of larger and more diversified players, although this is partly mitigated by most of SFL's assets tending to be multitenant and the strong track record of reletting.

Societe Fonciere Lyonnaise's like-for-like rental income growth



*Excluding impact of COVID-19-related measures; Down by 3.8% like for like. Source: Company report.

Leverage moderately increased post the Pasteur acquisition in 2022 and is expected to rise further due to pressure on portfolio valuations in the context of rising interest rates and high dividend payments, although it should remain well within our rating thresholds. SFL's acquisition of Pasteur in April 2022 has resulted in an increase in debt, with S&P Global Ratings-adjusted debt to debt plus equity standing at 30.9% at year-end 2022, from 24.8% at year-end 2021. Although we do not expect SFL to make any significant debt-funded acquisitions in the coming 12-24 months, given the headwinds faced by the real estate sector, we still assume the ratio will deteriorate given a portfolio valuation decline is likely. We assume a negative effect of about 5% in 2023 and 2% in 2024, which should translate in debt to debt plus equity increasing to 33%-35% in 2023-2024. That said, we consider SFL should maintain significant headroom under its financial policy and our rating thresholds. SFL's financial policy is to maintain a reported loan-to-value (LTV) ratio of below 40% (translating into 43%-44% S&P Global Ratings-adjusted debt to debt plus equity) but it has operated at more conservative levels in the past few years. Debt to EBITDA reached 13.8x at year-end 2022 (12.9x at year-end 2021), constrained to some extent by the very low portfolio yield at the end of last year (topped up net initial yield of about 3.1%). Considering our moderate organic growth assumptions for the next two years, along with the full-year revenue contribution from the Pasteur acquisition in 2023 and a moderate drop in occupancy, we believe SFL's debt to EBITDA should stay below 15x.

Higher interest rates are expected to moderately affect the EBITDA interest coverage ratio, despite the staggered debt maturities and hedging in place. SFL has a weighted-average debt maturity of 4.1 years as of March 31, 2023, with balanced debt repayments over the next 24 months (about €500 million per year, with a large portion related to commercial paper in 2023). Most of SFL's borrowings (about 68%) are in the form of bonds, and for the remaining portion (16% bank loans and 16% of commercial papers), and SFL follows prudent hedging practices. At year-end 2022, about 91% of SFL's borrowing were either at fixed rates or hedged against rising interest rates for the next 24 months and then gradually declining. Therefore, we expect a moderate jump in interest costs, the majority of which is from increased debt levels post the Pasteur acquisition (full year impact), coupled with some effects from the increased cost of borrowing. SFL's average cost of borrowing increased to 1.8% in first-quarter 2023 from 1.7% in 2022 and 1.2% in 2021. We expect it to rise to 2.0%-2.2% in the coming 12-24 months, resulting in a deterioration of EBITDA interest coverage to 3.0x-3.5x versus 5.1x at year-end 2022. SFL's liquidity profile remains strong, supported mainly by undrawn bank lines of €1.34 billion that mature in more than 12 months and can cover debt repayment obligations for the next two years.

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 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 holding to 98.3% from 81.7%. We expect SFL's stand-alone leverage metrics will be slightly better than those at the group level, with debt to debt plus equity remaining sustainably below 40% over the next two years, while EBITDA interest coverage is anticipated to deteriorate to 3.0x-3.5x in the context of rising interest rates, more comparable to the parent's level.

Downside scenario

We could consider a downgrade of Colonial, and therefore of 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. Given the recessionary headwinds, we expect the French economy will remain stagnant in 2023, with a recovery in economic growth in 2024, albeit at a slow pace. We forecast real GDP in the country will be almost flat at 0.4% in 2023 and recover to 1.2% in 2024. At the same time, we expect unemployment will remain slightly higher at 7.6% and 7.9% in 2023 and 2024 respectively, compared with 7.3% in 2022. Of SFL's assets, 77% are in Paris' CBD, which benefits from above-average macroeconomic indicators compared with the rest of France. CPI growth is expected to stay high at about 5.4% in 2023 and then cool down to 2.3% in 2024 versus about 5.9% during 2022.

- Overall net rental income rises about 7%-8% in 2023 compared to 2022, mostly because of the rental contribution of redevelopment projects delivered in 2022 and full-year contribution from the Pasteur acquisition, on top of high indexation of about 5% in our assumptions. We expect net rental income to remain flat in 2024, since we expect some decline in occupancy due to tenant departures in 2024, either due to lease maturities or assets undergoing redevelopment.
- Occupancy declines 1%-2% to about 98% in 2023 and then to about 95% in 2024.
- Like-for-like portfolio value declines of 5% in 2023 and 2-3% in 2024, capturing the effects of higher interest rates on property yields, partially offset by rental increases and value uplift from the development pipeline.
- Development capital expenditure (capex) of about €80 million-€90 million each year for ongoing renovation and refurbishment projects (Louvre Saint Honoré and Rives De Seine).
- No acquisitions and disposals, apart from the disposal completed in early 2023 of €56 million.
- Adjusted EBITDA margins decline to about 83% in 2023, capturing inflationary pressure on costs, before recovering and stabilizing at 84%-85% in 2024-2025.
- Cash dividends of about €180 million in 2023, resulting from distribution obligations following the high disposals in 2021, and €90 million-€110 million each year thereafter.

Key metrics

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

Mil. €	2021a	2022a	2023e	2024f	2025f
EBITDA	139.3	178.2	180-190	180-190	190-200
EBITDA margin (%)	79.8	87.1	83-85	83-85	83-85
Dividends	97.5	217.8	170-180	90-100	100-110
Debt	1,804	2,452	2,500-2,600	2,600-2,700	2,700-2,800
Debt to EBITDA (x)	12.9	13.8	14-15	14-15	14-15
EBITDA interest coverage (x)	4.1	5.1	3.0-3.5	3.0-3.5	3.0-3.5
Debt to debt plus equity (%)	24.8	30.9	33-35	33-35	35-37

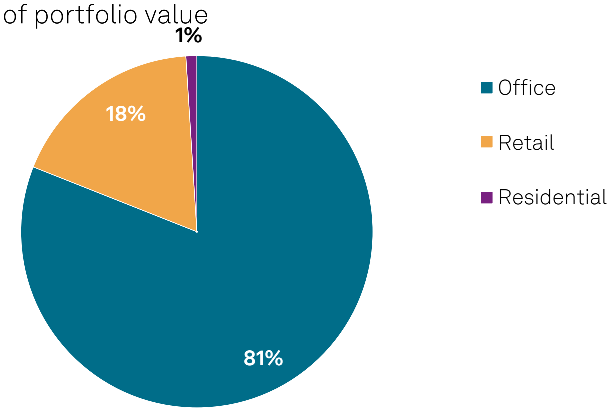
*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

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 €8.2 billion at year-end 2022 (excluding transfer costs), of which 81% corresponds to its office assets. SFL is listed on the Euronext Paris stock exchange (free float represented less than1.6% at year-end 2022) and had a market capitalization of €3.5 billion on April 13, 2023. Its main shareholder is Spanish real estate company Colonial, which owns and manages an office portfolio of €13 billion in France and Spain. Colonial currently owns about 98.3% of SFL.

Societe Fonciere Lyonnaise's portfolio breakdown by segment

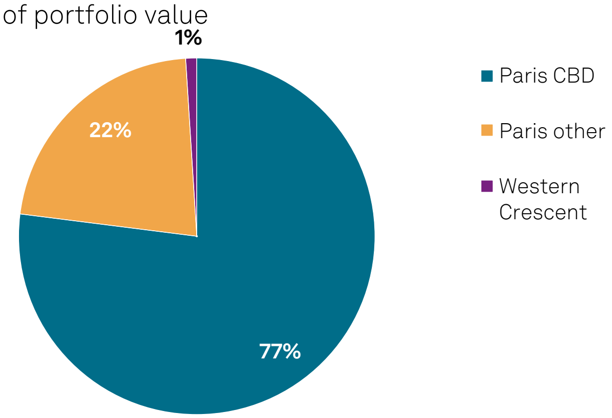
As a percent of portfolio value



Source: Company reports.

Societe Fonciere Lyonnaise's portfolio breakdown by geography

As a percent of portfolio value

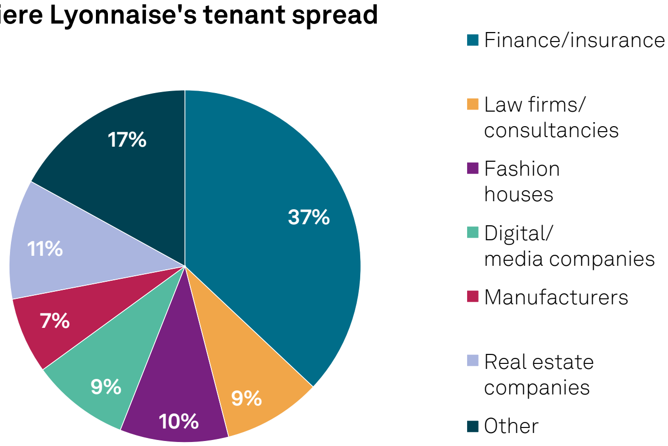


CBD--Central business district. Source: Company reports.

Business Risk

SFL's business risk profile is underpinned by its relatively large portfolio, valued at €8.2 billion at Dec. 31, 2022 (excluding transfer costs). We also view particularly positively SFL's strong focus on Paris' CBD, where about 77% of its portfolio is located (and 99% in the city of Paris) and which has proven more resilient to the economic downturn and disruption from the COVID-19 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 all are more than 5,000 sqm. SFL's portfolio includes almost half of the largest offices buildings in Paris by sqm and number of assets. Consequently, most of SFL buildings are multitenant assets, providing some diversity in the company's rental income distribution. The portfolio is also modern and very energy efficient, with 100% of revenue-generating properties certified to the Building Research Establishment Environmental Assessment Method [BREEAM] In-Use international standard, and most having “very good” or "excellent" scores. This is because the company's strategy is to refurbish recently acquired assets to create value. SFL's retail portfolio (15% 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. SFL's Champs-Elysées retail units should also benefit from Paris 2024 Olympics momentum.

Societe Fonciere Lyonnaise's tenant spread

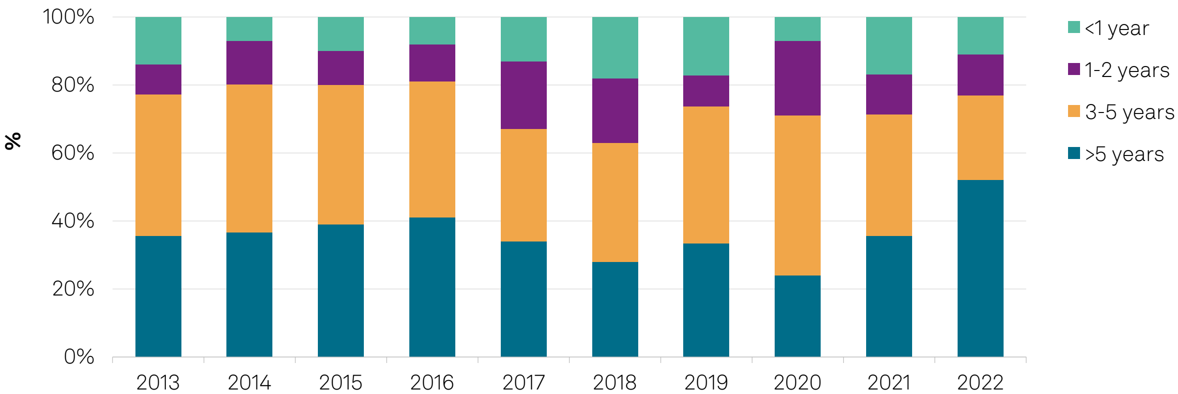


Source: Company report

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 must justify the journey to their location when shoppers can simply buy goods online. Although we expect that occupancy will remain under pressure in the near term, 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 in the long term.

SFL's business strategy, focusing on the Paris office market and a limited number of assets (18 as of Dec. 31, 2022), 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 43% of total rent in 2022. 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, before recovering to 99.5% in 2022.

Societe Fonciere Lyonnaise S.A.--Leases due for renewal

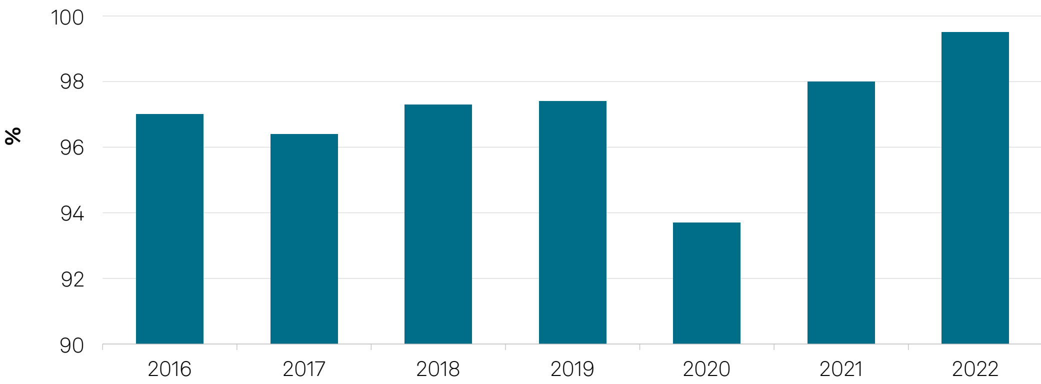


Source: Company report.

The company was consistently able to replace its existing tenants or extend leases at an equal or higher rent over the past few years, thanks again to its particularly solid asset quality, market position, and rental reversionary potential. The average lease term of 6.1 years at year-end 2022 supports revenue predictability. However, we anticipate some pressure on occupancy at existing assets in the next 12-36 months given upcoming lease maturities, with about 11% of leases having a break option in 2023 and about 12% in 2024 at Dec. 31, 2022. We understand some tenant exits are already scheduled with work being planned to renovate assets, which implies an average period of 12-24 months with no rental income generated during that time. That said, we recognize management has proved it can surpass conservative releasing budget assumptions over the past couple of years and especially in 2022.

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 exits.

Societe Fonciere Lyonnaise has a track record of strong occupancy



Source: Company report.

SFL has some development exposure, with about 13% of the portfolio, which is either undergoing development or is in the pipeline at Dec. 31, 2022. These properties consist mainly of its current flagship projects--the retail part of the Louvre Saint-Honoré asset (100% pre-let), and Rives de Seine (following tenant departure at year-end 2022)--with expected delivery over 2023-2026. 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 strongly within our intermediate financial risk category in 2022, supported by solid operating performance with 7.5% like-for-like rental growth and solid occupancy of about 99.5% at year end. This trend continued in 2023 with 99.3% occupancy at the end of the first quarter. At the same time, the company's S&P Global Ratings-adjusted debt to debt plus equity increased to 30.9% at year-end 2022, from 24.8% at year-end 2021. This reflects the effects of increased debt resulting from the Pasteur acquisition, which was mainly debt funded, and high dividend payments in 2022 following disposals in 2021. However, the ratio was also supported by 2.3% positive portfolio revaluation in full-year 2022. We note that valuation peaked at the end of first-half 2022 (positive 3.8%) but started to decline in the second half (negative 1.5%) as yield compressed slightly in line with the rise in interest rates. Debt to debt plus equity 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’s acquisitions will remain limited in the current subdued real estate transaction market, which should keep the ratio at about 33%-35% in the next couple of years, incorporating moderate yield expansion and a moderate debt increase to fund development capex and dividend payments. This still leaves ample headroom under its financial policy.

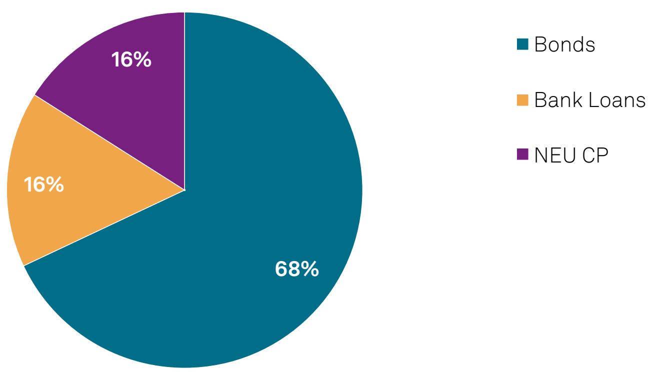
We take into account SFL's established track record of disciplined leverage, with our adjusted debt to debt plus equity staying below 40% since 2014, while EBITDA interest coverage has been strong (5.1x at Dec. 31, 2022) over the past few years because of a low average cost of borrowing (1.8% March 31, 2023). With the increase in debt in 2022, coupled with a gradual increase in the cost of borrowing anticipated over the next 12-24 months, we expect EBITDA interest coverage to decline but remain above 3.0x in 2023-2024. This will be supported by additional EBITDA contributions from the delivery of development projects and the recent acquisition, which will partially mitigate upcoming tenant departures and a rise in debt levels due to elevated dividends and capex. In our view, the negative effects from a potential rise in interest rates on this ratio should also be partially offset, given the high hedging rate (91% of the debt hedged against interest rate risk) and limited need for refinancing.

Furthermore, in our view, SFL's cash flow is low and its debt to EBITDA is somewhat weak, at 13x-16x, affected by the timing of project deliveries and re-letting processes, but also highly linked to its record low-yield assets (3.1% European public real estate topped up net initial yield at year-end 2022).

Debt maturities

At March 31, 2023, SFL's average debt maturity was 4.1 years. SFL needs to address its near-term maturity of commercial paper of €409 million in 2023. The commercial paper maturities are fully covered by undrawn bank lines.

Societe Fonciere Lyonnaise S.A.--Debt structure at year-end 2022



NEU--Negotiable European commerical paper. Source: Company report.

Societe Fonciere Lyonnaise S.A.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	196	194	199	182	175	205
EBITDA	167	166	176	157	139	178
Funds from operations (FFO)	109	121	131	115	105	160
Interest expense	43	37	32	35	34	35

Societe Fonciere Lyonnaise S.A.--Financial Summary

Operating cash flow (OCF)	123	123	142	107	110	153
Capital expenditure	208	38	65	134	130	583
Dividends paid	54	113	131	131	97	218
Cash and short-term investments	16	25	54	15	115	69
Debt	1,690	1,748	1,790	1,955	1,804	2,452
Common equity	4,239	4,512	5,037	5,197	5,484	5,476
Valuation of investment property	6,119	6,458	7,045	7,081	7,496	8,052
Adjusted ratios						
EBITDA margin (%)	85.3	85.6	88.8	85.9	79.8	87.1
EBITDA interest coverage (x)	3.9	4.5	5.6	4.4	4.1	5.1
Debt/EBITDA (x)	10.1	10.6	10.1	12.5	12.9	13.8
Debt/debt and equity (%)	28.5	27.9	26.2	27.3	24.8	30.9

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-31-2022									
Company reported amounts	2,488	4,379	205	173	210	32	178	153	218	583
Cash taxes paid	-	-	-	-	-	-	(5)	-	-	-
Cash interest paid	-	-	-	-	-	-	(13)	-	-	-
Postretirement benefit obligations/ deferred compensation	2	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(69)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	4	-	-	-	-
Share-based compensation expense	-	-	-	4	-	-	-	-	-	-
Noncontrolling/ minority interest	-	1,097	-	-	-	-	-	-	-	-
Debt: other	31	-	-	-	-	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	(39)	-	-	-	-	-

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
Total adjustments	(36)	1,097	-	5	(38)	4	(18)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,452	5,476	205	178	172	35	160	153	218	583

Liquidity

We assess SFL's liquidity as strong and estimate that the ratio of liquidity sources to uses will be above 1.5x in the next 12 months started March 31, 2023, and above 1.0x 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 €56 million of cash and equivalents.
- About €1.34 billion and €0.88 billion of undrawn bank lines maturing beyond the next 12 and 24 months, respectively.
- Our forecast of €125 million-€130 million of funds from operations.

Principal liquidity uses

- €499 million of debt maturities in the coming 12 months.
- About €80 million-€90 million in maintenance and renovation capex and about €25 million- €30 million in working capital requirements in the coming 12 months.
- About €180 million of forecast dividend payments for 2023.

Covenant Analysis

Requirements

We expect that the company will maintain adequate headroom, greater than 15%, under all remaining covenants.

Compliance expectations

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

- LTV of less than or equal to 50% (27.6% at Dec. 31, 2022).
- Interest coverage equal to or greater than 2.0x (5.5x at Dec. 31, 2022).
- Secured LTV of less than or equal to 20% (0% at Dec. 31, 2022).
- An unrestricted property portfolio value greater than or equal to €2.0 billion (€8.8 billion at Dec. 31, 2022).

Environmental, Social, And Governance

ESG Credit Indicators

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

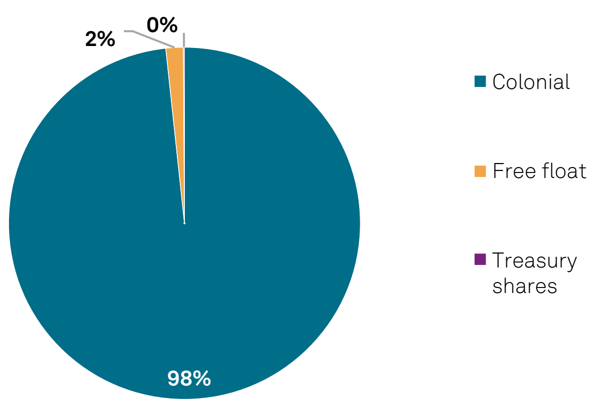
N/A--Not applicable.ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global 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 those of peers. Of its assets, 99% are in Paris (77% in its CBD), and therefore close to public transport. All 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 2022



Source: Company report.

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

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 €13 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 for 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, 2022, SFL's debt structure comprised bonds (68%), bank loans (16%) and commercial paper (16%).

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 2022 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

- 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
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Inmobiliaria Colonial And Subsidiary SFL Strengthen ESG Commitments By Aligning Their Financing Strategies, Jan. 13, 2022
- Inmobiliaria Colonial Increases Direct Exposure To Paris Office Market Via SFL Without Impairing Metrics Significantly, June 4, 2021
- Credit FAQ: Spotlight On Refinancing Risks In European Commercial Real Estate, April 24, 2023

Ratings Detail (as of May 15, 2023)*

Societe Fonciere Lyonnaise S.A.	
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+

Ratings Detail (as of May 15, 2023)*

*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.