MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades GELF's ratings to Baa2; stable outlook

Global Credit Research - 21 Oct 2014

London, 21 October 2014 -- Moody's Investors Service has today upgraded Goodman European Logistics Fund FCP-FIS (GELF) and assigned a long-term backed issuer rating of Baa2 and withdrawn the Baa3 corporate family rating. Concurrently, the backed senior unsecured rating of GELF Bond Issuer I S.A. was upgraded to Baa2 from Baa3, the provisional backed long-term rating of its EUR5.0 billion guaranteed medium-term notes programme was upgraded to (P)Baa2 from (P)Baa3 and the provisional backed short-term rating was upgraded to (P)Prime-2 from (P)Prime-3. The rating of the EUR500 million backed variable rate notes due 2018 issued thereunder was upgraded to Baa2 from Baa3. The outlook on all ratings is stable.

RAITNGS RATIONALE

- - RATIONALE FOR UPGRADE

"The upgrade of GELF's rating to Baa2 reflects the fund's continuing strong operating performance, increased scale and diversification of rental income as well as the improved outlook for the logistics property sector", said Lynn Valkenaar, Moody's Vice President and lead analyst on the fund. "In addition, GELF has significantly increased the ratio of its unencumbered assets to total assets to around 66%", adds Ms. Valkenaar.

The Baa2 rating primarily reflects GELF's strong brand name and the franchise value brought to the fund by its external manager and cornerstone unit-holder, Goodman Group (Baa2 stable), a listed Australian industrial real estate investment trust (REIT). Other key strengths underpinning the rating are (1) GELF's high-quality portfolio of modern prime logistics properties, which have recurrently high occupancy rates (96.3% at H1 2014) and broad geographic diversification, providing the fund with steady positive cash flow from operations; (2) a lower business risk profile than similarly rated peers, as the fund's development activity represents only a small proportion of its assets; and (3) solid credit metrics. As at H1 2014, the fund's effective leverage, as measured by adjusted total debt/gross assets, was a moderate 38.7% (2013: 41.8%) and its fixed charge coverage as measured by adjusted EBITDA/gross interest expense + capitalised interest + ground rents, was 4.0x (4.1x for 2013). (All ratios adjusted by Moody's.)

These strengths are partly offset by GELF's moderate scale, as measured by gross assets, but the fund is in expansion mode with a substantial amount of committed equity still to be drawn from unit-holders as of 30 June 2014. The fund also has a moderately high exposure to income concentration risk with the top 10 tenants accounting for 45.9% of revenues at H1 2014; this is being consciously managed down as the fund grows (48.2%: H1 2013).

We also factor into the rating our view that tenant demand in the European logistics property sector has risen with the gradual increase in world trade volumes combined with our forecast for a gradual, modest European economic growth in 2014 and 2015. Tenant demand is also supported by the increased need for logistics space arising from the significant growth in online retail spending.

We consider GELF's liquidity to be good at present. Forecast cash flow generation and cash resources provide adequate support of near-term cash needs and are supplemented by a committed equity calls. Other than small quarterly payments amortising a finance lease, GELF's earliest debt maturity falls in December 2015. Satisfactory headroom under GELF's unsecured bank financial covenants, which are leverage and debt service cover, and secured bank financial covenants, which are loan-to-value and interest cover, contributes to liquidity strength. In addition, two-thirds of the fund's assets are unencumbered, which provides a potential source of alternative liquidity in case of need.

In addition, GELF faces a "liquidity review" in 2016, when unit holders wishing to withdraw their equity stake may do so. The rating assumes that the liquidity review will result in no disruption to the business, nor will it negatively affect the fund's financial strength. This view reflects (1) proven unit holder support, as evidenced by GELF's multiple equity raises since the fund's inception in 2006; (2) the fact that Goodman Group already provides limited but ongoing liquidity to other unit holders on a quarterly basis; (3) the group's maintenance of strong corporate governance principles that are intended to align its interests with those of the unit holders; and (4) that GELF's bank covenants ensure that any cash proceeds from the sale of assets must amortise debt in priority to refunding unit holders' investments.

- - RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects GELF's steady cash flow generation and the expert management provided by Goodman Group. We expect that the fund will continue to increase its scale, tenant diversification and percentage of unencumbered assets to total assets and that its financial metrics will not vary greatly from current levels. The stable outlook also assumes that the fund will maintain an adequate liquidity profile at all times.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the rating or outlook could arise as GELF develops greater scale and tenant diversification as well as improves its profitability over time in conjunction with (1) maintaining leverage, as measured by total debt/gross assets (as adjusted by Moody's), materially below 40% and fixed charge coverage remains above 4x on a sustainable basis; (2) unencumbered assets/total assets trends above 70%; and (3) preserving its policy to largely acquire completed investments rather than develop them.

Conversely, downward pressure on the rating could arise if (1) GELF's business risk profile weakens as a result of an increased concentration of tenant income or an enlarged development programme on a sustained basis; (2) its financial covenants cease to protect unsecured lenders effectively from liquidity reviews or we develop other liquidity concerns; or (3) the fund's financial metrics deteriorate such that its fixed charge coverage ratio falls below 3x or effective leverage rises towards 45%.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was the Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Goodman European Logistics Fund (GELF) is an unlisted real estate investment fund, registered in Luxembourg as a "fonds commun de placement", that investments in modern prime logistics properties in 11 countries across Europe. As of 30 June 2014 (H1 2014), the fund's units were valued at EUR1.29 billion. At that time, GELF reported direct ownership of a portfolio of 102 distribution facilities with last 12 months' revenues of EUR144 million and total assets of EUR2.20 billion.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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