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Luxembourg Property Fund Prologis European Properties Fund II $300 Million Senior Unsecured Notes Upgraded To 'BBB'

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- We are aligning our rating on Luxembourg property fund Prologis European Properties Fund II (PEPF II)'s $300 million senior unsecured notes with its 'BBB' rating to reflect our belief that structural subordination of the unsecured bond issuance to secured obligations is likely to decrease to a level we view as adequate.
- We are therefore raising our rating on PEPF II's $300 million senior unsecured notes issued through its finance vehicle Prologis International Funding II S.A. to 'BBB' from 'BBB-'.

PARIS (Standard & Poor's) July 3, 2013-- Standard & Poor's Ratings Services said today it raised to 'BBB' from 'BBB-' its rating on the senior unsecured bond issue by Luxemburg property fund Prologis European Properties Fund II (PEPF II) through its dedicated finance vehicle Prologis International Funding II S.A.

The upgrade reflects our belief that the structural subordination of PEPF II's $300 million senior unsecured note to existing secured obligation is likely to decrease to an adequate level over a 12-month horizon.

We believe that PEPF II has a credible plan to raise unsecured funding and reduce the level of its unencumbered assets in the short-term so that its ratio of net operating income generated by encumbered assets to total net operating income, currently at 58%, will fall below 50%. The ratio should therefore pass our 50% threshold for notching down investment grade companies, as per our "Global Criteria For Rating Real Estate Companies" published on

RatingsDirect on June 21, 2011.

In addition, we view the €1.2 billion unencumbered assets as slightly more liquid than the encumbered assets, as they are mainly located in the U.K., Poland, France, and Germany where the logistic property market is deeper and more dynamic than in other European countries.

The ratings still reflect our view that PEPF II has a "satisfactory" business risk profile and an "intermediate" financial risk profile, as our criteria define the terms.
The satisfactory business risk profile is underpinned by PEPF II's large pan-European portfolio of prime, recently-built logistics properties, the strong cash flow generated by these assets, an occupancy ratio around 95%, and high average lease duration of 4.6 years. We also view its lack of exposure to speculative development risk as credit positive. These strengths are partly offset by the fund's still-substantial share of secured debt as a proportion of total debt, which, in our view, limits its current financial flexibility, although we anticipate it will likely continue to decrease as per PEPF II financial policy. PEPF II is also exposed to currently fragile demand in the European industrial property market, and to some volatility inherent in the real estate sector.

RELATED CRITERIA AND RESEARCH

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Global Criteria For Rating Real Estate Companies, June 21, 2011
- Corporate Ratings Criteria 2008, April 15, 2008

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