MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes Prologis European Properties Fund II 's outlook to positive

Global Credit Research - 17 Oct 2017

London, 17 October 2017 -- Moody's Investors Service ("Moody's") has today changed to positive from stable the outlook on the ratings of Prologis European Properties Fund II ("PEPF II"). At the same time, Moody's affirmed the fund's Baa1 senior unsecured long-term issuer rating, the (P)Baa1 rating to its EUR5 billion medium-term note (MTN) programme issued under Prologis International Funding II S.A., and the Baa1 instrument ratings of its backed senior unsecured bonds issued under the MTN programme.

Moody's affirmed the ratings and changed the outlook following the announcement on 17 October 2017 that PEPF II has acquired the EUR3.1 billion assets of Prologis Targeted Europe Logistics Fund (PTELF), and renamed itself as Prologis European Logistics Fund FCP-FIS (PELF). PELF acquired PTELF's assets and liabilities in exchange for equity to PTELF unitholders.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

"PELF's acquisition of EUR3.1 billion of assets from Prologis Targeted European Logistics Fund is credit positive because it will improve scale, diversification and access to debt and equity capital," says Ramzi Kattan, a Moody's Vice President -- Senior Analyst, and lead analyst for PEPF II.

The positive outlook reflects PELF's improved business profile, stronger credit metrics, and a more conservative financial policy that meet the factors that could lead to an upgrade. The outlook also incorporates Moody's view that the fund will continue to generate stable cash flows, maintain good liquidity and solid debt metrics while maintaining high occupancy levels and a balanced growth strategy. The outlook also reflects the favourable operating environment for European logistics.

The planned combination will strengthen the funds leading position as the largest pan-European prime logistics platform operating across 12 countries. The fund's assets pro-forma for the combination will grow to over EUR8.2 billion from EUR4.8 billion while annual rental income will increase to EUR510 million from EUR312 million. Concentration to the top 20 tenants reduces to 32.8% from 37.3%, and income from the top tenant decreases to 4.4% from 6.5%. The combined portfolio will increase exposure to the more stable North/Western European property markets to 75% by value from 64%. Meanwhile, the fund's presence in Central and Southern Europe - which presents higher growth opportunities but with higher volatility than the more established Western European markets -- will reduce to 25% by value from 36%.

The fund's key credit metrics will improve pro-forma for the combination. Leverage as measured by Moody's adjusted gross debt to assets reduces to 26.5% from 30.9%. Furthermore, the fund will now follow a more conservative financial policy and has revised its Loan-to-Value (LTV) target to the 30%-35% range from the previous policy of maintaining LTV below 40%. Meanwhile, Moody's fixed charge coverage improves to 6.4x from 4.9x, and Net debt / EBITDA strengthens to 5.3x from 5.7x.

As a result of the combination, PELF has access to EUR550 million of equity commitments and an enlarged more diversified pool of equity investors. In addition, the increased scale will make it easier for the fund to issue benchmark sized bonds while keeping to its policy of maintaining a long-dated and staggered debt maturity profile with no more than 20% of debt due in any one year.

Factors that Could Lead to an Upgrade

• If the current 30.9% leverage, as measured by Moody's adjusted total gross debt/gross assets, is sustained below 35%, and maintaining the funds commitment to a 30-35% loan to value (LTV) target

• If Moody's adjusted fixed charge coverage ratio is sustained above 3.5x from its current 4.9x level

• Continued commitment to keeping net debt / EBITDA below 6x from its current 5.7x level

• Maintaining substantial liquidity buffers via undrawn revolving credit facilities and equity commitments, and sustaining the current 82.8% ratio of unencumbered assets to total assets above 70%

• Keeping a long dated and well staggered debt maturity profile, and establishing a track record of addressing refinancing needs 12-18 months ahead of maturities

Factors that Could Lead to a Downgrade

• If leverage trends above 40%

• If fixed charge coverage ratio falls below 3x

• A broad deterioration in the macroeconomic environment or property markets that leads to weaker operating performance

• If the fund faces liquidity challenges or difficulty in accessing equity capital

PRINCIPAL METHODOLOGY

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

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: ProLogis European Properties Fund II

.... LT Issuer Rating, Affirmed Baa1

..Issuer: Prologis International Funding II S.A.

.... BACKED Senior Unsecured MTN, Affirmed (P)Baa1

.... BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

Outlook Actions:

..Issuer: ProLogis European Properties Fund II

....Outlook, Changed To Positive From Stable

..Issuer: Prologis International Funding II S.A.

....Outlook, Changed To Positive From Stable

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