

CREDIT ANALYSIS

Bundesimmobiliengesellschaft m.b.H.

Vienna, Austria

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Analyst Contacts:

FRANKFURT	49.69.70730.700
Andrea Wehmeier	49.69.70730.782
Vice President-Senior Analyst	
Andrea.Wehmeier@moodys.com	
MILAN	39.02.360.06.333
Massimo Visconti	39.02.9148.1124
Vice President-Senior Credit Officer	
Massimo.Visconti@moodys.com	
LONDON	44.20.7772.5454
David Rubinoff	44.20.7772.1398
Team Managing Director	
David.Rubinoff@moodys.com	

Summary Rating Rationale

The Aaa and P-1 ratings with stable outlook of Bundesimmobiliengesellschaft mbH (BIG) are based on the medium-term expectation that the 100% ownership by the Republic of Austria will continue and that it will maintain stable revenues and a generally predictable cost structure. Also factored in is the expectation that Bundesimmobiliengesellschaft mbH will be able to adequately service the debt related to the agreed acquisition of state properties such as schools and university buildings with the revenue from operations and some refinancings (within the framework of BIG's projections).

The company is 100% owned by the Republic of Austria and is of strategic importance due to the services provided. The business model is heavily based on government-related revenues. Furthermore, the activities cannot be separated from government policy. The strong interest of the state also manifests itself in strong oversight and the ability to nominate senior management; the two members of the board of directors are appointed by the Minister of Economy.

Note: This report focuses on BIG's consolidated accounts.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Bundesimmobiliengesellschaft m.b.H. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

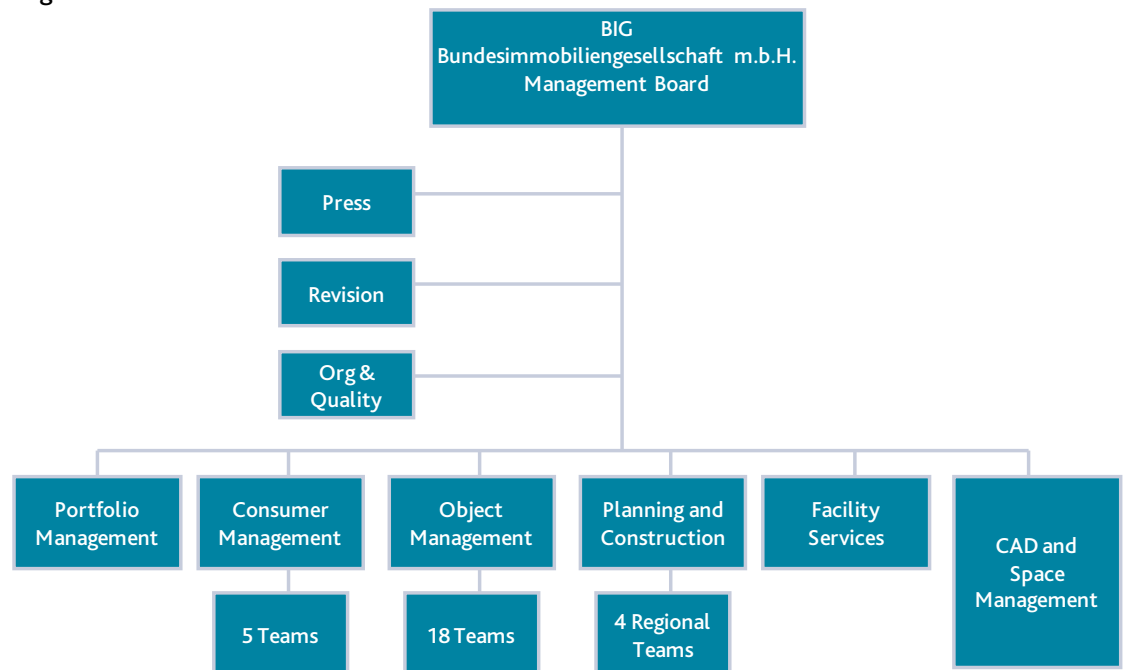
Rating Outlook

The outlook on the ratings is stable.

Issuer Overview

BIG was created by law in 1992 with the objective of centralising property management for Austria's public sector, with a view to improving efficiency and, more specifically, the cost-efficiency of various government departments. The underlying premise was that requiring departments to pay for and account for their usage of buildings would force them to rationalise their use of space and allow surplus stock to be put to alternative use or sold.

FIGURE 1
Organisation Chart



Source Source: BIG as of April 2010

Following a revision of the act regulating BIG's activities in 2000, the entity now owns the properties previously leased from the state. The purchase price was set at €2.4 billion, with the transfer completed during 2003. The purchase was financed with debt.

Moody's views €2.4 billion as a fair price for the transferred assets. According to an independent valuation of the properties by the Technische Universität Wien (Technical University of Vienna), the market value was €6.9 billion. The lower transfer value takes into account the specialist nature of the properties – i.e. they possibly have a lower resale value – and future investment needs. Moreover, if BIG sells any of the transferred assets with a positive margin over the purchase price, it has to pay a share of the gain to the state, i.e. a formulaic calculation of the share, taking into account the gain on the disposal. The agreement with the state was revised as of 1 January 2005, allowing BIG to offset some costs prior to paying out around 80% of the gain.

BIG has undertaken several initiatives toward continued rationalisation of its business model and internal procedures, seeking ever-higher efficiency and effectiveness in all its activities. The company took all necessary steps to ensure a successful transition to IFRS for the first time in 2007.

BIG has responsibility for managing the Austrian Republic's real estate, with a portfolio largely dominated by schools and universities (66%) and other federal tenants such as prisons, police stations and court houses (34%) as of August 2009. BIG's activities involve renting out the buildings to the various government entities, carrying out renovations and new investments, and handling sales of redundant buildings and land. BIG's holdings include a small residential property portfolio, mainly comprising the current and former homes of civil servants and other public sector employees (2%). BIG also offers facilities management services if required by the tenants.

BIG consists of a holding company, Bundesimmobiliengesellschaft mbH (BIG), and – following the successful merger by incorporation of its subsidiary BIG Services, or IMB (Immobilienmanagementgesellschaft des Bundes) in 2006 – two main subsidiaries, BIG Finanzdienstleistungen GMBH and BIG Entwicklungs-Und Verwertungs GMBH, which are both 100% owned by BIG and consolidated into its accounts. The group also consolidates an array of companies related to particular buildings and projects.

Around €2.1 billion will be spent in Austrian real estate during 2010 - 2012. Key priorities going forward continue to be the project development with strategic partners and optimisation of key business, i.e. leasing of real estate to the federal Republic's administration.

Key Rating Considerations

BIG's Aaa and P-1 ratings are based on the following factors:

- » The 100% ownership of BIG by the Republic of Austria provides comfort that the owner will support the entity in the event of a problem arising.
- » The business model is almost entirely based on government-related revenues. The Austrian public sector remaining the main tenant of BIG, providing revenue/margin stability.
- » State supervision and control the activities of BIG, reflected in strong oversight and the ability to nominate senior management: the two members of the board of directors are appointed by the Minister of Economy. It determines policy (tasks and obligations) of the entity going forward, while taking financial stability into account.
- » The company is of strategic importance due to the services it provides.

The state's ownership could only be reduced below 100% through a change in the law pertaining to BIG. Although this is not impossible, to date the government has not signaled any intention to effect such a change, as BIG is regarded as a vital instrument in the management of the state's properties. BIG's accounts are audited by the Federal Audit Office.

The Austrian central government is currently investigating further sales and / or a partial privatization of company parts related to marketable assets. Moody's understands that this will not affect BIG's general business model and the framework, the entity is operating in, however, we will follow the development.

Furthermore, there are no plans to extend the entity's activities to the private sector to a material degree. Although the law permits BIG to carry out commercial property marketing and development, such activities are supposed to be of a subsidiary nature and there are currently no plans to expand commercial activities beyond asset sales of surplus or unused properties and land. In fact, BIG's management reiterated that activities will remain focused on the state, either in terms of new projects or further state asset purchases. Only a few activities will involve the development of projects for third parties. In this regard, BIG envisages more projects that link state activity/policy with the private sector, like the ICT technology park in Tyrol where the university will share a building with private enterprises.

Financial Position and Performance

2008 and 2009 results deteriorated from previous years; the same is expected for 2010

The 2009 operational results (EBIT EUR 252 million), reported in line with the IFRS principles, were slightly up compared to 2008 (EUR 219 million), but below the 2007 level (EUR 267 million). The contained volatility of revenues reflects the above mentioned characteristics of the business with its strong reliance on predictable government-related revenues. Pre-tax profit was EUR 124.6 million, up from EUR 56.5 million in 2008, mainly driven by lower interest rate costs.

Pre-tax profits likely to remain and develop positively in and after 2010, in line with BIG's mission

Expectations going forward based on the new 5-year business plan include a lower pre-tax profit for 2010 in the area of EUR 50million, with a steady recovery until 2014. The dip in 2010 is due to higher maintenance costs, higher depreciation and potentially deferred rental payments by the central government. The recovery afterwards is based on higher rental income after the realization of new investments and upgrade of existing stock and the second rental adjustment in 2011 under the five-year rent-adjustment mechanism though BIG is not meant to be a profit maximiser.

Rental Income and Occupancy

Rental income is the mainstay of BIG's income, representing a stable 82% of operating revenues in 2009. Of this, 98% comprises rents received from the state – i.e. from various ministries that use the buildings, although the universities now pay BIG directly from their government-allocated annual operating budgets. As such, the universities have become the direct payers, although the funds still stem from the Ministry of Education. Including such indirect payments, the Ministry for Education accounts for the majority (70%) of BIG's rental income in the form of schools and universities, followed by other federal tenants (27%) and other tenants (2.5%). Rents are paid monthly or quarterly for all properties; all residential tenants pay rent on a monthly basis.

In 2009, BIG sold properties worth €20 million, of which €4.9 million was paid to the Federal Republic as required by the agreement signed with the state.

There are options for giving notice under the rental agreements; the notice period is one year for tenants, covering 70% of the total revenue. However, the tenants are deemed to be relatively stable, since the ministries need the properties as a base from which to provide services such as education. The notice periods for new projects or major renovations benefit from a clause that forbids the tenant from giving notice during the debt amortisation period (usually 20-25 years).

Rental Levels Take Into Account a Reasonable Margin and the Need for Investment

Rents have been fixed on a "market" basis, while taking into account the relatively specialised nature of the properties, and – as of 2003 – indexed to a designated consumer price index with a one-year time

lag (currently CPI 1996). Adjustments are only permitted if they are 5% above this index, and the adjustment will then be in full. As such, the potential for rental increases is not considered to be particularly flexible. The first rental adjustment under this ruling was implemented in 2006, driving a corresponding increase in rental revenue following the small declines in 2004 that were a result of the gradual sell-off of non-core rental properties. The next adjustments, due to take place in 2011 and 2016, are expected to be slightly higher than the initial value of €22 million previously forecast.

Increased Operating Costs as Planned

BIG's management successfully kept operating costs at an acceptable level through a focus on cost efficiency until 2006. 2007 - 2009, higher personnel expenses, expenses related to materials, building and services and depreciation were responsible for slightly lower operating margins. Such declines were already forecast in the company's business plan. Going forward, personnel expenses are expected to further grow in 2010-2014 due to standard salary increases and one-off pension payments. The headcount, 826 in 2009 is expected to remain broadly stable over the planning period. Cost for materials, building and services are also expected to moderately increase until 2010, but should decrease afterwards due to lower maintenance costs. The key reason for this is the anticipated investment versus initial planning as a part of BIG's required contribution to the stimulus package (deficit spending policy) adopted by the Federal Government to sustain the national economy

The other main cost item is interest expense, which is less flexible as it relates to the relatively "inflexible" debt stock accumulated to fund previous asset purchases and future investment needs. Financial expenses (including interest, expenses from financial assets and expenses from associated entities) were significantly up in 2008 to previous periods as the turbulences at the financial markets resulted in fair value adjustments under IFRS. 2009, however, interest costs were down again, with the expectation for 2010 being even lower. Expectations going forward are for a smaller annual increase until 2014.

BIG invested EUR 211 million on maintenance in 2009, the majority of which was spent on schools and universities. BIG has also invested nearly €296 million in development projects and construction. At present, over 100 construction projects are being projected or undertaken, amongst which are the new construction of the University of Economics in Vienna, two other university projects in Linz and Innsbruck, school centers and court houses in various municipalities in Austria. Going forward, BIG expects annual construction investments (both construction projects and works) of more than EUR 1.1 billion in 2010-11.

Most of BIG's investments are calculated for a period of 25 years, with a strong focus on sustainability, which translates into a strong focus on keeping maintenance costs at low and stable levels. The central government economic stimulus programme, however, will bring maintenance up for 2010 and 2011, BIG expects to spend EUR 210 – 235 million in each year. After that, maintenance costs should decline to relatively stable levels in the area of EUR 150 million per year until 2014, bringing predictability to the financial plan in the long term.

Debt & Liquidity

Debt Set Up to Growth After 3 Year Break

BIG's stock of debt has grown rapidly since 2000 due to its purchase of properties from the central government; financial debt totaled EUR 3 billion at the end of 2009, at comparable levels of previous years. While net issuance activities were negative in recent years, 2010 should see stronger and positive net financing activities, mainly driven by the investments linked to the Austrian economic stimulus programme, project investments and the above mentioned deferred rental payments.

Based on its long-term budgets, BIG's debt is expected to grow in 2010 and 2011 to around EUR 4 billion, stabilize in 2012 and 2013 at around EUR 4.1 billion and then decline to below EUR 3.9 billion. While the bulk of the assets from the state have now been purchased, the above mentioned factors are the main reason for the rising indebtedness. Net debt is expected to grow by EUR 377 million in 2010 and EUR 249 million in 2011.

By the end of 2009, 80% of the overall exposure was at fixed rates with almost all debt euro-denominated. The maturity profile shows one relevant peak, in 2013, but it is otherwise reasonably stable. Maturing issues tend to be refinanced and are generally well absorbed in the market as a consequence of the closeness of the issuer to the state. BIG has enjoyed the flight to quality phenomenon during the recent liquidity crunch, confirming investors' preference for a solid issuer class. Interest rates and currency exposures are limited through the use of financial derivatives with high-quality counterparties (with ratings ranging from Aaa to Aa).

Overall Adequate Liquidity Profile

BIG's cash flows are predictable, with 98% of the rental income (the mainstay of BIG's income) coming from the state and paid quarterly. Cash outflows, mostly project financing and debt servicing, are also predictable. Mismatches are funded via BIG's €1 billion Euro Commercial Paper Programme (rated P-1). Additionally, BIG can still use short-term drawing rights with banks. Uncommitted bank lines are in place.

Rating History

Bundesimmobiliengesellschaft m.b.H

DATE	RATING	ACTION
Long Term Issuer Rating		
06 JUN 2001	Aaa	New rating
Senior Unsecured - foreign		
03 SEP 2001	Aaa	Rated after sale
Senior Unsecured - domestic		
27 SEP 2002	Aaa	Closing date
Senior Unsecured MTN - domestic		
06 SEP 2002	Aaa	Rating assigned
Backed Senior Unsecured - foreign		
19 AUG 2008	Aaa	Rating assigned
Commercial Paper - domestic		
09 JAN 2002	P-1	New short-term rating

Company Annual Statistics

BIG Bundesimmobilien-gesellschaft

	2006	2007	2008	2009
Total Financial Debt (Fair Value IAS 39)	3,201,248.0	3,185,409.8	3,361,260	3,291,164
Debt due within one year	453,884	492,016	81,738	428,890
Debt due after one year	2,747,364	2,693,394	3,279,523	2,862,275
Profit and Loss (Consolidated - TEUR)				
Income from rental of investment property	596,853	620,956	630,619	670,112
Income from services	110,971	114,188	127,179	128,256
Proceeds from disposal of investment and inventory property	46,814	43,373	14,525	20,395
Other operating income	588	3,726	1,283	2,861
Operating Revenues (EUR 000's)	755,226	782,244	773,606	821,624
	79.0%	79.4%	81.5%	81.6%
Operating expenditures for realization of rental income	-335,705	-365,127	-418,548	-412,613
Costs from services	-86,562	-97,254	-106,145	-112,722
Operating expenditures for disposal of investment property	-48,309	-31,463	-10,233	-21,409
Book Value of sold inventory property	-1,250	-4,512	-1,656	-29
Other	-14,687	-17,169	-17,837	23,390
Operating Costs	-486,514	-515,525	-554,420	-570,162
Operating Profit	268,713	266,719	219,185	251,461
Results from associated companies	-381	-1,047	5,807	1782
Financing income	84,347	48,738	239,412	27,366
Financing expenses	-192,898	-199,911	-407,863	-155,989
Financial Results	-108,552	-151,172	-168,451	-128,623
Pre-tax Profits	159,780	114,500	56,541	124,620
Income Tax	-40,084	-35,109	-14,062	-30,183
Minority shares	0	0	4	0
Consolidated Result	119,696	79,391	42,479	94,438

BIG Bundesimmobilinegesellschaft

	2006	2007	2008	2009
Balance Sheet (TEUR)				
<i>Assets:</i>	2006	2007	2008	2009
Investment property rented out	3,436,544	3,660,956	3,783,581	3,800,442
Investment property in the development stage	745,221	458,850	367,373	450,564
Tangible assets	10,640	22,855	22,041	46,251
Intangible assets	8,098	7,146	6,306	5,738
Shares in associated companies	10,864	12,407	10,457	55,926
Other financial assets	37,846	39,037	203,057	193,528
Active deferred taxes	17,773	32,863	41,484	44,448
Long term assets	4,266,986	4,234,114	4,434,299	4,596,897
Inventory	13,965	17,959	13,314	11,277
Receivables for effective profit tax	22,327	8,422	51,292	0
Receivables and other assets	71,244	64,476	55,720	74,951
Liquid funds	3,871	74,688	58,185	38,754
Short term Assets	111,406	165,545	178,511	124,981
Total assets	4,378,392	4,399,659	4,612,810	4,721,878
<i>Liabilities:</i>	2006	2007	2008	2009
Nominal capital	226,000	226,000	226,000	226,000
Revenue reserves	486,790	566,131	608,481	702,996
Minority shares	0	0	7	7
Equity	712,790	792,131	834,488	929,003
Financial liabilities	2,747,364	2,693,394	3,279,523	2,862,275
Provisions for personnel	7,961	8,259	7,384	7,818
Other provisions	5,000	5,000	26,993	26,659
Investment grants from public funds	42,299	58,609	82,957	109,903
Trade payables	1,518	2,178	2,423	2,193
Other liabilities	121,164	76,188	37,697	28,538
Indirect deferred taxes	0	0	0	0
long-term liabilities	2,925,305	2,843,629	3,436,976	3,037,384
Financial liabilities	453,884	492,016	81,738	428,890
Provision for effective income tax	0	0	0	520
Trade payables	123,464	116,939	136,937	138,851
Other liabilities	162,950	154,944	122,672	187,231
Short-term liabilities	740,297	763,899	341,346	755,491
	4,378,392	4,399,659	4,612,803	4,721,878

Moody's Related Research

Analysis:

- » [Austria, March 2010 \(123202\)](#)

Rating Methodologies:

- » [Government related issuers: May 2007 update, May 2007 \(102945\)](#)
- » [The Application of Joint Default Analysis to Government Related Issuers, April 2005 \(92432\)](#)
- » [The Application of Joint Default Analysis to Government Related Issuers, April 2005 - German version \(92806\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Author
Andrea Wehmeier

Production Associate
Cassina Brooks

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