S&P Global
Ratings

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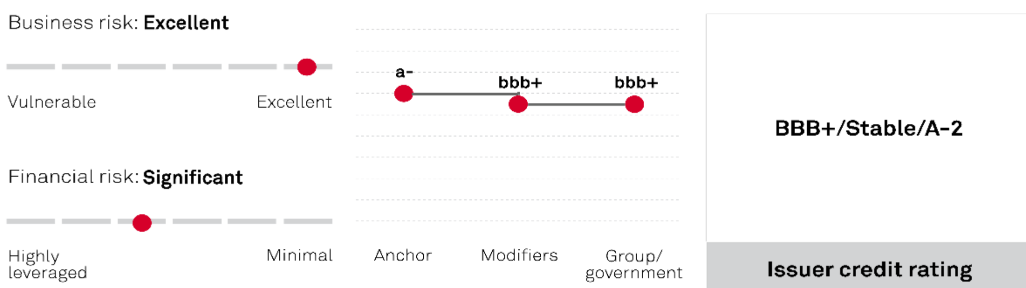
Vonovia SE

November 20, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Very large portfolio of income-producing residential property assets, worth about €88.7 billion as of Sept. 30, 2023.	High reliance on Germany and its economy, despite some exposure to Austria and Sweden.
Good asset localization in regions that enjoy supportive economic and sociodemographic trends, mostly in Germany (89% of asset value), Sweden (8%), and Austria (3%).	Rising affordability risk in the German residential market due to rising inflation and rents, which could lead to political pressure to introduce further tenant-friendly regulation.
Strong track record of like-for-like rental income growth, supported by a highly diversified asset and tenant base, continuously high occupancy rates, and long tenant stays.	A relatively high, albeit declining, debt-to-EBITDA ratio of 15-17x (excluding revenue from recurring sales and developments) expected in 2023-2025, owing to the low-yielding nature of the German residential market and the integration of completed acquisitions.
Market leadership in Germany and a track record of successful integration of acquisitions, supporting growth in Germany, Austria, and Sweden.	High debt leverage, with debt to debt plus equity between 55.0% and 60.0% (58.8% as of Sept. 30, 2023), with a currently tight headroom to our rating downside threshold.
Healthy debt service capacity thanks to low cost of debt (1.7% as of Sept. 30, 2023) evidenced by an EBITDA interest coverage expected to remain in the 2.5-3.0x range in 2023-2025 (3.1x. as of Sept. 30, 2023).	

Overview

Key strengths	Key risks
Prudent debt profile with long average maturity (6.7 years as of Sept. 30, 2023), high fixed/hedged ratio of 98% (as of Oct. 31, 2023), and good access to diversified funding sources, limiting refinancing risks.	

Vonovia's sale of a second €1 billion stake, among other asset disposals, provides additional credit cushion, but devaluation is still weighing on its high debt-to-debt-plus-equity ratio. On Nov. 3, 2023, Vonovia announced a total of €3.7 billion signed disposals year-to-date, well exceeding its €2 billion disposal target for 2023. This includes a €1 billion sale of minority stake in a portfolio of €3.8 billion assets in northern Germany, to be completed in first-quarter 2024. A previous €1 billion stake sale (about 30% of shares) in Südewo (€3.3 billion assets) was completed in April 2023. In line with the first transaction, we view the class B shares as common equity (see "Vonovia SE's €1 Billion Stake Sale Will Cushion Credit Ratios And Fuel Liquidity," published April 28, 2023). After the second transaction, about 8% of the company's property portfolio will be subject to 30% minority interest, where Vonovia will no longer accrue the full benefits of those asset´s cash flows. We still view both transactions in aggregate as immaterial and continue to consolidate both portfolios, in line with International Financial Reporting Standards. However, we could reconsider this accounting approach if the company sells more minority stakes. As of Sept. 30, 2023, the debt-to-debt-plus-equity ratio had increased to 58.8% (47.2% on a reported basis), from 56.7% on Dec. 31, 2022. This was due to a 6.6% portfolio devaluation in the first nine months of 2023 (following a 3.4% decline in second-half 2022), partly offset by the €1 billion sale of its stake in Südewo. We still expect €2 billion proceeds from assets sold in 2023 (including two transactions with CBRE Investment Management for a total of €917 million) and the €1 billion recent bond buy-back at 11% discount to ease the ratio from the fourth quarter. While Vonovia and some market research recently reported early signs of value stabilization, we conservatively assume a further 3%-4% decrease in valuation before stabilizing, leading to a 13% peak-to-through decline, and lower-than-expected asset disposals, despite the company's strong commitment to reducing debt by selling more properties (€3 billion minimum target in 2024). On that basis, we believe debt to debt plus equity should remain at about 57%-59% through 2025.

S&P Global Ratings-adjusted interest coverage has weakened to about 3x as refinancing has become more expensive. Though deleveraging, rental growth, and cheaper bank lending should soften the impact of higher interest rates, such that the ratio should decline but remain higher than 2.5x by 2025. Amid more expensive debt refinancing, Vonovia's EBITDA interest coverage (excluding revenue from recurring sales and developments) declined to 3.1x in the first nine months of 2023 from 3.7x in 2022. By repaying bond maturities (€1.7 billion in 2024 and €3.2 billion in 2025) with proceeds from asset disposals and free cash flows, Vonovia will likely lessen the impact from higher interest rates. Although the company was refinancing or extending its bank loans at terms that were more attractive than its bond yields (currently at 4.75%-4.90% for those maturing in 2028-2029), we assume a conservative 5.50% coupon on all refinancings. We therefore forecast EBITDA interest coverage (excluding revenue from recurring sales and developments) to remain at about 3.0x in 2023-2024, and 2.5x-3.0x in 2025, well above our 1.8x downside rating threshold.

Vonovia's income growth from rent should remain solid, partly offsetting poor performance in other segments. The company reported 3.8% organic growth in rental income for the first nine months of 2023, from 3.3% over the same period in 2022. This slightly exceeds our conservative 2.5%-3.5% assumption for 2023-2024, due to strong uplifts in rent renewals, slowly increasing indexation, stable and low vacancy rates (2.1%), and a record high collection rate

(99.9%) despite inflation biting German households' purchasing power. Still, the company's ability to capture rental growth is limited by lower investments in modernization (which would otherwise allow it to increase rents beyond indexation levels) and very low tenant turnover (slightly less than 8% as of Sept. 30, 2023).

As we expected, Vonovia's other segments, value-add, development, and recurring sales, were materially depressed in the first nine months of 2023, given the fall in market transactions amid increased interest rates. We do not expect a strong recovery before 2024, though these segments' contribution to reported EBITDA is moderate (10% in the first nine months of 2023, 20% in the first nine months of 2022), and we do not include them in adjusted EBITDA.

Continued adequate liquidity owing to well-staggered debt maturities, flexibility regarding dividends and capital expenditure (capex), high disposal targets, sound relationships with banks, and relatively good access to bond market. Vonovia's short-term debt maturities (€3.2 billion in the 12 months from Sept. 30, 2023) are sizeable but staggered and moderate in relation to the company's size (€90.0 billion) and liquidity sources. The debt maturities are more than covered by about €8.0 billion of short-term liquidity sources, comprising €3.0 billion of undrawn bank lines (€3.0 billion revolving credit facility (RCF) was recently extended by two years), €747 million cash position, about €2.0 billion expected cash proceeds from the sales closed this year not yet collected (out of which €1.5 billion were closed in third-quarter 2023), a recently closed €600 million two-year bridge-to-bond and our expectation of €1.6 billion funds from operations. We understand the company's strategy is to maintain a large liquidity buffer over time, notably through debt rollovers and repayments from the proceeds of the disposals.

Outlook

The stable outlook on Vonovia reflects our view that the company will continue generating robust rental growth, supported by the undersupply of housing in Germany, increasing rent indexation, and low tenant defaults. This should enable the group's EBITDA interest coverage and debt to debt plus equity to remain above 1.8x and below 60%, respectively, for at least the next two years.

We expect Vonovia to preserve a sound liquidity cushion and adjust its capital-allocation strategy to fast-evolving financial market conditions. We also assume that management will take the necessary steps to decrease leverage and comply with its publicly stated financial policy, centered on a maximum reported loan-to-value (LTV) ratio of 45% (comparable to adjusted debt to debt plus equity of 55%).

Downside scenario

We could consider a negative rating action if:

- Debt to debt plus equity increases to 60% or above for a prolonged period, because of higher revaluation losses or lower asset sales than expected;
- The liquidity cushion significantly decreases, for example because of a late refinancing of upcoming maturities or the issuance of debt with shorter maturities;
- EBITDA to interest moves toward 1.8x; or
- Outstanding secured debt exceeds 40% of the company's asset value, which may lead us to notching down our ratings on its unsecured debt.

Upside scenario

We could raise our ratings by one notch if:

- Vonovia is able to dispose substantial assets or development projects or raise enough equity such that its debt to debt plus equity would sustainably stay below 55% while maintaining EBITDA interest coverage at 3x or above; and
- Vonovia increases its payback capacity via internal cash flow generation, so that its debt-to-EBITDA ratio (excluding revenue from sales) sustainably returns below 15x.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Germany of 0.6% in 2024 and 1.4% in 2025. We forecast a rising consumer price index growth in the country of 2.8% in 2023, reducing to about 2% in 2025.
- Total revenue of about €3.7 billion-€3.9 billion for 2023-2025, and about €2.4 billion-€2.6 billion of EBITDA for the same period, excluding recurring sales from development activities.
- Like-for-like rental income growth of 2.5%-3.5% in 2023-2025, supported mainly by modernization capex and progressive growth in indexation, partly offset by weaker rent affordability limiting rent uplifts.
- Occupancy to remain stable at 97%-98% for 2023-2025.
- About €850 million of annual capex over the next two years, down from €1.8 billion in 2022.
- Portfolio devaluation totaling about 9%-10% over 2023 and 2024, meaning about 13% from peak-to-trough.
- Asset disposal of about €700 million in 2023, reflecting already signed transactions, and €1.5 billion-€2 billion in 2024-2025, conservatively lower than the management's target.
- Sale of a minority stake of roughly €1 billion in 2023, which was completed in first-half 2023, and recently announced additional €1 billion of minority stake sale, expected to be completed in first-quarter 2024. No further sale of minorities is assumed.
- Refinancing of debt maturities at 5.5%, reflecting elevated bond yields in the sector and banks' growing lending rates, are conservatively higher than Vonvovia's current bonds' yield trading (4.75%-4.90% for a five-year maturity).
- Cash dividend payments of about €600 million in 2024, and about €1 billion annually after that, taking into account some scrip dividend, in line with historical shareholder acceptance rate.

Key metrics

Vonovia SE--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f

Vonovia SE--Forecast summary

Revenue	2,148	2,366	2,731	3,595	3,740	3,815	3,873	3,903
EBITDA	1,422	1,614	1,850	2,274	2,431	2,479	2,556	2,576
Funds from operations (FFO)	1,057	1,096	1,315	1,542	1,726	1,630	1,459	1,312
Interest expense	406	444	490	609	713	791	964	1,145
Cash flow from operations (CFO)	1,150	999	1,394	1,574	1,696	1,616	1,456	1,321
Capital expenditure (capex)	1,662	1,614	1,731	1,855	998	998	1,048	1,048
Dividends	442	531	1,516	714	345	571	1,021	919
Debt	24,784	25,706	47,186	45,179	42,038	40,518	39,657	38,329
Equity	20,570	23,832	36,545	34,439	28,458	28,242	27,981	27,746
Adjusted ratios								
EBITDA margin (%)	66.2	68.2	67.8	63.3	65.0	65.0	66.0	66.0
EBITDA interest coverage (x)	3.5	3.6	3.8	3.7	3.4	3.1	2.7	2.2
Debt/EBITDA (x)	17.4	15.9	25.5	19.9	17.3	16.3	15.5	14.9
Debt/debt and equity (%)	54.6	51.9	56.4	56.7	59.6	58.9	58.6	58.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Company Description

Vonovia is the leading listed residential real estate holding company in Germany, and largest listed real estate landlord by portfolio size in Europe. Its portfolio was worth about €88.7 billion as of Sept. 30, 2023. On the same date, the company owned about 486,953 residential units in Germany, Austria, and Sweden and managed about another 71,045 units for third parties.

The company is listed on the German stock index (DAX) with an average market cap of about €18.6 billion on Sept. 30, 2023. The largest shareholders are Norges Bank (14.6%), BlackRock (6.9%), APG Asset Management (4%), and DWS Investments (3%), with 71.5% in free float.

Peer Comparison

Vonovia SE--Peer Comparisons

	Vonovia SE	Vesteda Residential Fund FGR	Deutsche Wohnen SE	Grand City Properties S.A.	Heimstaden Bostad AB
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB/Negative/--
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB/Negative/--
Period	RTM	Annual	RTM	RTM	RTM
Period ending	Sep-23	Dec-22	Jun-23	Jun-23	Sep-23
Revenue	3,328	363	1,089	620	1,419
EBITDA	2,197	246	668	316	871
Funds from operations (FFO)	1,400	210	460	217	352
Interest expense	737	42	187	68	461
Operating cash flow (OCF)	1,281	211	390	158	272

Capital expenditure	1,146	196	746	77	739
Dividends paid	415	245	23	46	393
Cash and short-term investments	747	11	218	709	588
Debt	44,450	2,315	8,520	4,105	16,997
Equity	31,400	7,298	15,361	4,793	12,712
Valuation of investment property	86,141	9,448	25,986	8,990	28,810
Adjusted Ratios					
EBITDA margin (%)	66.0	67.8	61.4	50.9	61.4
EBITDA interest coverage (x)	3.0	5.9	3.6	4.6	1.9
Debt/EBITDA (x)	20.2	9.4	12.8	13.0	19.5
Debt/debt and equity (%)	58.6	24.1	35.7	46.1	57.2

Business Risk

Vonovia's excellent business risk profile is underpinned by the company's very large portfolio of income-producing residential assets, mostly in Germany (89% of total portfolio value as of Sept. 30, 2023) and, to a smaller extent, in Sweden (7.6%) and Austria (3.4%). It has become the largest residential property holding company and listed real estate owner in Europe. We view residential property as less cyclical and volatile than most other commercial real estate segments and believe the German market provides strong fundamentals to landlords. These include a long average tenant stay (12-14 years versus less than five years in the U.K. or France), and a cultural preference for renting rather than owning, despite a good average affordability ratio. Moreover, Vonovia enjoys significant asset and tenant diversity, with about 547,998 units owned.

The company's business model has proven highly resilient over the past years, notably throughout the COVID-19 pandemic, with very few rent defaults, little occupancy impact, and solid like-for-like rental income growth exceeding 3%.

The company's strategic portfolio (about 84.5% of the total German portfolio value as of Sep. 30, 2023) is well spread across different regions of Germany and, more specifically, in cities and regions with positive economic and demographic trends. These include Berlin (34.2% of Vonovia's German portfolio on Sept. 30, 2023), the Rhine Main area (9.3%), Southern Ruhr area (7.1%), Rhineland (7.0%), Dresden (7.2%), and Hamburg (4.6%). Austria and Sweden make up 11% of the total portfolio, and we believe both markets offer similar supply-demand fundamentals to Germany.

Our business risk assessment is also supported by the company's strong and long track record of market leadership and executing a clearly articulated strategy, consistent with its capabilities and the market environment. Over the last decade, Vonovia has established a strong track record of successfully integrating large portfolio acquisitions, realizing synergies, and benefiting from economies of scales. Vonovia's strong growth path over this period and geographic expansion outside Germany was within the company's capabilities and acquisition policy of investing in regulated residential real estate markets with fundamentals comparable with its core German market. Vonovia's focus on long-term holdings with limited asset rotation and continuously high occupancy rates provides good cash flow predictability. In line with the changing market environment for real estate landlords, Vonovia has put its growth strategy on hold due to rising interest rates and yield expansion with falling property values, and it now focuses on selective non-core sales to protect its balance sheet.

Vonovia's refurbishment rate dropped to 1.9% of its portfolio (excluding Deutsche Wohnen) in 2022 from its target of 3%-4% per year. This is due to the challenging interest rate environment, increased construction costs, and reduced subsidies.

The company has some exposure to more risky development and asset arbitrage activities (10% of total reported EBITDA for the first nine months of 2023), through different forms: value-add sales (4%), recurring unit sales (3%), nursing and assisted living facilities (3%), and property development (1%). While they provide Vonovia with a recurring source of cash flow to fund its future investments, we believe those activities are more volatile and less predictable than rental income. This is why we exclude them from our EBITDA calculation and adjusted EBITDA metrics in line with our methodology for real estate investment trusts (REITs). Moreover, the development of residential assets exposes the company to risks of cost overruns and vacancy. That said, we understand the company runs a cautious approach with proactive leasing and selling processes during the construction cycles.

Our rating analysis includes a one-notch downward adjustment through our comparable rating analysis to reflect the company's relatively high leverage and small cash flow generation compared with other similar sized residential real estate holding companies operating in less regulated, and therefore higher yielding, markets such as the U.S. This is reflected in a relatively high debt-to-EBITDA ratio of more than 15x, against less than 10x for some U.S. peers. Nevertheless, we take into account the company's expansion strategy in recent years, which generally leads to a distortion of this ratio and the exclusion of revenue from property developments. In addition, we expect the ratio to improve as a result of increasing cash flow and reduced investment. We also see a debt-to-debt-plus-equity ratio of 55-60% being at the weaker end of the ‘significant’ financial risk category.

In addition, we believe that Vonovia's high concentration in Germany, with about 89% of assets, leaves it strongly exposed to Germany's economy and regulation, in particular with regard to social, regulatory, and reputational uncertainties, compared with globally more diversified residential real estate peers in the same business risk category. In addition, the German government's climate protection law ("Klimaschutzgesetz") sets high targets for carbon dioxide reduction in coming years, which is likely to result in high ongoing investments over the medium-to-long term, potentially reducing profitability.

Financial Risk

Vonovia's debt leverage remains high relative to industry standards and that of peers at the same rating level, with a ratio of debt to debt plus equity of about 55.0%-60.0% (58.8% as of Sept. 30, 2023, corresponding to a reported LTV of 46.8%) following multiple acquisitions. We understand the company is committed to restore the ratio to the 50%-55% range (translating into a reported LTV of 40%-45%), mitigating any potential further valuation drop with a reduction in its total gross debt amount through disposal proceeds and maintaining financial discipline.

Moreover, Vonovia has high debt to EBITDA (excluding recurring sales and developments) of about 20x, which we expect will decrease to about 15x-17x by 2025. This is high compared with that of peers, which enjoy stronger debt to EBITDA for similar debt to debt plus equity ratios. This discrepancy stems from the low-yield nature of low-risk German residential assets and the company's track record of acquiring other companies. We acknowledge the company's strong willingness to reduce this ratio by a further 1x-2x turns.

The company generates solid interest coverage, albeit decreasing, with a ratio of EBITDA to interest at 3.1x, as of Sept. 30, 2023. This is due to its still-low cost of funding (1.7%), high exposure to fixed/hedged rated debt (98%), and its relatively long average debt maturity profile of 6.7 years as of Oct. 31, 2023, with rising interest rates gradually impacting its funding profile. We forecast that the ratio will weaken along with new refinancings, given higher interest rates, but is likely to remain well above 1.8x over the next two-to-three years.

Vonovia SE--Financial Summary

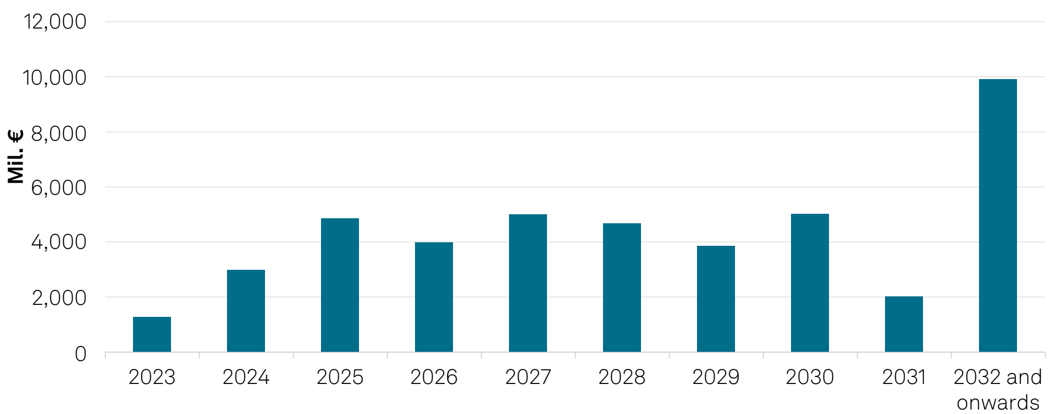
Mil. €	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Revenues	3,497	3,926	3,595	3,634	3,455	3,328
EBITDA	2,265	2,364	2,274	2,248	2,190	2,197
Funds from operations (FFO)	1,578	1,621	1,542	1,484	1,436	1,400
Interest expense	493	532	609	664	699	737
Operating cash flow (OCF)	1,642	1,731	1,574	1,583	1,392	1,281
Capital expenditure	1,901	2,248	1,855	1,667	1,569	1,146
Dividends paid	1,723	1,726	714	714	415	415
Cash and short-term investments	1,495	1,245	1,198	1,195	1,470	747
Debt	45,656	45,859	45,179	44,897	44,325	44,450
Common equity	37,523	37,425	34,439	32,254	30,953	31,400
Valuation of investment property	98,265	98,664	94,527	89,111	85,683	86,141
Adjusted ratios						
EBITDA margin (%)	64.8	60.2	63.3	61.9	63.4	66.0
EBITDA interest coverage (x)	4.6	4.4	3.7	3.4	3.1	3.0
Debt/EBITDA (x)	20.2	19.4	19.9	20.0	20.2	20.2
Debt/debt and equity (%)	54.9	55.1	56.7	58.2	58.9	58.6

Debt maturities

Vonovia's weighted average debt maturity was 6.7 years as of Oct. 31, 2023.

Vonovia SE's Debt Maturity Profile

As of September 2023



Source: Company latest report; S&P Global Ratings
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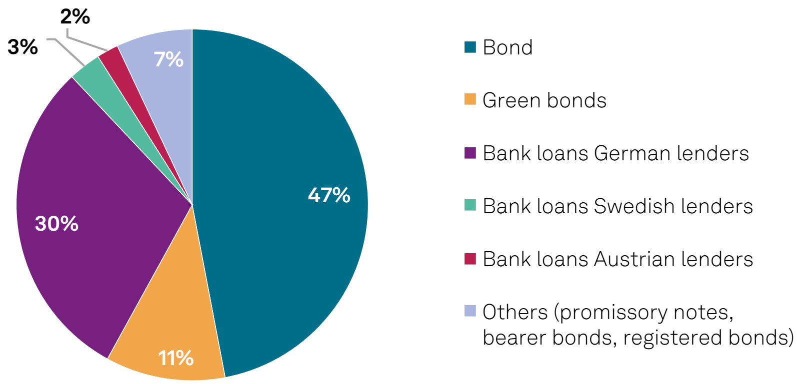
Vonovia SE's Total Debt By Funding Source



Source: S&P Global Ratings based on company report as of September 30, 2023.
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Reconciliation Of Vonovia SE 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	45,060	31,332	3,595	2,036	(491)	599	2,274	2,084	714	1,857
Cash taxes paid	-	-	-	-	-	-	(188)	-	-	-
Cash interest paid	-	-	-	-	-	-	(541)	-	-	-
Lease liabilities	683	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	446	-	-	-	-	8	-	-	-	-
Accessible cash and liquid investments	(1,198)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	3	(3)	(3)	-	(3)
Income (expense) of unconsolid. cos.	-	-	-	437	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	137	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(508)	-	-
Noncontrolling/ minority interest	-	3,107	-	-	-	-	-	-	-	-
Debt: Fair value adjustments	(47)	-	-	-	-	-	-	-	-	-
Debt: other	236	-	-	-	-	-	-	-	-	-

Reconciliation Of Vonovia SE 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
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(266)	(266)	-	-	-	-	-
EBITDA: Inventory	-	-	-	18	18	-	-	-	-	-
EBITDA: other	-	-	-	50	50	-	-	-	-	-
D&A: Asset valuation gains/(losses)	-	-	-	-	1,270	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	956	-	-	-	-	-
Total adjustments	119	3,107	-	239	2,164	10	(732)	(511)	-	(3)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	45,179	34,439	3,595	2,274	1,673	609	1,542	1,574	714	1,855

Liquidity

We assess Vonovia's liquidity as adequate. We anticipate that liquidity sources will likely cover uses for the 12 months from Sept. 30, 2023, by about 2x.

Principal liquidity sources

- About €747 million of unrestricted cash and equivalents as of Sept. 30, 2023;
- €3 billion of undrawn credit lines available, maturing in more than 12 months;
- Our forecast of about €1.6 billion of cash funds from operations;
- €2 billion of signed disposal proceeds not yet collected, mainly comprising the €1.5 billion in sales announced in third-quarter 2023; and
- A recently announced €600 million bridge-to-bond with a two-year maturity.

Principal liquidity uses

- About €3.2 billion of short-term debt maturities in the next 12 months; and
- Committed capex of about €800 million for the next 12 months.

Covenant Analysis

Requirements

Most of the company's bank debt facilities were granted for the purpose of financing real estate assets. Loan agreements are therefore mostly secured by land charges and assignment of rental payments, and the majority include financial covenants, such as LTV ratios and a debt-service coverage ratio.

In addition, Vonovia has covenants under documentation for its outstanding corporate bonds, mainly relating to its:

- LTV ratio (at less than 60%, versus 45.9% as of Sept. 30, 2023);
- Secured LTV (at less than 45%, versus 13.7% as of Sept. 30, 2023);
- Interest coverage ratio (greater than 1.8x, versus 4.4x as of Sept. 30, 2023); and
- Unencumbered assets to unsecured debt ratio (greater than 125%, versus 153% as of Sept. 30, 2023).

Compliance expectations

We expect that Vonovia will maintain adequate headroom, greater than 10%, under all remaining covenants.

Environmental, Social, And Governance

Environmental, social and governance factors are a neutral consideration in our credit rating analysis of Vonovia. We consider Vonovia's exposure to social and environmental factors as on par with the German residential industry. That said, social and political debates on rent affordability in Germany's metropolitan areas may increase regulation and reputation risk for Vonovia, since it is the largest German residential real estate company. Vonovia, together with its peers, has become a target for social protests, blaming the company for rising rents in German metropolitan cities as well as non-transparent utility costs (Vonovia in particular) charged to tenants. We believe additional rent regulation could hinder like-for-like rental growth for Vonovia. We note that the company refurbishes and renovates approximately 3%-4% of its portfolio per year to meet latest standards in terms of thermal insulation and energy efficiency but has decreased the refurbishment rate in 2022 and 2023 to 1%-2%, due to increased interest rates and construction costs, and reduced subsidies. We note the German government's published climate package, which targets reducing carbon dioxide emissions for buildings by 66% (compared to 1990) by 2030.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept. 30, 2023, the company's capital structure comprised 30% of secured debt and 70% unsecured debt.

Analytical conclusions

We rate Vonovia's senior unsecured bonds 'BBB+', in line with the issuer credit rating. The company's ratio of secured debt to total fair value assets as of Sept. 30, 2023, was 13.7%, well below our threshold of 40%.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2
Business risk	Excellent
Country risk	Very Low
Industry risk	Low
Competitive position	Excellent
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

- Industry top trends Midyear Update: Real Estate , July 18, 2023

- European REITs The Great Repricing Continues, July 18, 2023
- Vonovia SE's €1 Billion Stake Sale Will Cushion Credit Ratios And Fuel Liquidity, April 28, 2023'
- Rising Rents, Stable Leverage, And Dividend Cut Support Vonovia's Credit Profile, March 21, 2023'
- German Residential REITs Face A Mixed Outlook In 2023, Feb. 20, 2023

Ratings Detail (as of November 14, 2023)*

Vonovia SE	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
11-Nov-2022	BBB+/Stable/A-2
17-Dec-2021	BBB+/Positive/A-2
10-Mar-2015	BBB+/Stable/A-2
Related Entities	
Deutsche Wohnen SE	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

*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.

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