MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Vonovia's Baa1 ratings

04 Feb 2025

Frankfurt am Main, February 04, 2025 -- Moody's Ratings (Moody's) has today affirmed Vonovia SE's ("Vonovia" or "the company") Baa1 long-term issuer and senior unsecured ratings as well as Vonovia's (P)Baa1 senior unsecured debt issuance programme rating. We have also affirmed Deutsche Wohnen SE's ("Deutsche Wohnen") senior unsecured ratings at Baa1. The outlook on both entities remains stable. Simultaneously, the long-term issuer ratings of Deutsche Wohnen were withdrawn.

Please refer to Moody's Ratings' Withdrawal of Credit Ratings Policy, available on our website, https://ratings.moodys.com, for more information.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL502003 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

The affirmation of Vonovia's Baa1 long-term issuer rating reflects a solid positioning in the current rating category, as a reflection of continued strong operating performance and a successful execution of disposal targets to mitigate the impact from rising interest rates.

The company's credit profile continues to benefit from its superior scale and regional diversification within the German residential market, evidenced by accelerating rental growth and high occupancy rates. The action positively recognizes Vonovia's proactive refinancing approach and a robust liquidity position, supported by a strong access to debt markets.

The recent approval of the domination and profit and loss transfer agreement (DPLTA) with Deutsche Wohnen is a credit positive from a financial integration perspective. Deutsche Wohnen's moderate leverage and conservative financial practices enhance Vonovia's integrated credit profile.

While Moody's-adjusted debt-to-asset ratio remains at the upper end of our rating guidance (estimated at 51% by the end of 2024), we anticipate that the company will adhere to a balanced financial stance that will help reduce leverage in line with its financial targets. This is despite the anticipated higher level of investments to fund growth initiatives, which we understand will be largely self-funded through proceeds from recurring sales and non-core disposals. Over the next 12 to 24 months, we estimate that Moody's-adjusted debt-to-asset ratio will be between 50% and 48%, while net debt to EBITDA will strengthen to levels around 15x from around 16x as of end of September 2024. We expect that over the next 12 to 24 months, the majority of earnings continues coming from the company's stable rental business.

The interest coverage ratio will remain sensitive to higher debt costs than the 1.9% average cost of debt as of end of September 2024, as the company partly refinances upcoming maturities. However, the expected solid earnings growth and a well-staggered debt maturity profile will support an interest coverage of around 3x over the next 12 to 24 months.

RATIONALE FOR THE OUTLOOK

The stable rating outlook reflects our expectation that the company will maintain credit metrics commensurate with our rating guidance, benefiting from an enhanced operating environment for the German multifamily sector, with widespread market expectations for valuations to have stabilized in the second half of 2024.

Strong market fundamentals will support a sustained recovery of the investment transaction market. Very low vacancy rates in Germany indicate that rental price growth will continue to accelerate, exacerbated by the significant contraction in the residential construction market. Supportive fundamentals and the regulated nature of the German residential market will provide operating stability even during periods of weak economic growth.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade could occur if:

» Moody's-adjusted debt/total assets declines to levels well below 45% and Net debt/EBITDA declines well below mid-teens, with the majority of earnings coming from stable rental business

» Moody's-adjusted fixed charge cover remains sustained above 3x despite upcoming refinancing activity

» Vonovia doesn't increase organizational complexity

» Regulatory, political and market conditions for the German rental housing sector remain favourable

A downgrade could occur if

» Moody's-adjusted debt/total assets is well above 50% or Net debt/EBITDA raises above 17x

» Moody's-adjusted fixed charge coverage declines towards 2.5x

» Vonovia pursues an aggressive growth strategy

» Unfavourable changes to property regulation or market conditions in Germany

LIQUIDITY

Vonovia's liquidity is solid, benefiting from €2.5 billion in cash and equivalents as of 30 September 2024, an available €3 billion revolving credit facility (RCF, unrated) maturing in September 2026, and further net proceeds of around €2.5 billion from disposals signed but not yet closed as of today, including the recent disposal of further nursing assets and operations in Hamburg. Over the next 12 to 24 months, we expect the company's liquidity sources, to solidly cover interest service, capital expenditure needs, future dividend distributions, and payments to minorities while partly repaying debt. Additionally, the DPLTA will grant Vonovia access to Deutsche Wohnen's liquidity, which has been recently strengthened by the disposal of the nursing homes portfolios.

No more than 12% of debt will mature annually. Given Vonovia's scale, this constitutes large volumes of debt that we expect the company to continue addressing well in advance, utilizing diversified funding sources on the back of long-standing and well-established relationships with its banking partners and strong access to capital markets.

Furthermore, we expect Vonovia to maintain sufficient covenant headroom under its financing arrangements.

ESG CONSIDERATIONS

As to governance considerations, the rating affirmation incorporates the company's unchanged commitment to its publicly communicated financial targets, as well as the credit-positive implications of the financial integration of Deutsche Wohnen through the DPLTA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITS and Other Commercial Real Estate Firms published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414558 . Alternatively, please see the

Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Vonovia SE is the largest listed residential landlord in Europe, with around 542,000 units in Germany, Sweden and Austria, and a fair value of the company's portfolio was around €78.7 billion (including Deutsche Wohnen) as of 30 September 2024. Vonovia is a member of the DAX 40 and the EURO STOXX 50, with a market capitalization of more than €23 billion as of 1 February 2025. It is the largest European listed property company by balance-sheet assets. The company also manages residential units for third-party owners.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL502003 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement Status

• UK Endorsement Status

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

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For provisional ratings, the Credit Rating 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.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880 .

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

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