MOODY'S RATINGS

CREDIT OPINION
11 February 2025

Update

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RATINGS

Vonovia SE

Domicile	Germany
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Vonovia SE

Update following affirmation of Baa1 rating

Summary

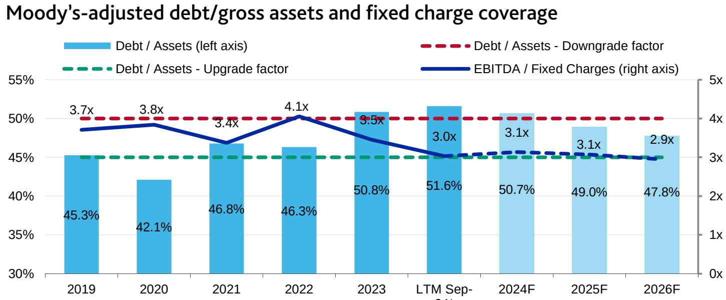
The affirmation of Vonovia SE's Baa1 rating with a stable outlook reflects the company's solid positioning in the current rating category, reflecting its continued strong operating performance and successful execution of disposal targets to mitigate the impact from rising interest rates.

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

The recent approval of the domination and profit and loss transfer agreement (DPLTA) with Deutsche Wohnen SE (Baa1, Stable) is 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/assets ratio remains at the upper end of our rating guidance (estimated at 51% as of year-end 2024), we expect the company to adhere to a balanced financial stance that will help reduce leverage in line with its financial targets. This is despite the expected higher level of investments to fund growth initiatives, which will be largely self-funded with proceeds from recurring sales and non-core disposals. The interest coverage ratio will remain sensitive to debt costs, which are likely to increase from the 1.9% average cost of debt as of the 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 interest coverage of around 3x over the next 12-24 months.

Exhibit 1
Credit ratios set to improve; asset disposals are a significant credit driver
Moody's-adjusted debt/gross assets and fixed charge coverage



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
*Based on the company's IFRS reporting, Moody's-adjusted debt/assets was 49.4% as of September 2024.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

» Focus on stable and highly regulated residential property rental markets

» Continued solid operating performance through periods of economic contraction

» Superior scale and diversity, with an efficiently set up portfolio

» A well-staggered debt maturity profile and good access to debt markets

Credit challenges

» A Moody's-adjusted debt-to-asset ratio at the upper end of our rating guidance, which we expect to come down over the next 12-18 months

» Fixed charge cover set to decline unless mitigated by earnings growth

» Sensitivity of the residential sector to social and political considerations, which leaves Vonovia prone to tightening rental regulation and increased investment requirements to address more stringent EU energy and sustainability requirements

Rating outlook

The stable rating outlook reflects our expectation that the company will maintain credit metrics commensurate with our rating guidance, benefitting from an enhanced operating environment for the German multifamily sector, with widespread market expectations for valuations having stabilised 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

» Moody's-adjusted debt/total assets declines well below 45% and net debt/EBITDA declines well below the midteen percentages, with most of the earnings coming from the stable rental business

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

» Vonovia does not increase organisational complexity

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

Factors that could lead to a downgrade

» Moody's-adjusted debt/total assets remains well above 50% or net debt/EBITDA increases 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

Key indicators

Exhibit 2
Vonovia SE

(in € billions)	2019	2020	2021	2022	2023	LTM Sep-24	2024F	2025F	2026F
Gross Assets	55.1	60.9	103.4	99.8	90.6	89.6	90.2	90.3	89.4
Unencumbered Assets / Gross Assets	51.3%	54.2%	52.6%	49.6%	52.2%	52.6%	51.8%	53.6%	56.0%
Total Debt + Preferred Stock / Gross Assets	45.3%	42.1%	46.8%	46.3%	50.8%	51.6%	50.7%	49.0%	47.8%
Net Debt / EBITDA	15.0x	14.3x	23.1x	17.7x	16.9x	16.1x	15.7x	14.9x	14.5x
Secured Debt / Gross Assets	14.7%	12.0%	12.6%	12.3%	14.0%	14.4%	14.1%	13.3%	12.6%
Fixed Charge Coverage	3.7x	3.8x	3.4x	4.1x	3.5x	3.0x	3.1x	3.1x	2.9x

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Exhibit 3
Vonovia SE

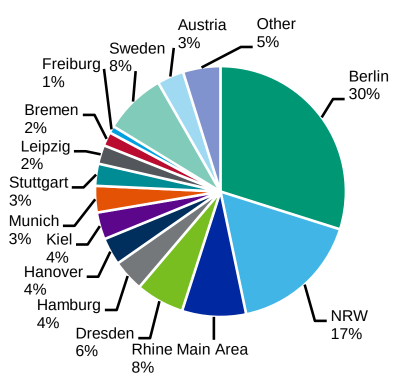
	2019	2020	2021	2022	2023	LTM Sep-24	2024F	2025F	2026F
Total Debt + Preferred Stock / Gross Assets (IFRS)	45.3%	42.1%	46.8%	46.3%	48.7%	49.4%	48.5%	46.8%	45.5%
Net Debt / EBITDA (IFRS)	15.0x	14.3x	23.1x	17.0x	16.2x	15.5x	14.9x	14.2x	13.8x

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. Moody's-adjusted metrics based on the company's IFRS reporting, that is, not taking into consideration adjustments linked to the minority stakes sold to investment vehicles managed by Apollo.
LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

Vonovia SE is the largest listed residential landlord in Europe, with around 542,000 units in Germany, Sweden and Austria. As of 30 September 2024, the fair value of the company's portfolio was €78.7 billion (including Deutsche Wohnen). Vonovia is a member of the DAX 40 and the EURO STOXX 50, with a market capitalisation of around €25 billion as of 11th February 2025. It is the largest European listed property company by balance-sheet assets. The company also manages residential units for third-party owners.

Exhibit 4
Berlin is Vonovia's primary hub
Portfolio breakdown by region, based of fair value as of 30 September 2024



Source: Company reports

Detailed credit considerations

Focus on the stable and regulated rental residential property market

Around 89% of Vonovia's standing portfolio (by value) centres around German residential properties. The German residential sector is one of the most stable asset classes in the European real estate industry, with high demand and limited supply supporting rents and values.

The German rental market is highly regulated: reletting rents and rent increases for existing tenants are capped with reference to a local index (Mietspiegel) calculated by local authorities reflecting the location and quality of the units. Rent increases are mostly capped at 20% over a period of three years, or 15% in tense markets (5% a year; allowance made for modernisation, the cap on which is 8% per year). From a longer-term perspective, prices and rents for residential properties have been more stable in Germany than in any other large developed economy even after taking into account recent increase in market rents, with regulation limiting the company's ability to increase in-place rents. Still, we expect the German residential companies we rate to deliver like-for-like rental growth of around 4% on an annual basis.

Average rents across the company's portfolio remain affordable despite recent rent increases. Nevertheless, affordability fluctuates in tandem with the absolute amount of household income, which exposes lower-income households in particular to higher rental cost-to-income ratios. The general sensitivity of the residential sector to social and political considerations leaves Vonovia prone to a potential tightening of rental regulation. The potential for tighter regulation is a risk to property values and cash flow growth, while it will also probably exacerbate the supply and demand imbalance.

As of the end of September 2024, Vonovia owned 39,640 units in the Swedish market via the acquisitions of Victoria Park and Hembla. The market is also highly regulated and in high demand, with undersupply for many years supporting stable rents and values that make new construction unappealing. There is limited risk at present of regulations being tightened or a shift to market-based rents away from the current utility value-based rents. Rents are typically renegotiated every year between landlords and tenant associations. Rents have generally increased in line with inflation. If an apartment is refurbished, then a new utility value is required, which is not included in the annual rent negotiation.

Superior scale and income diversification, with additional business from services and property sales

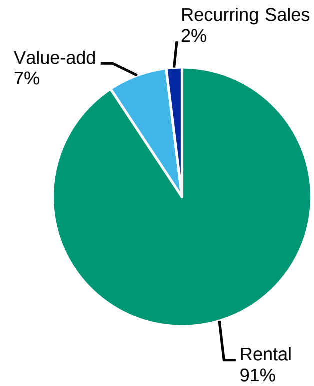
Vonovia is the largest residential landlord in Germany by a distance, with a large platform of residential units and substantial income diversification, translating into highly predictable revenue and cash generation. Furthermore, Vonovia has operations in Sweden and Austria, which also are largely regulated rental markets, which increases the benefit of diversification, more from a regulatory diversity perspective than in terms of incremental benefits of a more granular income stream.

Over the few last years, Vonovia has expanded its profit contribution from sources other than rental income (Exhibit 4). The value-added business is related to the rental business to a large degree and hence influences the overall profitability more than external profit. The recurring sales business to private individuals has proven to be a sustainable additional EBITDA contributor for the company, although it is more volatile than the rental business. Within the development business, the development to sell business ultimately funds some of the own developments to hold (with EBITDA being rather revaluation gains that we do not consider in our EBITDA calculations), but this business in general is much more volatile than the rental business, and more dependent on economic and funding environment developments. In fact, general high cost inflation, combined with tangible lower sales volumes (-28.9% year over year) amid reduced demand because of much higher mortgage rates, has hurt the profitability of Vonovia's development activities. The company reported a gross profit on developments to sell of 13.8% in the first nine months of 2024, compared with a higher level of 21.4% reported for full-year 2022.

Exhibit 5

Most of the EBITDA is derived from the rental segment

Company-adjusted EBITDA breakdown by segment (year-to-date September 2024)



Source: Company reports

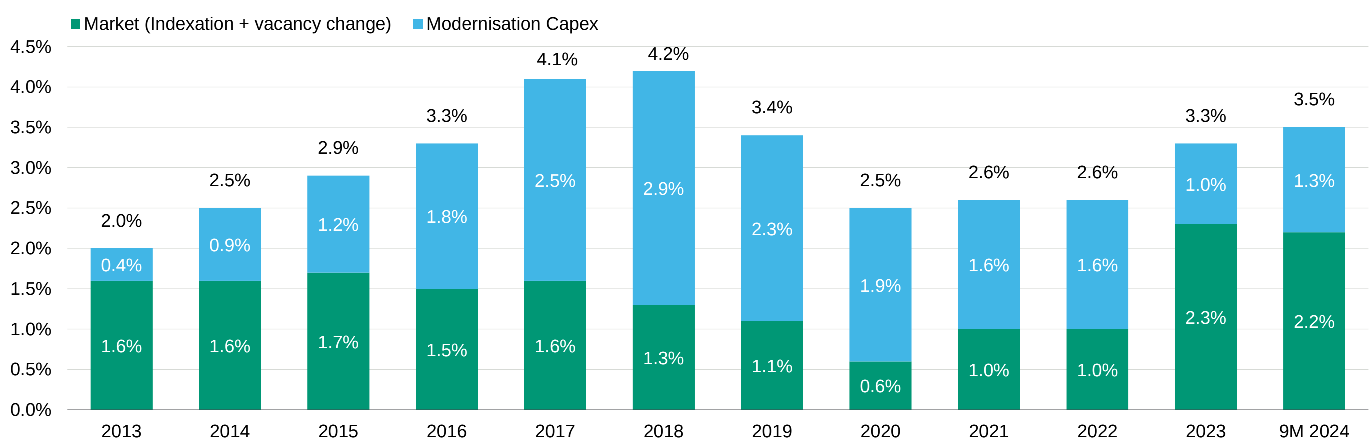
Stable operating performance with low correlation to economic cycles, further supported by investments

Vonovia continues to perform solidly throughout economic cycles, benefitting from its superior scale and regional diversification, illustrated by accelerating rental growth and high occupancy rates. Vonovia reported like-for-like rental growth (excluding new construction) of 3.8% as of the first nine months of 2024 and vacancy at a very low 2.1%. Vonovia guides to like-for-like rental growth of around 3.8%-4.1% for full-year 2024, largely driven by rent increases under applicable rent tables, modernisation and new constructions.

Exhibit 6

Vonovia's like-for-like rental growth continues

Rental growth (%) excluding growth from new construction



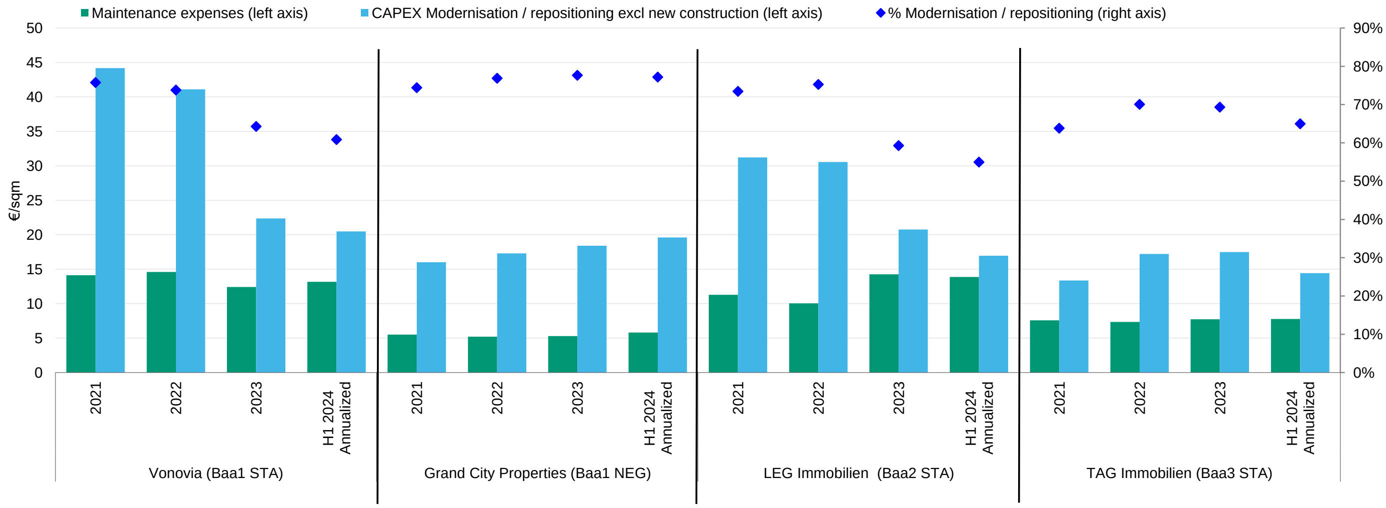
Source: Company reports

Vonovia has invested more strongly over time in its assets than some of its peers (outside of space creation and new construction), with the aim of improving the units, especially in terms of energy performance credentials and the suitability for elderly tenants. It also reflects the company's strategy to run the refurbishment activities in-house. We expect investments to pick up again as the company resumes its growth trajectory after achieving its disposal targets in full-year 2024.

Exhibit 7

Vonovia's investments per sqm remain above those of peers

Maintenance (expensed and capitalised) and modernisation capital spending



Source: Companies' reports

While future environmental investment requirements will be high, Vonovia is operationally well positioned, being one of the front-runners in investing in its housing stock and improving its energy performance. The company has defined commitments to reduce carbon emissions and continues with its refurbishment plan that includes improvement in the energy performance of its assets.

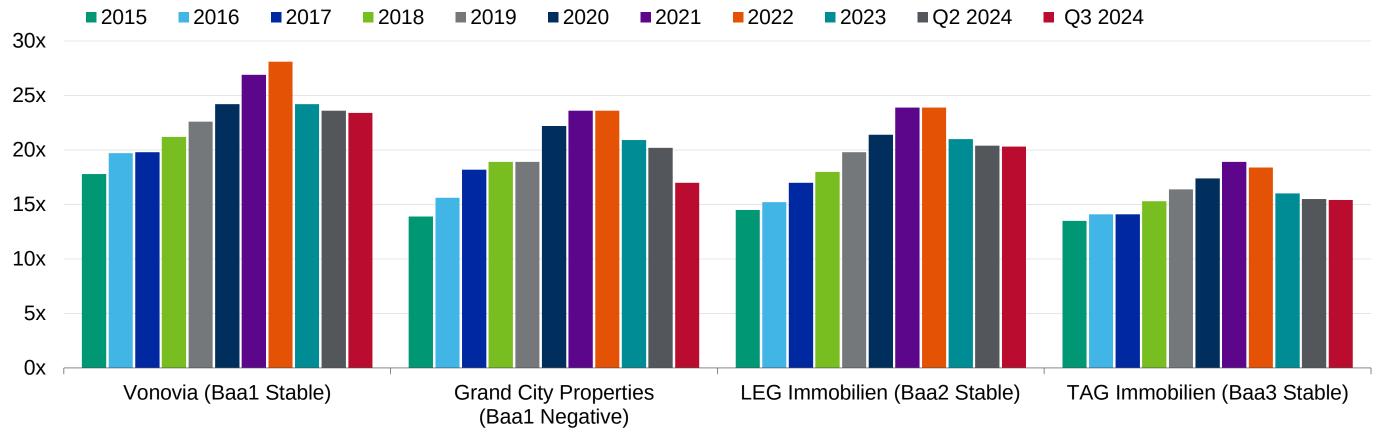
However, the political aim to improve housing affordability contrasts with the rising investment needs to improve the energy efficiency of the housing stock. If rents cannot commensurately be increased with the amounts invested for modernisation, potential yield on future investments will be lower and especially income-based credit metrics could weaken.

Solid fundamentals support a recovery of the investment transaction market

The credit quality of the German multifamily residential sector benefits from an enhanced operating environment, with widespread market expectations for valuations having stabilised in H2 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.

Exhibit 8
German residential in-place rent multiples



Source: Companies' reports

High leverage likely to decrease; fixed charge set to remain broadly stable

After the strong expansion of its portfolio through M&A and investment activities over the last decade, Vonovia's Moody's-adjusted debt/gross assets of around 51.6% as of the end of September 2024 (or based on the company's IFRS reporting, 49.4% as of the end of September 2024) remains at the upper end of our rating guidance. We expect the company to adhere to a balanced financial stance that will help reduce leverage in line with its financial targets and to a level more commensurate with the Baa1 rating.

In 2024, Vonovia successfully achieved its disposal goal of around €3 billion, which strengthened its liquidity position. The company also announced that it will resume its organic growth trajectory amid an improved operating environment. We expect the higher level of investments to fund growth initiatives, projected to reach €2 billion by the end of 2028, to be largely self-funded with proceeds from recurring sales, non-core disposals and available cash. The company has identified €2.1 billion in non-core assets and a sub-portfolio of 47,000 condos, valued at around €6.9 billion as of the end of September 2024, to support its recurring sales volume. Over the next 12-24 months, we expect the company to generate around €1.5 billion annually from disposal activity.

We also expect the company's valuation to remain at least stable, with potential for value growth due to solid rental growth prospects. In this context, we foresee the Moody's-adjusted debt-to-asset ratio, which includes a €2 billion debt adjustment linked to the minority stakes sold to investment vehicles managed by Apollo in 2023, gradually declining towards 48% over the next 12-24 months. In addition, we expect net debt/EBITDA to improve to around 15x from around 16x as of the end of September 2024, with most of the company's earnings continuing to come from its stable rental business.

The interest coverage ratio will remain sensitive to debt costs, which are likely to increase from the 1.9% average cost of debt as of the 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 interest coverage of around 3x over the next 12-24 months.

Financial integration with Deutsche Wohnen on the back of the DPLTA

In September 2024, Vonovia initiated the process to conclude a DPLTA with Deutsche Wohnen. The offer included an offer to existing minority shareholders to exchange shares at a ratio of 0.7947 to Vonovia shares. In addition, there will be a fixed annual payment to the minorities that do not accept the exchange offer in the amount of €1.22 gross per Deutsche Wohnen share for each full business year. This offer was backed by the shareholders in an extraordinary general shareholders' meeting in January 2025.

The approval of the DPLTA with Deutsche Wohnen is credit positive from a financial integration perspective. Deutsche Wohnen's moderate leverage and conservative financial practices enhance Vonovia's integrated credit profile.

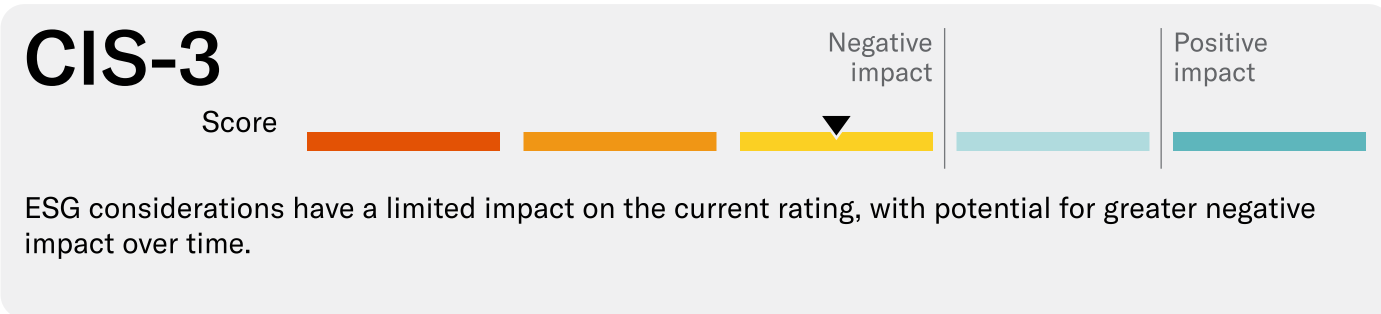
In the context of the implementation of the DPLTA, Vonovia has established a holding company that holds around 20% of Deutsche Wohnen's share capital. Vonovia has agreed to sell 51% of this holding company for just over €1 billion to Apollo Management

Holdings L.P. in exchange of guaranteed dividend of around €70 million per year. The Deutsche Wohnen shares held by the holding company will be subject to a lock-up agreement, serving as a real estate transfer tax blocker.

ESG considerations

Vonovia SE's ESG credit impact score is CIS-3

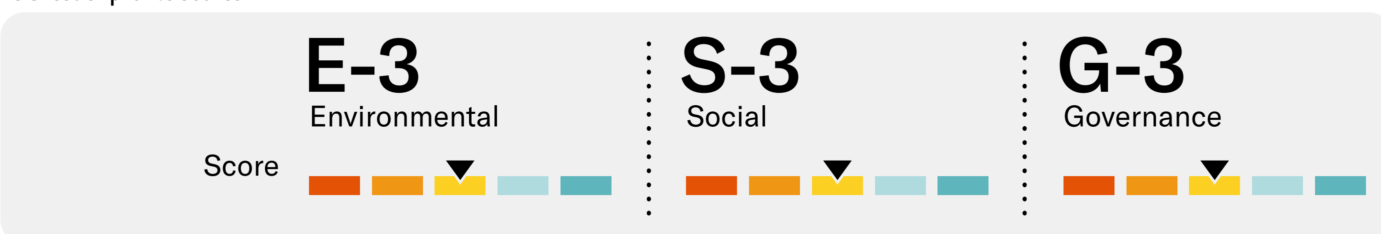
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

The (**CIS-3**) reflects Vonovia's moderate exposure to carbon transition risk combined with regulatory risk. We also consider moderate exposure from the company's increased leverage position after significant M&A activities. Minorities disposals over the last 24 months have increased organizational complexity and cash leakage, this is balanced by 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.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3: Vonovia, alongside the German residential sector, has a moderate exposure to carbon transition risk through increasing investment requirements to improve the energy performance of its buildings from a regulatory, investors and tenant perspective. The company has identified a tangible path to net-zero carbon emissions and has been a frontrunner for increasing investments in its assets.

Social

S-3: Vonovia's moderate exposure to social risk arise from affordable living requirements and rental regulation. It affects rental growth potential for companies in the sector and interferes with investment requirements due to environmental regulation. Companies in the sector are also exposed to moderate customer relationship risk through the handling of sensitive private individual data.

Governance

G-3: Moderate exposure to governance risk is reflected on Vonovia's increased leverage post significant M&A activity compared to similarly rated peers. Also minorities disposals over the last 24 months have increased organizational complexity and cash leakage. This is balanced by a strong integration track record from historic acquisitions, as well as company's unchanged commitment to its publicly communicated financial targets. Furthermore the recent approval of the domination and profit and loss transfer agreement (DPLTA) with Deutsche Wohnen is a credit positive from a governance and financial integration perspective. Deutsche Wohnen's moderate leverage and conservative financial practices enhance Vonovia's integrated credit profile.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

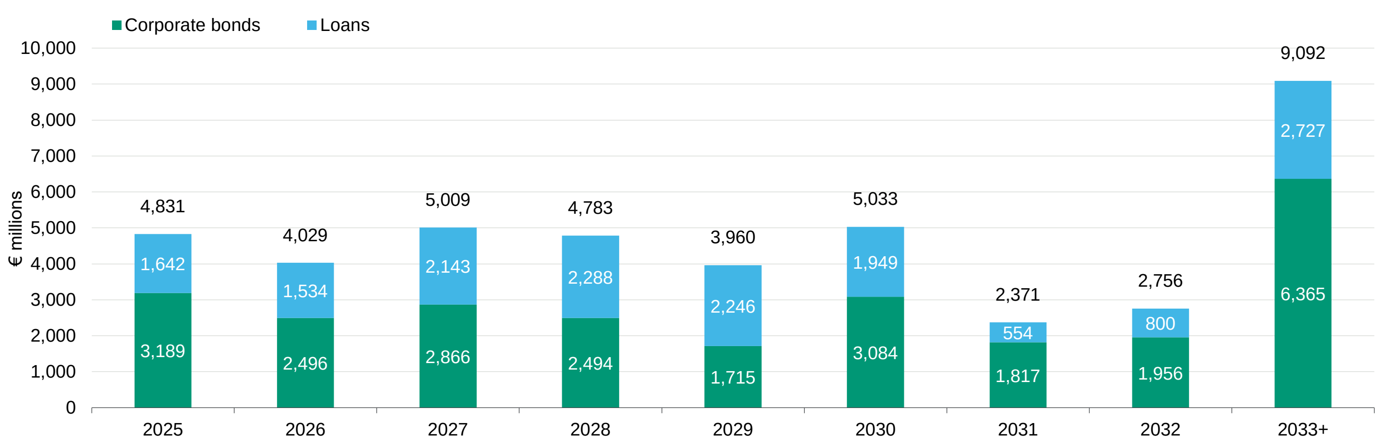
Solid liquidity but large refinancing needs ahead

Vonovia's liquidity is solid, benefitting 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 12-24 months, we expect the company's liquidity sources to solidly cover interest service, capital spending needs, future dividend distributions and payments to minorities while also allowing for partial debt repayment. In addition, 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 a large volume of debt, which we expect the company to continue to address well in advance, using diversified funding sources on the back of long-standing and well-established relationships with its banking partners and strong access to capital markets.

The company maintains sufficient covenant headroom. While covenants on loans vary, the most relevant bond covenants at this point are 60% LTV (versus 47.3% reported as of September 2024) and unencumbered assets/unsecured debt >125% (versus 156% reported as of September 2024).

Exhibit 11
Vonovia has a well-staggered debt maturity profile
Debt maturities as of 30 September 2024



Source: Company reports

Vonovia's funding sources are well diversified. As of 30 September 2024, the company's debt instruments comprised bonds (60% of gross debt including green and social bonds), supplemented with mortgage loans, structured loans, subsidised modernisation debt and private placements. The weighted average maturity of Vonovia's debt was around 6.4 years as of 30 September 2024.

Methodology and scorecard

The principal methodology used for Vonovia's ratings was the REITs and Other Commercial Real Estate Firms Methodology.

Vonovia's long-term issuer rating of Baa1 is one notch above the rating indicated by our rating scorecard under the current and forward view. The company's superior scale and market position, and focus on stable regulated rental housing activities in core real estate markets like Germany with a robust banking system support the assigned rating, in addition a further improvement of credit metrics is expected.

Exhibit 12

Rating factors

Vonovia SE

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current LTM Sep-24		Moody's 12-18 month forward view	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets ($ billions)	100.0	Aaa	93.0 - 93.9	Aaa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	A	A	A	A
b) Operating Environment	A	A	A	A
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	A	A	A	A
b) Unencumbered Assets / Gross Assets	52.6%	Ba	51.8% - 56%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets*	51.6%	Ba	47.8% - 50.7%	Baa
b) Net Debt / EBITDA*	16.1x	Ca	14.5x - 15.7x	Ca
c) Secured Debt / Gross Assets	14.4%	Baa	12.6% - 14.1%	Baa
d) Fixed Charge Coverage	3.0x	Baa	2.9x - 3.1x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				Baa1

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*Based on the company's IFRS reporting, Moody's-adjusted debt/assets was 49.4% and Moody's-adjusted net debt/EBITDA was 15.5x as of the 12 months that ended September 2024.
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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Exhibit 13

Overview of select historical and forecast Moody's-adjusted financial data

Vonovia SE

(in € millions)	2021	2022	2023	LTM Sep-24	2024F	2025F	2026F
INCOME STATEMENT							
Revenue	4,373	7,169	4,649	4,850	6,302	5,377	5,216
EBITDA	2,036	2,552	2,664	2,740	2,739	2,769	2,856
Interest Expense	604	629	772	903	874	902	969
BALANCE SHEET							
Gross Assets	103,429	99,834	90,604	89,638	90,216	90,274	89,400
Cash & Cash Equivalents	1,315	1,198	959	2,043	2,874	2,909	1,355
Total Debt	48,393	46,255	46,070	46,236	45,711	44,211	42,711
Net Debt	47,077	45,056	45,111	44,193	42,837	41,302	41,357
CASH FLOW							
Funds from Operations (FFO)	1,168	1,671	1,578	1,397	1,560	1,674	1,702
Capital Expenditures	(2,336)	(2,720)	(1,857)	(1,270)	(1,000)	(1,300)	(1,600)
Dividends	(1,535)	(714)	(413)	(646)	(700)	(900)	(818)
Retained Cash Flow (RCF)	(368)	957	1,165	751	673	527	638
RCF / Debt	-0.8%	2.1%	2.5%	1.6%	1.5%	1.2%	1.5%
PROFITABILITY							
EBITDA margin %	46.6%	35.6%	57.3%	56.5%	43.5%	51.5%	54.8%
INTEREST COVERAGE							
EBITDA / Interest Expense	3.4x	4.1x	3.5x	3.0x	3.1x	3.1x	2.9x
LEVERAGE							
Debt / EBITDA	23.8x	18.1x	17.3x	16.9x	0.5x	0.5x	0.5x
Net Debt / EBITDA	23.1x	17.7x	16.9x	16.1x	15.7x	14.9x	14.5x
Unencumbered Assets / Gross Assets	52.6%	49.6%	52.2%	52.6%	51.8%	53.6%	56.0%
Total Debt + Preferred Stock / Gross Assets	46.8%	46.3%	50.8%	51.6%	50.7%	49.0%	47.8%
Secured Debt / Gross Assets	12.6%	12.3%	14.0%	14.4%	14.1%	13.3%	12.6%
Net Debt / EBITDA	23.1x	17.7x	16.9x	16.1x	15.7x	14.9x	14.5x

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Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Ratings

Exhibit 14

Category	Moody's Rating
VONOVIA SE	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
DEUTSCHE WOHNEN SE	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1

Source: Moody's Ratings

REPORT NUMBER 1436218