20 NOV 2025

Fitch Affirms Vonovia's 'BBB+' Ratings; Outlook Stable

Fitch Ratings - Frankfurt am Main - 20 Nov 2025: Fitch Ratings has affirmed Vonovia SE's Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook, and its unsecured rating at 'BBB+'.

The ratings reflect Vonovia's Germany-weighted EUR78 billion residential-for-rent portfolio. Rents are expected to grow over the long term, albeit at a pace limited by regulation, supporting higher rental-derived EBITDA. This will be driven by ongoing investment, including to available modernised units, related value-added services, and driving efficiencies across the group's operating platform. Regulated residential-for-rent's net rental yields are lower than current debt funding costs.

The previous disposals-led deleveraging is largely complete, with Fitch-calculated net debt/EBITDA forecast at 17.7x at end-2025. Fitch only includes recurring rental-derived profits in EBITDA, not capital profits from residential disposals, and deducts cash minority dividends. Fitch-calculated interest cover is set to narrow to 2x by 2028 as the group's average cost of debt resets to prevailing rates.

Key Rating Drivers

Inflation Trailing Rental Growth: Vonovia's core like-for-like rental growth - despite slowing annual inflation - should remain about 3% (3Q25 and 2024: both 2.8%), with modernisation capex fuelling another 1% in 3Q25 (2024: 0.9%). This brings, after rent contributions from retained newbuild units, rental growth to 4.2% in 3Q25 and 4.1% in 2024. Vonovia's increased modernisation spend on vacated units quickens the increase closer to market rents and drives rental growth. Residential-for-rent is the main component of group EBITDA and the focus of Fitch-adjusted EBITDA.

Add-On Value-Added Services: Greater in-sourcing of residential services has crystallised cost savings, and investment in maintenance-related work, energy-related selling and provision (solar panels) add value and generate complementary EBITDA. Following the operational integration of Deutsche Wohnen (DW), Vonovia is focusing on optimising further the synergies from its economies of scale and operating platform.

Low Residential-for-Rent NIY: The German portfolio's low 3.5% net initial yield (NIY, net rents/value) reflects stable regulated rents, underpinned by conducive supply and demand dynamics, and incorporates future years' increased rents. As a result, Vonovia has to increase recurring profits on its amassed portfolio by driving operational efficiencies, optimise value-added services' profits, and tightly manage its average cost of debt to protect its interest coverage and dividend capacity.

Investments Revamp: This year has seen Vonovia move from preserving liquidity to investing for growth, as investor confidence in the sector also returned. It continues to invest in maintenance (EUR0.5 billion); additional modernisation on vacated units (EUR0.8 billion spend); and in energy efficiency (solar, heat pumps), which increases rents at an attractive 6%-7% yield-on-cash deployed and promotes green credentials and core profits. The company has restarted investing in developed-for-sale residential units, leveraging its market knowledge and capabilities. This activity will become broadly self-funding.

Disposal Programme Slowdown: Vonovia plans to sell the remaining EUR1.5 billion of non-core, mostly residential assets by end-2026 to sharpen its geographic focus. A further EUR3.8 billion pipeline will be sold, unit by unit, over time, with no liquidity pressure but with a focus on crystallising asset appreciation. This slower pace contrasts with headline disposals of EUR5.6 billion (excluding Apollo joint venture (JV) transactions) during 2023-2024, which reduced Fitch-adjusted net debt/EBITDA to 19.1x at end-2024 (end-2021: 25.3x) following the DW acquisition.

DW Integration Completed: Vonovia completed the full integration of DW (largely acquired in 2021), after the domination and profit & loss transfer agreement (DLPTA) was approved at the AGM in January 2025.

Apollo Minority Cash Leakages: Linked to the DLPTA, Vonovia formed a new JV with Apollo, under which Apollo acquired an indirect 10.1% minority stake in DW. This introduced Apollo as a "professional" minority interest which, alongside the remaining DW minorities, receive a fixed remuneration. The structure also frees cash circulation while keeping economic ownership below the tax-efficient 90%. Vonovia in turn received EUR1 billion of cash. Fitch currently consolidates this as debt due to the transaction's debt-like features. In line with the previous two Apollo financings with outsized minority cash dividends, we also treat Apollo's DW-related minority dividends as interest expense.

Bond Market Comeback: Vonovia has resumed frequent unsecured bond issuance, placing EUR1.8 billion in 2024 and EUR2.7 billion by end-3Q25. This follows an absence from the unsecured bond market in 2023, when sector spreads were unfavourable. Vonovia was among the first to return in January 2024 with a GBP400 million bond at a coupon of 4.6% after hedging. Funding spreads have since eased, reflecting restored investor confidence, to around 4%, depending on currency and tenor.

Narrowing Interest Cover: Vonovia's interest coverage will tighten as low-coupon debt is refinanced at prevailing rates and EBITDA is based on phased rent uplifts. The Fitch-calculated interest cover will narrow to 2x by 2028, consistent with the current rating. The long tenor of Vonovia's debt (end-2024 weighted average debt maturity: 6.3 years) mitigates refinancing risk and delays interest rate re-setting.

Deleveraging Delayed: We forecast net debt/EBITDA to settle at around 17x from 2026. Of the EUR5.6 billion headline disposals in 2023 and 2024 (excluding Apollo JVs), only about EUR2 billion has been received in cash. A further EUR0.7 billion from signed disposals is due by 2027.

Germany Regulatory Housing Sentiment: Germany's housing shortage is intensifying, with demand driven by cities' population growth, including migration, while new construction hit a new low in 2025. If Vonovia reduces construction costs toward EUR3,600 per sq m as announced, its scale and national reach could support new supply. Policy proposals have shifted toward supply-side support, such as faster permit grants and subsidies for social housing, rather than stricter rent controls.

Peer Analysis

Vonovia has the largest European residential-for-rent portfolio (end-2024: EUR82 billion, 539,753 units), followed by Heimstaden Bostad AB (BBB-/Stable) with EUR29.1 billion and 162,415 units. The UK's Grainger plc (BBB-/Stable) has EUR4.2 billion of 11,069 units. German peers include Peach Property Group AG (B/Stable; EUR1.9 billion), mainly focused in in the North Rhine-Westphalia region of Germany, and D.V.I. Deutsche Vermoegens- und Immobilienverwaltungs GmbH (BBB-/Stable; Berlin-focused EUR2.3 billion and mainly residential).

Heimstaden Bostad's portfolio benefits from pan-European diversification, affording it beneficial exposure to different countries' economic cycles as well as their approaches to residential-for-rent regulations and rent indices, whereas Vonovia's portfolio is primarily in Germany at 88% by end-2024 value, Sweden 9% and Austria 3%. Both companies have significant exposure to Berlin, with Heimstaden Bostad's coming from its acquisition of the Akelius portfolio.

Vonovia's predominantly German portfolio is of a lower quality than Heimstaden Bostad's pan-European portfolio, so its 2024 lfl rental growth is lower than Heimstaden Bostad's. For 2024 Vonovia (excluding rents on new-builds) was 3.7%, versus Heimstaden Bostad's German portfolio at 5.7% (Heimstaden Bostad group: 5.6%).

Vonovia has much longer-dated debt and has fixed the interest rates on most of it, providing a stable interest cover ratio (about 2.1x-2.4x). Heimstaden Bostad's interest cover (2024 trough of 1.4x before rising to 1.5x in 2026 due to disposal proceeds and phasing of rent increases over time) did not benefit from such long-term interest rate-fixing. Vonovia's lower average cost of debt (2024: 1.9% rising to 2.5% in 2026) does not include hybrids (none issued), whereas this cost hinders Heimstaden Bostad's financial profile (Fitch forecasts 3.8% in 2025).

Key Assumptions

Fitch's Key Rating-Case Assumptions

-- Core regulated rents to increase by about 4% a year during 2025-2028, including rent uplifts on renewals at 10% (assuming 7.5% of the portfolio churns a year), and apartments after capex receive a 7% rental yield on spend (Vonovia quotes 8%-9%). New-builds (space creation) yield a 7% rent (on-cost) return. This results in 4.1%-4.2% annual increases in gross rental income for 2025-2028.

-- Increase of around EUR140 million in annual EBITDA contribution from rented value-added services from 2025 (2024: EUR89 million excluding one-offs).

-- Profits from recurring sales and development-to-sale of residential units not added to Fitch-adjusted EBITDA, but these activities' free cash flow net inflows are added to group cash flow

-- Space-creation capex at EUR400 million a year, and modernisation (upgrade of building and optimisation) at EUR400 million to EUR500 million a year, plus capitalised maintenance spend averaging EUR700 million a year.

-- Refinanced debt uses Fitch's Global Economic Outlook policy rates of 2% from 2025 onwards.

-- Dividend growing by 5% a year with a lowered 30% scrip.

-- Disposals in 2025 and 2026 include EUR1.6 bullion of non-core assets. In addition, disposals in 2025 to 2028 include EUR0.5 billion of non-strategic/"recurring" portfolio sales

-- The three Apollo transactions are treated as on balance sheet, including a total EUR3 billion of debt, and the minorities' outsized cash dividends paid related to servicing this debt are transferred to Vonovia's interest expense.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Net debt/rental-derived EBITDA above 19.0x

-- EBITDA net interest cover below 1.75x

-- Average debt maturity below 5 years

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Net debt/rental-derived EBITDA below 17.0x

-- EBITDA net interest cover above 2.0x

-- Senior unsecured debt rating: unencumbered investment property assets/unsecured debt above 2.0x and a lower reliance on secured debt

Liquidity and Debt Structure

By end-3Q25, Vonovia had accumulated EUR3 billion of cash, primarily from disposals, and expects to receive another EUR0.5 billion from signed but not closed disposals in the near term, increasing cash to EUR3.5 billion by end-2025. Vonovia has a core undrawn EUR3 billion revolving credit facility (RCF) maturing in 2030. Fitch's liquidity score for 2026 is 1.7x.

The 2024 average cost of debt for Vonovia was a competitive 1.9%. At end-2024, 98% of the book was fixed or hedged (end-2023: 98%). Vonovia has not accessed hybrid bonds.

Vonovia's ratings benefit from its access to unsecured debt markets (3Q25: EUR2.7 billion bonds, including EUR1.3 billion low-coupon unsecured-ranking convertibles) alongside secured funding refinancings. Consistent with peers, when Vonovia's numerous secured financings are updated, their specific loan-to-value (LTV) target is 50% whereas the amortised long-dated facility may have an LTV as low as 25%-30%.

Vonovia's unencumbered assets/unsecured debt was 159% at end-2024, above its covenant 125%. Fitch-calculated unencumbered investment property/unsecured debt is 1.6x, which is not consistent with Fitch's EMEA real estate senior unsecured 2x threshold for a rating uplift. We calculate that secured fundings have an asset cover of 3x on average, which is inefficient for the issuer but favourable to secured lenders.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Vonovia SE	LT IDR	BBB+ ⭘	Affirmed		BBB+ ⭘
• senior unsecured	LT	BBB+	Affirmed		BBB+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⭗	◆
STABLE	⭘	

Applicable Criteria

Corporate Rating Criteria (pub.27 Jun 2025) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.27 Jun 2025)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Vonovia SE	EU Issued, UK Endorsed

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