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CREDIT OPINION
12 January 2018

Update

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RATINGS

Deutsche Wohnen SE

Domicile	Germany
Long Term Rating	A3
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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Deutsche Wohnen SE

Update to Discussion of Key Credit Factors

Summary Rating Rationale

Deutsche Wohnen's A3 long term issuer rating primarily reflects its (i) focus on stable and regulated rental housing activities in Germany, (ii) the large size and superior tenant diversification of its operations, which enhance the stability of its cash flow generation, (iii) the good quality of its properties as evidenced by consistently high occupancy and good rental growth, (iv) moderate leverage and conservative financial practices, (v) excellent fixed charge coverage and long dated debt maturities and (vi) good liquidity and access to capital.

The A3 rating also reflects our positive view of the current regulatory framework and market trends of the rental housing sector in Germany. We view the German residential sector as one of the most stable asset classes in the real estate industry in Europe, with favourable and sustainable prospects for further value and rent increases due to a structural unbalance between demand and supply that current regulation tends to exacerbate by reducing incentives to build.

The above positives are only partly offset by (i) the high geographic concentration of the company's property portfolio in Berlin, (ii) some limited but growing exposure to the nursing assisted living business, which we view as having a weaker credit profile and (iii) a limited pool of unencumbered assets, which reduces its financial flexibility. Whilst we expect no major changes in the regulatory framework of rental housing activities over the next 12-18 months, rental regulation remains a long term risk for the sector, particularly in light of the general elections in Germany held in the second half of 2017. Another long term risk for the real estate sector in general is represented by the uncertainty with regard to potential increases in interest rates.

We expect the company to maintain strong debt metrics over the next two years. As of 30 June 2017, fixed charge coverage (as measured by EBITDA to gross interest expense + capitalised interest + ground rents) was strong at 4.9x, with effective leverage (gross adjusted debt to total assets) at 36.4%.

Credit strengths

» Focus on stable and regulated rental housing activities in Germany

» Large size and superior tenant diversification

» Good asset quality as reflected in consistently high occupancy and good rental growth

» Moderate leverage and conservative financial practices

» Excellent fixed charge coverage and long dated debt maturities

» Good liquidity and access to capital

Credit weaknesses

» High geographic concentration to Berlin

» Exposure to the nursing and assisted living business is a moderate credit negative

» Low level of unencumbered assets

Rating Outlook

The stable outlook reflects our expectations that Deutsche Wohnen will maintain effective leverage between 35%-40% and fixed charge coverage between 4.0x-5.0x, assuming good liquidity and a long dated debt maturity profile.

The current rating also reflects our expectations that the company's business profile will remain broadly unchanged.

Factors that Could Lead to an Upgrade

» Gross debt to total assets sustained below 35%

» Fixed charge cover sustained above 5.0x

» Reduced reliance on secured funding and an improved level of unencumbered assets

» Maintenance of good liquidity position and long dated debt maturities

Factors that Could Lead to a Downgrade

» Gross debt to total assets sustained above 40%

» Fixed charge cover sustained below 4.0x

» A deterioration in the liquidity position and a material decline in average debt maturity

Key Indicators

Exhibit 1

Key Financial Indicators for Deutsche Wohnen SA

	6/30/2017(L)	12/31/2016	12/31/2015	12/31/2014	12/31/2013
FFO Payout	33%	44%	61%	26%	52%
Amount of Unencumbered Assets	25%	25%	25%	-	-
Debt / Gross Assets [2]	36%	35%	38%	48%	54%
Net Debt / EBITDA	11.3x	10.0x	8.6x	11.2x	19.4x
Secured Debt / Gross Assets	25%	27%	28%	42%	51%
Gross Assets (USD Million)	$21,347	$17,712	$14,891	$13,877	$14,004
Development Pipeline	0%	0%	0%	0%	0%
EBITDA Margin (YTD)	54%	50%	37%	48%	46%
EBITDA Margin Volatility	14%	11%	12%	14%	15%
EBITDA / Fixed Charges (YTD) [2]	4.9x	5.2x	3.9x	2.4x	1.9x
Joint Venture Exposure (YTD)	0%	0%	0%	0%	0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.
Source: Moody's Financial Metrics™

Corporate Profile

Deutsche Wohnen SE owns and manages a multi-family residential rental portfolio of approximately 160,600 units and approximately 2,400 commercial units, with an estimated fair value of around €17.1 billion as of 30 June 2017. Over 75% of the portfolio by value is located in the metropolitan area of Berlin, and the remainder spread across other cities in Germany.

The company is the second largest residential property owner in the country and one of the largest real estate companies in Europe in terms of gross assets and market capitalisation. It is listed on the Frankfurt stock exchange, with a market capitalisation of €12.9 billion as of 13 December 2017.

Although its focus is on rental housing, Deutsche Wohnen regularly sells residential units, with proceeds varying significantly over time. The company also owns a small but growing nursing and assisted living facilities business. Overall, the company generated revenues of €1.1 billion in the last twelve months to June 2017, mostly from rental income. In Q1-Q2 2017, the company generated €366.5 million of rental income from its letting operations, €151.1 million from the sale of residential units and €59.5 million from its nursing and assisted living activities.

Detailed Rating Considerations

Deutsche Wohnen's long term issuer rating of A3 is one notch higher than the grid implied rating of Baa1 both under the current and the forward view of Moody's rating scorecard because we have placed more emphasis on the company's very broad tenant diversification resulting from its focus on rental housing activities in a highly regulated and very stable market than reflected in our scorecard.

Key factors currently influencing the ratings and outlook include:

FOCUS ON STABLE AND REGULATED RENTAL HOUSING ACTIVITIES IN GERMANY

The German rental market is highly regulated: re-letting rents and rent increases for existing tenants are capped with reference to a local index (Mietspiegel) calculated by local authorities reflecting location and quality of the units. Rent increases are capped to 15% over a period of three years (5% a year, allowance made for modernisation, whose cap is 11% per annum). Prices and rents for residential property have been more stable in Germany than in any other large developed economies even taking into account recent increases. Since 1970, German house prices have increased broadly in line with inflation whilst never declining more than 3% in any given year (source: OECD).

Demand for rental housing in Germany is strong despite the country's declining and ageing population, driven by rising household formation and net immigration, even excluding the recent influx of refugees. Demand for smaller one- and two-person households is expected to grow by 3% over the next 20 years, according to BBSR – Regional Planning 2035. Affordability remains higher in Germany when compared to other European countries. In percentage of disposable income per household, housing costs have actually decreased in Germany over the past two decades from around 20% in the mid-1990s to 16% in 2014, according to OECD data. Although the ratio has rapidly increased in recent years in large cities it is still low for international standards; for example, in Berlin housing costs still represent a moderate 20%-25% of disposable income.

Despite recent changes in regulation tilted towards stimulating new construction, the number of building permits remain at low levels with an estimated shortage of around 250,000 units per annum, according to the German Statistical Office (Statistisches Bundesamt). The shortage is particularly acute in the largest cities. New builds and refurbishments of existing properties are limited because construction costs are high at above 2,500 €/sqm and the return on investments is limited by the current regulation, particularly by 30% social housing quota for new developments.

Further obstacles to new construction from private developers is represented by legal requirements aimed at keeping rent controls for some of the residential area also on planned greenfield projects.

LARGE SIZE AND EXCELLENT TENANT DIVERSIFICATION

We have scored the company Baa in terms of the sub-factor Diversity in our scorecard to positively reflect the granularity of its residential portfolio, but also and more negatively, geographic concentration in Berlin.

Deutsche Wohnen owns and manages a portfolio of 160,552 rented residential units. Tenant churn is very limited in Germany and employment rates are high and rising, resulting in very low vacancy rates (currently 1.9% for Deutsche Wohnen). We believe that the granularity of the company's tenant base enhances the stability of its rental income and cash flows. We expect that Deutsche Wohnen will continue to generate strong, predictable revenues and that will also capitalise on currently strong property market conditions in Berlin. In the first six months of 2017, the company generated €366.5 million of rental income from its letting operations, €151.1 million from the sale of residential units and €59.5 million from its nursing and assisted living activities.

ELEVATED GEOGRAPHIC CONCENTRATION IN BERLIN

With 71% of its residential units located in Berlin (or 77% of the portfolio fair value as of June 2017), Deutsche Wohnen's exposure to Germany's capital is high and a negative credit consideration. This is partly mitigated by the currently strong fundamentals of Berlin's property markets and the company's plans to also expand outside Berlin through bolt-on quality acquisitions both in the rental housing segment and in nursing and assisted living.

Deutsche Wohnen's diversification outside Berlin is currently limited to 23% of the fair value of the residential portfolio. The company owns 9,865 residential units in the Rhine-Main region (7.0% of the portfolio's fair value as of June 2017) and other German metropolitan regions (a combined 8.3% of far value).

GOOD ASSET QUALITY AS EVIDENCED BY HIGH OCCUPANCY AND GOOD RENTAL GROWTH

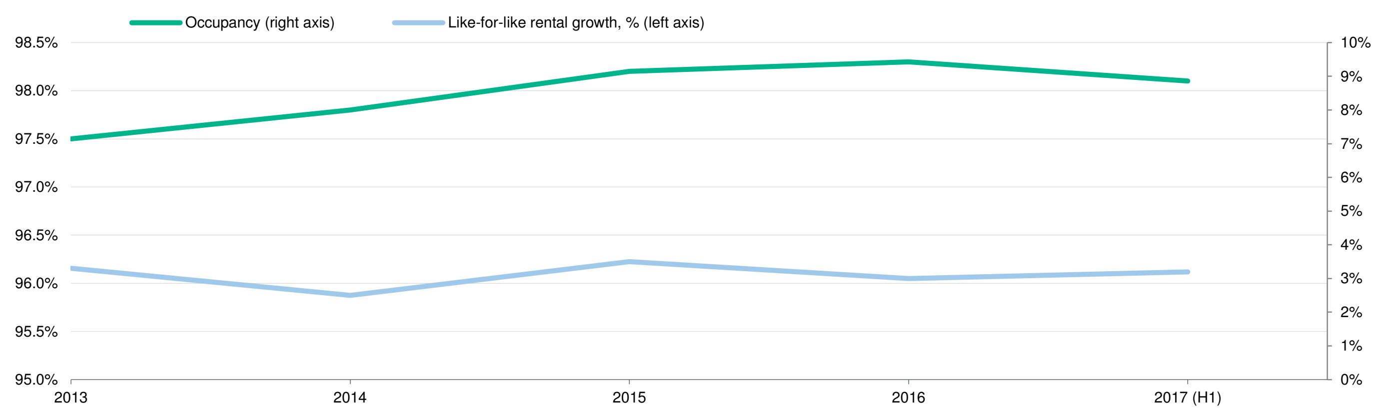
Deutsche Wohnen owns 110,495 units located in the City of Berlin, plus an additional 3,997 in the Greater Berlin area. Within Berlin, the properties are generally well-located, with good access to transportation and fairly evenly spread around Berlin Mitte, with some concentration in the Western part of the city. Part of the portfolio is clustered in large blocks of groups of building (Siedlungen), with some degree of uniformity that should boost efficiency in terms of maintenance.

With maintenance and modernisation expenses of €25/sqm for in H1 2017, Deutsche Wohnen's capex programme is one of the largest among the peers. The company's capital spending has consistently been high over the years and the portfolio is therefore reasonably well maintained.

Occupancy is very high across all areas averaging 98.1%, in line with peers. The company's average in-place rent is €6.23/sqm (up from €6.00/sqm in Q2 2016), ranging between €5.48/sqm in Dresden and €7.51/sqm in the Rhine-Main area.

Exhibit 2. Deutsche Wohnen's occupancy levels remain high and like-for-like rental income growth continues to run above 3%.

Exhibit 2
High occupancy and strong organic growth



Source: Company data

Whilst current rental housing regulation in Germany limits rent increases, the company has been able to grow rental income at around 3.1% p.a. in the last five years.

We have assigned Deutsche Wohnen an A rating for the sub-factor Asset Quality in our methodology scorecard.

EXPOSURE TO NURSING AND ASSISTED LIVING IS A MODERATE CREDIT NEGATIVE

We view nursing and assisted living businesses as having weaker credit profiles compared to pure real estate operations because of their generally small size and average operating margins. We also believe that it is unusual for a property company to run such operations and therefore consider them as a moderate credit negative.

Deutsche Wohnen owns 51 buildings offering 5,693 nursing places and 995 assisted living places. Besides owning the facilities, Deutsche Wohnen also operates part of them via 49%-owned Katharinenhof Group (unrated). Management plans to further expand the business via small acquisitions, with a target of reaching 15% of group EBITDA from current 8-10% (pro-forma for the EBITDA contribution from recent acquisitions).

With about 2,500 residential and care places for elderly people Katharinenhof is one of the leading providers of high quality residential and care facilities in several German states. Established in 1990, it currently operates 23 facilities offering care and accommodation services and, to a lesser extent, ambulant nursing and care services. Deutsche Wohnen significant expanded its presence in the nursing and assisted living business in 2016, when it acquired an additional 4,600 residential and nursing places, thus becoming a major industry player in the country.

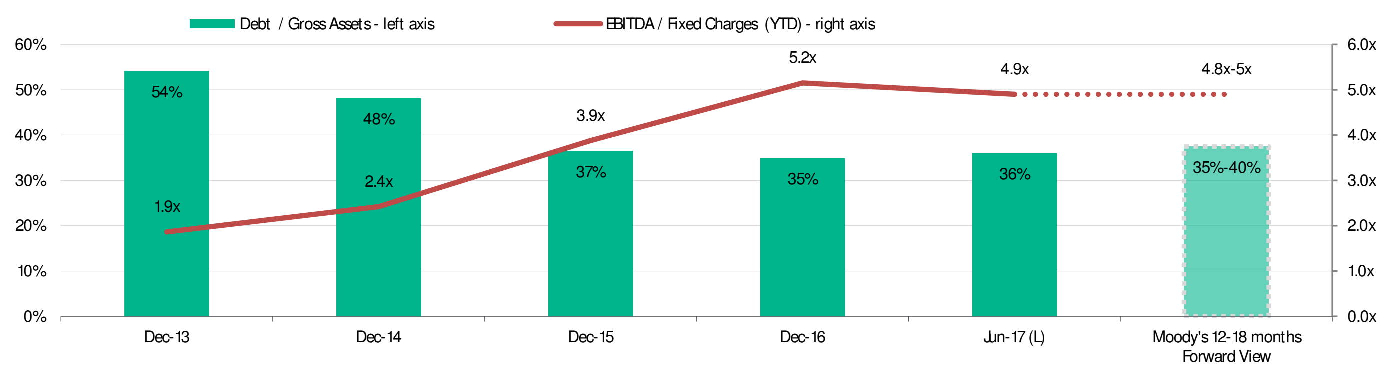
With revenues of around €45.9 million in the first half of 2017 generated by operational business of Katharinenhof (excluding €20.9 million of rental income from lettings of externally managed facilities), a reported operating margin of 8.9%, and debt to EBITDA of around 10.0x, we view Deutsche Wohnen's nursing and assisted living operations as a more weakly positioned activity compared to the company's core real estate activities.

MODERATE LEVERAGE AND CONSERVATIVE FINANCIAL PRACTICES

Deutsche Wohnen's Moody's adjusted gross debt amounted to €6.81 billion compared to total assets of €18.7 billion, resulting in effective leverage of 36.4% as of 30 June 2017, mapping to a solid Baa in our methodology scorecard and comparing well with its rated residential peers. We also note that management is committed to maintain its own reported loan-to-value below 40%.

Exhibit 3

Deutsche Wohnen's leverage and coverage have significantly improved over the last five years



Source: Moody's Financial Metrics™

Gross debt includes adjustments of around €800 million related to the accounting of convertible notes, which are reported at fair value on Deutsche Wohnen's balance sheet and at nominal value in our adjusted figures.

The company's portfolio is appraised externally in its entirety twice a year, namely in the second and fourth quarter. Since December 2013, the multiple of current rent has increased from 14.2x to 22.8x in Q3 2017 (17.3x based on market rent), resulting in a fair value per square meter of €1,709 as of 30 June 2017. In H1 2017 around one quarter of the revaluation gains came from operating outperformance (i.e. rent increases) and three-quarters from lower capitalisation and discount rates. Although we view revaluation gains from lower cap rates as less permanent than those derived from operating performance, as they could more easily reverse if benchmark interest rates increased, the 5.7% gross yield (based on market rent) of the company's portfolio remains well above benchmark interest rates, with the spread at all-time highs, providing with a buffer in case of rising interest rates.

Despite recent price increases, house prices in Germany have historically been more much more stable than in any OECD country, particularly when compared to France and the UK. Also, Berlin's housing valuations and rents remain well below other major German metropolitan areas and compared to other large European cities.

EXCELLENT FIXED CHARGE COVERAGE AND LONG DATED DEBT MATURITIES

Fixed charge coverage was strong at 4.9x year-to-date as of 30 June 2017, mapping to Aa in our scorecard and comparing well with rated peers. The coverage has improved to almost 5.0x in Q2 2017 from 1.9x in 2011, while an average cost of debt has declined to 1.4% from 4.9%.

Deutsche Wohnen's average debt maturity of eight years is very long term and one of the longest across the entire rated European real estate coverage, providing the company with an excellent cushion again potential future increases in interest rates. As of 30 June 2017, 87% of the company's interest rates were fixed or hedged, which complies with its policy to fix at least 80% of its interest rate exposure.

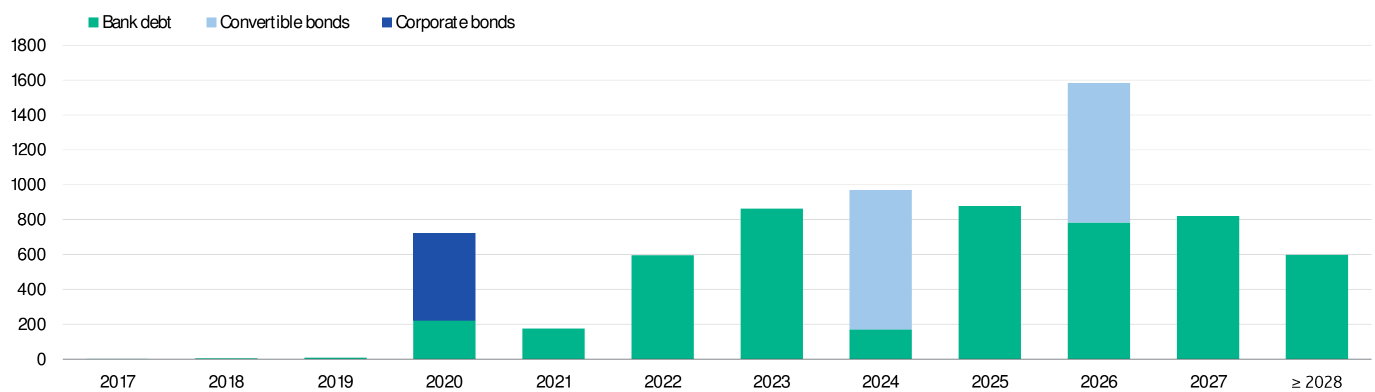
GOOD LIQUIDITY AND ACCESS TO CAPITAL BUT LIMITED UNENCUMBERED ASSETS

We have assigned an A rating for the Liquidity rating sub-factor and an Aa for the Debt Maturity sub-factor.

The A rating for liquidity reflects the company's €323.1 million of cash and cash equivalents as of 30 June 2017 and its stable cash flow generation broadly covering maintenance capex, interest expense, taxes and dividends over the next 12-18 months. Additionally, Deutsche Wohnen have committed revolving facilities of around €450 million, almost fully undrawn as of 30 September 2017. In December 2016, Deutsche Wohnen has also set up a €500 million commercial paper programme, to which we have assigned a P-2 rating. The notes issued under this programme will rank pari passu with all other unsecured and unsubordinated obligations of the company. The nearest term debt maturities are €721 million in 2020 and €176 million in 2021.

Exhibit 4

Balanced maturity profile with no significant debt maturities in the next three years



Note: Based on notional amounts

Source: Company data

We have assigned an A rating to Deutsche Wohnen for the rating sub-factor Access to Capital reflecting its diversified funding sources and good access to equity. Deutsche Wohnen's shares have consistently traded well above net asset value over the last three years (as of 30 September, the share was trading at a 14% premium to NAV), thus providing the company with good access to equity. The company has access to various capital market debt instruments and has diversified relationships with insurance companies and German mortgage banks. German mortgage banks can issue Pfandbriefe, or covered bonds, which provide an excellent source of funding for secured real estate loans.

LOW LEVEL OF UNENCUMBERED ASSETS

Deutsche Wohnen is largely financed through secured debt. As a result, its pool of unencumbered assets represents around 25% of consolidated assets as of 30 June 2017, although much improved from 4% in 2014. While Deutsche Wohnen's liquidity profile is good, in our opinion it would be further strengthened by an increase in unencumbered assets, which represent a source of alternative liquidity in case of need.

The majority of Deutsche Wohnen's loan agreements include financial covenants, which refer to the underlying assets that secure the debt and mostly relate to loan to value and debt service coverage ratios. Most of its loans have good headroom, i.e. 20%+, but in those instances where the headroom is tighter, a potential breach of financial covenant would not automatically trigger the lender's right to accelerate repayment because all of its loan agreements provide a grace period for curing a covenant, e.g. by reducing the loan balance outstanding.

Rating Methodology and Scorecard Factors

Exhibit 5

REITs and Other Commercial Property Firms Industry Grid [1][2]	Current LTM 6/30/2017		Moody's 12-18 Month Forward View As of 12/17/2017 [3]	
Factor 1: Liquidity and Funding (24.5%)	Measure	Score	Measure	Score
a) Liquidity Coverage	A	A	A	A
b) Debt Maturities	Aa	Aa	Aa	Aa
c) FFO Payout	33%	Aa	58%-63%	A
d) Amount of Unencumbered Assets	25%	B	26%-28%	B
Factor 2: Leverage and Capital Structure (30.5%)				
a) Debt / Gross Assets	36%	Baa	35% - 40%	Baa
b) Net Debt / EBITDA	11.3x	Caa	10.5x-11.5x	Caa
c) Secured Debt / Gross Assets	25%	Ba	27% - 30%	Ba
d) Access to Capital	A	A	A	A
Factor 3: Market Position and Asset Quality (22%)				
a) Franchise / Brand Name	A	A	A	A
b) Gross Assets (USD Million)	$21,347	Aa	$21,500-$22,000	Aa
c) Diversity: Location / Tenant / Industry / Economic	Baa	Baa	Baa	Baa
d) Development Pipeline	0%	Aa	0%	Aa
e) Asset Quality	A	A	A	A
Factor 4: Cash Flows and Earnings (23%)				
a) EBITDA Margin (YTD)	54%	Ba	45% - 55%	Ba
b) EBITDA Margin Volatility	14%	B	11%-12%	B
c) EBITDA / Fixed Charges (YTD) [4]	4.9x	Aa	4.8x - 5x	Aa
d) Joint Venture Exposure (YTD)	0%	Aa	0%	Aa
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2017(L).
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
[4] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.
Source: Moody's Financial Metrics™

Peers - Rating Factors

Exhibit 6

REITs and Other Commercial Property Firms Industry Grid [1] [2]	Deutsche Wohnen	LEG Immobilien	Grand City Properties	ADO Properties
Factors as of:	17-Jun	17-Mar	17-Jun	Moody's 12-18 months Forward View
Factor 1: Liquidity and Funding (24.5%)				
a) Liquidity Coverage	A	Ba	A	Ba
b) Debt Maturities	Aa	Aa	Aa	Aa
c) FFO Payout	33%	53%	26%	33%
d) Amount of Unencumbered Assets	25%	19%	68%	27%
Factor 2: Leverage and Capital Structure (30.5%)				
a) Debt / Gross Assets	36%	48%	42%	38%
b) Net Debt / EBITDA	11.3x	10.0x	10.6x	12.9x
c) Secured Debt / Gross Assets	25%	42%	14%	27%
d) Access to Capital	A	A	A	Baa
Factor 3: Market Position and Asset Quality (22%)				
a) Franchise / Brand Name	A	A	Baa	Baa
b) Gross Assets(USD Million)	$21,347	$8,683	$7,616	$3,850
c) Diversity: Location / Tenant / Industry / Economic	Baa	A	A	Baa
d) Development Pipeline	0%	0%	0%	0%
e) Asset Quality	A	A	Ba	A
Factor 4: Cash Flows and Earnings (23%)				
a) EBITDA Margin (YTD)	54%	73%	75%	64%
b) EBITDA Margin Volatility	14%	11%	5%	5%
c) EBITDA / Fixed Charges (YTD)	4.9x	3.8x	4.6x	4.2x
d) Joint Venture Exposure (YTD)	0%	0%	0%	0%
Rating:				
a) Indicated Rating from Grid	Baa1	Baa2	Baa1	Baa2
b) Actual Rating Assigned	A3 (stable)	Baa1 (stable)	Baa1 (stable)	Baa2 (stable)
c) Gap	1	1	0	0

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Ratings

Exhibit 7

Category	Moody's Rating
DEUTSCHE WOHNEN SE	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2
ST Issuer Rating	P-2

Source: Moody's Investors Service

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