Research Update:

Property Company Deutsche Wohnen Outlook Revised To Positive After Same Action On Parent Vonovia; Affirmed At 'BBB+/A-2'

December 21, 2021

Rating Action Overview

- On Dec. 17, 2021, we revised our outlook on Deutsche Wohnen's parent, Vonovia SE, to positive following the successful closing of the voluntary takeover offer on Deutsche Wohnen and an €8 billion equity raise.
- We regard Deutsche Wohnen as a core subsidiary of Vonovia, integral to the group's current identity and future strategy.
- As a result, we also revised our outlook on Deutsche Wohnen to positive from stable, while affirming its ratings at 'BBB+/A-2'.
- The positive outlook reflects that we could upgrade Vonovia, and therefore Deutsche Wohnen, if Vonovia reduced its debt leverage, with its debt-to-debt-plus-equity falling sustainably below 55% while its debt to EBITDA returned to historical levels of 15x-17x.

Rating Action Rationale

Our outlook revision on Deutsche Wohnen follows the same action on Vonovia, after its successful closing of the takeover transaction and an €8 billion equity raise. Because we regard Deutsche Wohnen as a core subsidiary of Vonovia since the successful takeover, we align our ratings on Deutsche Wohnen with those on the parent. As part of Vonovia's successful takeover of Deutsche Wohnen, the company raised €8 billion in equity on Dec. 8, 2021. At the same time, we assume the group will report around 10% like-for-like portfolio revaluation for full-year 2021 and €4.0 billion-€4.5 billion asset disposals in 2022. Our positive outlook on Vonovia, and therefore Deutsche Wohnen, reflects that the group could decrease its leverage further than we currently expect over the next 24 months, on the back of further deleveraging measures taken, such as further asset disposals or equity increases.

PRIMARY CREDIT ANALYST

Kathleen Allard
Paris
+ 33 14 420 6657
kathleen.allard
@spglobal.com

SECONDARY CONTACTS

Nicole Reinhardt
Frankfurt
+ 49 693 399 9303
nicole.reinhardt
@spglobal.com

Franck Delage
Paris
+ 33 14 420 6778
franck.delage
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

We continue viewing Deutsche Wohnen as a core subsidiary of Vonovia. Since our last publication on Oct. 25, 2021, Vonovia further increased its stake in Deutsche Wohnen to 86.87%, from 64.78%. In addition, Vonovia appointed Deutsche Wohnen chief financial officer Philip Grosse as the group's chief financial officer, starting from Jan. 1, 2022. We understand that Deutsche Wohnen will be fully integrated as a core division of Vonovia and will be part of the group's identity and strategy. As a result, we believe Vonovia will likely exert material influence over Deutsche Wohnen going forward.

Outlook

The positive outlook indicates that we could upgrade Vonovia, and therefore Deutsche Wohnen, if it decreases its debt leverage further than we currently expect over the next 24 months, as a result of more asset disposals, equity, or revaluation uplifts, for example. We also expect Vonovia to integrate Deutsche Wohnen, in line with its track record, while limiting acquisitions to comply with its publicly stated financial policy (with a reported loan to value (LTV) ratio of 40%-45%, comparable with adjusted debt to debt plus equity of 50%-55%). We believe the combined entities should generate robust and stable cash flow, supported by strong market fundamentals in Germany for ongoing demand for affordable housing, and to a lesser degree in Austria and Sweden.

Downside scenario

We could consider a revising the outlook on Deutsche Wohnen to stable if:

- Vonovia's debt-to-debt and equity and debt-to-EBITDA ratios remain above 55% and 17x respectively over the next 24 months, because of unexpected debt-funded acquisitions or inability to proceed with the planned asset disposals, or
- Vonovia's performance and overall asset liquidity significantly deteriorates as a result of more stringent social regulation or growing environmental requirements, for example; or
- Vonovia's liquidity cushion decreases, for example, because of a decreasing free operating cash flow base or additional cash-funded transactions or late refinancing of upcoming maturities.

We could revise downward our assessment of Deutsche Wohnen's stand-alone credit profile if its S&P Global Ratings-adjusted debt-to-debt plus equity ratio remains materially above 45%, EBITDA interest coverage drops toward 3x, or we see a further surge in debt to annualized EBITDA at close to 15x or above

Upside scenario

We could raise our rating on Deutsche Wohnen by one notch if:

- Vonovia is able to dispose of sufficient assets or development projects, improve its asset value or raise enough equity such that its debt-to-debt plus equity sustainably stays below 55% while maintaining EBITDA interest coverage at 3x or above;
- Vonovia increases the amount of income available for paying down debt, so that its debt-to-EBITDA ratio returns to its historical average (15x-17x) sustainably; and
- Vonovia further diversifies into markets with strong fundamentals and favorable demand trends, significantly decreasing its concentration on the German economy and mitigating the

potential further tightening of domestic regulation, leading to stronger free cash flow.

An upward revision of Deutsche Wohnen's stand-alone credit profile would hinge on Deutsche Wohnen's ability to improve its credit metrics with a debt-to-debt plus equity ratio decreasing to below 35% while maintaining like-for-like rental growth for its residential portfolio and high occupancy levels. In light of the current stated financial policy, we believe this scenario to be unlikely in the long term.

Company Description

Deutsche Wohnen is one of the largest publicly listed residential property companies in Germany. On Sept. 30, 2021, its portfolio comprised 154,700 residential and 2,900 commercial units as part of the residential premises, as well as about 10,300 nursing home beds in 77 nursing homes, for a total fair value of about €27.6 billion. Approximately 76% of its residential assets (portfolio value) are located in Greater Berlin.

The company is listed on the DAX of the German stock exchange. As of Dec. 16, 2021, its largest shareholder is Vonovia SE with a 86.87% stake, followed by State Street Corporation with 3.10%. Free float, according to the definition of Deutsche Börse, is 12.29%.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Positive/A-2

Business risk: Strong

- Country risk: Very low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers

- 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: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: BBB+
- Entity status within group: Core

ESG Credit Indicators: E-2 S-2 G-2

Related Criteria

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

- Research Update: Vonovia SE Outlook Revised To Positive On Potential For Further Deleveraging; 'BBB+' Rating Affirmed, Dec. 17, 2021

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Deutsche Wohnen SE		
Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Senior Unsecured	BBB+	