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CREDIT OPINION
2 November 2022

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 after downgrade to Baa1

Summary

The Baa1 rating is a reflection of Vonovia's focus on stable and highly regulated residential rental markets in Germany, Sweden and Austria, with a proven resilience in economic downturns; a superior scale and market position, including increasing diversity across regulated residential property markets; a good competitive position with regards to meeting environmental targets; recurring funding and earnings potential from an established sales programme from newly developed or existing properties; good access to debt capital with a well-spread maturity profile; a good level of unencumbered assets and well diversified funding sources.

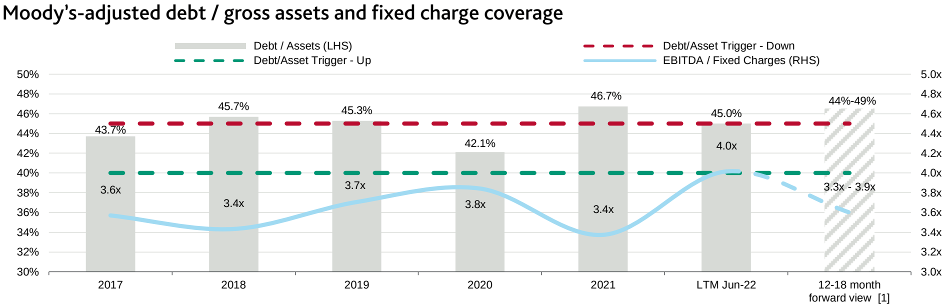
Vonovia has increased leverage in the context of the acquisition of Deutsche Wohnen and works towards reducing leverage and refinancing needs through disposals. Vonovia's operating environment has changed with strongly rising interest rates weakening the outlook for property values and substantially increasing the marginal cost of debt. This will weaken Vonovia's credit metrics over time and makes the execution of its large disposal programme more challenging.

As a consequence of our assumed value declines and asset disposals, Vonovia's Moody's-adjusted debt to gross assets will likely remain above 45% by end of 2023, which is above of what we would expect for an A3 rating. Fixed charge cover will decline towards 3.3-3.9x, but we recognise that the volume and timing of refinancing and asset disposals can have meaningful impact on our forecast. Net debt/EBITDA will decline to 15-16x from current 18.6x also due to one quarter of Deutsche Wohnen SE earnings which has yet to be consolidated into the last twelve months EBITDA.

Exhibit 1

Rising rates will reduce fixed charge cover, assets disposals impact on metrics can be meaningful

Moody's-adjusted debt / gross assets and fixed charge coverage



[1] This represents Moody's forward view; not the view of the issuer
Source: Moody's Financial Metrics™

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 of assets after historic disposals
- » A well-staggered debt maturity profile and good access to debt

Credit challenges

- » Rising interest rates above portfolio yield put pressure on property values and reduce transaction volumes
- » Fixed charge cover set to decline unless mitigated by disposals
- » Current geopolitical conflict driving up interest rates and inflation, raising concerns about and rent affordability
- » Investment requirements for improved energy efficiency conflicting with sensitivity around rental increases
- » Sizeable development activities having higher business risk and funding requirements

Rating outlook

The stable outlook reflects the actions Vonovia is taking to delever the balance sheet and adjust to the new interest rate environment from disposal efforts and capital spending reductions.

Factors that could lead to an upgrade

- » Moody's-adjusted fixed charge cover remains sustainably above 3.5x despite rising rates
- » Moody's-adjusted debt/total assets reduces towards 40%
- » Vonovia further reduces secured debt to increase effective volumes that can be funded in the bank market
- » Regulatory, political and market conditions for the German rental housing sector revert back to a favourable environment allowing sustained strong rental growth
- » Net debt/EBITDA sustaining below mid-teens

Factors that could lead to a downgrade

- » Unfavourable changes to property regulation or market conditions in Germany
- » Moody's-adjusted fixed charge coverage reduces to below 3x
- » Moody's-adjusted debt/total assets fails to stabilise materially below 50%
- » Vonovia fails to keep financial flexibility with access to secured debt or otherwise weakens its liquidity profile

Key indicators

Exhibit 2
Vonovia SE

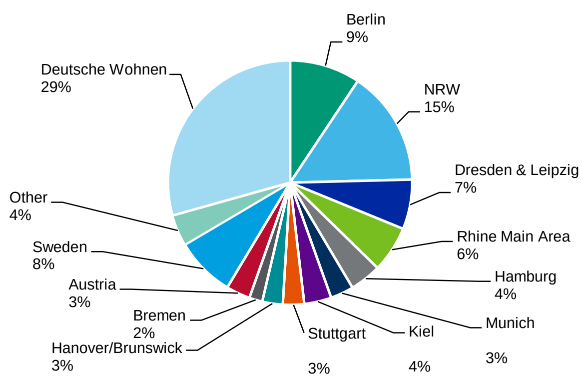
Key Indicators [1]	12/31/17	12/31/18	12/31/2019	12/31/2020	12/31/2021	6/30/2022 (LTM)	12-18 month forward view [2]
Gross Assets (EUR Billion)	€ 35.2	€ 46.8	€ 55.1	€ 60.9	€ 103.6	€ 104.5	€87 - €93
Unencumbered Assets / Gross Assets	69.5%	59.0%	51.3%	54.2%	52.5%	54.5%	47% - 52%
Total Debt + Preferred Stock / Gross Assets	43.7%	45.7%	45.3%	42.1%	46.7%	45.0%	44% - 49%
Net Debt / EBITDA	11.8x	13.8x	15.0x	14.3x	23.1x	18.5x	15x - 17x
Secured Debt / Gross Assets	8.2%	10.5%	14.7%	12.0%	12.6%	12.2%	15% - 19%
Fixed Charge Coverage	3.6x	3.4x	3.7x	3.8x	3.4x	4.0x	3.3x - 3.9x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view; not the view of the issuer
Source: Moody's Financial Metrics ™

Profile

Vonovia SE is the largest listed residential landlord in Europe with around 550,000 units in Germany, Sweden and Austria. As of 30 June 2022 the fair value of the company's portfolio was €98.8bn (including Deutsche Wohnen). Vonovia is a member of the DAX 30 and the EURO STOXX 50, with a market cap of above €17.6 billion as of 31 October 2022. It is the largest European listed property company by balance sheet assets. The company also manages residential units for third-party owners.

Exhibit 3
Split of Vonovia's portfolio by geographic locations, fair value as of 30 June 2022



Source: Company reports

Detailed credit considerations

Focus on stable and regulated rental residential property market

Around 89% of Vonovia's standing portfolio (by value) centers 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. While the potential for tighter regulation is a threat to property values and cash flow growth, it will also probably intensify the supply and demand imbalance. Also, regulation limits the company's ability to increase rents in the context of currently high inflation.

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 to 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 increases. Since 1970, German house prices have increased broadly in line with inflation until the hikes in the last 5 years, but have never declined more than 3% in any given year. Average rents remain affordable despite recent rent and value 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.

Vonovia own around 39,000 units in the Swedish market via 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. We see 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 yearly rent negotiation.

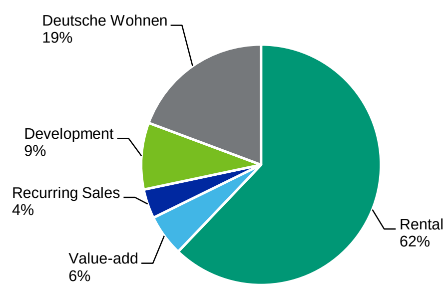
Superior scale and income diversity with additional business from services and property sales

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

Over the last years, Vonovia has increased its profit contribution from sources other than rental income. We consider the value-add business to be related to the rental business to a large degree and hence influence the overall profitability more than external profits. The recurring sales business to private individuals has proven to be a sustainable additional EBITDA contributor for the company (even though more volatile than the rental business). Within the development business, the development to sell business ultimately funds some of the own developments (with EBITDA being rather revaluation gains that we do not consider in our EBITDA calculations), but we are mindful that this business is much more volatile than the rental business and more dependent on economic and interest rate developments.

Exhibit 4

Split of Vonovia's adjusted EBITDA by Segment for LTM June 2022



Deutsche Wohnen with impact for three quarters
Source: Company reports

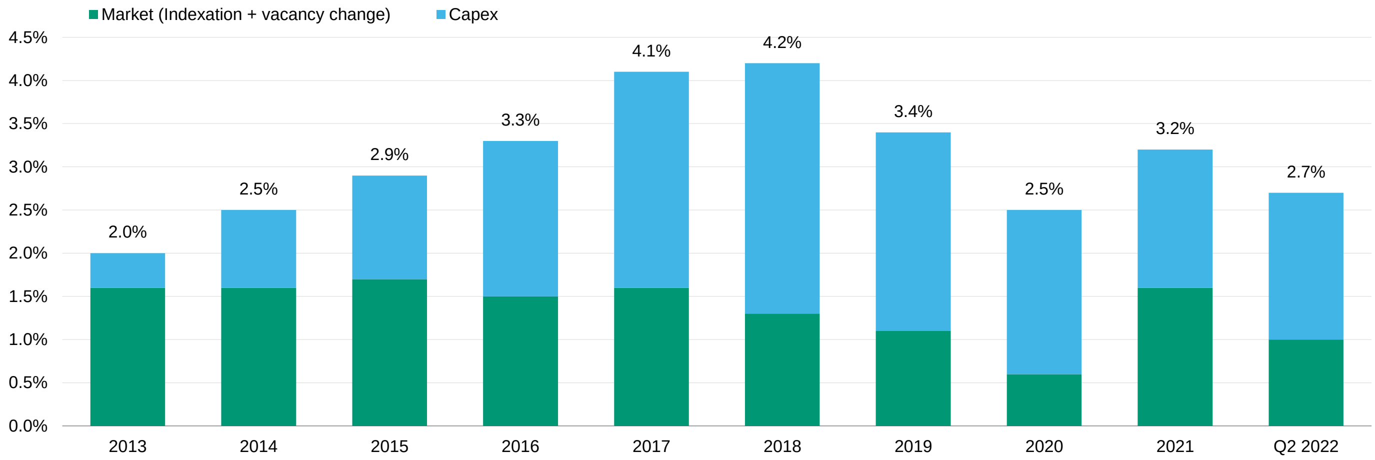
Stable operating performance with low correlation to economic cycles

Vonovia continues to perform solidly throughout economic cycles. Vonovia reported like-for-like ("LfL") rental growth (excluding space addition) of 2.7% in H1 2022, and vacancy at 2.4% is at a very low level (excluding Deutsche Wohnen). Vonovia guides to above 3.3% like-for-like rental growth for the full year 2022, largely driven by investments, including new space creation.

Exhibit 5

Vonovia's like-for-like rental growth continues

Rental growth [%] excluding growth from new construction



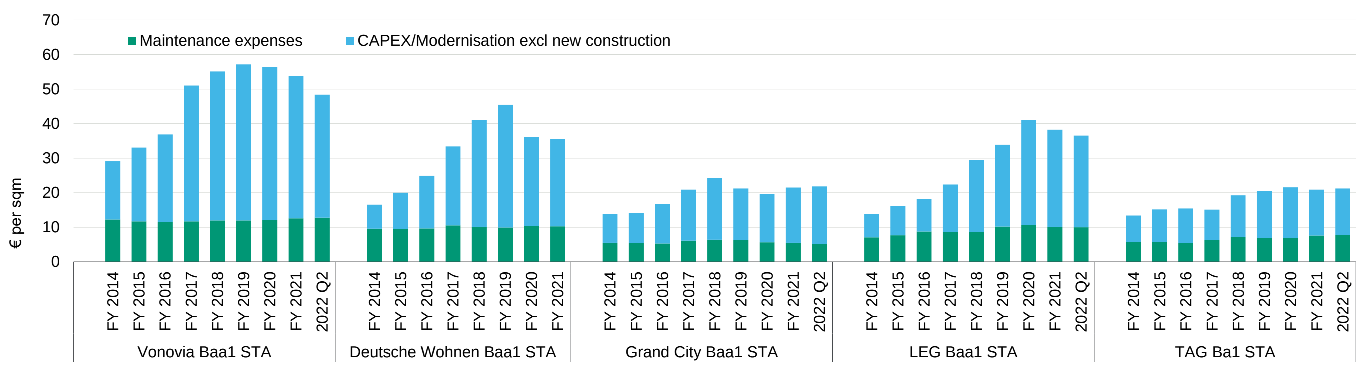
Source: Company reports

Vonovia has invested more strongly in its assets compared to some of its peers (outside of space creation and new construction), which largely aims to improve the units especially for elderly tenants and also improves the energy performance of the buildings. It also reflects the company's strategy to internalise its service business with its craftsmen, which some of its peers also shift towards. We expect those investments to moderate as a reaction to increasing cost of capital.

Exhibit 6

Vonovia's investments per sqm remain above peers

Maintenance (expensed and capitalised) and modernisation capex (€/sqm)



quarterly data is annualized

Source: Company reports

Strong change to expansionary business model with changing interest rates

Vonovia has been expanding its portfolio through M&A activities for the last decade. With the recently increasing cost of debt, the company has announced a strategic shift. Vonovia is committed to delever the company through asset sales and reducing cash outflows in maintenance and capital spending. The company has identified assets amounting to €13 billion for potential disposal, which would substantially mitigate the impact of rising rates and falling property values if successful. In addition, the company contemplates joint ventures for parts of its business. These portfolios include an expanded condominium sales business, a newly created cluster of smaller size or single multifamily houses in addition to some block sales.

We note that there are different pockets of potential asset sales that in total could take up to a decade to complete, hence we do not expect Vonovia to sell the majority of those contemplated volumes in the next 18 months. In today's market environment, we believe that substantial disposal volumes will be difficult to achieve without material discounts. Vonovia has stated that it aims to dispose or enter into partnerships only with the right partner at the right prices. At the same time we believe Vonovia owns various types and pockets of portfolios that can generate disposals proceeds. Part of the portfolio are clearly attractive to institutional investors, the ongoing units sales as well as some of the newly announced multifamily sales strategy can also generate sales proceeds. We have less visibility into potential for joint ventures, but conceptually it may make sense for institutional investors to join forces with Vonovia given its platform benefits. We have assumed a total of €3-4 billion proceeds from disposals, individual unit sales or other types of exposure reductions until end of 2023 in our projections (including disposals at Deutsche Wohnen), while further disposals may be achieved in the following years.

Tighter rental regulation remains a risk

Given reduced rent affordability over the last years in Germany as a whole, political discussions around tighter rent regulation remain relevant. Vonovia as well as Deutsche Wohnen have made several commitments to limit rental growth and maintain their tenant's rents affordable. In addition, discussions are ongoing in Berlin around the implementation of a referendum aiming to expropriate large private landlord and its legality.

We still consider regulation as a credit positive given it limits incentives for excessive construction and speculation. However, the political goal to moderate rental growth contrasts with the increased requirements to improve the energy efficiency of the housing stock. If rents cannot be increased with modernisations, especially income-based credit metrics will weaken. From a business perspective, Vonovia is one of the frontrunners of investing into its housing stock and improve 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 the assets.

Current geopolitical conflict driving up interest rates and inflation, raising concerns about property values, interest expenses and rent affordability

The Ukraine/Russian conflict has resulted in increasing inflation and interest rates. Declining values were a key credit concern in recent years for the European property sector and continue to be so. Given the current marginal cost of funding and a rising trend of interest rates, property value declines in Germany are inevitable in our view. Vonovia's EPRA net initial yield was below 2.5% as of June 2022, while any party attempting to buy residential property portfolios using debt will likely pay materially more interest. We cannot forecast particular value declines, but we have included 10% value declines in our assumptions until year-end 2023.

There is a risk of forced sellers for larger portfolios appearing in the market at some point, which may accelerate price adjustments. At the same time we acknowledge that market participants, including Vonovia, continue to sell individual units at a substantial premium to book value, albeit volumes and prices are expected to decline. Replacement cost (for a brand new product) exceed Vonovia's balance sheet values significantly.

The conflict also leads to a strong increase in inflation. Nevertheless we see the operational stability of Vonovia largely intact. Regulation and supply constraints mean cash flows remain predictably stable to moderately increasing. Changes in vacancy are unlikely given the lack of alternatives for lower to middle class incomes. If anything, supply shortage will increase due to lower volumes of construction, making regulation the main operational risk but not immediately visible. Concerns around tenant health exist given inflation, but so far we have not assumed a material change to moderate but steady rental increase expectations.

Inflation will have a larger impact on the profitability of Vonovia's development activities. While the company suggests sale prices increase sufficiently to buffer strongly increasing cost of construction, we see a declining profitability as a tangible risk, also because buyers have lower purchasing power due to higher interest cost.

Reducing fixed charge expected over time, leverage remaining higher than initially expected

As a consequence of our assumed value declines and asset disposals, Vonovia's Moody's-adjusted debt to gross assets will likely remain above 45% by end of 2023.

Strongly changed interest rates will reduce the company's fixed charge cover. Vonovia has a well-spread debt maturity profile, but it has funding needs from refinancing and capital spending. Hence the success of its disposal plan will be a key driver for the speed at which average interest cost rise for the company. In our estimations, fixed charge cover will decline towards 3.3-3.9x, but we recognise that the volume and timing of refinancing and asset disposals can have meaningful impact on our forecast.

Net debt/EBITDA will decline to 15-16x from current 18.6x also due to one quarter of Deutsche Wohnen SE earnings which has yet to be consolidated into the last twelve months EBITDA. We do not anticipate a weakness in EBITDA outside of more uncertainty with respect to the contribution from condominium sales to earnings.

Substantial liquidity requirements leading to an adequate liquidity position, paired with good access to capital

Vonovia's liquidity is adequate. Its major liquidity needs are refinancings and capital spending on its portfolio. Leaving aside expected proceeds from divestments, the company faces around € 5 billion of debt maturities as of June 2022 until the end of 2023, with additional € 4.7 billion in 2024. The company has guided to € 1.3-1.5 billion of capital spending for 2022, and we would expect this volume to be similar to slightly lower going forward.

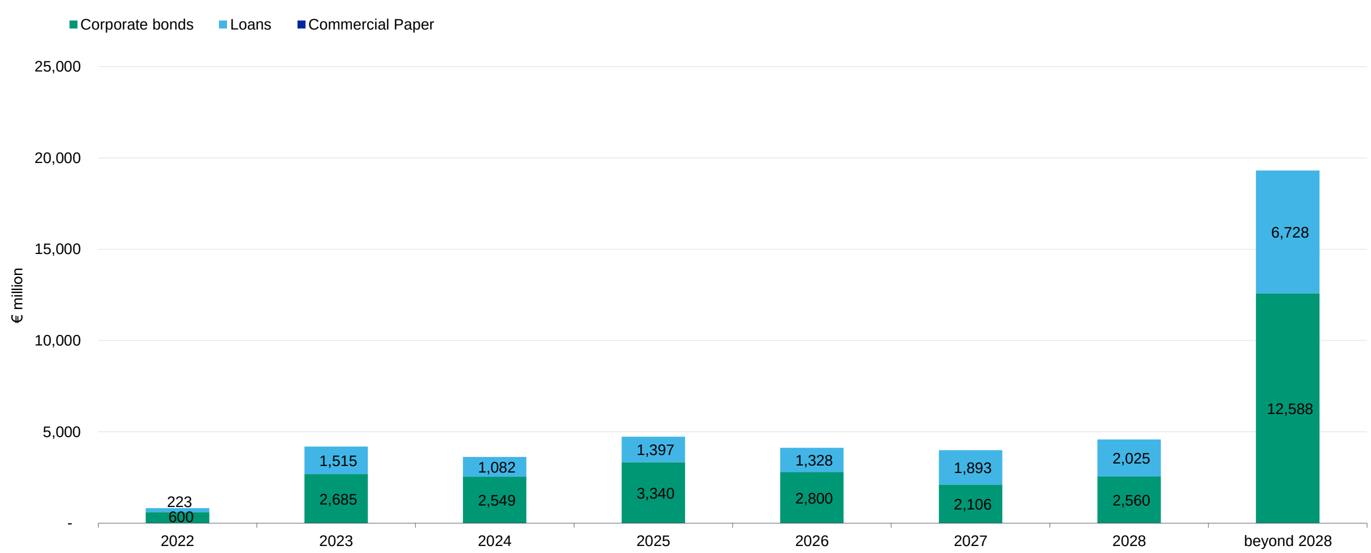
As of 30 June 2022, Vonovia had around € 1.5bn of unrestricted cash plus more than a billion Euro in marketable securities and short-term financial assets. Around € 3.3 billion of revolving facilities were undrawn with the largest part maturing in 2024. Vonovia also retains some operating cash flows given its 70% dividend policy of its guided € 2-2.1 billion group FFO (not considering regularly used scrip dividends). In the next 12-18 month, we expect Vonovia to focus on taping more secured debt next to using disposal proceeds to pay down debt.

Vonovia maintains sufficient covenant headroom. While covenants on loans vary, the most relevant bond covenants at this point are 60% LTV (vs 43.1% reported) and unencumbered assets to unsecured debt >125% (vs 163% reported).

Exhibit 7

Vonovia has a well-staggered debt maturity profile

Debt maturities as of 30 June 2022



Source: Company reports

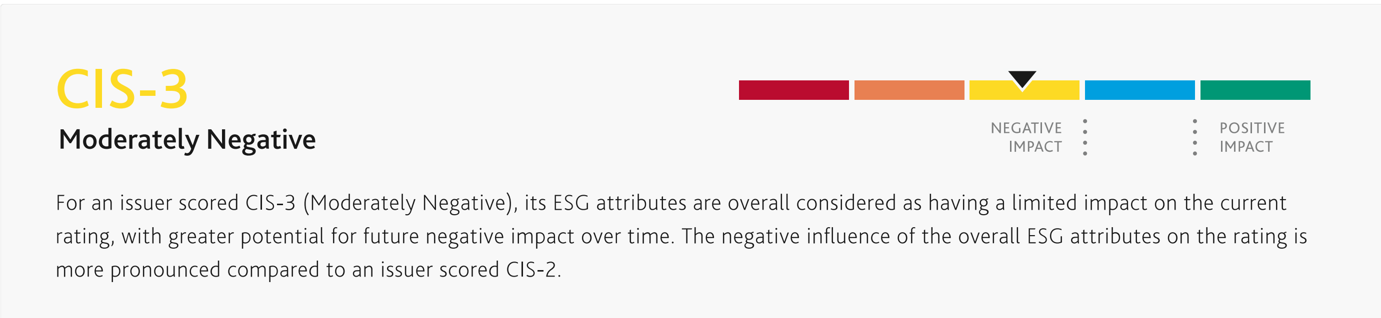
Vonovia's funding sources are very diversified. As of 30 June 2022, the company's debt instruments comprised bonds (64% of gross debt), supplemented with mortgage loans, structured loans, subsidised modernisation debt and commercial paper. The weighted average maturity of Vonovia's debt is around 7.7 years as of 30 June 2022.

In connection with the issue of unsecured bonds, Vonovia has undertaken to comply with the standard market covenants including limitations on incurrence of financial indebtedness, maintenance of consolidated coverage ratio and total unencumbered assets.

ESG considerations

Vonovia SE's ESG Credit Impact Score is Moderately Negative CIS-3

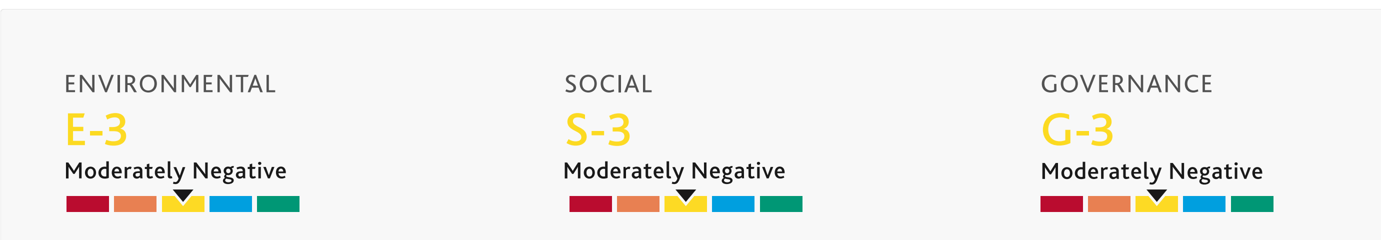
Exhibit 8
ESG Credit Impact Score



Source: Moody's Investors Service

ESG considerations have a moderately negative impact on Vonovia's rating (**CIS-3**), with potentially larger impact in the future. This reflects a moderately negative carbon transition risks combined with regulatory risk, and environmental exposure with measures taken by the company. We also consider moderate exposure from the company's increased leverage position after significant M&A activities.

Exhibit 9
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

E-3: Credit exposure to environmental risks is moderately negative. Vonovia, alongside the German residential sector, is moderately exposed 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: Credit exposure to social risks is moderately negative. Vonovia is exposed to social risk arising 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: Credit exposure to governance risks is moderately negative. The exposure stems from Vonovia's increased leverage post recent M&A activity compared to similarly rated peers while being a generally acquisitive company. This is balanced by a strong track record of the company's management from historic acquisitions, as well as otherwise solid governance credentials.

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.

Rating methodology and scorecard factors

The principal methodology used in these ratings was the REITs and Other Commercial Real Estate Firms published in July 2021. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Vonovia's long-term issuer rating of Baa1 is one notch above the rating indicated by Moody's rating scorecard under the current and forward view because we have placed more emphasis on the company's size, diversity and focus on stable regulated rental housing activities.

Exhibit 10

Vonovia's scorecard factors

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 10/26/2022 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$109.3	Aaa	$87 - $93	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	54.5%	Ba	47% - 52%	Ba
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	45.0%	Baa	44% - 49%	Baa
b) Net Debt / EBITDA	18.5x	Ca	15x - 17x	Ca
c) Secured Debt / Gross Assets	12.2%	Baa	15% - 19%	Baa
d) Fixed Charge Coverage	4.0x	Baa	3.3x - 3.9x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
[2] As of 6/30/2022(LTM)
[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.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
VONOVIA SE	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
DEUTSCHE WOHNEN SE	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Commercial Paper -Dom Curr	P-2
ST Issuer Rating	P-2

Source: Moody's Investors Service

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