

## CREDIT OPINION

5 December 2023

Update



Send Your Feedback

### RATINGS

#### Deutsche Wohnen SE

Domicile	Berlin, 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.

### Contacts

Ana Luz Silva, CFA +49.69.70730.914  
Vice President - Senior Analyst  
ana.silva@moodys.com

Kilian Eidecker +49.69.86790.2192  
Sr Ratings Associate  
kilian.eidecker@moodys.com

Christian Hendker, +49.69.70730.735  
CFA  
Associate Managing Director  
christian.hendker@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

## Deutsche Wohnen SE

### Update following rating and outlook affirmation

#### Summary

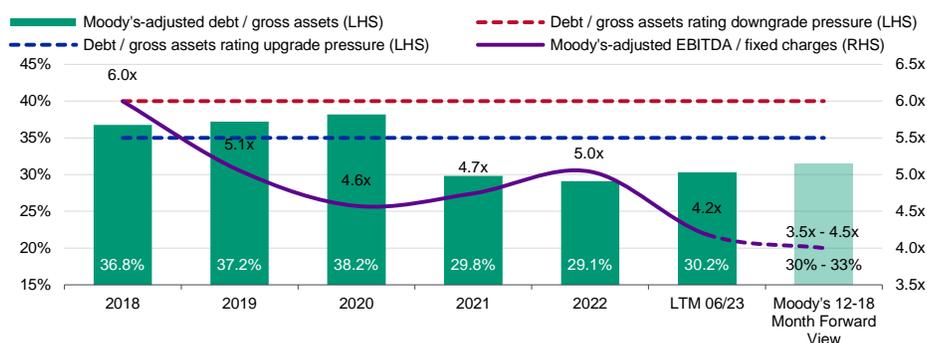
On 18 October 2023, we affirmed [Deutsche Wohnen SE's](#) Baa1 long-term rating with a stable outlook. The rating affirmation of Deutsche Wohnen reflects that of its parent company [Vonovia SE](#) (Baa1 stable) and balances the benefits from rental growth, cash preservation measures and an extended debt maturity profile with the negative impact from rising interest rates on property valuations and interest coverage ratios.

Deutsche Wohnen's credit profile closely follows the credit profile of Vonovia. Its rating is likely capped at the rating of its parent. Vonovia fully controls Deutsche Wohnen (86.87% stake as of H1 2023). After the business combination in 2021, Deutsche Wohnen is by now a fully integrated part of Vonovia. While Vonovia does not guarantee any debt of Deutsche Wohnen and there is no formal link through profit and loss transfer agreements or such similar arrangements, Deutsche Wohnen's credit quality is highly correlated with that of Vonovia. Apart from the strategic relevance within Vonovia's portfolio, financial links exist through the use of intercompany loans.

We expect Deutsche Wohnen's credit metrics on a standalone basis to remain stronger than those of Vonovia. Moody's-adjusted debt/gross assets will remain below 35% per our expectations over the next 12-18 months, while net debt/EBITDA might not materially exceed 12x. Over time, Moody's-adjusted fixed charge cover will decline because of rising interest rates, but this effect will be well staggered for Deutsche Wohnen. We expect Moody's-adjusted fixed charge to stay well above 3x (compared with 4.2x as of June 2023) for the next 12-18 months.

#### Exhibit 1

#### Moody's-adjusted leverage metrics will stay broadly stable; fixed charge cover will decline over time



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Credit strengths

- » Operational and, to some degree, financial links to its parent Vonovia
- » Good asset quality, as reflected in consistently high occupancy and historically good rental growth
- » Moderate leverage and conservative financial practices

## Credit challenges

- » Political and regulatory scrutiny to its business in Berlin, combined with large business concentration in Berlin
- » Reliance on its parent Vonovia for equity capital

## Rating outlook

The stable outlook on Deutsche Wohnen's rating follows the stable outlook on its parent Vonovia's rating. But the parent's rating is weakly positioned, and a Moody's-adjusted debt-to-asset ratio at the upper end of our rating guidance will require a conservative financial stance also with respect to shareholder distributions and a seamless execution of disposal plans to bring down gross debt in a timely manner.

Any significant delay in Vonovia's disposal plans because of an even sharper contraction in investment activity and greater pressure on values than currently expected would result in an outlook revision.

## Factors that could lead to an upgrade

A rating upgrade is unlikely due to the weakly positioning of Vonovia's credit rating but could occur in case of:

- » a strengthening of Vonovia's credit quality
- » continued lower leverage than Vonovia and good liquidity

## Factors that could lead to a downgrade

Factors that could lead to a downgrade:

- » A weakening of Vonovia's credit quality
- » Deutsche Wohnen's standalone credit metrics are similar to or weaker than Vonovia's
- » The business focus of Deutsche Wohnen gives rise to credit concerns that are different from Vonovia's and result in a higher business risk

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Deutsche Wohnen SE

EUR millions	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	LTM (Jun-23)	Moody's 12-18 Month Forward View
Real Estate Gross Assets	25,085.6	27,846.1	30,797.1	33,232.2	31,530.8	28,975.7	27,000 - 28,000
Debt / Real Estate Gross Assets	36.8%	37.2%	38.2%	29.8%	29.1%	30.2%	30% - 33%
Net Debt / EBITDA	13.5x	13.8x	16.5x	13.9x	12.6x	12.2x	11.8x - 12.2x
Secured Debt / Real Estate Gross Assets	24.7%	22.7%	21.2%	18.9%	17.3%	17.4%	15% - 20%
EBITDA / Fixed Charges	6.0x	5.1x	4.6x	4.7x	5.0x	4.2x	3.5x - 4.5x
Amount of Unencumbered Assets	25.0%	29.8%	31.1%	38.5%	38.7%	42.2%	38% - 42%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.

[2] Periods are financial year-end unless indicated. LTM = Last 12 months.

[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Investors Service

## Profile

Deutsche Wohnen SE owns and manages a multifamily residential rental portfolio of around 140,000 units, with an estimated fair value of around €26.2 billion as of 30 June 2023. Deutsche Wohnen is 86.9% owned by Vonovia.

Around three quarters of the residential portfolio by value is located in the metropolitan area of Berlin, and the remainder spread across other cities in Germany, with Dresden, Leipzig and Frankfurt being larger portfolios. The company is 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 ca. €8.9 billion as of 4 December 2023.

## Detailed credit considerations

### Rising interest rates reduce debt capacity; transaction slump prevents leverage reduction

The [credit quality of the German multifamily residential sector](#) is under pressure and at risk of a further deterioration in the next 12-18 months. This is largely because of the higher interest rates, reduced pricing attractiveness of the capital markets compared with bank financing, pressure on property values, and the current weak but slowly improving investment markets that make it difficult to quickly reduce leverage solely through disposals.

However, the credit quality of the sector continues to be buoyed by favourable long-term fundamentals, which support high occupancy rates and rental growth. The decrease in construction activity is likely to exacerbate the already limited supply of affordable housing. Simultaneously, demographic shifts and higher mortgage rates are likely to sustain high rental demand.

### Deutsche Wohnen's credit quality is highly correlated with that of Vonovia

In this context, Deutsche Wohnen's rating affirmation reflects that the company's credit profile closely follows the credit profile of its parent company Vonovia.

Vonovia fully controls Deutsche Wohnen (86.87% stake as of H1 2023). After the business combination in 2021, Deutsche Wohnen is by now a fully integrated part of Vonovia. While Vonovia does not guarantee any debt of Deutsche Wohnen and there is no formal link through profit and loss transfer agreements or such similar arrangements, Deutsche Wohnen's credit quality is highly correlated with that of Vonovia. Apart from the strategic relevance within Vonovia's portfolio, financial links exist through the use of intercompany loans (see "Liquidity analysis").

Deutsche Wohnen's rating would likely only be lower than Vonovia's if Deutsche Wohnen's standalone credit quality was similar or weaker than Vonovia's, or the Berlin-centric exposure of Deutsche Wohnen gave rise to higher business risk.

### Credit metrics to remain stronger than those of its parent

We expect Deutsche Wohnen's credit metrics on a standalone basis to remain stronger than those of Vonovia. Moody's-adjusted debt/gross assets will remain below 35% per our expectations over the next 12-18 months, while net debt/EBITDA might not materially

exceed 12x. Over time, Moody's-adjusted fixed charge cover will decline because of rising interest rates, but this effect will be well staggered for Deutsche Wohnen. We expect Moody's-adjusted fixed charge to stay well above 3x (compared with 4.2x as of June 2023) for the next 12-18 months. Still, similarly to other companies in the sector, if Deutsche Wohnen is unable to successfully reduce leverage, the growth in rental earnings may not be sufficient to fully offset the considerably higher cost of new debt, when refinancing is due.

## Liquidity analysis

Deutsche Wohnen's liquidity is solid, in line with that of Vonovia, and is further supported by €218 million cash as of end of June 2023 and the absence of significant debt maturities before 2025, largely comprising bank loans.

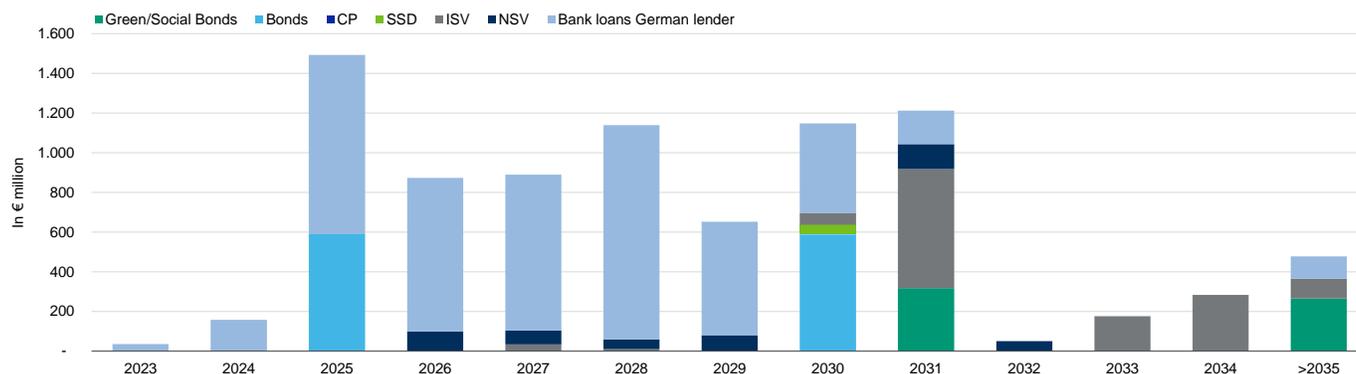
As of 30 June 2023, the outstanding amount under a short-term intercompany loan granted by Deutsche Wohnen to Vonovia was €370 million. The outstanding amount has been reduced from the initially granted intercompany loans of around €1.4 billion to Vonovia. Deutsche Wohnen has the right to call those loans on a short-term basis.

German residential companies rated by us benefit from strong and long-standing banking relationships, which will help them in addressing immediate refinancing and liquidity needs through secured lending. However, funding conditions have become more stringent, and companies will need to continue addressing significant upcoming bond maturities, that for Deutsche Wohnen start from 2025 onwards.

Exhibit 3

### Deutsche Wohnen has limited refinancing needs until 2025

#### Maturity profile



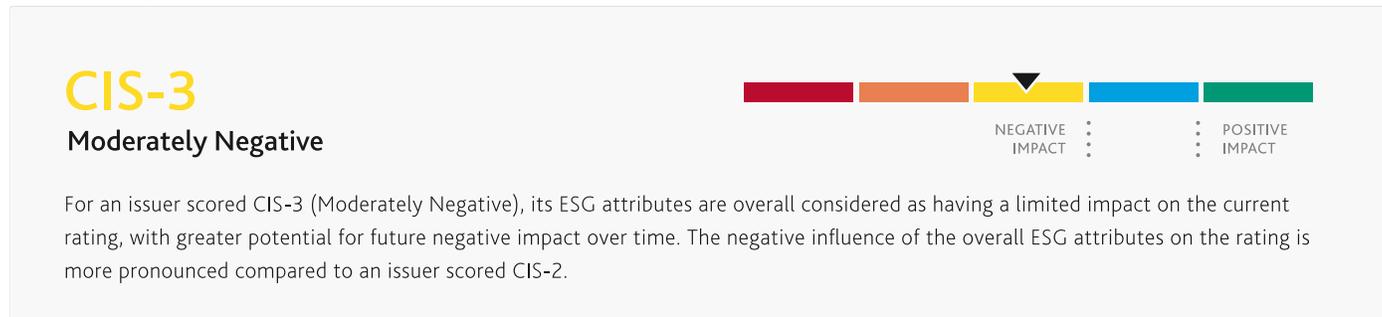
Source: Company

## ESG considerations

### Deutsche Wohnen SE's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4

#### ESG Credit Impact Score



Source: Moody's Investors Service

Deutsche Wohnen's (**CIS-3**) mainly reflects the credit linkage to its dominant shareholder Vonovia, including a moderate exposure to carbon transition risks combined with regulatory risk. We also consider moderate exposure from Vonovia's increased leverage position after significant M&A activities.

Exhibit 5

#### ESG Issuer Profile Scores



Source: Moody's Investors Service

#### Environmental

**E-3:** Deutsche Wohnen, alongside the German residential sector, is exposed to moderate carbon transition risk through increasing investment requirements to improve the energy performance of its buildings from a regulatory, investors and tenant perspective. We also consider company's physical risk exposure given its city concentration in particular in Berlin.

#### Social

**S-3:** The score reflects the sector exposure 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 customer relationship risk through the handling of sensitive private individual data.

#### Governance

Deutsche Wohnen's **G-3** is linked to the score of its main shareholder Vonovia SE given its effective influence on financial policy and business behaviour.

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.

## Methodology and scorecard

The principal methodology used in these ratings was [REITs and Other Commercial Real Estate Firms](#), published in Septmebr 2022. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

Deutsche Wohnen'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 credit profile closely follows the credit profile of Vonovia, and similarly benefits from its focus on stable regulated rental housing activities in core real estate markets like Germany with a robust banking system, all of which support the assigned rating.

Exhibit 6

### Rating factors

Deutsche Wohnen SE

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current LTM 6/30/2023		Moody's 12-18 Month Forward View As of 10/13/2023	
	Measure	Score	Measure	Score
<b>Factor 1 : Scale (5%)</b>				
a) Gross Assets (USD Billion)	\$31.6	Aa	\$28 - \$29	Aa
<b>Factor 2 : Business Profile (25%)</b>				
a) Market Positioning and Asset Quality	A	A	A	A
b) Operating Environment	A	A	A	A
<b>Factor 3 : Liquidity and Access To Capital (25%)</b>				
a) Liquidity and Access to Capital	A	A	A	A
b) Unencumbered Assets / Gross Assets	42.2%	Ba	38% - 42%	Ba
<b>Factor 4 : Leverage and Coverage (45%)</b>				
a) Total Debt + Preferred Stock / Gross Assets	30.2%	Baa	30% - 33%	Baa
b) Net Debt / EBITDA	12.2x	Caa	11.8x - 12.2x	Caa
c) Secured Debt / Gross Assets	17.4%	Baa	15% - 20%	Baa
d) Fixed Charge Coverage	4.2x	Baa	3.5x - 4.5x	Baa
<b>Rating:</b>				
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 6/30/2023(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.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Ratings

Exhibit 7

Category	Moody's Rating
<b>DEUTSCHE WOHNEN SE</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
ST Issuer Rating	P-2
<b>PARENT: VONOVIA SE</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1385658

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454