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RATINGS

Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of Deutsche Wohnen SE

04 Oct 2024

Frankfurt am Main, October 04, 2024 -- Moody's Ratings (Moody's) has completed a periodic review of the ratings of Deutsche Wohnen SE ("Deutsche Wohnen" or "the company") and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 1 October 2024 in which we reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

Deutsche Wohnen's credit profile closely follows the credit profile of its majority shareholder Vonovia SE.

Vonovia fully controls Deutsche Wohnen (86.87% stake as of end of June 2024). 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 also no formal linkage through profit and loss transfer agreements or similar arrangements exist, we see a high correlation of Deutsche Wohnen's credit quality with Vonovia's credit quality. Apart from the strategic relevance within Vonovia's portfolio, financial linkage has existed over time through the use of intercompany loans, which were fully repaid as end of June 2024.

On September 18, Vonovia announced the start of the process to finalize a domination and profit and loss transfer agreement with Deutsche Wohnen SE. Vonovia anticipates the extraordinary general meetings of both companies to vote on the approval of this agreement in January 2025. A successful completion of this

agreement will formally establish the financial and credit linkage between the two companies.

On stand-alone basis, we expect Deutsche Wohnen's credit metrics to remain stronger than those of Vonovia. Specifically, we anticipate that Deutsche Wohnen will maintain a Moody's-adjusted debt-to-gross assets ratio below 35% and a net debt-to-EBITDA ratio under 11x in the forthcoming 12 to 18 months. While rising interest rates are expected to reduce the Moody's-adjusted fixed charge coverage ratio over time, this effect will be well staggered for Deutsche Wohnen and mitigated by debt repayments targeted by the company over the next 12-18 months. We anticipate Moody's-adjusted fixed charge to stay around 4x over the same period.

In addition, we expect the credit quality of the German multifamily sector to be bolstered by an improving outlook, with widespread expectations for valuations to stabilize by the second half of 2024, supported by strong fundamentals, which will aid the gradual recovery of the investment transaction market. Very low vacancy rates in Germany suggest that rental price growth will accelerate, exacerbated by the severe contraction in the residential construction market. An improved operating environment will enable higher disposal activity, helping rated German residential companies manage debt repayments and refinancing needs while stabilizing leverage ratios.

More favourable credit conditions in the unsecured bond markets will reduce the reliance of German residential companies on secured borrowing to address refinancing needs and at the same time protect their unencumbered asset base and thus financial flexibility.

This document summarizes our view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was REITs and Other Commercial Real Estate Firms published in February 2024. Please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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