

# Vonovia S.E.

## Germany, Real Estate


**A-** STABLE

### Corporate profile

Vonovia S.E. is Germany's largest residential real estate company. Vonovia currently owns and manages around 415,000 residential units in Germany, Austria and Sweden valued at approximately EUR 55bn. Vonovia also manages around 73,000 third-party apartments.

### Key metrics

Scope credit ratios	2018	2019	Scope estimates	
			2020E	2021E
Scope-adjusted EBITDA interest cover (x)	3.8x	3.9	4.5x	4.2x
Scope-adjusted debt (SaD)/SaEBITDA (x)	14.9x	16.3x	15.7x	15.5x
Scope-adjusted loan/value ratio (%)	42%	44%	44%	44%

### Rating rationale

#### Scope affirms the A-/Stable issuer rating of Vonovia S.E.

*The affirmation is driven by Vonovia's strong business risk profile, which supports cash flow generation, leading to stable credit metrics with limited downside volatility.*

Vonovia's strong business risk profile is the key driver for rating affirmation. Vonovia is Europe's largest residential real estate corporate, with excellent access to capital and investment markets, a well-diversified portfolio spread across German, Austrian and Swedish metropolitan areas, as well as high tenant diversification, which supports stable rental cash flows. Furthermore, economies of scale and high occupancy rates of over 97% across the company's portfolio support relatively high and stable profitability. Vonovia's financial risk profile benefits from the company's relatively low Scope-adjusted loan/value (LTV) ratio, diversified debt structure, and unencumbered asset position of 57% at end-June 2020, allowing the company to weather potential changes in the lending environment.

The rating is constrained by Vonovia's leverage levels, as measured by Scope-adjusted debt to Scope-adjusted EBITDA (SaD/SaEBITDA), which make it vulnerable to adverse market movements. The rating is also held back by Vonovia's ongoing, but weakening, focus on the German market, with its associated regulatory risk, as well as its high expansion capex, leading to negative free operating cash flows going forward.

### Outlook and rating-change drivers

The Outlook for Vonovia is Stable and incorporates our view that credit metrics will remain constant with a Scope-adjusted LTV of 40%-45% and a SaD/SaEBITDA of around 15x. We expect Vonovia's policy of financing total capex (investments and acquisitions) with 50% of equity on average to support these levels going forward. Furthermore, the Outlook incorporates our view that the Covid-19 pandemic will have a limited impact on Vonovia's residential real estate markets.

A negative rating action is possible if Vonovia's Scope-adjusted LTV increased above 45% on a sustained basis. This could be triggered by i) a change in financial policy that allows higher leverage; or ii) a significant drop in portfolio value following an adverse change in regulations in Vonovia's core market of Germany.

### Ratings & Outlook

Corporate ratings	A-/Stable
Short-term rating	S-1
Senior unsecured rating	A-
Subordinated (hybrid) debt rating	BBB

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### Related Methodologies

Corporate Rating Methodology,  
February 2020

Rating Methodology European  
Real Estate Corporates  
January 2020

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A positive rating action is unlikely but could be warranted if Scope-adjusted LTV decreased below 40% and SaD/SaEBITDA fell to around 8x, both on a sustained basis. This could be achieved with a change in capital allocation, or a reduction in both expansion capex and shareholder remuneration to focus on debt repayment.

#### Rating drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"><li>Exposed to low-risk, regulated residential real estate industry, which decouples rental growth from the consumer price index and GDP development</li><li>Tier 1 real estate corporate (largest residential landlord in Europe), with around 415,000 apartments in Germany, Austria and Sweden</li><li>Well-diversified portfolio spread across German, Austrian and Swedish metropolitan areas with positive demographics; highly diversified tenant portfolio of average credit quality</li><li>Good portfolio locations and improving property condition (ESG factor), which support high like-for-like rental growth as well as high and stable occupancy</li><li>Strong debt protection with Scope-adjusted EBITDA interest cover of more than 4x going forward, backed by EBITDA growth</li><li>Relatively low Scope-adjusted LTV of 42% at end-June 2020 forecasted to remain below 50% even if market values drop significantly</li><li>Excellent access to external financing, benefitting from highly diversified debt structure and financial headroom with unencumbered assets of 57% at end-June 2020</li></ul>	<ul style="list-style-type: none"><li>Negative Scope-adjusted free operating cash flow since FY 2017 anticipated to continue, creating a dependence on external financing; however, this is mainly due to capex, two-thirds of which is discretionary</li><li>Exposed to regulatory risk due to predominant focus on Germany (82% of net rental income as at end-June 2020); however, anticipated further European roll-out likely to reduce this exposure</li><li>Weak SaD/SaEBITDA that peaked in 2019 at above 16x, but expected to remain around 15x in the next few years</li></ul>

#### Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"><li>Scope-adjusted LTV of below 40% and SaD/SaEBITDA of around 8x</li></ul>	<ul style="list-style-type: none"><li>Scope-adjusted LTV of above 45% on a sustained basis</li></ul>



## Financial overview<sup>1</sup>

	Scope estimates				
Scope credit ratios	2018	2019	Q2 2020 <sup>2</sup>	2020E	2021E
Scope-adjusted EBITDA/interest cover (x)	3.8x	3.9x	4.0x	4.5x	4.2x
Scope-adjusted debt/Scope-adjusted EBITDA (x)	14.9x	16.3x	15.8x	15.7x	15.5x
Scope-adjusted loan/value ratio (%)	42%	44%	42%	44%	44%
Scope-adjusted EBITDA in EUR m	2018	2019	Q2 2020 <sup>2</sup>	2020E	2021E
EBITDA	1,462	1,531	1,613	1,682	1,846
Operating lease payments in respective year	30	0	0	0	0
Other <sup>3</sup>	(101)	(28)	(35)	(14)	0
<b>Scope-adjusted EBITDA</b>	<b>1,391</b>	<b>1,503</b>	<b>1,577</b>	<b>1,669</b>	<b>1,846</b>
Scope-adjusted funds from operations in EUR m	2018	2019	Q2 2020 <sup>2</sup>	2020E	2021E
Scope-adjusted EBITDA	1,391	1,503	1,577	1,669	1,846
less: cash interest as per cash flow statement	(349)	(379)	(390)	(365)	(433)
less: pension interest	(9)	(9)	(7)	(9)	(9)
less: interest component, operating leases	-10	0	0	0	0
less: cash tax paid as per cash flow statement	(166)	(47)	(23)	(152)	(36)
Change in provisions	77	76	(115)	(86)	0
<b>Scope-adjusted funds from operations (SaFFO)</b>	<b>934</b>	<b>1,238</b>	<b>1,043</b>	<b>1,057</b>	<b>1,368</b>
Scope-adjusted debt in EUR m	2018	2019	Q2 2020 <sup>2</sup>	2020E	2021E
Reported gross financial debt	21,237	25,047	25,918	26,452	28,937
less: equity credit hybrids	(851)	(501)	(511)	(511)	(511)
add: derivatives	111	115	122	122	122
less: cash, cash equivalents	(548)	(501)	(949)	(229)	(275)
Cash not accessible	57	97	97	97	97
add: pension adjustment	247	245	245	245	245
add: operating lease obligations	421	0	0	0	0
<b>Scope-adjusted debt (SaD)</b>	<b>20,675</b>	<b>24,503</b>	<b>24,923</b>	<b>26,176</b>	<b>28,615</b>

<sup>1</sup> All numbers are rounded

<sup>2</sup> 12 months ending June 2020 for cash flow-related metrics

<sup>3</sup> Includes disposal gains and one-off earnings and expenses

### Business risk profile: A

#### Industry risk: A

Vonovia is exposed to the low-risk, regulated residential real estate industry (industry risk of A), which decouples rental growth from developments in the consumer price index and GDP. Vonovia's exposure to the development business (industry risk of B) has remained relatively low (EBITDA contribution as at end-June 2020: 4.8% or 1.3pp YoY), which is in line with the assigned industry risk of A.

#### Credit outlook stable for 2020

The credit outlook for the European real estate sector in 2020 is stable, though the retail sector remains a weak spot as it faces a multi-layered Covid-19 crisis, which may have only a modest impact on credit quality in the short term. However, the consequences will be more severe if a future recovery falters.

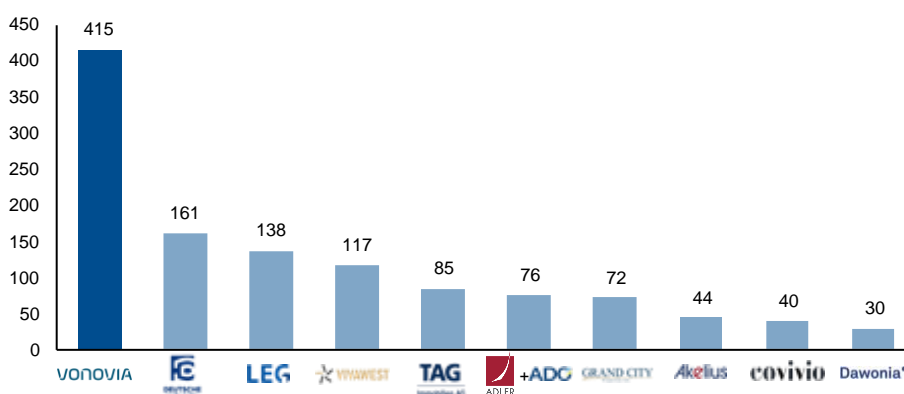
For more information, refer to our corporate outlook for real estate ([click here](#)).

#### Tier 1 real estate corporate – largest residential landlord in Europe

Vonovia benefits from its size with around 415,000 residential apartments (as at end-June 2020) spread across Germany (85%), Sweden (9%) and Austria (4%) as well as a development pipeline of roughly 50,000 residential apartments at an estimated volume of EUR 9.9bn as at end-June 2020. Vonovia's number one position in the regulated residential real estate markets of Germany, Sweden and Austria confers several benefits, including the ability to passively influence prices via the framework for local comparative rents (Germany) as well as support visibility and access to tenants and to European investment markets for sourcing new properties or property portfolios, thus improving its position as a stakeholder in the residential real estate market. Vonovia's size also supports its vertical integration, portfolio streamlining in accordance with strategy, and cash flow stability, supported by good diversification and economies of scale.

Vonovia is Europe's largest real estate corporate, with a market capitalisation of more than EUR 30bn at mid-August 2020, affording excellent access to capital markets to source financing.

**Figure 1: Vonovia and competitors by number of residential units as at Q2 2020<sup>4</sup>**



Sources: Public information, Scope

Vonovia does not dominate Germany's fragmented market for residential real estate, with its market share estimated at 0.9%. This allows Vonovia to grow further in Germany without risking intervention by the competition authority. Even so, growth in Germany is limited due to: i) around 91% of German apartments being off-market (45% are owner-occupied, 36% have private landlords and 10% are owned by government-related entities or cooperatives); and ii) increasing uncertainties with regard to future regulations on the

<sup>4</sup> Vonovia, LEG Immobilien and Akelius as at end-June 2020; Deutsche Wohnen, TAG, ADO/ADLER, Grand City as at end-March 2020; Covivio and Vivawest as at YE 2019; Dawonia as at YE 2018

**Well-diversified portfolio spread across German, Austrian and Swedish metropolitan areas**

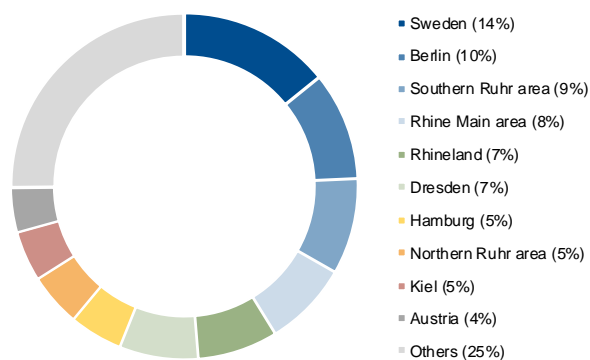
**European roll-out in 2018/19 reduced Vonovia's dependence on German regulatory framework**

residential market. We therefore expect further growth to focus on non-German markets, namely Sweden, Austria, France and the Netherlands.

Vonovia has a well-diversified investment portfolio, mainly in and around German, Austrian and Swedish metropolitan areas and midsize cities. Top 10 regions account for 80% of net rental income (NRI) as at end-June 2020. However, we believe portfolio concentration is negligible because the larger metropolitan areas consist of multiple large cities, which include the southern Ruhr area (9.0% of NRI), the Rhine Main area (8.0%), the Rhineland (7.5%) and the northern Ruhr area (5.0%). We also believe that the city-wide distribution of apartments across Berlin (10.1%), Dresden (7.4%) and Hamburg (5.0%) partially mitigates the dominant exposure to these cities.

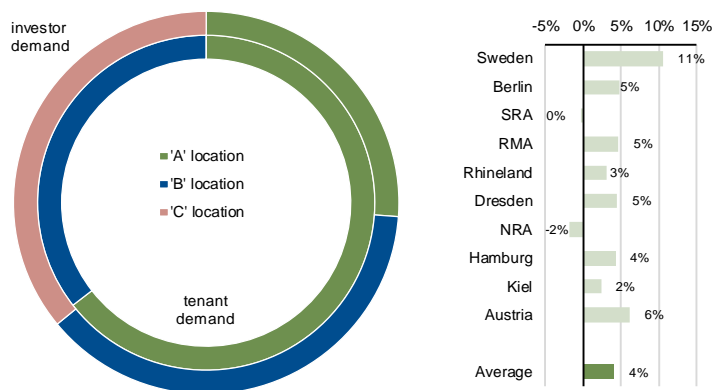
Vonovia has expanded its geographical outreach following its acquisitions of Austria's conwert Immobilien Invest SE (2017) and BUWOG AG (2018), Sweden's Viktoria Park AB (2018) and Hembla AB (2019), and shareholdings in Dutch residential fund Vesteda (2020) and France's ICF Novedis (2018). The non-German exposure now represents around 15% of residential units and 18% of NRI as at end-June 2020. We believe that the European roll-out in 2018, followed by portfolio additions in Sweden last year, will support the company's business risk profile and its goal of becoming a European champion. This expansion has also helped to tackle the largest risk to its business risk profile – the dominant exposure to the German regulatory framework for residential landlords. Even if regulatory risk in other European countries is as high as in Germany, we do not expect it to move in the same direction simultaneously. Thus, an internationally diversified portfolio should partially de-link cash flow predictability and stability from regulatory changes in a single country.

**Figure 2: Geographical diversification by rental income as at end-June 2020**



Sources: Vonovia, Scope

**Figure 3: Categorisation of location and population growth, 2020 to 2030**



Sources: Vonovia, Worldbank, Statistik Nord, IT.NRW, Scope and others  
Note : Location ratings as defined by Scope

**Highly diversified tenant portfolio of average credit quality**

Vonovia has a very high diversification by tenants, thanks to its absolute size (around 415,000 units as at end-June 2020) and residential focus. This limits the cash flow impact of a single tenant's default or delayed rental payment – illustrated by debt impairments representing less than 1% of NRI in recent years. We judge tenants' credit quality to border between moderate and modest, similar to the weighted average credit quality of German households (Vonovia's target customer).

**Good property locations with positive demographics and liquidity**

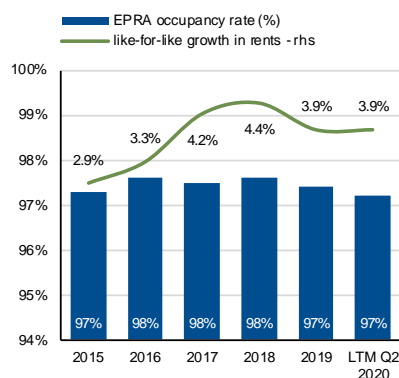
Vonovia's properties are distributed across locations with favourable demand for residential real estate as well as healthy underlying macroeconomic fundamentals. This is evidenced by: i) the entire portfolio being in cities or regions in which demand is expected to be at least stable until 2030, with an increasing share of regions to benefit from a forecasted population increase of at least 2.5% (61% as at end-June 2020); and

ii) around one-third of apartment being located in 'A' cities, namely Berlin (10%), Stockholm (8%), Hamburg (5%), Stuttgart (4%), Vienna (2%) and Munich (3%) – all of which determine investor and tenant demand. We foresee strong tenant demand in the future, supporting high and stable occupancy as well as like-for-like rental growth. Furthermore, we believe the portfolio benefits from some liquidity and will continue to do so in times of economic turmoil. Both of these factors limit potential haircuts on current property values.

**Improving property condition backed by substantial increase in capex since 2013**

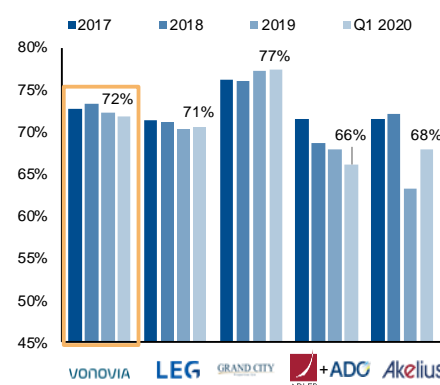
Property conditions in Vonovia's portfolio are improving following continuous increases in capex, including for maintenance, modernisation and new developments, to EUR 2.0bn in FY 2019 (EUR 74.7 per sqm) from EUR 0.2bn in 2013 (EUR 20.4 per sqm). Based on company information, we expect spending of around EUR 1.6bn this year. This should help to support like-for-like rental growth over the next few years, with an increasing share of spending set aside for rental adjustments according to section 559 of the Bürgerliches Gesetzbuch (BGB), Germany's civil code (modernisation), or the application of market rents (new developments). The latter is backed by the company's improved capacity for development (largest homebuilder in Germany) with 1,500 completions targeted in 2020. These new developments should help Vonovia to accelerate rental growth in the coming years, with a project pipeline of 50,000 units as at end-June 2020, around 80% of which will be added to the company's investment properties.

**Figure 4: Occupancy levels & like-for-like rental growth**

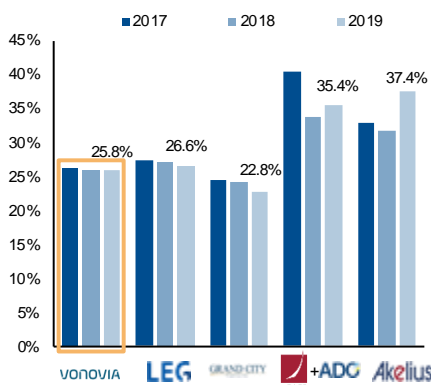


Sources: Vonovia, Scope

**Figure 5: Profitability vs peers**



**Figure 6: EPRA cost ratio (incl. vacancy) vs peers\***



Sources: LEG, public information, Scope

\*Akelius is not a member of EPRA (European Public Real Estate Association) based on Scope's own calculation

**High and stable occupancy of above 97% supporting cash flow predictability**

Vonovia's occupancy rate of 97.2% at end-June 2020 is in line with that of competitors and has improved marginally since 2010. The high occupancy supports our assessment of the company's asset quality, combined with: i) portfolio locations with favourable demand; and ii) increasing capex, which supports tenant demand. Occupancy levels are unlikely to improve further because existing vacancies were mainly due to modernisation efforts on those properties. Furthermore, we acknowledge the relatively long average lease length of close to 13 years in the last couple of years. Paired with a relatively low tenant turnover (9%-10%), this indicates an exposure to strained markets. Given the high occupancy and low fluctuation of tenants, rental cash flows are expected to remain stable going forward, which facilitates further organic growth.

**Like-for-like rental growth of between 3.5% and 4.0% p.a. forecasted to continue**

Since 2016, Vonovia has achieved strong and improving like-for-like growth of rents, with a compound annual growth rate of around 4%. We expect like-for-like growth to remain between 3.5% and 4.0% in the coming years, benefitting from: i) a strongly diversified portfolio compared to peers like Covivio S.A. and Deutsche Wohnen S.E.; ii) relatively high capex (modernisation and new developments), the highest by far in Scope's peer

group; and iii) a prevailing exposure to strained markets with pronounced housing shortages driving strong fundamental demand.

**Improving profitability forecasted to outperform peers**

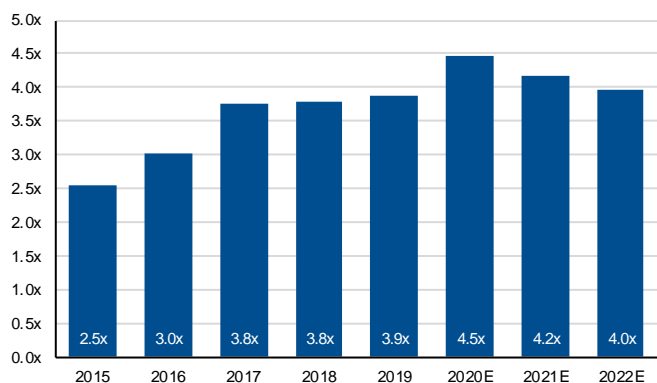
Vonovia has kept its Scope-adjusted EBITDA margin at 72% (last 12 months to end-June 2020) similar to the 2017 level and slightly below our expectations. However, we expect profitability to improve and eventually outperform the levels of the best-performing peers, at close to 75% in the medium term. This will be driven by i) healthy like-for-like rental growth; ii) a further increase in the EBITDA contributed by value-added businesses (mainly via the expected roll-out of services for the Swedish portfolio); and iii) synergies following the integration of Hembla AB, which is yet to be finalised.

**Financial risk profile: BBB**

**Negative free operating cash flow driven by increased capital expenditure**

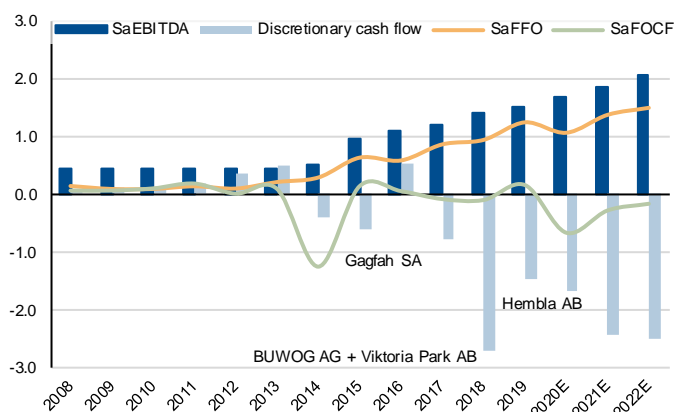
Vonovia's operating cash flows, including Scope-adjusted EBITDA and Scope-adjusted funds from operations (SaFFO), have increased since its IPO in 2013, in line with the growth and improvement in its asset base via new developments, modernisation and refurbishments. We view positively the company's ability to finance investments in its existing portfolio using operating cash flow, with Scope-adjusted free operating cash flow (SaFOCF) hovering around break-even in the last few years. However, aggressive growth via the acquisitions of Conwert S.E. (2017), BUWOG AG and Viktoria Park AB (2018), and Hembla AB (2019) along with the relatively high dividend payouts have led to volatile and negative Scope-adjusted discretionary cash flow, which has had to be financed externally via EUR 3.6bn of capital increases (net) and EUR 5.5bn of debt issuances (net) between 2015 and end-December 2019. However, we acknowledge the company's regular use of scrip dividends to strengthen equity.

**Figure 7: Scope-adjusted EBITDA interest cover (x)**



Sources: Vonovia, Scope estimates

**Figure 8: Cash flows (EUR bn)**



Sources: Vonovia, Scope estimates; 'Sa' = Scope-adjusted

The company aims to further expand to countries outside the DACH region (Germany and Austria) while keeping investment in portfolio improvements at around EUR 1.6bn per year. Consequently, we do not expect SaFOCF to reach high positive levels in the next couple of years. However, we consider around 60% of Vonovia's expansion capex to be discretionary, meaning the company could cease related building activities within three months if access to external financing weakened or regulatory changes had the potential to impact the profitability of these measures. We forecast total capital expenditure of around EUR 2.6bn in 2020 (including the acquisition of a 2.6% stake in Dutch residential fund Vesteda in June 2020 and the forward acquisition of a project development in Munich) compared to EUR 4.4bn in 2019. However, we expect Vonovia to be opportunistic regarding future acquisitions, potentially leading to higher-than-anticipated capital expenditure. Nonetheless, given Vonovia's financial policy, we believe large

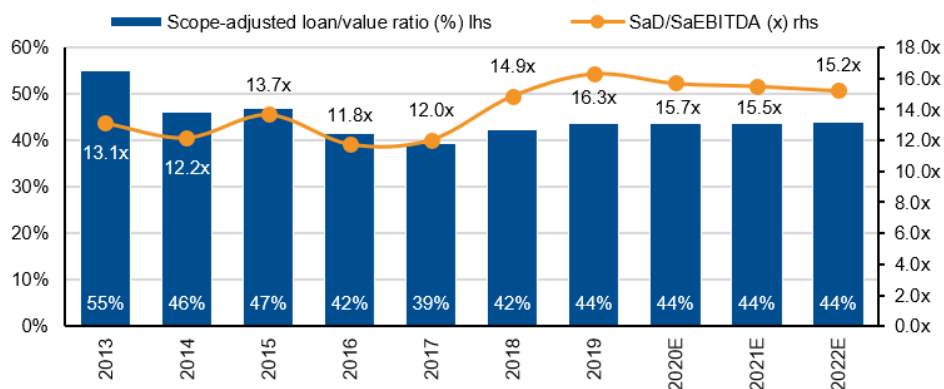
**Strong debt protection backed by economies of scale and market-driven reduction in interest rates**

acquisitions would be financed in part by equity. As such, we expect discretionary spending beyond 2020 to remain at levels that would keep leverage stable.

Vonovia's debt protection as measured by Scope-adjusted EBITDA interest cover stood at a relatively strong 3.9x for FY 2019. Debt protection has increased in recent years, reflecting i) strong growth in Scope-adjusted EBITDA, leveraging scaling effects via large acquisitions and a high degree of standardisation; and ii) the beneficial interest rate environment owing to the ECB's quantitative easing since early 2015. The latter has led to interest rates declining by 200bp on average for investment grade issuers. These two effects have offset the EUR 11.9bn increase in Scope-adjusted debt between 2015 and end-June 2020.

Scope-adjusted EBITDA interest expense is expected to remain at around 4x in the next few years, despite the gradual increase of interest rates being counterbalanced by top-line growth on the back of i) relatively high like-for-like growth of rents; and ii) expansion capex that should lead to 1,300 additional residential units in 2020 (residential units currently in development). Stable debt protection should be supported further by Vonovia's financial policy to finance expansion capex with 50% of equity on average.

**Figure 9: Leverage**



Sources: Vonovia, Scope estimates

**Relatively low Scope-adjusted LTV resilient against significant market value declines**

Vonovia has strongly benefitted from the current economic environment. The value of its portfolio appreciated by EUR 18.8bn between 1 January 2013 and end-June 2020, of which one-third is estimated to be performance-driven (rental growth) and the remainder due to strong yield compression during the same period.

This higher portfolio value has led to a substantial reduction in Scope-adjusted LTV, to 44% at YE 2019 from 55% at YE 2013, further supported by the EUR 3.6bn of net capital increases. This reduction has benefitted the company's financial risk profile and financial headroom, meaning leverage would even remain below 50% if market values declined by circa 14% (one standard deviation of the German nominal property price index), thus justifying the assigned BBB financial risk profile.

We forecast Scope-adjusted LTV to remain between 40% and 45% in the coming years, backed by the regular use of scrip dividends (40.7% acceptance rate for dividends to be paid in 2020) and Vonovia's prudent policy to finance all investments with at least 50% equity to keep LTV below 45%. Furthermore, given the good fundamentals of the German residential real estate market, we believe there is still room for positive, performance-driven fair value adjustments, even if yield compression came to an end. The downside potential for property fair values is mitigated by the remaining difference between reinstatement costs for residential real estate, of at least EUR 2,750 per sq m, and the company's current valuation of roughly EUR 1,150 per sq m (excluding land value and as at end-December 2019).



However, German regulatory changes could have an adverse effect on Vonovia's portfolio, especially regarding rents (sections 558 and 559 BGB) or rent freezes. This is likely if regulatory changes go beyond current expectations and/or the appeal to overturn the rent freeze in Berlin, effective since February 2020, is rejected by Germany's Federal Constitutional Court. The company's plan for a further European roll-out is also likely to support the stability of its financial risk profile.

**Leverage peaked in 2019, with a steady reduction to around 15x expected in the next few years**

Cash flows from residential real estate are generally resilient to changes in general demand. Therefore, our financial risk assessment of companies in this segment puts less emphasis on leverage, as measured by SaD/SaEBITDA. Nonetheless, SaD/SaEBITDA provides good visibility on leverage independent of changes in market value driven by shifts in capitalisation rates. For FY 2019, SaD/SaEBITDA stood at 16.3x, broadly in line with industry peers levels but somewhat higher than in FY 2017 following the Hembra acquisition in December 2019 (limited EBITDA contribution from the acquisition in 2019). We forecast leverage to reduce back to around 15x in the next few years, with growth in EBITDA outpacing growth in indebtedness.

**Adequate liquidity**

Liquidity has remained adequate. Despite coverage reaching below 1x in 2020, we believe liquidity risk is manageable in the short to medium term as headroom is provided by: i) a fairly high share of unencumbered assets (57% as at end-June 2020) in combination with Vonovia's financial policy; and ii) excellent access to capital markets and good banking relationships with a high diversity of potential funding sources.

Position	2020E		2021E	
Unrestricted cash (t-1)	EUR	0.4bn	EUR	0.1bn
Open committed credit lines (t-1)	EUR	1.0bn	EUR	1.0bn
Free operating cash flow <sup>5</sup>	EUR	0.3bn	EUR	0.7bn
Short-term debt (t-1)	EUR	2.4bn	EUR	1.5bn
<b>Coverage</b>		<b>0.7x</b>		<b>1.2x</b>

Liquidity as at end-June 2020: Cash uses for the six months to end-December 2020 include debt maturities of EUR 1.2bn as at end-June 2020 as well as negative SaFOCF forecasted for H2 2020 (EUR 0.5bn). These are fully covered by cash sources including available cash (EUR 0.9bn as at end-June 2020), committed credit lines (EUR 1.0bn) and proceeds from recent bond issuance (EUR 1.5bn in July 2020).

#### **Unencumbered assets**

Vonovia's unencumbered asset position is 57% as at end-June 2020, a level that enables access to secured loans from traditional banks in the event that capital markets access weakens or is lost. This is due to the company's financial policy to keep unencumbered assets above 50% and LTV below 45%. This policy provides comfort that traditional bank lenders will step in, given that secured financing is eligible for covered bond refinancing.

#### **Excellent access to capital markets and good banking relationships**

Vonovia benefits from excellent access to capital markets and traditional lenders, evidenced by its variety of funding sources and strong issuance activity in the last few years, including a successful bond issuance at the peak of the Covid-19 crisis (EUR 1bn in April 2020). Vonovia management aims to make use of all available financing sources to maintain and secure financing needs into the long term.

<sup>5</sup> Discretionary expansion capex is excluded from the liquidity calculation as these investments are made only if external financing is available. Thus, free operating cash flow for the purpose of liquidity only incorporates mandatory capital expenditure of EUR 0.6bn for modernisation, refurbishment and new developments in FY 2020. This assumes around 40% of capital expenditure on average was committed in the year before or is already under construction.



## Long-term and short-term debt ratings

### Senior unsecured debt: A-

As at end-June 2020, Vonovia had a partially utilised EUR 20bn EMTN programme with all issuances guaranteed by Vonovia S.E. Senior unsecured debt benefits from an unencumbered asset ratio of more than 200%, as disclosed by the issuer, providing a pool of collateral to debt holders.

### Subordinated (hybrid) debt: BBB

Furthermore, Vonovia issued EUR 1.0bn in hybrid bonds. We grant a 50% equity credit for the subordinated, unsecured and perpetual EUR 1bn hybrid bonds that benefit from possible coupon deferral.

### Short-term debt: S-1

The S-1 short-term rating is supported by the better-than-adequate internal liquidity, good banking relationships, strong access to diverse funding sources and access to undrawn, committed credit lines. As such, we believe the company can address any short-term refinancing needs. Vonovia had a non-utilised EUR 1bn commercial paper programme as at end-June 2020.



Appendix I: Peer comparison (as at last reporting date)

	Vonovia S.E.	ADLER Real Estate AG	Akelius Residential Property AB	Grand City Properties S.A.	LEG Immobilien AG
	A-/Stable/S-1	BB/Positive/--	--/--/--*	--/--/--*	--/--/--*
Last reporting date	30 June 2020	31 March 2020	30 June 2020	31 March 2020	30 June 2020
<b>Business risk profile</b>					
Scope-adjusted total assets (EUR m)	58,518	10,431	12,157	8,907	13,504
Portfolio yield	3.3%	4.1%	3.3%	3.6%	3.8%
Gross lettable area (million sq m)	26,561	na	2,956	na	Na
No. of residential units	414,879	57,252	43,989	72,273	137,525
No. of countries active in	3	1	7	2	1
Top 3 tenants (%)	<1%	<1%	<1%	<1%	<1%
Top 10 tenants (%)	<1%	<1%	<1%	<1%	<1%
Office (share by net rental income)	na	na	na	na	na
Retail (share by NRI)	na	na	na	na	na
Residential (share by NRI)	95%	na	94%	na	97% <sup>13</sup>
Hotel (share by NRI)	na	na	na	na	na
Logistics (share by NRI)	na	na	na	na	na
Others (share by NRI)	5%	na	6%	na	3% <sup>6</sup>
Property location	'A' to 'B'	'B' to 'C'	'A'	'A' to 'B'	'B'
EPRA occupancy rate (%)	97.2%	91.3% <sup>7</sup>	92.2% <sup>8</sup>	93.5%	96.6%
WAULT (years) <sup>9</sup>	12.7	na	8.4	9.0	11.2
Tenant sales growth (%)	na	na	na	na	na
Like-for-like rent growth (%)	3.9%	2.3%	6.3%	3.4%	2.6%
Occupancy cost ratio (%)	na	na	na	na	na
SaEBITDA margin <sup>10</sup>	72%	66%	68%	77%	71%
EPRA cost ratio (incl. vacancy) <sup>11</sup>	25.8%	35.4%	na	22.8%	26.6%
EPRA cost ratio (excl. vacancy) <sup>11</sup>	24.5%	34.8%	na	20.1%	24.5%
<b>Financial risk profile</b>					
SaEBITDA interest cover (x) <sup>10</sup>	4.0x	2.1x	2.2x	5.0x	5.3x
Scope-adjusted loan/value ratio (%)	42%	57%	42%	38%	35%
SaD/SaEBITDA (x) <sup>10</sup>	15.8x	36.5x	23.6x	11.4x	11.0x
Weighted average cost of debt (%)	1.5%	1.9%	2.2%	1.3%	1.4%
Unencumbered asset ratio (%)	na	na	242%	211%	na
Weighted average maturity (years)	7.9	na	5.1	7.8	8.0

\* Subscription ratings available on ScopeOne

Sources: Public information, Scope

<sup>6</sup> Based on units with garages counting for one-tenth of a commercial or residential unit

<sup>7</sup> As at end-December 2019

<sup>8</sup> Akelius is not an EPRA member (occupancy as reported)

<sup>9</sup> Weighted average lease length of current tenant portfolio

<sup>10</sup> For the last 12 months to the reporting date

<sup>11</sup> As at end-December 2019



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