Vonovia S.E.
Germany, Real Estate

A- STABLE

Corporate profile

Vonovia S.E. is Europe'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 59bn. Vonovia also manages around 72,500 third-party apartments.

Key metrics

			Scope estimates	
Scope credit ratios	2019	2020	2021E	2022E
Scope-adjusted EBITDA interest cover (x)	3.9x	4.1x	4.7x	4.8x
Scope-adjusted loan/value ratio (%)	44%	41%	42%	42%
Scope-adjusted debt (SaD)/SaEBITDA (x)	16.3x	15.1x	14.9x	14.7x

Rating rationale

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

The affirmation is driven by the credit-neutral impact of a successful acquisition of Deutsche Wohnen S.E., with a clear path to deleveraging bringing credit metrics back to pre-transaction levels by YE 2022 at the latest.

The rating affirmation follows Vonovia's announcement to sign a business combination agreement with Deutsche Wohnen S.E., planned to be finalised by Q3 2021. The EUR 16.5bn tender offer for up to 89.9% in Deutsche Wohnen shares, along with EUR 2.1bn in convertible bonds (at the current conversion price) and EUR 0.6bn in transaction costs, will be financed by EUR 19bn in cash that is fully secured by committed bridge financing (of around EUR 22bn). The bridge financing will be refinanced through capital markets instruments (including senior bonds, hybrid and equity-like instruments), straight equity (in line with current authorisations), the targeted disposal of 20,000 residential units to Berlin municipal housing companies (purchase option for the City of Berlin), and further disposals[1]. Thus, we forecast post-acquisition credit metrics to remain broadly in line with the current rating scenario. Deleveraging will be further supported by disposals of selected development projects as well as potential value appreciations, thus increasing the headroom under the current rating scenario.

Outlook and rating-change drivers

The Outlook for Vonovia remains Stable and incorporates our expectation of a successful acquisition of Deutsche Wohnen in Q3 2021 along the aforementioned terms and conditions. This would keep credit metrics constant in the medium term, with the Scope-adjusted loan/value ratio and Scope-adjusted debt to Scope-adjusted EBITDA anticipated to respectively reach around 40%-45% and 15x by YE 2022 following post-transaction peaks.

A negative rating action is possible if the Scope-adjusted loan/value ratio increased above 45% on a sustained basis. This could be triggered by i) a failure to deleverage after the transaction in the event the increase in capital and/or disposal proceeds are inadequate; ii) a change in financial policy; or ii) a significant drop in portfolio value following an adverse change in German regulations.

[1] Includes up to 25,000 units and selected development projects in markets where Vonovia has very large exposure relation to its local market size.

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 2021

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Bloomberg: RESP SCOP

A positive rating action is unlikely but could be warranted if the Scope-adjusted loan/value ratio reached below 40% and Scope-adjusted debt to Scope-adjusted EBITDA fell to around 8x, both on a sustained basis, due to a change in capital allocation or a reduction in both expansion capex and shareholder remuneration.

Rating drivers

Positive rating drivers	Negative rating drivers
• Exposed to low-risk, regulated residential real estate industry, which decouples rental growth from the consumer price index and GDP development • Tier 1 real estate corporate (largest residential landlord in Europe), with around 415,000 apartments in Germany, Austria and Sweden • Well-diversified portfolio spread across German, Austrian and Swedish metropolitan areas with positive demographics; highly diversified tenant portfolio with average credit quality • Good portfolio locations and improving property condition (ESG factor), which support high like-for-like rental growth as well as high and stable occupancy • Strong debt protection with Scope-adjusted EBITDA interest cover of more than 4x, backed by EBITDA growth • Relatively low Scope-adjusted LTV of 40% at end-March 2021 forecasted to remain below 50% even if market values drop significantly • Excellent access to external financing, benefiting from highly diversified debt structure and financial headroom with unencumbered asset ratio of 202% at end-March 2021	• Exposed to regulatory risk due to predominant focus on Germany (81% of net rental income as at end-March 2021); however, anticipated further European roll-out likely to reduce this exposure • Weak SaD/SaEBITDA that peaked in 2019 at above 16x, but expected to remain around 15x in the next few years • Negative discretionary cash flow since FY 2017 anticipated to remain in place, driven by a level of expansion capex (more than EUR 2bn yearly) that necessitates external financing; however, two-thirds of the capex is discretionary

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted LTV of below 40% and SaD/SaEBITDA of around 8x	• Scope-adjusted LTV of above 45% on a sustained basis

Financial overview[2]

				Scope estimates	
Scope credit ratios	**2019**	**2020**	**Q1 2021[3]**	**2021E**	**2022E**
Scope-adjusted EBITDA/interest cover (x)	3.9x	4.1x	4.3x	4.7x	4.8x
Scope-adjusted LTV (%)	44%	41%	40%	42%	42%
SaD/SaEBITDA (x)	16.3x	15.1x	14.9x	14.9x	14.7x
Scope-adjusted EBITDA in EUR m	**2019**	**2020**	**Q1 2021[2]**	**2021E**	**2022E**
EBITDA	1,531	1,768	1,801	1,876	2,041
Operating lease payments in respective year	0	0	0	0	0
Other[4]	-28	-104	-115	-40	0
Scope-adjusted EBITDA	**1,503**	**1,664**	**1,686**	**1,836**	**2,042**
Scope-adjusted funds from operations in EUR m	**2019**	**2020**	**Q1 2021[2]**	**2021E**	**2022E**
Scope-adjusted EBITDA	1,503	1,664	1,686	1,836	2,042
less: cash interest as per cash flow statement	-379	-400	-396	-381	-416
less: pension interest	-9	-6	-6	-6	-6
less: cash tax paid as per cash flow statement	47	-78	-95	-36	-37
Change in provisions	76	-150	-145	-31	0
Scope-adjusted funds from operations (SaFFO)	**1,238**	**1,030**	**1,044**	**1,383**	**1,583**
Scope-adjusted debt in EUR m	**2019**	**2020**	**Q1 2021[2]**	**2021E**	**2022E**
Reported gross financial debt[5]	25,047	25,581	27,011	28,062	30,732
less: equity credit hybrids	-501	-501	-506	-506	-506
add: derivatives	115	299	300	300	300
less: cash, cash equivalents	-501	-613	-2,151	-902	-858
Cash not accessible	97	160	160	160	160
add: pension adjustment	245	254	254	254	254
Scope-adjusted debt (SaD)	**24,503**	**25,180**	**25,069**	**27,368**	**30,082**

[2] All numbers are rounded, forecasts excl. Deutsche Wohnen S.E.
[3] Last 12 months to end-March 2021 for cash flow-related metrics
[4] Includes disposal gains and one-off earnings and expenses
[5] Includes on-balance-sheet operating lease obligations

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. Aside from its rental business (80% of reported adjusted EBITDA for the 12 months ending March 2021) and recurring sales (6%), Vonovia increased the EBITDA contribution from development (6% / +1pp YoY) and we anticipate this share to increase even further during 2021 (around 200 apartments / 10% YoY), supporting EBITDA growth going forward. However, the increased share of development weakens the industry risk profile slightly[6].

Credit outlook stable for 2021

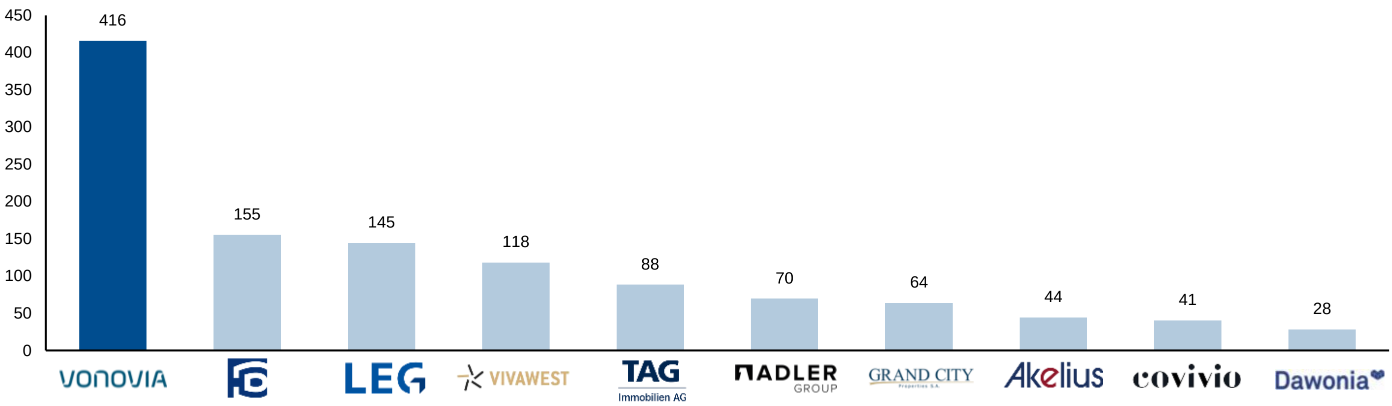
The credit outlook for the European real estate sector in 2021 is stable, though the retail sector remains a weak spot as it faces a multi-layered Covid-19 crisis. This may have only a modest impact on credit quality in the short term but the consequences will be more severe if a future recovery falters.

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

Medium-sized residential real estate company

Vonovia streamlined its portfolio in the 12 months to March 2021 by selling 3,900 units (non-core and recurring sales). The portfolio now has around 415,000 residential units as at end-March 2021 (+/- 0% YoY). We expect this number to remain stable - not considering the targeted acquisition of Deutsche Wohnen in Q3 2021 that would add another 155,000 units - with smaller bolt-on acquisitions (2020: around 1,700 units) and the development of rental apartments (2021 target: 1,500 units) to balance out recurring sales (2021 estimate: 2,500 units) and the disposal of the non-core remainder (around 1,300 units). These actions support the company's position as a major stakeholder in residential real estate markets of Germany (81% of net rental income as at end-March 2021), Sweden (15%) and Austria (4%).

Figure 1: Vonovia and European competitors by number of residential units ('000) as at YE 2020[7]



Sources: Public information, Scope

Cash flow stability is helped by the company's absolute size, with Scope-adjusted total assets of EUR 62bn at end-March 2021 and Scope-adjusted funds from operations of EUR 1.0bn for the 12 months ending March 2021, supported by good diversification and economies of scale.

Vonovia is Europe's largest real estate corporate, with a market capitalisation of more than EUR 29bn at mid-May 2021, affording excellent access to capital markets to source financing.

6 Development business shows higher cyclicality
7 Covivio estimates based on transaction and development activity in 2020; Dawonia as at end-June 2020

Vonovia is estimated to hold only 0.9% of Germany's fragmented residential real estate market, which allows it to grow in the country 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) the increasing pressure to tighten housing regulation. We therefore expect future growth - after a successful acquisition of Deutsche Wohnen S.E. - to focus on non-German markets, namely Sweden, Austria, France and the Netherlands.

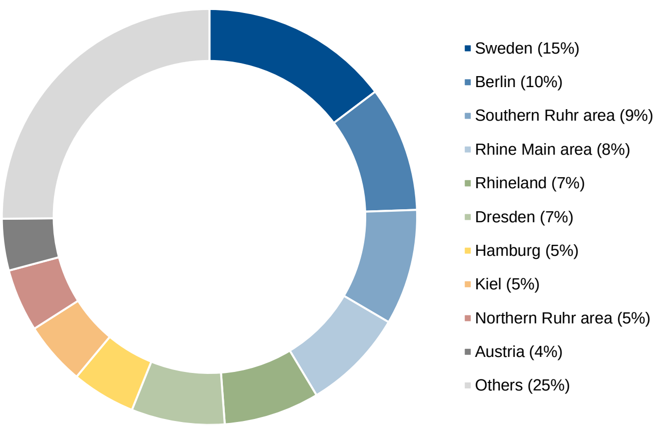
Well-diversified portfolio spread across German, Austrian and Swedish metropolitan areas

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 75% of net rental income (NRI) as at end-March 2021. However, we believe portfolio concentration is negligible because the major German metropolitan areas consist of multiple large cities, such as the southern Ruhr area (9.0% of NRI), the Rhine Main area (7.9%), the Rhineland (7.4%) and the northern Ruhr area (4.9%). We also believe that the wide distribution of apartments across Berlin (9.7%), Dresden (7.3%) and Hamburg (5.0%) partially mitigates the dominant exposure to these cities.

European roll-out in 2018/19 reduced dependence on German regulatory framework

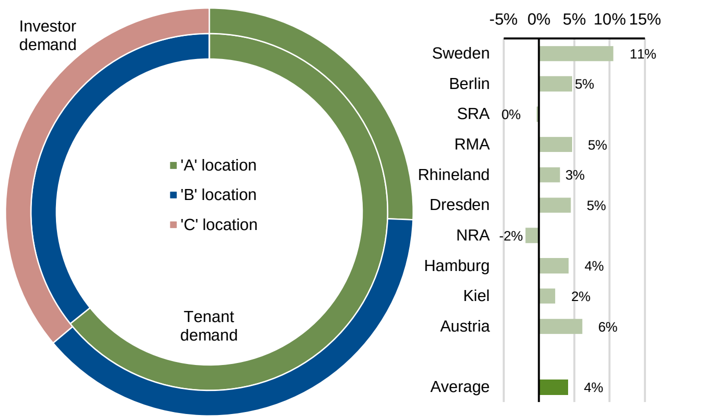
Vonovia expanded its geographical outreach following acquisitions of Austria's conwert Immobilien Invest SE (2017) and BUWOG AG (2018), Sweden's Viktoria Park AB (2018) and Hembla AB (2019), and shareholdings in France's ICF Novedis (2018) and Dutch residential fund Vesteda (2020). The non-German exposure now represents around 15% of residential units and 19% of NRI as at end-March 2021. We believe that the European roll-out in 2018, followed by portfolio additions in Sweden 2019, will support the company's business risk profile and its goal of becoming a European leader. 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 Germany's, 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-March 2021



Sources: Vonovia, Scope

Figure 3: Categorisation of location by investor (outer circle), tenant demand (inner circle) 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 with average credit quality

Vonovia has a very high diversification by tenants, thanks to its absolute size (around 415,000 units as at end-March 2021) 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).

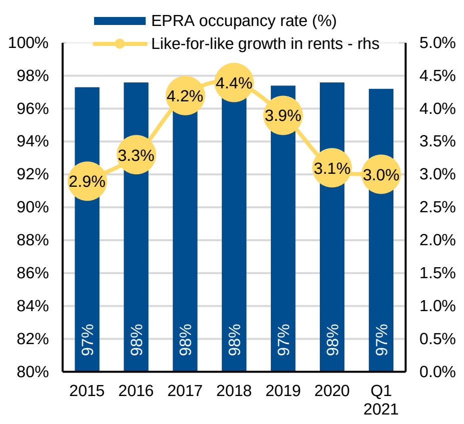
Property locations with positive demographics and liquidity

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-March 2021 / unchanged YoY); and ii) around one-third of apartments being located in 'A' cities, namely Berlin (10% as at end-March 2021), Stockholm (5%), Hamburg (5%), Stuttgart (3%), Vienna (5%) and Munich (2%) – all of which determine investor and tenant demand. We foresee strong tenant demand to continue, supporting high and stable occupancy as well as like-for-like rental growth. Furthermore, we believe the portfolio will continue to benefit from some liquidity, even in times of economic turmoil. Such strengths limit potential haircuts on current property values.

Improving property condition backed by substantial increase in capex since 2013

Portfolio property conditions have improved with the continuous increases in capex, including for maintenance, modernisation and new developments, reaching EUR 1.9bn in FY 2020 (EUR 73.4 per sq m) from EUR 0.2bn in 2013 (EUR 20.0 per sq m). Based on company information, we expect spending of around EUR 2.0bn 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), and the application of market rents (new developments). The latter is backed by the company's improved capacity for development (largest homebuilder in Germany) with 2,300 completions (1,500 units to-hold; 800 to-sell) targeted yearly. These new developments should help accelerate rental growth in the coming years, with a project pipeline of 47,000 units (38,000 units to-hold; 9,000 to-sell)as at end-March 2021, around 80% of which will be added to the company's investment property portfolio.

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



Sources: Vonovia, Scope

Figure 5: Profitability vs peers (Scope-adjusted EBITDA margin)

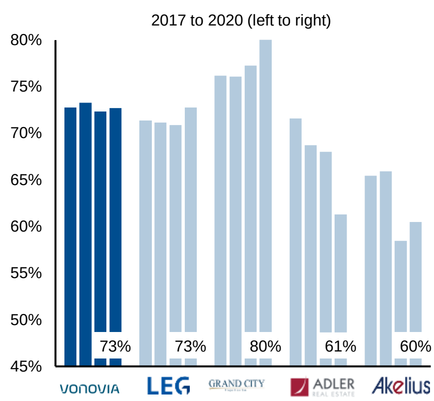
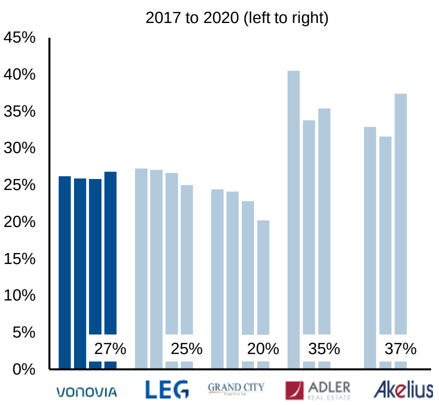


Figure 6: EPRA cost ratio (incl. vacancy) vs peers*



Sources: Vonovia, public information, Scope
*Akelius is not a member of EPRA (European Public Real Estate Association) based on our calculation

Stable portfolio key performance indicators

Key performance indicators of the portfolio remained stable, with occupancy at 97.2% as at end March 2021 (unchanged YoY), a sticky tenant portfolio (12.6 years of average lease length) and increasing rental income (3% like-for-like rental growth for the 12 months ending March 2021). However, we see some risk for the German portfolio's performance due to current pressures for tighter regulation. While the Berlin 'rent freeze' was deemed unconstitutional by the Federal Constitutional Court in April 2021, the supply-demand imbalance in urban areas remains a key political issue. For example, the Mietspiegel Reform Act, if enacted as drafted, would reduce market-driven rental growth. However, we believe Vonovia mitigates this risk well as it considers the needs of all stakeholders[8]. A good example is the company's high run-rate for energy efficiency (at least 3% of the portfolio yearly), making it one of the few frontrunners supporting the EU's goal to reach net-zero emissions by 2050 (ESG factor: credit-positive) and exempting it from carbon taxes (introduced in 2021 with a fixed step-up). This focus also supports strong like-for-like rental growth of 3.5%-4.0% without attracting more regulatory scrutiny, helped by an exposure to markets with pronounced housing shortages. Such portfolios also attract tenants, which helps to keep occupancy high and ensures stable and predictable cash flow that facilitates further organic growth .

Like-for-like rental growth of 3.5%-4.0% yearly forecasted to continue

Profitability forecasted to eventually outperform peers'

Vonovia's profitability as measured by the Scope-adjusted EBITDA margin stood at 73% for the 12 months ending March 2021 (+110bp YoY). We believe profitability will further improve and eventually outperform top peers' within the next couple of years. The more stable and higher like-for-like growth of Scope-adjusted EBITDA will be driven by i) high investments into the in-place portfolio (highest among peers), boosting organic rental growth; ii) a further roll-out of the value-added business; iii) synergies from the Hembla AB acquisition (EUR 30m run-rate to become effective in 2021 after establishing a single, scalable business in Sweden in the last 18 months); and iv) positive market-related rental growth in 2021 after the Berlin rent freeze was ruled unconstitutional.

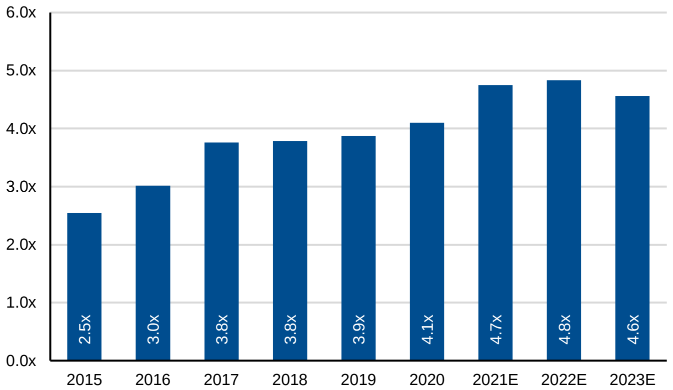
8 Tenants could raise social hardship objections; people aged over 70 have special vested rights; 3% run-rate on energy efficient modernisation with a self-imposed cap on rent increases; no claw-back of rent not collected during Berlin 'rent freeze' period

Financial risk profile: BBB

Cash flow driven by higher capex and bolt-on acquisitions, boosting top-line growth

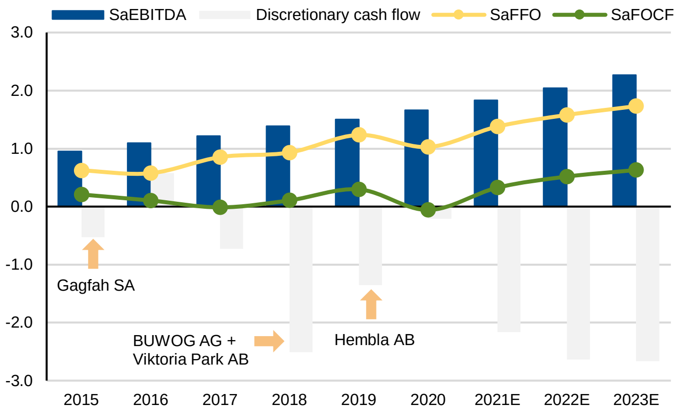
Vonovia's operating cash flows, including Scope-adjusted EBITDA and Scope-adjusted funds from operations (SaFFO), have increased since its IPO in 2013, in line with the growth and improvement in its asset base via developments, modernisations and refurbishments. We view positively the company's ability to finance investment in its existing portfolio using operating cash flow, with Scope-adjusted free operating cash flow (SaFOCF) at around break-even in the last few years. However, aggressive growth via acquisitions (Conwert S.E., BUWOG AG, Viktoria Park AB, and Hembla AB) along with high dividend payouts led to volatile and negative Scope-adjusted discretionary cash flow, which had to be financed with EUR 2.8bn of capital increases (net) and EUR 6.0bn of debt issuances (net) between 2015 and end-March 2021. 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 expand outside of Germany and Austria while keeping portfolio investment at between EUR 1.3bn-1.6bn yearly. Consequently, SaFOCF is unlikely 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. Vonovia is expected to be opportunistic regarding future acquisitions, potentially leading to higher-than-anticipated capital expenditure (EUR 3.8bn including bolt-on acquisitions for 2021[9]). Nonetheless, given Vonovia's financial policy, we believe large 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.

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

Vonovia's debt protection (Scope-adjusted EBITDA interest cover) stood at a strong 4.3x for the 12 months ending March 2021. 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 helped to reduce the weighted average cost of debt to 1.4% as at end-March from 2.6% at YE 2015. These two effects have offset the EUR 12bn increase in Scope-adjusted debt between 2015 and end-March 2021.

We expect Scope-adjusted EBITDA interest expense to remain at around 4x in the next few years. This is despite the gradual increase of interest rates being counterbalanced by

[9] EUR 17.8bn including a successful acquisition of 89.9% in shares of Deutsche Wohnen S.E.

top-line growth, on the back of i) high like-for-like rental growth; and ii) expansion capex that should lead to 1,500 additional residential units in 2021 (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.

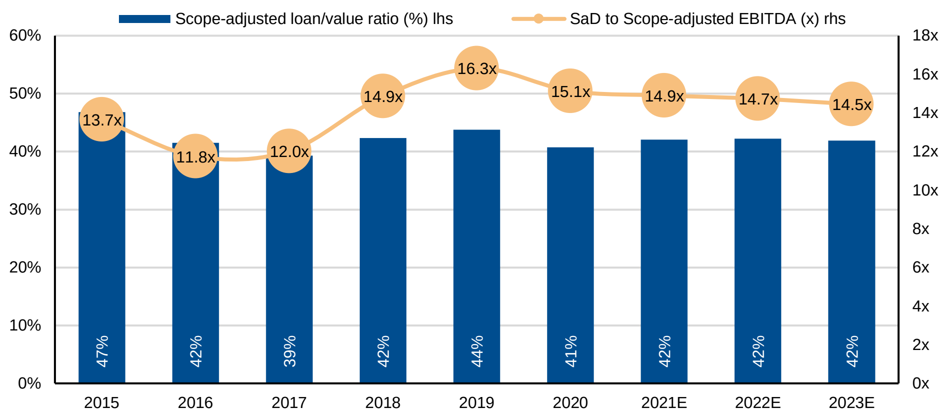
Low Scope-adjusted LTV resilient against significant market value declines

Vonovia has strongly benefited from the current economic environment. The value of its portfolio appreciated by EUR 20.7bn between 1 January 2013 and end-March 2021, 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 40% at end-March 2021 from 55% at YE 2013, further supported by the EUR 4.0bn of net capital increases. This reduction has benefited the company's financial risk profile and financial headroom. As such, property values would have to fall by at least 10% to exhaust Vonovia's financial headroom under the current rating scenario (excluding large acquisitions), which is a remote possibility at present.

We forecast Scope-adjusted LTV to remain between 40% and 45% in the coming years, backed by the regular use of scrip dividends (49.2% acceptance rate for dividends to be paid in 2021) 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 positive, performance-driven fair value adjustments are possible even in the absence of yield compression. The downside potential for property fair values is mitigated by the remaining difference between reinstatement costs for residential real estate, of at least EUR 3,200 per sq m, and the company's current valuation, which is significantly below.

Figure 9: Leverage



Sources: Vonovia, Scope estimates

However, German regulatory changes could be adverse for Vonovia's portfolio, especially regarding rent increases (sections 558 and 559 BGB) or rent freezes, for example, if the federal government gives power to the federal states to freeze rents. 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 in this segment puts less emphasis on leverage, as measured by SaD/SaEBITDA. Nonetheless, SaD/SaEBITDA provides good visibility on leverage independent of market value changes driven by the capitalisation rate. For FY 2020, SaD/SaEBITDA stood at 15.1x, broadly in line with peer levels but somewhat higher than in FY 2017 following the Hembla 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

Vonovia's liquidity is adequate as sources cover uses by around 1.4x in the 12 months to YE 2021. In detail:

Position	2021E		2022E	
Unrestricted cash (t-1)	EUR	453m	EUR	742m
Open committed credit lines (t-1)	EUR	1,000m	EUR	1,000m
Free operating cash flow[10]	EUR	969m	EUR	1,159m
Short-term debt (t-1)	EUR	1,710m	EUR	2,580m
Coverage		**1.4x**		**1.1x**

Liquidity is burdened by the high amount of short-term debt (EUR 1.7bn) maturing in 2021 (EUR 1.4bn as at end-March 2021), anticipated to lead to internal liquidity coverage of below 1x. However, liquidity risk is manageable in the short to medium term, with headroom provided by i) a high share of unencumbered assets (53% as at end-March 2021) in combination with Vonovia's financial policy; and ii) excellent access to capital markets and good relationships with a diverse set of banks. Furthermore, the issuance of EUR 1.1bn in bonds in the first five months of 2021 (January: EUR 0.5bn; March: EUR 0.6bn) provides enough liquidity to refinance all short-term debt due in 2021.

Unencumbered assets

Vonovia's unencumbered asset position is 53% as at end-March 2021, which enables access to secured loans from traditional banks if capital markets financing is insufficient. This is due to the company's policy to keep unencumbered assets above 50% and LTV below 45%. This policy provides comfort that traditional bank lenders will step in because 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). Management aims to use all available financing sources to maintain and secure financing needs into the long term.

Long-term and short-term debt ratings

Senior unsecured debt: A-

As at end-March 2021, Vonovia had a partially utilised EUR 30bn EMTN programme. 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 unsecured (hybrid) debt: BBB

Vonovia also issued EUR 1bn in hybrid bonds. We grant a 50% equity credit for the subordinated, unsecured and perpetual hybrid bonds (EUR 1bn) 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 an unutilised EUR 1bn commercial paper programme as at end-March 2021.

[10] 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 2021. This assumes around 40% of capital expenditure on average was committed in the year before or is already under construction.

Appendix: Peer comparison (as at last reporting date)

	Vonovia SE	Grand City Properties SA	LEG Immobilien SE	ADLER Real Estate AG	Akelius Residential Property AB
	A-/Stable	--/--*	--/--*	BB/Stable	--/--*
Last reporting date	31/03/2021	31/03/2021	31/03/2021	31/03/2021	31/03/2021
Business risk profile					
Scope-adjusted total assets (EUR m)	61,969	9,271	15,076	6,175	12,737
Portfolio yield	3.0%[11]	3.5%[11]	3.6%[11]	4.4%[11]	3.5%
Gross lettable area (thousand sq m)	na	na	9,432	3,230	2,989
No. of residential units	414,715	60,297	144,519	51,389	44,348
Countries in which active	3	2	1	1	7
Top 3 tenants (%)	<1%	<1%	<1%	<1%	<1%
Top 10 tenants (%)	<1%	<1%	<1%	<1%	<1%
Office (share NRI)	na	na	na	na	na
Retail (share NRI)	na	na	na	na	na
Residential (share NRI)	95%	na	98%	na	95%
Hotels (share NRI)	na	na	na	na	na
Logistics (share NRI)	na	na	na	na	na
Others (share NRI)	5%	na	2%	na	5%
Property location	‘A’ to ‘B’	‘A’ to ‘B’	‘B’	'B' to 'C'	'A'
EPRA occupancy rate (%)	97.2%	93.9%	97.1%	95.1%[12]	93.1%
WAULT (years)	12.7	9.0	11.2[13]	na	8.4
Tenant sales growth (%)	na	na	na	na	na
Like-for-like growth rents (%)	3.0%	1.8%	2.8%	6.3%	-0.1%
Occupancy cost ratio (%)	na	na	na	na	na
Scope-adjusted EBITDA margin	73%	81%	73%	62%	63%
EPRA cost ratio (incl. vacancy)	26.8%[11]	20.2%[11]	25.0%[11]	35.4%[12]	na
EPRA cost ratio (excl. vacancy)	25.6%[11]	17.9%[11]	23.1%[11]	34.8%[12]	na
Financial risk profile					
Scope-adjusted EBITDA interest cover (x)	4.3x	5.4x	5.7x	2.1x	2.3x
Scope-adjusted LTV (%)	40%	37%	39%	55%	44%
SaD/SaEBITDA (x)	14.9x	11.4x	12.5x	23.5x	24.4x
Weighted average cost of debt (%)	1.4%	1.0%	1.3%	na	1.9%
Unencumbered asset ratio (%)	202%	225%	257%[11]	na	189%
Weighted average maturity (years)	8.0	7.0	7.5	na	6.4

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

[11] As at end-December 2020
[12] Occupancy excl. units being renovated
[13] As at end-December 2019

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