DEMIRE Deutsche Mittelstand Real Estate AG

Federal Republic of Germany, Real Estate

Issuer

B-

Outlook

Negative

Senior secured debt instrument rating (ISIN DE000A2YPAK1)

B

Lead Analyst

Philipp Wass

+49 30 27891-253

p.wass@scoperatings.com

Related methodologies

General Corporate Rating Methodology, Feb 2025

European Real Estate Rating Methodology, Jun 2025

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Rating composition

Business risk profile		
Industry risk profile	BB	**B+**
Competitive position	B+	
Financial risk profile		
Credit metrics	B	**CCC**
Capex coverage	BB-	
Liquidity	-3 notches	
Standalone credit assessment		**B-**
Supplementary rating drivers		
Financial policy	+/-0 notches	**+/-0 notches**
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**B-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	3.9x	2.4x	1.5x	1.4x
Scope-adjusted debt/EBITDA	14.7x	15.2x	19.7x	22.9x
Scope-adjusted loan/value	61%	57%	65%	71%
Scope-adjusted free operating cash flow/debt	2%	0%	0%	-3%
Liquidity	394%	15%	76%	70%

Rating sensitivities

The upside scenario for the rating and Outlook:

- Easing concerns about the company's liquidity profile, supported by a further, substantial reduction in senior secured bonds enabled by further asset sales.

The downside scenarios for the rating and Outlook (individually):

- Growing concerns about liquidity and/or refinancing.
- Any debt restructuring which could be considered as a distressed exchange.

*All credit metrics refer to Scope-adjusted figures.

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Good disposal record: over EUR 200m of asset sales in last two years • Moderate though declining profitability with limited short-term upside • Geographically well-diversified portfolio with a focus on economically strong German regions • Good diversification across property types	• Inadequate liquidity (below-par coverage of cash uses from cash sources) due to clustered refinancing needs in 2027-2028, though short-term refinancing needs are manageable • Fragile capital structure, characterised by rising leverage, weak asset sales and declining interest coverage • German commercial property company of limited size with shrinking asset base and modest market share • High exposure to segments with structural shifts in demand • Weak operational performance of the more secondary portfolio, with declining occupancy leading to negative rental growth • High tenant concentration • Limited exposure to ESG-compliant assets (ESG factor: credit negative)

2. Rating Outlook

The **Negative Outlook** reflects the issuer's increasingly fragile capital structure, characterised by rising leverage amid weak asset sales, which drives refinancing risk and increases the likelihood of another debt restructuring. The Outlook takes into account the continued refinancing of secured bank loans, albeit at a higher all-in cost.

3. Corporate profile

DEMIRE Deutsche Mittelstand Real Estate AG acquires and holds commercial real estate in medium-sized cities and growing regions adjacent to metropolitan areas throughout Germany. The issuer focuses on office properties but is also diversified in retail and hotel properties.

As of 30 September 2025, DEMIRE manages 46 properties (down 8 YoY) with a gross lettable area of 573,000 sq m (down 6% YoY) and a total market value of around EUR 747m (down 11% YoY).

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
28 Nov 2025	Outlook change	B-/Negative
19 Dec 2024	New	B-/Positive

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2023**	**2024**	**LTM Q3 2025**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	3.9x	2.4x	1.5x	1.5x	1.4x	1.3x
Debt/EBITDA	14.7x	15.2x	18.0x	19.7x	22.9x	25.2x
Loan/value	61%	57%	64%	65%	71%	79%
Free operating cash flow/debt	2%	0%	-1%	0%	-3%	-2%
Liquidity	394%	15%	n/a	76%	70%	13%
EBITDA						
Reported EBITDA	34.1	25.4	25.9	25.9	46.3	23.2
add: recurring dividends from associates	0.7	-	-	-	-	-
Gains/losses on disposals	14.3	7.3	1.4	(0.1)	-	-
Other items (incl. one-offs)[1]	0.0	1.6	2.2	1.0	(22.1)	1.0
EBITDA	**49.1**	**34.2**	**29.5**	**26.9**	**24.2**	**24.1**
Funds from operations (FFO)						
EBITDA	49.1	34.2	29.5	26.9	24.2	24.1
less: interest	(12.6)	(14.3)	(19.3)	(17.6)	(17.4)	(18.0)
less: cash tax paid	4.2	(4.4)	(1.6)	1.2	-	-
Other non-operating charges before FFO	(0.9)	0.1	(0.3)	(0.1)	-	-
Funds from operations	**39.8**	**15.7**	**8.3**	**10.4**	**6.8**	**6.2**
Free operating cash flow (FOCF)						
Funds from operations	39.8	15.7	8.3	10.4	6.8	6.2
Change in working capital	10.1	10.4	4.1	(1.3)	0.4	0.4
Non-operating cash flow	(24.0)	(8.0)	(4.0)	7.0	-	-
less: capital expenditures (net)	(12.9)	(14.0)	(10.3)	(16.9)	(21.4)	(20.3)
less: lease amortisation	(0.3)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Other items	0.0	(4.3)	(4.3)	-	-	-
Free operating cash flow	**12.8**	**(0.5)**	**(6.3)**	**(0.9)**	**(14.3)**	**(13.9)**
Interest						
Cash interest paid per cash flow statement	14.8	17.7	20.3	18.6	19.0	18.8
less: cash interest received per cash flow statement	(2.2)	(3.4)	(1.0)	(1.0)	(1.6)	(0.9)
Interest	**12.6**	**14.3**	**19.3**	**17.6**	**17.4**	**18.0**
Debt						
Reported financial (senior) debt	817.0	416.0	409.6	398.3	394.4	422.5
add: shareholder loans	-	97.3	118.3	131.3	157.3	183.4
less: cash and cash equivalents	(120.0)	(22.4)	(24.9)	(27.9)	(24.7)	(24.9)
add: other debt-like items[2]	24.1	28.1	28.1	28.1	28.1	28.1
Debt	**721.1**	**519.0**	**531.1**	**529.9**	**555.1**	**609.1**
Total assets						
Total assets	1,327.5	951.2	886.0	866.1	833.0	823.3
less: cash and cash equivalents	(149.5)	(44.8)	(49.8)	(55.8)	(49.4)	(49.7)
less: positive value of derivatives	-	-	-	-	-	-
Total assets	**1,178.0**	**906.4**	**836.3**	**810.4**	**783.6**	**773.5**

[1] Reflects non-cash tenant incentives and reversal of provision for Cielo put option

[2] Negative replacement value of derivatives

6. Environmental, social and governance (ESG) profile[3]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Complex corporate structure

The rated entity's complex group structure creates operational risk, although the multi-layered structure protects liquidity in times of disruption within the property/sub-holding special purpose vehicles. However, the double LuxCo structure arising from the bond restructuring allows bondholders direct access to all assets in the second LuxCo layer (including DEMIRE and Fair Value REIT-AG) in the event of default, which is an advantage over the previous structure.

Core exposure to non-ESG-certified properties deemed credit-negative

DEMIRE's portfolio of non-ESG-certified properties is a competitive disadvantage, which, combined with the more secondary locations in which the issuer operates, limits achievable rents and requires relatively high capex to remain attractive to tenants and avoid the risk of stranded assets.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: B+

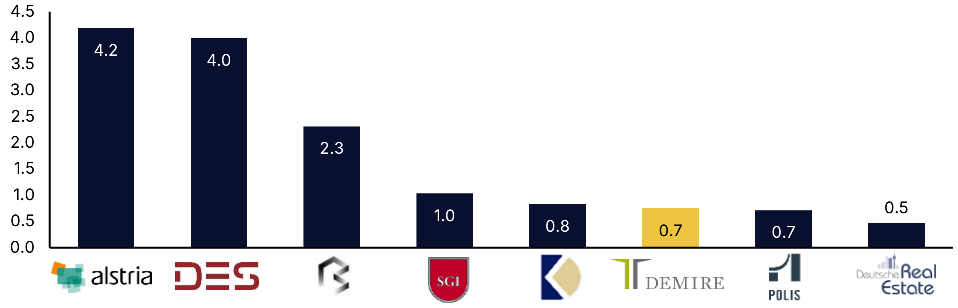
Industry risk profile: BB

German commercial property company with shrinking asset base

DEMIRE is a buy-and-hold German commercial real estate company of limited size. As at end-September 2025, it has a portfolio of 46 properties with a gross lettable area of 573,000 sqm and Scope-adjusted total assets of EUR 0.8bn.

The company's asset base has shrunk significantly since the end of 2021, with 18 properties either sold or deconsolidated and total assets decreasing by EUR 730m. This is the result of i) executed disposals to meet funding needs; ii) the insolvency of the Limes portfolio[4]; and iii) significant fair value declines of 7% in 2022, 14% in 2023, 7% in 2024, and 4% in 2025 YTD, all like for- like. The fair value declines were triggered by central bank monetary tightening and the more secondary nature of DEMIRE's portfolio, which led to a sharp increase in capitalisation rates (rental yields up 1.8pp since end-2021) as investors became more cautious on real estate, particularly on underlying property performance. This was shown by DEMIRE not meeting sales targets at initially expected prices.

Figure 1: DEMIRE and peers, gross asset value (EUR bn) in Germany[5]



Sources: DEMIRE, public information, Scope

Given its limited size and focus on B and C cities, DEMIRE lacks the visibility and competitive advantage to attract high-profile, blue-chip tenants, which tend to focus on strong locations and ESG-compliant properties. DEMIRE lacks the corresponding environmental certifications (credit-negative ESG factor).

DEMIRE's market position will continue to weaken, affecting its access to debt and equity markets. Further asset disposals are planned to enable deleveraging. At the same time, we do not expect in the next two to three years a reversal of the negative momentum since monetary tightening, which has limited the company’s room for manoeuvre to meet refinancing needs.

Geographically well-diversified portfolio with focus on strong German regions

DEMIRE operates a well-diversified portfolio with properties spread across Germany, allowing it to benefit from different underlying market dynamics. Two-thirds (by annualised contracted rents) of properties are in states with the highest GDP levels, i.e. North Rhine-Westphalia, Hesse, Bavaria and Baden-Württemberg.

However, we see some cluster risk. The top 10 properties account for around half of contracted rental income, a share we expect to increase further if targeted asset sales are executed. This high concentration could lead to significant volatility, not only in the portfolio's key performance indicators such as rental growth or occupancy, but also in cash generation.

High tenant concentration

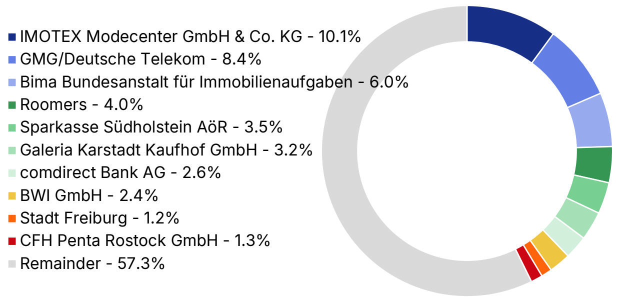
This risk is further amplified by the high tenant concentration, which leads to high re-letting risk. The top three tenants account for 24.5% and the top 10 for 44.9% of rental income at the end of September 2025. This risk is compounded by the more secondary nature of DEMIRE's property locations, which could lead to more volatile cash generation due to longer re-letting periods and/or

[4] A non-recourse loan of EUR 82m taken out by four subsidiaries of DEMIRE (property value of EUR 137m) from DZ HYP AG was due to mature on 30 June 2024. It was not possible to reach an agreement on a standstill or an orderly repayment of the loan outside an insolvency of the property companies. As a result, the four property companies in the Limes portfolio have filed for insolvency and were deconsolidated in Q3 2024.

[5] As at end-September 2025: Alstria Office REIT-AG, Branicks AG, DEMIRE AG; as at end-June 2025: Deutsche Euroshop AG, Deutsche Konsum REIT-AG, Deutsche Real Estate AG; as at end-March 2025: Sedlmayr Grund und Immobilien KgaA (at cost); as at end-2022: Polis Immobilien AG.

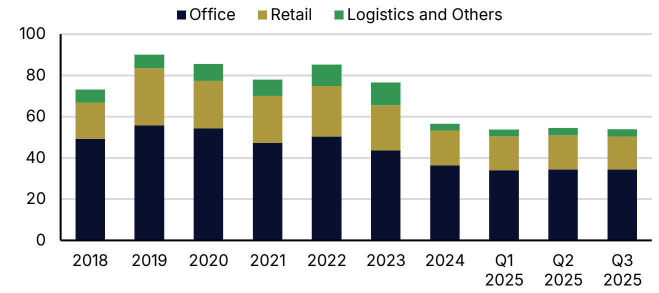
higher capital expenditure, as well as larger incentives to attract tenants. However, the risk of tenant default or the cessation of contractually agreed rents by a significant proportion of tenants is less likely given the considerable share of government, municipal (e.g. Bima, City of Freiburg) and blue-chip tenants. We still note the increasing bad-debt ratio, reflecting the moderate to weak quality of the smaller tenants as well as the insolvencies of larger tenants including Mein Real (2023) and Galeria Karstadt Kaufhof (2024; although there was no performance disruption and rents have been paid to date).

Figure 2: Top tenants by rental income as at end-September 2025



Sources: DEMIRE, Scope

Figure 3: Property types by contracted rent (EUR m)



Sources: DEMIRE, Scope

DEMIRE’s tenant structure will continue to change as larger tenants prefer inner-city locations in A and/or B cities. DEMIRE will therefore gain a more granular base of tenants (mainly SMEs or micro caps), albeit with weaker credit quality. This change will be credit-positive. DEMIRE's appointment of a new centre manager for IMOTEX in Neuss from the beginning of 2026 further supports this development. From this point, rental agreements will be concluded directly with DEMIRE.

Diversified across property types, but highest exposure to segments with structural shifts in demand

The strongest feature of DEMIRE's portfolio is the diversification across property types. Office properties accounted for 64% of annualised in-place rents at end-September 2025, retail for 30% and others (hotels, etc.) for 6%.

However, DEMIRE's exposure to the weakest-performing property types, retail and office, leaves cash flows vulnerable to the ongoing transformation of the European retail industry (see also Adapt or Disappear: E-commerce Transforms European Retail) as well as changes in employer needs regarding office space.

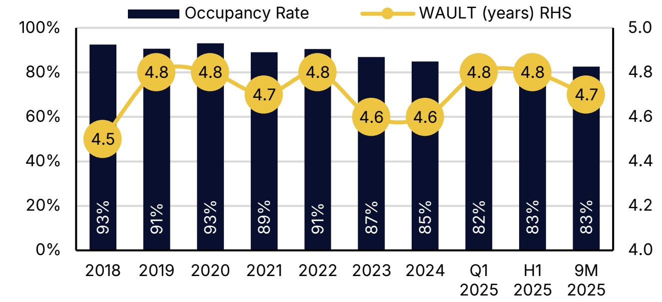
Although companies are realising the importance of office space for collaboration and increased productivity, we expect demand for space to decline in the medium term, especially in secondary locations, as companies reduce their property requirements.

Vacancies in DEMIRE's office portfolio have increased by 6.5pp since end-2021. This reflects the lower space requirements in general, with many tenants switching to hybrid working and larger tenants not renewing their leases.

Weak operational performance of more secondary portfolio with declining occupancy…

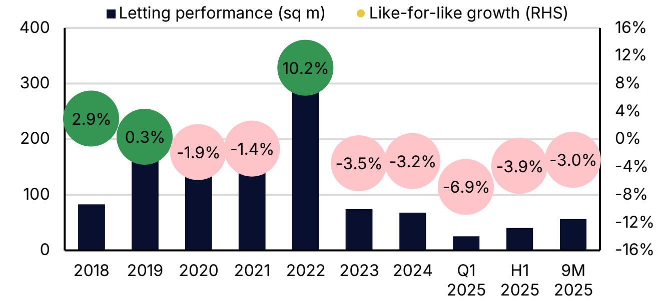
DEMIRE's asset quality is weak compared to that of Scope-rated peers. The occupancy rate has been declining since 2019 and stood at 83% at end-September 2025. In contrast, the WAULT has stabilised to around 4.7 years as of end-September 2025. This is supported by the recovering WAULT of the office portfolio, which stood at 3.6 years at end-September 2025 (up 0.4 years YoY), supported by i) stabilising letting performance (63,400 sq m over the 12 months to end-September 2025, close to the results for 2024 while the portfolio was smaller); and ii) asset disposals with comparatively higher vacancies, partially offset by the WAULT for retail properties which decreased to 5.0 years (down 1.2 years YTD). We expect WAULT to hover at around four years, reflecting the portfolio's weakness, i.e. the limited commitment from larger tenants with a greater focus on central business districts. The relatively short WAULT, coupled with weaker tenant quality on average, reduces cash flow visibility, which is credit-negative.

Figure 4: Occupancy and WAULT



Sources: DEMIRE, Scope

Figure 5: Letting performance ('000s) and rental growth



Sources: DEMIRE, Scope

... as well as negative rental growth

The weak asset quality is also reflected in the recent negative like-for-like rental growth (2024: -3.2%, last 12 months (LTM) to September 2025: -3.0%). This indicates structural weaknesses in the property and/or the tenant portfolio with a number of insolvencies. We expect rents to grow only slightly, driven by possible rent increases, as 75% of leases are index-linked and there is some, albeit limited, reversion potential, which will offset a small but steady rise in vacancies. Stronger rental growth is possible if DEMIRE's increased investment bears fruit and parts of the portfolio are reconfigured to make them more attractive to tenants. Nevertheless, this is unlikely at present as it would also require stronger economic growth that would encourage tenants to expand space.

Declining profitability due to little cost flexibility

Since peaking in 2019–2021, the EBITDA margin has shown persistent volatility and a downward trajectory, reflecting structural cost rigidity amid portfolio contraction. In 2024, the margin fell to 52% (down 10pp YoY), driven by non-recoverable property expenses remaining unchanged despite a 17% decline in rental income, as well as higher selling, general and administrative costs linked to debt restructuring. This illustrates the issuer's limited operating leverage and cost flexibility, which heightens its sensitivity to revenue erosion.

Looking ahead, we expect profitability to deteriorate further, with margins forecast at 45%–50% (compared to 54% in the LTM to September 2025). Rental growth will only partially offset rising vacancies and sustained non-recoverable costs. Meanwhile, selling, general and administrative expenses are likely to remain elevated due to structural overheads and additional restructuring-related charges. Compared to peers in the commercial buy-and-hold segment (typical EBITDA margins range from 50%–85%), this negative trend underscores a weakening efficiency profile, reducing internal financing capacity and increasing reliance on external measures to preserve credit quality.

We do not expect the absolute level of profitability to improve significantly in the long term. This is because the portfolio, being generally of a more secondary nature, does not support premium rents but requires more management attention – reflected in relatively high EPRA cost ratios (Q2 2025: 46.6% including vacancies and 40.4% excluding vacancies), also compared to peers.

8. Financial risk profile: CCC

Fragile capital structure drives refinancing risk

Despite the 2024 bond restructuring temporarily alleviating refinancing pressure, DEMIRE's capital structure has become increasingly fragile. Extending the EUR 600m bond (outstanding notional amount of EUR 499m before restructuring, reducing to EUR 247m as at end-September 2025) to December 2027 and introducing a 5% cash coupon plus a 3% payment-in-kind (PIK) component[6] has provided short-term relief but also introduced structural risk. The PIK feature, combined with the PIK structure of shareholder loan, accelerates leverage growth. Debt is projected to exceed EUR 600m by end-2027 (up from around EUR 500m at end-September 2025), driven by

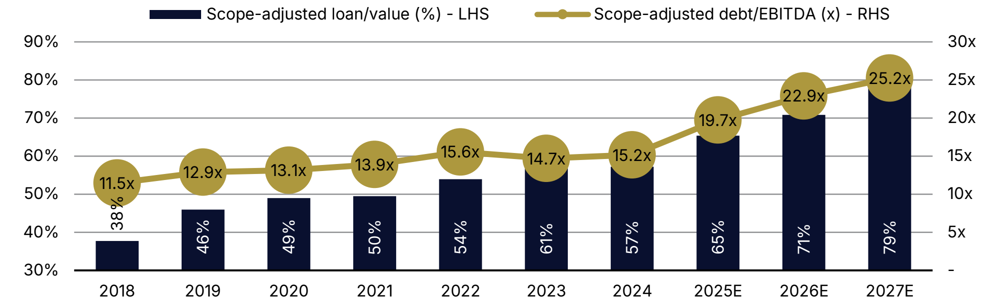
[6] The PIK component is applicable from 1 January 2027 (inclusive) to 31 December 2027 (exclusive).

compounding interest and limited progress in reducing leverage. This trajectory contrasts sharply with the original plan to stabilise leverage through asset disposals.

The deleveraging strategy has underperformed: only EUR 46m of net proceeds were realised YTD. Market appetite for secondary assets remains weak amid refinancing concerns and muted economic conditions, which limit prospects for meaningful improvement in 2026. Although further disposals are planned, pricing pressures and high execution risk persist, particularly as DEMIRE is perceived by market participants as a willing seller. Combined with declining profitability and ongoing fair value write-downs, the capital structure is becoming unsustainable.

The combination of rising leverage, limited proceeds from asset sales, and weakening earnings capacity indicates the necessity for a more substantial restructuring well before 2027 to ensure going concern status. We view refinancing risk as acute and expect further creditor negotiations within the next 12–18 months.

Figure 6: Leverage



Sources: DEMIRE, Scope estimates

LTV is set to rise above 70% by 2026 as PIK accruals outpace deleveraging through asset sales

The loan/value (LTV) ratio improved to 57% by the end of 2024 (down from 61% in 2023) due to debt repayments linked to asset sales. However, this progress reversed after fair value write-downs (totalling EUR 30m in the first nine months of 2025) and PIK accruals on the shareholder loan offset the deleveraging achieved through asset sales. This pushed LTV above 60% by September 2025.

We expect the LTV ratio to exceed 70% by 2027, mainly due to the compounding of PIK interest on the senior secured bond and the shareholder loan, after the company opted against repaying the EUR 50m bond in 2025 amid weak disposal activity. Any improvement hinges on successful divestments and/or the liquidation of the Cielo structure, which would also ease pressure on debt/EBITDA, which is projected to rise above 20x (LTM to end-September 2025: 18x). Rental growth will not offset the negative trend of increasing leverage materially given portfolio shrinkage, profitability pressures and rising nominal debt.

Interest coverage down and expected to remain at around 1.5x

EBITDA interest cover fell to 2.4x in 2024 (down 1.5x YoY) and 1.5x in the LTM to September 2025. This reflects higher debt costs (weighted average of over 4%, excluding PIK components, compared to 1.9% in the previous year), the pressure on profitability from non-recoverable costs and increased selling, general and administrative costs, and the lower-than-expected cash interest income.

We project EBITDA interest cover to remain weak at 1.3x–1.5x as deleveraging stalls. Despite incentives to avoid PIK extension fees (3% in 2026 if the target of reducing the bond by EUR 50m is not achieved by 2025, and 2% in 2027 if the additional target of reducing the bond by a further EUR 50m is not achieved by 2026), the issuer skipped the voluntary EUR 50m bond repayment in 2025 due to poor proceeds from asset disposals. Interest cover is below 1x when including PIK accruals on the bond and the shareholder loan. This would leave no headroom to deal with any distortions in the portfolio's cash generation capability (e.g. through tenant quality or demand falling below our expectations) if the bond needs to be refinanced in 2027 and deleveraging has not progressed significantly.

Future capex needs will probably require external funding

DEMIRE's capex, which is primarily directed at existing assets, has been moderate in recent years. It peaked at EUR 32m in FY 2022 to enhance conversion and expansion measures at various properties. This was largely funded through strong internal cash generation, thereby limiting reliance on external financing.

Since FY 2022, however, DEMIRE has significantly reduced capex to boost short-term cash flow and cover higher debt servicing and repayments. However, we consider this as underinvestment in the portfolio and therefore unsustainable. As the portfolio shrinks, higher investment needs, estimated by us at around EUR 20m per year, will likely require external funding such as through new debt or capital recycling. Our capex coverage assessment excludes capital recycling, including asset disposals, as it focuses on stabilising the capital structure rather than supporting investment needs.

Inadequate liquidity

Liquidity is deemed inadequate. Cash sources (around EUR 49m at end-September 2025) are insufficient to cover cash requirements (expected free operating cash flow of negative EUR 30m until end-2027, EUR 99m[7] of bank debt due between end-September 2025 and 2027, and a EUR 247m bond due in December 2027). However, we believe most of the maturing bank loans will be rolled over or refinanced with other banks, as evidenced by the issuer's recent track record.

Refinancing the EUR 247m bond poses a far greater challenge than refinancing mortgage debt as this would require either asset disposals or additional secured financing that makes use of EUR 347m of unencumbered assets (as of the end of September 2025). However, both options appear unlikely given the weak investor appetite and execution risk. While management is exploring all possibilities for refinancing the bond before its maturity in 2027, any potential solution will likely require an extension or restructuring of the shareholder loan. The shareholder loan is expected to exceed EUR 200m by the time the loan matures in 2028. With EBITDA interest coverage (including PIK components) at below 1x and little headroom on the balance sheet, further debt restructuring is highly likely in the next 12–18 months to preserve going concern status.

Bond covenants met

The issuer has met all financial covenants set out in the terms and conditions of the EUR 600m 2019/2027 bond prospectus, and we expect these to continue to be met. They are:

- Maximum net LTV of 70% (Q3 2025: 43%)
- Minimum interest coverage ratio of 1.50x-1.00x (Q3 2025: 2.55x)

However, headroom for the interest coverage ratio covenant has shrunk, and a rather marginal decline in reported EBITDA relative to our rating case is needed for the ratio to fall below 1.50x. The LTV covenant has ample headroom, as a further decline in the fair value of around 30% relative to our rating case is unlikely.

The company has also met all financial covenants at loan level (LTV, debt service coverage ratio, debt yield, debt to rent), mostly with good headroom, as at the end of September 2025.

Table 1. Liquidity sources and uses (in EUR m)

	2024	2025E	2026E
Unrestricted cash (t-1)	120.0	44.8	55.8
Restricted cash (t-1)[8]	(18.0)	(13.4)	(16.7)
Open committed credit lines (t-1)	0.0	0.0	0.0
FOCF (t)	(0.5)	(0.9)	(14.3)
Short-term debt (t-1)	670.7	40.3	41.4
Liquidity	**15%**	**76%**	**70%**

Sources: DEMIRE, Scope estimates

[7] Of this, EUR 24m has been repaid and EUR 29m refinanced between the end of September 2025 and the publication of this report.

[8] 15% (for 2024) and 30% (2025 and 2026) haircut on sources of liquidity to reflect the risk that liquidity could quickly evaporate in times of severe negative rating migration/distress. The haircut is based on the relative strength of DEMIRE's business and financial risk profiles.

9. Supplementary rating drivers: +/- 0 notches

Credit-neutral financial policy

Financial policy is credit-neutral. While DEMIRE does not have a specific financial policy, financial guidelines are determined by financial covenants, which provide some comfort to creditors. In general, we acknowledge the limited exposure to floating-rate debt, also in the past, though we see continued cluster risk related to the refinancing schedule. The company addressed this by amending the terms and conditions of the EUR 600m bond (the original amount), extending it to the end of 2027 and introducing an early repayment incentive in the form of a 3% PIK component, payable in 2027. DEMIRE did not take the opportunity to reduce the outstanding bond volume in 2025 by the permitted minimum repayment of EUR 50m, thus failing to avoid the PIK extension fee, which leaves refinancing risk high.

10. Debt rating

Senior secured debt instrument rating (ISIN DE000A2YPAK1): B

We have affirmed the B rating of the senior secured bond, one notch above the issuer rating. DEMIRE has EUR 247m in senior secured capital market debt outstanding as at end-October 2025.

We have derived an excellent recovery for senior secured debt, which theoretically allows for a three-notch uplift above the issuer rating. However, we have restricted the uplift to one notch based on two factors that could reduce recovery expectations. Firstly, a large portion of secured bank debt ranks higher than the senior secured bond and has better collateral (real estate as opposed to the bond's share and account pledges). Secondly, we see the potential for the addition of even more secured bank debt on a path to default.

Our recovery expectation is based on a hypothetical default scenario in FY 2027 with a distressed enterprise value of around EUR 530m. This value is based on the company's liquidation value and includes a discount of around 26% for investment properties, consistent with a B category stress, and reflecting the portfolio's secondary nature and 10% for insolvency costs. This compares to the forecasted secured bank debt of EUR 182m, the secured bond of EUR 247m and EUR 183m in unsecured subordinated debt at the time of a potential default.

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

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