Deutsche Konsum REIT-AG
Germany, Real Estate

SCOPE BB+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020/21**	**2021/22**	**2022/23E**	**2023/24E**
Scope-adjusted EBITDA/interest cover	4.2x	3.7x	3.0x	3.9x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA	12.3x	11.6x	12.4x	11.2x
Scope-adjusted loan/value (LTV) ratio	54%	51%	55%	55%

Rating rationale

The issuer rating of BB+ is supported by the company's scale in the niche market of non-cyclical retail real estate. The portfolio is also supportive, providing steady, predictable cash flows thanks to its diversification across Germany, stable occupancy and weighted average unexpired lease term (WAULT) of five years. Decent profitability, implicit caps on leverage and floors on revenue diversification afford good debt protection and moderate leverage.

However, DKR's size also limits the rating, as it can constrain its access to capital markets in times of economic turmoil. In addition, DKR's focus on a niche market leads to high concentration and weak diversification in terms of tenants, with the top three accounting for 35% of net rental income (NRI). Furthermore, the portfolio's limited fungibility poses high downside volatility, a result of the small ticket sizes and weak macro locations. Finally, our overall assessment of DKR's financial risk profile is negatively affected by its refinancing needs in a changed interest rate environment.

Outlook and rating-change drivers

The Outlook for DKR is Stable and incorporates our expectation that DKR's asset base will grow via around EUR 70m in net expansion capex for FY 2022/23, leading to annualised rental income of EUR 80m-84m by end-September 2023. We anticipate further expansion to be financed with equal amounts of debt and equity. This will keep the Scope-adjusted loan/value ratio at around 55% in the medium term. Debt protection, as measured by Scope-adjusted EBITDA interest cover, is expected to deteriorate due to the increased interest rates expected on new and refinanced debt but remain above 3x.

A negative rating action is possible if the Scope-adjusted loan/value ratio reached above 55% on a continued basis, leading to DKR losing its tax-exempt G-REIT status. This could happen if property prices drop and DKR cannot address the increased loan/value ratio via asset disposals or equity issuances (due to the main shareholder becoming less willing and able to support capital increases either actively or passively).

A positive action would require further growth in total assets and gross lettable area, leading to greater diversification by geographies and tenants while keeping credit metrics at current levels.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
27 March 2023	Affirmation	BB+/Stable
29 March 2022	Affirmation	BB+/Stable
30 April 2021	Affirmation	BB+/Stable

Ratings & Outlook

Issuer	BB+/Stable
Senior unsecured debt rating	BBB-
Senior secured bond DE000A2G8WQ9	BBB

Analyst

Thomas Faeh
+47 9305 3140
t.faeh@scoperatings.com

Related Methodology(ies)

General Corporate Rating Methodology; July 2022

European Real Estate Rating Methodology; January 2023

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Largest pure-play commercial real estate company in Germany with a focus on non-cyclical retail, supporting visibility with tenants, investors and vendors • Moderate geographical diversification across Germany • Stable occupancy of around 88% by gross lettable area and 94% by EPRA, though no material improvement expected via acquisition strategy • Profitability in line with larger peers • High EBITDA interest cover (above 3x) expected to be maintained • LTV expected to remain below 55% in the medium term thanks to G-REIT covenants	• Limited size, but net expansion of portfolio, with asset base to rise to around EUR 1.3bn in FY 2024/25 • Modest diversification across sales formats; exposure to hypermarkets with their negative prospects • Concentrated tenant portfolio, with top three accounting for 35% of NRI, albeit partially mitigated by the majority's good credit quality • Properties' macro locations expected to lead to higher downside volatility for fair values, but micro locations and limited competition will boost tenant demand and thus stabilise cash flows • Negative free operating cash flows due to discretionary portfolio expansion and mandatory dividend payments

Positive rating-change drivers	Negative rating-change drivers
• Further significant growth by total assets and gross lettable area while maintaining credit metrics	• Scope-adjusted LTV sustained above 55% leading to a loss of tax-exempt REIT status

Corporate profile

Deutsche Konsum REIT-AG (DKR) started operations in 2014 and received REIT (real estate investment trust) status in 2016, making it exempt from income-based tax. The company's objective is to acquire and manage a retail portfolio focused on regional areas and medium-sized cities across Germany.

Financial overview

				Scope estimates		
Scope credit ratios	**2020/21**	**2021/22**	**Q1 22/23[1]**	**2022/23E**	**2023/24E**	**2024/25E**
Scope-adjusted EBITDA/interest cover	4.2x	3.7x	3.6x	3.0x	3.9x	3.6x
Scope-adjusted debt/EBITDA	12.3x	11.6x	12.2x	12.4x	11.2x	10.2x
Scope-adjusted LTV ratio	54%	51%	52%	55%	55%	55%
Scope-adjusted EBITDA in EUR m						
EBITDA	41.5	45.0	45.3	49.0	58.1	67.4
Operating lease payments	0.6	0.6	0.6	0.6	0.6	0.6
Other items	3.7	1.8	2.0	0.0	0.0	0.0
Scope-adjusted EBITDA	**45.7**	**47.4**	**47.9**	**49.6**	**58.7**	**67.9**
Funds from operations in EUR m						
Scope-adjusted EBITDA	45.7	47.4	47.9	49.6	58.7	67.9
less: (net) cash interest paid	-10.8	-12.7	-13.5	-16.3	-15.1	-19.0
less: cash tax paid per cash flow statement	-0.2	-0.2	-0.3	0.0	0.0	0.0
add: dividends from associates	0.6	0.9	2.4	0.0	0.0	0.0
Funds from operations (FFO)	**35.4**	**36.7**	**37.9**	**33.2**	**43.6**	**48.9**
Scope-adjusted total assets in EUR m						
Total assets	1,093.3	1,181.8	1,222.2	1,119.8	1,192.7	1,266.9
less: cash & equivalents	-60.2	-103.7	-86.4	-5.1	-1.3	-5.9
Scope-adjusted total assets	**1,033.1**	**1,078.2**	**1,135.8**	**1,114.7**	**1,191.4**	**1,260.9**
Net cash interest paid in EUR m						
Net cash interest per cash flow statement	-10.6	-12.5	-13.3	-16.1	-14.9	-18.8
Change in other items	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Net cash interest paid	**-10.8**	**-12.7**	**-13.5**	**-16.3**	**-15.1**	**-19.0**
Scope-adjusted debt in EUR m						
Reported gross financial debt	609.7	639.0	659.1	604.7	644.5	687.2
add: finance leases	9.0	9.0	9.0	9.0	9.0	9.0
less: cash equivalents (short-term lending)	-59.5	-98.8	-81.8	-4.0	0.0	0.0
less: cash	-0.7	-4.8	-4.7	-1.1	-1.2	-5.9
add: operating lease obligations	4.3	4.4	4.4	4.4	4.4	4.4
Scope-adjusted debt (SaD)	**562.8**	**548.7**	**586.1**	**613.0**	**656.6**	**694.8**

[1] Last 12 months to end-December 2021

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Environmental, social and governance (ESG) profile[2]

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)	

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

DKR has no dedicated ESG strategy, with most requirements either stemming from or directly implemented in tenants' own ESG strategies. However, we see a need for a more pro-active approach by DKR to address future key ESG-related risks. These include i) the risk of stranded assets (especially for ageing single-purpose properties); ii) social equity risk (incorporation of local retail, accessibility of properties, etc.); and iii) regulatory risk (new energy efficiency requirements for existing stock leading to higher capex).

[2] 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.

Business risk profile: BB+

Industry risk profile: BB

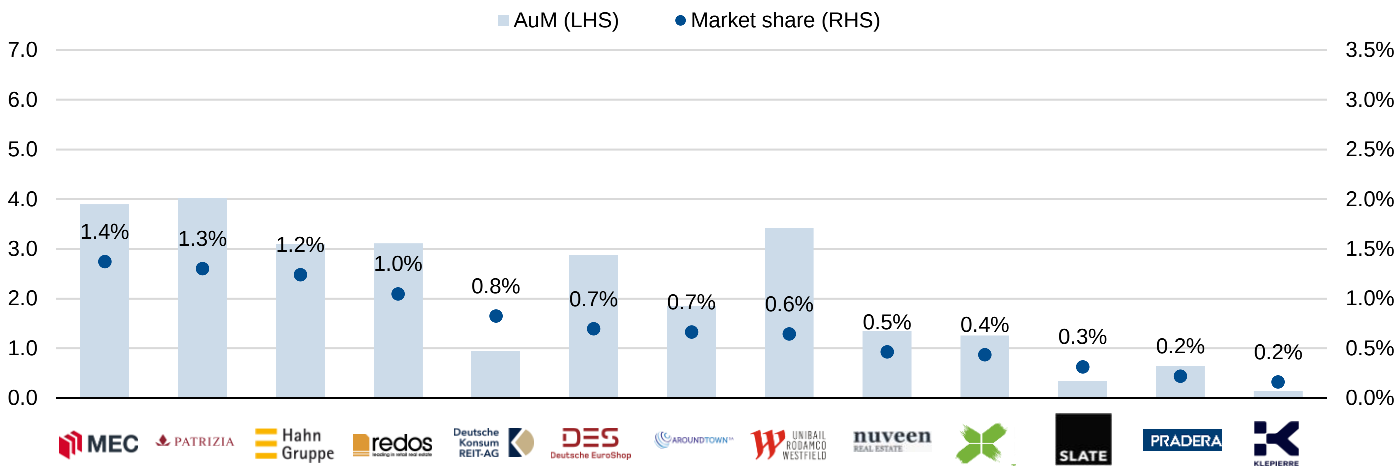
DKR's industry risk is modest, with an exposure to the highly cyclical real estate industry. Its main segments comprise the leasing, management and development of commercial real estate (CRE).

DKR's asset base has grown rapidly since its inception in 2014. However, it is still a small CRE company, as evidenced by Scope-adjusted total assets of EUR 1,136m at end-December 2022 (up 9% YoY) and Scope-adjusted funds from operations of EUR 38m for the 12 months to end-December 2022 (up 1% YoY). Nevertheless, the pace of expansion, with high double-digit growth rates in GLA, NRI and the number of properties since end-September 2017, is evidence of DKR's improving access and visibility on investment markets.

Improvements in size have also supported the company's access to capital markets, evidenced by increasing capital market debt exposure, which stood at EUR 219m (33% of debt as at end-December 2022). At the same time, the share of free-float equity has been almost stable since FY 2017/18. Thus, the company still depends heavily on its main shareholder, Obotritia Kapital KGaA, which provides 29% of equity and a EUR 25m revolving credit facility.

Further growth should support DKR's access to capital markets, enabling it to further diversify its funding sources in the next few years. Nonetheless, Obotritia will likely maintain its majority control over DKR, even if this entails some dilution in its stake. This limits growth to Obotritia's ability to benefit from access to capital or its willingness to allow its stake to be diluted in the medium term. DKR is expected to allow a higher share of capital recycling, enabled by a more mature portfolio, thus reducing the pace of expansion with an estimated EUR 200m in net expansion capex until FY 2024/25.

Figure 1: DKR and German competitors by AuM[3] (EUR bn) and estimated German market share[4]



Sources: public information, Scope

DKR's market share in German retail is negligible, estimated at 0.7% (up 0.1pp YoY) based on a GLA of 1,094,955 sq m as at end-December 2021. However, we observe that this market is rather fragmented, with the largest companies barely reaching a market share of over 1%. Hence, we focus on the relevant sub-segment of retail parks.

[3] AuM = assets under management
[4] Based on each company's share in German retail GLA as at end-December 2022

DKR is the largest German pure-play CRE company focused on retail parks, do-it-yourself markets and local retail centres, with a portfolio of 185 properties as at end-December 2022 (market share of 9%[5]). DKR is followed by real estate players x+bricks (more than 200 properties), FCR Immobilien AG (104 properties[6]) and Deutsche Fachmarkt AG (61 properties[7]). With its portfolio size, DKR is also a leader in its fragmented niche, with the largest competitors being fund managers redos real estate GmbH (109 properties) and HAHN-Immobilien-Beteiligungs AG (144) and institutional investors with assets managed by Jones Lang LaSalle or MEC (77).

Hence, we believe the company enjoys visibility among tenants, investors and vendors, evidenced by a deal pipeline of over EUR 3.5bn in 2022. All of these factors support the reletting of vacant space, property disposals and further portfolio growth.

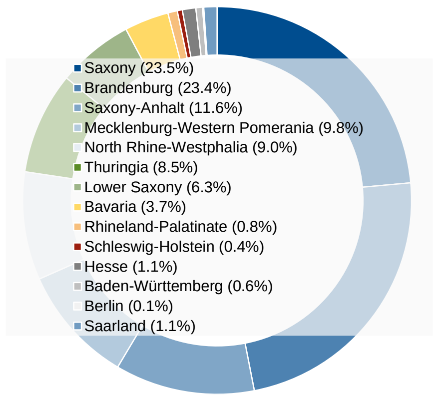
Moderate geographical diversification with property portfolio spread across Germany

DKR's retail portfolio is moderately diversified across Germany with a focus on the former East German federal states (72% of annualised rent as at end-December 2022). We believe DKR's geographical diversification can mitigate cyclical swings to a certain extent as these federal states follow slightly different demand patterns, influenced by different industry exposures[8].

As a result of the economic recovery of these states, the population stopped declining in 2011 and has since been almost stable. This development should enhance prospects for the majority of DKR's tenants, supporting the development of NRI and occupancy rates in the next few years.

Since October 2019, DKR has established a significant foothold in North Rhine-Westphalia (9% of annualised rent as at end-December 2022), Lower Saxony (6%) and Bavaria (4%). We believe the exposure to three out of four[9] of Germany's strongest regional economies should help to further stabilise rental cash flows.

Figure 2: Geographical diversification by NRI

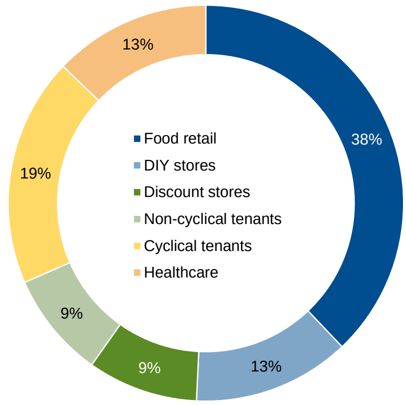


Sources: DKR, Scope

Figure 3: Property type by GLA (inner ribbon) and NRI (outer ribbon)

Sources: DKR, Scope

Figure 4: Pro-forma NRI by tenant industry



Sources: DKR, Scope

DKR's diversification by property types is modest. The dominant exposures are to retail parks (36% of pro-forma NRI as of December 2023), local retail centres (23%) and

5 393 retail parks in Germany with GLA of above 10,000 sq m (Bulwien Gesa 2015); DKR holds 34 properties, with GLA of above 10,000 sq m as at end-December 2022.
6 As at June 2021
7 As at September 2021
8 Saxony, automotive; Mecklenburg-Western Pomerania, food; Saxony-Anhalt, chemicals; Brandenburg, metal production and metal processing, plastics and chemicals; Thuringia, automotive/capital goods
9 North Rhine-Westphalia (21% of German GDP in 2020), Lower Saxony (9%), Bavaria (18%)

hypermarkets (20%[10]). These three property types are heavily linked to food retail, which also leads to weak tenant industry diversification (food retail: 41% of pro-forma NRI as of February 2022). Hypermarkets especially are facing declining consumer demand. Thus, we expect a long-term negative impact on DKR's cash flows due to the sub-segment's higher expected capex needs and declining revenues.

Weak tenant industry diversification

Weak tenant industry diversification is mitigated by the importance of food products to consumers, the recurring nature of purchases and the segment's macro resilience. DKR's large exposure to non-cyclical retail industries, at around 69% of NRI[11], is credit-supportive.

Concentrated tenant portfolio

DKR's portfolio and industry exposures are also reflected in weak tenant diversification, with the top three accounting for 35.4% (up 1.9pp YoY) and the top 10 accounting for 51.3% (down 3.3pp) of pro-forma NRI as of December 2022. This leaves the company vulnerable to a single tenant's default and/or restructuring driven by the transformation in the German retail industry. Weak tenant diversification is partially mitigated by the investment-grade character of the tenants. These represent 42% (up 7pp) of NRI, including the top three (Edeka Group, Schwarz Group and Rewe Group). The dominant exposure to the food segment also helps mitigate the weak tenant diversification.

The Covid-19 pandemic has shown DKR's portfolio to be quite resilient. Tenant bankruptcies have been limited as the pandemic had no impact on food retailers, and large retail chains (such as DIY retailers and discounters) have benefitted from financial headroom, financial support or insolvency moratoriums. In addition, small tenants, which were hit the hardest, contribute only a small fraction of DKR's rental income.

However, Germany's economy is again facing a potential drop in GDP this year (2022: 1.9%; 2023E: -0.2%). It is reassuring that DKR's exposure to providers of essential retail products and services somewhat protects its cash flow against slowing economic growth and/or tenant defaults.

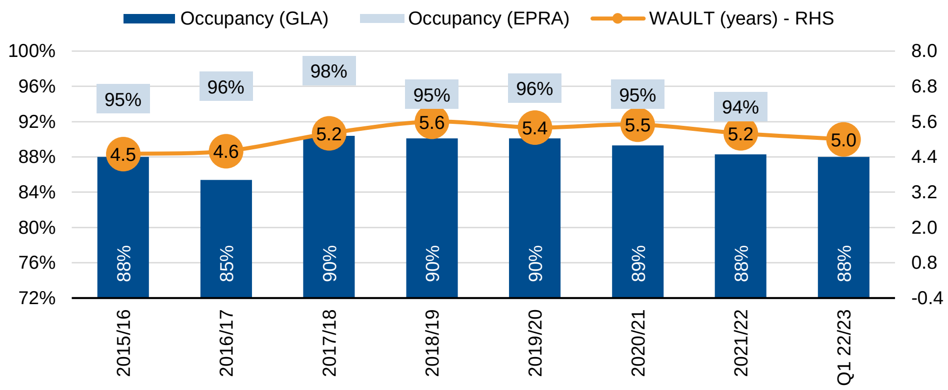
We grade the largest part of DKR's portfolio at 'D' (95% of GLA as at end-December 2022), but this is only valid for investors. Hence, the liquidity of these markets is weak. This is amplified by the low ticket sizes of the properties (around EUR 5.9m on average), which attracts fewer investors than those with a value of above EUR 20m (sixteen as at end-December 2022). The locations of DKR's portfolio appeal[12] to tenants, especially the retail parks and local retail centres, which benefit from limited competition due to strict rules for zoning and planning. This ensures existing food retail locations remain viable.

Occupancy expected to remain at around 90% due to acquisition strategy

DKR has benefited from a relatively stable occupancy rate of above 85% (based on GLA) since its inception in 2014. That figure improved to around 90%[13] at the end of June 2018 following the refurbishment of retail spaces and more stable (higher occupancy) portfolio additions. We expect no material reduction in vacancy rates given that DKR's acquisition strategy focuses on properties with significant vacancies. Occupancy will therefore remain at around 90% (currently at 88%). This is based on our expectation of vacancy reductions due to new leases from newly refurbished properties and new area concepts, offset by higher vacancies from acquisitions, unless DKR changes its growth policy. Nevertheless, we believe the current occupancy rate can ensure the future stability of rental income, supported by the improving WAULT, which stood at 5.0 years at end-December 2022.

[10] According to our definition, only 8% of GLA qualifies as hypermarket (retail agglomerations in excess of 5,000 sq m with the main tenant operating in food retail or wholesale and occupying more than 50% of GLA)
[11] Non-cyclical includes food retail, DIY, drugstores, bakeries and healthcare
[12] Location determined by population, purchasing power, retail centrality in property-related catchment area (drive time of 5-15 minutes)
[13] Economic occupancy (according to EPRA calculation) at 93.6% as at end-September 2022; the large gap between GLA-based and economic vacancy rates signals bad surface cuts with poorly accessible areas, likely driven by the portfolio's economic age, meaning increased capex is expected

Figure 5: Key performance indicators of DKR's portfolio



Sources: DKR, Scope

Profitability in line with peers, benefiting from economies of scale

Profitability is stable and high, with past Scope-adjusted EBITDA margins of close to 70%. These high levels are due to economies of scale, with small overheads justified by larger lot sizes compared to, for example, residential properties. The Scope-adjusted EBITDA margin declined somewhat to 61% in FY 2021/22, partially due to the two-year timing mismatch between acquisitions and disposals. However, profitability is unlikely to improve substantially going forward because the CPI-indexed increases in rents lag those in costs. We therefore expect profitability to stay between 60% and 65% for the next two years before returning to historical levels of above 65%. Nevertheless, we expect margins to remain stable with limited downside risk, reflecting DKR's cash flow resilience to the accelerated transformation of European retail.

Financial risk profile: BBB-

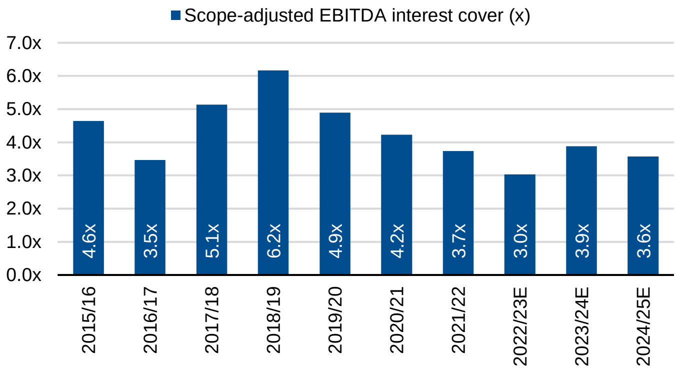
Debt protection expected to remain above 3x going forward

The company has benefited from high Scope-adjusted EBITDA interest cover of above 3x since the financial year ending 30 September 2016. The main drivers have been: i) low indebtedness, with Scope-adjusted debt of EUR 580m as at end-December 2022 (up 5% YoY); ii) a generally favourable interest rate environment through the ECB's quantitative easing, which started shortly after DKR began operations in late 2014, leading to a low weighted average cost of debt (2.3% as at end-December 2022; up 40 bp YoY); and iii) an acquisition strategy aimed at properties producing cash yields of around 10% from day one.

Given the higher interest rates during 2022, the average interest cost has been increasing, standing at 2.3% as of December 2022. Interest cover would also have deteriorated were it not for the 89% of fixed-rate debt, meaning almost only refinancing is exposed to increased rates. As such DKR resorts to secured lending. The changed interest rate regime has also applied a natural break to the company's growth strategy, with acquisitions likely to undershoot the company's guidance.

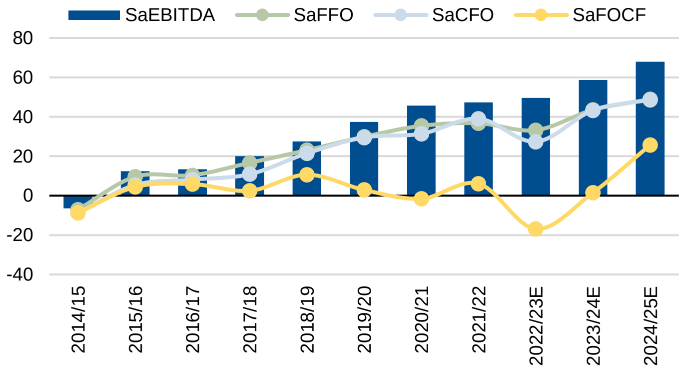
Scope-adjusted EBITDA interest cover will weaken towards 3x in 2022/23, with indebtedness to increase owing to the expansion of the asset base and more costly new/refinanced debt. This is predominantly supported by the company's intention to adhere to the regulation-driven cap on LTV at 55% and by the stable operating cash flow assured by the minimum exposure to income-producing real estate with moderate occupancy and industry-average WAULTs. Beyond 2022/23, we see a recovery to above 3.5x, based on EBITDA following debt with a lag and eventually compensating in part.

Figure 6: Interest cover



Sources: DKR, Scope estimates

Figure 7: Cash flows (EURm)



Sources: DKR, Scope estimates

Execution of aggressive growth strategy depends on availability of external financing

Since DKR's founding, its operating cash flows (including Scope-adjusted EBITDA and Scope-adjusted funds from operations) have increased in line with asset growth. Scope-adjusted free operating cash flow is expected to remain at break-even despite a likely increase in dividends and capital expenditure (DKR only executes the latter if its cash yield exceeds 7%).

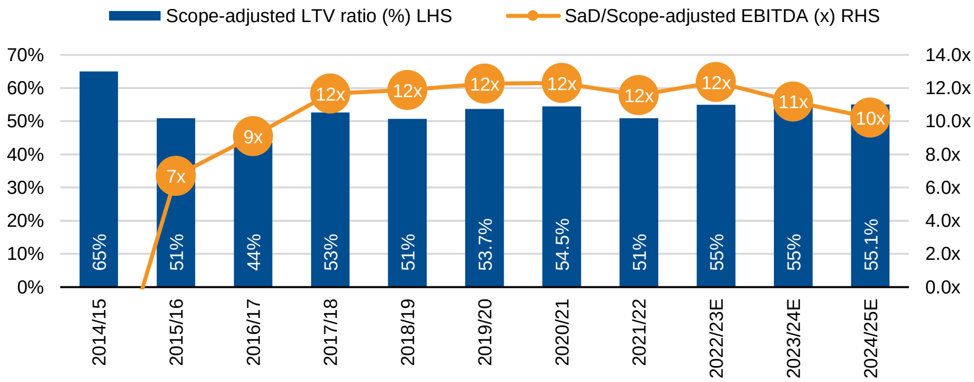
Inorganic growth, however, has led to acquisition capex being a burden on cash flow by EUR 62m-255m per year. This has been financed externally with EUR 223m in capital increases and EUR 634m in debt issuances (net) from the company's founding until end-December 2022. Given that the company aims to acquire more assets, we expect acquisition capex of around EUR 100m a year going forward. We note, however, that the company could cease acquisitions immediately if access to external financing were to weaken. We believe access to external financing will remain solid based on the low risk of DKR's property types and its expanded access to capital markets with the listing on the Johannesburg stock exchange. We understand that DKR's main shareholder is willing to dilute its holding to enable new parties to invest in DKR. The company has also taken advantage of the recent narrowing of capitalisation rates to dispose of mature assets, with the proceeds having been used to reinvest according to its investment criteria.

Note: G-REIT status allows the company to benefit from tax exemption at the cost of dividend payments that reflect 90% of its German GAAP results. Hence, dividends are not discretionary and are incorporated in DKR's free operating cash flow.

Scope-adjusted LTV ratio expected to remain below 55%; REIT status limits indebtedness

Leverage, as measured by the Scope-adjusted LTV ratio, decreased to 52% as at end-December 2022 (down 2pp YoY), in line with our expectations. In Europe, the pandemic accelerated the sector's transformation to e-commerce and omni-channel models. As a result, more shops will struggle to survive and defaults will rise. However, CRE companies with a high exposure to tenants selling essential goods will remain relatively resilient in terms of cash flow, rental growth expectations and, thus, property values.

Figure 8: Leverage



Sources: DKR, Scope estimates

In light of the rising interest rates and yield pressures, we anticipate a drop in DKR's property values for 2022/23 (and a small drop thereafter), with potential increases in Scope-adjusted LTV due to the company's expansion strategy, expected to be addressed by an increase in either equity or asset disposals.

As G-REIT regulations allow a maximum LTV of 55%, we expect no further deleveraging.

Leverage of around 12x supported by high rental yield of around 10%

The leverage ratio of Scope-adjusted debt/EBITDA has tended to fluctuate between 9x and 12x (12 months to end-December 2022: 11.5x). This reflects DKR's low indebtedness, with acquisitions financed with around 50% equity, and the acquired assets' high cash yields of around 10%. We believe leverage will remain at 12x but will be somewhat volatile, depending on the timing of acquisitions and the corresponding Scope-adjusted EBITDA contribution.

Adequate liquidity

Liquidity will continue to be burdened by a high share of short-term debt. Nonetheless, sources of liquidity (unrestricted cash of EUR 1m as of 30 September 2022 and Scope-adjusted free operating cash flow forecasted at EUR 19m) only partially cover short-term debt of EUR 91m as at end-September 2022.

Balance in EUR m	2021/22	2022/23E	2023/24E
Unrestricted cash (t-1)	0.7	4.8	1.1
Open committed credit lines (t-1)	25.0	25.0	25.0
Free operating cash flow	68.2	14.0	1.5
Short-term debt (t-1)	53.8	91.6	177.5
Coverage	**174%**	**48%**	**16%**

However, we believe liquidity risk is manageable for DKR in the short to medium term due to headroom provided by fully unencumbered investment properties (EUR 103m as at end-December 2022). In addition, DKR benefits from: i) a revolving, undrawn EUR 25m credit facility provided by its main shareholder; ii) EUR 6m of investments in loan facilities (callable at any time, with funds released within 14 days) as at end-December 2022; and iii) a EUR 82m portfolio of short-term loans to associates as at end-December 2022 that can be called at any time. The requirement to keep LTV under 55% to maintain G-REIT status supports access to external financing through the cycle.

Supplementary rating drivers: +/- 0 notches

DKR provides loans to its main shareholder under a credit line with a maximum amount of EUR 95m. The recent utilisation (EUR 82m lent to Obotritia as at end-December 2022) is due to a decline in transaction volumes for German CRE while competition for food retail properties intensified.

We see limited risk related to the current use of lending lines. This follows our understanding that DKR will acquire properties using funds lent to Obotritia as they can be withdrawn at any time. In addition, exposure to operations not related to real estate is limited. According to G-REIT regulations, at least 75% of revenues and total assets (IFRS) must relate to investment properties (DKR: 85% as at end-December 2022). However, we would see increased risk if a significant amount of cash continued to be extracted from this intercompany loan to shore up the credit position of Obotritia or other group companies.

DKR is in a dispute with Potsdam tax authorities regarding its REIT status (put in question by authorities) and is appealing the decision. Nevertheless, DKR has formed tax provisions of EUR 14m as of the last reporting date, with a balancing receivable from the tax office. We have been assured that no matter the outcome, DKR will continue to adhere to the G-REIT rules.

Long-term debt ratings

Senior unsecured debt rating: BBB-

Our recovery analysis for senior unsecured debt signals an ‘above-average’ recovery. This is based on a hypothetical default scenario in FY 2024/25 with a company liquidation value of EUR 712m, including a haircut applied to assets, reflecting a BBB category stress according to our methodology, and liquidation costs of 10% for insolvency proceedings. This compares to EUR 418m of secured financing (forecasted), a fully drawn unsecured credit line of EUR 25m, and EUR 37m in unsecured convertible bonds, EUR 140m in senior unsecured bonds and EUR 68m in Schuldschein loans. DKR’s Scope-adjusted unencumbered asset ratio amounts to 1.9x at end-December 2022, allowing for an uplift of the debt class rating to the BBB category according to our methodology.

Senior secured bond rating: BBB

DKR issued a EUR 40.0m bond in May 2018 with a six-year term (2018-24) and a coupon of 1.80% (ISIN: DE000A2G8WQ9). This bond benefits from a first-ranking mortgage on 13 properties valued at EUR 96.2m as at September 2022. The structure’s over-collateralisation is adequate, with an issue-specific LTV ratio of 42%. This positively influences recovery rates in a default scenario. According to our methodology and based on discounts on assets (as described above), we expect a ‘superior’ recovery in a default scenario, thus allowing for a two-notch uplift on the issuer rating of BB+.

Appendix: Peer comparison (as at last reporting date)

	Deutsche Konsum REIT-AG	Klépierre S.A.	Unibail-Rodamco-Westfield S.E.	NEPI Rockcastle Plc	Globe Trade Centre S.A.
	BB+/Stable	--/--*	--/--*	--/--*	BBB-/Stable
Last reporting date	31 Dec 2022	31 Dec 2022	31.12.2022	31 Dec 2022	30 Sep 2022
Business risk profile					
Scope-adjusted total assets (EUR m)	1,136	20,107	50,476	6,900	2,574
Portfolio yield	5.3%	5.4%	4.5%	6.8%	6.5%
GLA (thousand sq m) [14]	1,095	5,342	8,332	2,149	758
Number of residential units	n/a	n/a	na	na	na
Countries active in	1	12	12	9	6
Top three tenants (%)	35%	6%	na	12%	11%
Top 10 tenants (%)	51%	12%	na	25%	25%
Office (share NRI)	n/a	n/a	3%	1%	65%
Retail (share NRI)	100%	99%	91%	99%	35%
Residential (share NRI)	n/a	n/a	na	na	na
Hotel (share NRI)	n/a	n/a	na	na	na
Logistics (share NRI)	n/a	n/a	na	na	na
Others (share NRI)	n/a	1%	6%	0%	na
Property location	'B'	'A' to 'B'	'A' to 'B'	'B'	Mainly 'B'
EPRA occupancy rate (%)	93.6%	94.7%	93.5%	97.3%	89%
WAULT (years)	5.0	4.7	3.6	3.1	3.6
Tenant sales growth (%)	n/a	10.0%	127.0%	31.4%	na
Like-for-like growth rents (%)	3.5%	6.9%	27.4%	5.7%	na
Occupancy cost ratio (%)	n/a	12.6%	15.0%	12.1%	na
Scope-adjusted EBITDA margin	61%	73%	76%	89%	84%
EPRA cost ratio (incl. vacancy)	35.7%	19.9%	20.8%	11.7%	na
EPRA cost ratio (excl. vacancy)	31.6%	17.5%	17.4%	11.6%	na
Financial risk profile					
Scope-adjusted EBITDA/interest cover	3.7x	6.9x	3.7x	8.0x	3.2x
Scope-adjusted LTV ratio	52%	40%	49%	34%	46%
Scope-adjusted debt/EBITDA	12.3x	10.4x	10.2x	6.3x	10.7x
Weighted average cost of debt	2.3%	1.2%	2.0%	2.3%	2.2%
Unencumbered asset ratio	186%	> 200%[15]	200%	> 200%	> 200%

* Subscription ratings available on ScopeOne

Sources: Public information, Scope

[14] Unweighted GLA
[15] According to Scope calculations

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

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