Vonovia S.E.

Federal Republic of Germany, Real Estate

Issuer
A-

Outlook
Negative

Short-term debt
S-1

Senior unsecured debt
A-

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Related methodologies

General Corporate Rating Methodology, February 2025
European Real Estate Rating Methodology, June 2025

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Rating composition

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

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	3.9x	3.5x	3.0x	2.9x
Scope-adjusted loan/value	47%	48%	46%	45%
Scope-adjusted debt/EBITDA	17.1x	16.4x	15.7x	14.9x
Scope-adjusted free operating cash flow/debt	1%	2%	1%	0%
Liquidity	127%	153%	96%	111%

Rating sensitivities

The upside scenario for the ratings and Outlook:

- Loan/value ratio returning below 45%

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

- Loan/value ratio of persistently at or above 45%
- Proportion of non-domestic net rental income failing to exceed 15% in the medium term, likely driven by limited success in divesting German assets

**All credit metrics refer to Scope-adjusted figures.*

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Exposed to low-risk, regulated residential real estate industry, which decouples rental growth from GDP development • Tier 1 real estate corporate (largest residential landlord in Europe), with around 535,000 apartments in Germany, Austria and Sweden • Well-diversified portfolio spread across German, Austrian and Swedish metropolitan areas with positive demographic trends; 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 • Adequate debt protection with EBITDA interest cover of more than 3x, backed by organic EBITDA growth • Excellent access to external financing, benefiting from highly diversified debt structure and financial headroom with unencumbered asset ratio of 159% at end-March 2025	• Exposed to regulatory risk due to predominant focus on Germany (88% of net rental income as of year-end 2024) • Elevated leverage for the rating as of year-end 2024 (loan/value ratio of 48% and debt/EBITDA of 16.4x) although expected to decrease in the next 12-18 months • Material increase in average funding cost due to interest rate environment; ongoing EBITDA growth and deleveraging efforts partially mitigate this impact but interest cover to moderate • High execution risk on targeted expansion of annual investment to EUR 2bn by 2028, particularly in terms of anticipated efficiencies in construction costs or the realisation of supportive regulatory measures

2. Rating Outlook

The **Negative Outlook** reflects Vonovia's persistently high leverage and the ongoing risk that the loan/value ratio will remain above 45%, despite continued asset disposal efforts, improved market conditions and deleveraging measures. The Outlook also underscores the limited headroom for deviations from our base case assumptions, which anticipate deleveraging, annual like-for-like rental growth of 3.0%-3.5% between 2025 and 2027 and a gradual increase in capital expenditure. In addition, the Outlook incorporates a weakening interest coverage ratio, signalling increased pressure on Vonovia's debt-servicing capacity.

3. Corporate profile

Vonovia S.E. is Germany's largest residential real estate company. It owns and manages residential properties primarily in Germany, Austria and Sweden, with a focus on providing affordable housing and sustainable living solutions. As of March 2025, Vonovia managed a portfolio of 534,566 owned apartments with a reported fair value of EUR 78.5bn.

Germany's largest residential real estate company

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
19 Jun 2025	Affirmation	A-/Negative
2 Jul 2024	Affirmation	A-/Negative
29 Jun 2023	Outlook change	A-/Negative

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	5.1x	3.9x	3.5x	3.0x	2.9x	2.8x
Scope-adjusted loan/value	45%	47%	48%	46%	45%	46%
Debt/EBITDA	17.7x	17.1x	16.4x	15.7x	14.9x	14.5x
Funds from operations/debt	4%	4%	4%	4%	4%	4%
Free operating cash flow/debt	0%	1%	2%	1%	0%	-1%
Liquidity	62%	127%	153%	96%	111%	98%
EBITDA						
Reported EBITDA	2,479	2,396	2,380	2,540	2,644	2,768
Other items (incl. one-offs)	57	88	167	0	0	0
EBITDA	2,536	2,484	2,547	2,540	2,644	2,768
Funds from operations (FFO)						
EBITDA	2,536	2,484	2,547	2,540	2,644	2,768
less: interest	-502	-639	-725	-835	-897	-979
less: cash tax paid	-188	-154	-251	-204	-208	-213
Other non-operating charges before FFO	-	-	-	-	-	-
Funds from operations	1,846	1,690	1,570	1,501	1,538	1,575
Free operating cash flow (FOCF)						
Funds from operations	1,846	1,690	1,570	1,501	1,538	1,575
Change in working capital	-107	-340	332	8	3	-8
Non-operating cash flow	-635	57	-73	-	-	-
less: capital expenditures (net)	-1,235	-757	-7545	-1,203	-1,503	-1,803
less: lease amortisation	-27	-37	-43	-	-	-
Other items					-	-
Free operating cash flow	**-157**	**613**	**1,031**	**306**	**38**	**-236**
Interest						
Net cash interest per cash flow statement	508	651	693	803	865	946
add: other items	-6.5	-11	33	33	33	33
Interest	**502**	**639**	**726**	**835**	**897**	**979**
Debt						
Reported financial (senior) debt	45,742	43,570	43,327	41,124	41,464	41,464
less: cash and cash equivalents	-1,302	-1,374	-1,757	-1,519	-2,230	-1,584
add: non-accessible cash	104	416	65	65	65	65
add: pension adjustment	324	307	312	312	312	312
add: other debt-like items	57	-452	-195	-195	-195	-195
Debt	**44,925**	**42,466**	**41,752**	**39,787**	**39,415**	**40,062**

6. Environmental, social and governance (ESG) profile[1]

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

Carbon-neutral housing stock by 2045

Vonovia remains committed to tackling climate challenges and securing the long-term sustainability of its business. The company seeks to achieve a nearly climate-neutral housing stock by 2045 and has tightened climate protection goals, now aiming to reduce absolute Scope 1 and 2 greenhouse gas emissions by 42% and Scope 3 emissions by 25% by 2030 compared to 2021.

In 2024, Vonovia invested EUR 1.6bn in modernisation, maintenance and new construction, with a strong focus on serial prefabrication, expanding photovoltaics and deploying heat pumps. These measures reduced the carbon intensity of its German portfolio by 1.6%, reaching 31.2kg CO_2e/m^2 (2023: 33kg CO_2e/m^2), with the goal of falling below 25kg CO_2e/m^2 by 2030.

[1] 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: A

Vonovia's business risk profile remains strong, underpinned by the company's unchanged status as Europe's largest residential landlord and its well-diversified portfolio across regulated European markets, primarily Germany, which ensures recurring rental cash flows and robust market access.

Industry risk profile: A

Vonovia is a leading housing company, with a buy-and-hold strategy focusing on the long-term management and leasing of residential properties. In 2024, approximately 91% of its adjusted EBITDA was generated from leasing out flats and community service properties, reflecting the company's continued emphasis on stable, recurring rental income (industry risk of A).

Vonovia also remains active in real estate development (home building rated BB) via its integrated development platform, BUWOG AG. Development activities continue to be associated with high cyclicality and various external factors that can lead to volatile cash flows. However, the company typically transfers development risk to counterparties, such as medium-to-large contractors like Porr and Strabag. In 2024, its development segment contributed less than 1% to adjusted EBITDA, but Vonovia expects development activities to grow moderately in the coming years while still representing a small share of total EBITDA.

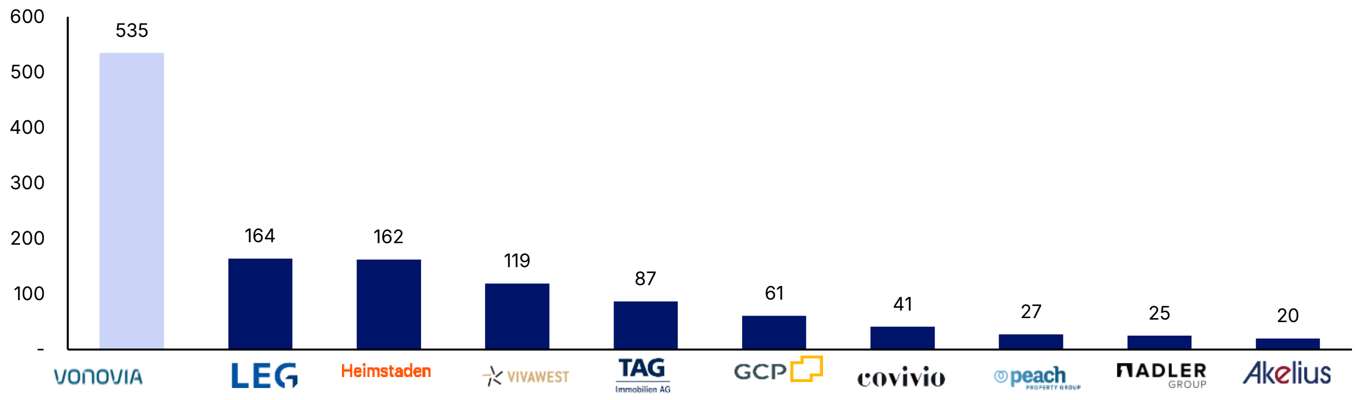
The company has largely exited the healthcare services sector: in early 2025, Vonovia completed the sale of its nursing care businesses and properties. Only minor activities remain to be finalised during the year.

Tier 1 real estate corporate: largest residential landlord in Europe

Vonovia remains Europe's largest residential landlord, managing a portfolio of 534,566 residential units as of 31 March 2025, though this represents a 1.6% decrease year on year due to ongoing disposals. Total assets stood at EUR 88bn at year-end 2024, down 1.9% from the previous year. The company continues to pursue a disciplined disposal strategy focused on portfolio optimisation and deleveraging. In 2024, the company sold close to EUR 4bn of assets, including significant transactions involving development properties and nursing homes. Vonovia's absolute size and cash generation capacity keep it ahead of peers, affording excellent access to capital markets as evidenced by its ability to issue bonds, even in times of stress.

We expect the company to remain a major stakeholder in the residential real estate markets of Germany (86% of net rental income as of December 2024), Sweden (11%) and Austria (3%).

Figure 1: Vonovia and competitors by number of residential units as of latest available information[2]



Sources: Vonovia, public information, Scope

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

Vonovia has a well-diversified investment portfolio, predominantly focused on German, Austrian and Swedish metropolitan areas and medium-sized cities. As of 31 December 2024, the top 10 regions accounted for 81% of total assets, with Berlin representing the largest share at 25%,

[2] As of March 2025: Vonovia S.E.; as of YE 2024: Vonovia S.E., TAG Immobilien AG, LEG Immobilien S.E., Grand City Properties S.A., Kojamo Oyi; as of September 2023: Adler Group S.A.; as of end-June 2024: Peach Property Group; as of YE 2023: Vivawest GmbH.

followed by the Rhine Main area (8%), the southern Ruhr area (7%), Rhineland (7%), and Dresden (6%). Portfolio concentration remains negligible as these major German metropolitan areas comprise multiple large cities, helping to mitigate cluster risk.

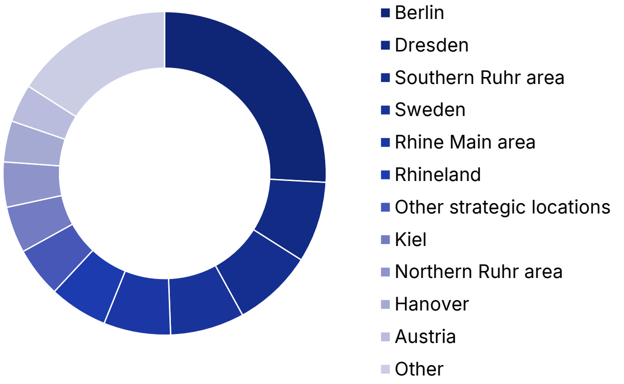
Downside risk due to dependence on German regulatory framework

The addition of Deutsche Wohnen SE's portfolio significantly increased Vonovia's exposure to Berlin and the city's regulatory framework (about 25% of net rental income as of 2024). This cluster risk remains despite the disposal of around 15,000 residential units to the City of Berlin.

Vonovia expanded its geographical outreach following the acquisitions of Austria's Conwert Immobilien Invest SE (2017) and BUWOG AG (2018), Sweden's Viktoria Park AB (2018) and Hembla AB (2019), shareholdings in Dutch residential fund Vesteda (2020). These strategic moves underpin Vonovia's medium- to long-term ambition of becoming a European leader while mitigating the concentration risk associated with the German regulatory environment. The company's international diversification helps decouple cash flow predictability and stability from regulatory changes in any single country, as regulatory risks in other European markets are not expected to move in tandem with those in Germany.

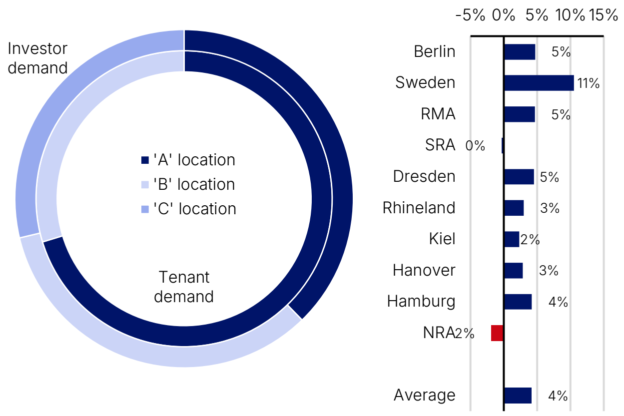
The share of non-domestic exposures represented around 11% of residential units and 14% of net rental income at year-end 2024, a level largely unchanged from the previous year.

Figure 2: Geographical diversification by units as of March-end 2025



Sources: Vonovia, Scope

Figure 3: Categorisation of location by investor (outer circle), tenant demand (inner circle) and pop. growth 2020-2030[3]



Sources: Vonovia, Worldbank, Statistik Nord, IT.NRW, Scope and others

Highly diversified tenant portfolio with average credit quality

Vonovia's tenant diversification is very high thanks to its absolute size and residential focus. This limits the cash flow impact of a single tenant's default or a delayed rental payment – illustrated by debt impairments representing around 1% of gross rental income in recent years. Tenant credit quality is good to moderate, similar to the weighted average credit quality of German households (Vonovia's target customer).

Property locations with positive demographic trends and liquidity

Furthermore, the property portfolio is 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 at least remain stable until 2030, with an increasing share of regions to benefit from a forecasted population increase of at least 2.5%; and ii) around half of flats being located in 'A' locations, among them Berlin, Stockholm and Hamburg, which also influences investor and tenant demand. We expect 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. These strengths limit potential haircuts on current property values.

[3] SRA = Southern Ruhr area; RMA = Rhine Main area; NRA = Northern Ruhr area

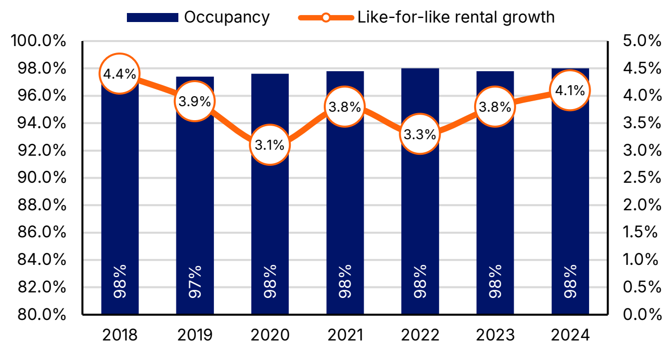
Capex to increase in line with growth aims

Portfolio property conditions have continued to improve, with Vonovia significantly increasing capex for maintenance, modernisation and new developments. In 2024, total investment in maintenance reached approximately EUR 0.8bn, with another EUR 0.8bn invested in modernisation and new construction, in line with the previous year's levels. The 2023 and 2024 investment volumes were substantially below those in prior years due to revised capital allocation in response to higher capital costs and deleveraging needs. In 2025, Vonovia plans to increase investment further, targeting EUR 1.2bn and marking a return to growth after two years of balance sheet stabilisation. The company aims to double annual investment to up to EUR 2bn by 2028, focused on efficiency improvements that enhance long-term asset quality and cash flow predictability (ESG factor).

Stable portfolio key performance indicators

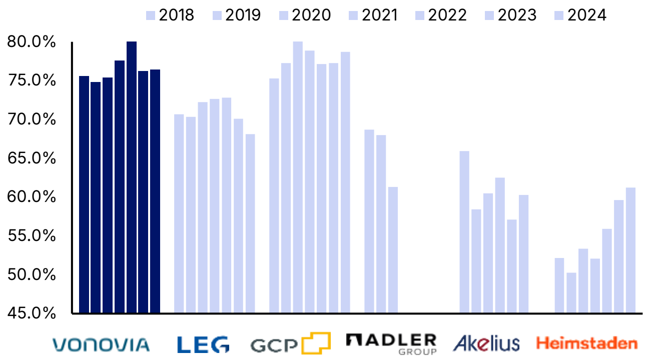
The portfolio's key performance indicators have remained stable. As of end-March 2025 occupancy stood at 97.9% with a sticky tenant portfolio (average lease length of 13 years) and increasing rental income (4.3% like-for-like rental growth for the 12 months ending March 2025). Like-for-like rental growth for the 12 months ending December 2024 was 4.1%. We see some risk for the German portfolio's performance as the supply-demand imbalance in urban areas remains a key political issue. However, we believe Vonovia mitigates this risk well, as it considers the needs of all stakeholders[4].

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



Source: Vonovia, Scope

Figure 5: Scope-adjusted EBITDA margin vs peers



Source: Vonovia, public information, Scope

Stable profitability going forward

Vonovia's business fundamentals remain solid, with stable like-for-like rental growth supporting operating cash generation despite recent investment cuts. The company expects organic rental growth to remain positive, in the 3%–4% range per annum through to 2026. The persistent supply-demand imbalance in Germany's urban residential markets, exacerbated by fewer new flats being delivered and high demand from would-be homebuyers facing higher interest rates, continues to underpin rental growth and supports Vonovia's positive outlook. Profitability is anticipated to remain stable, with EBITDA margins expected to stay close to 75% over the medium term. Rental growth is a key mitigating factor, helping to offset inflationary cost pressures, the margin-diluting effect of a strategic shift towards development for sale, and a decline from value-added services.

[4] Tenants can 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 the Berlin rent freeze period.

8. Financial risk profile: BBB-

LTV to reduce to 45% in the medium term

The financial risk profile reflects the continued deleveraging following the successful execution of Vonovia's asset disposal strategy, with property values having stabilised in Q4 2024 and expected to improve in 2025. Although the loan/value (LTV) ratio remained high in 2024 at 48%, we expect the ratio to reduce to 45% in the medium term.

Increase investments to support growth, after two years of capital discipline

Following years of aggressive, acquisition-driven expansion – including the takeovers of Conwert, BUWOG, Hembla and Deutsche Wohnen – Vonovia shifted in 2023 to a more conservative financial policy, emphasising internal funding and capital discipline. This shift, combined with a substantial reduction in capital expenditure, stabilised cash flows and limited the need for incremental debt issuance. Free operating cash flow (FOCF) strengthened, reaching close to EUR 1bn in 2024 (up from EUR 613m in 2023). With market conditions stabilising and asset valuations expected to increase, Vonovia plans to gradually ramp up investments in modernisation, energy efficiency and portfolio optimisation, targeting investment of around EUR 2bn yearly by 2028.

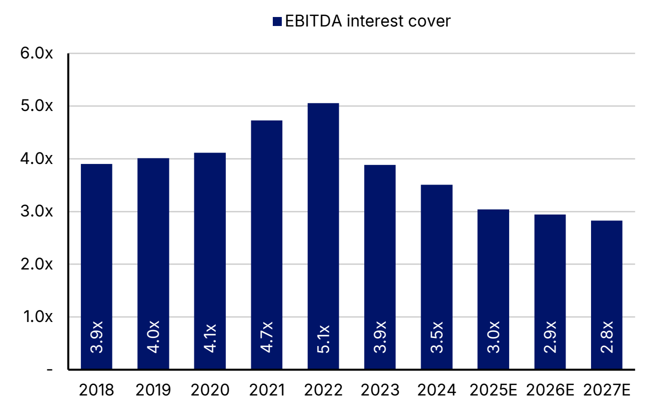
Around 60% of Vonovia's capital expenditure is discretionary, providing significant flexibility to swiftly curtail building activities if access to external financing were to deteriorate, or if shifts in the cost of capital or regulatory environment were to impact project profitability.

Vonovia continued to execute its disposal strategy, with a focus on non-core assets and portfolio sales, including transactions with municipalities and the healthcare division. In 2024, the company completed EUR 3.8bn in disposals, following EUR 4bn in 2023. As of May 2025, Vonovia has already signed EUR 1.6bn in additional disposals. This ongoing capital recycling supports deleveraging and provides further headroom for organic growth.

Strong and resilient debt protection metrics

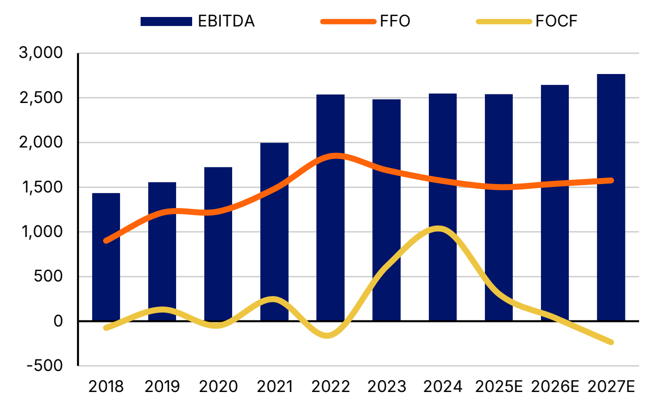
The company's debt protection metrics remains strong, with an EBITDA interest cover of 3.5x in 2024, though this represents a moderation from historical levels and is projected to decline further to around 3.0x. Amid the challenging interest rate environment that has materially increased funding costs, Vonovia's strong operational performance and prudent capital allocation provide substantial mitigation. The company benefits from a highly hedged debt portfolio with 98% of debt fixed or hedged as of Q1 2025 and a long average debt maturity of 6.1 years, which limits near-term refinancing risk. Management's clear commitment to maintaining an interest coverage ratio of above 3.5x – reported at 3.7x as of March 2025 – supports the assessment, particularly given recent strategic transactions such as the landmark EUR 1.3bn convertible bond issuance that demonstrates continued access to low-cost capital markets, even during periods of sector stress.

Figure 6: EBITDA interest cover (x)



Source: Vonovia Scope estimates

Figure 7: Cash flows (EUR m)



Source: Vonovia, Scope estimates

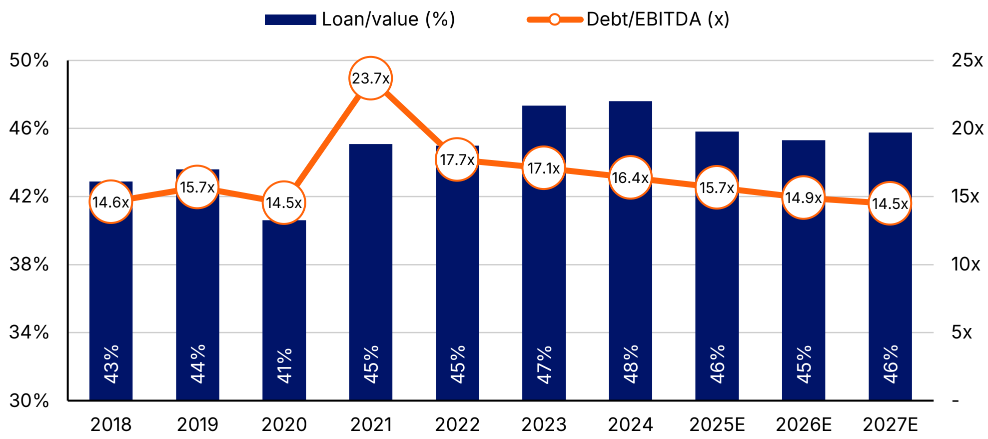
LTV expected to improve after significant market value declines in previous years

The significant market value declines seen in 2023 – when Vonovia's portfolio value fell by close to 13% – have now stabilised, with property values bottoming out in Q4 2024 and early signs of recovery in 2025. The proactive capital allocation strategy and largely completed disposal programme have supported this positive trend. Looking ahead, we expect the LTV to stabilise to around 45% over the next 12–18 months, driven by continued organic value growth from rental increases, stable market yields and ongoing capital discipline. The risk of further significant market value declines has diminished considerably, given the stabilisation in Q4 2024 and strong investor appetite evidenced by increased transaction volumes in early 2025.

Leverage peaked in 2021, with a steady reduction to around 15x expected in the next few years

Residential real estate cash flows tend to be resilient to changes in general demand. Therefore, our financial risk assessment puts less emphasis on leverage as measured by debt/EBITDA. Nonetheless, leverage improved to 16.4x in 2024 and is projected to decline further towards the 14x–15x range over the medium term, underpinned by organic EBITDA growth and debt reduction. The company's resilient operating cash flows, robust liquidity profile, and prudent capital management underpin its investment grade rating and position it well for a return to growth as market conditions improve.

Figure 8: Leverage



Sources: Vonovia, Scope estimates

Adequate liquidity

Vonovia's liquidity remains adequate, with the agency expecting that available sources, including EUR 2.2bn in cash, EUR 3.0bn in undrawn committed credit lines (both as of end-March 2025), and forecasted FOCF of EUR 0.3bn, will cover liquidity uses by approximately 96% for FY 2025. While the coverage ratio has declined from the previous year due to increased capital expenditure, we note that a significant portion of these investments is discretionary and can be curtailed if necessary. We continue to view positively Vonovia's proactive approach to refinancing, with the company targeting coverage of refinancing needs 12–18 months in advance amid a more challenging market environment.

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

	2025E	2026E	2027E
Unrestricted cash (t-1)	1,691	1,453	2,165
Open committed credit lines (t-1)	3,000	3,000	3,000
FOCF (t)	306	38	-236
Short-term debt (t-1)	5,203	4,060	5,015
Liquidity	**96%**	**111%**	**98%**

Source: Vonovia, Scope estimates

Generally, liquidity risk is manageable in the short-to-medium term, with headroom provided by a high share of unencumbered assets in combination with Vonovia's financial policy and the excellent access to capital markets and good relationships with diverse banks. Moreover, the execution of approximately EUR 8bn of disposals over 2023-2024 demonstrates Vonovia's continued ability to access transaction markets and generate liquidity at or above book values. The company has proven its capacity to sell properties at close to market value, even in volatile conditions, supporting debt service capabilities and providing flexibility for refinancing.

Vonovia's unencumbered asset position was 159% at end-2024, which grants it access to secured loans from traditional banks. This comfortable asset position is due to the company's policy of keeping unencumbered assets above 125% and LTV below 45%. This policy provides comfort that traditional bank lenders will step in given that secured financing is eligible for covered bond refinancing. The LTV ratio as defined by Vonovia stood at 45%[5] at end-March 2025.

9. Supplementary rating drivers: +/- 0 notches

Vonovia's financial policy focuses on securing access to external financing and includes the below financial policy targets:

Table 2: Financial policy targets

	Policy	Q1 2025[6]
Loan/value ratio	40%-45%	45%[5]
Unencumbered asset ratio	> 125%	159%
Interest coverage ratio	≥ 3.5x	3.7x

Source: Vonovia

Based on the communicated financial policy and our view that the issuer is committed to adhering to it and we expect the company's financial risk profile to remain investment grade, reducing the downside volatility of the rating.

10. Debt ratings

Senior unsecured debt rating: A-

The senior unsecured debt rating has been affirmed at A-, at the same level as the issuer rating. As at end-May 2025, Vonovia had partially utilised a EUR 40bn EMTN programme with issuances by Vonovia SE. Its senior unsecured debt continues to benefit from an unencumbered asset ratio of 159% (as disclosed by the issuer), which provides a pool of collateral to debt holders.

Short-term debt rating: S-1

The short-term debt rating has been affirmed at S-1, based on the underlying A-/Negative issuer rating and supported by the better-than-adequate internally and externally provided liquidity cover, good banking relationships, strong access to diverse funding sources and access to undrawn, committed credit lines, which we believe allow the company to address short-term refinancing needs. Vonovia had a non-utilised EUR 3bn commercial paper programme as at end-March 2025.

[5] Pro forma

[6] As disclosed by the issuer.

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