

**RATING ACTION COMMENTARY**

# Fitch Downgrades Peach Property's Unsecured Debt to 'BB'; Affirms IDR at 'BB'

Mon 10 Oct, 2022 - 12:46 PM ET

Fitch Ratings - Stockholm - 10 Oct 2022: Fitch Ratings has downgraded Peach Property Group AG's (Peach) senior unsecured debt rating to 'BB'/RR4 from 'BB+', while affirming its Long-Term Issuer Default Rating (IDR) at 'BB' with a Stable Outlook. A full list of rating actions is below.

The downgrade of the senior unsecured debt aligns it with Peach's IDR, reflecting additional investment properties being pledged as collateral for newly signed secured financings in July and August 2022. This leaves a smaller pool of unencumbered assets (CHF0.5 billion) for its unsecured creditors. Fitch therefore no longer expects above-average recoveries in line with its Criteria for the EMEA Real Estate Sector Uplift. Fitch estimates the unencumbered asset cover at around 1x (1H21: 1.5x) pro-forma for the new financings.

The affirmation of the IDR reflects the stability of Peach's rental income stemming from its CHF2.6 billion German regional residential-for-rent portfolio, the benefits of its now larger scale and diversification, and reduced refinancing risk for its upcoming 2023 bond maturity. Fitch forecasts Peach's net debt/EBITDA to reduce to 20x in 2023 and to 19x in 2024 as its Swiss development project completes, and its interest cover to improve to 1.9x at end-2024 from 1.5x at end-2022.

**KEY RATING DRIVERS**

**Reduced Refinancing Risk:** Management has actively managed Peach's upcoming February 2023 bond maturity via bond buybacks (in total around EUR70 million), which has reduced outstanding debt amount to EUR181 million. In August, Peach signed a new EUR100 million secured bank loan and in April a EUR100 million unsecured revolving credit facility (RCF), with four- and five-year maturities, respectively, including extension options. Together with CHF42 million cash on balance sheet (less approx. EUR20 million in bond buybacks in July 2022) at end-1H22, these facilities cover Peach's February 2023 bond maturity.

**Unencumbered Asset Cover Declines:** The additional secured debt has reduced refinancing risk in this period of more expensive bond-market funding, but also led to more investment properties being pledged as collateral for the group's secured debt. This has reduced the pool of unencumbered investment properties available for its unsecured creditors. Fitch estimates that unencumbered investment property/unsecured debt has declined to around 1x pro forma for the refinancing completed in August 2022.

**Sector Uplift Removed:** Fitch no longer applies the EMEA Real Estate Sector Uplift for to Peach, with the alignment of Peach's senior unsecured debt rating to its IDR, reflecting average, rather than above-average, recovery expectations for senior unsecured debt. Fitch expects at least a 1.5x unencumbered asset cover to apply the sector uplift for property companies in the 'BB' rating category. Peach still fulfils the other criteria (liquid property markets, regular valuations etc.) for the sector uplift.

**Portfolio Scale Achieved:** Peach's CHF2.6 billion German residential-for-rent property portfolio has achieved scale and benefits from diversification through its 27,400 units spread across good locations in German B-cities. Peach's rental income is supported by affordable regulated German rents, which have been stable over time. German below-market rents provide reversionary potential and Peach estimates that its in-place rents were on average 18% below market at end-1H22.

**High Vacancy Rates:** Vacancies suggest opportunities for landlords to re-set an apartment's rent closer to market rent, particularly if it has been renovated. Peach's European Public Real Estate Association (EPRA) vacancy rate at 8.5% at end-1H22 was higher than the 2%-4% industry norms for residential. Peach's strategy includes acquiring portfolios with pockets of vacancies and gradually reducing their high vacancies after renovating the buildings. This higher vacancy represents potential rental uplift after capex. Until then, Peach incurs the cost of acquisition and vacancies. During 2022, Peach has continued with its renovation programme and reduced its EPRA vacancy to 8.5% at end-1H22 (end-1H21: 9.1%).

**Healthy Rental Growth:** Peach achieved healthy like-for-like rental growth of 3.8% in 2021 and 3.4% in 1H22, by the unwinding of some of its reversionary potential, higher market rents and vacancy reduction. Historically, German residential rents have followed the consumer price index, which should support rental growth in the new inflationary environment. Peach's utility costs are mostly passed on to tenants via service charges. Peach benefits from gas price hedging until 2024 for a large part of its tenants to reduce the cost increase for its tenants, and has increased the monthly pre-payments it charges for the remaining tenants to flatten increase. Government subsidies to households to cover utility bills are expected to reduce pressure on tenants further.

**North-Rhine-Westphalia-Focused Portfolio:** Peach's off-market acquired portfolios have core metrics broadly comparable with German peers', but with pockets of high vacancies. The completed acquisitions were selected to complement Peach's existing footprint (including 2021's Eagle portfolio). Its Peach Point network of customer service centres and digital platform leads to better communication with local tenants and cost savings, compared with peers covering a Germany-wide portfolio. Peach's small market share does not work against it, as no participants command a regional market share that can influence evidence for local rent setting.

**Improving Cash Flow Leverage:** Fitch forecasts Peach's financial profile will improve, with net debt/EBITDA falling to 20x in 2023, and improving to 19x in 2024 and 18x in 2025. The improvement will be driven by rental growth from its renovations and leasing activity, and from indexation and the gradual completion and disposal of its Swiss development property. We forecast interest cover to improve to 1.7x in 2023 and to 1.9x in 2024, driven by higher profitability despite rising interest rates.

## DERIVATION SUMMARY

Fitch compares Peach with German residential peers, and Fitch-rated residential peers D.V.I. Deutsche Vermögens- und Immobilienverwaltungs GmbH (BBB-/Stable), Heimstaden Bostad AB (BBB/Negative), Akelius Residential Property AB (BBB/Stable) and Grainger Plc (BBB-/Stable).

Peach's portfolio is broadly comparable with larger German peers', as measured by market value per square metre (sq m), in-place-rent per sq m, gross yield for the location and quality. Peach's portfolio focuses more on B-cities, and has markedly higher vacancy rates (1H22: 8.5% on an EPRA basis), which stems from some portfolios being acquired with properties awaiting renovation and re-letting. Over time, this provides an opportunity for increased rents. The vacancy is similar to Akelius's higher, renovation-driven, vacancy rate, which we expect to improve as its renovation projects are completed.

Peach's forecast end-2023 net debt/EBITDA of around 20x is high, consistent with its historical high loans-to-values, although lower than 22x-23x for Akelius (not including its large disposal), Heimstaden Bostad and Grainger. These three peers' portfolios have lower average income-yielding assets, reflecting their location in more attractive prime cities. Relative to office and retail property company metrics, residential net debt/EBITDA will be higher because of the asset class's tighter income yield and lower risk profile. Given the current and prospective conducive supply and demand dynamics, German residential has a more stable income profile.

Peach's overall secondary quality of the portfolio (given vacancies, and average rents), exposure to secured funding, and current high leverage frame its IDR within the 'BB' rating category. Fitch expects this profile to improve as the company acquires similar portfolios and accesses additional unsecured debt, and improves its portfolio quality by completing renovations.

## KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- For net debt/EBITDA calculation in forecast years, Fitch has annualised rents of signed and planned acquisitions, disposals and developments rather than include part-year contributions
- Moderate 2%-4% like-for-like rental growth driven by annual uplifts, indexation and re-letting upon tenants vacating apartments, in addition to vacancy reduction due to renovation activity
- A total of around CHF140 million of renovation and development capex during 2022-2025
- Completion and disposal of relevant parts of Peach's Swiss ongoing development projects
- Rising interest costs on euro-denominated debt due to policy-rate changes and higher cost of debt generally

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Net debt/EBITDA below 17x

- EBITDA net interest coverage above 1.75x
- Vacancies below 7%
- Liquidity score above 1.0x, and maturities refinanced well in advance and supported by undrawn committed credit facilities
- For the senior unsecured debt rating: the unencumbered assets/unsecured debt improving to above 1.5x and a commitment to a lower proportion of secured debt

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Net debt/EBITDA above 19x
- EBITDA net interest coverage below 1.5x
- Costs for holding vacancies increasing to 5% of rent roll

### BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

### LIQUIDITY AND DEBT STRUCTURE

**Sufficient Liquidity:** At end-1H22, Peach had CHF42 million (about EUR42 million) of readily available cash. In July 2022, Peach reduced the upcoming 2023 bond to EUR181 million via another EUR20 million bond buybacks, signed a EUR100 million new secured loan in August and a EUR100 million unsecured RCF in April. Together these facilities and the remaining cash (after bond buybacks) cover the EUR181 million bond maturing in February 2023. The bond is the only debt maturity in the next 12 months besides its secured debt amortisation.

### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

### RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			RECOVERY ↕	PRIOR ↕
Peach Property Group AG	LT IDR	BB Rating	Outlook Stable	Affirmed	BB Rating Outlook Stable
senior unsecured	LT	BB	Downgrade	RR4	BB+
Peach Property Finance GmbH					
senior unsecured	LT	BB	Downgrade	RR4	BB+

[VIEW ADDITIONAL RATING DETAILS](#)

**FITCH RATINGS ANALYSTS****Fredric Liljestrand**

Senior Director

Primary Rating Analyst

+46 85051 7809

fredric.liljestrand@fitchratings.com

Fitch Ratings Ireland Nordic Region Filial

Kungsgatan 8 Stockholm 111 43

**John Hatton**

Managing Director

Secondary Rating Analyst

+44 20 3530 1061

john.hatton@fitchratings.com

**Bram Cartmell**

Senior Director

Committee Chairperson

+44 20 3530 1874

bram.cartmell@fitchratings.com

**MEDIA CONTACTS****Tahmina Pinnington-Mannan**

London

+44 20 3530 1128

tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\) \(including rating assumption sensitivity\)](#)[Corporate Rating Criteria \(pub. 15 Oct 2021\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring &amp; Forecasting Model (COMFORT Model), v8.0.3 (1)

**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Peach Property Finance GmbH

EU Issued, UK Endorsed

Peach Property Group AG

EU Issued, UK Endorsed

**DISCLAIMER & DISCLOSURES**

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by

Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

[Real Estate and Homebuilding](#) [Corporate Finance](#) [Europe](#) [Germany](#) [Switzerland](#)

---