MOODY'S
INVESTORS SERVICE

CREDIT OPINION

6 June 2023

Update

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RATINGS

Peach Property Group AG

Domicile	Switzerland
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Peach Property Group AG

Update following downgrade to Ba3

Summary

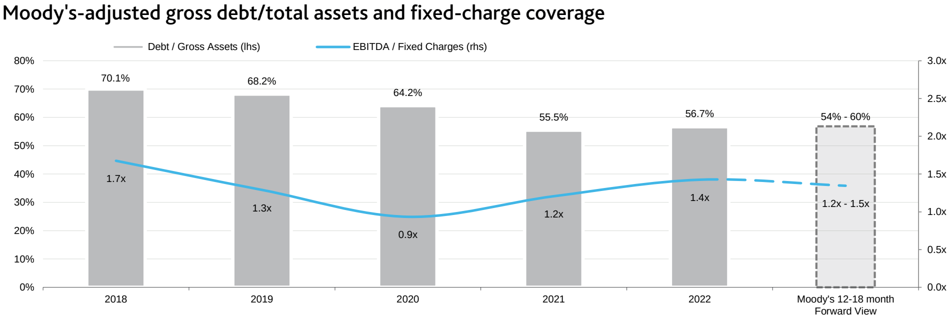
On 24 May 2023 we downgraded Peach Property Group AG's (PPG) corporate family rating (CFR) to Ba3 from Ba2 and maintained the negative outlook. The downgrade reflected (1) a weak Moody's adjusted fixed charge coverage that stood at 1.5x as of 31 December 2022 and is not expected to materially improve in the next 18 months driven by high refinancing costs; (2) elevated execution risk from a strategy that is likely to rely on a combination of asset disposals in still challenging investment markets and potentially fresh equity to delever and begin to address the €300 million senior unsecured bond maturing in November 2025.

While PPG has so far enjoyed good access to secured funding, its level of unencumbered assets, in our view, is insufficient to fully refinance its unsecured borrowings. Furthermore, access to unsecured funding markets for many real estate companies is constrained for the foreseeable future due to weak credit metrics.

At the same time we expect PPG to continue its track record of strong operating performance with good rental growth and lower vacancy supported by the regulated German rental sector's favourable fundamentals. Moody's-adjusted gross debt/total assets stood at 56.7% as of 31 December 2022, and Moody's expects this ratio to remain elevated following further expected value declines.

Exhibit 1

We expect interest coverage metrics to deteriorate in the next 18 months
Moody's-adjusted gross debt/total assets and fixed-charge coverage



[1] All quantitative credit metrics incorporate Moody's standard adjustments to the financial statements for non-financial corporations.
[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures. Forward View is pro forma for the acquisitions.
Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

» Focus on regulated rental housing activities in Germany, generating stable cash flow in medium-sized cities with mostly positive demographic trends

» Recent large scale acquisitions will improve scale and diversification, and help profitability

» Customer-centric approach that will help sustain occupancy

Credit challenges

» Relatively small scale and limited track record of operating with a scalable platform

» Elevated leverage when measured on a net debt/EBITDA basis, and weak fixed charge coverage

Rating outlook

The negative outlook reflects the changed business environment for PPG, with increased interest rates weakening the outlook for property values and increasing the marginal cost of debt, which will put pressure on interest cover and make deleveraging highly challenging. The negative outlook also reflects the limited time for PPG to implement asset disposals or alternatively raise equity over the next few quarters to deleverage and be able to timely execute the refinancing of the upcoming debt maturities.

Factors that could lead to an upgrade

An upgrade is unlikely given negative outlook.

Factors that could lead to a downgrade

» The company do not make timely and material progress in addressing its upcoming debt maturities, especially its unsecured borrowings;

» Moody's-adjusted fixed charge coverage is not maintained at least at 1.5x;

» Moody's-adjusted gross debt/total assets is materially above its 56.7% level as of 31 December 2022, and Moody's-adjusted net debt/EBITDA does not show a trajectory towards 20x over the next couple of years

» Weak operating performance and a vacancy rate that is persistently and materially above market levels

Key indicators

Exhibit 2

Key Indicators for Peach Property Group AG[1][2][3]

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Moody's 12-18 Months Fwd View
Gross Assets (USD billions)	0.6	0.8	1.2	2.5	3.1	3.0	2.6 - 2.7
Unencumbered Assets/Gross Assets	28.8%	13.3%	37.8%	47.7%	30.3%	17.3%	15% - 16%
Debt / Real Estate Gross Assets	67%	70%	68%	64%	55%	57%	54% - 60%
Net Debt / EBITDA	36.1x	32.3x	46.9x	58.7x	29.3x	26.8x	20x - 25x
Secured Debt / Gross Assets	41.3%	47.4%	31.2%	21.0%	28.6%	35.2%	30% - 35%
EBITDA / Fixed Charges	1.7x	1.7x	1.3x	0.9x	1.2x	1.4x	1.2x - 1.5x

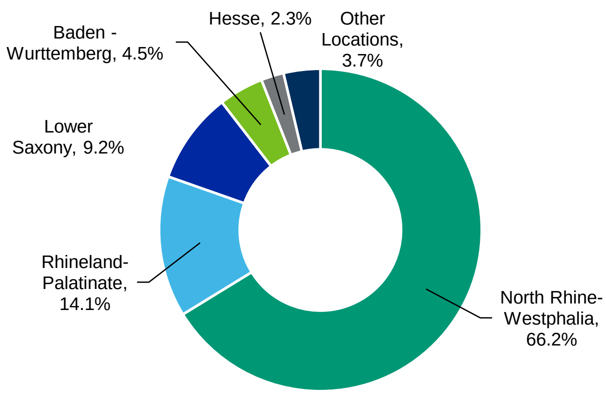
[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2]Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
[3] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

PPG is a real estate company focused on residential investments in Germany. The company is headquartered in Zurich and has been listed on the SIX Swiss Exchange since 2010 (market capitalisation of CHF264.2 million as of 23 May 2023), with its German group headquarters in Cologne. As of 31 December 2022, the company owned 27,549 residential units, with a total lettable area of around 1.784 million square metres and a total market value of EUR2.7 billion.

Exhibit 3

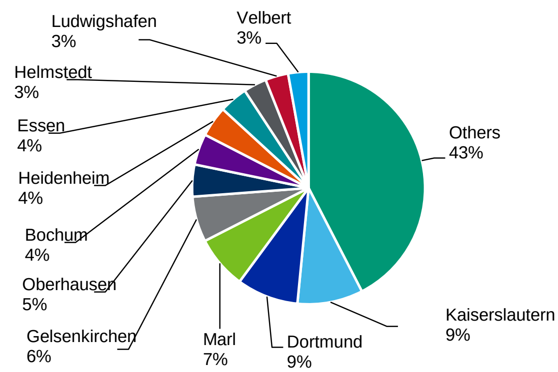
66% of properties are in located in North Rhine-Westphalia
Portfolio value as of 31 December 2022



Source: Company reporting

Exhibit 4

36% of the properties are located across the top five cities
Portfolio value as of 31 December 2022



Source: Company reporting

Detailed credit considerations

Focus on regulated rental housing activities in Germany, generating stable cash flow in medium-sized cities with mostly positive demographic trends

PPG's residential portfolio is mainly focused on medium-sized cities, with around 66% of the company's portfolio by value located in North Rhine-Westphalia (Aa1 stable), Germany's largest regional economy and most populous state. The company is also present in Rhineland-Palatinate, where 14% of its assets are located, and Lower Saxony, where it has a 9% asset exposure. Most of the company's locations show positive population trends.

However, some assets — especially in smaller cities — lack critical mass and are more dispersed within the regions, even though many properties are within the catchment area of larger urban clusters. The company mostly sources its assets off-market, and it looks for high cash-on-cash yields and upside potential from rental increase and vacancy reduction. The company's management believe that yields are higher and less cyclical in the markets where it operates compared with primary (A) cities in Germany.

The German rental market is highly regulated: reletting rents and rent increases for existing tenants are capped according to a local index (Mietspiegel) calculated by local authorities and taking into consideration the property's location and quality. Rent increases are capped at 15%-20% over a period of three years, but can be greater if landlords modernise the units. While the potential for tighter regulations is a threat to asset values and cash flow growth, it will also probably intensify the supply and demand imbalance.

Broad tenant diversity and high affordability within its portfolio, as well as strong engagement with tenants, should limit implications of any tightening in regulations for PPG. Furthermore, the cities where PPG operates have a lower risk of political rent control interventions than larger cities, such as Berlin, because the shortage of rental apartments is less acute.

Customer-centric approach, which will help sustain occupancy

The company is focused on client service and has built a scalable platform that combines digital services and local physical locations (Peach Points). Establishing communication channels and remaining close to its tenants will help the company address any maintenance or other issues in a timely manner. This approach will help sustain and improve occupancy, and make it easier for the company to increase rents. PPG operated 15 Peach Points in 2022, a 25% increase compared to the previous period.

Small scale and limited track record of operating with a scalable platform

The company remains relatively small compared with other German residential peers we rate, despite several large acquisitions over the last few years. The company has been measured and disciplined in its growth since 2010, and it adheres to its own underwriting standards. The smaller scale somewhat constrains the company's ability to issue larger benchmark bonds and restricts the liquidity of its traded equity. On the asset side, the company does not enjoy the economies of scale of the larger competitors or the ability to spread overhead costs over a larger portfolio. However, acquisitions over the last few years have greatly expanded the platform and place the company on a stronger footing.

We expect the company to continue its track record of growing income through resetting rents to market and modernising its portfolio, leading to improved occupancy rates. The company had a 6.9% vacancy rate as of 31 December 2022. During the year, PPG renovated 2,160 apartments and expects to further renovate around 1,500 units in 2023. PPG increased its rental income to EUR116,5 million, a 16% year-on-year increase with 5.1% like-for-like rental growth in 2022.

A more challenging operating environment means the improvement in credit metrics will be slower than we initially expected

We anticipate that the company's refinance risk will remain elevated in current challenging market conditions and expectation of property value declines of 10%. In our base case assumption we expect the company to use mix of debt refinancing, asset disposal and equity raise to meet its €629 million of maturing debt due in 2025.

The willingness of core shareholders to support the equity raise despite the company's shares trading at a steep discount to net asset value is credit positive. Further positive actions taken by PPG to strengthen its balance sheet include limiting capital expenditure, cutting costs, and a decision to waive dividends for 2022 and 2023.

Moody's-adjusted gross debt/total assets stood at 56.7% as of 31 December 2022, and we expect this ratio to increase above 57% in the next 12 months after incorporating expected value declines of more than 10%. The company's financial policy targets a maximum loan-to-value (LTV) ratio of 50% in the medium term.

Encouragingly, the company is confident to achieve its operating performance guidance of rental income of EUR121-123 million in 2023, and we expect continuation in the trend of lower vacancy, and further rental growth in 2024. However, significant increases in maintenance, operating and financing costs will weigh on profitability. As a result, we now expect net debt/EBITDA to remain elevated for significantly longer than it had previously expected.

Moody's-adjusted fixed charge coverage has improved in 2022 compared to 2021 due to repayment of more costly senior unsecured facility in second half of 2022. However, due to increase in interests rates, we expect this ratio to deteriorate in 2024 and 2025, when the company will execute the refinance plan.

In addition, we also expect that the company will rely on its revolving credit facility to finance its capital expenditure programme to renovate its apartments and consequently reduce vacancy rate to around 6% in 2023, 5% in 2024 and 4% by 2025.

ESG considerations

Peach Property Group AG's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

ESG considerations and their impact on credit quality are mainly linked to lower rental growth or returns because of higher capital requirements to meet environmental standards or tighter regulation.

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-3
Moderately Negative	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
PPG's credit exposure to environmental risk primarily reflects its exposure to carbon transition risk because of increasing capital spend requirements to improve the energy performance of its buildings from a regulatory, investors and tenant perspective.

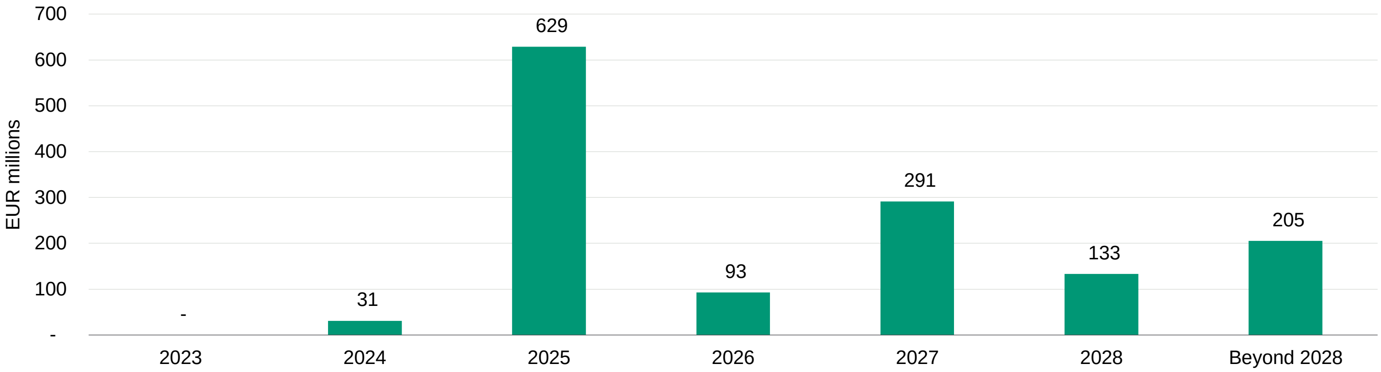
Social
PPG's credit exposure to social risk is driven by demographic and societal trends and customer relations. Regulatory risk due to the scarcity of affordable housing in its markets could lead to more stringent housing and rent control policies which would slow rental growth and negatively affect asset values. PPG faces moderate customer relations risk related to the potential threat of breaches of its customer's data which could lead to privacy and legal issues.

Governance
PPG's governance risk reflects its relatively high leverage, historical track record of aggressive growth through large acquisitions, and high ownership concentration risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity
PPG's liquidity is adequate. As of 31 December 2022, its sources of liquidity were including EUR31 million of cash and cash equivalents EUR100 revolving credit facility out of which CHF41 million have been drawn by the company by the end of the 2022. The company's cash sources are sufficient to cover the cash requirements, mainly capital spending and debt servicing for the next 18 months.

Exhibit 7
Debt maturity profile as of 31 December 2022



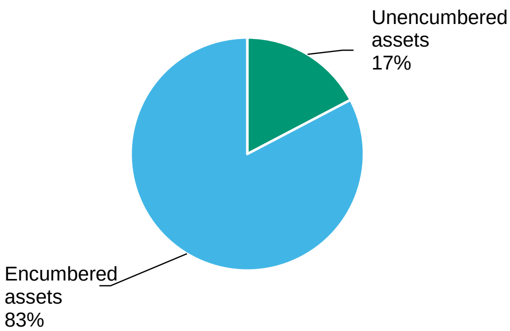
Source: Company reporting

Structural considerations

In line with our REITs and Other Commercial Real Estate Firms methodology, PPG's Ba3 CFR references a senior secured rating because secured funding forms most of the company's funding mix. PPG's senior unsecured rating is B1, which is one notch below the CFR to reflect the low level of unencumbered assets that provides weak asset coverage for unsecured creditors. As of 31 December 2023, the ratio of unencumbered assets to unsecured stood at 0.99x. We expect this ratio to remain at this level in the next 12 months.

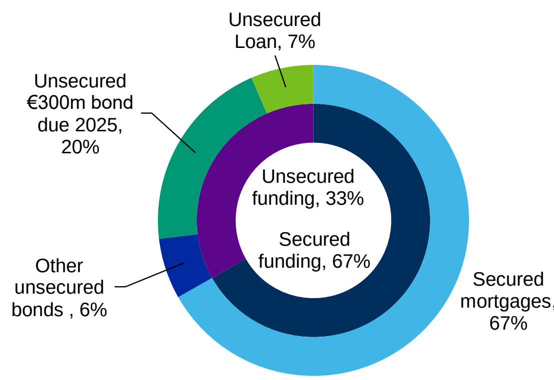
The backed senior unsecured debt is issued by Peach Property Finance GmbH and guaranteed by PPG, and ranks pari passu with all existing and future senior unsecured obligations of the company. The bonds are subject to three financial incurrence covenants: (1) a minimum interest coverage (2) a maximum net LTV ratio (3) and a maximum net secured LTV ratio of 40%.

Exhibit 8
PPG has a 17% unencumbered asset ratio
As of 31 December 2022, EURm



Source: Company estimates

Exhibit 9
33% of PPG's funding is unsecured
As of 31 December 2022



Source: Company estimates

Rating methodology and scorecard factors

The following table shows PPG's scorecard-indicated outcome using REITs and Other Commercial Real Estate Firms Methodology published in September 2022, with data as of 31 December 2022, and on a forward-looking basis.

Exhibit 10
Rating factors
Peach Property Group AG

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current FY 12/31/2022		Moody's 12-18 Month Forward View As of 5/23/2023 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$3.0	Baa	$2.6 - $2.7	Baa
Factor 2 : Business Profile (25%)				
a) Market Positioning and Asset Quality	Ba	Ba	Ba	Ba
b) Operating Environment	A	A	A	A
Factor 3 : Liquidity and Access To Capital (25%)				
a) Liquidity and Access to Capital	Ba	Ba	Ba	Ba
b) Unencumbered Assets / Gross Assets	17.3%	Caa	15% - 16%	Caa
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	56.7%	Ba	54% - 60%	Ba
b) Net Debt / EBITDA	26.8x	Ca	20x - 25x	Ca
c) Secured Debt / Gross Assets	35.2%	B	40% - 43%	B
d) Fixed Charge Coverage	1.5x	B	1.2x - 1.5x	Caa
Rating:				
a) Scorecard-Indicated Outcome		Ba3		B1
b) Actual Rating Assigned				Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2022; Source: Moody's Financial Metrics™
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Investors Service

Appendix

Exhibit 11

Moody's-Adjusted Debt Reconciliation for Peach Property Group AG[1][2]

in EUR millions	FYE Dec-2021	FYE Dec-2022
Moody's Reported Total Debt	**1,441.1**	**1,533.2**
Pensions	3.6	2.2
Hybrid Securities	51.6	51.6
Moody's Adjusted Total Debt	**1,496.2**	**1,587.0**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Exhibit 12

Moody's-Adjusted EBITDA Reconciliation for Peach Property Group AG[1][2]

in EUR millions	FYE Dec-2021	FYE Dec-2022
Moody's Reported EBITDA	**281.8**	**21.6**
Pensions	0.0	0.1
Unusual Items - Income Stmt	-231.9	36.4
Moody's Adjusted EBITDA	**49.9**	**58.1**

[1] All figures are calculated using Moody's estimates and standard adjustments.
[2] Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics TM

Ratings

Exhibit 13

Category	Moody's Rating
PEACH PROPERTY GROUP AG	
Outlook	Negative
Corporate Family Rating	Ba3
PEACH PROPERTY FINANCE GMBH	
Outlook	Negative
Bkd Senior Unsecured -Dom Curr	B1

Source: Moody's Investors Service

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