



## **Rating Action: Moody's downgrades Peach Property's CFR to B1; senior unsecured ratings to B3; outlook negative**

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18 Oct 2023

London, October 18, 2023 – Moody's Investors Service (Moody's) has today downgraded to B1 from Ba3 the corporate family rating (CFR) of Peach Property Group AG (PPG, Peach Property or the company), a Swiss listed real estate company focused on German residential rental properties. At the same time Moody's downgraded to B3 from B1 the backed senior unsecured instrument rating of Peach Property Finance GmbH, a wholly owned subsidiary of PPG. The outlook of both entities remains negative.

### **RATINGS RATIONALE**

The downgrade and negative outlook reflect what Moody's views as a currently unsustainable capital structure amidst a challenging funding environment and elevated risk for unsecured creditors as the time to address the company's upcoming refinance shortens. To achieve a more sustainable capital structure, the company is reliant on successfully disposing assets in still challenging but gradually improving investment markets and most likely fresh equity to address the €300 million backed senior unsecured bond maturing in November 2025. While PPG has so far enjoyed good access to secured funding, its level of unencumbered assets, in Moody's view, is insufficient to fully refinance its unsecured borrowings with secured debt. On the positive side Moody's recognises that PPG's main shareholders have been supportive to date and may provide further support in the future.

In line with Moody's REITs and Other Commercial Real Estate Firms methodology, PPG's B1 CFR references a senior secured rating because secured funding forms most of the company's funding mix. PPG's backed senior unsecured rating, issued by its subsidiary Peach Property Finance GmbH, is B3, which is now two notches below the B1 CFR to reflect (1) the low level of unencumbered assets that provides weak asset coverage for unsecured creditors as well as the expectation that the remaining unencumbered assets might be used to raise secured debt and (2) Moody's assessment of differences in expected loss between secured and unsecured creditors.

The credit quality of the German multifamily residential sector is at risk of further deterioration in the next 12-18 months. This is largely due to the higher interest rates, downward pressure on property values, and the current weak but slowly improving investment markets that make it challenging to quickly reduce leverage solely through disposals. However, the credit quality of the sector continues to be buoyed by favourable long-term fundamentals, which support high occupancy rates and rental growth. The decrease in construction activity is likely to exacerbate the already limited supply of affordable housing. Simultaneously, demographic shifts and higher mortgage rates are expected to sustain high rental demand.

The Moody's rated German residential companies benefit from strong and long-standing banking relationships, which will help them in addressing immediate refinancing and liquidity needs through secured lending. However, funding conditions have become more stringent, and companies will need to address material bond maturities from 2024 onwards. If companies are unable to successfully reduce leverage, the growth in rental earnings may not be sufficient to fully offset the considerably higher cost of new debt.

More positively, Moody's expects 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.

### **OUTLOOK**

The negative outlook reflects constrained unsecured debt market access for the company and higher funding costs that will put pressure on interest cover. This negative outlook might have a very short horizon as it reflects the very limited time for PPG to implement asset disposals and/or raise equity over the next few months to deleverage and be able to timely execute the refinancing of the upcoming debt maturities.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade is unlikely given the negative outlook.

The ratings could be downgraded if:

- The company does not make timely and material progress over the next few months 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 reduced below its 56.38% level as of 30 June 2023, and Moody's-adjusted net debt/EBITDA does not show a trajectory towards 20x over the next couple of quarters
- Weak operating performance and a vacancy rate that is persistently and materially above market levels

## ESG CONSIDERATIONS

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.

## LIQUIDITY

PPG's liquidity is currently adequate. As of 30 June 2023, its sources of liquidity included €20 million of cash and cash equivalents and €59 million of drawing capacity under its €100 revolving credit facility (RCF). The company does not have any material maturities until November 2025.

The company's debt is mostly fixed interest rate apart from the RCF.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2022 and available at <https://ratings.moodys.com/mmc-documents/393395>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## 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 CHF241 million as of 16 October 2023), with its German group headquarters in Cologne. As of 31 December 2022, the company owned around 27,500 residential units with a total market value of €2.5 billion.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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