MOODY'S
INVESTORS SERVICE

CREDIT OPINION
6 May 2024

Update

Send Your Feedback

RATINGS

Peach Property Group AG

Domicile	Switzerland
Long Term Rating	B3
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.

Contacts

Egor Nikishin, CFA +44.20.7772.8737
AVP-Analyst
egor.nikishin@moodys.com

Richard Etheridge +44.20.7772.1035
Associate Managing Director
richard.etheridge@moodys.com

Saori Ogawa +44.20.7772.1884
Sr Ratings Associate
saori.ogawa@moodys.com

Peach Property Group AG

Update following CFR downgrade to B3

Summary

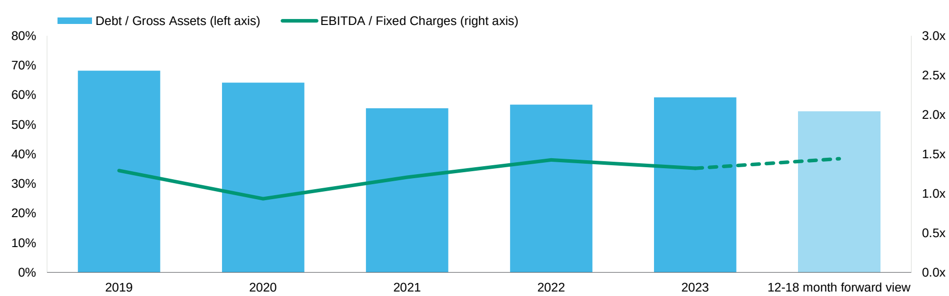
On 2 May 2024 we downgraded Peach Property Group AG's (PPG) corporate family rating (CFR) to B3 from B1 and the senior unsecured rating to Caa2 from B3 and maintained the negative outlook. The downgrade and negative outlook reflect what we view as insufficient progress in addressing the upcoming €300 million backed senior unsecured bond maturity in November 2025 and therefore increasing probability of debt restructuring in the context of currently unsustainable capital structure. To successfully address the upcoming maturity and achieve a more sustainable capital structure, the company is reliant on raising fresh equity and successfully disposing of assets in still challenging but gradually improving investment markets.

While PPG has so far enjoyed access to secured funding, its level of unencumbered assets, in our 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, including circa €18 million equity issued in March 2024, and may provide further support in the future.

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



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Credit strengths

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

» Customer-centric approach that will help sustain occupancy

Credit challenges

» Rising risk of a distressed exchange due to inability to timely refinance; high execution risk form a strategy that relies on disposals and/or equity raise to address the upcoming unsecured debt maturity

» 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 increasing uncertainty around ability of the company to timely address its upcoming debt maturities and risk of debt restructuring. It reflects the very limited time for PPG to implement asset disposals and/or raise equity over the next few months to deleverage and execute the refinancing.

Factors that could lead to an upgrade

An upgrade is unlikely given negative outlook.

Factors that could lead to a downgrade

» The company fails to raise material proceeds over the next few months to address its upcoming debt maturities, especially its unsecured borrowings

» Likelihood of a default increases and / or expected recovery rates in case of a default or distressed exchange are lower than anticipated

» Operating performance weakens

Key indicators

Exhibit 2

Peach Property Group AG

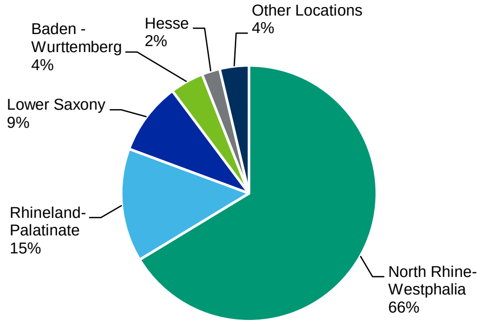
(in $ billions)	2019	2020	2021	2022	2023	2024F	2025F	2026F
Gross Assets	1.2	2.5	3.1	3.0	2.8	2.8	2.6	2.7
Unencumbered Assets / Gross Assets	37.8%	47.7%	30.3%	17.3%	18.8%	15.6%	16.3%	16.1%
Debt / Real Estate Gross Assets	68.0%	64.0%	55.5%	56.7%	59.1%	57.2%	54.4%	54.5%
Net Debt / EBITDA	46.9x	58.7x	29.3x	26.8x	26.1x	21.8x	20.0x	19.8x
Secured Debt / Gross Assets	31.2%	21.0%	28.6%	35.2%	38.9%	39.0%	35.4%	34.9%
EBITDA / Fixed Charges (YTD)	1.3x	0.9x	1.2x	1.5x	1.3x	1.6x	1.4x	1.4x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

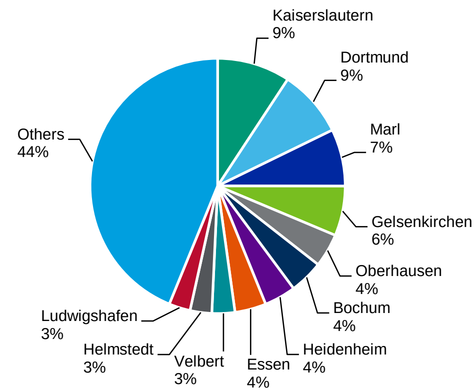
PPG is a real estate company focused on residential investments in Germany. The company is headquartered in Zurich and has been listed on the SIX Swiss Exchange since 2010 (market capitalisation of CHF214.2 million as of 1 May 2024), with its German group headquarters in Cologne. The company owns 27,500 residential units, with a total market value of around €2.4 billion.

Exhibit 3
66% of properties are in located in North Rhine-Westphalia
Portfolio value breakdown (2023)



Source: Company filings

Exhibit 4
36% of the properties are located across the top five cities
Portfolio value breakdown (2023)



Source: Company filings

Detailed credit considerations

German residential sector will remain under pressure in the next 12-18 months due to more challenging economic environment

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.

Our 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. 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.

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

PPG's residential properties are primarily located in medium-sized cities. Around two-thirds of the company's property value is in North Rhine-Westphalia (Aa1 stable), Germany's most populous state with the largest economy. The company also has properties in Rhineland-Palatinate (14% of assets) and Lower Saxony (9% of assets). Most of these areas are experiencing population growth. However, some properties, particularly in smaller cities, are scattered across regions, although many are near larger urban areas. PPG's management believes the markets they operate in offer higher, more stable returns compared to Germany's major cities.

Germany's rental market is tightly controlled. Rent for new tenants and rent increases for current tenants are restricted by a local index, the Mietspiegel, which considers the property's location and quality. Rent hikes are limited to 15%-20% over three years, but can be higher if landlords upgrade the units. While stricter regulations could decrease property values and slow income growth, they could also exacerbate the housing supply and demand imbalance.

PPG's diverse tenant base and affordable housing options, along with strong tenant relations, should mitigate the impact of any regulatory tightening. The cities where PPG operates are less likely to face political rent control than larger cities like Berlin because these areas don't face as severe a shortage of rental apartments.

Customer-centric approach, which will help sustain occupancy

The company prioritises customer service and has developed a flexible platform that merges online services with local physical offices, known as Peach Points. By keeping open lines of communication and staying connected with its tenants, the company can quickly resolve any maintenance or other concerns. This strategy can help maintain and even boost occupancy, and potentially allow the company to raise rents. In 2023 PPG ran 15 Peach Points that are within walking distance for 80% of its tenants.

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

The company remains somewhat small compared to other German residential firms that we rate, despite making several large purchases in recent years. Since 2010, the company has grown in a careful and controlled manner, sticking to its own risk assessment standards. In terms of assets, the company doesn't benefit from the cost efficiencies of larger competitors or the ability to spread overhead costs across a more extensive portfolio. However, debt-funded purchases in recent years have significantly expanded the company's platform, putting it on more solid ground.

Part of PPG's strategy is modernising its portfolio to improve occupancy and increase income by adjusting rents to market rates. However, in 2023 the company's focus largely shifted to managing its liquidity and balance sheet resulting in significant decrease in amount of capital expenditures on renovation - to €19 million from circa €58 million in 2022. As a result, the company's vacancy rate increased to 7.4% from 6.9% in 2022. Nevertheless, PPG achieved rental income of €116.5 million, a 3.8% increase from the previous year with a 4.2% like-for-like rental growth.

Increasing refinancing risk amid still weak key ratios

We expect the company's refinancing risk to remain high in the current challenging market conditions and with risks of further valuation decline (-8% in 2023). We understand that the company is working on a combination of debt refinancing, asset sales, and equity raises to address its €594 million of maturing debt due in 2025. However, we also note lack of tangible progress to date and highlight increasing risks of some form of debt restructuring.

The core shareholders' willingness to support the equity raise, despite the company's shares trading at a significant discount to net asset value, is a positive credit factor. This is evidenced by the main shareholders already supporting PPG with circa €18 million equity issued in March 2024. However, we understand that the company's largest shareholder, Ares Management, is somewhat restricted in its capacity to inject more equity by the change of control provision. The firm already owns more than 30% of shares and exceeding 33 1/3% would trigger a mandatory offer to the bondholders at 101. Therefore, further equity issuance will require consensus from a broader shareholder base. Other actions taken by the company to strengthen its balance sheet include limiting capital expenditures, cutting costs, and deciding to forgo dividend distributions for 2023.

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. However, the company’s key credit ratios have not improved and point to an unsustainable capital structure. PPG’s Moody’s adjusted gross debt / EBITDA increased to 59.1% in December 2023 from 56.7% in December 2022 driven by approximately 8% value decline for the company’s property portfolio. Moody’s adjusted fixed charge cover deteriorated to 1.3x from 1.5x largely due to €7.5 million losses on fair value of derivatives. In addition, due to rising interest rates, we do not expect significant recovery of this ratio in 2024-25, which dynamics will also depend on when and how the company executes its refinancing plan.

ESG considerations

Peach Property Group AG's ESG credit impact score is CIS-4

Exhibit 5
ESG credit impact score

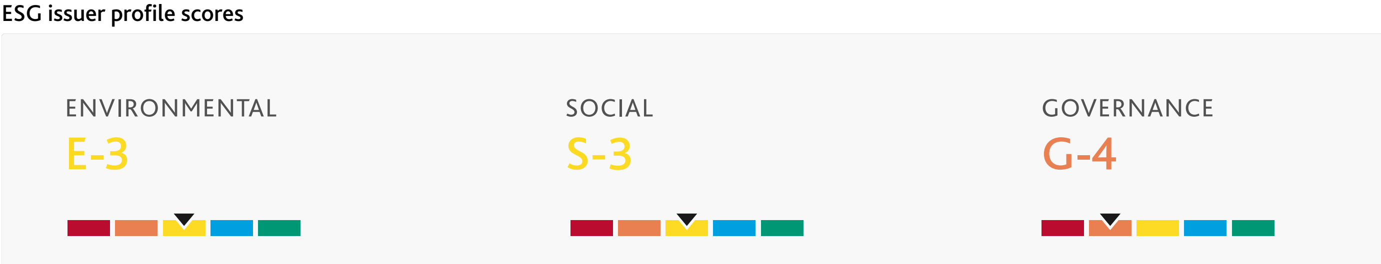
CIS-4

ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-3.

Source: Moody's Ratings

ESG considerations and their impact on credit quality are mainly linked aggressive financial strategy characterised by lack of early refinancing of its debt maturities and high Moody's-adjusted leverage. They also take into account risks of lower rental growth or returns because of higher capital requirements to meet environmental standards or tighter regulation.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

PPG's **E-3** 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 **S-3** 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

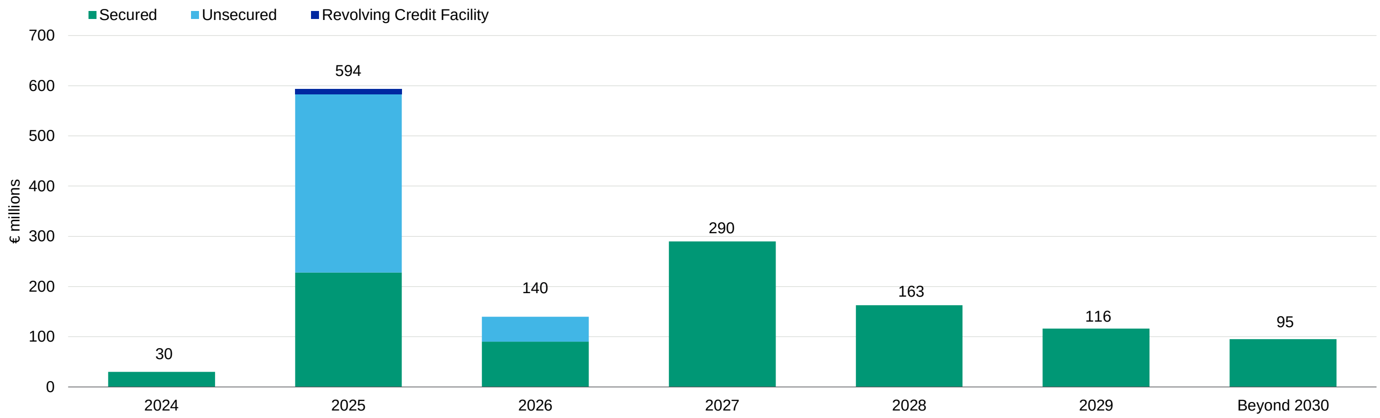
PPG's **G-4** reflects its aggressive financial strategy, including lack of early refinancing of its debt maturities, high leverage and historical track record of aggressive growth through large acquisitions, and high ownership concentration risks.

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 weak. As of 31 December 2023, its sources of liquidity included €22 million of cash and cash equivalents and €64 million of drawing capacity under its €75 million revolving credit facility (RCF) due in April 2025. The company's €300 million senior unsecured bond is due in November 2025, which will create pressure on liquidity if not timely addressed.

Exhibit 7
Debt maturity profile (2023)



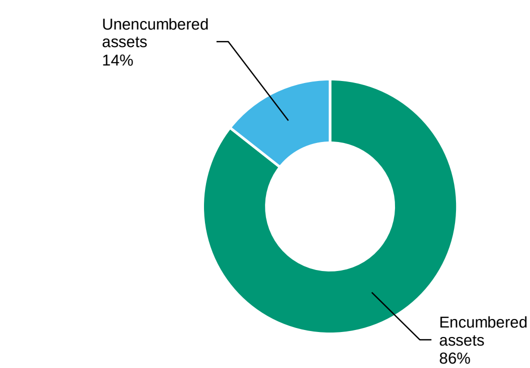
Source: Company filings

Structural considerations

In line with Moody's REITs and Other Commercial Real Estate Firms methodology, PPG's B3 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 Caa2, which is two notches below the B3 CFR to reflect (1) the low level of unencumbered assets that provide 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.

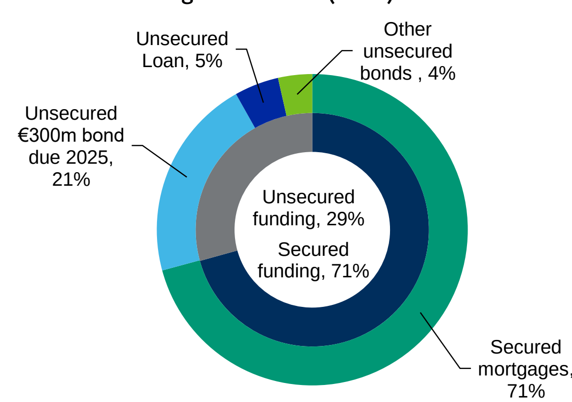
Company's bonds are subject to three financial incurrence covenants: (1) a minimum interest coverage (2) a maximum net LTV ratio (3) and a maximum net secured LTV ratio of 40%.

Exhibit 8
PPG's unencumbered asset ratio is weak at 14% (2023)



Source: Company filings

Exhibit 9
29% of PPG's funding is unsecured (2023)



Source: Company filings

Rating methodology and scorecard factors

The following table shows PPG's scorecard-indicated outcome using REITs and Other Commercial Real Estate Firms Methodology with data as of 31 December 2023 and on a forward-looking basis.The scorecard-indicated outcome is B1, two notches below the actual CFR assigned o B3. The difference is due to increasing refinancing risk and currently unsustainable capital structure.

Exhibit 10
Rating factors
Peach Property Group AG

REITs and Other Commercial Real Estate Firms Industry Scorecard	Current FY Dec-23		Moody's 12-18 month forward view	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets ($ billions)	2.8	Baa	2.6 - 2.8	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	B	B	B	B
b) Unencumbered Assets / Gross Assets	18.8%	Caa	15.0% - 17.0%	Caa
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	59.2%	Ba	54.0% - 57.0%	Ba
b) Net Debt / EBITDA	26.1x	Ca	20.0x - 22.0x	Ca
c) Secured Debt / Gross Assets	38.9%	B	35.0% - 39.0%	B
d) Fixed Charge Coverage	1.3x	Caa	1.4x - 1.6x	B
Rating:				
a) Scorecard-Indicated Outcome		B1		B1
b) Actual Rating Assigned				B3

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 11

Moody's-adjusted debt reconciliation

Peach Property Group AG

(in € millions)	2021	2022	2023
As reported debt	**1,441.1**	**1,533.2**	**1,483.2**
Pensions	3.6	2.2	2.4
Hybrid Securities	51.6	51.6	39.8
Moody's-adjusted debt	**1,496.2**	**1,587.0**	**1,525.4**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics TM

Exhibit 12

Moody's-adjusted EBITDA reconciliation

Peach Property Group AG

(in € millions)	2021	2022	2023
As reported EBITDA	**281.8**	**21.6**	**(184.7)**
Pensions	-	0.1	0.2
Unusual Items	(231.9)	36.4	242.2
Moody's-adjusted EBITDA	**49.9**	**58.1**	**57.7**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics TM

Ratings

Exhibit 13

Category	Moody's Rating
PEACH PROPERTY GROUP AG	
Outlook	Negative
Corporate Family Rating	B3
PEACH PROPERTY FINANCE GMBH	
Outlook	Negative
Bkd Senior Unsecured -Dom Curr	Caa2

Source: Moody's Ratings

REPORT NUMBER 1406896

MOODY'S
INVESTORS SERVICE