Tear Sheet:

TAG Immobilien AG

March 31, 2023

High refinancing needs over the next 12-24 months will continue to drive negative rating pressure on TAG Immobilien AG (TAG). S&P Global Ratings notes TAG's steps toward sustaining liquidity, although we continue to monitor the situation, especially amid adverse market conditions. The company's liquidity remains adequate, reflecting sufficient liquidity sources to cover uses at least 1.2x in the coming 12 months. Upcoming debt maturities of about €409 million are covered by available cash of about €240 million and undrawn credit facilities of about €150 million. To secure liquidity, the company has also suspended dividends for 2022 payable in 2023 and secured asset disposals. Nevertheless, TAG still needs to secure long-term funding to refinance its 2024 debt maturities totaling €510 million, including €250 million outstanding under the bridge loan. We believe the weakening economic context, rising interest rates, and inflationary pressures will result in higher funding costs and a deteriorating operating environment in the medium term, making it more difficult for TAG to secure attractive long-term financing.

PRIMARY CONTACT

Luis Peiro Camaro, CFA
Madrid
34-91-423-31-97
luis.peiro-camaro
@spglobal.com

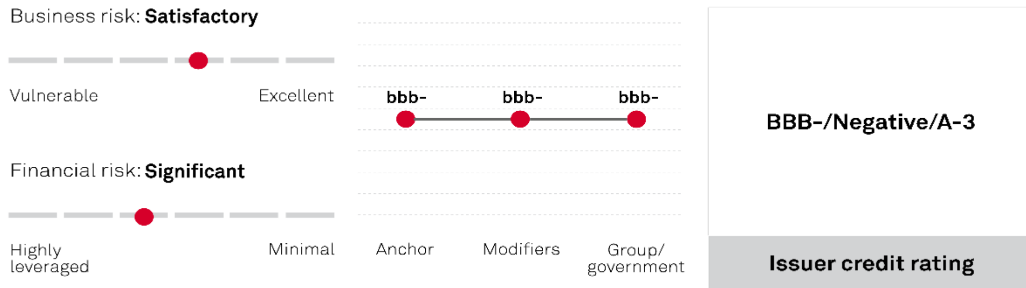
SECONDARY CONTACT

Nicole Reinhardt
Frankfurt
49-693-399-9303
nicole.reinhardt
@spglobal.com

Operating fundamentals in Germany and Poland remain resilient, contributing to stable cash flow. TAG saw positive momentum in 2022 but we remain conscious of the prevailing high inflationary and interest rate environment, which could further pressure its credit metrics. The company's German property portfolio reported like-for-like rental income growth of 2.7%, driven by positive indexation and benefitting from high inflation and a 1.1% improvement in vacancies to 4.4% by year-end 2022 from 5.5% in 2021. We expect like-for-like rental growth of about 2.0% over next 12-24 months, on the back of sustained high inflation in Germany and, to a lesser extent, an expanding rental contribution from the Polish portfolio, which should reach close to 2,500 units in operation by year-end 2023. Similarly, Polish build-to-sell (BTS) operations recorded positive momentum, with the signing of 1,751 unit sales in 2022 and 3,510 units handed over to buyers. The recovering sales rate and the Polish government's help-to-buy schemes should support absorption rates, gives certain visibility on revenue recognition and cash flow. We understand the company had already presold 75% of the 3,765 units planned to be handed over in 2023 by Dec. 31, 2022. We view this positively because it reduces the cash flow drain of Polish build-to-hold (BTH) development, with the profits registered from BTS unit sales used to fund ongoing BTH projects under construction, thereby preserving capital and minimizing debt usage.

Pressure on real estate asset valuations will continue to weigh on credit metrics, decreasing rating headroom. We note negative revaluations of about 1.5% across the German portfolio in 2022, largely driven by yield compression (2.4%) and partially mitigated by positive cash flow (0.9%). This weighs on the company's leverage with reported loan to value spiking to 46.7% at year-end 2022 from 43.2% in 2021. We expect further pressure on valuations of about 5%-10% over the next 12-24 months because of rising interest rates and cap rate expansion. This would further weigh on the company's leverage, with S&P Global Ratings-adjusted debt to debt plus equity moving toward our 55% downside threshold from 52.1% at year-end 2022. We also note TAG's average cost of debt increased to 2.1% by year-end 2022 from 1.4% in 2021, largely on the back of its high refinancing needs and rising interest rates. This would pressure S&P Global Ratings-adjusted EBITDA interest coverage, which was 4.5x at year-end 2022. We note 90% of TAG's financial liabilities are at fixed rates, which limits the risk of increased interest costs in the existing structure, although pressure from new financing will continue. The company has about €400 million of upcoming debt maturities over the next 12 months and an additional €510 million in the following 12 months (including the €250 million bridge loan facility).

Ratings Score Snapshot



Recent Research

- German Residential REITs Face A Mixed Outlook In 2023, Feb. 20, 2023
- Industry Top Trends 2023: Real Estate, Jan. 23, 2023
- German Real Estate Firm TAG Immobilien Outlook Revised To Negative On Narrowing Liquidity Cushion; 'BBB-/A-3' Affirmed, Nov. 14, 2022

Company Description

TAG is a German real estate company that acquires and manages multifamily residential real estate properties, particularly in Northern and Eastern Germany. Since 2020, the company has also been active in the Polish market following the acquisition of residential property developers Vantage Development and Robyg. TAG currently owns about 86,914 units with a portfolio size of €6.3 billion. In addition, it had a secured pipeline of 32,461 units in Poland at year-end 2022.

TAG was founded in 1882 as a railway business and became a listed real estate management company in 1998. It is headquartered in Hamburg, Germany. Since 2012, the company has been listed on the MDAX at the Frankfurt Stock Exchange.

TAG's largest shareholders were Massachusetts Financial Services Co. (9.9%), BayernInvest Kapitalverwaltungsgesellschaft mbH (4.9%), and Flossbach von Storch AG (4.8%) at Dec. 31, 2022.

Outlook

The negative outlook indicates that we could lower the rating in the next 12-18 months if TAG fails to secure sufficient funding to cover its upcoming bank debt and bridge loan maturities in a timely manner.

We would also take a negative rating action if debt to debt plus equity deteriorates to above 55% over a sustained period as a result of asset values being subject to higher-than-expected volatility, or a weakening of its yielding German asset portfolio or Polish development activities.

Downside scenario

We would lower the rating if TAG fails to secure, in a timely manner, sufficient funds to refinance its upcoming bank and bridge loan maturities and meet committed capital expenditure (capex) needs. This could happen, for example, if liquidity deteriorates and it fails to gain bank approvals for refinancing or loan extensions to cover upcoming debt maturities, or covenant headroom tightens.

We would also take a negative rating action if:

- TAG fails to sustain debt to debt plus equity below 55%, resulting from higher-than-expected negative portfolio valuations due to subdued market conditions;
- Consolidated EBITDA interest coverage (including German and Polish operations) is above 3.8x (2.4x excluding development activities); and
- Debt to EBITDA deteriorates materially from our base case over a sustained period.

Similarly, we could lower the ratings on TAG if we see a marked increase in exposure to development activities to the detriment of rental income.

Upside scenario

We could revise the outlook to stable if TAG secures funding to maintain sufficient liquidity headroom in the long term, providing an adequate cushion to cover its debt maturities and capex needs.

The revision to stable would also hinge on the company maintaining credit metrics commensurate with the rating such that:

- Debt to debt plus equity is sustainably below 55%;
- Consolidated EBITDA interest coverage remains above at least 3.8x, and 2.4x excluding development-to-sell activities; and
- Debt to EBITDA remains in line with our base case.

Key Metrics

TAG Immobilien AG--Key Metrics*

Mil. €	2020a	2021a	2022a	2023f	2024f
EBITDA	230.3	251.9	300-320	300-320	310-330
Debt to EBITDA (x)	13.1	14.3	11-13	11-13	11-13
EBITDA interest coverage (x)**	4.4	4.5	4.0-4.5	4.0-4.5	4.0-4.5
Debt to Debt Plus Equity (%)	49.2	52.1	52-54	53-55	54-55

*All figures adjusted by S&P Global Ratings. a--Actual. **including contribution from Polish build-to-sell activities. e--Estimate. f--Forecast.

Financial Summary

TAG Immobilien AG--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR
Revenues	314	328	336	349	357

TAG Immobilien AG--Financial Summary

EBITDA	213	218	222	230	252
Funds from operations (FFO)	154	170	171	152	195
Interest expense	69	51	55	52	57
Operating cash flow (OCF)	160	154	254	164	134
Capital expenditure	6	11	13	12	9
Dividends paid	96	112	124	134	140
Cash and short-term investments	81	82	314	89	235
Debt	2,345	2,518	2,766	3,028	3,605
Common equity	2,048	2,394	2,682	3,130	3,308
Valuation of investment property	4,719	5,258	5,921	6,654	7,284
Adjusted ratios					
EBITDA margin (%)	67.7	66.5	66.1	66.0	70.7
EBITDA interest coverage (x)	3.1	4.3	4.0	4.4	4.5
Debt/EBITDA (x)	11.0	11.5	12.5	13.1	14.3
Debt/debt and equity (%)	53.4	51.3	50.8	49.2	52.1

Peer Comparison

TAG Immobilien AG--Peer Comparisons

	TAG Immobilien AG	Grand City Properties S.A.	Heimstaden Bostad AB	D.V.I. Deutsche Vermgens- und Immobilienverwaltungs GmbH	Grainger PLC
Foreign currency issuer credit rating	BBB-/Negative/A-3	BBB+/Stable/A-2	BBB/Negative/--	BBB-/Negative/--	BB+/Stable/--
Local currency issuer credit rating	BBB-/Negative/A-3	BBB+/Stable/A-2	BBB/Negative/--	BBB-/Negative/--	BB+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2021-12-31	2022-09-30
Revenue	357	583	1,249	73	317
EBITDA	252	308	729	59	133
Funds from operations (FFO)	195	218	444	35	64
Interest expense	56.6	64.3	275.5	20.6	53.0
Operating cash flow (OCF)	134	156	415	40	109
Capital expenditure	9	75	859	11	15
Dividends paid	140.2	56.4	332.9	5.4	45.5

TAG Immobilien AG--Peer Comparisons

Cash and short-term investments	235	427	842	86	83
Debt	3,605	4,190	16,775	841	1,463
Equity	3,308	5,289	15,142	1,527	2,711
Valuation of investment property	7284.1	9529.6	30955.3	2154.3	4225.1
Adjusted Ratios					
EBITDA margin (%)	70.7	52.9	58.4	81.4	41.9
EBITDA interest coverage (x)	4.5	4.8	2.6	2.9	2.5
FFO cash interest coverage (x)	4.7	4.6	3.1	3.3	2.2
Debt/EBITDA (x)	14.3	13.6	23.0	14.2	11.0
Debt/debt and equity (%)	52.1	44.2	52.6	35.5	35.1

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of TAG. We believe that German residential real estate companies like TAG are exposed to social risk on the back of ongoing political and social tensions arising from rents and property prices. That said, TAG also operates in secondary locations in Northern and Eastern Germany where rents and real estate prices have been rising less strongly than in large metropolitan areas, which should limit the impact at this stage.

Rating Component Scores

Foreign currency issuer credit rating	**BBB-/Negative/A-3**
Local currency issuer credit rating	**BBB-/Negative/A-3**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011