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CREDIT OPINION
18 October 2022

Update

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RATINGS

TAG Immobilien AG

Domicile	Hamburg, Germany
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Stable

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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TAG Immobilien AG

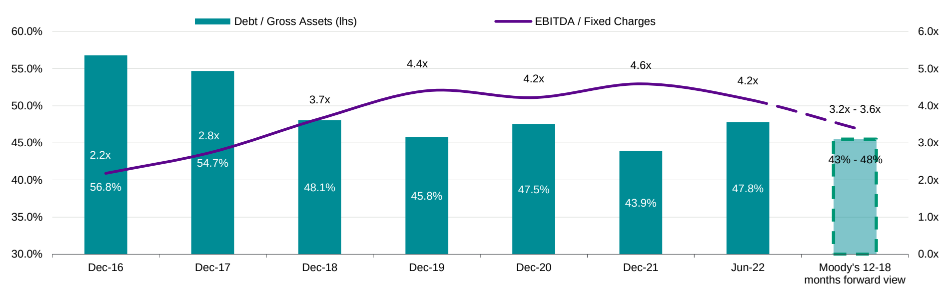
Update following downgrade to Ba1

Summary

TAG's rating reflects the company's focus on regulated affordable housing in Germany (Aaa stable) that generates stable rental income and represents more than 80% of its operations by value and rental income. TAG benefits from broad income diversification in a portfolio of more than 87,000 units, across a number of regions in Germany. Once the company has successfully addressed the (re)financing needs stemming from the ROBYG transaction, TAG has a longer dated debt maturity profile. TAG's debt/gross assets ratio has started to come down after the acquisition-related high through use of equity. We expect debt/gross assets remain around 45% until year-end 2023, thanks to a meaningfully downsized Polish business plan.

The outlook for both the German and the Polish part of TAG's business has weakened over the last few quarters. While the operational outlook for both the German and the Polish rental business is stable to good, rising interest rates increase marginal funding cost to the level of TAG's German portfolio yield. We are factoring in property value declines in Germany as well as reducing fixed charge coverage. The company's Polish business plan faces challenges from both reduced asset sales that were earmarked to fund the ramp-up of its rental business, as well as increased construction and funding cost for this business. Combined with more difficult access to equity, the ability to successful utilise the landbank and abilities acquired with ROBGY is uncertain, and funding risk is higher.

Exhibit 1
We expect TAG's fixed charge coverage to weaken
Moody's-adjusted metrics



Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

- Dominant share of business in the stable and regulated rental housing activities in Germany, generating stable cash flow from a portfolio diversified across several German regions, with limited correlation to GDP
- Moderate debt/gross assets and commitment to retain LTV at or below current levels
- Long-dated debt funding structure outside of shorter term maturities and access to German long-term bank debt

Credit challenges

- Meaningful funding requirements in the next 18 months
- Challenging operating environment in its Polish development business, which is elevated compared to other property owners
- Rising interest rates putting pressure on fixed charge coverage and potentially property values
- Lack of a substantial unencumbered assets base given TAG's focus on secured debt
- A large share of the company's assets in the weaker economic regions of Germany
- Moderating rental growth
- Sensitivity of the residential sector to social and political considerations

Rating outlook

The stable outlook reflects the corrective measures the company has taken alongside a moderately negative view on the German residential market. A further unfavourable change to funding conditions would weaken the outlook for the company.

Factors that could lead to an upgrade

A rating upgrade may occur if

- Polish sales volumes increase slightly from current lows while retaining their current margins, resulting in positive cash flow generation that contributes to a ramp-up of the Polish business
- Uncertainties with respect to pricing in the German residential market fade
- Longer term funding has been secured, including a repayment of the bridge facility, and sufficient financial flexibility is retained with quality unencumbered property assets
- Visibility that fixed charge cover remains above 2.75x considering longer term higher interest rates
- Net debt/EBITDA remains well below mid-teens, and
- Debt/Asset remains well below 50%

Factors that could lead to a downgrade

A rating downgrade may occur if

- The company is unsuccessful to secure its (re)financing needs for the 2023 and 2024 maturities and its Polish operations
- The investment market for German residential assets weakens materially, raising concerns around further property value declines and execution risk for disposals

» Polish property sales volumes reduce further below current run-rate levels or margins reduce materially

» Fixed charge coverage declines below 2.5x

» Debt/Assets developing towards 55%

Key indicators

Exhibit 2
TAG Immobilien AG

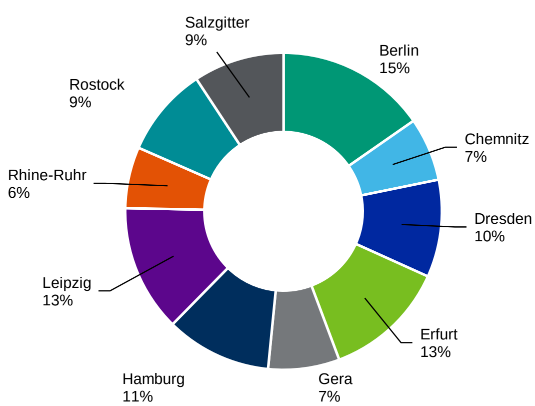
USD Millions	FY Dec-17	FY Dec-18	FY Dec-19	FY Dec-20	FY Dec-21	LTM Jun-22	Moody's 12-18 month forward view
Real Estate Gross Assets	5,578.3	5,767.6	6,338.7	7,925.4	8,059.3	8,695.7	$7,700 - $8,300
Amount of Unencumbered Assets	15.7%	14.0%	12.3%	15.4%	15.7%	24.7%	15% - 25%
Debt / Real Estate Gross Assets	54.7%	48.1%	45.8%	47.5%	43.9%	47.8%	43% - 48%
Net Debt / EBITDA	11.2x	10.9x	11.3x	12.4x	12.7x	16.5x	13x - 15x
Secured Debt / Real Estate Gross Assets	41.7%	36.8%	33.7%	30.5%	29.2%	25.5%	30% - 40%
EBITDA / Fixed Charges	2.8x	3.7x	4.4x	4.2x	4.6x	4.2x	3.2x - 4.6x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's 12-18-month forward view is Moody's opinion and does not represent the viewsoftheissuer. Periods are financial year-end unless indicated. LTM = Last 12 months.
Source: Moody's Financial Metrics™ and Moody's Investors Service estimate

Profile

TAG Immobilien AG (TAG) owns and manages a large and diversified multifamily residential rental portfolio of about 87,300 units, mainly located in the east and north of Germany. The company entered the Polish market via the acquisitions of the developers Vantage Development SA in 2019 and ROBYG S.A. in 2022. As of 30 June 2022, TAG's gross asset value amounted to around €7.8 billion. Headquartered in Hamburg, TAG is listed in the MDAX at the Frankfurt Stock Exchange. TAG had a market capitalisation of €1.2 billion as of 11 October 2022, which represents a material discount to its reported EPRA net tangible assets.

Exhibitupdated 3
TAG's portfolio is mostly located in Eastern and Northern Germany
Property fair value split by geography



As of June 2022.
Source: Company

Detailed credit considerations

Supportive operating environment while property values will likely decline

The German residential sector is one of the most stable asset classes in the European real estate industry, with high demand and limited supply supporting rents and values. While the potential for tighter regulations is a threat to property values and cash flow growth, it will also probably intensify the supply and demand imbalance.

The German rental market is highly regulated — reletting rents and rent increases for existing tenants are capped with reference to a local index (Mietspiegel) calculated by local authorities, reflecting the location and quality of the units. Rent increases are mostly capped to 15% over a period of three years (5% a year; allowance made for modernisation, the cap on which is 8% per year). From a longer-term perspective, prices and rents for residential properties have been more stable in Germany than in any other large developed economy even after taking into account recent increases. Since 1970, German house prices have increased broadly in line with inflation, but have never declined more than 3% in any given year.

Average rents remain affordable despite recent rent and value increases. Nevertheless, affordability fluctuates in tandem with the absolute amount of household income, which exposes lower-income households in particular to higher rental cost-to-income ratios. Affordability has clearly declined in the past five years in Germany as a whole, with rental growth exceeding income growth, resulting in political and regulatory activity aiming to reduce rental growth.

Property values in the German residential market are likely to decline. While we cannot forecast particular value declines, we have included up to 10% value declines in our assumptions for the next 12-18 months. The current residential portfolio market in Germany is characterised by a large number of potential buyers while leveraged sellers struggle with cost of new debt around portfolio yields. Therefore any disposal plan that can help to manage capital structures is subject to a higher degree of execution risk. TAG aims to pay down the outstanding bridge facility through property disposals in Germany, hence the availability of a functioning transaction market is an important element of the company's funding and liquidity strategy.

Diversified portfolio with broadly stable vacancy and moderating rental growth, partially located in weaker regions of Germany

TAG has a very diversified portfolio of around 87,300 units concentrated outside the largest cities in Germany. TAG focuses on affordable housing, which is mainly reflected in its relatively moderate rents in a portfolio that generates a higher yield on value than those of some of its residential peers.

Around two-thirds of TAG's residential units are located in around 30 cities with more than 20,000 inhabitants, although some are suburbs of larger urban areas. A small share of the portfolio is located in cities with smaller populations. Therefore, overall, the portfolio will benefit to some extent from the urbanisation trend in Germany. The company is not located in city-center locations that will suffer from weakening demand given structural changes in the working-from-home environment.

Exhibit 4

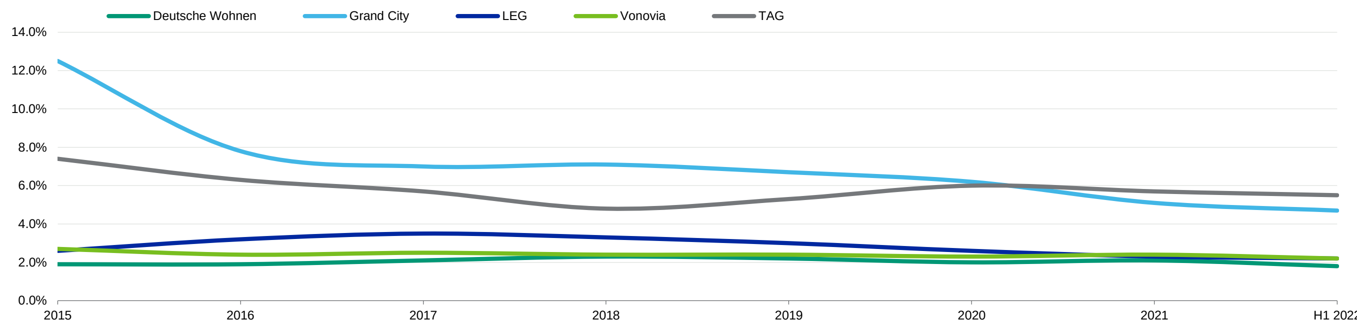
TAG's portfolio as of 30 June 2022

Region	Fair Value in EURm	FV in % total	Units	Renatable area (sqm)	Fair value per sqm (EUR)	Gross yield	Vacancy Jun-2022	Actual net cold rent (EUR/sqm)	Reletting rent (EUR sqm)	Maintenance (EUR sqm)	Capex (EUR sqm)
Berlin	1006.5	15.1%	10,509.0	601,661	1,672.9	4.2%	3.6%	6.1	6.7	3.8	11.0
Chemnitz	424.7	6.4%	8,042	472,076	899.6	6.1%	9.3%	5.1	5.0	4.4	5.8
Dresden	652.8	9.8%	6,085	393,836	1,657.5	4.3%	1.8%	6.1	6.5	1.9	3.8
Erfurt	823.7	12.3%	10,245	574,905	1,432.8	4.5%	1.3%	5.4	5.8	3.4	3.5
Gera	478.1	7.2%	9,523	548,106	872.3	6.7%	6.1%	5.2	5.3	2.5	9.6
Hamburg	709.5	10.6%	6,946	427,686	1,658.9	4.2%	4.4%	6.1	6.2	5.3	5.0
Leipzig	850.3	12.7%	13,133	765,678	1,110.5	5.3%	8.5%	5.4	5.6	3.7	6.4
Rhine-Ruhr	410.5	6.2%	4,132	262,428	1,564.2	4.3%	2.3%	5.7	5.9	6.8	2.8
Rostock	601.1	9.0%	8,314	466,086	1,289.7	4.9%	6.9%	5.7	5.9	4.9	12.2
Salzgitter	609	9.1%	9,179	563,065	1,081.6	5.8%	5.5%	5.5	5.7	3.7	4.7
Total residential	**6,566.2**	**98.4%**	**86,108**	**5,075,527**	**1,293.7**	**4.9%**	**5.2%**	**5.6**	**5.8**	**3.9**	**6.7**
Acquisitions	0	0.0%	0	0	0.0	0.0%	0.0%	0.0			
Others	104.4	1.6%	127	17,393	6,002.4	5.1%	0.2%	14.9			
Commercial units			1,079	135,407			13.4%	8.4			
Total	**6,670.4**		**87,314**	**5,228,327**	**1,275.8**	**5.1%**	**5.5%**	**5.7**			

Source: Company

About 70% of TAG's properties are located across six federal states in Eastern Germany (Berlin, Brandenburg, Mecklenburg-Vorpommern, Sachsen, Sachsen-Anhalt and Thüringen), which are economically weaker regions in terms of purchasing power. GDP or unemployments trends in those regions however have not underperformed national averages. Combined with a relatively good rent affordability on a portfolio level, TAG's ability to pick the right assets and locations will be a key driver of further rental growth and vacancy rate reduction. TAG's vacancy rate has is around 5.5%, which is largely consistent with the average over the last 5 years.

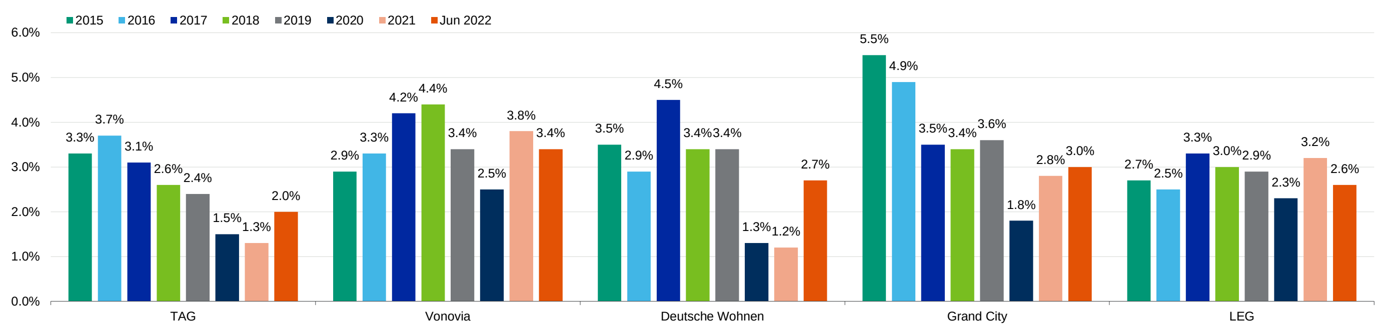
Exhibit 5
Development of vacancy rates
TAG compared with its peers



Source: Company reports

TAG's rental growth has been in decline in the recent years, settling around the 2% mark as of June 2022 from 2-4% until 2019. TAG's capital spending was lower than peers, which contributed to lower rental growth. Reducing rental growth is a trend affecting a number of companies in the sector. TAG's rents are lower than those of its peers, but remain affordable compared with average household incomes. Despite current pressure on households from general inflation and energy prices, we expect continued modest nominal rental growth, albeit not increased due to inflation.

Exhibit 6
Like-for-like rental growth
TAG and its peers



Source: Company reports

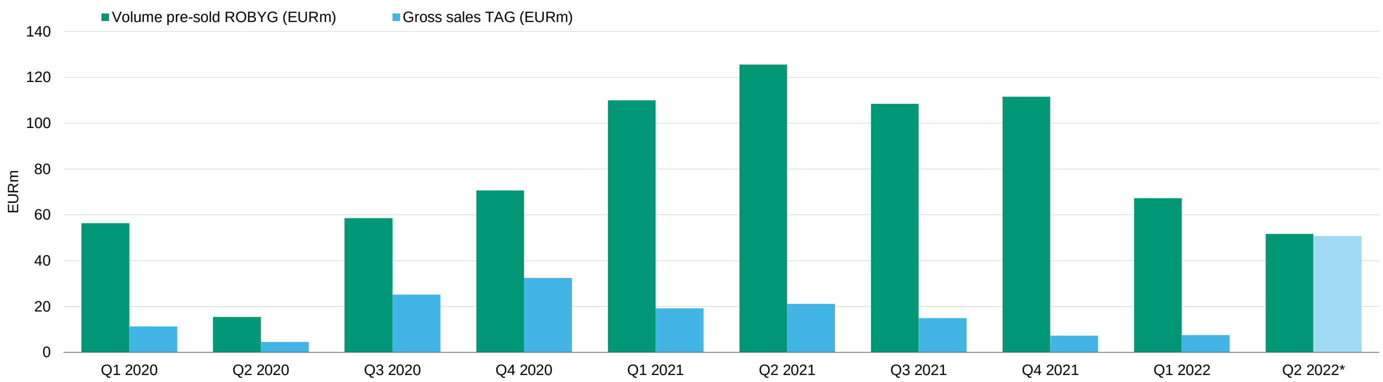
Deteriorating operating environment in TAG's Polish business

TAG has entered the Polish residential property market with the acquisition of Vantage Development S.A., a formerly listed Polish residential real estate developer, in November 2019. End of 2021, TAG agreed to purchase ROBYG S.A, the largest Polish residential developer. Over time, TAG intends to reduce the developments earmarked to sell and increase developments for its own balance sheet, a process already well advanced with the development pipeline of Vantage. The landbank allows for projects over the next decade that can produce over 30,000 units.

The operating environment of TAG's Polish operations have weakened materially in the last 12 months. As a reaction, TAG has meaningfully downsized its business plan by largely stopping any new developments for its build to rent business and allocating more units to its sales programme in Poland. Unit sales in Poland have declined sharply after inflation has risen and interest rates rose strongly, which has reduced affordability for home buyers. Cost inflation has so far been buffered by rising sales prices, pointing to a more equity-driven buyer base, but the future attractiveness of residential unit sales remains uncertain. In the long run, owning a material rental business in Poland has strategic merits and brings an element of diversification to TAG's business model. The rental market in Poland is also intact, the influx of refugees had a positive impact on rental prices in this unregulated residential market. The challenge is the funding and capital structure that accompanies a transition to a meaningful income-generating portfolio in Poland in a higher interest rate environment.

Exhibit 7

Sales volumes declined in Poland



Constant exchange rate PLN / EUR of 0.22 used for ROBYG volumes
TAG gross sales include Vantage only up to Q1 2022, and Vantage and ROBYG since Q2 2022
Source: Company data TAG and ROBYG

Key financial ratios weakened with the ROBYG acquisition, rising interest rates will have a meaningful impact in the next 12-18 months

TAG's financial metrics have weakened with the ROBYG transaction. The company raised equity and used balance sheet cash to pay down a first part of the bridge facility used to fund the acquisition. Anticipated disposals in Germany will also have a reducing effect on balance sheet leverage and net debt/EBITDA.

TAG's debt/asset will likely remain around 45% in 2023, which includes Moody's assumption of up to 10% value declines in the next 12-18 months and largely successful property disposals. This is also a function of strongly reduced capital spending in TAG's build to rent portfolio in Poland, which reduces earnings growth but has a net positive impact on balance sheet leverage.

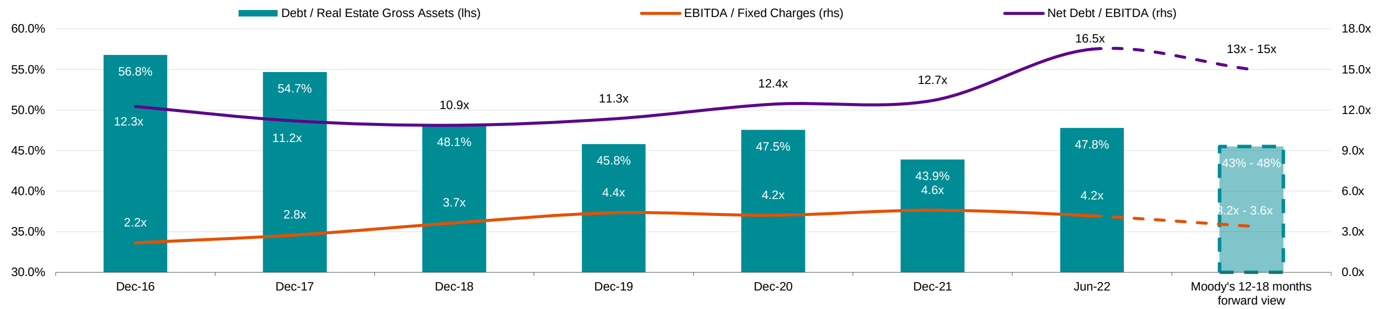
A key challenge for the entire sector is rising cost of debt. TAG's fixed charge cover will reduce to 3.2-3.6x compared to 4.2x for the last twelve months ending June 2022. While the increase in the marginal cost of debt is very material even considering cheaper German mortgage debt, TAG has already or will repay the bridge facility rather than refinance it, and used German mortgage debt to partially repay unsecured debt maturing in 2023 and funding its Polish operations. Other refinancing requirements from its German operations are well spread over the next years, which means higher interest cost only reduce fixed charge cover over time.

Net debt/EBITDA will reduce to 13-15x in 2023 from its 16.5x as of LTM June 2022. Earnings will grow also from sales in Poland, without earnings from Poland this ratio would be 2-3x higher in 2023. We do consider the EBITDA from Polish sales in our projections despite their more risky nature.

Earnings-based metrics are reduced by a purchase price allocation (ppa), as large part of earnings have essentially been "earned" by the previous owner through the acquisition price. We expect the ppa effect to ease off over the next 24 months, increasing earnings contribution to from Polish unit sales.

Exhibit 8

Leverage weakened with the ROBYG acquisition, coverage set to weaken further



Source: Moody's Financial Metrics™ and Moody's Investors Service estimate

The company pays a relatively high dividend of 75% of funds from operations (FFO) compared with that of its peers.

High reliance on secured funding, resulting in a low ratio of unencumbered assets and a high secured debt ratio

TAG's unencumbered asset ratio of 25% is among the lowest in the European real estate peer group, stemming from its bank debt-funded financing model. Given current tight liquidity, this disadvantage reduces financial flexibility. Most of TAG's unencumbered property assets are land bank and assets under construction in Poland, which we do not consider as available to fund shorter term liquidity needs. The German operations benefit from bank debt that provide a very long average debt maturity and low cost of funding, but reduces flexibility and subordinates unsecured creditors, and also increases the secured debt ratio.

TAG's access to equity capital is currently weaker after substantial share price declines, but the company is committed to maintain its credit profile. We expect TAG to secure further debt proceeds to fund the liquidity needs in the next 12-18 months. As of 30 June 2022, the company's largest shareholders were MFS Investment Management with a 9.9% share, Blackrock with 7.3% and Flossbach von Storch AG with a 5.1% share.

Liquidity analysis

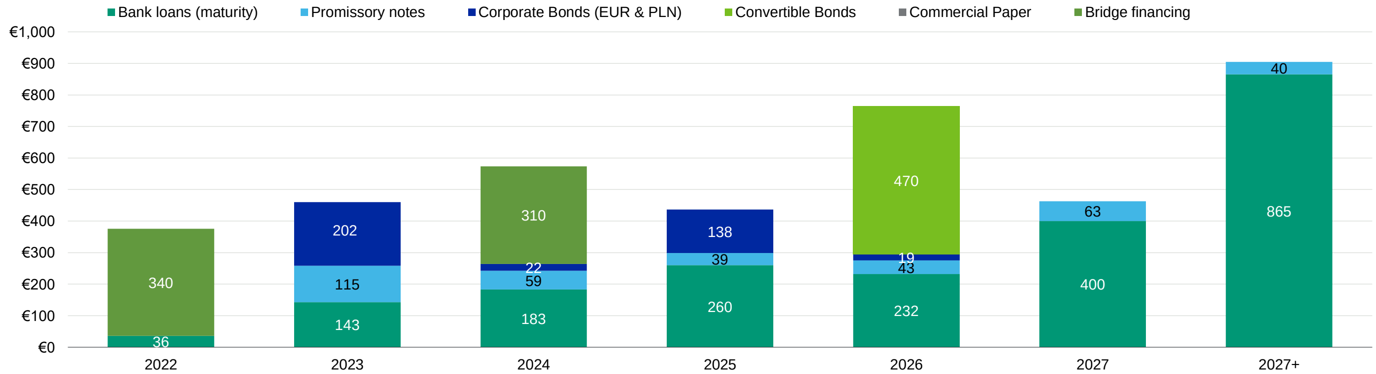
Liqudity needs from refinancing and Polish business

The company's liquidity is tight compared to other companies with investment grade ratings. The company has repaid part of the bridge facility since the June 2022 reporting date from capital raise proceeds and existing cash. Proceeds from the capital raise were lower than initially expected by Moody's, reflecting the reduced share price and market uncertainty at the time of the issuance. TAG actively works to secure additional funding that will be required to refinance both bank debt and unsecured financing until Q2 2023 in particular. The company also processes an active disposal programme for German residential portfolio, although we understand a large part of the proceeds are required to further pay down the bridge facility that expires in early 2024.

Given the substantial development activities in Poland, sales proceeds and construction cost from its build to sell business are a material driver of TAG's liquidity profile. 2022 deliveries are effectively sold and the cash flow risk associated with those projects is limited. The next 18 months of cash flow requirements in Poland will depend on the further development of new sales for 2023 deliveries (roughly 60% sold) and 2024 deliveries (largely to be sold), as well as the cost management associated with those projects. The company estimates around €50-75 million of liquidity needs for its Polish operations until YE 2023 in addition to platform cost. Liquidity needs will also arise from a mismatch of funding for energy cost between what TAG pays to energy suppliers and what TAG charges to its tenants. We understand this gap is reduced as tenants are encouraged to make higher prepayments, but uncertainty exists from tenant's ability to pay and the timing and shape of government support that we think will be implemented.

Outside of immediate refinancing needs, TAG benefits from a long-dated debt funding structure with largely fixed rates (4.9 years average debt maturity) and access to inexpensive German long-term bank debt. The average interest rate of 1.48% will increase with the upcoming funding requirements.

Exhibit 9
Debt maturities as of 30 June 2022



Source: Company

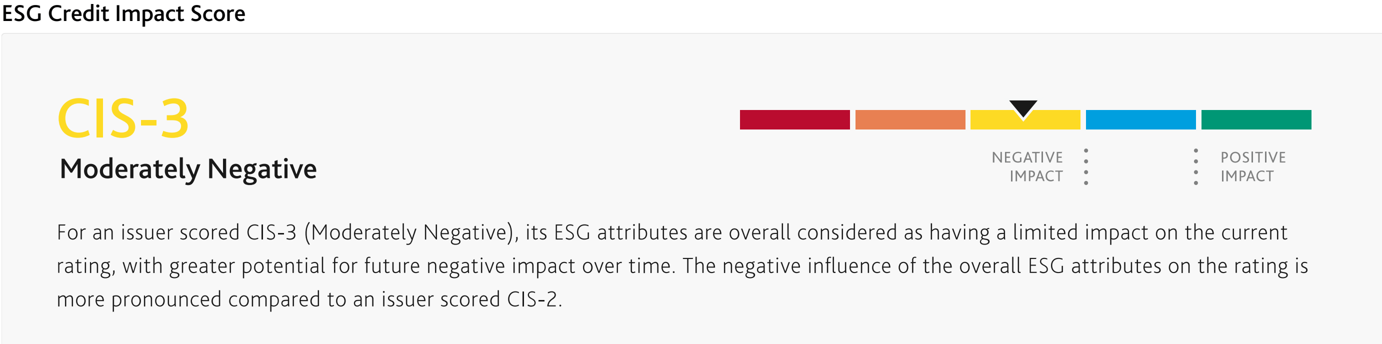
Structural considerations

TAG's CFR references to the majority class of debt, which is secured debt. Any future unsecured funding may be at or below the CFR in accordance with Moody's rating methodology for REITs and Other Commercial Real Estate Firms, 23 September 2022.

ESG considerations

TAG Immobilien AG's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 10
ESG Credit Impact Score



Source: Moody's Investors Service

ESG considerations have a moderately negative impact on TAG's rating (**CIS-3**), with potentially larger impact in the future. The **CIS-3** reflects a weak liquidity management alongside increased business and financial risks stemming from the recent acquisition of a Polish developer, as well as the implications of carbon transition risk with required investment together with regulatory risks in the residential market.

Exhibit 11
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

E-3: TAG, alongside the German residential sector, is moderately exposed to carbon transition risk through increasing investment requirements to improve the energy performance of its buildings from a regulatory, investors and tenant perspective. The company has identified a tangible path to net-zero carbon emissions but will need to increase spending to meet its targets.

Social

S-3: Credit exposure to social risks is moderately negative. TAG is exposed to social risk arising from affordable living requirements and rental regulation. It affects rental growth potential for companies in the sector and interferes with investment requirements due to environmental regulation. Historically the regulation served as a stabilising factor in the sector, but overboarding rental regulation would make the asset class less attractive. Companies in the sector are also exposed to moderate customer relationship risk through the handling of sensitive private individual data

Governance

TAG's **G-3** Issuer Profile Score reflects a weaker liquidity management as well as a weaker financial and business profile following the acquisition of a large Polish development company. TAG remains committed to its financial policy but needs to amend its capital structure in the new interest rate environment

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.

Rating methodology and scorecard factors

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms published in September 2022. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

TAG's assigned rating of Ba1 is one-notch above the scorecard-indicated outcome under both our current view and forward view. This reflects our stable view of the German residential sector from a demand and supply perspective. It also reflects the German banking markets' provision of very long-term debt funding to residential companies, which lowers the scorecard-indicated outcome because of weak unencumbered assets and secured debt ratios.

Exhibit 12

Rating factors

TAG Immobilien AG

REITs and Other Commercial Real Estate Firms Industry Scorecard [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 10/11/2022 [3]	
Factor 1 : Scale (5%)	**Measure**	**Score**	**Measure**	**Score**
a) Gross Assets (USD Billion)	$8.7	Baa	$7.7 - $8.3	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	24.7%	B	15% - 25%	B
Factor 4 : Leverage and Coverage (45%)				
a) Total Debt + Preferred Stock / Gross Assets	47.8%	Baa	43% - 48%	Baa
b) Net Debt / EBITDA	16.5x	Ca	13x - 15x	Ca
c) Secured Debt / Gross Assets	25.5%	Ba	30% - 40%	B
d) Fixed Charge Coverage	4.2x	Baa	3.2x - 3.6x	Baa
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba2
b) Actual Rating Assigned				Ba1

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 30 June 2022 (L).
[3] This represents a 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 Financial Metrics™

Ratings

Exhibit 13

Category	Moody's Rating
TAG IMMOBILIEN AG	
Outlook	Stable
Corporate Family Rating	Ba1
Commercial Paper -Dom Curr	NP
ST Issuer Rating -Dom Curr	NP

Source: Moody's Investors Service

Appendix

Exhibit 14

Moody's-Adjusted Debt Reconciliation for TAG Immobilien AG[1][2]

in EUR millions	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	LTM Jun-2022
As Reported Debt	**2,513.8**	**2,398.8**	**2,577.1**	**3,057.5**	**3,093.7**	**3,957.9**
Non-Standard Public Adjustments	9.2	9.0	3.1	0.0	0.0	0.0
Pensions	5.9	5.5	5.8	5.8	5.4	5.4
Hybrid Securities	0.0	0.0	0.0	16.2	12.2	10.8
Leases	11.0	12.1	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	**2,539.9**	**2,425.4**	**2,586.0**	**3,079.4**	**3,111.4**	**3,974.1**

[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

Exhibit 15

Moody's-Adjusted EBITDA Reconciliation for TAG Immobilien AG[1][2]

in EUR millions	FYE Dec-2017	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	LTM Jun-2022
As Reported EBITDA	**488.4**	**645.5**	**633.6**	**590.6**	**777.6**	**741.6**
Non-Standard Public Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Unusual Items - Income Stmt	-286.5	-433.6	-413.5	-368.6	-540.1	-515.5
Leases	2.7	3.0	0.0	0.0	0.0	0.0
Moody's-Adjusted EBITDA	**204.7**	**214.9**	**220.1**	**222.0**	**237.5**	**226.1**

[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

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