MOODY'S RATINGS

Rating Action: Moody's Ratings affirms TAG's Baa3 rating; outlook changed to positive

28 May 2025

Frankfurt am Main, May 28, 2025 -- Moody's Ratings (Moody's) has today affirmed TAG Immobilien AG's (TAG) Baa3 long-term issuer rating and the Baa3 rating on its senior unsecured notes. Concurrently, we have affirmed the Prime-3 (P-3) short-term issuer rating and the P-3 rating on TAG's commercial paper programme. The outlook has been changed to positive from stable.

RATINGS RATIONALE

"The positive outlook reflects TAG's continued operating performance growth, supporting our expectation that TAG's financial metrics will be at the stronger end of the Baa3 rating guidance over the next 12 to 18 months, particularly with respect to earnings-based leverage and interest coverage ratio," says Ana Silva, a Moody's Ratings Vice President – Senior Analyst and lead analyst for TAG. "This expectation is underpinned by TAG's consistent solid operating performance of its rental business in both Germany and Poland, as well as solid earnings contribution from its development activities in Poland, prudent capital allocation, and a clear commitment to gradually transitioning toward unsecured debt funding, which will enhance the company's financial flexibility and support a potential upgrade." adds Mrs Silva.

The Baa3 rating continues to be supported by TAG's stable earnings base, primarily generated from its German rental housing portfolio, and further reinforced by its expanding and accretive Polish residential operations. The latter benefits from strong long-term demand fundamentals and TAG's positioning as a Tier 1 homebuilder, owner, and operator within Poland's private rental sector (PRS). The company has also demonstrated prudent liquidity and refinancing risk management, underpinned by long-standing banking relationships in Germany and successful benchmark issuances of unsecured and convertible bonds over the past 12 months.

However, the rating remains constrained by TAG's relatively high proportion of secured debt, which limits its unencumbered asset base at this point in time. Additionally, the German residential sector continues to face elevated marginal funding costs compared to in-place debt. These pressures are partially offset by the higher profitability of TAG's Polish operations. TAG's exposure to development activities in Poland introduces some earnings and cash flow volatility, given the inherent cyclicality of the homebuilding sector. Moreover, the company's growing presence in an unregulated residential market, compared to Germany, could lead to valuation and earnings fluctuations. These risks are mitigated by Poland's solid macroeconomic fundamentals and persistent housing undersupply.

RATIONALE OF THE OUTLOOK

The positive outlook reflects our expectation that TAG will maintain a solid operating performance and disciplined financial management, with Moody's-adjusted gross debt to assets trending toward 45% over the next 12 to 24 months. This estimate is supported by stabilized valuations in the German multifamily residential market and continued favorable valuation prospects for TAG's income-generating rental properties in Poland. Earnings-based credit metrics are expected to remain strong, with interest coverage above 3.0x and net debt to EBITDA trending below 10x over the same period.

The outlook also incorporates our expectation that TAG will continue to strengthen its unencumbered asset base. This will be achieved organically through the expansion of its portfolio of high-quality, income-generating private rental sector (PRS) properties in Poland, and through selective repayment of secured debt, which will release encumbered German residential assets. Together, these measures will enhance TAG's financial flexibility and support a more balanced funding structure.

The current rating guidance is calibrated to a credit profile, where the earnings contribution from the Polish BTS business remains broadly stable.

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

A rating upgrade may occur if:

» TAG improves its financial flexibility by significantly increasing a pool of high-quality unencumbered investment properties, in both of its main jurisdictions, that offer sufficient coverage for unsecured creditors

» TAG improves its diversification of funding sources across secured and unsecured debt while maintaining a fixed-charge cover above 3.0x

» Moody's-adjusted debt/assets remains below 45% and Moody's-adjusted net debt/EBITDA is sustained well below 10x, aided by a growing earnings contribution from a stabilised residential rental business in Poland

» TAG maintains an unchanged favourable earnings outlook for its Polish business activities combined with a stable operating environment in Germany

A rating downgrade may occur if:

» TAG is unsuccessful in diversifying its funding sources, thus failing to enhance its unencumbered asset base

» TAG engages in an aggressive growth strategy in Poland, including large exposure to development activities that are not prudently funded

» Moody's-adjusted debt/assets increases towards 50% or fixed-charge coverage falls to levels below 2.75x on a sustained basis

» overall liquidity of the group were to materially deteriorate

» property market fundamentals weaken sharply in both German and Polish jurisdictions

LIQUIDITY

We expect TAG to maintain a good liquidity position over the next 12 to 18 months. As of March 2025, the company had access to €994 million in cash and cash equivalents, €175 million in undrawn committed revolving credit facilities (RCF), and a pool of €1,236 million in unencumbered properties—primarily located in Poland.

TAG's liquidity is further supported by the successful issuance of a €500 million benchmark bond in 2024 (maturing in 2030) and a €332 million convertible bond issued in March 2025. These proceeds, combined with approximately €200 million in annual funds from operations (FFO) and around €100 million annual net proceeds from home sales in Poland, provide solid coverage for the company's upcoming cash needs. These include debt maturities, which will be partially rolled over, capital expenditures (including modest landbank acquisitions in Poland), and moderate discretionary outflows, that include the proposed dividend of approximately €0.40 per share, representing a payout ratio of 40% based on FFO I (as defined by the company). Shareholders will have the option to receive the dividend either in cash or as a scrip dividend.

ESG CONSIDERATIONS

As to governance considerations, the rating affirmation and a positive outlook incorporates our expectation of management's unchanged prudent capital allocation and strong commitment to adhere to a business strategy and a capital structure in line with our requirements for a high investment grade rating. Lastly we acknowledge that TAG aims for a gradual rebalancing of its funding sources across secured and unsecured debt.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was REITS and Other Commercial Real Estate Firms published in February 2024 and available at https://ratings.moodys.com/rmc-documents/414558. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

CORPORATE PROFILE

TAG Immobilien AG is a publicly listed real estate company headquartered in Hamburg and included in the MDAX index on the Frankfurt Stock Exchange. As of 31 March 2025, TAG owned and managed a diversified portfolio of approximately 83,126 multifamily residential units, primarily located in eastern and northern Germany and 3,350 rental apartments in Poland. TAG reported a total gross asset value of around €6.6 billion, with €5.3 billion located in Germany. As of 26 May 2024, its market capitalization stood at approximately €2.46 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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

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