

Transcript
H1 2025 Earnings Call
August 6, 2025



Rene Hoffmann

Welcome everybody to our earnings call! Speakers today are once again CEO Rolf Buch and CFO Philip Grosse. They will be happy to lead through today's presentation and then answer your questions.

With that, over to you, Rolf.

Rolf Buch

Thank you, Rene, and also a warm welcome from my side! Following a strong first quarter we have been able to keep up the momentum and we are happy to report a strong first half as well.

Let me start with the half-year portfolio valuation. In line with what we have guided, we saw a like-for-like value growth of 1.3% of our standing portfolio during the first six months. Going forward, we largely expect rent growth to translate into organic value growth based on our conviction that market yields will no longer expand.

In terms of operation, our market environment and operating fundamentals remain, like always, rock-solid, which should not come as a surprise to you. The Rental segment is fully on track, led by organic rent growth of 4.4% year-on-year.

In our non-rental segments we see continued acceleration of profitability with good progress in all three segments.

As a consequence, we delivered double-digit growth in EBITDA, EBT and Operating Free Cash Flow.

We have continued to actively manage our financing position with 1.3 billion of convertibles at very attractive cash coupons and a bond buyback of an aggregate volume of 800 million.

And while it is more of a technicality than anything else, we have completed the DPLTA process, so the domination agreement between Vonovia and Deutsche Wohnen is now in place. Deutsche Wohnen shareholders are now able to exchange their Deutsche Wohnen shares into Vonovia shares via their custodians if they want.

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This completes the Deutsche Wohnen integration and Vonovia is now a fully integrated company where we can leverage the full potential on the larger scale going forward.

I give you a reference: Look in the past what happened after the full integration of GAGFAH into Deutsche Annington and this will be the future going forward for the joint company.

Based on our good momentum and strong H1 performance we are confident for the remainder of this year and therefore increase our 2025 guidance as follows:

- Organic rent growth will be now greater than 4%.
- Rental income and Adjusted EBITDA Total we will now see at the upper end of the guided range.
- And Adjusted EBT range will be increased by €100 million.

Because this is one of the last calls of mine – not the last one – I hand over to Philip who will do the major part of the presentation.

Philip Grosse

Thank you, Rolf. And also a very warm welcome from my side!

Moving to page 4, the familiar overview of Adjusted EBITDA and Adjusted EBT as well as Operating Free Cash Flow. Let me add a couple of comments to put that into context:

All four segments, as you can see, are up in a year-on-year comparison and for the Adjusted EBITDA Total the growth translates into 12%.

As expected, we lost a little bit of that performance on the way down to Adjusted EBT – that's obviously because of higher financing expenses – but we still delivered 11% growth or 10% on a per-share basis. And since I know that many of you keep a very close eye on minorities, I am happy to report that the Adjusted EBT growth after minorities was almost a percentage point higher than before minorities.

The main moving parts between Adjusted EBT and Operating Free Cash Flow are

- the higher cash taxes – that comes from higher recurring sales volumes, so disposal-driven,

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- higher dividend payments to minorities because now we are seeing the full-year effect on those dividend payments for the first time.

On the other hand, we had

- higher disposal volumes in Recurring Sales, and
- cash-in of some of our development transactions.

The net effect is more than 50% growth in Operating Free Cash Flow.

You may have noticed that we have also made small changes to the Operating Free Cash Flow definition; that is to better reflect the cash flow from our four business segments.

One is the line item "Change in capital commitment Development to Sell" to more accurately reflect the actual cash flow from changes from the Development to Sell segment. Future cash-relevant changes in relation to our "Manage to Green" strategy will also be included in this line item. For the time being, there is no impact.

The other is the addition of the intercompany profits as the cash benefit, if you will, compared to outsourcing the work to third parties.

Let's go through the four segments one by one and I will start with the Rental segment on page 5.

Here, in spite of about 10,000 fewer units due to sales, we still saw an increase of 2.6% in the top line as rent growth overcompensated the smaller portfolio. Maintenance was a touch higher, as expected, and operating expenses were slightly lower, also helped by a smaller tax refund.

All in all, we managed to preserve the top line growth on the EBITDA level for a year-on-year increase of 2.9%.

The acceleration of organic rent growth in Q1 continued also in Q2 4.4% overall and 2.9% from market rent growth. Again, for the medium to longer term, we stick to our back-of-the-envelope guidance of around 2.5% for the non-investment-driven rent growth. On a similar note, the 1.5% investment-driven rent growth is based on more recent investment volumes of a billion, last year even less. So as we look to increase this volume you can expect a higher contribution

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on the basis of the operating yield of 6 to 7% which continues to apply to our investment program.

No need to dwell much on occupancy rate and collection rate, as both remain exceptionally high and are expected to remain that going forward.

Finally, fluctuation rate dropped a bit, below 8%. It generally remains at low levels and that is a function of the tightness in the markets in which we operate.

Page 6 is the same analysis we have been showing for a few quarters now, only updated for H1.

The point is quite simple. If you look at the spread between the real market rents and our regulated levels, it is absolutely no surprise that the rental KPIs I showed you on the previous page are the way they are. And they will continue to develop strongly because they are the consequence of the structural supply/demand imbalance in urban markets, giving us – that is for me the key point – very good visibility on strong rental growth for effectively the next ten years plus.

Page 7, on our Value-add segment.

Here, as you can see, both internal and external revenue is up double digit. As a result, overall contribution from Value-add was slightly more than 100 million, which represents an increase of 77% year-on-year.

The main driver behind this positive development were the increased modernization and portfolio investments that benefitted our craftsmen organization. On top, we have also seen positive business developments in particular on the energy side in a year-on-year comparison.

Recurring Sales, that is on page 8.

We sold slightly above 1,100 units in H1, almost 25% more than last year. Margins were also up to more than 29%, so we're on a very good trajectory towards our ambition of a gross margin of 30 to 35%.

This Recurring Sales segment will also be the segment where we will report earnings from the disposal of assets that we have managed from brown to green. Here we have made the first small acquisition of a pilot project in Cologne, just about 130 units for an in-place rent multiplier of 21 times. We will now do the modernization work and the energy efficiency improvements before we sell it back to the

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market at a multiple that we expect to be substantially higher and also based on a higher rent following the green capex and the respective quality improvement of the buildings.

Finally, on our Development segment, page 9.

As I explained in Q1, we have largely sold off our inventory and are currently in the process of refilling that pipeline, with the construction start of around 3,000 units this year.

Much of the H1 2025 disposals were land sales, and if I look at the remainder for this year, a meaningful contribution to the Development EBITDA will probably also come from further disposals of land.

A key focus for our Development segment is the reduction in construction costs, as we have also dwelled into quite some detail in our Capital Markets Day. The new government is working on some promising initiatives in our view to reduce costs and we remain very focused on reducing the cost items that we can control. At the end of the day, that is what it is all about. The demand at the right price point is enormous and the lower the construction cost, the larger the addressable market for a product that is, in urban areas, desperately needed.

We have been making good progress on that front, towards our target of around 3,500 euros. That is all-in cost for new build and we have started the first projects in Berlin and Dresden where we will be able to deliver new constructions at or even below these target costs.

If you then look at our land bank locations, we are quite optimistic about the upside potential of our Development activities.

So much about the segments. Let's move to page 10; that is on valuation.

The first six months brought a total value growth of our standing portfolio of one billion euros or 1.3% on a like-for-like basis. If you look at the evolution on the lower left-hand side, you can see that the turnaround in asset values has been completed and we're now on track to see rent growth translating itself into organic value growth based on our conviction – and that is backed by market evidence year to date – that yields are no longer expanding.

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As of June this year, we also had the initial recognition of the QBI landbank that we acquired in a debt-to-asset swap we reported with full-year 2024 results. We have made the initial recognition of the QBI landbank based on our conservative valuation approach mainly relating to cost assumptions. That results in an impairment of around 300 million euros in H1 plus a provision of 85 for part of the transaction which has not yet seen closing.

Netted against the value growth of plus 1 billion and the currency impact, the gross asset value at the end of Q2 was 82.9, up 0.8 billion from year-end 2024. So a nice development, as I said initially.

Let's move to page 11 for the debt KPIs.

The bottom line is that we consider our leverage well under control, measured by what the rating agencies expect us to be safe on our triple B plus rating with a stable outlook.

Accounting for the transactions signed, but not yet closed our pro-forma cash position is 3.7 billion euros, so very comfortable in light of the upcoming refinancings. With the recent closing of the disposal of Deutsche Wohnen stock to Apollo, that position actually increased by a billion.

You will have seen the two convertibles that we have issued in May with a total volume of 1.3 billion and a cash coupon of less than 50 basis points. We expect the annualized interest cost advantages to be around 45 million euros compared to a straight bond. To be very clear, I consider convertibles, as I always said, as pure debt instruments in line with the Ts and Cs, and that is also how we have accounted for them in our balance sheet.

Second, we also, as announced, completed another liability management exercise in June and bought back 800 million across two bonds that mature in 2027 and 2030 respectively, running at slightly higher coupons than our current marginal cost of debt.

When it comes to the three main debt KPIs, LTV was at 45.9% on a pro-forma basis, so accounting for the cash from disposals signed but not closed yet. The downward trend of this metric is very much intact, but of course we had the dividend payment that accounted for roughly an 80 basis point increase in H1.

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Net debt to EBITDA was 13.7 times. Here, too, the dividend payment was responsible for a 0.2 multiple points increase, but either way that debt KPI keeps moving in the right direction.

Different points in cycle require a stronger focus on some KPIs more than others, and we are at a point where our main attention moves from LTV towards ICR. Here, we are currently at 3.5 times, so at the internal target threshold that we have set for ourselves. Based on our internal projections, however, we will be at this level or slightly better over the near and also medium term. So while this KPI is currently the tightest one, we feel that it is also well under control.

Let me also take the opportunity to again explain how we look at leverage: Our focus, as I said initially, is to make sure our debt KPIs are in line with the triple B plus rating criteria and a stable outlook. From hereon, this is essentially an organic development as we expect values and EBITDAs to grow and therefore to further move the debt KPIs in the right territory or even further. This may also mean that we may be better than the target corridor for a period of time. There will be market phases where we are better than the rating-derived target ranges. In particular, for the net debt to EBITDA multiple, this will apply.

Lastly from my side on guidance, page 12.

We essentially made five changes to reflect a higher ambition level in line with our good progress during the first six months and our general confidence looking forward.

- We expect both rental revenue and Adjusted EBITDA Total around the upper end of the original ranges.
- We are increasing our guidance for organic rent growth from around 4% to greater than 4%.
- The same goes for the SPI, which is now also greater than 100%.
- And, as Rolf said, we are increasing the range for Adjusted EBT by 100 million euros. It is now 1.85 to 1.95 billion which we expect for the running year.

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One more word on the rent growth which is now greater than 4% for both the 2025 guidance and the 2028 outlook. To be clear, there is a material difference between these two, because the targeted investment volume for 2025 is 1.2 billion and for 2028 it is 2 billion. So there is a substantial ramp-up in our investments and it is safe to assume that by 2028 our organic rent growth with those additional investments will move towards the 5% like-for-like growth.

One last word on the domination agreement with Deutsche Wohnen. As Rolf said earlier, the domination agreement between Vonovia and Deutsche Wohnen is now in place. This completes the Deutsche Wohnen integration and we can now leverage the full potential of a larger scale going forward.

As you will remember, in order to protect Vonovia shareholders, we have set up a vehicle together with Apollo that will hold 20% of Deutsche Wohnen shares, so that the look-through stake that Apollo holds in Deutsche Wohnen is just above 10%. That vehicle is now in place and we have received the 1 billion cash from Apollo which we can use to delever and save interest cost in the magnitude of 40 million per year.

Because of Apollo's 10% stake in Deutsche Wohnen, our Adjusted EBT after minorities will be impacted by an additional 10% of Deutsche Wohnen's Adjusted EBT, so an annual earnings impact of a little over 50 million and that is based on Deutsche Wohnen expected EBT for 2025. For Vonovia, this is then a small dilution of the Adjusted EBT per share after minorities of around 3%. And this excludes any positive contribution from the saved interest cost thanks to the 1 billion of cash from Apollo.

If I move to a per-share basis, it actually does not really matter how many Deutsche Wohnen shareholders accept the exchange offer and change their shares into Vonovia shares. Here, a higher tender ratio means fewer minorities and more new Vonovia shares and, vice versa, a lower tender ratio means more minorities, but fewer new Vonovia shares. These are essentially communicating vessels and therefore, basically, a wash with no impact on Adjusted EBT per share after minorities.

So, long story short: The minorities will continue to represent roughly 10% of Adjusted EBT.

With that – hopefully – clarification, back to Rolf for some concluding remarks.

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Rolf Buch

Thank you, Philip.

Before we go to the Q&A, let me briefly summarize the relevant points from our H1 update:

Market environment and operating business remain rock-solid, like always.

The Rental segment is fully on track, like always.

And we see a continued acceleration of profitability in our non-rental segments which underlined the strategy 2028.

As a result, we are able to deliver a stronger financial performance with double-digit growth in EBITDA and Adjusted EBT.

The positive H1 valuation confirms the turnaround for asset values.

And the DPLTA process has been successfully completed and Vonovia is now a fully integrated company. Going forward, we can leverage the full potential of this large scale in the advantage of our shareholders.

That's why we have increased our 2025 guidance and we are confident not only about the near-term but also about the mid- and long-term development for Vonovia.

With this, back to Rene to manage the Q&A.

Rene Hoffmann

Thank you, Rolf and Philip.

I am happy to open up the Q&A. As in past calls, we will be limiting questions to two per participant. Thank you for your understanding.

With that, Yousef, you can start the Q&A, please.

QUESTION AND ANSWER SESSION

Operator

Our first question comes from Valerie Jacob of Bernstein. – Please go ahead.

Valerie Jacob

Hi, good afternoon! Thank you for the presentation.

My first question is about asset value. I just wanted to clarify: Your value report of 1.3%, is it including or excluding CapEx?

And on the same topic, I wanted to ask: You mentioned some evidence on the market during the call. So if you could share them with us and say if you're seeing any large transaction or large portfolio on the market at the moment. That's my first question.

And my second question is: Thank you for the update on the domination agreement. I just wanted to ask if you could give us the ratio of people that have accepted the offer. I understand that you said the acceptance rate has limited impact, but could you tell us what it is? –Thank you.

Philip Grosse

Okay, Valerie, thanks for your questions. I go through them one by one.

The 1.3% growth is not accounting for CapEx. If you deduct CapEx plus some other impact, that will lead you to our valuation result of 520 million euros. So including CapEx, we are roughly at 70 basis points growth.

In terms of evidence in the market: Looking at H1, we have seen a year-on-year increase of roughly 50% in transaction volume. So that is comforting. Here, however, there are only a few larger transactions. I think in total we have seen three transactions above the 100 million threshold. So by that, you can see it's backed really by a number of bigger transactions.

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What I always consider very interesting, and I think we've made that point also in the last call, is that typically the institutional market follows with some time delay the market for condominiums. And if I look at the pricing dynamic in the market for condominiums, it's more than twice what we see in multifamily homes. All of that are comforting signs.

On your last point, the domination agreement: We have essentially – I think it was last Friday – registered the domination agreement. That is the point in time where theoretically investors can exchange shares into Vonovia if the banking system is already equipped to proceed that.

Realistically, my assumption is that I not necessarily expect a lot of tender volume – for now, it's zero – soon, because if you do the math and you look at dividend expectation on Vonovia adjusted for the exchange ratio, it's for the time being sensible, rational, in my view, for Deutsche Wohnen investors to remain invested in Deutsche Wohnen, given the guaranteed dividend of 1.03 euro, which is the alternative to exchanging their holding into Vonovia shares.

Valerie Jacob

Thank you, Philip.

Operator

Our next question comes from Véronique Meertens, Van Lanschot Kempen. – Please go ahead.

Véronique Meertens

Hi, good afternoon! Thank you for taking my questions.

Maybe first on the Value-add segment. There was quite an acceleration in Q2. Is this like a more normal run rate, or can we even see a further acceleration throughout the year and the years to come?

Rolf Buch

Yes, this is a normal acceleration. You know, we want to go to 20, 25% of EBITDA. We are now not there yet. But all our programs which we carefully follow are guiding in the same direction. But I think this is a proof point that we are coming, I think, now from 9% last year to 15% this year. So we are on the right way. But as announced, in Q3, we will go on and this will come to 20, 25%.

Véronique Meertens

Specifically, I meant: You saw that, in Q2, the EBITDA contribution was already significantly higher than in Q1. Is that a normal run rate for Q3 and Q4 as well?

Rolf Buch

I would not go now from quarter to quarter exactly. I think you should look a little bit longer term. But it will go up. But don't do the run rate quarter by quarter. Then we would be ending much faster than 2028. And still the objective is in 2028 20 to 25%.

Véronique Meertens

Okay, clear. Thank you.

And maybe Philip, one follow-up on the domination agreement. It went a bit fast. I didn't fully understand. The guaranteed dividend distribution to Deutsche Wohnen holders, on which line should I actually see that? Is that reflected in the minorities line after EBT?

Philip Grosse

Correct, yes. Deutsche Wohnen shareholders – again, as a reminder – have two options. They can either remain invested in Deutsche Wohnen shares, in which case they will receive a guaranteed dividend of slightly above 1 euro per share. That number for the outstanding shareholders, you will find in the cash distributions, in the Operating Free Cash Flow and, accounting-wise, in the EBT post minorities.

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The alternative is that they can exchange their shares at a ratio of roughly 0.8 into Vonovia shares.

Rolf Buch

And then you find it in the EBT after minorities.

Philip Grosse

On a per-share basis. Right.

Véronique Meertens

Okay. That's clear. Thank you.

Operator

The next question comes from Rob Jones, BNP Paribas. – Please go ahead.

Rob Jones

Hi, team! Two questions, just one following up on the domination agreement, just so I understand it: If I'm a Deutsche Wohnen holder, as you said, I've got two options. I can either go for the exchange. It's roughly 0.79 Vonovia shares for a Deutsche Wohnen share. Or I can go down the route of getting the cash option, which is just over 1 euro post tax.

If I go for that cash option, does that mean, if all the remaining Deutsche Wohnen shareholders went for that option and didn't go for the swap into Vonovia shares, do I need to model an incremental cash outflow or an EBT post minorities outflow compared to what is currently the pro-forma situation, if you will? I'm just trying to think in terms of my forecast for FY 2025.

And then the second question was in terms of divvy. I appreciate, it's 50% of EBT plus surplus liquidity. Remind me how you calculate or think about that surplus liquidity element of your earnings, so I can think about that for the full year. Thanks.

Philip Grosse

I am not sure I got your first question right. Essentially, you will find the 1 euro guaranteed dividend in the Operating Free Cash Flow, in the line item "dividends and cash payments to minorities". That is purely a function of a tender ratio.

If I'm right with my assumption that there is going to be little tender ratio, then based on roughly 60 million minority shares, it's up to 60 million euros of cash burden in a given year. So between 0 and 60, depending on the tender ratio. That is also the line, if you will, which ultimately impacts the excess liquidity for distribution.

But just a cautious note on that topic: Keep in mind that we are significantly scaling up our investment volume. So my assumption that there is a lot to expect in terms of excess liquidity, is probably an aggressive one. At least over time, the dividend will move towards the 50% of EBT. Full stop.

Rob Jones

Okay, very clear: 50% of EBT. Full stop. – Thank you.

Operator

The next question comes from Thomas Rothäusler, Deutsche Bank.

Thomas Rothäusler

Hi! Two questions. The first one is on your upped earnings guidance. Maybe you could provide some color on the key drivers there.

And the second one is on the Development segment. I mean, most of the operating profit in the first half was driven by a one-off sale of a land plot. I am just wondering: By when do you expect more meaningful underlying contributions there?

Rolf Buch

For the Development, to be very clear: We have a land bank because of the history coming to this Deutsche Wohnen, Quarterback and Buwog land bank, that the land bank is too big. And that's why we are well advised to reduce the land bank by disposing land. So this will continue. And this will generate profits which you will see.

And as Philip said, in the same time, we are now building up and constructing new buildings, filling up the pipeline. Part of that you will see immediately in the result, and part you will see, especially if it's block sales, in the moment we are selling it.

So this brings then the Development back on track. But don't forget, we need to sell land because we have too much land.

Philip Grosse

To your first question, Thomas: What are the key drivers of us upping our guidance on EBT by 100 million? Roughly a third is interest saving. And that is very much a function of the convertible bond. I was referring to an annualized impact of 45 million euros. But adjusted for issuance in May, it's slightly above 30 million euros.

And the remainder is basically across all segments with a strong focus, however, on the Rental segment where rental growth exceeds our expectation, and that is what you also see in our upped guidance, if you will, in terms of EBITDA Total and rental revenue, where we are moving towards the upper end of the range in the tightened guidance, if you will.

Thomas Rothäusler

Thank you.

Operator

The next question comes from Bart Gysens, Morgan Stanley. – Please go ahead.

Bart Gysens

Hi, good afternoon! Two questions for me, please.

Firstly, on the Development segment. I appreciate some questions have been asked already. But given this is such a crucial part of what you're doing – you clearly talk a lot about “we want to grow the non-rental EBITDA” –, can you help us a little bit in understanding: How big was this land plot going from 70 million to 209 million?

And maybe for us and, I think, for the market it would be more helpful if you actually split that out a little bit more in detail, that you say what are the margins we make on Development to Sell. Because selling a land plot is not really Development to Sell.

So long way of asking: Can you split the 209 million by land sales and by actual home building? And what was the margin on your home building? That would be my first question.

Rolf Buch

Bart, we will get to the second. But just because it's a complex question you asked, let me say, just to be clear: The Development piece is one piece of our non-rental business. It's not the major piece.

To get this in context: The growth in the moment is coming actually from the craftsmen organization, from the heat pumps and all these things. Just to put this in perspective.

And now I hand over to Philip to give you the details or give you some better answer for the Development financials.

Philip Grosse

Bart, just to add on that: I think we've been giving longer term guidance of what we expect from our Development business, and that is that we move back towards an annual investment of 1 billion euros, with the expectation of achieving a gross margin of 20%.

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Now, what is currently different is that by managing the crisis and deleveraging the balance sheet, we have essentially sold our entire inventory. So there is nothing which is ready to sell because it's sold.

At the same time, we have seen our land bank increasing fairly significantly. And that is essentially because of the full integration of Deutsche Wohnen. So, in other words, in our view, we have too much capital tied in the Development space, which is why we are selectively selling land plots, which is fulfilling two goals. One is to reduce capital deployed. And two is to bridge the profit delta between now and when the projects we are now starting to build are actually generating or starting to generate EBITDA.

But, again, medium term – and that should be your expectation – is that we are targeting gross margins of 20% for annual investments of 1 billion euros. So if you deduct the cost of the platform of – let's call it – 40 million euros, we are targeting roughly 160 million euros of EBITDA from our Development business.

Bart Gysens

All right. My other question is on the Deutsche Wohnen integration. It sounds very good that you can leverage the full potential. But – maybe I'm not smart enough to understand it – can you give me two or three things specifically what that actually means, leveraging the full potential? What are the first two or three priorities for Vonovia, now that you've got full control, the full reins of Deutsche Wohnen? What are you going to do?

Rolf Buch

The biggest is: As you know, Deutsche Wohnen is still subcontracting a big part of the craftsmen organization to B&O. This will now be integrated fully in the VTS, which will generate actually the margin B&O is doing today. And they are charging a higher price than our internal price which we are charging with our VTS. So, this will lead actually to more profit and a bigger VTS which will generate more EBITDA and more value in the whole Vonovia Group.

The next one is, of course, cash pooling. We now have no issues with moving cash around. So, the cash blocked in the Deutsche Wohnen is over. These are two major things.

And again, if we are becoming bigger, I would advise you to look at a figure at which we are looking now in the sense of the Second Vonovia, which is the gap between gross asset yield and net asset yield. There you see a big difference between us and our peers. We are consuming much less. And the reason for this is, because we have higher purchasing volume, we have higher scale. That's why we can buy better, and things like Gropius where we are actually building the new buildings on Deutsche Wohnen plots, also contribute to the value.

So, the story which we started, I think, with the first integration will go on and now it is clear because we have no governance issues any more between Vonovia and Deutsche Wohnen.

Bart Gysens

And this is in the guidance, right? The better efficiencies and the VTS integration, that is in the guidance?

Rolf Buch

It is in the long term, 2028. To be clear, these are thousand craftsmen and this is not coming from one day to the next. You have to build the thousand craftsmen.

You are always seeing: It will temporarily improve the result. That's why I reversed to the GAGFAH merger. This was the same with the Deutsche Annington / GAGFAH merger. In the two following years after the completion of the mergers, you have seen a significant reduction in cost per unit or in yields. This is a factor. It does not come immediately, but it comes over time. And this you will see also, for example, for the VTS case in the next two or three years. And this will help us for the 2028 objective.

Bart Gysens

Great. Thank you very much.

Operator

The next question comes from Manuel Martin, Oddo BHF. - Please go ahead.

Manuel Martin

Thank you, gentlemen; two questions from my side.

The first question is on the rental increases. According to a survey from Kieler Institut für Weltwirtschaft, they were saying that offering rent increases have been slowing down in the second quarter.

This seems to be a bit in contrast with your very strong points in your rental business. How do you see the rental market evolving? Are you decoupling from the general market with your investment program?

Rolf Buch

No. The Kieler Institut is probably – – You have to be very careful. This is offer for new letting rents which are beyond any legal framework anyhow. So, this is nothing which is in the legal framework, in the *Mietpreisbremse*.

You have seen today, just today, in the German newspaper an analysis which is done and saying, rentals are growing at 40%. But these are all the official – – In German, we are saying *Angebotsmieten*. So, this is what you see in the internet. This is all above what is legally allowed.

What is legally allowed, I think, Philip showed it to you. If the *Angebotsmieten* are going a little bit higher or lower, it really doesn't matter. It is very clear that, for the next ten years, we will see, especially in the big cities, an imbalance of supply and demand and massive pressure on rent. We will do the legally possible, which will lead to our rental guidance. The legally not possible is much bigger. But we will not do it because it's legally not possible.

But there are others out which are charging 20 euros and more in Berlin while we are charging for the same apartment 11 euros.

Philip Grosse

Just to add, Martin: If you look at page 6 of our presentation deck, we have shown the market reality across Germany of almost 16 euros per square meter. That is where this slowdown in growth is referring to.

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Historically, we have seen asking rents growing twice as fast as the regulated rents. So, the discrepancy which is today 100% is now kind of hopefully starting to shrink a bit.

Rolf Buch

This might also be the case because probably more people are deciding to be legal.

Manuel Martin

Okay. I see. Thanks for that.

My second and last question is a bit on the balance sheet, on the financials. I saw that there was an impairment loss of roughly 340 million in the first half year on project developments. Maybe you can elaborate a bit on this. What's standing behind and could we see more such impairments to come?

Philip Grosse

That is what I briefly addressed in the presentation. We have restructured our at-equity participation Quarterback last year and in that context did a debt-to-asset swap.

With H1, we, for the first time, based on closings, recognized these acquisitions, these swaps, if you will, and were applying our more conservative assumptions, in particular on the cost side that resulted in that impairment.

To your second question: Do I expect more to come? – Clear answer is: no. I think we have taken here on purpose a very conservative stance. And left and right, as we have discussed, we see markets moving in the right direction in terms of development of property values.

Rolf Buch

Also to be very clear: If we manage, as we can show you now in the first projects, to get the construction costs down, this has, of course, a positive impact on the valuation of the land plots.

Manuel Martin

Okay. Very clear. Thank you.

Operator

The next question comes from Simon Stippig, Warburg Research. – Please go ahead.

Simon Stippig

Hi, team! Thank you for your presentation. Two quick ones from my side.

First one is: In regard to your sales, you mentioned around 1.7 billion signed, but not closed. How many of those were signed in the last fiscal year, 2024? Are those on track and when do you expect those to be closed?

The second one would be: You mentioned in the Rental segment that the fluctuation rate decreased. Is there any particular region where you can say that dropped a bit more, for example in Berlin, and what do you expect going forward? Do you expect this to continue to decrease? Thanks.

Philip Grosse

Simon, on your first question, the 1.7 billion euros: That applies to transactions; all of them have seen signing in 2024. One has seen signing early 2025.

Now, when do we expect the money to come in? Today it's not 1.7 billion; today it's just 700 million left because we have seen meanwhile closing of the disposal to Apollo of an economic stake of 10% in Deutsche Wohnen. The remainder of 700 million is predominantly related to our nursing home portfolio, which was sold to the City of Hamburg; that will see closing in September.

And HIH, those are the development packages, if you will, which have been sold last year. Those will see closing partially in this year, partially next year. But it's only, I think, some 10% which will see closing beyond 2025.

So, you will see that the pro-forma numbers and the true numbers are moving very close to each other. So, hopefully very soon we can skip that additional layer of information and just report it as is.

On your second point in terms of fluctuation rate: It is as low as we have ever seen it. In that number, I think, you can see that regulation is currently actually not working because it has an embedded incentive for people not to move.

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Our assumption, however, is that this rate will remain at that low level for the foreseeable future, as we equally do not expect that the supply-demand imbalance in our market will disappear any time soon.

We, however, also have not the expectation that the fluctuation rate will come under significant additional pressure and move down.

Rolf Buch

To be very clear: The normal fluctuation rate you should expect in normal markets should be somewhere around 10 and plus, just because of death rate and normal change in employment and normal movement.

So, being significantly below 10, actually shows what Philip explains, but also shows that there is an issue of illegal subletting also in our portfolio. We are working on this because it is not fair that somebody is renting an apartment from us for 11 euros and letting it out for 21 euros, which happens today, which is illegal. We are working on this also with technology.

Simon Stippig

All clear. Thank you.

Operator

The next question comes from Andres Toome, Green Street.

Andres Toome

I have two questions, firstly hitting on operating expenses. You mentioned that there was a one-off tax impact there, which is helping the operating expense line.

I was just wondering, can you provide perhaps any general comments about underlying organic expense trends for how you see it sort of near or medium term, especially thinking also about staff costs as minimum wages are expected to jump quite a bit in Germany?

Rolf Buch

First of all, minimum wages are relevant for our gardening division. But this is a pass-through item. So, this will automatically be compensated by higher fees to the tenants. The craftsmen are above the minimum wage level. So, this is not an issue of the minimum wage.

In general, you have seen that, with our scale, we managed in the past to manage down inflation by efficiency. This should go on in the future, especially if inflation is going down in the moment. So, yes, others will see increasing operating expenses. Our target is to manage it down by more efficiency.

This comes back to the question beforehand what happens if you now have full integration of Deutsche Wohnen and Vonovia.

Andres Toome

Understood. My second point would be about the sales market generally.

You have two business lines: firstly, your Recurring Sales, which seems to be rebounding with volume, especially in the first quarter, and then with pricing seemingly in the second quarter. But then in Development to Sell, you said that you don't have much projects ongoing or at least not in the completion stage. I am just wondering: Are there any different trends that you're observing there in terms of existing sales to the condominium market and then new build apartments? Or is it actually the case that, with the new builds as well as you're doing pre-sales, the demand seems to be good?

Rolf Buch

The demand is enormous because if somebody wants to live in a city and he does not find a rental apartment, actually the only option what he can do is to buy an apartment, so a used one, which is for the lower price, and a new one for a higher price.

So, we see enormous demand and we will see because we are not the only one who has followed the strategy not to start new construction and to sell everything that you have. We have seen a lot of bankruptcy of big developers in Germany.

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So, the shortage of availability of apartments to sell is enormous, but there's just no product. That's why there is not an issue of demand. It's an issue of supply, very clearly.

But the delay, it just takes you two years. The buildings we are starting now will be ready in two years, 2027. Of course, we are selling some of these apartments beforehand and then we recognize also some EBIT in this. But the availability of new apartments is close to zero in Germany at the moment.

Andres Toome

Understood. Then just a quick follow-up: You are starting new projects in mass now. So, 2027, we should start to see more of those sales?

Rolf Buch

To be very clear: In the apartment, in the condo sales, we can recognize sales effects even if we are selling it in 2026. So, the project is not completely finished, but you are also recognizing some revenues and then some EBIT. So, this will not be 2025, 2026 zero and then 2027 upwards.

The reality when people can move in in the apartment is more on 2027.

So, it's a little bit more complex. Also to make clear: For example, the two buildings we are building now in Berlin, as I mentioned with this Gropius, they will be finished much earlier because they are serial construction. So, this will probably be filled with tenants in the end of this year or even probably in the middle of next year.

So, this is not just 2025 and 2026 nothing and in 2027 everything.

Andres Toome

Understood. Thank you.

Operator

The next question comes from Thomas Neuhold, Kepler Cheuvreux. – Please go ahead.

Thomas Neuhold

Thanks a lot for the presentation and taking my questions. I have two quick questions on disposals.

Firstly, which portion of the 1.5 billion non-core portfolio left do you plan to sell this year?

The second one is on the Development land bank. You mentioned it's too big. Which portion of your Development land bank is potentially up for sale? What is a realistic timeframe for land bank disposals? Thank you.

Rolf Buch

Thomas, to be very clear: You are asking for the speed of non-core in both questions. It's non-core land and non-core assets. We are not actually setting out a strict timeline. So, we are selling to optimize the price and not necessarily the volume.

The time where we have sold assets to delever the balance sheet is over. Now, we are optimizing price and that's why it would not be wise from our side to give you a target.

But, of course, you can be assured that we are selling it for a reasonable price as fast as possible.

Thomas Neuhold

Okay. But can you maybe give us an indication which portion of your Development land bank is up for sale? By how much is the land bank too big you think?

Philip Grosse

On that point, Thomas, no guidance. The market for development or for the disposal of land bank is a tight one. So, I think we are very well advised not to bump that into the market at a point in time where we truly think that we currently see trough valuations.

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In terms of non-core, we can be probably a bit more specific. At the beginning of this year, we have been talking about 1.6 billion euros of non-core. We have said that roughly half of that hopefully by the end of this year, the other half by the end of next year. This remains the target. But, to reiterate what Rolf said: subject to appropriate pricing also for the non-core product.

Thomas Neuhold

Understood. Thank you.

Operator

The next question comes from Paul May, Barclays. - Your line is open, Mr May. You may proceed with your question.

Paul May

Hi, guys! Sorry, I have some technical issues on my side. Can you hear me now?

Rene Hoffmann

Loud and clear.

Paul May

Cool! Great stuff. – Just a couple of questions. Hopefully you can help me with your minorities methodology, just getting the difference between that which affects EBT and that which affects the OFCF. There is obviously quite a big difference in the number in the first half. I presume it's timing issues.

Which is the more relevant effectively to understand the economic impact on Vonovia? Is it the cash distributions or is it the minorities, the 85 million, or is it the 175 million? Just to get a better understanding on that.

Moving forward, will we continue to have such a big differential between those two figures or will they converge either towards the higher or the lower? – Those two numbers are the first question.

The second question is: I appreciate, obviously you changed your KPIs. I think a lot of investors still look at the old KPIs as best as they can, given they are impacted by post-tax numbers and so on.

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Your FFO 1 an old definition was up by about 3% per share, I think, per share and AFFO is actually down quite materially year on year, just going by old definitions of how one would look at things. I just wondered whether you had any views on that and whether that was influencing some of the changes in the KPIs. Thank you.

Philip Grosse

Paul, on your first question: I think it depends on you what is more relevant for you, the accounting minorities or the cash minorities.

The difference really is what is actually being paid in cash to minority shareholders. The biggest discrepancy is because of the Apollo JVs. Here, the cash share is higher than the accounting share because we pay a disproportionate share of the net cash flow as a dividend to Apollo which, however, as a reminder, is protected by a call option we have on our hand, which is capping the IRR which we have to deliver to Apollo to initially 7%, over time up to 8%.

For me, more relevant - I'm a cash guy - is the Operating Free Cash Flow and the respective guidance we have given on that front.

Now, on your triggered discussion on old versus new KPIs: Just as a reminder, comparing our business to those of peers, it's more complex because we have the Value-add business, because we have a Development business, we have a Recurring Sales business. And that impacts cash flows where the old FFO is not an appropriate metric to capture that.

If you look on the tax side, I think, it is important to remember that part of the cash we pay to tax authorities is driven by disposal activity. So, if I look at our cash taxes, if you will, based on our pure rental business and making that comparable to also the peer universe, the rate vis-à-vis EBITDA is roughly 4%. Keep in mind that the higher the investment volume, the more beneficial it is to us, because higher investment based on tax accounting is not going to be capitalized to a very very large portion. So, in other words, it is reducing the taxable income and it's essentially saving tax.

The bigger portion, slightly above 5%, is because of disposals where, essentially if I look at Recurring Sales, a certain portion is monetizing the value uplift we've seen in the past by deferred tax liabilities, which are counting against that.

Paul May

Okay. The reason the tax has increased – – You seem to indicate that these would have a sort of beneficial impact on the one hand in terms of tax, reducing the tax benefit. Sorry, if I misheard that. Because tax has gone up obviously quite materially year on year.

Philip Grosse

The tax is going up because we increased significantly our disposals, but disposals also positively impact our Operating Free Cash Flow because we are monetizing also on the embedded asset values and as part of that also addressing deferred tax liabilities.

Rolf Buch

So, Paul, in reality, a big part of the tax is deferred taxes which are paid out because the assets are sold and the deferred taxes are realized.

Philip Grosse

It's the value growth, which is inherent with that, because of which deferred tax liabilities have been created.

Paul May

Yes, perfect. Thank you.

Operator

The next question comes from Pierre-Emmanuel Clouard, Jefferies. – Please go ahead.

Pierre-Emmanuel Clouard

Good afternoon! Thank you for taking my questions.

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The first one is coming back on your Operating Free Cash Flow calculation. I'm trying to assess where I could land by the end of this year because there is a lot of moving parts there. Actually, the working cap played a big role in H1. So, if you can drive us through your expectation in H2 would be useful as well and also on the dividend paid to minorities. So, a roughly ballpark figure, would be useful to see where it would land. This is my first question.

Philip Grosse

On the Operating Free Cash Flow, we have actually guided that it will be, ignoring the impacts of movement in the working capital, just a notch below last year. If you look at H1 numbers, you can see that we have positive movement in the working capital of roughly 350 million euros; that will not go away. So, it will be a very decent number as a result of that.

In terms of cash dividends, not much change, I would argue, towards what you've seen in H1. We have seen the full-year impact in terms of Apollo JVs, so the 80 million times two is what you can expect for the entire year.

You have 40 million of the usual payments to RETT blocker, as we've been guiding towards. You will additionally see – but that's also no news – the 70 million euros based on the dividend we pay for the 10% economic interest in Deutsche Wohnen to the RETT blocker we have installed in preparation for the domination and profit and loss transfer agreement.

Pierre-Emmanuel Clouard

Thank you. That's clear.

My second question is a technical question on your financial results. Can you remind us what is the accrued interest of 132 million and if they are included in your ICR calculation, or maybe if they are also included in the calculation of S&P and Moody's?

Philip Grosse

In ICR, we look at cash payments. So do the rating agencies.

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Pierre-Emmanuel Clouard

Okay. And should we expect this figure to move significantly going forward?

Philip Grosse

To the extent we refinance, we have average debt cost of 1.8%. Our marginal cost of debt, secured as unsecured, is for a ten-year tenure slightly below 4% [10% sic]. So, unless we issue more convertible bonds, our marginal cost of financing will be higher and you will see the expense line for interest cost gradually increasing over the next five to six years.

Pierre-Emmanuel Clouard

Okay. Thank you very much.

Operator

Ladies and gentlemen, that was the last question and this concludes our Q&A session.

I would now like to turn the conference back over to Rene for closing remarks.

Rene Hoffmann

Thank you, Yousef, and thanks everybody for dialing in. As always, for any follow-up questions, you know where to find us.

That concludes today's call. Stay safe, happy and healthy as always, and we speak to you soon. Bye-bye!

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