Transcript
9M 2026 Earnings Call
November 4, 2026

Rene Hoffmann

Thank you, Matilda, and welcome everybody to our 9M 2026 earnings call. Our speakers today are, once again, Luka Mucic, our CEO, and Philip Grosse, our CFO. They will take you through the key messages and the 9M results before we open the call for Q&A. As usual, we kindly ask everyone to limit themselves to two questions.

With that, over to you, Luka.

Luka Mucic

Thank you, Rene. Hello and welcome everybody, also from my side.

Let me start with the main messages for the first nine months of 2026. Our core operating business remains resilient. Rental continues to deliver reliable growth, while Value-add is showing very strong momentum, particularly in our craftsmen organization and energy activities. They are continuing the usual drumbeats of the last quarters.

At the same time though, the transaction environment remains challenging. Recurring Sales and Development are progressing more slowly than we had expected, and financing costs have increased substantially further since Q2. We are responding with disciplined capital allocation, a focus on cash flow, and continued focus on disposals as a top deleveraging priority.

As we announced last week, we confirm our 2026 guidance for our earnings KPIs, while being more specific about where we expect to land within the respective ranges. We have also provided initial guidance for 2027 and updated objectives for 2028.

Let me hand over to Philip for the 9M performance.

Philip Grosse

Thank you, Luka, and also a very warm welcome from my side.

I will get to the four segments individually. As for page 3, let me start with Adjusted EBITDA Total, where we saw an increase by 3.3% to approximately 2.2 billion Euros. This growth was offset by higher financing expenses and Adjusted EBT came to around 1.4 billion Euros, or 1 Euro and 66 Cents per share. Adjusted Shareholder Earnings approximately 1.12 billion Euros, or 1 Euro and 32 Cents per share.

Operating Free Cash Flow was around 933 million Euros. The year-over-year decline primarily reflects working-capital timing, including the ramp-up of investments and the acquisition of manage-to-green portfolios that's point 1. point 2: a lower recurring sales volume and point 3 higher payouts to minorities, and that is the result of the Deutsche Wohnen domination agreement, which took effect last year.

The EPRA NTA was EUR 46.31, so broadly flat versus our last announcement.

On the leverage metrics, at the end of September, LTV was at 46.1%, net debt/ EBITDA at 13.9x, and the ICR at 3.5x. These levels, to be clear, are manageable, but also very clearly not where we want them to be. This underlines why deleveraging and cash discipline remain clearly the key priorities for us, and that in an environment, as you all know, that remains challenging in terms of financing cost, but also in terms of transaction activity.

Now, on the segments in more detail, I will start with the rental segment that is on page four. Rental revenue increased by 3% to approximately EUR

2.6 billion, and that in spite of 5,000 fewer units. Maintenance expenses a touch lower, operating expenses slightly increased. The result is EBITDA on the rental side, which increased by 3.5% to approximately EUR 1.9 billion. If you look at the operating KPIs, they remain robust and healthy. Organic rent growth was 3.8%, vacancy 2.3%, and collection rate remained at 99.6%. We mentioned that before, organic rent growth was influenced by slightly softer than anticipated increases in local rent indices, but here also lower Development-to-Hold completions have to be considered. The main message is unchanged.

Luka said that the rental business is stable and predictable, and here we continue to benefit from strong demand, high occupancy, and a visible long-term growth trajectory. We are now on page five, the Value-add segment. Revenue increased by 10% to approximately EUR 1.2 billion. External revenue grew by almost 14%, and that was mainly driven by the energy, while internal revenue increased by close to 10%, and that is supported by the higher investment activity and the corresponding utilization of our internal craftsmen organization

Adjusted EBITDA Value-add in total increased by 31% to almost 200 million Euros. Very nice result. This performance demonstrates the operating leverage we have of our integrated platform. It also confirms that the craftsmen organization and the energy activities are very robust growth drivers.

We also see attractive growth potential in B2B and other asset-light business areas, where we can use our expertise and capabilities beyond our own portfolio. This can create additional earnings potential with relatively limited capital requirements.

On Recurring Sales, we sold 965 units that compared to more than 1,500 units in the prior-year period. Revenue approximately 217 million Euros, and Adjusted EBITDA was around 50 million Euros.

While volumes were lower, the pricing quality remained actually very strong. The average fair-value step-up increased to 42% from 31% last year. This shows that the spread between institutional values and retail pricing remains very attractive for us, in particular for owner-occupiers.

Higher interest rates mean higher financing costs and that is making it more difficult for many potential buyers to finance a purchase. As a result, you see that in our turnover. demand remains below our expectations, even though the fundamental need for housing remains strong.

Turning to Development on page 7. Adjusted EBITDA was 28 million Euros compared to 64 million Euros in the first nine months of last year. The prior-year period included approximately 53 million Euros from a large land sale. The broader market environment remains difficult, particularly for medium- and higher-priced projects.

When you look at the transaction volumes on page 8, bear the ownership structure of the German residential market in mind. And for what it is worth – we have a lot of debate around leverage and values in the listed space. For the vast majority of the residential market this debate simply does not exist. Typical financing is actually at LTV levels of 55%, 60% in the banking market, and that is given the robustness in cash flow and the rent growth that keeps coming like a clockwork is a very strong mitigant against yield expansion pressure. So, the somewhat limited evidence of complete

transactions continues to largely confirm the quality and embedded value of our assets.

Of course, there has been another rate rise in recent months, and we have become more cautious about the near-term trajectory of asset values. Here, after four consecutive half-year periods of valuation gains, we do expect a broadly flat portfolio valuation for the full year 2026, so actually reversing in H2 the valuation gains we have seen in H1.

To look as if rent growth is unlikely to translate into organic value growth in the near term to the extent previously assumed. But we are convinced that while the direction of values may not point upward in the near term, we are talking about a broadly sideways movement, not a massive value correction like we saw it in the context of quadrupling of rates in 2023, 2024.

Moving to the next slide, page nine, let me put the current valuation of Vonovia into perspective. If we look at current share price, EUR 17, the stock market values of our portfolio is around EUR 1,650 per square meter, and that is including the land, obviously. This compares to a reported fair value of almost EUR 2,400 per square meter.

When we actually look at the price at which individual apartments are being sold, here we currently see prices of around EUR 3,600 per square meter. Finally, the medium purchase price for new construction is around EUR 5,800 per square meter. That is interesting because if you compare that to replacement costs, replacement costs are actually at a 140% premium versus fair value, even a 250% premium versus the implied stock market valuation. In our view, this highlights how there is underlying value embedded in our portfolio. With that, back to you, Luka, for an update on our disposals.

Luka Mucic

On disposals, we realized approximately 900 million Euros in the first nine months. Of that amount, €600m were already closed.

Around 410 million Euros came from non-core disposals in Germany. Agreements covering minority stakes contributed around 240 million Euros, including the preferred redemption of our Vesteda minority position. Here we are already at half of the maximum amount from these minority positions that we had flagged in March, so have made very good progress. Recurring sales contributed around EUR 220 million, and around EUR 20 million of land sales were signed.

We now have a remaining German non-core portfolio of approximately 1.8 billion Euros, including nursing and commercial assets, and a non-core portfolio of approximately 800 million Euros in Sweden. These non-core assets allow us to be pragmatic in striking the right balance between execution speed and price level.

Then there are Recurring Sales as a well-established disposal channel with a pool of around 42,000 units currently and a target premium to book value of more than 30%. Volumes in this segment are currently below expectations, which is clearly a function of challenging financing conditions for buyers, not a lack of demand. We continue to work hard on this front as well and while the first nine months has been slow we do see pick up towards the end of this year. As we head into 2027 then, we are also adding another around 15.000 units to the recurring sales pool in Germany in order to be ready for growth if and when market conditions improve.

And finally, our core portfolio in Germany and Sweden where we remain optimistic that we can match the right product with the right type of buyers over time. The recent hike in rates does not make any of this easier, but the conversations and negotiations we have keep us optimistic that our diligence and patience will pay off.

Principle remains unchanged. We will seek to pursue the most sustainable path to lower leverage while protecting long-term value creation, and we will continue to balance pragmatism wherever we can with discipline where required. Over to you, Philip.

Philip Grosse

Yeah, let me continue with leverage and financing on page 11. Here, to be very clear, our targets remain approximately 40% LTV, net debt to EBITDA below 12x, and ICR comfortably above 3x. The year-end 2028 targets for net debt to EBITDA and ICR remain unchanged, and we are here very comfortable to reach, respectively remain in those thresholds. For the 40% LTV specifically, however, reaching this level already 2028 will be more demanding, and that is given the more cautious near-term outlook for portfolio values.

Liquidity remains not to be an issue. Year- to- date, we have refinanced around EUR 4.7 billion with an average duration of seven and a half years and an average euro coupon of 3.3%. And our liability management helped us to trim the 2027 and 2028 maturities. There is no further material funding need for the remainder of this year.

With that, back to you, Luka.

Luka Mucic

Thanks a lot. Let me bring us home and turn to the final guidance for 2026. You see it on page 12. As you will have noted, we tweaked the investment volume a touch lower to now EUR 1.3 billion. On the basis of somewhat softer than expected Mietspiegel recently and lower Development-to-Hold completions, we are also trimming the year-end organic rent growth guidance to now 3.8%.

For Adjusted EBITDA Total, we expect to land in the bottom half of the range, as we indicated in our H1 call. For Adjusted EBT, we estimate to come out around the low end of the range. For Adjusted Shareholder Earnings, we guide towards the upper half of the range, which is driven by a lower tax burden as a result of lower Recurring Sales volumes than we had initially planned.

For our initial 2027 guidance and the revised 2028 objectives, the bottom line is that the limited recovery of our sales-related segments and the elevated financing costs have made us more cautious for the near term. While we expect to keep delivering robust growth in our core operating business, the sales-related segments will probably contribute less to EBITDA than we had initially planned. That is why there is still growth in Adjusted EBITDA Total, but only towards the lower end of the original 2028 ambition range. While this growth should be indeed sufficient to offset the significantly higher financing costs, both Adjusted EBT and Adjusted Shareholder Earnings are estimated to move broadly sideways in 2027 and 2028.

Now, in response to this near-term outlook, we are implementing a focused immediate action plan to protect cash flow, preserve balance sheet

strength, and direct capital toward the most attractive risk-adjusted opportunities. We are hence putting our development segment under a comprehensive strategic review in an effort to deliver higher risk-adjusted returns on the capital employed and to continue to sharpen the business model toward affordable housing. We expect to give you an update of the strategic review with our full-year results 2026. We will also apply tighter return requirements to our investment decisions and be even more stringent in directing our capital towards the most attractive risk-adjusted opportunities in the existing portfolio. New Manage-to-Green investments will be suspended, and Development-to-Hold projects scaled back as immediate consequences.

In short, we are adapting our near-term plans to a more demanding environment while protecting the quality of the portfolio and the long-term value of the business. At the same time, we continue to drive profitability in our core businesses. In rental, for example, just one year into our AI-first initiative, we already expect AI-driven productivity gains to contribute around EUR 50 million annually by 2030. In Value-add, we are building additional growth through our capital-light B2B business.

With a dedicated go-to-market organization, a dedicated brand, and a growing pipeline, we see significant potential to expand these services beyond our own portfolio. Before we close today, let me say also a few words on Berlin, where we have seen an election and plans for a new coalition government since the last time we spoke.

This has given fresh air to the socialization debate, and I just want to be very clear on how we look at it. We remain highly confident that these plans will not prevail. One, it is simply not a solution. The problem, don't get me

wrong, is real. There is not enough housing in Berlin, but socialization does exactly nothing to address this problem. Actually, it would make the problem worse because construction volumes would fall even further. The whole debate around professional landlords being the problem is just not based on facts.

Our average rent in Berlin is EUR 8.40 per square meter at present, so a little over EUR 500 a month for an average tenant. This is within striking distance of the state-owned landlords. Second, we are convinced that the socialization plans are unconstitutional.

That is for a whole load of reasons, but just to name a few, Article 15, which is referenced in the debate time and again, does not exist in Berlin's constitution. The proposed compensation levels and payment terms are entirely inadequate, and socialization is an overly drastic and evidently ineffective measure to achieve the stated objectives, and thus cannot justify depriving companies of their lawful properties.

Third, at the recent International Investment Summit here in Germany, the Chancellor, Finance Minister, Minister of Construction, and other high-ranking officials from both parties, the CDU and SPD, confirmed that they are working on effective legislation to protect private property against unjust socialization on a state level. The cornerstones of this legislation have now been released last week. Okay, before we go to Q&A, there is one more thing, and that is a personal note.

As we announced today, Philip has decided not to renew his contract as CFO at the end of his current term at the end of 2027. Philip, I really regret your decision, you know this, both personally and on behalf of the entire Vonovia

team. At the same time, I, of course, fully respect your choice to take a new direction after so many years as CFO. You have definitely made a significant contribution to Vonovia, and without a doubt, you will be truly missed.

Philip Grosse

Thank you Luka. Much appreciated our words. Indeed, I have decided not to seek an extension of my term as CFO.

I have known many of you for quite a few years now from earnings calls, roadshows and countless meetings. So I wanted to say a few words myself rather than just leave it to the press release.

After more than 13 years in real estate, ten of that as CFO of listed real estate companies, I felt that the end of my current term was the right time for me to make a change and start a new professional chapter.

I have deliberately communicated this decision very early. There is plenty of time to prepare the succession properly and ensure a smooth transition. And until that transition takes place, you can expect exactly the same commitment from me as before.

I have always very much appreciated the open and direct dialogue we have had over the years, including, or maybe especially, when the environment was challenging. And I certainly intend to continue that dialogue.

And with that, let me give things back to Rene for the Q&A.

Rene Hoffmann

Indeed. Thank you, Philip. Thank you, Luka. Again, just a quick reminder, let's limit ourselves to two questions, please. And back to Matilda to open the Q&A and bring in the first question, please.

Q&A session

Operator

The first question comes from the line of Neil Green from JP Morgan. Please go ahead.

Neil Green

Good afternoon, everyone. Thank you for taking my questions too, please. The first one, you have talked a lot about CapEx and the review of development CapEx coming forward. Just wondering, could this extend to modernization CapEx as well, or is that something we should consider is absolutely core to the outlook, please? That is my first one.

Luka Mucic

Let me quickly cover that. Clearly, on modernization, we expect to continue our program. The one area where we have said we are not going to continue things for now is on the acquisition of additional Manage-to-Green portfolios, because here, the acquisition process, then the refurbishment process. Sorry, there is some background noise.

René Hoffmann

Neil, would you mind going on mute real quick? You have some background noise, it sounds like.

Yeah. No, thank you so much. Here, the whole process from acquisition to refurbishment to sale is more tedious than for classic modernization in our own space, and also both the cost of capital and the returns that we can

drive from that are less ideal. That is why we have consciously decided to deprioritize this for now. But in modernization, the case is so convincing and so attractive for us that we continue.

Neil Green

Great. Thank you. And sorry about the background noise. Secondly, and perhaps a bit of a hypothetical one, given the news we are kind of seeing around socialization and it being mandated between 80% and 100% of market value, if it ended up being 100%, would you think about that any differently? Would you kind of challenge it, or would you view it as more as maybe a transaction? Just any interest in your thoughts around that, please.

Luka Mucic

Yeah, that is actually an easy one. No, I think at both values, you will probably not find socialization pushing ahead, because the state of Berlin wouldn't have the money to go for socialization. We would be very happy at our asset values to consider and entertain discussions around a sale of properties in Berlin, as we have for a long time. As you know, we have a long history of working with the state of Berlin and selling them some properties. But that would be done probably the more digestible step for the state of Berlin than taking the whole lot at asset values.

Neil Green

Okay. Thank you very much.

Operator

The next question comes from the line of Bart Gysens from Morgan Stanley. Please go ahead.

Bart Gysens

Yeah, hi. I had two questions, one on the dividend and the other one on the Berlin Mietspiegel. You talk a lot about cash management deleveraging as key priorities, but you're still maintaining the dividend. Can you provide some context why, and why you're committing to this EUR 1 billion or roughly EUR 1 billion cash outflow while you have actually quite a bit of flexibility around that? My other question is on the Berlin Mietspiegel. During the last call, you highlighted how Vonovia is not pushing through the entire allowed Mietspiegel increase of just below 7%, but instead you were opting to do something like 70% of that, just below 5% increase. Where are you on that now, and are you still applying the same kind of lower level of rental increases? Thank you.

Luka Mucic

Yeah. First quickly on the Mietspiegel. The Mietspiegel increases have been pushed through already. That has happened actually mid-year. The precise number was 4.8%. The rest up to the 6.9%, just to be clear again, as I had reiterated also on the last call, is not foregone, but can be applied actually when we come up for the next time for an increase. We will see that, but with a certain delay. On the dividend, to be very clear, I mean, we follow the same rhythm that we follow every year. We will take a decision on the dividend payout when we come up to at the end of Q1, and when the invitations to the AGM, which ultimately has to decide on the dividend, has to be passed. We will take this decision together with our supervisory board. What we are reiterating is our dividend policy, which has not been changed, and this policy is clear. However, when we come up to the decision, we will,

of course, take into account where we are on the interest rate environment, where we are with our disposal program, where we are with the transaction markets overall, and then we'll take the best decision in the interest of our stakeholders. That's the usual process that we'll go through this time around as well.

Bart Gysens

Great. Thank you very much.

Operator

We now have a question from the line of Jonathan Kownator from Goldman Sachs. Please go ahead.

Jonathan Kownator

Good afternoon. Thank you for taking my questions, two if I may, please. The first one on disposals, effectively interesting sight on Recurring Sales in particular. You are highlighting how the margin is stronger at 44%, but then the volumes are lower. The key question that applies to the overall disposal program is, how pragmatic do you have to be if you want to speed up at all the process, if that is what you want, obviously, in terms of pricing in order to improve the volumes, both on Recurring Sales as you are growing the pool and on the other disposals? The second question around capital allocation, please, and it has been talked about already quite a lot. On investments in particular, the yield cost that you can generate on that is relatively fixed. However, your cost of capital has gone up quite a lot, so the margin here has been dramatically compressed. The key question is, were you still willing to invest that much CapEx in the business knowing that the returns and the spread is de minimis at this stage? Would it sell a signal to

the government that ultimately caps needs to increase, otherwise no one will really invest in modernization at all? Thank you.

Philip Grosse

Yeah, let me start, Jonathan, with disposals. I mean, first of all, if I look at Recurring Sales, you have always some kind of flexibility in how you look at margins. We sense that the 30% we are targeting is actually the right number, and where we are actually making the best margin is when we see fluctuation, when we have an empty apartment, and that is something we can't really influence. Typically, 50% of our Recurring Sales volume is driven by fluctuation. For other disposals, I think you kind of have to differentiate a bit. Where we need to be very sensitive is that at as a non-distressed seller, selling portfolios below our gross asset values may have negative implications for the remainder of the portfolio, and is helping the Net debt/Adjusted EBITDA, but not helping the LTV target. You have flexibility depending on the structure. Share deals and how you look at deferred tax liabilities is an element. If you sell minority stakes, that is an element because a minority stake typically is differently priced compared to a majority ownership where you have full control. So there is always some way to maneuver, and rest assured that we make use of that, because again, our key priority really is to make progress on the deleveraging front and to reach our targets as soon as possible, which we have communicated.

On capital allocation, your second question, here repeating what Luka said, I mean, we have taken a very deliberate decision to cut CapEx, and that is for Development-to-Hold, which will be reduced significantly, and that is for Manage-to-Green, which we will suspend. For the remainder of the investment program, that is and remains to be an accretive business for us. It

creates alpha. For tenant churn, apartment modernization, we continue to talk about cash-on-cash yields of around 10%. For energetic refurbishments, given the quality improvement, we are actually talking about IRRs on an unlevered basis of 10%. So it is, in other words, earning more than our cost of capital, and next to long-term strategic elements that we are obviously also working towards a climate-neutral housing stock. It simply makes financially sense to do it.

Luka Mucic

Yeah. Perhaps just let me quickly give you one build, and that is on the disposal program overall. I think it is very important to understand that we have, meanwhile, after we have compartmentalized our portfolio and we have readied various portfolios for fitting discussions with the right buyer universe against that, we are very much in active conversations. In Germany alone, we are talking about a range of in the mid-single-digit billion EUR of asset values, where people are currently doing the due diligence, where we are in active pricing discussions, and where we obviously understand and acknowledge that these processes need some time also for us to prepare for having those conversations. But meanwhile, we have progressed quite a sizable pipeline.

In addition to that, we are now also ready to entertain discussions around various options in Sweden, where we have also prepared a non-core portfolio, for example, and have done the due diligence preparations. Also talk about potential equity sales there. We are working hard on making sure that we have the best possible processes lined up.

Despite the fact that obviously pricing will always be a conversation, we remain confident that the right level of diligence and the pragmatism where we can apply it will lead us to target. Then just very briefly on Recurring Sales, remember, it is not only about the price that you can apply, but also the product that you can put to market. Recurring Sales is typically a very local buyer universe's business, especially for owner-occupiers. Obviously, they do not want to move 500 mi in order to live in their own premises, and therefore, we have to add to the pool. That is what I mentioned as well with the 15,000 additional units. That is quite a sizable step up at the moment. In Germany, we have some 22,000, 23,000 units, so 15,000 more will really make a difference and will allow us then also to map demand at the right price points much more broadly in the different sub-geographies that we have in Germany.

Jonathan Kownator

All right, great. Thank you very much for clarifying, and thanks, Philip, for the help over these.

Operator

The next question comes from the line of Thomas Rothäusler from Deutsche Bank. Please go ahead.

Thomas Rothäusler

Hi, everybody. Yes, two questions. The first one is on rental growth and the long-term visibility of the measure. I mean, your previous long-term target was 5%+, and you referred to a higher level of visibility for the, I think, for the next decade. Now you have reduced it to 4.5%. Just wondering about your level of confidence on the new target. The second one is on your softer

outlook for 2028. Just wondering what level of safety cushion you have built in that, and what are the major upside and downside risks in your view from here?

Philip Grosse

Yeah, Thomas, on rental growth, I think we have been sufficiently prudent on the new guidance. I mean, to specify why there has been a change in respect to the 5% we previously put out, one is certainly driven by our deliberate decision to significantly reduce Development-to-Hold, and that is negatively impacting like-for-like rental growth by roughly 30 basis points. Second, it takes a bit of time to actually absorb the deliberate decision not to implement the full rent index in Berlin, and that is largely making up for the remainder. What we do see, and I think Luka was mentioning that, is that we do see that rent indices are coming in a bit below what we have previously assumed. But here, we remain very comfortable that roughly 2.5% of like-for-like rental growth is coming from that market-driven rental growth.

Now, on the outlook. Sorry, the question was again?

Luka Mucic

Basically, the main swing factors, and do we have cushion in the outlook, and what are the major upsides or downsides?

Philip Grosse

Yeah. Okay. Yeah.

Thomas Rothäusle

Clearly, thanks.

Philip Grosse

Yeah, I mean, this is truly highly dependent on the financing environment. For planning purposes, we have assumed 5% refinancing costs, actually mirroring the interest rate level we see today. We consider that, for various reasons, the new normal, so we are not betting on interest rates to fall. Second, we simply have to acknowledge that this environment of higher rates will have an impact on our sales-related segment, which is why we have also lowered our expectation on that end. Then you can fairly simply make the math for the first element, a percentage point higher interest cost based on our average maturity is roughly EUR 50 million. Sales-related segments contribute another EUR 50 million. Less expectation, that is basically what we have embedded in the guidance.

On the debt KPIs, we said that we remain very convinced that we will reach our targets as it relates to net debt/ EBITDA, which is actually our most important target of below 12 times, equally for ICR. But LTV, that again is a function of interest rates, is more challenging given there is less tailwind on the valuation side, more challenges in the transaction market despite the quite sizable amount we currently have under negotiation.

Luka Mucic

Yeah. So in a nutshell, essentially, we are expecting a similarly challenging environment in the market, both in terms of financing rates, as well as in terms of the impact on the sales-related segments, also in the next coming few years. If that were to improve, obviously, that would create upside. If that was to further deteriorate, I think we are covered in a range of, let's say, 5%-5.5%. If that was all of a sudden a percent more, then obviously

we would talk about a different scenario. But I think then the entire economy would probably be in a different scenario.

Thomas Rothäusler

Okay, thank you.

Operator

We now have a question from the line of Valerie Jacob from Bernstein. Please go ahead.

Valerie Jacob

Hi, good afternoon. Thank you for taking my questions. My first question is another one on capital allocation. You have dropped the LTV target, and so I was wondering, is keeping the rating still a priority? If it is, and if the environment remains challenging, will you rather sell a portfolio at a discount or cut the dividend? That is my first question. My second question is, I noticed that the number of employees has gone up by 640, I think, over the year. That is over 5%. I was wondering how you can explain that in the context of managing the cash flow in the company, and if you could help us understand the direction of that number. Thank you.

Philip Grosse

Valerie, you know us for quite some time. Keeping the rating where it is is an absolute priority, full stop. We have no indication whatsoever, and I have discussed our revised guidance with each rating agency individually. There is no risk to our rating. Bear in mind, on the operational side, the rating agencies are not so much focused on privatization and development business anyhow. The rating agencies, if you look at their models, are by

definition very conservative when it comes to organic value growth and/or release on capital through disposals. Here, on the LTV, we have headroom. Second, you mentioned we dropped the LTV target. We have not dropped the LTV target. We are very committed to the LTV target. All we are saying is while we put utmost effort in reaching the LTV target by 2028, it has simply become more challenging to achieve that, and that is just a reflection of the current market environment.

Luka Mucic

Yeah, let me quickly cover the employees because this is also a recurring item. It is true that the absolute employee count has increased over the last 12 months, but this is really in one area, and only in one area. It is in our value-add segment, it is in our craftsmen and facility management organizations, and every employee that we add there is providing us immediately with incremental EBITDA through the cost savings that we can apply by doing more work in this space by ourselves. So it is a very accretive case. As I have said on other earlier occasions, the ivory tower and the rest of the organization is very much constrained by us. We have actually gone through a zero-based budgeting across all of those functions a little bit earlier in the year, have clearly embedded corresponding cost savings in our midterm ambitions and in our plans. In this space, we are not looking for growth. Where we are growing, it is very accretive to our results.

Operator

The next question comes from the line of Aaron Guy from Citi. Please go ahead.

Aaron Guy

Yeah, thanks very much for taking the questions, and Philip, best wishes to the next chapter. I just wanted to ask, the shares are obviously pricing in a combination of different things, so a dividend cut, potential equity raise, property value collapses. I was wondering if you could go through each of those points. What would you have to be seeing in the market in order to cut the dividend? You've reiterated guidance, so probably not something you're thinking about today, but any more color you can provide on that? Where does equity raise sit in the stack and the options that you've got available? And then the property value sort of declines. Can you give a bit more color on what you're seeing currently in the market and why, what the shares are pricing in might not be likely to in the current market?

Philip Grosse

Yeah. Property value collapse is certainly nothing we see. Just as a reminder, when we have seen a quadrupling in rates, property values net declined by 15%. Now we have seen an increase of 25%. That is not nice, but it's not the end of the world, which is why we do see transactional activity. We do see transactional activity broadly at current pricing, broadly because I was indicating that there will be roughly a 1% value decline in the second half of this year.Equity raise against that backdrop, and also remember my words on ratings of the table, it's highly dilutive. And on the dividend, I think Luka said all what is to be said. Those are the kind of considerations we are taking when we make the decision with the supervisory board.

Aaron Guy

Thanks. As a second one, just can you just clarify the number you talked before about the additional assets that you're potentially earmarking in order to achieve the 40% by 2028?

Luka Mucic

You mean the mid-single-digit billion figure that I've been talking about?

Aaron Guy

Yeah, the assets disposals in order to get to the.

Luka Mucic

Yes. Well, yes. We have essentially, as we said in March, we have combed through our entire portfolio, and we have packaged up different sets of portfolios, both in core as well as in particular in non-core. You know about our intent to dispose of the rest of our nursing assets, commercial assets, and the remainder. This is widespread. You cannot pinpoint it to one specific portfolio location. It goes really all across Germany, and we are mapping this to different sets of buyers. This is outside of Sweden, where we have now also readied ourselves for market sounding across a range of options. We have used the summer period to prepare this process well and are now going to test the waters. But the mid-single-digit billion figure of asset values, that really only applies to Germany.

Aaron Guy

Got it. Thank you.

Operator

We now have a question from the line of Andrew McCreath from Green Street. Please go ahead.

Andrew McCreath

Yeah. Hi. Good afternoon. Thank you for taking my questions. I also have two. Just firstly, coming back to the dividend outlook, you are guiding both EBT and Adjusted Shareholder Earnings to be flat to 2028, and the divi policy here is unchanged at a 50%-60% payout of EBT. Is this now a no-growth dividend story, or will you target the middle of this range for this year to show some marginal growth year on year and then slowly increase to 2028? By extension, are you also rethinking the dividend policy given where rates are now?

Luka Mucic

Yeah. I am just afraid that if we continue to rephrase that question in three different ways and ask it four times, you would not get a different answer. We are just not yet at the point that we can be definitive. This will, as always, happen during the course of Q1, and then we will take a decision with the supervisory board.

Andrew McCreath

Okay, fine. That is clear. My second question is on development. You have put this under a strategic review. What are the options on the table for you here? An exit, a JV, wind down? What I am trying to understand is whether there is any carrying value risk here on the land bank and inventory. Also,

what happens to the Manage-to-Green assets that you have already bought?

Philip Grosse

Andrew, sorry, to cut it short, it is a strategic review, and we should conclude that strategic review, and we will report about the outcome with the publication of our year-end numbers.

Andrew McCreath

Okay. Thank you.

Operator

The next question comes from the line of Véronique Meertens from Van Lanschot Kempen. Please go ahead.

Véronique Meertens

Hey, good afternoon all, and thank you for taking my questions. The first one on property values, and I appreciate you, Philip, that you're saying that you're not seeing massive property values decline at the moment. However, it's CBRE itself that is already penciling in 20 basis points of yield expansion for the seven prime cities. How do you see this going forward then, and how are your discussions with CBRE at the moment, and why wouldn't we see at least some form of repetition from the last time?

Philip Grosse

Veronique, we have basically concluded the discussions with CBRE, and we are very much in alignment on how we have to look at our portfolio. The outcome is that we will see an asset value decline of roughly a percentage

point. That is, in fact, largely driven by Berlin, because here, pressure currently, given the political debate, is the highest. I'm always reminding you guys, there is no one-to-one translation of interest rates vis-à-vis property values, because with the outlook on rental growth, you are essentially growing into, predictably, a new financing environment, and that is why you have a certain impact, but not a one-to-one translation.

Véronique Meertens

Okay, and I appreciate that, but it's CBRE itself that already says that there's 20 basis points of yield expansion. How does that translate into only 1% point of decline for your property value set?

Philip Grosse

That is probably depending on individual portfolios. I mean, I can only state that we are having these discussions with CBRE, and they will certainly not value our portfolio any different to another portfolio. We are following standards which have to be applied. Full stop.

Véronique Meertens

Okay. My second question is on your leverage targets. When you set those in Q1, there were several key drivers that you mentioned, and I'm just curious how you look at those, because if you look at them, it said that rental EBITDA growth was sufficient to cover increasing financial expenses. Well, it seems that your rental EBITDA growth is actually now lower, while your financial expenses actually have gone up. Your non-rental business drivers also came in lower. It's not a stable yield environment, plus the transaction market is actually also slower than anticipated. In the beginning of the call, you mentioned that you're still very comfortable in reaching these targets,

but can you help us understand how that's the case if all these drivers actually are worse than the beginning of the year?

Philip Grosse

Yeah, on the net debt to EBITDA, by reaching the LTV target by 2028, we would be actually around 10 times, not 12 times. That tells you that on the net debt to EBITDA, we have some buffer. It's a function of, A, increasing the EBITDA, which is still the case, and B, reducing the leverage. The latter, certainly a bit more risky and subject to transaction markets, but given the volumes we are actively marketing as we speak, yeah, I don't see an increased risk. On LTV, I think we've been a bit more cautious for the reasons we have discussed. I actually do not expect to have tailwinds on the valuation side for 2027. My base assumption is that we are going to see flat valuation. In other words, the rental growth is resulting in some yield expansion. That is, yeah, putting away one element of a technical deleveraging, if you will, on the LTV side.

Véronique Meertens

Okay, and also on the ICR side, you are still comfortable in staying above three times?

Philip Grosse

Absolutely.

Véronique Meertens

In the current rate environment.

Philip Grosse

Including convertible issuance, yeah.

Véronique Meertens

Okay. Thank you.

Operator

We now have a question from the line of Nicolas Vaysselier from BNP Paribas. Please go ahead.

Nicolas Vaysselier

Hi, thank you for taking my questions. I will have two, please. The first one, just a little bit more clarification on the Adjusted Shareholder Earnings guidance. You mentioned you are comfortable with a 5%-5.5% interest rate environment with this guidance. But I wanted just to ask if you are also assuming a duration profile that is similar to yours currently. If that guidance also assumes that perhaps some gross debt could be repaid out of cash reserves, so lowering the gross debt. If you think you have still some capacity for issuing convertible bonds. Secondly, you mentioned several times now the possibility of a B2B property management business, which I agree with you, is accretive to earnings at low capital intensity, so looks attractive. Last month, there was a Bloomberg article mentioning your name to manage potentially a portfolio on behalf of Heimstaden. I quickly looked at the portfolio profile. Net initial yield is in the region of 3.5%-4%. So I was wondering if you could help us assess a bit the profitability of such a business. Given the low yields, would institutional holders be willing to pay, I do not know, 25 basis points, 50 basis points margin on the value of

the assets as a revenue. I was wondering, on the EBITDA side, how should we think of EBITDA margin. Would it be similar to your Value-add business, for instance? Thank you.

Philip Grosse

Yeah, I can take the first one on Adjusted Shareholder Earnings. I mean, that obviously is impacted by financing costs. The growth we see on the EBITDA is basically compensated by higher financing costs. Here, as you said, we rightly assume 5%, 5.5% in our planning going forward. Yes, we do see some more capacity for convertible bonds, which is positively impacting our refinancing costs. I think some EUR 800 million, EUR 900 million is still possible and earmarked. Will we see a reduction in gross debt? I mean, in principle, if you look at our Operating Free Cash-Flow post-dividend, that is sufficient to cover the equity portion of our yielding investments, that basically means we do need disposals in order to reduce gross debt. That is what we are clearly targeting, so my expectation is we will see a reduction in gross debt. Whether it comes as quick as we have hoped for by 2028, that is the big question mark.

Luka Mucic

Then quickly on the B2B topic. First of all, you won't expect us to discuss any market rumors or individual transactions that we may or may not pursue. We will gladly do so if we have something to report and have a closed transaction. What I said earlier was that we are actually quite happy that we see a strong growing pipeline. Just half a year into building up a B2B go-to-market organization, we have already a very sizable six-digit pipeline of units that we're pursuing, and we have a dedicated brand, so you can see

that we're taking this seriously. In terms of the returns profile, I think the most important thing is, for me, really not so much how much top line we drive with this business, but what is the real underlying return opportunity that we have. I'm happy to say that in this space, due to the low capital intensity, we have much better returns than anywhere in our core business. So where we are talking otherwise, even in the investment program, about a situation where we're happy about 10% returns, here in this space, you would more talk about something in the neighborhood of 15%-20% returns. So highly attractive. In terms of pricing for this, you can't expect me now to lay out in precise terms what we would be charging. We leave that to the individual conversations, obviously. But in terms of the margin expectation, it would certainly be, if you just take a look at the underlying base fees in the neighborhood of what you see today in our Value-add business, actually, typically these transactions are priced in a bifurcated way with a base fee that covers the ongoing operation, and then a variable fee that depends on the success and value accretion of the portfolio. Especially the second element can then actually provide a very nice upside that would actually lift the profitability of such engagements in a successful case to quite a bit above what you currently see in Value-add.

Nicolas Vaysselier

All right, thank you very much.

Operator

The next question comes from the line of Paul May from Barclays. Please go ahead.

Paul May

Hi, guys. Thanks for taking questions. Just to be clear on something, I think it was Philip, you mentioned earlier around asset values are evident around current levels, and this is supported by transactions, I think you said 1% below. Assuming this is true, I am really struggling to understand why hitting your LTV target is so tough. Surely, if values are supported by transactions, then you can sell your assets, solve your leverage, and hence not have an issue. Is it not fairer to say that actually values haven't been in the right place since rates went up and the 15% decline taken previously just simply wasn't enough? In order to get to market values, you probably need to move quite a bit further, and we've seen transactions in the market around the 7%+ level. I just wanted to check, can you confirm you can sell sufficient volume at current levels to manage the leverage? Or if not, how are you confident that values are only 1% lower? Thanks.

Philip Grosse

Yeah, look, it's EUR 8 billion expected of transaction volume for this year in an institutional market in German residential real estate, which is fairly small, only 12% of the entire market. And yes, those values are confirmed because it's transactional evidence which is driving the property values in our balance sheet.

Paul May

Those values are at much higher yields if you look at the transactions that have been disclosed in the market.

Philip Grosse

You see transaction on both sides, lower and higher yielding. On the lower yielding side, I think I mentioned before, it's for family offices, a nice product because they can pass wealth from one generation to the next. You don't have to pay inheritance tax, and these guys are not so much focused on yields, but on asset value protection, and that is where we see transactions. So, the answer, I can repeat it a thousand times, it's yes, we see it in transaction value.

Paul May

Okay. So, you will be selling sufficient volumes to bring your leverage down to the levels you want it to be, given that transaction volume, or not?

Philip Grosse

I think I was mentioning several times on the call that in a market like ours, it is very ambitious to reach the LTV target by 2028. We aim to do so, but obviously, I cannot underwrite that. The market is not as liquid as it used to be. It is still liquid to have valuable price points, but not as liquid as it used to be. So, that remains a certain risk.

Paul May

Okay. Thank you. Just to check, just to follow up on something, a question from earlier. You value your own portfolio, I think, if I read the accounts, it is 100% internally valued and then ratified, I think, by CBRE. If you disagree with CBRE on cap rates or discount rates, who has the final say? Is that Vonovia has the final say or CBRE has the final say?

Philip Grosse

There is no final say. If there were a disagreement on values, we would disclose it. Usually, there is no disagreement. If there is a disagreement on an individual asset, we discuss the parameters, and we come to a common conclusion. Typically, the difference between CBRE and our valuation are in the single basis points area.

Paul May

Okay. But it would be disclosed if it was larger than that, is what you are saying?

Philip Grosse

Yeah.

Paul May

Yeah. Perfect. Cool. Sorry, very last one, if I can, Paul, more apologies. Just wondered the…

René Hoffmann

What about the two questions, Paul? That was three already.

Paul May

Yeah, sorry. I know. I apologize. I will stop. It was going to be on the dividend, so it is probably not going to get answered.

René Hoffmann

No, I think we have covered the dividend a number of times. Feel free to touch base with me after the call, but I think for this call, we have covered the dividend plenty, okay?

Paul May

No worries.

René Hoffmann

Thank you

Paul May

All good. Thank you.

Operator

The next question comes from the line of Florent Laroche-Joubert from Oddo BHF. Please go ahead.

Florent Laroche-Joubert

Hi. Good afternoon. Thank you to take my question. I would have two questions. The first one maybe on your guidance. If we look at your guidance for the full year and the performance that you have done for the three first quarters, we can see that maybe you are waiting for quite well-performing quarter in Q4. What could be the drivers for Q4? And maybe a second question, a follow-up question on the valuation for assets in Berlin. We understand that CBRE is looking for maybe a decline in values in Berlin, but how can they, with which parameters, how can they justify this level of decline

in the valuation for your assets in Berlin due to the discussion that, the debates that they are on the political side?

Luka Mucic

Yeah. Let me perhaps start with the guidance and the Q4 impact, and then on the valuation, perhaps Philip, you can cover this. Look, I think we have been very clear from the beginning of the year that we expect a different seasonality this year compared to last year. Last year, we had in Q1 this big land sale to the city of Berlin with the EUR 53 million, and this has actually distorted our year-over-year comparisons ever since. This year, it will be slightly different. This year, we are counting on selected land sales and one global exit in the fourth quarter. Katja Wünschel and her team are busy working on that. Obviously, we expect this to come in, and then it would have in the fourth quarter a very positive impact that will help us. Also, you have the normal regular seasonality in Recurring Sales that you always do slightly higher volumes in the fourth quarter than the first three. Therefore, the simple answer is that we expect more of a contribution from those two segments in Q4 relative to the first three quarters. While the rental business obviously will follow the clockwork paradigm that Philip has laid out, and in Value-add, we expect continued very strong performance. You have actually seen that during the year, and we have rather further accelerated a bit more. That ultimately is then underpinning the forecast for the full year. More back-end loaded in Q4 this year than last year is the simple answer.

Philip Grosse

Yeah, and then on the valuation side, I mean, in Berlin, an apartment costs or is valued at approximately EUR 150,000. That is not a lot if compared to

replacement cost. The debate about socialization is weighing on the transaction market in Berlin. This is just a fact, which is why we see in Berlin a bit more pressure than in other regions than in Germany, but it is not a fundamental correction.

Florent Laroche-Joubert

Okay. Thank you very much.

Operator

We now have a question from the line of Pierre-Emmanuel Clouard from Jefferies. Please go ahead.

Pierre-Emmanuel Clouard

Yes, thank you. Good afternoon. Two quick follow-up on my side. The first one coming back on disposals. You earmarked around EUR 800 million of assets in Sweden. How much do you realistically expect to close by the end of next year? What is actually the current net initial yield of these assets to understand what impact it could have on the top and the bottom lines? My second question is coming back on the LTV, so the 40% LTV target for 2028. Can you clarify whether this refers to a year's reported LTV metric or EPRA LTV, and how much additional minority stake disposals are embedded in the bridge from the current 46%- 40%?

Philip Grosse

On disposals, we have actually a bigger non-core portfolio, and the intention is to sell as much as possible in a short period of time, but in consideration of its value. In other words, not at every price. We will report about the progress. On the LTV, we report not the EPRA LTV, except for year-end.

EPRA LTV has some shortcomings. In particular, the fact that if we have excess liquidity, we do treasury, and that we invest in AAA-rated bonds, and that is not considered in the cash position for evaluating the net debt. I do not think that's appropriate. Minorities for debt doesn't play a major role.

Pierre-Emmanuel Clouard

Okay, understood. What about the current net initial yield on the non-core portfolio in Sweden?

Philip Grosse

The gross yield is roughly 6.5%.

Pierre-Emmanuel Clouard

Okay.

Philip Grosse

Because it's non-core.

Pierre-Emmanuel Clouard

Okay, understood. Thank you.

Operator

The next question comes from the line of Jochen Schmitt from Metzler. Please go ahead.

Jochen Schmitt

Thank you very much. Good afternoon. Just one question on your development business. In your remarks on the contribution of new construction to organic rental growth, you stated a lower-than-expected number of

completed units. Was this caused by delays in construction work? That's my question.

Philip Grosse

For this year, it's actually delays in construction work. Going forward, and that is for 2028, it's because of us significantly reducing Development-to-Hold.

Jochen Schmitt

Thank you very much.

Operator

We now have a question from the line of Charles Boissier from UBS. Please go ahead.

Charles Boissier

Yes, good afternoon. Just a follow-up on the credit rating, which you said is very secure, and there were a number of questions. You spoke of LTV ICR. I just was wondering, which credit rating metrics and thresholds are you monitoring more closely, and what are the rating agencies' thresholds for potential credit rating change? Thank you.

Philip Grosse

The thresholds are disclosed by the rating agencies, but they follow different definitions, so it does not tell you too much. You can liaise with René on the details. But if I look at the most risky part in our ratings, that are the capital asset ratios, here we probably have some 2 percentage points headroom in the LTV before it kind of gets critical. That having said, also rating agencies

take a forward-looking view, and for the reasons we mentioned, we are confident that we can manage the market environment we are currently facing.

Charles Boissier

To follow up on that, obviously you have temporarily suspended your 40% target for 2028, but would you expect 2027 LTV to reduce or to be stable from the current levels?

Philip Grosse

No, Charles, that is really important. We have not suspended the 40% LTV target 2028. All we are saying is it has become more ambitious, so there is a higher risk associated with us getting there by 2028. But in any case, you will see a reduction in LTV by that time.

Charles Boissier

All right. Very clear. Thank you.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to René for any closing remarks.

René Hoffmann

Thank you, Matilda, and thanks, everybody, for joining this call and the numerous questions. If you do have follow-ups, please reach out to the IR team or to myself, and we look forward to continuing this dialogue with you during the upcoming roadshows, conferences, or whenever you feel the need to talk. Please note that our next reporting event, which is full year

2026, will be on February 18. We will be publishing preliminary results that day, including an earnings call and a presentation, like today, and we will publish the full set of results, including the annual report, on March 5. That concludes today's call. As always, thanks, everybody. Stay safe, happy, and healthy. Bye-bye.

Luka Mucic

Thank you very much.

Philip Grosse

Thanks. Bye-bye.

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