

Transcript
9M 2025 Earnings Call
November 5, 2025



Rene Hoffmann

Thank you, Moritz, and welcome everybody to our 9M 2025 earnings call! Our 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. Welcome everybody also from my side! Today is earnings call number 50 for me, but also for the company. And as you are well aware, it is my last one.

I want to take this opportunity to remind everybody of what drives Vonovia and what makes this company different. That is why before Philip dives into the 9M results, I will share a few slides that are more fundamental and general but very instrumental for understanding how Vonovia approaches the business.

But let me start with a brief summary on page 3 to get us started. Nine months into the year, we are fully on track towards achieving the upper end of the guidance. Total EBITDA is up 6.4% and EBT is up even slightly higher with 6.8%. Post minorities EBT – the most important figure for you, as I know – is up, like EBITDA, by 6.4%. As you will see on the guidance page, our growth momentum carries over into next year and will gain further momentum towards 2028. We are well on track for our ambitious EBITDA targets. And most importantly, organic rent growth will increase to around 5% by 2028. Personally, I think with the higher investments and the strong underlying market rent growth Vonovia may well see rent growth above 5% by then. The markets in which we operate continue to normalize and move in the right direction. Organic value growth is happening and we will probably see a bit more in H2 than what we have seen in H1.

The transaction market remains somewhat below the levels we have seen in the ultra-low interest rate period, but it is back to the normal level that we had seen before that period.

Page 4. Let me summarize what our fundamental beliefs are, and why I think Vonovia is different. First, a mantra that I keep repeating because it is so fundamental. Our business is built on and follows certain megatrends that provide stability and safeguard Vonovia's long-term earnings and value growth. Imbalance of

Transcript
9M 2025 Earnings Call
November 5, 2025



supply and demand in urban areas, the focus on CO₂ reduction, and the positive impact of demographic change on our business will not go away for the next 20 to 30 years.

Against this backdrop, there are three guiding principles that we believe in: First. It is a low-risk business and a low-margin business. Because the underlying business is regulated and very low risk, the initial yields are comparatively low. The consequence for us is that cost leadership is crucial, and we achieved this by building scale and rigorously pursuing standardization and industrialization.

Second. Our business is a B2C business. The long-term nature of the rental contracts and the relation with our customers make us a subscription-based business based on real estate. The consequence for us is that we pursue deep vertical and horizontal integration, maximum control over our value chain through insourcing, and rolling out ancillary services to increase our share of the wallets of our tenants.

Third. Location and portfolio quality matter. Even though it is a subscription-based business, it is still real estate – location matters! There is not the one initial yield for German resi. Supply/demand imbalance is very different in different locations, and housing markets in urban areas simply have different fundamentals compared to the country side. And when you are in the right location, you can unlock additional earnings and value growth through investments in the long run. The consequence for us is that we have worked hard through acquisitions and disposals to focus our portfolio in the right locations, and second we have developed the know-how and the capacity to run a large-scale and industrialized investment program.

I mentioned the low risk in the underlying business in the markets in which we operate. The beautiful thing about that is obviously that our operating performance does not produce negative surprises. Rents keep going up, tenants pay their rent in full, and vacancy only exists in cases where we do modernization work in the apartment. What may be a surprise to some people, even though it is built into the system and actually should not be a surprise, is the acceleration of rent growth. We have spent a lot of time and effort in trying to explain the catch-up effect in rents from higher inflation of the past years.

It is becoming more and more evident now. As you'll see on the guidance page later, we are continuing to move upwards to around 5% organic rent growth and above, which will of course have very positive implications for both earnings and value growth.

Transcript
9M 2025 Earnings Call
November 5, 2025



Go to page 6. One of the consequences of running a B2C end-consumer business is the need for scale. The size we have reached is impossible to replicate and clearly gives us an advantage on the cost side that cannot be copied by other players who are smaller and in most cases are a lot smaller.

The chart on the bottom shows for Germany how the increase in the portfolio volume led to an expansion of the margin and a reduction of the cost per unit. What is also noteworthy here is that our customer satisfaction increased substantially from an indexed 100 at the IPO to 125 today.

The cost per unit number is maybe a bit complex and more difficult to compare. So, let me make my point about scale and efficiency very simple and transparent.

Let's have a look on page 7 for gross yields and adjusted net yields. Gross yields are rental income divided by fair value. These gross yields differ within the peer group, which is, of course, no surprise given the very different portfolio locations and quality.

If you then look at the adjusted net yields, so EBITDA Operations adjusted for maintenance, because maintenance spending is clearly not a sign of efficiency but capitalization policies, we see that the cost leakage within German resi is very different.

Vonovia loses 0.4 percentage points between gross and net – and if you look only at the German portfolio, it is just 0.2 – versus almost a full percentage point for the peer group. This is the result of our superior scale and efficiency that we have reached since the IPO when our spread was as high as 1.5 percentage points. Of course, at that time, we had a much smaller portfolio.

In a business with low initial yields this gap is huge. It means that we are uniquely positioned to succeed in low yielding markets which, of course, have higher growth potential. And it means that we generate more than 400 million additional EBITDA with our platform and our way to do business than we would if we had the average peer group leakage.

And it means that we are extremely well positioned for a successful 2nd Vonovia strategy.

I have mentioned our platform a couple of times, so let me give you a better understanding of what I mean by that. This is page 8. We have developed a fully integrated one-stop shop that covers the entire value chain in our business.

From the acquisition and development of new units, to the asset and property management, to the value-add and facility management to disposal expertise.

We cover the full range of the asset lifecycle. And we do it on an operating system that is SAP head-to-toe with clearly defined interfaces between the operating entities and the central support functions and a seamless integration between local and central responsibilities.

Today, this platform services mostly our own portfolio. Owning and operating Europe's largest residential asset base, including one of the largest home builders, safeguards unparalleled experience and a unique data pool that forms the strong backbone of the platform.

Page 9. You are all aware of our activities to increase non-rental EBITDA. The general effort to do that, though, is not new. We had been ramping up the non-rental EBITDA since the IPO to as much as 20% of total EBITDA by 2021. The sudden change in the interest rate environment and our focus on liquidity generation over profitability resulted in lower non-rental EBITDAs for good reasons.

Going forward, however, there is absolutely no reason why we should not be able to grow outside the rental segment. Of course, the absolute amounts are bigger than in 2021 thanks to the successful integration of Deutsche Wohnen, but the underlying strategy of doing more than just collecting rents has been in Vonovia's DNA since the IPO and there is no reason why this should not be a key element of Vonovia's strategy going forward because it makes all the sense in the world.

The objective for 2028 to reach the level of non-rental EBITDA that we had achieved before Deutsche Wohnen is really not a stretch.

Let's go to page 10 to talk more about locations. Again, this seems to be misunderstood by the market sometimes. Germany is not the same all across the country. Fundamentals and yields are very different in different locations. The general distinction I would make is that there are the urban markets, which tend to come with lower initial yields, and the rural markets which tend to come with higher initial yields. In both cases, this is obviously a function of the different long-term growth potential of these markets.

Transcript
9M 2025 Earnings Call
November 5, 2025



This strong conviction about the different quality of local markets within Germany prompted a laser focus to make sure we are in the right locations. The large acquisitions to grow our portfolio are well known, but what is sometimes forgotten is that we sold more than 100,000 units in what we consider rural and therefore weaker markets. Between the IPO and today, we cut the number of locations in half and that led not just to better portfolio quality, but also to higher efficiency.

And why is it so important to be in the right locations? Let's go to page 11. Most of you will have seen this analysis in previous earnings calls. The appeal of our business, as we see it, is that the annual rent growth may not always be as high as in other sectors, but it is as robust as it gets and allows us to predict our rental growth for many years to come. The gap between the market reality rent levels and our rent levels ensures many years of attractive risk-adjusted rent growth.

Of course, this does not apply to all markets, but only to the ones where you have a structural supply/demand imbalance.

That's why vacancy is not a concern for us. Doing modernization and charging a higher rent for a better product is not a concern for us. And reletting an apartment – in line with the regulation – at a higher rent is not a concern for us. Affordability – to make it short – is not our problem and not the problem of our tenants.

As I said earlier, not only the right location matters when it comes to asset management. Investments are key to unlocking further earnings and value growth. As a consequence, comprehensive investment programs have been a cornerstone to Vonovia's strategy since the IPO. And the peer group comparison clearly shows that we have invested more.

I know that the return of these investments cannot be easily extrapolated from the financial results because there is no immediate link between the investment amount of one year and the return in the next year, as many of these investments take more than one year to be completed.

That is why we looked at all investments that we have made and fully completed between 2014 and 2024. The aggregate investment amount was 7.4 billion and the average operating yield we have achieved was 7.1%. So to us, it makes all the sense in the world to continue with these investments and to increase them to 2 billion per year, as planned by 2028. They make economic sense and they also make sense from a sustainability point of view, so this is a win-win situation.

Transcript
9M 2025 Earnings Call
November 5, 2025



We talked about locations, we talked about buying and selling to be in the right markets and we talked about investments to deliver additional growth.

Let me put this into context on page 13. Because of the dynamics in our local markets and because of the comprehensive investments we have been making, we have been able to deliver best-in-class rental growth. As I said earlier, I am personally convinced that this gap will widen in the future from superior market rent growth and superior investment-driven rent growth.

And this rent growth, combined with the investments and the portfolio focus, has delivered a higher CAGR for value growth, based on the development of fair value per square meter since the IPO. The market focus seems to be very much on earnings these days. That is fine, but let us not forget that you have two types of returns: earnings and value. I learned this from you 13 years ago when I joined the industry.

This is a good segway into the last page of this chapter before I hand over to Philip.

When you invest in Vonovia, you do not buy into an initial portfolio yield. That is why I refuse to accept the argument that we are a bund proxy and that it is all about the spread between bund yields and the net initial yield of our portfolio. Rather, one should look at the total shareholder return, so earnings and organic value growth, and compare that to other equity investments, on a risk-adjusted basis, of course. And while it is entirely up to investors and the market in general what they make out of it, I consider 13% total return based on the current share price as attractive from a risk-return point of view, and that is why I look forward to remaining a Vonovia shareholder long beyond my tenure here at Vonovia.

With this, over to Philip.

Philip Grosse

Thank you, Rolf. Welcome also from my side! I will start with page 16. I think it actually speaks for itself, so no need to go into too much detail here.

But allow me to make one important point: Our rental segment is still impacted by a smaller portfolio; year-on-year we have 9,000 fewer units, and that of course weighs on the top line.

Transcript
9M 2025 Earnings Call
November 5, 2025



Nonetheless, the nominal growth in our Rental segment alone, so excluding non-rental EBITDA contributions, overcompensated the increase in the net financial result in the first nine months. And this is exactly the logic we have been talking about and the consequence of our long-term and very balanced maturity profile.

Yes, our interest expenses are going up as expected, but rents are going up more and combined with the non-rental growth, we will continue to be able to deliver attractive risk-adjusted earnings growth.

Let's go through the four segments one by one and start with the Rental segment on page 17.

Rental revenue, as you can see, was up almost 3%, only held back by losing some of our top line, as explained. Maintenance was a touch higher, as expected, and operating expenses were very much in line with last year.

All in all, we basically managed to preserve the top line growth on the EBITDA level for a year-on-year increase of 2.5%. Organic rent growth remained very robust with 4.2% overall and 2.8% from market rent growth. Like in previous quarters, no need to deep-dive on occupancy and collection rates, as they both remain exceptionally high and are expected to remain at this superior level for the foreseeable future.

On Value-add, that is page 18. As you can see, the internal revenues grew by more than 15%; that is largely the result of our increased investment and our higher insourcing ratio.

The year-on-year comparison is skewed insofar as that the prior year includes 58 million non-recurring Adjusted EBITDA from the coax network lease agreement we made with Vodafone. Adjusting for this one-time benefit last year, Value-add EBITDA was actually up 11%, equally as expected.

In spite of this one-time effect, we expect the Value-add EBITDA for the full year to be considerably higher than last year, mainly driven by higher investments and value creation in our craftsmen organization as well as rising contributions from our energy business.

So, we are well on track towards further expanding the EBITDA contribution from our Value-add segment, as we have been guiding for.

Transcript
9M 2025 Earnings Call
November 5, 2025



Recurring Sales, on page 19. We sold – to be precise – 1,553 units in the first nine months, up 2.4% compared to last year. The revenue growth of almost 12% and the higher fair value step-up far exceeded the growth in units and resulted in 300 million for the nine months 2025. It's the combination of higher revenue and higher gross profit plus stable selling costs that drove the EBITDA contribution to almost 57 million, which is 45% above the prior year. For Recurring Sales, we remain, again, very much on track towards further expanding the EBITDA contribution.

Finally, our Development segment on page 20. We have explained in previous calls, the Development EBITDA is positively impacted by a larger land sale that closed early this year, hence the extraordinary and not sustainable gross margin. If we adjust for this land sale, however, the gross margin comes down to 19%, which I consider a very normalized developer margin we are targeting, that is as we have been expecting it.

Either way, our Development business is a valuable contributor to the overall EBITDA and here, too, the increasing EBITDA contribution is very much on track.

That much about the segments.

On EPRA NTA, that is page 21. The main point for the NTA really is that, due to a new law that will bring a reduction in corporate income tax, we saw a shift of roughly 2.3 billion from deferred tax liabilities to IFRS equity, so on a net basis more or less flat, but the composition somewhat changed.

Page 22 for the debt KPIs. There isn't much change from one quarter to the other and the bottom line on the leverage side remains that we consider it to be well under control. The yardstick for that is mainly what the rating agencies expect from us to be safe on our BBB+ rating with a stable outlook.

As I said last time, different points in the cycle require a stronger focus on some debt KPIs more than on others and we are at a point where our main attention is on the ICR.

There are two ways to look at the ICR. The numerator is the same in both cases - Adjusted EBITDA Total of the last twelve months. But the denominator is different. One definition - and this is the one used in the bond covenants - uses the net cash interest in the denominator. This can be a bit volatile from time to time, depending on the interest payment dates. The bond covenant threshold is 1.8x, so I hope we can all agree that this is somewhat irrelevant from a risk point of view.

Transcript
9M 2025 Earnings Call
November 5, 2025



To allow for a more normalized measurement of ICR, we are using the net financial result that we also use in getting from Adjusted EBITDA to Adjusted EBT. The ICR threshold we have set to ourselves internally is, as you know, 3.5x.

Let me reiterate: Our focus is to make sure our debt KPIs are in line with the BBB+ rating criteria and a stable outlook. This is now 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.

On to the guidance; this is on page 23. We have finetuned the 2025 guidance and moved to the upper end of the range for both rental income and Adjusted EBITDA Total.

As we usually do in the third quarter, we are also giving an initial guidance for the next year. No need to read all individual line items now, but do allow me to zoom in on the organic rent growth.

You may recall the concept of the additional irrevocable rent increase claim that we introduced a few quarters back. We are showing it here again to demonstrate that the rent growth is coming, it is actually already there, apartment by apartment, but because of the "Kappungsgrenze" it cannot be implemented just yet. "Kappungsgrenze", as a reminder, is the cap that allows you not to increase rents by more than 15% for sitting tenants over a three-year time horizon in tight markets.

We explain the underlying concept on page 30 of the presentation in more detail.

Let me say this: For 2026 we have a net increase of another 0.4 percentage points to a total of 3% that is already booked onto the underlying apartments, but can only be implemented once the rental cap has lapsed in subsequent years. I can put it differently: If the 0.4 percentage points net build-up would be harvested already next year, the 2026 organic rent growth would be around 4.6%. So, you can actually see that the acceleration is coming through as promised.

Without any rental cap, by the way, the 2026 organic rent growth would be north of 7%.

We did the math as to how much net build up and net use of this additional irrevocable rent increase claim we will have on our way to 2028, and based on our probably rather conservative assumptions for future rent indices, we will see a net

use that will take the actual organic rent growth to around 5%, also supported by higher investments. So what we're moving towards is a step change in rental growth that surpasses historic rent growth numbers, which should not come as a surprise, actually, because at the end of the day this is higher inflation finding its way over time into organic rent growth, like we have always said. And referring back to the commentary Rolf made, this higher level of rent growth will have a positive impact on both types of shareholder return; that is earnings growth and value growth.

Final comment on the guidance page: Some of you are asking for more clarity on minorities and taxes. EBT minorities are expected to be around 10% of Adjusted EBT. And cash taxes - that obviously includes taxes for our disposal segments - are expected to be inside 10% of Adjusted EBITDA Total for 2025 and the same applies for 2026.

The CEO handover process is underway and Luka will be joining at the end of this month before he will officially assume his new role as CEO starting in January.

We will miss Rolf - but we are equally excited about Luka joining.

With that commentary, for the last time, Rolf, back to you.

Rolf Buch

And for the last time: Thank you, Philip. Before we go to the Q&A, allow me to briefly summarize the relevant points of today's presentation: As we laid out, the way Vonovia approaches the business is different and it has led to an operational outperformance that we expect to continue.

This puts the company in an excellent position for future earnings and value growth. Our market environment and operating business remains rock-solid and we are well on track towards achieving our ambitious targets both for rental and non-rental growth. We have put the company on a tremendously stable footing, and we leave it well positioned for further earnings and value growth.

We have built a platform that is second to none and will prove to be a cornerstone in the company's efforts to build a 2nd Vonovia. All of this will be in great hands with Luka. I wish him and the entire Vonovia team all the best and have no doubt that together they will write a new and very successful chapter in the history of Vonovia.

Transcript
9M 2025 Earnings Call
November 5, 2025



But more important, I would like to thank you all for your support in the last twelve years. Without your support and the willingness to invest it would not have been possible to build this Vonovia, this great platform.

With this, thank you very much and back to Rene for the Q&A.

Rene Hoffmann

Thank you, Rolf. Thank you, Philip. - I hand it back to Moritz for the Q&A.

Just as a reminder for everybody: Let's keep it to two questions per person, please.

Moritz, can you start the Q&A for us?

QUESTION & ANSWER SESSION

Operator

The first question comes from Charles Boissier from UBS. - Please go ahead.

Charles Boissier

Good afternoon! Thank you for taking my questions. I have two questions.

The first one is on the change in the organic rent growth guidance of 2028 from 4% plus to now 5%. What exactly has changed versus the initial guidance that you had set up, whether in the market or in terms of your ability to capture that rental growth? – Thank you.

Philip Grosse

Charles, the answer is very simple. We've been telling you before: above 4%. I think now we have become more precise. If we look at the underlying data - and we have done a very comprehensive analysis - we can see that historic inflation is coming through over time, to the extent allowed by the "Kappungsgrenze", the rental caps. And you will see, also going forward, numbers between 2.5 to 3%, non-investment-driven. The other bit is investment-driven; that is currently 1.4%. But with us more or less doubling the investments vis-à-vis what we have seen last year, we will see also an acceleration in rental growth.

In the investment-driven bit - and here as a reminder -, cash-on-cash yields 6 to 7%, with the vast majority ending up in the rental EBITDA and a portion of that ending up, because of the value creation of our craftsmen organization, in the Value-add EBITDA.

Charles Boissier

Okay. Very clear. Thank you.

On the transaction market, you present quite a positive story of normalization. You are also pointing to H2 valuation accelerating versus H1. Still, in Q3, it seems rather slow in terms of transaction activity. Of course, there were some small deals here and there: Peakside with 850 apartments, Adler – [unaudible] transaction.

But what are you seeing in the transaction market that makes you confident that it has normalized and you would be able to sell assets at book values? – Thank you.

Rolf Buch

First of all, even in the bad times where the transaction market was much worse, we sold assets for book value. So, it's probably the quality of assets which is relevant.

But to be very clear: What you see and what is seen in the public are the big transactions. In reality, there is an underlying transaction market of smaller players. I mentioned this in my speech: This is actually back to the level where it has been before the ultra-low investment rate environment.

What we see here in the listed sector is just a small part of the big transactions. But the market really is consisting of a lot of smaller transactions. And there we see a very stable thing; we see the demand and we see supply coming to the market. I can confirm that the market is pretty stable and going in the right direction. As Philip said, we will expect a higher valuation in H2 – an uplift – than we have seen in H1.

Charles Boissier

Understood. Best wishes, Rolf, and thank you.

Rolf Buch

Thank you.

Operator

The next question comes from Valerie Jacob from Bernstein. – Please go ahead.

Valerie Jacob

Hello, good afternoon! Thank you for taking my questions. I've just got a follow-up question, a clarification on the comment that you made that you expect organic growth in asset values to be higher in H2. I think part of it is mechanically driven

Transcript
9M 2025 Earnings Call
November 5, 2025



by you spending more capex. So, I was wondering if this comment is also valid if we exclude the capex from your asset value growth.

That's my first question. I've got a second question.

Philip Grosse

You have that acceleration on both sides, on a gross as well as on a net basis. And in H1 you have seen net value growth of 70 basis points. That number will be exceeded in H2.

Valerie Jacob

Okay. Thank you. That's clear.

My second question is on your ICR. I'm not sure whether it is helpful that you're changing a definition again. So, I was just wondering: Going forward, are you still going to publish the bond definition? Or are you only going to publish your own definition?

Philip Grosse

Valerie, I think we just wanted to make clear that we internally manage our business in a different way, and not by bond covenants. That, by the way, is no different if you look at LTV metrics. Because if you look at the covenants set, the LTV is not a concept in the bond covenants, but here you look at more broader capital ratios.

The flip side, if you will, on the bond definition is, as I said: There's a bit more volatility. It very much depends on the point in time where you actually pay interest. Over time, if you don't make the quarter-by-quarter comparison, the two are very similar to each other, typically a difference of 10 basis points. And more specifically, we will disclose both.

Valerie Jacob

Okay. Thank you, Philip. Thank you.

Operator

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

Bart Gysens

Hi, good afternoon! My first question is also on the ICR, actually. You talk about moving that into better territory. I just wanted to understand how you can do that for the ICR. The average cost of debt is running at 1.9%. You managed to keep that flat. You have to refi about 4 to 5 billion a year medium term.

Even if reported EBITDA grows by 7% per annum, as you're guiding, that suggests that actually, if you finance at the current marginal cost of debt, interest cover will not improve, on the contrary.

How do you look at that? And are you considering more alternative solutions like convertible bonds or preferred equity? – Thank you.

Philip Grosse

Bart, to be very precise: Where we are moving in the right direction is in terms of LTV and in terms of net debt to EBITDA. LTV, because I have conviction, as we have seen this in the running year, that the rental increase - net of the investment required to achieve that rental increase - will translate itself into value growth.

And if I look at net debt to EBITDA, we have, as you know, a number of initiatives which are running very well to in particular increase also the non-rental EBITDAs and that will move that metric further down.

On the ICR, it is really our intention to keep that somewhat stable at current level and that is going to be the major focus. And here, yes, we probably need some positive backdrop in markets in terms of refinancing costs. Our assumption is that this somewhat remains at current level of 4%.

It's also no secret that I think that convertible product as part of the capital structure is a good addition. You should not overplay it. So, it should be a moderate portion of your capital structure in terms of liquidity in the underlying stock, plus in terms of the overall debt burden. But that having said, I think there is capacity for more. And to be crystal clear, convertible is for us - no ambiguity - a 100%

debt. And the assumption always is that it will never come to the dilution, but that, if the convertible is in the money and at maturity, it is going to be refinanced by a new convertible, ceteris paribus, at a higher stock price. And that is essentially, if you do the math, reducing contingent dilution.

But again, the focus - that is what is driving the capital structure going forward - is going to be the ICR.

Bart Gysens

Great. Thank you.

My other question is on Recurring Sales on slide 19. You've sold more or less the same number of units as a year ago, but at a different price point, right? Around 10% higher per unit.

Have you started selling a different type or quality or location? Should we read anything into this? – Thank you.

Rolf Buch

No. There might be a small difference in mixture, but I think what you should read in this and what we have announced is: We have sold also this product and the liquidity was for us important, actually, a bit with less focus on price.

As we announced in October or November last year: We said now we will come back to normal. What you see is that the margin is actually coming back, what we have expected.

This, of course, comes together with the recovery of the market. You see here that the market obviously is ready to pay the well-known premium which was paid before the crisis for individual apartments versus blocks. So, the retail and whole-sale margin is back to normal, which is also, I think, an additional answer to the question about why the market is coming back. You can see it in this figure.

Bart Gysens

Great, thank you. Rolf, good luck in your next endeavours. Thank you.

Rolf Buch

Thank you.

Operator

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

Thomas Neuhold

Good afternoon! Thank you for taking my questions.

My first question would be on the non-rental business. Can you please provide us an update on the new expanded business areas such as stranded assets, occupancy rights and third-party business? Did you manage to strike already some interesting deals there?

Rolf Buch

To the assets which we call "Manage to Green" assets - which was formerly called "undeveloped assets", but I think "Manage to Green" is a much better and more precise definition -: As you know, we have signed the first deal; we are in the final round and have actually exclusive negotiations with others, with more potential. It took us a little bit longer to get this started than we originally expected. But now, I think, we're on the full run. So, I don't see anything else. This is the same for the occupancy rights.

And actually, to be very clear, we manage all these additional activities - in total the ten - where we are in line with our expectation; we are in line with the guidance which we have given you to 2028. So, there's no reason to be nervous. Actually, on the opposite, some of them are getting better.

Especially for the 2nd Vonovia, as you know, we will not talk about potential deals there. But I can tell you that in the last two months which are remaining for me here, there is still a lot of opportunity where we are in discussions.

Thomas Neuhold

Thank you. – My second question is for Philip: Can you please give us an indication what impact the lowered corporate tax rate in Germany will have on your cash tax rate going forward, once it's going to be implemented?

Philip Grosse

It's still some time out, it's starting in 2028. So, this is now asking for a very long term guidance.

This is, as I said, for now, predominantly impacting deferred tax liabilities, which, because of the embedded reduction in corporate tax rate, is resulting in that one-off gain of 2.3 billion euros.

In terms of a more broader picture let me tell you that much: By us significantly increasing our investments, our Rental and Value-add business is not hugely impacted by tax payments because most of the investments we undertake, according to German GAAP, are actually reducing our taxable income and that you will see in lower tax rates actually for our Rental and Value-add business going forward.

That, however, is somewhat compensated by higher tax rates because we do more disposal business and that is for Development-to-sell equally as for our Recurring Sales business. And, yes, here you may have some small benefits in the long run on the lowering of the tax rate.

I think, what is, however, even more important - and that is in particular for Development-to-sell in global exits - is about structuring and the way how you sell it essentially, which allows you to optimize the tax line.

Thomas Neuhold

Okay. Understood. Thanks a lot. - And Rolf, all the best for your future!

Rolf Buch

Thank you.

Operator

The next question comes from Andrew McCreath from Green Street. - Please go ahead.

Andrew McCreath

Hi, good afternoon! Thank you for the presentation and for taking my questions; I also have two.

Firstly on Development. Looking at your numbers 3Q, doesn't suggest much acceleration in activity. Could you please just provide some colour on the dynamics there? Are you seeing any improvement in sales pace? That would be the first question.

The second would be on construction. For the initial projects in Berlin and Dresden, you've got it to an all-in cost of 3,600 euros per square metre. What sort of yield on costs are you underwriting for these developments? – Thank you.

Philip Grosse

On your first question, Andrew, on the Development: As I said, if you look at the profitability, that was really much driven by the sale of a land plot we closed in Q1. And that is essentially also the somewhat overriding story for this year because we have sold essentially all project developments we had in our pipeline in the last two years in order to generate cash and because of the crisis did not start new projects. We first needed to build up a platform on the basis of which we can earn the targeted gross margins of 15 to 20%.

You will see a kind of more steady development already next year, but only partially, because also next year is going to be a mix between first completions and selling of those completions or started projects which we sell based on the POC method.

But you will also see the disposal of land plots in the coming year. I think the kind of ramp-up as we have been budgeting for is really to come through as of 2027 and beyond.

Rolf Buch

For the new construction, I think, this is a topic which is not only important for Vonovia, but for the whole German market. With the "Bau-Turbo" and with the Gebäudetyp E, the most recent legislation, it will provide us with the possibility to reduce the construction costs by 30%, so these famous 3,500 all including, which is actually comparable to the letting. And we are targeting an initial yield of roughly 5%.

Then of course, these buildings come in the first years with no maintenance and an increase of rent which is often very indexed. That's why the initial yield is low. But then the yield will go up over time. That's why it's a good investment.

This is either for us on our own balance sheet or, if it's for sale, it's for others who are ready to invest at 5% yield.

Philip Grosse

Let me be very clear and add one thing: What you see in the Development EBITDA is only Development-to-sell. In Development-to-sell, as I said, we are targeting gross margins of 15 to 20% and we are essentially targeting IRRs north of 10%. That is what you will see in that profitability line.

So, it's not "yield on cost"-driven how we manage that business. It's IRR-driven.

Andrew McCreath

Okay. That's clear. Thank you very much both. - All the best, Rolf!

Rolf Buch

Thank you.

Operator

The next question comes from Paul May from Barclays. - Please go ahead.

Paul May

Hi guys! Just a couple of questions from my side. Thanks for the analysis on the return on investment. I think 7.1 you highlight over multiple years. I think, as

Transcript
9M 2025 Earnings Call
November 5, 2025



you'll know, we calculate closer to 5% based on reported numbers. But I think you said it's not possible to make that calculation. So, thank you for providing that colour.

I just wonder why is that below the 8 to 10% return on investment that you've previously and multiple times guided to? That's the first question.

The second question: You highlighted through the presentation how you're better than other listed peers, based on your NOI yields. But I think on our numbers, where a lot of your cost comes is through your admin cost line versus others. And if you look at it more on an EBIT yield or EBIT margin basis, you're either lower or similar to peers and therefore, obviously, your yield is much lower.

Also, you are penalizing certain peers by including land in their gross asset value and not including, say, housing profits or housing sale profits in the EBITDA or in the NOI. I was just wondering if you're sort of overly penalizing certain peers. – Thank you.

Rolf Buch

I think the last one we are not doing; this is all public information. And I think Rene can guide you through.

To be very clear, we are operating a little bit different, in a different platform. That's why I added the slide of the platform. Our way to do central and non-central is really different. This is the reason for efficiency.

I think the only way how you can really compare this is to do the net yield and the gross yield. We can guide you through this. But this is based on public information.

Philip Grosse

The other question was on the yields of the investment program. Paul, we've been, I think, explaining for quite some time that the mix of our various investment programs - that is the energetic modernization of the building, the re-letting investments when we have tenant churn, but that is also our Develop-to-hold business - is averaging out with cash-on-cash yields of 6 to 7%.

That this is, at least historically, more at the upper end of the range that calculation is demonstrating. What we are benefiting from here - that is probably a bit different

for Vonovia than for the broader sector - is that we are able to compensate for some of the maintenance spend, which by definition is a part of broader investments, by putting our own craftsmen organization into play. Because here, again, we can earn some extra money. So, that yield, the vast majority, is actually ending up in the Rental EBITDA, but part also in the Value-add EBITDA. And it's only for that very reason that we can achieve these high numbers.

Paul May

Perfect. Thank you.

Operator

The next question comes from Thomas Rothäusler from Deutsche Bank. - Please go ahead.

Thomas Rothäusler

Hi, good afternoon everybody! Two questions. The first one is on the Value-add business. Operating profit was only flat despite the pickup of investments. Actually, we see the same pattern for rental growth which even came down if you look at modernization-driven rent adjustments. You basically say that investment returns come with a time lag of more than one year. I'm just wondering by when we should see a more meaningful pick-up here.

Rolf Buch

I think what you're doing is comparing quarter by quarter. Right?

Thomas Rothäusler

Actually year on year, if I look at the investments year on year and look at the performance of the Value-add business and look at the performance from rental growth out of modernization measures.

Philip Grosse

If you look, Thomas, at the profitability line of Value-add, what is distorting a year-by-year comparison is a very big one-time benefit we have seen last year by the conclusion of a finance lease agreement with Vodafone. And that resulted in an

EBITDA, which is not repeating itself this year, of more than 50 million euros. Now, if I look at the composition of the various profitability streams which are adding up to the Value-add, it is really very much the craftsmen organization where we have seen a very nice turnaround story, the craftsmen organization a) benefitting from higher investment volumes, b) benefitting from higher insourcing ratio. That, by the way, is also why you see that change in terms of revenues in favour of internal versus external.

And what you can equally see is that we are seeing a nice ramp-up in our energy business and that is thanks to the investments we undertake in photovoltaic.

All the other business is really flattish, with the exception of multimedia where we have year on year a decline, I think, of 60% and that is because of that one-time impact, which is not repeating itself.

Is that sufficiently answering your question?

Thomas Rothäusler

Yes, that's perfect. Thank you.

The second point is actually on disposals. You refer to improved investment markets. Should we expect this to allow you to speed up non-core disposals, maybe?

Rolf Buch

Yes, I think we are now back on the normal level. We are doing non-core disposals as it is accretive and attractive for the pricing. We are not pushing so much for volume, but we are pushing a little bit also related to the price. But it is becoming easier also for the non-core disposal.

Thomas Rothäusler

Okay. Thank you. All the best, Rolf!

Rolf Buch

Thank you.

Operator

The next question comes from Marc Mozzi from Bank of America. - Please go ahead.

Marc Mozzi

Good afternoon everyone! My first question is around your number of shares. How should we assume the number of shares you are going to use for the calculation of your dividend and EPS for this year, at the end of the year, because there were some changes here? I'm just wondering if you can help us having some clarity on that number. I'm talking about the weighted average, not the total.

Philip Grosse

I think there is no change whatsoever. It's always the same: If we look at profitability numbers, we take the weighted average of the past four quarters. By way of reference, little change. What you have seen in terms of increase in share count is a) the scrip dividend, which has seen a take up of slightly above 30% and b) I think in total 12 million shares as a result of the domination and profit/loss transfer agreement with Deutsche Wohnen, so people accepting the exchange offer. But that is really marginal.

When we look at balance sheet numbers – and that is EPRA NTA – we look at the year-end number in terms of share count, but also no change. And the dividend is always end of period.

Marc Mozzi

Fair enough. - The other question is around the dividend. I would like to understand how we should think about the dividend per share for the year. We know that it's 50% of the EBT – so that's roughly 950 million euros – plus a surplus liquidity, which I understand is very subjective.

I guess you would like to show some dividend growth, but what sort of growth, on which basis are you going to assess your dividend proposal to the shareholder and to the Board?

Transcript
9M 2025 Earnings Call
November 5, 2025



Philip Grosse

Look, Marc, no change here. For now, I think our dividend policy is what our dividend policy is. It's 50% of EBT plus surplus liquidity. And that is based on the operating free cash flow. And as usual, we will discuss that at the appropriate time and make a proposal to the shareholder meeting which I think is in May next year.

Marc Mozzi

Are you comfortable with the current market forecast of your dividend for this year?

Philip Grosse

I don't know exactly what that is actually.

Marc Mozzi

That's exactly what I thought. – It's 1.26, 1.25.

Rolf Buch

But, Marc, we should not come, not even indirectly, to a dividend guidance. This is not the time. We will come with a dividend proposal - - Not we, but the new management team will come with a dividend proposal when it's appropriate, and this is next year.

Marc Mozzi

Okay, fair enough. I totally understand.

Well, Rolf, I would like to congratulate you for running Vonovia for the past twelve years. And all the best for what's next for you. Thank you very much.

Rolf Buch

Thank you.

Operator

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

Simon Stippig

Hi, team! Thank you for taking my questions. The first one is on page 7. You showed your gross to net yields translation. You mentioned that, here in Germany, it's only 20 basis points.

In Sweden and Austria, I think you're holding only 11% based on units of your portfolio. So could you explain the reasoning of why you are holding on to the portfolios in Austria and Sweden?

The second one would be: In regard to your operating free cash flow Q3 was the lowest compared to previous quarters, and now it's mainly due to net working capital movements. That comes obviously from your Development-to-sell pipeline. But could you explain or indicate what we can expect here for the last quarter and then also, more importantly, what you see here for the next year? And by that I mean items that are not so well explained, not like the minorities, for example. I think you were very clear in previous conference calls. But maybe the capitalization rate, does it stay the same? And also your capital commitment to Development-to-sell?

And lastly, Rolf, stay in good health and best of luck for the next challenge!

Rolf Buch

Okay, I take the first question. I think Austria in this respect is probably less relevant. It's all about Sweden. In Sweden, this is a warm rent, so it includes the energy. That's why the gap which is actually energy is counted here as cost to operate. That's why, technically, it is higher. That's why we are coming to 0.4 in total.

But then you have to compare the Swedish business with other Swedish players, which of course we have done. And we could provide you the same comparison, for example, with Heimstaden. We are more efficient with Heimstaden. That's why I mentioned the 0.2, because in the end, the slide is more relevant if you compare

to the German peers. You would compare it more with 0.2 and not with 0.4, which is in the notes.

But because you cannot directly extract it from our reported figures – you can report the 0.4 from the figures – I think we showed the 0.4. But the difference between 0.4 and 0.2 is because of the different nature in the Swedish market where everybody has to cover the cost as a part of cost and not of a pass-through item.

Philip Grosse

Simon, on your second question, a bit more specific on the operating free cash flow. You know that we are not guiding on that. What we have been guiding for is excluding changes in the net working capital. Why is it that we have done that? Because there's by definition some volatility, in particular if you look at the quarter-by-quarter comparison, because it largely depends on the point in time when we have the cash in, for instance, for bigger global exits in the Development-to-sell business. So please don't get nervous on the quarter-by-quarter comparison, but that's not really the picture to draw.

More long term, how I would look at it without guiding, if I were you, is that if you start with a depreciation line that is impacted by, in particular, our investments in photovoltaic which I think is around 100 million per annum, depreciation 20 years. And given that we do invest in photovoltaic quite significantly, you will see that line gradually going up, which is positive for the cash flow. I think, as in the past, net working capital is very difficult. And as a reminder, there are two elements in it: it's Development-to-sell where my intention is to manage the business in a way that it's at least more or less flattish in terms of the net working capital movements, not on a quarter-by-quarter comparison but on a rolling twelve-month basis.

What, however, is also in there is the "Manage to Green" business Rolf was mentioning and that will require an initial capital build-up. So that kind of portion will be negative – how negative, this depends on how much we are actually able to acquire. But we will give details on that. And we will also give details on the split of those two elements going forward, how it affects the net working capital.

The rest, I think, is straightforward. Capital maintenance I would kind of monitor vis-à-vis inflation because this is what's driving that line item. Dividends and

minorities I think we talked about in length. So you should have all the details, including the additional disclosure we put on our web page.

Income taxes: I think the guidance somewhat remains also longer term. I was making that point previously that I expect that to be slightly inside 10% of total EBITDA.

Simon Stippig

Great. The answer to the second question was very clear. Maybe I can ask a follow-up on the first one. Is that possible?

Rolf Buch

Yes, please.

Simon Stippig

Great. I think it's more profound because you made the case that you want to get to scale and scale brings your cost ratio down.

So I just wonder: In Austria, you're not building up the portfolio. And in Sweden either. I'm sure things have changed since you acquired BUWOG, and also since you expanded into geographies in the North. But is it really that you want to build that up, or is it more a hold case, or is it really also the potential that you could sell it and then reallocate the cash towards your own business in Germany or even buying back shares?

Rolf Buch

First of all, Austria and Sweden are actually two types of a story. First of all, the Austrian platform, because of language, because of very similar rental systems, is partly integrated or has a higher overlap with the German platform. Of course, Austria is also linked to the Development business because in Austria they are running a Development-to-hold/to sell business. So you're building a portfolio, you are taking it on your platform for ten years, and then you are selling it with a high margin. That's why the Austrian part is probably more linked to the Development business than to the Rental business.

For the Swedish business, actually, the same applies. There are only two listed companies. So we have consolidated the listed market there. We have superior cost in comparison to the other Swedish operators. They are non-listed by definition because there are none listed left. But we know this data. So it's the same. It's the same opportunity as in Germany we have in Sweden for the 2nd Vonovia. So I see actually in both, in Germany and in Sweden, the chance for playing this platform and making money out of doing just services based on the better cost structure in comparison to people who own assets and want to get rid of the expensive platform they operate or buy new assets with a very attractive platform. So I see the possibility in both.

Also you cannot compare Sweden to Germany. You have to compare Sweden to Sweden and you have to compare Germany to Germany. That's why I think it's two different markets. And in both markets, the presentation we have shown you on page 7 is applicable.

Simon Stippig

Okay. Great. Thank you very much.

Operator

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

Pierre-Emmanuel Clouard

Good afternoon! Actually, I have a quick follow-up question on Simon's question about Sweden. Is this something that has been discussed with Board members about a potential sale of the Swedish portfolio? Is it up to the new CEO, especially in light of a rebound of the investment market? Is it an open question or is it not the case today and Sweden will be there in Vonovia's portfolio for many, many years?

Rolf Buch

To be very clear: It was discussed in the period of 2022 where we talked about disposal. And this was a question where we ended up with alternative structures which are more attractive at this time. At the moment, it is not part of the

discussion which the Management Board is having with the Supervisory Board. And it's not a discussion inside the Management Board.

But also to be clear: I personally think – I think this is not coming as a surprise to you – that if you are talking about the 2nd Vonovia, it is better if you cover more jurisdictions than less. I think this is important for the 2nd Vonovia strategy.

But I'm here only two months left. So I think the new management team under the lead of Luka has also to think about it, but at the moment there is no indication that there is a thinking. But I should not predict what happens in the future.

Pierre-Emmanuel Clouard

Thank you. That's clear.

My second question is on the Value-add business and Vonovia in general. With the expected increase in minimum wage in Germany, is there any impact to expect on margins in your Value-add business segment from 2027?

Rolf Buch

The very simple answer is no.

Pierre-Emmanuel Clouard

Right. Why that?

Rolf Buch

Because in the business we operate the craftsmen are much above the minimum salary anyway, because this is a different general agreement with the unions. So there is no impact. Some parts of the gardeners are close to the minimum salary, but these are pass-through items to the tenants.

Pierre-Emmanuel Clouard

Alright, that's clear. Thank you and all the best, Rolf.

Rolf Buch

Thank you.

Operator

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

Manuel Martin

Hello, gentlemen! Thank you for taking my questions. The first question is a kind of accounting question. We saw the effect of the change in legislation on deferred taxes in the P&L and also in the EPRA NTA calculation.

When it comes to the EPRA NTA calculation, the EPRA NTA seems to have nevertheless decreased marginally in 3Q versus H1. Is there a special reason behind that, or are these also effects in the deferred tax? Maybe you can give us a hint there, please.

Philip Grosse

This is predominantly driven by the liabilities we had to account for for the guaranteed dividends in the context of the exchange offer we made to Deutsche Wohnen minority shareholders. That's roughly 400 million.

Manuel Martin

Alright. – My second question is a bit broader question on the market. The rental increases in the market in which Vonovia is showing and will show in the future, is this something which is also monitored by government and politicians? And what do you hear from politicians? Might that be an issue in the future?

Rolf Buch

I think you have to distinguish between sitting tenants and new letting. For the sitting tenants, it's very simple. I just showed it in the political debate here in Germany. Our increase in sitting tenants between 2022 and 2024 was 4.8% for sitting tenants without investment, so just having the apartment with no increase. And the increase on salary was more than 10. So, the affordability is going up and not down. So, we have no affordability gap.

For the new letting, of course, there is an issue because especially if you refer to the grey market, the market which is outside the "Mietpreisbremse", partly illegal, of course, where the situation is extreme, where we really have an affordability

issue for grey market rents, 20 euros for Berlin. This is beyond the affordability of normal people. That's why you have to distinguish this.

I think it's getting more and more better understood by the politicians that these are two things. But even with the "Mietpreisbremse", you cannot stop the grey market. So, there's only one solution: to work on the imbalance of supply and demand, to do more products. That's why we have the "Bau-Turbo" where I think this will help. But as you see me in the press, we also now have to work on the rental regulation because the existing rent regulation with "Mietpreisbremse", with "Kappungsgrenze" and with the 2 and 3 euros will not make it happen that there will be more investment in housing. This means that the situation of high grey rents will be coming worse and not better. I am positive that one day the politicians will get it.

Manuel Martin

Okay, I see. Thank you very much and, Rolf, all the best for you in your future positions or plans.

Rolf Buch

Thank you.

Operator

The next question comes from Neil Green from JP Morgan. – Please go ahead.

Neil Green

Hi, there! Thank you for taking my question. It's just one, please. It goes back to one of the earlier comments about marginal debt costs. I think you said around 4% was in the guidance. I think your long-term unsecured bonds are trading within that 4% at the moment. I think it's fair to say then that the secured debt would probably be within 4% as well. So I'm just wondering whether that 4% assumption you have is kind of conservative or if there's something that I'm perhaps missing, please.

Philip Grosse

I think we will see later today the actual proof point where our costs of debt are currently, because we are in the market with a bigger bond issuance, 7, 11 and 15 years.

If you do a mid-term planning, I think it is overly aggressive if you were to assume a decrease in rates. The 4% I've been mentioning: Actually, in our internal planning, I'm even putting kind of a safety margin on top of it, because you never know whether there is a slight shift up or down vis-à-vis spot rates.

I feel comfortable with the assumption of kind of a stable financing environment. As I said before, that obviously is very paramount for us on how aggressively we need to manage the ICR. But, again, my baseline is that 4%.

Neil Green

Perfect. Thank you. And best luck to you, Rolf, in the future.

Rolf Buch

Thank you.

Operator

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

Rene Hoffmann

Thank you, Moritz, and especially thanks everybody for dialing in and joining this call. As always, if you have any follow-ups, you know where to find me and also my colleagues. Feel free to ask.

We are looking forward to connecting with you in the days and weeks ahead.

That concludes today's call. As always: Stay safe, happy and healthy! Bye now!

Rolf Buch

Bye-bye!

Transcript
9M 2025 Earnings Call
November 5, 2025



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