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9M 2024 Earnings Call
November 6, 2024



Rene Hoffmann

Welcome everybody to our 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.

Today's call will be a bit broader than previous earnings calls. Like we always do in the third quarter, we will give an update on the first nine months and an initial guidance for the next year, but in this presentation we will also address the question as to how we expect to grow organically in the non-rental segments in the future.

That is why today's presentation has two parts. We begin with an update on the first nine months of this year, ending with the final guidance for 2024.

The second part then covers our different organic growth initiatives including our initial guidance for 2025 and, more importantly, the mid-term outlook with our objectives for 2028.

Like in our last calls, let's please limit questions to two per person. – With that, I hand it over to Rolf.

Rolf Buch

Good afternoon from my side as well! I am excited about today's earnings call. Of course, every earnings call is a welcome opportunity to update the market on where we stand.

Still, today's call is special to me because after more than two years of playing defense, of working hard to stabilize the balance sheet and of making sure that we get through the challenging times, we are now turning the corner.

We have successfully weathered the storm and managed the headwinds that the rapid change in interest rates brought to our business, including the most severe value decline on record.

To avoid any misunderstanding – the environment now is not what it was before the crisis. Higher interest rates are likely here to stay and the times of effectively free money are not expected to come back anytime soon, if ever.

Equally, preserving a robust capital structure will remain our priority.

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However, the uphill battle against continuous value declines is over. Interest rates are no longer rising, and the market for assets is gradually returning to a normal environment.

This gives us the opportunity to leave the period of proactive balance sheet stabilization behind and focus on earnings growth again.

Let's not forget – while we were busy keeping our leverage under control, the fundamental mega trends that drive our business have become even more favorable than they were three years ago:

Demand for our product has been increasing and supply has been declining for obvious reasons, leading to the widest imbalance that we can remember.

The need to decarbonize the housing stock is greater than ever before. Just the other day we learned that only 0.7% of the German housing stock was modernized during the first nine months of this year. This compares to 2% or more that experts say is required. There is a huge demand for expertise in this area and we are extremely well-positioned to benefit thanks to our people, know-how, experience, and our track record.

But before I go too deeply into the second chapter of today's presentation, let me give you the highlights of our recent performance:

First, we have achieved our 3 billion disposal target that we promised to you for 2024. This allows us to now turn our attention to profitability growth for our sales decisions instead of focusing on cash generation.

Second, leverage is now well under control. Let me say loud and clear that we remain committed to our debt KPI target ranges, but we have no doubt that the direction of travel is positive. As a consequence, our pro-active balance sheet stabilization is no longer required.

Third, our operating performance is firmly on track for our Rental segment and we are seeing the first signs of improvement in our non-rental segments as well. In the end, I keep coming back to the relevant megatrends; it is these structural growth drivers that provide long-running, recurring, and growing income and help us drive continuous improvements in our operating performance.

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Fourth, it is now appropriate to focus on the next phase of our growth strategy. There is a strong addressable market opportunity. Our platform is uniquely positioned, and we have identified multiple initiatives to drive our non-rental activities.

Rental growth is expected to be around 4%, as previously guided, and we forecast Adjusted EBITDA Total slightly growing and Adjusted EBT essentially flat for 2025, which – again - is a transition year insofar as that we absorb the impact of our larger disposal volume. Philip will come back to this.

And finally, in line with our view of stability returning to our markets and our strong position to take advantage of the opportunities within them, for the first time, we are providing you our mid-term objectives for 2028. Our ambition is to deliver an EBITDA Total between 3.2 and 3.5 billion. Of that amount, we think we can generate between 0.5 and 0.7 billion in our non-rental segments, so between 20 and 25% of Total EBITDA.

With this, over to Philip.

Philip Grosse

Thank you, Rolf, and welcome also from my side.

I want to start on page 4 with an update on our disposal progress. As you can see, as of the end of October, we have signed disposal agreements for a total value of 3 billion, already reaching the target we have set ourselves for this year. The most notable updates since our H1 Call are shown on the right-hand side:

First, we delivered on the nursing side. €300m of proceeds from Deutsche Wohnen's disposal of 27 nursing homes. That includes also the operating business. Please note that as part of this transaction, Deutsche Wohnen agreed on a vendor loan for a third of the disposal amount and a duration of 30 months.

Second, our first HIH deal in which we sold eleven development projects for roughly half a billion euros to a fund co-owned by HIH and Vonovia.

We already announced, as you have seen, both of these transactions last month.

The third deal is new and it is very much a copy-cat of the first HIH transaction, so not only similar in volume but also in terms of deal structure, our equity participation, and responsibilities for property and asset management. There are a number of things that make the two HIH transactions very attractive for us:

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- It's a global exit structure for one billion of development products in total, so it's a very nice sales channel.
- The fund structure enables us to benefit from the disposal proceeds when the assets are sold following a ten-year holding period. You know about the outlook we have long term for the development of real estate values.
- Vonovia does the property management for the fund. So, for us, it's a very good way to deploy our efficient operating platform to assets away from our balance sheet. This allows us to generate additional returns outside of our core rental business.
- Net of the equity participation in the funds the liquidity inflow is a meaningful €600 million.

So, while we have met our 2024 disposal target, we do have additional transactions in the pipeline, and we will see these transactions through to the end. But we are no longer - and that is important - prioritizing cash generation over profitability, and we will focus on those assets that we want to sell, predominantly those assets which we consider non-core or as part of our recurring business.

Page 5 for the Earnings and Cash Flow Summary. Starting, as usual, with our Rental EBITDA, we do see a volume effect as our portfolio is more than 6,000 apartments smaller than it was last year. In addition, last year's levels for maintenance expense and operating expense were driven by an extreme focus on cash and this year's expense levels were on a more normalized level. So the EBITDA Rental result is still impacted by the decisions we took in the context of balance sheet stabilization and it will take a bit of time for the consequences to pass. But what is more important, this does not change the fact that the underlying operating fundamentals remain highly favorable with growing rents and virtually full occupancy and collection rates.

In the Value-add segment we see very good progress which is also driven by a long-term lease agreement on a coax network in our multimedia business. For recurring sales, volumes are up by more than 50% but margins are still on the low side in Germany. We do, however, expect further margin improvement as we move forward and we see that this business line is increasingly gaining traction.

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And finally, Development to sell. Here, the gross margin was 14% but we had no EBITDA contribution because of the low volume closed and the platform cost essentially eating into the small absolute EBITDA contribution.

Going further down the table, the increase in the net financial result is largely driven by the full-year effect of our refinancings, predominantly in 2023, altogether Adjusted EBT of 1.67 euros per share before minorities and 1.52 euros per share after minorities.

Coming to the Operating Free Cash Flow, the main moving parts are: higher cash taxes. That should not come as a surprise. We see higher numbers because of the larger disposal volume.

Book value of sold assets – more volume of course leads to a bigger positive contribution to the Operating Free Cash Flow.

Development to sell – as we have been guiding, this number is expected to show a very material improvement year on year. To be sure, it is probably the most volatile number in this table but I am happy to confirm that we will see a clear improvement this year, moving in positive territory.

And just to be complete, the cash dividends paid to minorities – we have been discussing that at length in the past - are of course higher as a result of the two Apollo transactions we made last year, for which the dividend always gets paid in Q2. Bottom line, at close to 1.4 billion, our Operating Free Cash Flow year on year is almost 40% higher.

On our Rental KPIs – that is page 6: Rent growth was close to 4%, a slight shift you see in favor of market-driven rent growth, which is compensating for the smaller contribution from the investment-driven rent growth. Fluctuation is still a bit higher than the previous period. Again, we do not think that this is a general trend - unfortunately, I have to say. This is still well within the general range we have been seeing for this number. Vacancy remains low and steady. As we continuously are saying: This is in essence a structure they can see dominated by the turnaround times and the associated investments we make in the context of tenant churn.

Similarly, the collection rate remains at extremely high levels, so no surprise here either. And finally, maintenance is a bit higher than last year, when we had a stronger cash focus that resulted in a lower spending level.

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On our debt KPIs – that is on page 7. Our pro forma cash position is 4.6 billion, including 2.5 billion cash and equivalents and another €2.1 billion from disposals signed but not closed yet. So quite comfortable in light of the upcoming maturities that you see on the top right-hand side. And most of the disposals we have signed will see closing over the next six months. Of course, we have on top our 3 billion RCF which is undrawn.

As Rolf said, we now have the leverage situation that allows us to return our focus back to growth. Let me elaborate a bit what that means for our debt KPIs and how we see them evolving from hereon.

Thanks to our efforts over the last two and a half years we have managed to keep leverage at acceptable levels. Without disposals, our LTV would have been north of 51% and our Net Debt to EBITDA would be close to 17 times. And while we're not quite in the target ranges on LTV and Net Debt to EBITDA just yet and only marginally for the ICR, the difference now versus what we have seen six, twelve or 18 months ago is that the direction of travel is clear and we expect a positive trend for LTV and Net Debt to EBITDA and a stabilization for the ICR.

For as long as we were working against value declines, there was a need to free up capital and stabilize the balance sheet. That worked but it came at a cost in the form of a drag on profitability and earnings, as you can see it in our numbers. But now that values have reached their trough, the pressure on LTV disappears and through rent growth and organic NAV uplift this number will actually move into the right direction on its own. And when cash generation for the purpose of balance sheet stabilization takes a back seat and the focus returns to profitability the other two debt KPIs also stabilize and move in the right direction, driven by EBITDA growth. So we focus on the EBITDA and not on the reduction of debt and interest expense.

So we're close to or already within the respective target ranges. That was always our objective, and it continues to be our objective on the debt side, to be very clear here. I am fully aware that different market participants have different views on leverage. Our view is primarily driven – I am repeating that - by the views the rating agencies are taking. Given the size of our balance sheet, we need unfettered access to the debt market at any point in time, and the BBB+ or equivalent rating that we have from four rating agencies comfortably safeguards this access.

The debt KPI target ranges in turn reflect the requirement of what the rating agencies expect from us to maintain this rating. That is our rationale for why we target the leverage ranges that we target. Make no mistake, our business model is now built on the assumption of stable market yields, and we will not stretch our balance sheet in the expectation of yield compression. But we do not see the need to continue to take action solely directed at further balance sheet stabilization when it is clear to us that all our debt KPIs are moving in the right direction. So do expect us to continue to target the well-established ranges and do expect us to finance our investments and also potential acquisitions down the road in a way that is mindful of these ranges.

Page 8. On guidance, I think all has been said. In a nutshell, nothing has changed compared to the guidance update we gave in Q2. We still expect to come out at the upper end of the ranges for organic rent growth, Adjusted EBITDA Total and Adjusted EBT.

Rolf, with that back to you.

Rolf Buch

Thank you, Philip. – I am now coming to the second part of the presentation.

I now want to talk about our organic growth initiatives and specifically how we see them driving the business through to 2028 and beyond. Let me start by reminding you of the dynamics of our addressable market. We have four very strong structural growth drivers:

1. There continues to be a housing shortage in Germany. It is clear that per year €100 million have to be invested to bridge the gap.
2. Government climate change targets require a tripling of investments and significant changes to the real estate stock by 2030. The required investment amount is estimated to €120 billion per year.
3. Demographic changes are bringing additional pressure and requirements – it is estimated that over 30% of the German population will be over 65 by 2050. And I will be part of it.
4. And the market remains highly fragmented – 24 million rental units in total of which only one quarter is in the hands of institutional owners. So, we continue to

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have a significant addressable market, and we are uniquely positioned to benefit from all of these trends.

Again, I think four factors give us a superior position:

1. We are focused proactively on urban areas that have the greatest supply demand imbalance. We are in the right locations.
2. Our portfolio is significantly ahead of the German average in terms of energy efficiency. We have proven that we know how to decarbonize residential properties.
3. We have unrivalled, industry-leading scale in terms of our operations. This puts us in a unique position in a market where scale clearly matters.
4. Our efficient platform and proven ability to deliver give us a very strong competitive moat. We have built a platform that is very, very hard to replicate.

These factors position us to generate a long-running, recurring and growing income stream. Nothing we're presenting today is revolutionary. It is rather a logical evolution of our business where we either return our attention to activities that we did not prioritize for good reason or where we broaden our approach by deploying our skillset outside of our own balance sheet.

Let's go on page 11. Let's look at the strength of Vonovia's position in the market in the context of its strategic evolution. What we have historically done is build scale. In doing so we have achieved synergies, lowered our cost of capital, and increased our range of services. Going forward, we look to continue to increase our wallet share from existing sources as well as expand into third-party markets.

We see the next period of the development of our business in two stages: Over the next years, we will focus upon deploying existing capabilities and scale to extract greater value. And I also want to share with you our vision beyond 2028, where the emphasis will be on more of the same but developing higher margins and more resilient earnings through the cycle, reinvesting the cash flow we generate. In doing so, you can be sure that we will remain mindful of our leverage position and all of these initiatives will be undertaken in the interests of maximizing shareholder value within the boundaries of our financial metrics.

And let me make something else very clear: We bought Deutsche Wohnen three years ago. We fully integrated the company operationally and we realized all the

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synergies we promised and beyond. That is all good. But right after the acquisition, the interest rate environment changed dramatically, and our focus had to be redirected to stabilize our financial position. This is what our investors also asked of us and rightly so. That period is now over, as described. Now we can really leverage our unique market position and dramatically increase relevance in this market. Our unrivalled scale puts us in a singular position, and we only now have the opportunity and flexibility to start demonstrating what that means from a more strategic point of view beyond just realizing operational synergies.

Let's look at page 12 for the value drivers behind our strategic evolution and show the different building blocks that support our business. You see that there is more than one building block. Initially it was rental yield and NAV. The early Vonovia, or at that time Deutsche Annington, was all about building scale and driving Net Asset Value. Since then we have continuously optimized this part of the business and will continue to do so – this is our foundation.

But we have also been adding other building blocks of value creation that have become an integral part of our business. We have built scale that is almost impossible to replicate, and we have proven that scale matters in our industry. We have built an operating platform which is second to none. We have developed the skills and strength of execution for an investment program which delivers additional rent growth and additional value creation. We have built up additional businesses outside the rental operations to generate additional income and value creation. And we have recently become, by the pressure of the market, more active in asset trading, which will be another valuable building block in the future.

All of these building blocks will be expanding to drive higher returns on our invested capital. So far, we have deployed our platform largely to our own portfolio. Now is the right time to start expanding our skillset to what is a very large addressable market.

We are always the best operator but we have also learned that we are not always the best owner. The growing significance of our non-rental activities will move us over time from a property owner and manager to a blended property and services business, leading to what we refer to as the 2nd Vonovia.

Don't forget: Our strong rental business will remain a very robust base, but it is clearly not the only value driver. This is why a purely NAV-based valuation falls

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short of the current and especially medium and long-term value creation that Vonovia can and will deliver.

Now we are coming to a complex slide, page 13. Let me now expand on the actions that are going to drive this organic growth and our continued evolution. On page 13 and on some subsequent slides we will provide guidance on our anticipated performance.

There are two points I would like to stress: First, our objectives are not forecasts but indications of what we believe the business could potentially achieve, given the strategic actions we have announced.

Second, both our guidance and our objectives are based upon the assumption that interest rates remain at current levels. We are referring in these comments to the anticipated benefits of our own actions, not the benefits of macro factors. We are not a business that is dependent on a cyclical market recovery, but on the structural market megatrends.

We are now rolling out our growth initiatives to take further advantage of these tailwinds. In this context we have identified three groups of activities to deliver 500 to 700 million of non-rental EBITDA, leading to an estimated Total EBITDA of around 3.2 to 3.5 billion by 2028, so about 30% more than our 2024 guidance.

All of the initiatives have been developed together with our wide management team. Therefore, there is a broad support across the organization. For every single initiative there is a clear plan for execution, as you expect from us, and a detailed analysis of the financial impacts.

Now let me come to the categories: The first category is Return to Performance. This is where we will be increasing our EBITDA from our well-established non-rental segments back to previous levels. This will include greater activity of our craftsmen organization VTS in the Value-add business segment combined with increased activity in Development and Recurring Sales. We are putting profitability first again in the three non-rental segments and drive earnings like we did before the interest rate change.

This time, though, it will be on a bigger base because of the larger scale from the combination of Vonovia and Deutsche Wohnen. We expect our efforts in this category to deliver around two thirds of our non-rental EBITDA by 2028.

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The second category of activities relates to an Acceleration of Tech-Supported Investments. Here, we will be using innovative technology to advance our investments in the modernization of our portfolio. This will involve greater serial modernization and deployment of innovative and highly standardized Energy Cube heat pumps and the acceleration of our PV program. All of this will help us to drive value accretion as we bring our investment program to the next level.

As we announced, it will be 2 billion per year and not only 1 billion per year. Of course, the additional 1 billion will generate additional rental growth above the 4% annual rental growth which we have announced anyway.

And finally, our third category of activities will involve Expanded Business Areas. We are looking to expand into the third-party market and deploy our platform and skillset outside our own balance sheet.

This will include leveraging existing skills to increase the provision of services to third parties and stranded assets and gaining a greater share of wallet, most importantly through the generation of renewable energy that we will sell to tenants as direct electricity or via heat pumps.

With these three categories we aim to deliver 500 to 700 million of non-rental EBITDA by 2028 – compared with only 182 million in 2023. To put this plan into context we show at the bottom of the slide the indicative proportion of Adjusted EBITDA Total that the operating divisions are anticipated to represent by 2028. Similarly, we are showing on the right-hand side how much each of the categories is expected to contribute to non-rental EBITDA by 2028, and you can see that the majority comes from well-established businesses that we did not prioritize over the last two and a half years for good reason.

I would now like to take you through the non-rental growth drivers in a little more detail. We have also included individual slides for all the initiatives in the Appendix. All initiatives can be reconciled on the basis of back-of-an-envelope calculations and we have tried to give as much flavor as we reasonably can to help you model this out.

We're making transparent what the different drivers for success are and how we think our business will evolve by 2028. Rene will be helpful to guide you through the logics after the call.

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Obviously, some initiatives in our Expanded Business Areas are based on a B2B relationship and therefore binary in terms of execution: You get the customer or you don't get the customer. That is why it is difficult to predict the ramp-up curve on the way to 2028.

But it also means that there are clear opportunities to exceed our objectives, especially in terms of stranded assets and third-party platform. Be clear: We will not waste any time getting started but the B2B nature makes it more difficult to predict the precise trajectory until 2028. That is why we cannot make a specific prediction on how 2026 and 2027 will shape up. Our default assumption is that the development will be largely linear.

Page 14. Non-rental EBITDA from Value-add is nothing new. It already contributed 8% to Total EBITDA before we decided to cut our investments. So in a way we are going back to what we used to do but on a much larger scale and with the addition of new measures:

Deepen the value chain by insourcing services and installation of PV, heat pumps and energy-efficient modernization that would otherwise have to be purchased on the market. This allows for economies of scale, retaining VAT and entrepreneur's margin.

Increasing the share of wallet with our tenants. This is especially energy operations that can be billed either directly to the tenant or to the tenant via the ancillary costs, for example the heat pumps.

By integrating energy operations into our platform and increasing our range of products from energy provision - so photovoltaic, heat pump, tenant electricity and energy management - we see a long-term potential to provide up to 700 megawatt peak of energy to our tenants and to our heat pumps. Currently we are at close to 120 megawatt peak. This will be in excess of the output of Germany's largest solar plant that recently opened up in Leipzig, generating only 650 megawatt peak.

We aim to increase the investment amount by a further one billion per year by 2028 and expect it to lead to a yield of 6 to 7% on the investments plus a VTS craftsmen EBITDA margin of 10% on the investment.

We are also looking to open our platform and service offer to third parties, which would be, as I described, more of a B2B relationship, of course. We see a market

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potential of up to 6 million residential units in Germany which share the pain point of finding a provider for transparent, high-quality property management and craftsmen services to maintain and upgrade their assets.

The theoretical market opportunity is vast. If we only captured 1% of the relevant market, and if we were able to harvest a management fee broadly in line with the synergies generated in our historic acquisitions, we would realize a sizeable double-digit EBITDA million figure with further upside potential from providing wider wealth management services across the whole value chain.

Similar to Value-add, Recurring Sales also used to be a more meaningful contributor to Total EBITDA and now we are going back in that direction but on a bigger scale. The growing supply/demand imbalance and regulation have driven the scarcity value of our condominium product. This allows us to crystallize value through the step-up vs. fair values and by monetizing the pricing spread between retail and wholesale for condo assets. We expect long-term unit sales in the magnitude of 3,000 to 3,500 units per year and fair value step-ups of 30 to 35% from our existing portfolio.

Furthermore, the focus on energy efficiency and associated regulation will mean a significant number of "stranded energy assets" will come to market over the next years. You just see a big report today in the "Wirtschaftswoche" in Germany about this phenomenon. With its scale and capabilities in modernization Vonovia is perfectly positioned to capture this opportunity and crystallize value through realising significant rental and fair value uplifts on these assets.

16% of the German multifamily home market are on sub-efficient energy rating. This creates a total addressable market opportunity of around 7 million potential "stranded assets" in need for energy modernization.

Of course, the volume and timeline cannot be predicted. We're talking again about B2B business here, so it is quite binary, which is the same for acquisitions. And when it comes to the respective decisions to buy and to sell, we will also need to be mindful as to where we think we are in the cycle and mindful of our overall capital structure policy. Financing this part of our business will include the disposal of assets that we modernized or other non-core assets that we own.

And then the third non-rental segment, Development. It was our decision to basically stop all new products. Since that decision, the underlying trend for this part

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of our business clearly improved further over the last three years as the growing supply/demand imbalance has widened.

Vonovia is one of the biggest players in this market – without relevant risk to our balance sheet. Our unparalleled scale puts us also here in a unique position in terms of industrialization and standardization, creating a huge advantage along the entire value chain.

We aim to increase the profitability of developments by reducing the development costs and leveraging more innovative and standardized construction methods. We expect the market to continue to recover and the recently introduced tax incentives for private real estate investors will likely serve as a tailwind.

We have built an operating platform that allows us to invest around one billion per year in development to sell product and our ambition is that we should be able to achieve a gross margin of around 15 to 20%. In this context I am happy to say that we have agreed to secure additional development land from Quarterback until the end of this year that will strengthen our position especially in the southern part of Germany.

With this, back to Philip.

Philip Grosse

Thanks. - Let's now look at the implications of these plans for our capital allocation focus. That is on page 17. We have, as you know, parallel strategic priorities: a) to accelerate the growth of both rental and non-rental activities, b) by preserving also our financial strength – as measured in ratings, covenants and liquidity. Our preference is to allocate capital to the highest-yielding opportunity, and this will result in organic earnings and value growth, given the highly attractive mega trends that we have discussed.

We have stated that 50% EBT plus surplus liquidity will be paid out as a dividend to maintain a progressive dividend policy and share buybacks will be considered on an opportunistic basis.

Very important: We generate sufficient Organic Free Cash Flow to fund the equity portion of our investments and to return attractive dividends to our shareholders and that without jeopardizing meaning worsening our capital structure.

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As for M&A, where we have an impeccable track record of execution, opportunities are always considered with a disciplined approach. We would only pursue those opportunities that are value accretive to our shareholders. An M&A transaction only makes sense for us if it generates total returns in excess of our cost of capital and that also on a risk-adjusted basis.

Finally, I would like to provide both our initial guidance for 2025 – in the same format as we currently use - and our Financial Objectives for 2028, given the plans we have outlined. Rolf mentioned it before, and I am happy to reiterate it: In our 2025 guidance and also our 2028 objectives, our assumption is that interest rates will stay at their current level. We are NOT banking on further interest rate declines but rather have made sure that we build a business that is robust enough to deliver attractive risk-adjusted returns in a higher interest rate environment as well.

Our ambition is to grow Rental EBITDA with a 4% CAGR and hence very limited leakage out of our top line rent growth. Let me remind you that the full impact of our leverage-driven sales program on the 2025 rental income is 150 million euros. But we also generated enough cash to avoid 130 million of additional interest cost. I think a net effect of 20 million on Adjusted EBT is a small price to pay for leverage control.

On the non-rental EBITDA, the growth is much more dynamic with a CAGR of greater 20% until 2028. This growth benefits from scaled up investments but is overall less capital-intensive. It allows us to extract maximum EBITDA returns from our capital employed plus capital growth as a result of accretive investments.

As you can see, investments will double by 2028 and that, as Rolf mentioned, with a cash yield of 6 to 7%. That will contribute to rental growth, but obviously with a certain time delay. For political reasons, no change to the top line growth, but by saying that you can certainly assume that the 4% organic like-for-like rental growth is very much on the conservative side.

With these 2028 objectives, we also show an indicative breakdown on EBITDA contributions of the respective divisions. Comparing these numbers with the corresponding figures for 2023 highlights just how the Group is set to change. A lot for us to go for. I am very excited to work on the challenges ahead of us.

With that, back to Rolf for the wrap-up.

Rolf Buch

This concludes our presentation. Before we go to Q&A, just let me summarize our key messages:

We have successfully navigated through a challenging period and delivered on our promise to put cash generation and financial strength first.

The proactive balance sheet stabilization is now over. This allows us to focus on earnings growth again.

The actions we have presented today reflect not only the attractive dynamics of our markets but also our confidence in our platform.

For our traditional non-rental businesses we are aiming to return to pre-crisis levels but now we are doing it on a 50% larger scale.

On top of that, we will increase our investments within the confines of our leverage targets. In doing so, we will exploit our scale and innovative strength to take our investment program to a new level.

And finally, we will deploy our skillset to assets outside of our balance sheet, as we develop what we call the 2nd Vonovia.

Our objective is to deliver at least 500 to 700 million of non-rental EBITDA for a Total EBITDA growth of around 30% by 2028.

Thank you for your attention. Sorry for a little bit longer call, and we are now happy to take your questions.

QUESTION & ANSWER SESSION

The first question comes from Johnathan Kownator from Goldman Sachs. – Please go ahead.

Jonathan Kownator

Good afternoon! Thank you for taking my questions. The first question: I just wanted to reclarify something with you, please. You indicate that you want to increase the pace of investment to 2 billion. You highlighted that there was upside on your 4% rental growth by then. Is that included in your guidance of 3.7/3.8 billion revenue, i.e. the full 2 billion investment, if there is actually upside to your organic rent growth guidance? That's the first question, please.

Rolf Buch

To be very clear, and I think Philip mentioned it: 4% rental growth was actually not given today, but was also given last time, assuming roughly 1 billion investment. So of course the mathematic, as you understand, very clearly, is: If 2 billion the rental growth is higher, we have given you in the Appendix the yield or even in my speech. So it's very easy to calculate that the rental growth will be bigger.

But we also have clearly made clear that, for political reasons, we don't want to come up with a higher rental growth guidance, but it is clear that you can put the math together.

Jonathan Kownator

So if I simplify, essentially the 3.7/3.8 billion is based on 1 billion in investment and not 2 billion. And then anything that comes on top, perhaps over time, on the 2 billion, the incremental 1 billion is on top of that.

Philip Grosse

There's upside to both.

Rolf Buch

This is correct.

Jonathan Kownator

Okay, alright. Thank you very much. That's the first question.

The second question: I just wanted to go back to capital allocation. You haven't talked about any equity issue or capital increase on that plan. So just to confirm that this is essentially a self-funded plan, i.e. no equity raise.

And then I just wanted to understand: What are your assumptions then, if that's the case, on disposals? And then: How do you think of external acquisitions, based on that plan? Is that included or would you raise equity to do external acquisitions?

Philip Grosse

As you have assumed, this is self-funding. So in other words, we are producing sufficient Operating Free Cash Flow post dividend to fund the equity portion of the yielding investments. But it's important: It's the equity portion. So we are not turning our capital structure to the better in that we do yielding investments on the funding side with 100% equity. But we have assumed 60% equity portion, 40% debt portion.

On potential M&A: That does not form part of that. It might be always an opportunity, based on our very stringent criteria which we apply. But that would have been funded through potential disposals of non-core assets. We still have a bigger amount, north of €2 billion, I think. It is in the pipeline or at some stage if markets recover potentially in equity rates. But as we made very clear: Any M&A has to be within the boundaries of our capital or financial policies and the debt KPIs.

Rolf Buch

Jonathan, just to add: This is nothing new. You know that we have never guided or had in our guidance any M&A because it's completely unpredictable. And that's why it doesn't make sense.

I repeat what I have said a few years ago: to put you under pressure in M&A will probably be the biggest mistake you can do. So that's why we have never M&A in our guidance. We see that some individual brokers are trying to pressure on potential buyers to accelerate the process and push for a quick offering, arguing that Vonovia is going to buy.

That's why, if you ask for M&A, I think we have to make clear again that Vonovia will never enter into any bidding competition. We don't need to.

Jonathan Kownator

You are referring to Adler here?

Rolf Buch

I'm referring to our general acquisition policy. We extract more cash from any apartment than anybody else, as you can see in the plan. So if anybody wants to buy a portfolio and will be higher than our price, then obviously he needs to have lower cost of capital than we have.

And of course, as we said, we will continue monitoring all M&A opportunities and we will include the risk and the amounts and the portfolio quality and all these together to form an educated opinion. So this is in general our M&A policy, just to make sure that nothing has changed to previous time.

Jonathan Kownator

Okay. Just to reclarify, perhaps one of the element of the discussions: On disposals, you talked about non-core that could fund potential new acquisitions. But essentially, should we assume that it's just the Recurring Sales portion of disposals that is funding the plan, that there's no additional disposal planned essentially?

Philip Grosse

For the organic growth plan we presented, it's our recurring ongoing business. So it assumes Recurring Sales plus Development to sell, that recycling of inventory I am repeating always. Yes.

Jonathan Kownator

Okay. Thanks. Very clear. Thank you very much for your help.

Operator

And the next question comes from Valerie Jacob from Bernstein. - Please go ahead.

Valerie Jacob

Hello, good afternoon! I've got a question on your strategy. If I look at the growth index in the short term, I think the last part of the growth in non-rental seems to be driven by restoring your profitability back to 2020 levels. And medium term is dependent on gains from asset portfolio trading. Both of them, I think, are cyclical, depend on the market. I know you said you're not betting on industry changing, but I think there are other factors influencing the market.

How shall we think about this non-rental income and the volatility? Is it fair to say that it's going to be a more volatile part of your business going forward? Any comment on that would be appreciated.

Rolf Buch

Valerie, for these undeveloped assets or potential stranded assets because of energy requirements, we see today that the multipliers of these assets are roughly five points lower, five multipliers lower than for energetic good options. Plus, you get a rental increase of between 2 and 3, on average 2.5 euros per square meter. So this is a very attractive business.

Yes, you are right. If you buy it on the bottom of the cycle and you sell it, you get an additional benefit. So you should not buy on the top of the cycle and sell in the bottom. There is a cyclical element in it. But for the next year, I think we are on the safe side.

Valerie Jacob

Okay. Thank you. And my second question is on your strategy with some third party. As you mentioned at the beginning of the call, a large part of the market is owned by non-professionals. So I was wondering if this strategy is only targeting businesses or if you're going to target individuals as well.

Rolf Buch

It's business-to-business transaction. Before my time in real estate, I was 20 years in the business-to-business business. Of course, it's easier to sign contracts with big partners because then you get a big bunch. So I think we will focus in the first step on the professional owners, which all have the problems. And in a wider sense, of course, we will not refuse to do also smaller parts, which we are doing partly

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today in our business. But the focus is on bigger players, and we know that this is a huge issue for everybody.

Valerie Jacob

Okay. Thank you.

Operator

And the next question comes from Charles Boissier from UBS. - Please go ahead.

Charles Boissier

Hi! Three questions from my side, first on the Value-add business which is the biggest portion of the non-rental contribution. Right now, 85% of it is internal versus 15% external. Or, in 2028, do you see that also being very significantly internal as opposed to external?

Rolf Buch

No, a bigger part will be external by definition because with the service business we are doing we will be external revenue. But of course in the same time the energy production and all these things which belong there will be internal because it's to our own tenants. So we don't have the split. We can probably deliver it in one of the next presentations.

Charles Boissier

Okay. Clear. - In the 2025 guidance, how much of the guidance for EBT of 2.7 to 2.8 billion is non-rental? Obviously, there is part of it in terms of the Recurring Sales development, which you are doing already. But can you quantify the non-rental portion of these 2.7 to 2.8 billion?

Philip Grosse

No specific guidance on that. But assume that the non-rental activities will be a bit higher than they are end of this year.

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Charles Boissier

I think you mentioned 20% CAGR. Is that a fair assumption for - -

Philip Grosse

It's not a linear approach.

Rolf Buch

If you want to really model all our initiatives, of course, there is a model behind. We give you in the Annex enough data, so you can individually model it. So you don't have to ask us about percentage. You can actually build it yourself. And René is happy to help you.

Charles Boissier

Alright. Thank you. – Third and last question.

Rene Hoffmann

That will have to be a very short one. We need to keep it fair, Charles, with two questions per person. Okay?

Charles Boissier

Okay, okay. Apologies! Thank you very much.

Rene Hoffmann

Let's do it after the call.

Operator

Ladies and gentlemen, as a reminder: Please limit yourself to two questions only.

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

Thomas Neuhold

Good afternoon! Thank you for the presentation and taking my questions. The first question would be on the Development business. Can you give us an overview about the total development potential in terms of units in your current portfolio, adding up the different buckets you have, like land bank, densification and rooftop extensions? How many units do the 1 billion annual development targets imply?

Rolf Buch

To be very clear, the overall potential for the company, we have said this morning because this is of course very much of interest for the press, is 70,000 units. I don't have the breakup with me in which stadium these are. These are which have construction permission already, another which actually still wait for zoning. So this is a wide variety of things and we cannot break it down.

As you know, today the cost of development is roughly €5,000 per square meter. We have to get down to something in the magnitude of €3,500 per square meter. And then you can calculate how many apartments this is if you take 60 square meters per apartment, of course keeping in mind that land has different prices in different areas of Germany. But I think there you can build your own model.

Thomas Neuhold

Okay, understood. Thanks. And my second question would be on the upcoming Deutsche Wohnen offer. I was just wondering if you can share your thoughts on the potential offer price. Are you considering the voluntary offer more than the legally required minimum price in order to potentially trigger a higher acceptance ratio and reduce freefloat? Or will you just stick to the legally required minimum price?

Philip Grosse

Thomas, we will certainly not discuss tactics here. The valuation work is currently on its way, including a court-appointed appraiser. We will await the results. We will then discuss it and decide. And with the invitation to the EGMs, which will take place in January, you will see all the details. That's going to be pre-Christmas. So let's wait for that.

Rolf Buch

But to be very clear – I think this is sometimes understood wrongly, especially in the society. We are not doing this to get more shares from Deutsche Wohnen necessarily. We are doing it to get a domination agreement to clean up the structure.

Thomas Neuhold

Okay. Understood. Thanks a lot.

Operator

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

Thomas Rothäusler

Two questions: The first one is on the rental growth guidance and your indication that there is more on top of the 4% from higher investment. Actually, this means you expect rent table growth momentum to remain unchanged. Is this correct?

Rolf Buch

Yes, this is correct. Again, I repeat: We have gone in the last quarter and we just stick with it. The 4% is based on the 1 billion investment and of course the rental growth.

If we are now guiding you and saying, by time we are coming to 1 billion more, we are giving you an IRR on initial yield of between 6 and 7, you can easily calculate the additional rent which comes on top of the 4% rental growth, which will lead, of course, to a higher number. As said, we will not disclose the number. But it is very easy for you to calculate it.

Thomas Rothäusler

Okay. The second question is on your new growth drivers and the funding basically. You have shown the key initiatives and drivers for EBITDA on page 13, I think. Is it possible to get an allocation of CapEx accordingly, just roughly?

Rolf Buch

To be very clear: What is roughly more important is the 1 billion more CapEx in investment. All the other growth drivers, actually, there's very little CapEx, close to none. So if you do a service business, this is not capital-intensive.

Thomas Rothäusler

Okay, got it. Thank you.

Operator

The next question comes from Rob Jones from BNP, London. - Please go ahead.

Rob Jones

Just one question, and that was on the conservatism of your non-rental EBITDA guidance. Obviously, you are saying 500 to 700 million by 2028. When I do a bit of quick math and rather than taking the top end of your 20 to 25% range where that is a percentage of the total EBITDA for 2028, let's just take 20%, and also let's just take the bottom end of the Adjusted EBITDA guidance of 3.3 and 3.5, 20% of 3.2 is 640 million. And the top end of the range, if you multiply 25% by 3.5, you get to almost 900 million. So why is your non-rental EBITDA guidance 500 to 700 and not 640 to 875?

Should I think of the 500 to 700 as too conservative or should I think of the Adjusted EBITDA number as too optimistic?

Rolf Buch

No. I think what you can see is that we have a careful CFO, who is taking care that our guidance is not too high. If you do the math in the details, you will also find out the same. But I think this has to be also delivered. Keep in mind: 2028 is a long period.

If you do the math, you will come up with bigger figures. I think we have some security buffer built in, which I think is appropriate.

Rob Jones

Okay. Fair enough. Consensus is at 3.1 for 2028 at the moment. So that's fair. Thank you.

Operator

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

Bart Gysens

Hi! You provide a good clarity on the additional investments required for these additional initiatives. But the footnote also shows that this does not include Development to sell. I appreciate that homebuilding is a bit of a self-funding business, but you need often kind of a working capital investment as a one-off to be able to kick-start that business. I appreciate this business has been dormant for you, but given that you give this footnote there, should we expect some investment there to kick-start this business again? And how much would that be?

Philip Grosse

Bart, the answer is no. We plan to scale up that business on a self-funding basis. And to be very clear: Essentially, we have never stopped investing in Development. We have completed what we have started. And what we are now starting is essentially addressing that the pipeline we have started has been built out. But for funding purposes, assume that we will manage our net working capital, our inventories in a way that this should be at least a zero.

Bart Gysens

Okay. And then my other question is on privatizations. You have been very successful in privatizing parts of your portfolio. The year you did the most privatization was 2022 when I think you managed to sell nearly 3,000 units on a fair value uplift of almost 40%, and that gave you as a firm like 135 million of EBITDA.

If you walk through the numbers here, it looks like you're targeting an EBITDA number that's actually quite a bit higher. So, how do you think you're going to achieve a meaningfully higher EBITDA in an environment with very different

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mortgage rates - back then they were 1% or so -, a higher pricing point as well? Are you just going to hire a lot more people to do this for you?

Can we understand a little bit kind of how you think you can get to these significantly higher numbers?

Philip Grosse

Bart, there are two elements. First, we are now with the integration of Deutsche Wohnen and also with the integration of the privatization stock of Deutsche Wohnen a somewhat bigger company, which is why we are targeting, once markets have fully recovered, 3,000 to 3,500 units of privatizations per annum. That is a significant step up vis-à-vis where we are today.

However, what you also have to include if you look at Recurring Sales is that the concept of undeveloped assets that we are initiating, where we put to work our expertise in basically turning a bad quality into a good quality from an energetic perspective and benefit from the quality upside and the pricing upside, which go hand in hand with that, plus the rental upside, that is embedded in Recurring Sales, because here equally you deploy some capital but kind of recycling over time that capital in order to extract that additional EBITDA. And that is why you see a higher proportion of Recurring Sales EBITDA in these percentages.

Bart Gysens

Sorry, I didn't fully understand that. Would you mind repeating that again?

Rolf Buch

I can explain it with the model. There are a lot of buildings out there which actually can be bought for very cheap prices today because, energetic-wise, they are actually potentially stranded. So the concept is: We are buying them, we are modernizing them and we are selling them. And the difference between buying and selling will be shown in the Recurring Sales because it's the same nature.

Bart Gysens

Okay. That's clear. Thank you.

Rolf Buch

Just to add, I have given you a right way of how you calculate it. So five times more multiplier for energetic and non-energetic plus €2.50 rent increase which actually will lead you to the numbers.

I remind you all that actually these numbers are figures. But as I said, there is for every initiative a very detailed business plan and an execution plan. So this is not just putting numbers on a sheet of paper.

Operator

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

Paul May

Hi, guys! Thanks for taking my question. On slide 5 you could argue it's quite small. Am I reading it right? The 62 million of coax network lease income in the Value-add: That's a one-off, I assume.

And am I right that, excluding this, your Adjusted EBT post minorities would have been down 11% year on year? I just wonder if you could give a bit more color on what that is. Is it a one-off and should we sort of exclude that moving forward?

Philip Grosse

I mean, we had to adjust our business model in the multimedia business because we are no longer allowed to charge multimedia costs through ancillary expenses to the tenants. And what we did is that we entered into a long-term lease agreement with Vodafone, in which we sold essentially access to our tenants at a price. And under IFRS rules, that is a finance lease agreement, and the discounted value of the lease payments, which we will receive over the next ten years, is recorded in 2024. And that is that roughly 60 million plus in revenues. That feeds through also to essentially the EBT line. That is something which will unfortunately not repeat itself in 2025.

Paul May

Thank you. And the second one: You mentioned the capital-light growth strategy at Q2 2024, but now highlighting a doubling of capital investment by 2028 to drive the increase in the Adjusted EBITDA contribution from non-rental business.

Just to check: Do you need to indefinitely invest that 2 billion to support the 3.2 to 3.5 billion of EBITDA? If you were to reduce the 2 billion, would we see a subsequent reduction in Adjusted EBITDA?

I think you mentioned that you aren't taking any assumptions on moving or changing financing costs. So I just wonder why you weren't able to give any guidance on Adjusted EBT, particularly considering that between now and then your existing debt is going to go up by about 300 million, 340, I think. The additional roughly 1 billion parameter investment is going to cost you another 35 million. Plus you've got incremental investment as well, which you say is not fully internally funded.

I just wondered why you didn't give the EBT guidance or a post-minorities guidance, which is arguably more relevant for equity investors?

Philip Grosse

First of all, I think we've been very clear that the additional investments are funded organically by the cash we are producing without jeopardizing the capital structure. I think the notion of a capital-light business model is less a function of less investments we undertake, where you always need to remind yourself that a yield on cost of 6 to 7%, given the quality improvement, is delivering an IRR of 10%. It should be precisely what you want to see. So it's more than comfortably covering our cost of capital, in other words.

No, the notion of capital-light is that in times in which we acquire portfolios with our current cost of capital, this is more likely than it used to be. And so, the business model we have had when money came for nothing is most likely not repeating itself. That is why we are growing in the non-rental segments.

Now, you're right in saying that our planning assumption is that we don't assume a significant decrease in interest rates. It's, however, I think, a very different quality if we take that assumption and transform that into a near-term objective in terms of EBT. I think a reliable objective cannot include interest rates because,

naturally, they depend on market developments which we cannot control, and for that very reason: no guidance on EBT medium term.

Paul May

Just to clarify a bit on that: I think you mentioned earlier that the additional investment would be 60% self-funded and 40% debt-funded. Is that right? - Sorry, you're just now saying it's all going to be internally funded. So there'll be no additional debt.

Philip Grosse

I said it's funded without jeopardizing the capital structure and that implies 60% equity, 40% debt.

Paul May

Okay. Perfect. Thank you very much.

Operator

And the next question comes from Andres Toome from Green Street. – Please go ahead.

Andres Toome

Hi, good afternoon! I just wanted to clarify on the third-party business. You've done a joint venture now with HIH. From the sound of it, it's sort of a venture where you get property management fees.

I am just trying to understand: How should we think about generally asset management, property management fees versus what you call here third-party services fees? Is the latter basically property management fees in this case, or how does that work?

Rolf Buch

Of course, there are different forms. If you're doing just property management, this is probably the less interesting part of this business. If you have partners which actually want to allocate money and you're doing the purchasing, the

acquisition of portfolio, operating the portfolio, probably modernizing the portfolio and then after a period selling the portfolio, this is full-fledged which we call wealth management in our wording, which you would call completely asset and property management. This is more attractive. We are going more for this than just to do some pure property management services. But we are not excluding to do also property management services.

And also keep in mind that deals that we have done with HIH are the first step for us in this business; it will be developed further.

Andres Toome

Okay. That's helpful. - You haven't given any sort of indication of the fee structures. Can you give a bit more detail on that, or maybe just in terms of - -

Rolf Buch

Here I'm coming back to my business-to-business background. It is not a good idea to talk about prices in these calls if you are afterwards negotiating with somebody. So even publishing a price list in the B2B business is nothing which you should do.

If we have done the first deals, we can probably, if it is allowed by the partner, explain the pricing structure. But to go before in a call like this and publish pricing is not a thing.

I give you only one indication, which is my orientation. We have bought the second-best platform in Germany three years ago, which was Deutsche Wohnen, a very good company. We managed to make synergies by roughly €1,000 per apartment. So why should somebody who has a worse platform than Deutsche Wohnen not use my platform and leave me with €1,000 or a little bit less? This is a very rough figure based on our published data, but I don't want to publish any pricing list here.

Andres Toome

Okay, that's helpful. I guess, that will full suit the fees, asset management and property management included in that.

Rolf Buch

This will be the full-fledged because Deutsche Wohnen was a full-fledged as well.

Andres Toome

Exactly. My second question: On slide 28, you have occupancy rates. Can you give a bit more color on what that exactly entails? And could that actually even be a big part of your business?

Rolf Buch

The point is: This comes back to our old history. Part of our company came from corporates owning their own resi portfolios for their own employees. At the moment, in Germany, because of the imbalance of supply and demand, more and more companies have real problems to recruit people because these people don't find apartments.

The idea is – actually we are doing it today already – that we provide some of our apartments with the exclusive right of occupancy to dedicated corporates. So you are signing actually a contract saying: If this apartment gets empty, your people have access to this apartment.

So the apartment is not going to the big market. And for this you normally get a fee from the corporate because this is their way how they make sure that their people find an apartment. So in the end, of course this only works if you have an imbalance of supply and demand, because this is actually an additional rent, not paid by the tenant, but by the corporate.

Andres Toome

Okay, so there's a fee on top of your normal rental fees.

Rolf Buch

You take the regulated rent and you get from the corporate an additional fee.

Andres Toome

Understood. Thank you.

Operator

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

Marc Mozzi

Thank you very much. - Very good afternoon all! Most of my questions have been answered, but I have two. The first one is on your domination agreement between Vonovia and Deutsche Wohnen. If I understood it correctly, is that fair to assume that you can distribute 7% any minority shareholders, which remain shareholders of Deutsche Wohnen, following the deal you've done with Apollo?

Rolf Buch

No, I don't get the question.

Philip Grosse

Me neither. Repeat it.

Marc Mozzi

You're going to provide 70 million of remuneration to Apollo for 1 billion of investments. When I do the math, that's roughly 7%. The rule seems to be that you - -

Rolf Buch

This is different. This will of course not be the case because there's a big difference, because the Apollo structures do not allow to liquidate their shares while the others have a liquid stock. Very simple.

Marc Mozzi

What I'm trying to understand is: When I read that, Deutsche Wohnen minority shareholders will receive the same payments.

Rolf Buch

This definitely is not the case. Sorry.

Marc Mozzi

Okay. If I understand you correctly, Apollo is going to get a 7% return but the minority shareholders are at risk of getting less than that?

Rolf Buch

Yes.

Philip Grosse

Look, Marc, details in December when we put out the valuation report.

Marc Mozzi

I know, but I'm trying to understand how things are playing out here.

Philip Grosse

Okay. Second question?

Marc Mozzi

My question is on the LTV you're providing. I appreciate you have your own calculation and your own way of doing so, both on the numerator and denominator side. But can you give us an approximation of what would be your EPRA LTV pro forma?

You are excluding minorities that you are deconsolidating. You are having the Apollo assets on your gross assets value side. I think your LTV is slightly distorted from what people would consider to be an economic LTV. Probably the best way to estimate it is the EPRA LTV. Can we have any guidance on that?

Philip Grosse

We have, for various reasons, decided not to follow the proportionate consolidation. So the answer is: No guidance on that topic. But you have all the details to make your assumption and the math on the minorities, the stakes and the assets we have sold. So if you want to do it, feel free.

Marc Mozzi

But I think it's more and more complex considering the degree of financial engineering that Vonovia is now doing. It's very, very complex from an outside perspective to properly assess what are the right economic indicators. That's why higher measures or metrics would probably help a lot to clarify exactly where you stand.

Rene Hoffmann

We understood your point, Marc. Thank you very much.

Operator

And the next question comes from Alex Kolsteren from Van Lanschot Kempen. - Please go ahead.

Alex Kolsteren

Hi, good afternoon, team! Thank you for taking the questions, two from my side. The first one is on the stranded assets. Do you currently see already any portfolios on the market? Who will be potential sellers of these kinds of portfolios?

Rolf Buch

A very simple yes. And potential sellers are people who are realizing that they will have stranded assets by 2030.

Alex Kolsteren

A short and clear answer. Thank you very much.

Secondly, is there any risk of not obtaining sufficient staffing to reach your 2028 targets?

Rolf Buch

Staffing is always a risk, but I think we have it under control.

Alex Kolsteren

Great. Thank you. Very clear.

Operator

And the next question comes from Manuel Martin from Oddo BHF. - Please go ahead.

Manuel Martin

Hello, gentlemen! Thank you for taking my two questions. Question number one: I'm trying to understand a bit better your acceleration in the Development business. If I understood well, you try to reduce construction costs and that will help you to increase your development activity.

Is it fair to assume that you're going to apply a new construction method, whatever serial construction? Maybe you can give us some flavor on that. And will that make you more independent from the cycle if you apply these kind of new construction methods, or will it be the good old-fashioned brick and mortar methods? That would be my first question.

Rolf Buch

Now we are running short of time, so probably we have to do it offline. I think you are right that the new construction method will reduce prices and will reduce the CO₂ footprint of these buildings. The construction period will be much quicker and probably the quality will be better than before. So yes, we will move in this direction. We just don't want to exclude the traditional one because this move in this direction will take time.

Manuel Martin

Okay. We will clarify that offline to go deeper there.

The last question from my side, on Rental: The 4% growth looks fine for the time being. I don't see any disruption in that trend. But could you think about a possible scenario where that could decrease because it's not given to be eternal, that growth?

Rolf Buch

First of all, you know the systems of how the rent table in Germany is built. So that's why we have a very long predictable for the future outcome of the rent tables.

And second, I think we will see no regulation in the next 15 months because the government has just decided: no further rent regulation. I don't see a big risk of further regulation even afterwards because the imbalance of supply and demand makes it necessary to get new apartments. And with more regulation you get less apartments.

Yes, nothing there. But it is very long-term predictable in just the way the rent tables are built.

Manuel Martin

Okay. Thank you very much.

Operator

And the next question comes from Simon Stippig from Warburg Research. - Please go ahead.

Simon Stippig

Hi, thank you. The first one would be in regard to property values. Previously you mentioned, if I'm correct, that you see a translation of values of around 3% per annum from your 4% rental growth. Has anything changed there? Do you see any value indication for H2 already?

Philip Grosse

For full-year evaluation, we expect a kind of flattish development. Thereafter, our expectation is that, at some stage, you will see flattish yield expectations of investors in the market. And as you increase your rents, that should have a positive impact on values going forward. But for end of this year, expect flattish development.

Simon Stippig

Okay, great. And the translation effect would be 4% stable yields, 4% growth would translate to 3% value increase? That's at least what you said in the past. Is that still some assumption I can take forward?

Philip Grosse

I think we've been referring to €3 billion. So if you apply on our rental income a 4% growth, and you capitalize that additional rental growth by our in-place rent multiplier of roughly 25 times today, you come out at €3 billion.

Simon Stippig

Okay. And then a second one would be: What I missed in your guidance 2028 is some more guidance around your dividend development. Can I expect the growth in line maybe with your EBITDA growth development going forward that you stated, which I think is a CAGR of around 6.8%?

Philip Grosse

Look, it's an objective. It's not a guidance, first of all. It's a mid-term objective, so that you see whereto we are working in terms of ambition.

Second, given that we, I think for good reason, are giving no EBT guidance, as a consequence, we can also not give any kind of dividend guidance. But we have a clear dividend policy. So here, I refer to your modeling skills to make your own judgment.

Simon Stippig

Okay, great. Thank you very much.

Operator

Ladies and gentlemen, this was the last question and this concludes today's Q&A session.

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

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Rene Hoffmann

Moritz, thank you very much. - Thanks, everyone, for dialing in. That's it from us for today. There's always more questions; I realize that. Feel free to upload them with me or the team at any time today or later.

We'll be on the road over the next couple of days. We hope to see many of you on that occasion. Our financial calendar is in the back of the presentation and it's also on the website.

And with that, as always, stay safe, happy and healthy. We'll see you around. - Thanks very much.

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