Transcription
FY 2024 Earnings Call
March 19, 2025

Rene Hoffmann

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

We have divided today's presentation in two sections plus the appendix: First, the big-picture overview of our business and the general environment in which we operate, and second the full-year 2024 update.

Rolf will be starting off with a preface to put the last two weeks into context and to provide a framework for our view on the consequences for our sector.

With that, over to you, Rolf.

Rolf Buch

Thank you, Rene. - Good afternoon also from my side!

Allow me to start today's presentation with the following preface; this is on page 3. Our earnings call today takes place in an environment and sentiment that is different from two weeks ago. The situation is still very much in flow and we believe there is limited visibility on the exact consequences especially in the medium to longer term.

But let me take a step back and describe what I think are the different phases in Vonovia's development. I think it is important to understand this evolution in order to appreciate the future potential. From my point of view, Vonovia has gone through two distinct phases and currently stands at the beginning of a third phase, which is the return to growth.

For more than eight years after the IPO, we made use of the highly favorable interest rate environment and built a platform that delivers higher cash flows, better margins, and superior quality than any other platform and where the assets are located in the right markets.

Then came the war in Ukraine and the abrupt changes in interest rates that led to an increase in our cost of capital. We changed gears and went from offense to defense. This second phase was mainly about protecting our rating and balance sheet.

Now, since Q3 last year, we are at the beginning of the third phase in Vonovia's evolution, where we can return to growth but less capital-intensive. This means an acceleration of our non-rental EBITDA and leveraging our platform and scale to expand our service business in a less capital-intensive way. In doing so, we will combine our growth ambitions with financial stability and capital discipline.

However, the events of the last two weeks have now led to new uncertainty. The increase in bund yields appears to be primarily driven by the market's expectation of a massive increase in German bond issuances to finance the planned military and infrastructure investments. What is still unclear to me is how strong and sustainable the increase in bund yields will be at the end of the day, given that the planned investments are expected to be made over twelve years. Not nearly all funding will be required on day 1 and the timing will largely depend on specific planning, approvals - what we are specialists for in Germany -, capacities, and others. It is simply too early to draw definitive conclusions from recent events.

While bund yield levels are certainly not the only driver for residential asset values, the actual impact of the recent events on property prices remains to be seen and cannot be reliably determined yet. Similarly, higher bund yields for longer would lead to elevated financing costs, but we just do not know. On the flipside, the spending bill will include material positive elements that will support our efforts in terms of modernization and new construction, as we expect sustainable investments in climate protection already announced, energy, and housing.

So yes, new headwinds for the sector, but also opportunities. And both cannot be reliably estimated to form a clear view on what all this means for the sector, especially in the medium and long term.

So, how do we react then? The last three years have confirmed that we are well advised to refrain from knee-jerk reactions, but to continue to manage the business with a steady hand. And adjustments we make must be made in a careful and deliberate manner. It was this level-headed approach that allowed us to successfully navigate through the last crisis and protect our ratings and soften the impact from declining values and higher financing costs.

At this point, we do not see an immediate need for action, but we will, of course, monitor the situation very closely. And we will carefully evaluate any potential measures also in the light of their medium or long-term impact on our business.

The key priorities are clear: we will protect our rating, manage our debt KPIs, maintain overall capital discipline, and safeguard the long-term success and long-term growth of our business. What has become less clear is the execution timing of certain non-rental growth initiatives. I am thinking, for example, of potentially stranded assets and development. Depending on how things evolve, we may decide to give priority to the more capital-light initiatives.

There are lessons learned during the last crisis that will now allow us to focus on what worked and to refrain from what didn’t work. And this was, for example, the abrupt disruption of the investment program. So, next time, we will not do this again.

Let me be clear: While it is too early to discuss any specific measures, we are prepared to take decisive action if and when it becomes necessary.

Let me emphasize the following: In spite of the quite different phases I just described and in spite of the recent uncertainty, one thing is clear: It was the right decision to build our business around the megatrends. Our market fundamentals have been getting stronger and stronger and our operating business is more robust than it has ever been. So, we may face another period of uncertainty, but we can face it from a position of strength in knowing that our business is built on a rock-solid foundation.

Let’s take a closer look at the most recently available data on asset valuation and pricing; this is page 5. The data suggests that value declines have stopped and prices have stabilized. For multifamily homes, this seems to have been the case sometime towards the end of Q4. The third quarter was −0.5% and the fourth quarter was basically 0. For condos, which are always a little bit in advance, it appears to have been somewhere in Q3 and prices have already been slightly growing recently. We saw −0.1% in Q3 and +0.9% in Q4.

Of course, the valuation of our portfolio mirrors this development and we have seen a slight gain in H2 in all three countries.

Allow me one word on Sweden: We think that the faster return into positive territory is related to shorter financing terms in this country and rent growth of more than 6% as inflation finds its way into rent levels faster because of different regulations. Sure, none of this data includes the recent increase in bund yields, but we have seen in the past that bund yields are not the only factor that impacts valuation and prices in our sectors.

On page 5, you see that Q4 last year saw an increase in sentiment and optimism and page 6 shows some data to support this. Transaction volumes in Q4 were the highest since Q1/2022. And according to a survey by Ernst & Young Real Estate conducted in January this year, residential real estate is the top focus for real estate investments this year with the vast majority of respondents expecting no change in pricing or even increases in the course of 2025.

If you look at the volatility and turbulence in the capital markets, it might be easy to forget what the situation in our underlying business looks like. Things actually couldn't be more different. During the last three years of higher inflation and higher interest rates, we have seen that the supply demand imbalance became much bigger.

And while our residential sector is regulated in terms of how fast you can adjust rent levels, the wider market reality is a different one. The shortage of apartments simply trumps regulation. People are so desperate to find a rental apartment that they are prepared to sign an agreement that is not in line with prevailing regulation, just so they get the upper hand versus the hundreds of others who are competing for the same rental contract. And this drives the regulated rent via the "Mietspiegel" system. But, of course, with a delay.

This huge gap between market reality and our rent means that our rent growth for many years to come is rock-solid. We already know today. And the speed at which we can catch up to the market rent is about 4%, based on our current investment amount of about 1 billion. To the extent we increase that amount, the rent growth will be higher from the 6 to 7% operating yield on these investments.

Before Philip gets to the 2024 highlights, let me close this big-picture chapter with a look at our growth trajectory. I'll start with the rental business.

You saw the strong markets we're in on the previous page. You also saw the huge gap between our rental levels and where the market is, giving us strong visibility on many years of extremely solid rent growth. Combined with the full occupancy and full rent collection, this creates a rock-solid, low-risk and highly predictable Rental segment that delivered more than 90% of our Total EBITDA in 2024 and that will continue to be the main source of earnings contribution going forward.

In addition to that, we are preparing our non-rental business and we presented the concept to you last November. As a reminder, we are talking about three categories: return to performance, accelerated tech-supported investments, and new business areas. Our ambition until 2028 is to grow the Rental EBITDA by 4% and the Non-rental EBITDA by 30% for a combined total EBITDA growth of around 8%. In terms of EBT, we aim to grow in a mid-single-digit range.

With this, I hand over to Philip.

Philip Grosse

Thanks, Rolf. - And also a warm welcome from my side!

Let's move to the second chapter, starting on page 9 with the big picture. Again, we have been seeing that the value decline has stopped and prices have stabilized in the last quarter of last year. In addition, transaction volumes are increasing and there is certainly growing market optimism.

For Vonovia, we have successfully completed our disposal program for cash generation purposes and seem to have seen the end of negative price corrections for now. As a consequence, leverage is under control and ratings remain in a good investment grade territory.

Our organic growth trajectory until 2028 remains unchanged: As Rolf said, we aim to deliver about 4% CAGR for Adjusted EBITDA Rental, which is based on 1 billion investments. Here again you know that we intend to ramp that up with an operating yield of 6 to 7% and that is positively impacting the Rental as well as the Value-add EBITDA.

Against that backdrop, we also expect the growth in our Non-rental EBITDA to be much more dynamic, more a magnitude of a 30% CAGR until 2028. And all of that will translate into an Adjusted EBT CAGR in the mid-single digits.

As for the highlights of 2024: We delivered 4.1% organic rent growth, so the upper end of guidance; Adjusted EBT was a bit softer, but, again, top end of our guided range; Operating Free Cash Flow was much higher in 2024 as a result of our preference for cash generation over profitability. LTV came down fairly significantly, 150 basis points, and is now on a pro-forma basis at 45.8%, so almost where we want to be in terms of our target range of 40 to 45%.

EPRA NTA was down 3.4% year-on-year and is now at 45.23 euros per share.

And finally, on the dividend: As guided, we intend to propose 1 euro and 22 cents to the upcoming AGM in May. This is an increase of 36% compared to last year.

Let me update you on the disposals side. Following more than 4 billion euros in 2023, we delivered another 3.8 billion in 2024 for a combined transaction volume of almost 8 billion euros over the last two years.

Most recently, you may have seen: We sold our nursing business in Hamburg for 380 million euros, significantly above book value, by the way. That more or less completes our disposals program that we have initiated for cash generation. That having said, what we are now going to focus on is selling the remaining non-core business of 1.6 billion euros which is still on our balance sheet.

We have made our disposals at or above the book value at the time and we were proven right, I think, when we said we would not rush into it. I still recall quite a few market participants urging us at the beginning of the crisis to sell at all cost. It's good that we have taken a far more balanced approach because, otherwise, I think, the consequences would have been to the detriment of our shareholders.

Moving to page 11, we have the familiar overview of EBITDA, EBT and Operating Free Cash Flow. A couple of comments to put this into context:

The underlying operations - Rolf was alluding to it - remain extremely favorable. Rents are growing, there is basically no vacancy and we're collecting the full rent. On the other hand, we are seeing that the drag from disposals on Adjusted EBITDA Rental was slightly down because of a smaller portfolio and also more normalized cost levels for last year compared to 2023.

The Value-add segment is up fairly significantly year on year; that includes roughly 60 million euros from a lease agreement on our coax network, something that unfortunately will not repeat itself in 2025.

Recurring Sales volumes and Development to Sell both saw higher volumes, but also lower margins as a result of our focus on cash generation. The increase in Adjusted EBT attributable to minorities is due to the annualized impact from the two Apollo joint ventures we entered into mid, end of 2023.

The increase in our adjusted net financial result is related to the higher refinancing costs and also the full-year effect of 2023 financings.

On the tax line item, the increase is the result of increased disposal activities. And finally, the higher minorities in the Operating Free Cash Flow came from the two Apollo JVs, the higher cash dividends.

Moving to page 12. Here, we thought it might be helpful to put together all the different buckets that we include these days in our investment program. So, you see that on the right hand-side of the page.

We have the traditional categories you are all familiar with: Optimize Apartment, Upgrade Building and Development to hold, or space creation. With the non-rental EBITDA growth initiatives, we are adding three additional categories, which are serial modernization, energy cube and heat pump, as well as photovoltaics. These three are more industrialized and more tech-supported and will allow us to ramp up our investment program from currently less than 1 billion euros to the targeted 2 billion euros by 2028.

The target funding, to be very clear, for the investment program is 60% equity; we will make sure that it is leverage-neutral. There, our good performance on the Operating Free Cash Flow certainly helps. And as a reminder - I made that point before -: All of these initiatives have a yield on cost of around 6 to 7%; so it’s a highly profitable business for us.

Page 13. I think I said it before: Highly robust, like a clockwork, no surprises here. Let’s go to the next page for the valuation update.

Just some additional remarks on valuation. The full-year value decline of −0.9% breaks down into −1.4% in H1 and plus 50 basis points in H2. Our portfolio is now valued at 23.2 times net cold rent or a gross yield of 4.3%. This by reference represents a per-square meter value of just under 2,300 euros including the land. If you compare prices for condos which are more in the direction of 3,400 euros, for new constructions even 5,400 euros, you see the big discrepancy, which in my view is supporting our valuation approach.

Moving to page 15 on the financial KPIs, our pro-forma cash position is currently 3.8 billion euros, 1.8 billion cash on hand, 2 billion euros still to come based on signed disposals and, by the way, excluding the RETT blocker in the context of the domination agreement.

If I move to our pro-forma LTV, it is 45.8%, so only slightly above our target range. Assuming stable yields, LTV will decline organically as rent growth drives value growth, so the direction of travel should be positive once the market is finding its long-term equilibrium.

Net debt to EBITDA is 14.5 times, so basically in the middle of our target range, that again on a pro-forma basis. Here, in light of our EBITDA growth initiatives, we should equally see this metric declining over time as well.

ICR is 3.8 times, above our internal threshold. While this KPI is the most challenging one of all three, I am still confident that we will be able to maintain it above our internal target threshold as well.

Rating agencies, as you know, have maintained their rating and outlook on Vonovia, Moody's and Fitch just very recently in mid February.

Page 16 is on the dividend. As I said, we will propose 1 euro and 22 cents to the upcoming AGM. This is a 36% increase and marginally above consensus, but very much in line with the guidance we gave when we said we expect a dividend capacity of around 1 billion euros for 2024.

If you look at the dividend policy, there is an extra 200 million euros of surplus liquidity, which we, however, have decided to retain and deploy towards the significantly increased investment program for 2025. I think this is a sensitive decision.

With regards to a potential scrip option this year, we will be making this decision, as usual, at the time of convening the AGM, which we expect to be in mid April.

The scrip option, just as a reminder, remains a year-by-year decision; that is primarily based on share price level vs. our net tangible asset value, but also on the other side leverage and cash-flow considerations.

On a more general note, based on our dividend policy, we aim to pursue a progressive dividend policy with long-term dividend growth over time.

Page 17 - on guidance. We confirm both the 2025 guidance and the 2028 medium-term objectives.

There is one line item that I would like to clarify as there was some confusion last time. The objective 2028 now shows a rent growth of more than 4%. This reflects our plans to ramp up our investment program from currently just under 1 billion euros to 2 billion euros by 2028. These higher investments, of course, lead to higher rent growth as a result of adding 8% of the investment amount minus maintenance costs to the rent. Against that backdrop, that should gradually see a move towards 4.5% on our way to 2028.

With that back to you, Rolf, for wrapping it up.

Rolf Buch

Thank you, Philip. - Before we go to the Q&A, let’s summarize.

Following the inflation-driven interest rate hike in the wake of the war on Ukraine, our residential markets have shown clear signs of stabilization and normalization with values bottoming out and optimism returning to the sector.

Vonovia’s operating business remains rock-solid and we are confident in our ability to deliver on the 2025 guidance as well as the 2028 Adjusted EBITDA growth objectives.

However, new uncertainty has emerged from the planned investments in military and infrastructure spending by the German government-elect. The ramifications - both positive and negative - are still unclear at this point and we will carefully monitor the evolving situation.

The last three years have confirmed that we are well advised to refrain from knee-jerk reactions, but to continue to manage the business with a steady hand. Contrary to three years ago, we are much better prepared today and can draw from the lessons we learned over the last three years.

The key priorities are clear: protect our rating, manage our debt KPIs, maintain overall capital discipline, but at the same time - and this is also important - safeguard the long-term success and the long-term stable growth of our business.

With this, back to Rene.

Rene Hoffmann

Thank you, Rolf and Philip. - I hand it to our Operator Moritz to open up the Q&A.

Just one reminder to everybody: Just like in previous calls, we are going to limit the number of questions to two per person. And I kindly ask you that you honor this request.

So with that, Moritz, let’s do the Q&A.

QUESTION AND ANSWER SESSION

Operator

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

Valerie Jacob

Hi, good morning! Thank you for taking my questions. I've got two questions.

The first one is on the dividend. I think, last year, you came and you gave us a formula on how to think about the dividend. This is the first year after this formula and you've decided to pay a dividend which is lower than the results of the formula. So, I was just wondering: How shall we think about that? And is your objective purely to grow the dividend and shall we forget about this formula? Or how do you think about that? That's my first question.

And my second question is: You mentioned that despite all the uncertainties you think that there is no need for immediate reaction and that you're monitoring what's happening. My question is: Can you be more specific in terms of what you are monitoring? Is it the response of the credit agency? Is it the sentiment from market participants on prices? - If you could be a bit more specific, that would be helpful. Thank you.

Philip Grosse

Thanks, Valerie. On your first question, on the dividend: We have a dividend policy in place, which is 50% of EBT and surplus liquidity. But at the same time, I think we are still in a more rough environment, if you will. If I look at the performance of Operating Free Cash Flow in the last three years, this obviously was highly impacted also by us prioritizing cash over profitability in order to delever the balance sheet. So, the basis for Operating Free Cash Flow, in my view, is not quite a sustainable one.

Second, as we ramp up our investments going forward, I think it's prudent that, so to speak, shareholders have to live with only a 30% plus increase in the dividend.

Rolf Buch

Actually, Valerie, it's a lot of things we have to monitor. Of course, we are monitoring the development of the interest rates, ours and the bunds. We also have to monitor - I think this is the most important task now - the outcome of the coalition agreements which are taking place at the moment, which means we have to understand how much money we get of the 100 billion which is reserved for the environmental, which, I think, we will get a big part of it. So, this, of course, will drive our ability to finance even with higher interest rates.

Then, we have to pursue also to get a better understanding how the outflow of these 500 billion will happen because this is streets and bridges and all these and we have an approval process. So, if today's approval process will apply, which is the same hassle as with housing, this will take a very long time.

I think the government will be forced to revise the whole approval processes to speed it up, because otherwise the money will be spent somewhere in year 10 and 11. So that's why I think this is to be monitored.

Of course, we also have to look at the value development. Our assumption is still that increasing rents, with stable yields, will lead to a higher value growth. This might be different, depending on the cost of capital.

To make it short: We have to understand what the evaluation of cost of capital is, not only on debt, on the equity side. We have to monitor our returns on the different investments which we have to do. If we find out that some investments are probably not as attractive with higher cost of capital and probably not significant higher returns, then we will refrain from them.

To be very clear: The most prominent - which is very easy to stop or to do slower - is what we call undeveloped assets or potentially stranded assets, maybe just buy a little bit later or, in the development field, especially Development to Hold, we can start construction places a little bit later.

So, I think this is a kind of prudence which we now will put to place. But the cost of capital is the most important, which we have to monitor.

Valerie Jacob

Thank you. Just maybe on the dividend, because I don't think I really understood the answer. I understand you want to be prudent. But how shall we think about next year? Shall we think that the objective is to be prudent and to grow the dividend? I know that net working capital is highly volatile. But you chose to include it in the formula. That's what I don't understand.

Philip Grosse

Valerie, I think 2024 was very much characterized still by stabilizing our balance sheet. I think it's fair to assume when we ramp up our investment that the additional free liquidity, which adds up to the 50% of EBT, is somewhat pressurized in a positive sense because if we do more investments, coming back to Rolf's point, that means we are earning more than our cost of capital. And that by nature is then to the advantage of shareholders.

That is what we have baked in in the decision not to pay on top the full surplus liquidity, but only a portion of that, but still translating into a 36% increase year-on-year in terms of dividend per share.

Valerie Jacob

Thank you.

Operator

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

Charles Boissier

Thank you for taking my question. I think it's a related question, but just to understand your flexibility of adjusting the new strategic plan around the cost of capital: Under what circumstances do you move back more radically to cash preservation in terms of investments, dividends and disposals, going back from phase three to phase two, if I refer to your slide 3?

Rolf Buch

To be very clear: In the growth initiatives, there are initiatives which really do not need any investment, so very asset-light. Of course, this is not impacted by the changing cost of capital. We will continue to do so and even probably prioritize this.

So, there are some activities like, for example, the heat pump or the serial modernization, which is relatively asset-light, so have a relatively high return, and will be significant above our cost of capital even if the cost of capital is going higher. This, of course, we will continue as well because this is accretive for our shareholders.

There are sectors like, as I said, the Development-to-Hold and the potentially stranded assets. Especially in the case of Development-to-Hold, the yield gap between the cost of capital and our returns is not very high. So, this will probably be something which we will stop.

And for the potentially undeveloped assets, it is actually easy. You can do it just a half year later – to be a little bit more prudent – if we have more clarity.

But the general rule is: If we see our cost of capital rising, we will do less investments. This is, of course: Investments are discrete decisions, investment by case. So, this is building by building, modernization by modernization. And this actually can be very granular.

Charles Boissier

Okay, clear. - My second question is on the Fitch recent Report. They expect the EBITDA to net interest coverage to tighten from the current level, so basically deteriorate.

I think you guide for ICR to be roughly stable. Could you give us a little bit of a direction for the ICR as to when exactly it stabilizes? Thank you.

Philip Grosse

On the ICR side, stating the obvious: Our average interest costs are now roughly 2%. If I look at the marginal cost of debt now with the slightly changed parameters, it's up 30, 40 basis points. So, we are currently at 4.3% roughly for a ten-year tenure. By that, you can see that it will take some time for our interest line to grow into the new financing environment, but given our staggered maturity profile that only comes step by step.

Now, for this year, I expect kind of a flattish, small pressure on ICR. But we will maintain that above our internal threshold of 3.5 times which, by the way, is at a big safety buffer vis-à-vis what the rating agencies are expecting. Just recently, Moody's has lowered their threshold on ICR, so there's quite a big discrepancy between our internal target and what is rating expecting from us for the current rating.

In the years to follow, it obviously depends on the development of the interest rate side. So, here I think we should somewhat monitor the markets. But short to medium term, I have no pressure on that side.

Charles Boissier

Good. Thank you.

Operator

The next question comes from Jonathan Kownator from Goldman Sachs. - Please go ahead.

Jonathan Kownator

Good afternoon! A couple of questions on my end.

The first one, please: focus on growth. Obviously, there's an uncertain environment regarding also government measures. But it would be really good to understand your current reading of things – you've talked about the volume of investment – and also the understanding of how that 100 billion could get spent and whether you get any other benefits from the infrastructure fund in general. Where do you see any impact in terms of subsidies, rental business and development?

The second question is around growth and organic growth, essentially, including investments. If I look at slides 12 and 13, you've got a starting base of "Mietspiegel" this year of 2.8%. You can presumably think that that's going to stay stable or perhaps grow, given the inflation over the last few years. If you want to add as much as potentially 2 billion of investments, not even that, if you just do 2 billion at 6% or 6.5%, that's another 4% of rental growth versus the 2.8. I'm sure there's a bit of maintenance here, but the 4 to 4.5% that you're highlighting seems a bit underwhelming versus that potential.

So, I just wanted to understand if your assumption is very conservative or if there's a number of costs that you're not highlighting in there. Thank you.

Rolf Buch

On your second question. To be very clear, it might be conservative. Keep in mind that it has to be ramped up. The 2 billion what you are doing in one year do not necessarily show up in rental growth in the year. You know this is delayed because we are investing.

What is important – let's say, you can do your math yourself -: It's 6 to 7 or even 8% of yield on every euro which is invested and which adds up mainly in the rent.

So, this is the math, so you can do 1 billion more. And if you are in a fully steady state, then you can calculate the rental growth.

For the rent table itself, yes, you are right. There is a trend upwards. But as you know the complex rental regulation in Germany, the 4% with 1 billion is probably more or less the safe side to calculate with. And, of course, if it's 2 billion, then it's more. But this is mathematics.

For the second question: What we know for sure already is that 35 billion of this package will be subsidies for housing. So, of course, if we are building housing – and we are one of the remaining house builders left in Germany –, we will get out of this an amount of money. How it will be structured - is it a percentage per square meter, is it an absolute amount per square meter, is it a subsidy for land, is it a subsidy for what we don't know? - is not written; it's not drafted.

So, at the moment they are sitting together forming these coalition negotiations. I think also it will be not the case that at the end of April we know exactly. We know then some guidelines.

I give you another example: our heat pump - I think you have seen it in the Capital Markets Day - which is actually this structured heat pump. You know there was a subsidy which was given by the old government of 10% for this type of heat pump. It was then a privileged situation because they had not enough budget that owners of buildings got 70% of subsidies, and we as a landlord only got 30%. So, the original plan was that everybody can get up to 70%. I assume now that there's more money there. So, this might be an option – at least we will lobby for it – that everybody is treated equal, which, I think, is also an important factor. This means that the heat pumps will be subsidized not by 30%, but by 70%.

These are examples. Jonathan, I'm really sorry. I cannot give you an exact, but I just want to give you as much clarity as we have and how we think on it.

Of course, if there is more subsidies in heat pumps and if we can get a higher return on heat pumps, we will do more heat pumps; this is obvious. If there is no subsidy for new construction and the cost of capital are going up, then we are doing less new construction.

As simple as it is, it is individual decisions. So, we can really optimize the decisions there. And, of course, we will speed up all the investment, all the growth programs which have no or very little investment, for example, property and asset management services, which actually comes with no investment; we want to speed up there.

That's why I don't see a big change in the growth profile. That's why we stick to the 2028 guidance. There might be a shift from more capital-intensive to less capital-intensive, dependent on our cost of capital.

Jonathan Kownator

Very clear. Thank you.

Rolf Buch

But let me just add one thing. If we would not have invented the new growth strategy in Q3 last year, we should have invented it now because it gives us the possibility to have a good mixture between more capital-intensive and less capital-intensive growth initiatives which we can drive forward. So, we have actually ten parts of driving growth forward and not only one.

Jonathan Kownator

Okay. Very clear. Thank you.

Operator

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

Thomas Neuhold

Thank you very much for the presentation and taking my questions. I have one for Philip and one for Rolf.

The first is on cash taxes which went up quite substantially last year. I was wondering if you can split the cash taxes of 235 million related to disposals and which related to recurring business and what do you think is your realistic long-term cash tax rate for your recurring business?

The second question is on the Development-to-Sell business on page 27 in the presentation. As of when do you plan to reach this 1 billion investment volume and the targeted 30% reduction average construction cost? Can you elaborate what measures you want to implement in order to bring down construction costs by 30%? - Thank you.

Philip Grosse

On your first point on cash taxes: If you look at our Operating Free Cash Flow, the cash taxes we show there are basically the cash taxes related to our core business. So, it does not include any non-core disposals. So, this is only, if you will, on Rental, Value-add, Development-to-Sell and Recurring Sales.

Why has this number gone up? Because we sold more than we did previously. That is true for our Development business. But that is also true for our Recurring Sales business. You see that if you look at the respective volumes in both categories.

On the profitability side, as I was alluding to, there was kind of a drag because we prioritized cash vis-à-vis profitability. So we have been accepting quite low gross margins.

How to look at that going forward? We certainly want to increase our privatization pace. That will go hand in hand also with higher tax payments on the development side and that is slightly biting into your second question.

I think the situation is that we have essentially sold everything which is under construction in order to generate liquidity. So, it will now require some pre-investments before we can actually generate additional EBITDA, which is why this year is less in the development space about selling project developments. It's more about selling defined land plots in order to generate some profitability and reduce our exposure somewhat in terms of land plots we have on the balance sheet.

When is it when we move to the billion euros? I think, in terms of investment, quite soon. We have given the kick start for 3,000 new developments this year. I think it's good timing with all capital discipline we have to apply.

Why is it good timing? Because very few other developers are currently developing. So, our product will meet a market which will see, by definition, very little competing supply and that is positive.

How quick we are to actually adjust and move towards a 30% reduction in construction cost: I think it is a bit premature to give guidance on that point now. We are working very hard on various initiatives. And hopefully, also reiterating what Rolf said, there will be some political support on that end. There is an initiative called "Gebäudetyp E" which is basically the political answer to also give some ingredients in order to reduce construction cost. And that would be helpful and accelerate that process to move to our target.

Thomas Neuhold

Thank you.

Operator

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

Bart Gysens

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

You state very clearly as priority number one that you want to protect the rating. Can I ask, where are you the most concerned regarding your rating? It looks like your ICR is very much under control, given you've turned out the debt so much and given that the other metric that really mattered for the rating agencies is LTV.

Are you effectively saying you cannot exclude that valuations go down, say 5%, taking the LTV, and therefore that would put pressure on the rating? Any color you could provide on that would be great.

Secondly, you have decided to increase the dividend massively, 36%. Not a surprised; you guided to that. And even if you haven't paid out everything you could have paid out, that's still a massive uplift.

Should we assume that if the uncertainty persists at the time you convene the AGM that you will try to obtain a significant scrip take-up, even if the stock continues to trade at a wide NAV discount? - Thank you.

Philip Grosse

Bart, on your first question: You're completely right. I made that point many, many times: Preserving the rating is really paramount for us. If I look at the different stats, we have fairly comfortable headroom in terms of net debt to EBITDA. Under the rating metrics, we have very comfortable headroom also in terms of ICR. Where it is a bit light, if you will, a bit pressured is still on capital values.

So, yes, the risk, if you will, is that the increase we have seen in our financing terms, I was mentioning 30 to 40 basis points, which, by the way, is not a topic at all; it pretty much matches what we have assumed in our planning and medium-term planning. But if there are potentially any spill-over effects on capital values - and here I think it's still too early to judge on if and, if yes, to what extent - there is a potential impact on the transaction market, but that is something we will observe. I think we made that point: we are not necessarily expecting that. But if that were to materialize, I think we have learned how we have to react to that in order to protect our balance sheet. And that is and will remain very much the priority.

Now, on your second question, on a potential scrip: We always decide that when convening the AGM, but if all things remain as they are today, I think you can assume that the likelihood of us opting for the scrip option is very, very high and therefore also providing a constituent to strengthen our balance sheet.

Bart Gysens

Great. Thank you very much.

Operator

The next question comes from Véronique Meertens from Van Lanschot Kempen. - Please go ahead.

Véronique Meertens

Thank you. Two questions from me as well. The first maybe on political discussions. I appreciate, obviously, a lot went around the budget, but is there any update on the "Mietpreisbremse" both in Berlin and on a federal level? Is it a topic that is still being discussed and are there any updates on that?

And secondly, one of the pillars is also the expansion of business areas. Also here, is there anything concrete? How serious are these options, as you also mentioned that you might want to speed that part up? – Thank you.

Rolf Buch

Thank you very much for the two questions. I think, on the "Mietpreisbremse", the pre-agreement is that they will extend it for two years. The reading of not only us, but also the tenant association is that actually they are ready to accept that the "Mietpreisbremse" in its way doesn't work, doesn't fulfil what the politicians want. So that's why I consider this a success. To just stop the "Mietpreisbremse" would be probably very brutal. So that's why I think they give themselves now a short period to redefine the "Mietpreisbremse" to adapt it better to the need. So I think this is positive.

Of course, this was a pre-agreement. We have to wait for the coalition agreement, which might change. But on this reading, I'm pretty optimistic that "Mietpreisbremse", "Kappungsgrenze" and also the gap of 2 or 3 euros will be shortly redefined in the new government. So this is something which I consider positive.

The second question is on the second Vonovia. This is what I mentioned. To be clear: I have now the chance to talk to some during my roadshows, which I normally do to visit you. I'm always mixing some meetings in there with people who are investing in long terms, so not in shares but in direct investment, also sometimes coming from the infrastructure side, because people from the infrastructure side consider our cash flow profile as very similar to what they know from infrastructure. And if you talk to these people, they have a different horizon. So they are talking about 5, 10 years. This is for them relatively normal to talk about. And then, of course, they have a different view on our business.

So I think there is a huge potential where we can use our platform, our abilities to help also these people to get invested into German resi because from the discussions you have with them, they all know that it's not easy just to go to Germany to buy a few housing and being invested in German resi. So I think this is a big chance, which, by the way, just to be complete, is not completely covered in our business plan, as we always told you, because it's a business-to-business decision. And that's why it's very difficult to predict the cash flows because it depends on when you sign a contract.

But this is an upside. And as I mentioned before, we are doing more for less capital-intensive. I think our priority in the moment is this because this requires no capital.

Véronique Meertens

Okay. Thank you very much.

Rolf Buch

Or very little capital.

Operator

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

Marc Mozzi

Thank you very much. Very good afternoon! The first question from my side is trying to understand what is the bridge between your 2 euros per share of EBT after minorities and your 1.5 euros per share of your EPRA-EPS. That's roughly 400 million euros, a gap between the two. I know we're missing the taxes here. I know we don't have the depreciation, but it sounds a bit high for those two numbers. So how should we think about this gap of 50 cents or 400 million?

Philip Grosse

Look, Marc, I think this is not for the call to talk about a bridge to a metric which does not form part of our key performance measures. Why does it not form part of our key performance measures? Because EPRA earnings are not a good reflection of our business model. It does not include a development business, it does not include privatization business. And it's therefore not adequately mirroring our business.

But that having said, if you are interested to better understand the deviation on top of what I've just said, let's take that offline. I think it's too technical for this call.

Marc Mozzi

Okay. Thank you.

On your Deutsche Wohnen share offer, for the RETT blocker: Is Apollo to benefit also from the fixed compensation scheme you're planning to give to investors which are not providing their share, or not?

Philip Grosse

If you're dominating a company, according to the German corporate law, you have to give shareholders two alternatives. That is either to exit Deutsche Wohnen, become a shareholder of Vonovia, and if they intend to remain a shareholder in Deutsche Wohnen, which, by the way, long term at least, once the appraisal proceedings have finished, typically, is not the preferred choice of people, then it's simply a dividend.

So, in other words, shareholders have to decide if they want to receive, as a Vonovia shareholder, the Vonovia dividend. And if they decide to maintain the shareholdership in Deutsche Wohnen, they will get an equivalent dividend on the Deutsche Wohnen side, which is being determined on the basis of the valuation approach, the valuation opinion that has been discussed in the EGM earlier this year.

Marc Mozzi

Brilliant. Thank you very much.

Operator

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

Paul May

Hi, guys! Thanks for taking my question. I'm just focusing on the cash taxes again. Apologies for that. But I find it interesting that you moved to a KPI that was pre-tax just at the point your cash taxes materially increased. I'm sure it's coincidental, but just looking at your FFO, which is not the key metric you consider, but that's down about 15ish, maybe 20% year-on-year, and likely given higher minorities costs, higher taxes of disposals it might be down again in 2025. So I just wondered, when do you expect that measure to start to increase? Because it's a measure that a lot of investors and analysts still look at. So it'd be great to get some color on that.

Also linked to that, I think two of the key drivers of your Adjusted EBITDA growth are your Recurring Sales and Development-to-Sell. Both of those businesses, if I'm correct, incur cash taxes. But if you could just confirm that, it would be great. So, again, is that something that you would consider including in your KPIs given what's driving your EBITDA?

Apologies, the last one: Can you provide some color on the additional 90 million of the non-recurring expenses? I think they went to about 240 million year-on-year. I just wondered if you could provide some additional color on that. That'd be great. - Thank you.

Philip Grosse

Paul, on the cash taxes. First, I can confirm that this number is highly dependent on our success in development business, but even more in the privatization business. In the privatization business, we are often privatizing condominiums which we are holding onto for long. So they have been depreciated from a tax perspective. And if you look at our deferred tax liabilities in relation to the gross asset value, you get a good estimate on how much that is. That is very much impacting that.

That having said, I think we provide that transparency, not in terms of our guidance, but in terms of our reporting, in that you explicitly see the cash taxes, which are assigned to our business, our core business, our four segments. So you will see the development. For the running year, don't expect big surprises. Cash taxes, based on our planning, will be inside 10% of EBITDA. So, no really massive change in terms of what we've seen in 2023 towards 2024.

On the one-off side, we have seen various impacts. I mean, we had a lot of transaction business, structuring the real estate transfer blocker in terms of the Apollo JVs and other transactional business. That was accounting for the one-off.

My clear expectation is that we will hopefully not see a repetition of the high one-offs in the running year, with our disposal program hopefully completed.

Paul May

I appreciate you take follow-ups. Just on the taxes: I appreciate it's dependent on the success in the Development-to-Sell and the privatization business. So that is a key part of your growth moving forward and your growth strategy to be successful in that part of the business. So it certainly seems counterintuitive or at odds with shareholders that you get rewarded for the success of that business, but they don't reap the full reward because they also incur the cash taxes.

So I just wondered, is that still an appropriate metric to look at before taxes, or should it be appropriate now that you look post taxes for your KPIs as well? Or is that not something that's considered in terms of changing that?

Philip Grosse

I think we have chosen EBT for a reason. And there's no intention to change KPIs. But again, Paul, to be very clear: The transparency you are rightfully asking for is transparency we are giving. I think, far more important than looking at accounting taxes, which also include deferred taxes, non-cash taxes to a large amount, is really to focus on cash taxes. And that is what we do on our Operating Free Cash Flow.

But given the fact that cash taxes are highly dependent on our disposal success, here, as I said, predominantly in our privatization business and that again here it also somewhat depends on which entity it is you are essentially privatizing condominiums from, whether there are some tax assets you can use, there are a number of complications, which make that difficult to guide.

Now, I think I've given you some good indication what to expect for this year. As I said, it's inside 10% of total EBITDA. That obviously is accounting for our best guess on successful execution of our disposal program, which is predominantly related in 2023 to land plots in the development business and to condominiums, the latter with a good increase. But I think this is as much transparency as I can give as of as of now.

Paul May

Perfect. Thank you very much.

Operator

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

Manuel Martin

Thank you for taking my questions. I have two questions. The first question is: Given the many things that are going on in Europe and in the world and in view that you're operating in three countries in Europe - it's Germany, Sweden and Austria - currently, where do you feel more comfortable in your investment and divestment decisions or where would you like to be active? Maybe you can give us some color on your regional strategy.

The second question is on the migration factor. We don't know what to expect from policy in terms of migration, whether a lot of migrants will leave Germany or not or whether more migrants will come. But could you describe a bit the sensitivity of your portfolio when it comes to effects of migration? If that's possible, of course.

These are the two questions, please.

Rolf Buch

I start with the migration factor. If you look on Germany and if you look where the immigrants which, you know, ee have illegal immigrants and legal immigrants. I think the agreement is clear that we need more legal immigrants. So I refer to the illegal immigrants first. The illegal immigrants at the moment are not in the housing sector. They are living in camps, for example, in the big two airports in Berlin. They are full of camps which are temporary housing, where these immigrants live.

And if they are approved to stay in Germany, then they can ask for housing allowance and then they show up in our portfolio.

I think the new government will be more rigid against these immigrants, but this will have no impact on our housing because just the camps will be smaller, hopefully.

If it comes to the legal immigrants, which we are also part in because, you know, we are recruiting electricians from Colombia, which we say are legal immigrants, this has to be ramped up massively because, otherwise, it is no chance that we will deliver the 500 billion spending because somebody has to produce the weapons, somebody has to produce the streets and the bridges and all these. So there will be a massive need of workers in this country. Otherwise, the program will fail. I think everybody is aware of that. And that's why we will see a legal framework for immigration here into Germany.

But this is, of course, a prognosis. I am not the politician who is negotiating at the moment, but I think this is highly shared. So, if this program will happen and if we get the approval process in time, if we don't solve the labor force, we will have an issue. And I can tell you from another job where I am in the Supervisory Board: Where this is not highly-paid labor, they are desperately looking for it. And if they cannot provide housing, they will not provide employment. So, the immigrants which will come now with this program, this is one element which we really cannot judge, but it will put much pressure on this imbalance of supply and demand, because what we see is: The immigrants will go to the big cities as well, the legal immigrants.

And the first question I forgot now. – To be very clear, we see in the moment that Sweden is, in all KPIs, a little bit better than the rest of the pack. That's why we are happy to have Sweden. From the stability of the cash flows, the three countries are very similar, 100% stable, 100% rock-solid because they are all regulated markets and they have all massive imbalance of supply and demand. So the problem of this imbalance in supply and demand is actually the same in all big European cities. And we are only in all these countries in the big cities.

Manuel Martin

Okay. Thank you.

Operator

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

Rene Hoffmann

Thank you, Moritz, and thanks everybody for dialing in and participating in this earnings call. Also, thank you for honoring our two-question request, at least for the most part.

We will be on the road quite a bit, so hopefully we will have a chance to connect in the days and weeks to come.

That concludes today's call. As always, stay safe, happy and healthy and speak soon. Bye-bye!

Operator

Ladies and gentlemen, the conference is now concluded and you may disconnect. Thank you for joining and have a pleasant day. Goodbye!