Transcript
H1 2026 Earnings Call
August 5, 2026

Rene Hoffmann

Thank you, Matilda, and welcome everybody to our H1 2026 Earnings Call. The speakers today are once again Luka, our CEO, and Philip, our CFO. They will briefly present the H1 highlights and main messages for today before we open up for Q&A, where both will be happy to take your questions.

By way of a heads-up, we will continue with our policy of two questions for analysts to keep things crisp.

With that, over to you, Luka.

Luka Mucic

Thank you, Rene.

Hello and welcome everybody! Let me start with the key messages for the first half of 2026.

Overall, H1 was a period of strong operational performance in our core business, progress on disposals, and proactive financial management. Our Rental segment once again demonstrated its robustness and reliable growth, and Value-add expanded significantly. The sales-related segments remain influenced by the current market environment and are expected to be more back-end-loaded this year.

We also made tangible progress on our financial management. Year-to-date, we refinanced around 4.4 billion euros on attractive terms. We essentially completed our 2026 financing activities and substantially trimmed down refinancing volumes for 2027 to just around 3 billion euros.

On valuation, the positive trajectory of asset values continued. We recorded 1.1% value growth excluding investments and 1.8% including investments.

We realized around 700 million euros of disposals in H1, including an agreement on the preferred redemption of our Vesteda minority stake of around 200 million euros. We also see a strong pipeline of further disposals towards our 2028 objectives.

With that, let me now take you through the main points for our first-half results on page 4.

In Rental, Adjusted EBITDA increased by 3.5% to around 1.27 billion euros, despite around 5,000 fewer units year-over-year.

Value-add continued its strong momentum with Adjusted EBITDA up 28% to more than 128 million euros. This was mainly driven again, like in Q1, by higher contributions from the craftsmen organization and the energy business.

Recurring Sales delivered Adjusted EBITDA of 39 million euros, which was marginally above the prior year despite substantially lower volumes. This confirms the continued attractiveness and embedded value of the assets that we sell in this segment.

Development was down year-over-year, with Adjusted EBITDA of 20 million euros. The year-over-year comparison should be seen in context, though, as Q1 2025 benefitted from a 53 million euros contribution from a large land sale. Putting that aside, both H1 and Q2 were higher than last year.

Adjusted EBITDA Total was around 1.46 billion euros. This is an increase of 2.4% on a reported basis and 6.4% when adjusted for last year's land sale.

Adjusted EBT per share was 1 euro and 13 cents. This is down 5.4% on a reported basis and basically flat when adjusted for the Q1 2025 land sale.

Adjusted Shareholder Earnings were 91 cents per share. Excluding the one-off effect from the land sale, the underlying performance here remained resilient with an adjusted year-over-year performance of minus 1.2% versus 7.7% on a reported basis.

EPRA NTA per share was unchanged at 46 euros and 22 cents. This includes the positive valuation result, but also the dividend payout in the second quarter. Our fair value stood at 81.8 billion euros at the end of June.

Operating Free Cash Flow was 607.5 million euros. The year-over-year development mainly reflects around 350 million euros lower working capital, predominantly reflecting the planned ramp-up of investments and the acquisition of a manage-to-green portfolio.

Finally, the debt KPIs. Net debt to EBITDA was 14 times, LTV was 46%, and ICR was 3.6 times. These numbers were obviously impacted by the dividend payment in the second quarter. When you compare them year-over-year, you can see our continued deleveraging progress, with an LTV improvement of 1.3 percentage points over H1 2025 and Net debt to EBITDA down 0.3 times.

With that, let me hand over to Philip for a closer look at the Segment results.

Philip Grosse

Thank you, Luka, and also a very warm welcome from my side! Let me start with the largest segment, Rental, on page 5.

As you can see, the Rental segment again delivered good EBITDA growth – and that despite a smaller portfolio. Rental revenue increased by 3.4% to almost 1.8 billion euros. Maintenance expenses were broadly stable, while operating expenses increased by 5.8%. That is reflecting the inflationary environment, but also a sales tax refund in H1 2025. If you were to exclude that, we would come to a decline of only 2.9%. Overall, Adjusted EBITDA Rental increased by 3.5% to almost 1.3 billion euros.

The operating KPIs once again underline the resilience of the business. As you can see, vacancy remained low, with an end-of-period vacancy rate of 2.3%. The collection rate for rental income and ancillary expenses was unchanged at almost 100%.

The organic rent growth of 3.6% in the first half looks a bit soft, but this is related to the timing of the Berlin *Mietspiegel*, which we are implementing in Q3 this year. You also have to recognize that in H1 of 2025 we implemented already the *Mietspiegel* in Dresden, large holding we have there. So the comparison is a bit distorted.

Looking at the components, the market-driven rent growth contribution from the *Mietspiegel* and local comparable rents was 2.1%, modernization contributed 1.2%, and new construction contributed 0.3%. Rental overall remains a highly predictable, resilient and cash-generative business for Vonovia.

Moving on to Value-add, that is on page 6.

As Luka said, the Value-add segment delivered another very strong performance in the first half. Revenue increased by 9.4% to 800 million euros. External revenues were up almost 14% – that was mainly driven by the energy business –, while internal revenues increased by 9%; that was supported by the higher investment volume that benefited our craftsmen organization.

If you look at the operating expenses, they increased by 6.5%, and that is clearly below the revenue growth. As a result, Adjusted EBITDA for the Value-add segment increased by 28% to more than 128 million euros.

This demonstrates the operating leverage we can realize in Value-add when volumes increase and our internal capabilities are utilized efficiently. It also confirms our view that Value-add is a very important differentiator for Vonovia compared with our broader peer universe.

The strategic cooperation agreements we signed in Q1 for the serial production of our heat pump cubes and for serial modernization support the continued ramp-up of this segment.

In H1 2026, the Value-add segment represented around 9% of Adjusted EBITDA Total. For 2028, our objective remains a contribution of 9 to 12%. So, this segment, as you can see, is already in the corridor we want to reach over the medium term, with additional upside from scaling our initiatives.

Moving to page 7, on Recurring Sales.

Here, Adjusted EBITDA was marginally higher year-over-year at around 39 million euros, even though units sold were only around 60% of the prior-year volume. In H1 2026 we sold roughly 690 units compared with 1,134 units in H1 in the previous year.

As we explained after Q1, last year was supported by a larger number of signings made at the end of 2024, for which actually closing fell into the beginning of 2025. As a result, the volume comparison is influenced by phasing effects.

What is more important is the quality of asset sales. Revenue from Recurring Sales was 157 million euros, and the fair-value step-up increased materially to 44%, compared with 29% in H1 2025. This very strong margin confirms that individual apartment sales continue to be a very attractive channel to crystallize the embedded value in our portfolio.

In addition, the closing of the second manage-to-green transaction in Q1 brings the total to around 900 units at an aggregate acquisition multiple of 19 times. This is an important component to selectively acquire unrefurbished assets where we can actually create value through modernization, operational improvements and the capabilities our platform contributes.

In H1, Recurring Sales contributed around 3% of Adjusted EBITDA Total. For 2026, we expect to deliver a moderate year-over-year growth. For 2028, our objective remains a contribution of 5 to 8%.

On Development – that is on page 8.

This segment continued to operate in a challenging market environment, but the margin, as you can see, remained healthy and in line with our expectations. Revenue from the disposal of development-to-sell properties was 162 million euros – that is down 23% year-over-year. Gross profit from development-to-sell was 30 million euros, resulting in a gross margin of just inside 19%.

Adjusted EBITDA Development was 20 million euros compared with around 57 million euros in H1 2025. As already mentioned by Luka, the prior-year comparison is distorted because H1 2025 included the disposal of a large land plot with an EBITDA contribution of around 53 million euros. If we leave that aside, we would have seen growth in this segment but, as I said, at low volumes.

For the full year 2026, we estimate the EBITDA contribution from Development to be at the prior-year level. More disposals, including selected land sales, are expected for the second half of the year.

Strategically, Development remains relevant. At the same time, the current market environment requires a very disciplined approach to capital allocation and project selection. It’s all about lowering construction costs to increase the addressable market.

While, in H1 2026, Development contributed only around 1% to Adjusted EBITDA Total, for 2028 we again remain at our objective of a contribution of 4 to 5%.

Now moving to leverage; that is on page 9.

Here, the key message is unchanged: our road to lower leverage is built on an actionable plan.

The backdrop is clear. The interest rate environment remains elevated. At the same time, we have the ambition to deliver more than mid-single-digit earnings growth in the medium term. These two considerations are the reason why we have taken a more ambitious stance towards deleveraging.

At the end of June, our debt KPIs were affected by the cash dividend payout in Q2. So these are timing effects and do not change the general direction of travel. If you compare year-over-year, all three debt KPIs improved. Our targets for year-end 2028 again remain unchanged: LTV of around 40%, net debt to EBITDA below 12 times, and an ICR comfortably above 3 times.

The path to get there, rests on several drivers obviously. First, rental growth is sufficient to cover increasing financing expenses. Second, the non-rental business drives near-term EBITDA growth. Third, organic deleveraging from rent growth translates into value growth in a stable yield environment. And fourth, the remainder is to be covered by disposals.

On debt management, we have intentionally taken a front-loaded approach. Year-to-date, we refinanced around 4.4 billion euros with an average duration of around eight years and an average euro coupon of around 3.2%. That, obviously, is including all cost for currency hedges outside Germany and Sweden. We are essentially done with our refinancing for this year, as you can see on page 35 in the Appendix. We have also conducted a partial buyback of six outstanding notes maturing in 2027 and 2028 and redeemed the 2026 maturities and we spent a total of 1.5 billion euros to do so.

The bottom line is: we are actively managing the balance sheet through various products, we are reducing refinancing risk, and we remain firmly committed to our leverage targets.

Now, on page 10, valuation.

Here, as you can see, asset values continued their upward trajectory in H1 2026. Like-for-like value growth excluding investments 1.1%, including investments 1.8%.

At the end of June, our fair value was around 82 billion euros. The in-place rent multiplier was around 23 times and the initial gross yield was 4.3%. For the German portfolio, the value per square meter including land was 2,400 euros. This compares to a median purchase price of around 3,600 euros for existing condominiums and around 5,700 euros for new constructions, so a discount of 30 or 60% respectively.

Looking at the transaction market, H1 2026 German residential institutional transaction volume was around 4 billion euros according to CBRE and Jones Lang LaSalle, with higher volumes actually in the second quarter.

While, as you know, the economic environment continues to impact the transaction market, experts consider a full-year 2026 transaction volume of 8 to 9 billion euros.

Overall, the valuation result confirms our assumption that organic rent growth should largely translate into organic value growth in a stable yield environment. It also supports the organic deleveraging component of our leverage plan.

With that, let me hand back to Luka for further information on our disposal activities.

Luka Mucic

Thank you very much, Philip.

In H1, as I said at the outset, we realized around 700 million euros of disposals. This is important evidence that our deleveraging plan is progressing.

The disposal program has three main components. First, non-core assets and non-strategic minority positions. In Germany, we have a remaining non-core portfolio of around 1.8 billion euros, including around 300 million euros each of nursing assets and commercial assets. In addition, we have reclassified a portfolio of around 800 million euros in Sweden as non-core. In H1, we realized around 330 million euros of non-core asset disposals and in addition, as I said at the beginning, an agreement on the preferred redemption of our Vesteda minority stake of around 200 million euros.

Second, Recurring Sales. We have a pool of around 42,000 units in Germany and Austria, where individual apartment sales are typically achieved at a premium to book value of more than 30%, as you could observe it also in H1. In H1, we closed around 160 million euros of Recurring Sales assets, as mentioned by Philip already.

Third, selected disposals from our core portfolio, including Sweden, as well as land sales. These disposals will help us to bridge the gap towards our 2028 deleveraging targets, after everything else has been accounted for.

We have a strong pipeline of additional disposals that we will continue to pursue on our way towards 2028.

The key principle in all of that has not changed: our decisions will be guided by what is the most sustainable way to delever, not solely by what is the fastest solution. We want to reduce leverage while preserving and enhancing the long-term value creation potential of the business.

Finally, as I said at the outset, we confirm our 2026 guidance on all earnings KPIs and all our 2028 objectives. Rental revenue is expected to be between 3.45 and 3.55 billion euros in 2026 and between 3.7 and 3.8 billion euros in 2028. Organic rent growth is expected to be around 4% in 2026 and around 5% in 2028. As you can see, we have lowered our organic rent growth expectation for 2026 by 20 basis points, predominantly due to a balanced approach on the implementation of the Berlin *Mietspiegel* considering the current political sensitivities. In this context, I am sure you have also all seen the very clear and constructive statement made by the government coalition against socialization. We welcome this decisive commitment and consider it a major step forward.

Investments are estimated at around 1.4 billion euros for 2026 and around 2 billion euros for 2028.

Adjusted EBITDA Total is expected to be between 2.95 and 3.05 billion euros in 2026 and between 3.2 and 3.5 billion euros in 2028.

For Adjusted EBT, we guide to 1.9 to 2 billion euros in 2026, and our 2028 objective remains a mid-single-digit CAGR in the period between 2024 and 2028.

Adjusted Shareholder Earnings are expected to be between 1.4 and 1.5 billion euros in 2026. The CAGR in Adjusted Shareholder Earnings toward 2028 will largely depend on disposal volumes, as well as the decision and economics around the Apollo call options.

Let me add that if the current market environment persists and continues to impact the sales-related segments as we have seen it in H1, the EBITDA and Adjusted EBT guidance for 2026 in the upper half looks ambitious. Adjusted Shareholder Earnings, on the other hand, in this scenario should then land well within the upper half of the guidance range, due to lower tax payments than initially anticipated because of lower sales volumes.

The broader message in conclusion is: We are confirming guidance, we are progressing on disposals, and we are taking the steps needed to reduce leverage while maintaining our earnings growth ambitions. The core Rental business remains a rock-solid foundation, Value-add continues to scale, and the non-rental businesses provide additional growth opportunities over the medium term.

With that, Rene, back to you for Q&A.

Rene Hoffmann

Thank you, Luka, thank you, Philip. – Matilda, can you open up the Q&A for us, please?

QUESTION AND ANSWER SESSION

Operator

We will now begin the question and answer session.

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

Bart Gysens

Hi, I have two questions. My first question is on the guidance and on the sales segments. You set out a very clear and detailed path through the amount of earnings that you could be generating by 2028. That's really helpful and that's really appreciated. But we're seeing, like you hinted right, that some of these non-rental EBITDA initiatives are going more slowly.

It takes some time to ramp up some of these, particularly the homebuilding activities, I guess. At what point does this jeopardize the 2028 objectives? And to what extent does that matter for leverage? That's my first question.

And then my second question is on the Berlin *Mietspiegel*. I appreciate it's a hugely sensitive topic. But can you help us understand the initiatives you're taking there on the Berlin *Mietspiegel*? Is it just a matter of delaying increasing the rent that you're allowed to push through? Or have you decided maybe not to push through the entire rental increase that you would be allowed to do under the new Berlin *Mietspiegel*, given the political backdrop? Thank you.

Luka Mucic

Thanks a lot, Bart. These are obviously two very relevant questions. So I am happy to address them. Let me start perhaps with the Berlin *Mietspiegel*. The Berlin *Mietspiegel* came out end of May with a 6.9% increase. What we have decided for now to implement in this round is a 4.8% increase for Berlin. In this regard, we have tried to balance social affordability, but obviously also a reasonable increase that allows us to show an aggregate, an appropriate growth level in Berlin for the rental fees as a whole, in the entire market.

The remaining potential is obviously not lost. So it will be implemented at a later stage. But for this round, we found this to be a good equilibrium and a good balance. So I hope that explains what we're doing there.

In terms of the guidance and the impact of non-rental activities, let me start with 2026 because there it's relatively straightforward. We just came away from an H1 in which, in aggregate, we have actually performed very much in line with our expectations, actually even slightly ahead, due to a very strong performance in our core business, in Rental and in Value-add, which is really growing very strongly.

From the outset, we did not have any big expectations for the first half for the Recurring Sales and the Development segments because, from a year-over-year comparison perspective, due to the spillover effects of late signings in 2024 that moved into the beginning of 2025 in Recurring Sales, plus the big land sale, we always knew that the first half would look light against that. Still, in both segments, we have also on the expected volumes closed less. Now, in the second half year, we definitely expect a pick-up because both of these businesses are seasonally skewed towards the later end.

In Recurring Sales, I would say, we see some encouraging signals of a pick-up in activity because reservations have been actually quite good in July, which is normally a quieter period. But obviously, Q4 in Recurring Sales is always the biggest quarter. Historically, over the course of the last four years, it has been hovering at just below 40% of the annual volume. So it's an important quarter. And that's obviously where some uncertainty is coming from: Are we going to see a change in trends? What's going to happen on the macro front? If you open up your email inbox and look through the portals, every day there's something new happening. So the world is volatile out there.

The only thing we are certain of, obviously, is that definitely H2 will see bigger volumes.

And then in Development we have, as Philip has alluded to, land sales plus a bigger global exit planned towards the end of the year. And that obviously introduces also some uncertainty. That's why I've mentioned in my introductory remarks that if we see a continued impact of the macro environment on buyer sentiment, these two segments might come in slightly lower than what we currently have in our plan. And that would then create a situation in which we might not be able to reach the upper half of the guidance range. If that was to happen, though, the mix would work favourably from a tax perspective, because only 40% of our taxes are related to our core segments and 60% to the sales segments, and therefore we would then come in with much lower taxes, which would make us comfortably land in the upper half of the guidance range.

For the future, honestly speaking, as these are trends that are really introduced by current macro uncertainty, I don't see a change in the underlying assumptions. Actually, what we are doing currently is to make sure that in Germany we have a bigger pool of condominiums available in order to be able to put them through the Recurring Sales process. As you have seen, we have around 22,000 in Germany right now and 20,000 in Austria. That's not the right mix. So we're preparing additional condos to make them available, and that should help us then, as the demand picks up in the market, to also move to our higher volumes that we have in our ambition.

On Development, nothing stops. We have 4,400 units currently under construction. We have a short-term pipeline of another 6,200 units, as we are showing it in our investor presentation. Those will obviously hit the market and, along with what we have available right now, depending on the macro environment easing up, will certainly continue to be available to help us propel those results to the numbers that we want to see as part of our 2028 objectives.

Bart Gysens

Thank you, Luka.

Operator

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

Thomas Rothäusler

Hi, good afternoon! Two questions from my side. The first is on rental growth. I am just wondering, to what extent is the recent dip in organic rent growth a temporary phenomenon or actually do you see any structural changes here?

And basically, do you stick to your optimistic 5% plus rent growth guidance in the long run?

The second one is on disposals, specifically the 330 million German non-core assets. I am just wondering if you could provide more colour, please, on the type of assets and pricing and who are the buyers.

Luka Mucic

Let me start quickly with the rental growth. Honestly speaking, on these smaller packages of non-core portfolios I am not sure. Philip, if you can add further colour.

On the rental growth, it's a simple story. These are really temporary effects that can always happen from one quarter to another or from one half year to another. As Philip has already alluded, in the specific case of our latest 3.6%, it's due to the combination of two effects. In 2024, we had the implementation of the last Berlin *Mietspiegel*. Remember that our like-for-like growth numbers are always rolling twelve months backward-looking. So the last increase went into the comparison base from twelve months ago, whereas right now we didn't have the *Mietspiegel* in the numbers yet, as it's implemented only with effect from Q3.

And second, at the beginning of last year, we also had the implementation of the Dresden *Mietspiegel*. With close to 40,000 units, it's our second-largest city market that we have. As a result of that, the compounding effect of having those two *Mietspiegels* in the comparison base, but not in the current base resulted in that transitory dip. If you look at Q3, you can hold us to account obviously, with Berlin then being implemented, the growth rates will go up again. That's why we come to the 4% expectation as well for the full year

And the 5% for 2028 remains absolutely unchanged. We know that we have a big full wave of catch-up in Germany to the market-comparable rent that we still can realize. Due to the caps that we have in our regulatory regime, that remains completely unchanged. As I said before, also the remaining part of the Berlin *Mietspiegel* that we have not yet implemented for this year obviously forms part of this potential.

Then perhaps on disposals.

Philip Grosse

The 330 million euros you're referring to, these are really smaller packages, a mix, residential, but also some commercial, predominantly office. It's typical institutional buyers we've seen. So the picture remains in the German transaction market that the vast majority of transactions are really smaller sizes.

Thomas Rothäusler

Okay. Thank you.

Operator

We now have a question from the line of Thomas Neuhold from Kepler Cheuvreux. – Please go ahead.

Thomas Neuhold

Good afternoon! Thank you for the presentation and taking my questions. My two questions would be, firstly, on the non-core portfolio. You added 0.8 billion in Sweden. Can you elaborate in more detail on the characteristics of this portfolio and why you added it to the non-core potential disposal pipeline? That's the first question.

Luka Mucic

You want to give us your second one as well?

Thomas Neuhold

Yes, sure. And the second one is on the Development segment. I was just wondering if you can give us a breakdown of the current pipeline in terms of: is it more geared to institutional investors or private investors? Considering the higher interest rate environment, might you change the mix going forward?

Luka Mucic

I can start with the non-core portfolio. On Development and the mix, perhaps, Philip, you can then take over.

The non-core portfolio is mainly relating to portfolios that are outside of the core of our urban centres. Our portfolios, as you know, are quite concentrated in Sweden, across Gothenburg, Stockholm and Malmö. But we also have portfolios outside, and those represent – pretty comparable, actually, to what we have in our

German non-core portfolio – the Swedish part of the non-core portfolio. We did this for the first time, but it also goes to display that also in Sweden we are open to opportunistic disposals in the ordinary course of business and we look to market those portfolios as we progress.

Philip Grosse

On your second question, Development, I want to mention first that we will continue with the sale of land plots in order to release some capital.

Second on the pipeline: If I look at Austria, that is predominantly a unit-by-unit sale of condominiums to private individuals. In Germany, it's biased towards also unit-by-unit sales. But you also have some global exits included to institutional buyers.

Thomas Neuhold

Okay. Thank you.

Operator

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

Valerie Jacob

Hi, good afternoon! I've got a couple of questions. My first one is a follow-up question on Bart's question about Berlin. I understand you're only going to take 4.8% this time because you want to be balanced and appropriate. But what I'm not sure about is: is it a write-off or do you think you can capture the rest at some point? And also, is it something that you think is specific to Berlin, or is it something that is likely to happen again if we get a very strong *Mietspiegel* elsewhere? That's my first question.

And my second question is about your Rental business because you made the comment that it's very strong, it's even stronger than expected. You downgraded the Rental guidance. Vacancy is up. So I was just wondering if you could follow up on that. Why do you think it is stronger than you thought earlier? Thank you.

Philip Grosse

Valerie, once again, to reiterate on the Berlin *Mietspiegel*: As Luka said, we on purpose took a very moderate approach in light of the election in Berlin and the talks back at the time still on socialisation, which is why we have not implemented the full potential of the rent index. That is by no means a write-down. This simply means that our rents increase a little less than they could have increased.

Now, this is not foregone. This is just a delayed implementation. So what we call the irrevocable rent increase, which is actually sitting on the apartment, has slightly increased by that measure. And we will recoup that probably some time next year.

Is there a spillover risk situation to other regions? The clear answer is no. We have a very heated up discussion in Berlin, but not in the same magnitude in any other region.

Now, on the second bit, overall on our Rental business. Look, here again to confirm, we have, as you know, the big, big discrepancy between in-place rents and market rents. 2.5 to 3% is what we achieve through the implementation of the rent index, the remainder coming from investments. And given that the latter is being scaled up, we are very, very comfortable with the 5% mark in 2028.

Vacancy, yes, is slightly up. But that is really investment-driven.

Luka Mucic

Let me just come back to the comment here. My comment was referring to what I consider our core business, which includes the Rental segment and the Value-add segment. So the overperformance against our initial expectations at the beginning of the year is driven by the combination and in particular by the very strong performance of the Value-add segment. I hope that helps to put it into perspective.

But Rental runs like a clockwork, as Philip has said. All of the operational metrics are fully in line with what we expect, and the small decrease of the rental growth due to the balanced implementation of the Berlin *Mietspiegel* is actually resulting only in a relatively minor absolute amount of rental income reduction.

Valerie Jacob

That's very clear. Thank you very much.

Operator

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

Andrew McCreath

Hi! Thank you for the presentation. Two from me, too, please. Firstly, on operating expenses in the Rental segment. You say this increased 5.8% in H1, which implies just north of 9% for Q2 against rental revenue growth of 2.8%, also for Q2. My question is: What is driving this higher OpEx? And should we expect the operations margin to hold at current levels? That is the first question.

And my second is just coming back to Development. Current volumes and notarizations are low. I appreciate the prior year carried a large land sale, but the full-year outlook has softened. Is this more a demand or a pricing problem? And then by extension, are you still confident in the development-to-sell ramp to 2028? Thank you.

Philip Grosse

Andrew, thanks for your questions. On the operating expenses: We actually had a tax refund in Q2 last year of 7.5 million euros. If you were to exclude that, because this is not kind of typical business, we would have seen an increase in operating expenses of slightly below 3%. And that, you can see, is actually under proportionate to the growth we've seen in EBITDA. So nothing at all to be concerned about.

Luka Mucic

Just to complete this: The operations margin actually, if you look at H1, was quite strong, 82%. That was an increase over last year's H1. So we are actually very happy with the trajectory. Plus, we see plenty of opportunities to further increase productivity, for example, through digitalization. We actually went through a complete open-checkbook approach, zero-based budgeting now with the entire organization in the last few weeks, and we have identified really good opportunities in total, adding up between 2026 and 2028 to around 50 million euros, increasingly driven by digitalization and AI as well. So, we have obviously lots of tools in the arsenal to choose from to further increase our operating efficiency.

On dev-to-sell.

Philip Grosse

No, I think on Recurring Sales was your second question. Here again, as I said, there were some spillover effects 2024 to 2025. If you adjust for that, the number of units is still down 20%, not 40%. But as Luka said, it's kind of a back-ended business typically where 37% on average over the past years have been actually captured in terms of earnings contribution in the last quarter. And we see small signs of a reversion in trend if I look at reservation rates in the past weeks, which make us comfortable that this segment is gaining pace.

Luka Mucic

Just to complete this, because I think you had a question on the numbers of notarizations in development-to-sell, to just make this round: Yes, you're absolutely right. We saw obviously soft demand in the first half year in the private investor business, as we had highlighted.

In the second half, this is historically picking up a bit, but the main contribution for the second half – and that's again a different seasonality than we have seen last year – is that we expect now a few land sales plus a global exit transaction, which, if it comes as expected, would then obviously change the picture for H2 significantly. Obviously, there is some risk in that. That's why we have alluded to that risk in our prepared remarks.

Andrew McCreath

Okay. That's very helpful. Thank you.

Operator

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

Neil Green

Hi there! Thank you for taking my questions – two, please.

Just following up a bit on the Recurring Sales piece. The step-up remains very strong. I think Austria was a notable contributor in the first quarter. I am just wondering: Has that trend continued into Q2 or have you seen demand kind of broaden out against some of your other markets, please?

I'll do one question at a time. So that's my first one, please.

Philip Grosse

On Recurring Sales. In Austria, it's an unchanged picture. Here we are continuously seeing very high gross margins, slightly above 70%. So, by that you can see that Germany still is very profitable, but in relative terms coming along with lower margins. Here we have seen close to 30% in H1.

Neil Green

Okay. Thank you.

Then perhaps just looking forward to Q3 and Q4. There have been a few mentions about kind of one-offs that skewed the prior comparable periods, the land sale, the tax refund, the phasing of the *Mietspiegels*. Is there anything we should be aware of over the coming quarters that might make the comparables look a bit different? I am just wondering if there's anything coming up you can think about in the third and fourth quarter, please.

Luka Mucic

Normally only things that will make it look better because, as we have highlighted, the seasonality is different this year, first of all because of the Development segment and the backend-loaded land sales that we expect to do in Q4 there versus Q1. That's actually the biggest optical effect that I can think of.

Neil Green

Okay. Thank you very much.

Operator

We now have a question from the line of Véronique Meertens from Van Lanschot Kempen. – Please go ahead.

Véronique Meertens

Hey, good afternoon all! Thank you for taking my questions. First on disposals. When you announced the larger disposal target for 2028, I believe you mentioned that you didn't expect a big impact on your 2028 targets on the back of selling at yields close to your marginal cost of debt. But when I now look at the non-core Swedish part, you look at a gross yield of 7.6%. Obviously, this is gross. And in Sweden net is a different number. But won't that still have an impact on your 2028 guidance if you sell such a significant part of non-core assets? That's my first question.

Luka Mucic

Can you give us the second one so that we can distribute?

Véronique Meertens

Yes, of course.

My second question is: You mentioned the relationship between your Recurring Sales and Development, if H2 doesn't perform as well, that you might not reach the upper end of your Adjusted EBT target, but you would reach the Adjusted Shareholder Earnings target at the upper end. That's kind of implying a negative correlation. Does that then also imply that these two business lines are actually dilutive on the Adjusted Shareholder Earnings, or how should we interpret this?

Luka Mucic

On the second question: no, they are not, obviously. But in that scenario, the mix would obviously be different than originally anticipated.

As I tried to explain, when you take a look at our taxes, we have been guiding as part of our guidance for 280 to 300 million euros in taxes. H1 was only 89 million, and the reason that it declined over last year was actually the softer progress on those two segments. Of course, they are still profitable, but they generate a higher share of taxes.

60% of our total taxes are related to the sales segment, only 40% to the core business of Rental and Value-add. And therefore, the more the mix is skewed towards our core business, the better it is then from a relative tax exposure perspective. Therefore, the impact of a shortfall in the Recurring Sales or Development segment against expectations and an at the same time better performance of our core segments – as I explained, in H1 they have actually been doing slightly better than we originally planned for – is then obviously a better contribution to Adjusted Shareholder Earnings. That does not mean that this is not a valuable contributor to ASE on an absolute level.

On the disposals.

Philip Grosse

On the disposals, keep in mind that we have all along accounted for a disposal of our non-core portfolio, previously at 2 billion euros. So that was forming part of our long-term guidance. You are right: We now put on top some 800 million euros, which come at somewhat higher gross yields. But if you make the math, it’s not significantly changing the picture if you assume that this is not sold in one go, but over time. So it’s not changing the view we take on the outlook we have given for 2028.

Véronique Meertens

Okay. Thank you. Sorry, a follow-up on that first question because I still don’t fully understand. If they were profitable, which means that after taxes there are still earnings, then the more your Recurring Sales and Development businesses perform, the higher the Adjusted Shareholder Earnings should be, right? If there’s actually something left after taxes.

Luka Mucic

The point that I tried to make is the way how our core business is performing. If it continues to perform like we expect it will in the second half year and you would add to that a good performance in Recurring Sales and in Development in line with the expectation, unaffected by the macro environment, then we would actually have a very good shot at landing in very attractive territory. I think the two statements don't contradict each other. It's all a matter of the relative positioning and where we see our businesses landing.

Obviously, in the past there were scenarios where Vonovia has landed outside of its guidance territory and has realized upside; that's not something that we're planning for in light of the performance of the two sales segments. That's perhaps what helps to bridge the conundrum.

Véronique Meertens

Okay. So, in other words, if H2 is very strong and you reach more the upper end of the Adjusted EBT guidance, then you would actually beat the Adjusted Shareholder Earnings guidance. Is that how I should interpret it?

Luka Mucic

I think we're saying the same things, but we said as well that in this year this is not likely to happen, given the macro environment.

Véronique Meertens

Okay. Thank you.

Operator

We now have a question from the line of Paul May from Barclays. – Please go ahead.

Paul May

Hi guys! Thanks for taking questions. Two for me, as for everyone else. I just wondered, what makes you confident in reporting an increase in your gross multiple or lower gross yield in both Germany and Austria over the quarter? Just considering, obviously, the move in rates, 20 to 40 basis points on swaps and bunds.

I'm just trying to reconcile that move in the yield or the multiple with the overall valuation increase. If you take just the move in the multiple, it's about a 0.5 to 1% move in the valuation. The rental growth was 3.6. So combined, 4/4.5. And yet you only reported a 1.1. What piece am I missing as to the minus 300 basis points versus the metrics that you've shown in terms of the valuation? That would be great.

Then on the second one: Obviously, you're seeing increased CapEx, both maintenance and investment, and materially ahead of the increased Value-Add EBITDA.

With the spend that you're making, there's effectively a one-off benefit in the Value-add, and then next year you have to make the same or more spending in order to increase the Value-add business. Just obviously referencing the guidance as well as the increased investments for the increased Value-add would be great. Thank you.

Philip Grosse

Paul, on your first question, on valuation. It's always important to note that this is not some fancy Excel modelling we are making, but that we are actually relying on transactional evidence.

The transactional evidence – you can see that in the publications which are being put out by CBRE, Jones Lang LaSalle, Savills, you name it – are showing stabilized yields, despite higher financing costs. Stabilizing yields means – what we are saying all along – that rental growth is essentially translating itself into value growth.

So your assumption simply is not how the valuation exercise works. We are relying on what we see in the market. We are not relying on modelling exercises.

On your second point, CapEx and how it benefits our craftsmen organization. Look, you have various ingredients. You have kind of a flattish development in maintenance, charged through the P&L or capitalized. Here we have a fairly high insourcing ratio, which allows us to essentially reduce inflationary pressure. And that is something you will continue to see in the coming years.

What you have on top is energetic refurbishment. That is something we are ramping up. That is, again, something which is higher yielding than our implied gross yield, if you look at our stock price, because we are talking about 6, 7% yield on cost. We are talking about an IRR of 10%. That is going to increase. And that again will benefit our craftsmen organization.

So I expect that trend to continue, which is twofold: one based on volume, but second also based on more productivity we are seeing.

Paul May

Sorry, just to come back, if I can, on the first one. You mentioned about the yields being flattish. I think CBRE moved yields up in July 2026. I appreciate you could argue that's after the valuation date. Also your yield compressed, did not stay stable. And if I'm right in understanding, a lot of the transaction volume that's been happening has been happening at higher yields. If you look at your non-core as well, that's all at higher yields than in the core portfolio.

So, flat yields in the transactions would imply a higher yield than your investment portfolio. And yet your yield compressed. That's a bit I'm struggling to understand; there seem to be slightly diverging movements.

Apologies. If you want to provide some evidence on it, then that'd be great offline.

Philip Grosse

Yes, we can take that offline. But, again, Paul: We have the luxury of being in fairly liquid markets because we are in metropolitan areas and we see a number of transactions happening. That is not only for higher yielding stuff, that is also lower yielding stuff, which is simply attracting a different investor universe, like family offices who take a different stance on how they look at businesses. They are less relying on cash yields, they're more relying on stable value outlook.

But I am happy to take that offline and talk you a bit more in detail through the mechanics of how that valuation works.

Paul May

Yes, that would be perfect. Thank you.

Operator

The next question comes from the line of Neeraj Kumar from Barclays. – Please go ahead.

Neeraj Kumar

Afternoon, everyone! Two questions on my side. So the first one: Can you help us understand your thought process around hybrid instruments? If you see them as attractive instruments, especially in light of your ambition to exercise call options on Apollo stakes and deleverage.

And my second question is with regards to your Vesteda stake. Can you please provide some colour on what is the discount to NAV at which you are expecting your stake to be redeemed?

Philip Grosse

The first question I'm happy to take. I'm not at all a friend of hybrids. For me, a hybrid is a debt product. And if I consider that as a debt product, it comes along with a high coupon. If at all, a hybrid might be necessary to manage rating. That is absolutely not the case, because we are in very, very safe territory for our BBB+ rating. Actually, if we continue with our deleveraging plan, there's actually risk to the upside, if at all.

Vesteda.

Luka Mucic

I can quickly cover this. We actually came away with a very positive agreement with our fellow shareholders at Vesteda. As I explained, we are now in the preferred redemption role. So that means Vesteda will prioritize our redemption. We have agreed on a modest discount of around 8% actually to accelerate this. I think that's a very good outcome and should allow us at the beginning of next year to already redeem that stake.

Neeraj Kumar

Got it. Thank you.

Operator

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

Jochen Schmitt

Thank you. Good afternoon! I have two quick questions, please, both on slide 24, on the Development business. Firstly, on the development-to-hold pipeline and the progress in construction. How many apartments may be expected to be finished next year?

And the second question, the same topic: The pipeline earmarked as development-to-hold has decreased over the quarter when I compare the quarterly presentation materials. Could you give any explanation for that? Thank you.

Philip Grosse

I think we need to check that. Development-to-hold: Let me put it differently. We have an annual CapEx in Germany and Austria of around 200, 250 million euros in development-to-hold. If you account including the value of the land plot of 3,500 to 4,000 euros per square meter for 65, 70 square meter on average, that gives you roughly the number we should complete on an annual basis.

On the pipeline, there has been no change to my knowledge.

Luka Mucic

Are you referring to the short-term pipeline?

Jochen Schmitt

It is on slide 24 of the presentation.

Luka Mucic

In the right bottom corner? Is it that what you’re referring to?

Jochen Schmitt

On the left-hand side actually.

Philip Grosse

The 65k units we have disclosed for quite some time now. There’s no change.

Jochen Schmitt

No, the 21% development-to-hold, including floor additions. But maybe there has been a switch to the short-term pipeline. We can also follow up on that offline if you want.

Luka Mucic

Yes, we can. Because that's normally what you need to take into account. We can take this offline. And it's obviously a rolling concept. So every quarter we push another element from the mid-term to the short-term pipeline, to the work under construction, and that may be part of the answer. But let's take it offline and check with you.

Jochen Schmitt

Okay. Thank you very much.

Operator

We now have a question from the line of Marc Mozzi from Bank of America. – Please go ahead.

Marc Mozzi

Thank you very much. Good afternoon everyone! Just one question for me, which is a follow-up on Bart's and Valérie's question regarding Berlin rental growth. To what extent is your outlook influenced by the regulatory framework that caps rent increase at 15% over a three-year period? Because if I do the basic math, the limit we find on an annual basis is 4.8% precisely. So I just wanted to know if it's just a consequence of regulation, or if there is only a political angle behind that number. If that is the case, how did you come to that 4.8% if you have any rationale behind it? Thank you.

Philip Grosse

First of all, Marc, when we refer to the non-investment-driven market rent growth of 2.5 to 3%, that is precisely because of the rent cap legislation which in our markets do only allow us to increase rents by 15% over a three-year time horizon. And given that approximately 50% of our holdings are eligible to increases for the rent index, the other ones, because of fluctuation, because of energetic modernization, are already above what the *Mietspiegel* suggests.

You are at 5% per annum, divided by two, so 2.5% to 3%. And this is how we come up with that number.

The headline number for Berlin *Mietspiegel*: By all means, you cannot apply that to our entire holding in Berlin. You can only apply that to roughly 50% of our holding in Berlin.

Luka Mucic

Correct. The difference to the 6.9 is essentially driven by certain affordability-related adjustments. For example, we have simulated that an average tenant of us in Berlin who lives in an average apartment of 60 square meters should pay typically around 250 euros max more per year. And that's exactly what we have achieved. Then it happens that this results in the 4.8 on an aggregate basis.

Marc Mozzi

Okay. Thank you very much.

Operator

The next question comes from the line of Kai Klose from Berenberg. – Please go ahead.

Kai Klose

A very good afternoon! I have got two quick questions on the Adjusted EBT calculation, regarding the change in the straight-line depreciation and intragroup profit/losses. It is 13% in the depreciation and a 59% increase in intragroup losses. Just to be curious, what's behind that? Thank you.

Philip Grosse

What happens from EBITDA to EBT is that we have some consolidation effect and that almost exclusively relates to our craftsmen organization, because if we do work for maintenance, this is consolidated out towards the EBT.

Kai Klose

And this explains the depreciation or the intragroup losses?

Philip Grosse

The intragroup profits.

Kai Klose

And the depreciation change?

Philip Grosse

The depreciation is on photovoltaic.

Kai Klose

Okay. Thank you.

Philip Grosse

Let me add: We've had a lot of discussions on our earnings KPIs. We have introduced the Adjusted Shareholder Earnings. Just by way of reference, this is nothing else but our formerly reported Group FFO, with a proper name now, but deducting for the depreciation for our photovoltaic business, which we need to earn over time. So I think it's the more honest way to look at things.

Kai Klose

Many thanks.

Operator

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

Rene Hoffmann

Thank you, Matilda, and thanks everyone for dialling in and joining this call. As always, if you have any follow-ups, you know where to find me and the team. Do feel free to ask.

Luka, Philip and I will be on the road quite a bit, especially in September and October, and we're looking forward to connecting with you at various opportunities.

Luka Mucic

I just wanted to say, Rene: First, I'm on vacation before I'm on the road. I need that vacation.

Rene Hoffmann

Which is fine. This is why I said September, October. We wish everybody a summer break, well deserved.

That does conclude today's call. As always, stay safe, happy and healthy and do have a great summer. We'll speak soon. Bye-bye!

Luka Mucic

Thank you everyone. Bye-bye!

recipient. It is up to the recipient of this transcript to make its own assessment of the validity of any forward-looking statements and assumptions and no liability is accepted by Vonovia in respect of the achievement of such forward-looking statements and assumptions.

Vonovia accepts no liability whatsoever to the extent permitted by applicable law for any direct, indirect or consequential loss or penalty arising from any use of this transcript, its contents or preparation or otherwise in connection with it. No representation or warranty (whether express or implied) is given in respect of any information in this transcript or that this transcript is suitable for the recipient's purposes. The delivery of this transcript does not imply that the information herein is correct as at any time subsequent to the date hereof.

Vonovia has no obligation whatsoever to update or revise any of the information, forward-looking statements or the conclusions contained herein or to reflect new events or circumstances or to correct any inaccuracies which may become apparent subsequent to the date hereof. This transcript does not, and is not intended to, constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of an offer to purchase, subscribe for or otherwise acquire, any securities of the Company nor shall it or any part of it form the basis of or be relied upon in connection with or act as any inducement to enter into any contract or commitment or investment decision whatsoever.