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Statement in Response to Last Week's Housing Summit

Bochum, September 24, 2018 – In the context of the housing shortage in urban areas across Germany, a "Housing Summit", sponsored by Chancellor Angela Merkel, took place in Berlin on September 21, 2018.

The summit agreed on general plans and ideas with regards to these three topics:

1. Provide impetus for residential construction
2. Ensure that housing remains affordable
3. Reduce construction costs and increase overall construction capacities

We welcome certain elements of the summit agreement, such as the **commitment to continue to support energy efficient investments and the refurbishment of apartments to enable senior citizens to live in their home for longer**; or the **intention to review government regulation with a view towards better supporting modular construction**. However, as the commitments lack specifics and detail at this point, we are only cautiously optimistic as to the actual implementation and the positive impact this might have for us.

We consider other elements of the agreement to have very limited impact; the "Baukindergeld" (help-to-buy scheme), for example, is likely to set the wrong incentives as the subsidy proves much more meaningful in rural areas, where limited demand meets ample supply, and substantially less powerful in urban areas where an increasing part of the population wants to live.

The elements of the summit's agreement that are aimed at adding additional rental regulation, especially the extension of the Mietspiegel review period from currently four to then six years, clearly fail to tackle the core problem of urban housing markets: a severe shortfall of supply vs. demand. We are convinced that

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more regulation will only exacerbate this problem as it discourages new construction instead of providing the much needed impetus to build more.

Given the overall goal of the Federal Government to add 1.5 million additional housing units, we remain skeptical whether the housing summit agreements will provide the right incentives.

One agreement from the summit appears to be of particular relevance and has been subject of many previous debates also in the capital markets: **the extension of the Mietspiegel review period from currently four to then six years**.

In order to add some color for capital market participants as to possible consequences of this decision, we have decided to provide the following context:

Expected impact on rent growth

The concrete impact is impossible to determine at this point, because no specifics beyond the intention to extend the Mietspiegel review period from four to six years seem to have been determined or agreed on. It will take real market evidence to determine what the actual impact is going to be. As long as demand in urban areas is substantially higher than supply the effect of additional rental regulation cannot be reliably estimated.

What is more, the timing of the required legislative process to turn the agreement into law is unknown at this point. And when it does become law, it remains to be seen how and when individual municipalities would take this into account. For example, some may apply the extended review period to the next regular Mietspiegel update while others might introduce a new Mietspiegel ahead of schedule and break with the regular two-year cycle.

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Whereas the quantitative impact of an extension of the Mietspiegel review period cannot be calculated, the qualitative effects would probably be twofold: one would likely be a subdued rental growth for sitting tenants, as new Mietspiegel might come out with a lower growth rate than under the current regulation; the other would be a burden on re-letting rents in markets that have a 10% rental cap ("Mietpreisbremse"), because the basis for calculating the 10% threshold would be lower, and this, in turn, would feed back into the data set for preparing the next Mietspiegel.

The extension of the Mietspiegel review period is clearly not expected to stop rent growth. However, it is likely to dampen rent growth primarily in markets that have seen a dynamic rental development in recent years because two more years of lower growth would be included in the calculation. And the more dynamic the rent growth development in a certain market has been recently, the more this market would be impacted. Berlin, for example, with its strong rent growth momentum, is likely to be impacted more severely than stable markets such as Dortmund or Kiel.

As for Vonovia, extending the Mietspiegel review period from four to six years would affect the "market driven rent growth" (i.e. 160 basis points of our 4.2% organic rent growth in 2017, for example). While the actual magnitude cannot be determined at this point a rather pessimistic assumption of 10%, all else equal, would translate into 16 basis points lower rent growth overall.

Impact on valuation

We expect no impact on values for 2018. And even beyond 2018 it is entirely unclear if, when and how different markets will be affected. Only when there is sufficient hard market evidence are the rental cash flows in the valuation model adjusted. But even then the adjustment of the rental cash flows alone would not suffice to also adjust the values. For as long as prices paid in the market are not affected, the discount rate would need to be

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adjusted accordingly to counter the effect from lower rental cash flows.

So the mere passing of a law would not change the values for as long as there is no material market evidence that the actual transaction prices are impacted. Values are not driven by the rental cash flows in the valuation model alone, as it is usually not one single factor that determines the values. Individual elements tend to be overshadowed by other drivers, such as supply/demand imbalance, (lack of) alternative investments etc.

This was seen, for example, in the context of both the 10% re-letting rent cap ("Mietpreisbremse") as well as the increase in real estate transfer tax of individual Federal States. While both had a negative impact on the cash flows in the model, neither translated into a value decline because the transaction evidence showed that prices continued to go up, largely driven by the unbroken supply/demand imbalance.

At the end of the day the valuation must reflect the fair market value, and the fair market value does not automatically change because of one factor as long as other drivers support continued value growth.

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About Vonovia

Vonovia SE is Europe's leading housing company. Vonovia currently owns more than 400,000 residential units in all attractive cities and regions in Germany, Austria and Sweden. Its portfolio is worth approximately EUR 41.7 billion. As a modern service company, Vonovia focuses on customer orientation and tenant satisfaction. Offering tenants affordable, attractive and livable homes is a prerequisite for the company's successful development. Accordingly, Vonovia makes long-term investments in the maintenance, modernization and senior-friendly conversion of its properties. The company is also creating more and more new apartments by realizing infill developments and adding to existing buildings.
The company, which is based in Bochum, has been listed on the stock exchange since 2013 and on the DAX 30 since September 2015. Vonovia SE is also listed on the international indices STOXX Europe 600, MSCI Germany, GPR 250 and EPRA/NAREIT Europe. Vonovia has a workforce of approximately 9,700 employees.

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