Transcription
FY 2018 Results Analyst & Investor Call
March 7, 2019

Operator

Dear ladies and gentlemen, welcome to the full year 2018 results analyst and investor call of Vonovia SE. At our customers request this conference will be recorded. As a reminder, all participants will be in listen only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the conference please press the star key followed by zero on your telephone for operator assistance. May I now hand you over to Rene who will lead you through this conference. Please go ahead.

Rene Hoffmann

Thank you and welcome everybody to our earnings call for the full year 2018 results. Your hosts today are CEO, Rolf Buch and CFO, Helene von Roeder. I assume you have all had a chance to download the presentation. Just to be sure, the earnings call presentation for today's call is available on our IR website in the section "latest publications". The management will lead through this results presentation on the basis of the agenda on page two and will then be happy to take your questions. So without any further delay, let us kick it off and hand you over to Rolf Buch.

Rolf Buch

Thank you very much Rene and also from my side, the best welcome to all of you. So let me start with page three and the financial highlights of 2018. I want to begin by saying that this is the sixth time that we are reporting annual results as a listed company. And as was the case in every year before we have managed to improve all relevant KPIs. I think this clearly shows the robust business model and the sustainability of our performance.

To make it short, it is a boring business. But more specifically in the terms of 2018. Operation organic rental growth is up 4.4% which is the highest growth we ever have seen since IPO. EBITDA Rental is up by 14.5%, EBITDA Value-add is up by 18.7%. FFO1 is up by 15.8%, FFO1 per share is at €2.06 and the dividend per share that will be proposed to the AGM in May is €1.44. Adjusted NAV per share is €44.90 at the end of the year, and l-f-l portfolio value growth is 13%, 2.2% of it comes from performance, 3.1% comes from investments and the remaining 7.7% is yield compression.

Capital structure, and Helene will show you in much more detail, LTV is 42.8% so in the middle of our corridor and then Net debt to EBITDA multiple is 11.4. Based on these very positive results and based on the first indications of the current fiscal year, we feel we are well positioned to continue our upward trajectory and we are confident in our ability to deliver sustainable growth in 2019 and the years beyond.

Page four, as you know, is one of my most favorite slides because it is simple but it has a strong message. This is a year-on-year view on a very comparable basis. This means it excludes completely Buwog and Victoria Park. So this is Vonovia old stand-alone. The average portfolio basis in 2018 was about 3% smaller than in 2017, which is, of course, mostly due to non-core sales.

Keep in mind, this will be the last year of significant non-core sales. On the back of this smaller portfolio, we still grew rental income by more than €12 million because our rental growth more than compensated the top line reduction. Then you see 12.4 million more - top line - was transferred to 48.9 million more EBITDA and an impressively 89.9 million FFO. This means that we are not only able to transfer the top line fully into EBITDA and FFO but even to over-compensate inflation and in the case that the cost reduction is bigger than the inflation or pressure which actually leads to higher EBITDA improvement and higher FFO improvement.

So please keep in mind, I like this slide very much. It is an extreme figure, do not assume that this will happen every year at the same magnitude but I think it shows very dramatically that we are still able to gain scale effects and efficiency improvements. Of course, these are mainly the efficiency improvements coming from the Convert business. The effects coming from Buwog you will see during the year 2019. And with this I hand over to Helene.

Helene von Roeder

Hello from my side. Looking at rent growth. Organic rent growth 2018 was 4.4%, of which 3.1% were driven by our investments and new constructions. We have discussed this before with many of you. Given the increased complexity of our investment program which no longer includes only plain vanilla apartment and building modernizations but an increasing share of more longer term projects, such as neighborhood development, the old logic of taking 7% of the investment amount shown on the bottom right half of this page and adding it to the rent of that year no longer applies.

The numbers you see in the bar chart are the Euros we invested in the respective year. That is not to be confused with the amount of projects completed in a year. Completed means all the work has been finished and the rent growth has been implemented. While we are in a ramp-up phase, the investment amount that leads to rent growth that year is bound to be smaller than the overall amount invested. So this is a timing issue, the 7% yield does come through in the end.

Page 28 in the appendix has more color on this subject, and we are very happy to walk you through that logic offline. Looking at it from an IRR perspective, which appears to be the better metric for longer-term projects, we target an IRR between 9-10% for all our investment programs across the spread.

Looking at EBITDA Operations, you will remember that H1 and nine months results for our KPIs did not include Buwog because we had not broken down the IFRS contribution from Buwog to our management KPIs. So this is the first slide and first time that you see the impact of Buwog and Victoria Park on our EBITDA and FFO. In 2018, EBITDA Rental was €1.315 billion, up 14.5%, and EBITDA Value-add was €121 million, up 18.7%. Adjusted for consolidation effects, EBITDA Operations was almost 1.4 billion, more than 14% higher than in 2017.

Including the acquisitions of Buwog and Victoria Park, our EBITDA Operations margin was up 50 basis points year-on-year. You will not be surprised to hear that both Buwog and Victoria Park operate at substantially lower EBITDA margins, so if you look at Vonovia standalone without the two acquisitions, the EBITDA Operations margin increased by 240 basis points to 75.5%.

Obviously, as we look ahead, we expect EBITDA margin expansion for Buwog and Victoria Park as well, which should contribute to growing EBITDAs going forward.

On slide seven, you see our traditional FFO bridge, including the breakout for the perpetual hybrid investors and minorities because I know that some of you adjust our reported numbers for these two line items.

So in absolute numbers FFO is up by 145 million or 15.8% year-on-year, which equals 8.4% per share if you look at it with end-of-period shares and 9.1% with weighted average shares.

As Rolf gave you the Vonovia-stand-alone numbers on page four, you can also see how much Buwog and Victoria Park contributed in 2018.

With that, back to Rolf.

Rolf Buch

Thank you Helene, coming to our Value-add chart on page eight. As we have said before, value-add is a long-term business, in which we do see steady progress, but things do not change materially from one quarter to the next. It is also a boring business.

In 2018 we generated an EBITDA of 121.2 million, which is in line with what we had guided.

For 2019 and beyond we stick with what we have indicated before, and that is you most probably want to add roughly 20 million per year.

On page nine, we are showing you our sales results. We sold a total of 15,102 apartments in 2018, so a higher volume yet again compared to 2017. It will be probably forever the highest volume we sold because you know we are nearly finished with our disposable program for non-core. But this also shows that we have left the best pieces as last because we have a record step-up of 23% above the fair market value, underlining, of course, ongoing positive fundamentals in the market. As I have said, this part of our sales business is now basically completed.

In addition, we have sold more than 2,800 individual apartments through our recurring sales business which we will of course continue. The fair value step-up was very strong at more than 35%.

Helene von Roeder

So with that we get to the message on NAV. The Adjusted NAV increased by 24.6% in 2018 in absolute terms and by 16.7% on a per share basis.

We continue to believe that NAV is not the right leading metric to value Vonovia for the reasons we laid out on the right side of this page, but are of course happy that this number continues to move in the right direction.

As you know from us, we do not guide the NAV because we cannot estimate the amount of yield compression on a look-forward basis. But looking at the market in which we operate and looking at our performance and the investments we make, we see no reason why the NAV should not continue on its upward trajectory.

So basically, we see in-line organic NAV growth, i.e. based on our own performance and investments. We do not guide NAV growth based on yield compressions which does not mean there won't be any. Based on what we see currently in the market, we however do not see any material changes to market performance going forward.

Page eleven shows the valuation result. Values are up by more than 30% in absolute terms since year-end 2017. On a like-for-like basis, values grew by 13% of which 2.2% comes from performance, 3.1% from investments and 7.7% as a result of yield compression.

We have also included on this page the relevant valuation KPIs and the breakdown of the value drivers but I think that is pretty straight forward and I do not need to go through them in greater detail.

Page twelve shows the value growth of our German portfolio across our different regional markets.

The numbers on the map indicate the total value uplift, the right hand column in the table shows only the impact from yield compression.

All in all we are glad to see that value growth was broadly based and largely homogenous across our portfolio and that it is clearly supportive of our portfolio management strategy and focus on Germany's growth regions.

On page 13, you will see the results of our impairment test which we do once a year.

We do the impairment test on the goodwill on an annual basis and this year's test resulted in an impairment in some of our regions, as the value growth since the acquisition basically exceeded the allocated goodwill. So this impairment does not come as a surprise to us and to the extent that yield compression continues, for which we do see strong indications, we will likely see more impairments in 2019.

Of course, this only affects the EPRA NAV and has no impact on the adjusted NAV.

Rolf Buch

Thank you Helene, coming now to the construction activities. We completed around 670 apartments to hold in 2018, of which a bit more than 400 came from the Vonovia pipeline and the remainder from Buwog development business. Keep in mind, originally the Buwog development business was designed more or less as develop-to-sell and we are stretching now step-by-step part of the development business to develop-to-hold.

For 2019 we expect to complete between 1,500 and 2,000 apartments to hold in total, both from Vonovia’s space creation program and from Buwog’s development business to hold.

In terms of longer term potential, we see around 26,000 apartments to hold and 6,700 apartments to sell based on the opportunities we have in our current portfolio. Also keep in mind that Buwog is constantly buying land and will develop this for further development. So this is not a fixed amount but we have decided to disclose a number from time to time so that you have a feeling of the pipeline.

Helene von Roeder

The next page shows the LTV which as of December 31st was at 42.8%, so a bit down from Q3 and well in the middle of our target corridor.

Now different market participants have different LTV comfort zones, but we would continue to argue that even after the yield compression we have seen, the in-place value of our portfolio remains conservative and we really do not see a scenario in which these values would come under material pressure. So we believe our target range of 40-45% gives investors enough of a security buffer while at the same time not putting an undue burden on our equity yields.

I know that many of you also look at debt to EBITDA in addition to LTV, so do we. When you take our Total EBITDA and put it in relation to the net debt we are at 11.4 times, which to us is a sensible level if you look at the stability of our cash flows.

A bit more color on the capital structure and debt instruments.

Interest cover ratio is 4.7 times and thus very healthy above the minimum levels required in some of our debt instruments.

Almost all debt is fixed or hedged so any interest rate increase would affect our numbers only slowly as no more than 11% of the total debt becomes due in any given year because of our very smooth maturity profile. And thanks to the robust top line growth there is plenty of interest rate increases we can absorb before we start feeling the pain of our earnings and dividend capacity.

Rolf Buch

So with this we are also coming again to a boring slide which is page 17 and it is about the European Activities Update. I think we have introduced this slide in the nine months presentation and we now just slightly updated it.

What happened since then? First of all, Victoria Park has announced the acquisition of almost 2,340 apartments in Stockholm and Gothenburg. Of course, for Vonovia this is not a big figure but for a company which owns only 15,000 it is a big step forward and the management team of Victoria Park and the management team of Vonovia are very happy that this is happening. Secondly, we squeezed out the Buwog minorities for a total volume of around €330 million and, as a reminder, we still have the ability to exercise the call options for 12.4% in Victoria Park.

Other than that, our European expansion activities are more or less of a longer-term nature. As we have said in the past, we have laid our eyes on certain markets and we are confident that we will be able to prove over time that our scalable business model would work also outside of Germany as well. First step to prove it, it will be probably Sweden.

None of these non-German activities is likely to change the face of Vonovia anytime soon, but long-term we see sustainable potential and believe that this is the right strategy to broaden our opportunities for the benefit of our shareholders. But again, this is long-term, not for the next quarter, not necessarily for the next year.

And with this I hand over to the most important slide which is Helene again for the guidance.

Helene von Roeder

So finally page 18 for our guidance for 2019, which is unchanged from what we showed you in our nine months results in December.

The 2018 actuals are based on the KPIs we mainly used to run the business in 2018 while the 2019 Guidance is based on the new KPI metrics, which will also be the focus of our reporting from Q1 2019 onwards.

We discussed the 2019 guidance in our last earnings call at quite some length, so I am happy to leave it at that and open up for questions.

QUESTION AND ANSWER SECTION

Operator

We have received the first question, it comes from Jonathan Kownator of Goldman Sachs, please go ahead, your line is now open.

Jonathan Kownator

I have three questions if I may. The first one, going back to one of the first points you made regarding your future investments of 1.3 to 1.6 billion, you indicated that the 7% return was not the way to look at it at this stage given some projects will take a bit longer to come through. So how should we look into it? Should we think about the slightly lower yield to begin with given you actually have less modernization for 2019 than for 2018 and regarding like-for-like rent growth similarly should we expect lower than 2.9% that you achieved for 2018 with perhaps a bit more for space creation. So that is the first question.

And the second question on wage growth. If you look at the value-add business, for instance the EBITDA margin of that business has gone down by 50 basis points to 8.2%. Can you comment perhaps on the evolution of that margin you have guided to 20 million of EBITDA per year but are you expecting the margin to be further impacted by wage growth and do you see wage growth impacting other areas of your business?

And the third question please for Helene, just for the refinancing of the debt, I think about 2.5 billion this year, what are the options that you are considering? Is bond market the best option at this stage or are you considering other options? At what rate should we think about for that debt? Thank you.

Helene von Roeder

So the question was about our CAPEX program and what you should expect around the different lines of the CAPEX program. I think there are two ways to answer this. One is we continue to guide towards a 4.4% rent increase which basically is the number we are targeting towards. I think if you look at the individual lines and the re-alignment and re-shifting of our investment program. As you know, we have said we are going to do more optimized apartment which is the pretty attractive and high yielding program but we are also moving a bit into Sweden and a bit into the new construction. I think overall what we are saying is, we will show a 9-10% IRR but I think we have discussed this before, we will not be guiding towards the individual yields of those programs.

Rolf Buch

So coming to your second question which was probably the margin of the value-add business. Keep in mind that the value-add business is a mixture of very different businesses which has a very different margin. So we are not managing the business by a margin of the top line because it is a mixture effect.

That is why I think to answer your question is more complex, it is not necessarily linked to the fact that salary is going up because this also normally would lead to higher market prices which would actually lead to higher inter-company exchange prices. So I think it is more a mixture of the different business models. And also then the fact that we have in the energy field a few startup costs which is covered in the business.

Jonathan Kownator

Yes. So it is effectively a mixed effect and startup costs for new businesses that explains that margin. But should we think about that margin at the same level going forward or do you expect it to recover a bit?

Rolf Buch

Actually, we are not managing it by a margin so that is why we are guiding 20 million more on the EBITDA which is probably the better way to look at it.

Jonathan Kownator

Okay and do you expect wage growth to have further impact on either modernization costs or on returns on some of your investment programs?

Rolf Buch

So you know that the wage costs actually, to be very clear, in the modernization we transfer maximum 8% of the investment onto the initial yield. So by definition higher cost for the construction of the modernization influenced by higher wages does not have any impact on the profitability.

In inverse, actually higher wages has more investment and then we would apply the same percentage, it would lead to a higher absolute amount.

Jonathan Kownator

So you can pass it through.

Rolf Buch

But we, of course, we also have to make sure that our tenants can afford what we are doing so this was also a very technical remark.

So wage cost and what we have seen on my most favorite slide, on page four, we are compensating wage inflation, which is not passed through, it cannot be passed directly through by efficiency gains and I think we still have in 2019 the second biggest acquisition we have ever made - Buwog - coming into the books which will, of course, lead to efficiency gains so I am not at all concerned with inflation pressure in this time of the period. I am not saying that the inflation will have no impact for us the next ten years but for 2019 this is not a major issue for us.

Jonathan Kownator

And coming back to this, circling the two questions, I know you said you did not want to go into any single part of the investment program in terms of return but is inflation or wage growth and actually cost inflation negatively impacting further the returns that you can generate from new construction? I mean, obviously on some of these you have a land bank for.

Rolf Buch

I just want to add one thing to wage engagement and then I think probably Helene can talk again about the investment programs. Keep in mind that we have 4,000 craftsmen and that is why we are only wage increases. Wage increases is actually not the issue, the issue is the construction cost index increase which is much more significantly than the wage increase.

So that is why we are able to compensate this construction costs index because a big part of it is in our own company. So that is why we are not as affected than others by construction costs increases which is sometimes similar compared to wage increases but it is construction costs index. All wages are actually growing by 2-2.5% maximum in this field so this is not a major driver that we compensate by efficiency.

Jonathan Kownator

So you have not had to change to adjust that? It is still 2-2.5%, okay.

Rolf Buch

Yes. So if you are building your models, please assume that we are able in our structure to compensate inflationary pressure, also for wage increases.

Jonathan Kownator

Okay.

Helene von Roeder

Okay and then as it goes to financing, I am not quite sure whether I got your question 100% right because you had a bit of a crackly line. So at this point in time I actually feel like we are pretty flush with cash given we have sold the Deutsche Wohnen Stake and we are going to be using that to pay down the hybrid. Other than that, I do not see any change in our financing policy.

As you know, we have seen a coming down of the interest rate chart, we have also seen spreads coming down quite a bit and I continue to try and keep the average duration and the mingle between Euro bonds and secured financing going forward as we did.

Jonathan Kownator

Okay, so just to clarify given the spread decrease that has been so far this year, you rather expect to use the bond markets you said, is that a fair assessment?

Helene von Roeder

I think as a going concern financing, the bond market is the go to market for Vonovia, I do not see any big reason to change that.

Jonathan Kownator

Okay and are you able to comment at all on the type of financing conditions that you would get these days or?

Helene von Roeder

As you know, at this point in time we did not need to go to the market. We did a bond earlier in the market and I think to say the least, we were extremely surprised by the strength and size of the books to the tune that I actually called my predecessor Stefan and celebrated it.

Jonathan Kownator

All right, okay. Thank you.

Operator

Thank you. The next question we have received comes from Thomas Neuhold of Kepler Cheuvreux, your line is now open, please go ahead.

Thomas Neuhold

Good afternoon, thank you very much for taking my question. I have a couple of questions and I think it is best if we go through them one by one. Firstly, I have a follow-up on your comment on the return on investment strategy, if I remember correctly, you said that you target 9-10% IRR across your investment? I was just wondering if you can provide us an overview where you have the highest interest return requirements for which programs and if the recent shift in the investment focus will have material impacts on your IRRs going forward?

Helene von Roeder

The way we look at this as an overall CAPEX program where we try to mix the investment strategies in such a way that we achieve our targeted IRR. Clearly we have different hurdles in the different programs but as I said before, we do not want to disclose those because we want to retain the right to sort of shift in between the programs in order to achieve the overall number that we are targeting.

Rolf Buch

And to make also clear, without talking about numbers, we are also using the hurdle rate to shift investment in the right directions. So, for example, I think it would not be a surprise for you that I tell you that the hurdle rate for development to sell is higher than for development to hold.

Thomas Neuhold

Okay. My next question is on the goodwill impairment, if I understood it correctly, if we see more re-evaluation gains coming through in the next years, the goodwill will automatically disappear from your balance sheets and I was just wondering if you can give us an indication what the most important region the goodwill is related to?

Helene von Roeder

So ultimately at the moment as we wrote down in East and we wrote down in South, I think those are the key regions we are looking at right now. As you have seen in the chart we showed, we have seen value uplifts actually across Germany. It is the first time that we did not have specific reasons performing in one way or another. So it is not merely that I would expect one of the regions to be the most affected or not affected going forward.

Thomas Neuhold

The next question is on slide 14, the new construction to hold with 26,000 units. If I remember correctly, the 26,000 units used to be a target for Vonovia on a stand-alone basis. So, I was just wondering if there are no units coming from Buwog for the portfolio to hold, or if they changed something?

Rolf Buch

No, I think it is more or less both together. It is probably that we have gone through the buildings with a view on the developer and that is why we reduce the potential of Vonovia which was very wide now, to more concrete. So, I think we learned a lot from the Buwog development in our new construction field, and at Vonovia, it was a very technical way and now we are coming more to a development way of looking. So, it is more concrete than before and that is why the figure is just new.

We are putting both together as one segment today and that is why I think we have to apply the same rules. I think the main message is; if you are building roughly 2,000 or 3,000 units, there is still a long way to go until the potential is over. This message we also use in the political debate in Germany at the moment, saying, "If you would let us, we could develop 20,000 or 30,000 units." It is not a question of money, it is not a question of availability of land, it is just the ability of the government to give construction permissions.

So, this figure also has to be seen in this respect because this is also part of our political debate which is probably less boring than our business at the moment.

Thomas Neuhold

Thanks, and my last question is on the value-add business. You mentioned that you can assume another positive contribution of an additional 20 million this year. Can you remind us where you stand currently in terms of the current roll-out versus the targeted roll-out in the value-add system?

Rolf Buch

I think you will see it on page 8 where we give some targets of the craftsmen and we give some targets on the internal income, smart metering and so on. Keep in mind that this business is not fixed in the sense that we have defined everything what we are doing. There is still a lot of potential to come which can be developed.

So, for example, the whole energy field; it is because we have not fixed actually, where we end and that is why we cannot fix which is the percentage of what we have completed. And so, I think this is a field where also the 100% field is still growing, and then of course, a percentage of completion is growing. So, that is why to answer your question is actually, in this context, impossible. But there is still enough room for the next years, it is not only the next year but the next years to add 20 million.

Again, I would like to remind you why it is only 20 million. We are growing this business actually in the three-phase approach. So, firstly, we are doing a test, then we are doing a pilot and then we are doing a roll-out which actually means that it takes a long time until a new idea is realized. We are doing this because we do not want to change with the value-add business the risk profile of the company and that is why we always do this three-step approach to make sure that we are not coming back to you and saying we have failed with an approach.

If you would do this in a traditional startup approach, the approach would be completely different, but we are not a startup company here. We are a very low-risk, residential business and that is why the value-add business has to follow the strategy.

Thomas Neuhold

Thank you very much.

Operator

Thank you. We have the next question. It comes from Valerie Guezi-Jacob of Exane BNP Paribas. Your line is now open, please go ahead.

Valerie Guezi-Jacob

Hello. Good afternoon. I have got some questions, if I may. The first one is on your like-for-like growth. I was wondering what do you expect in terms of market growth in your overall 4.4%. And also, if I look at Austria, it is a bit dilutive, this showing the overall growth. I was wondering if you could give us some guidance of what you expect in Sweden. Is it going to be accretive to the overall growth or inline? That is my first question.

My second question is about your sales business. You have been paying a lot of taxes this year, I was wondering if this tax rate is recurring going forward and if there is anything you can do to reduce it? My last question is about your intragroup consolidation in your EBITDA – it has been going up quite a lot this year, and I was wondering if this was related to the growth in value-add or to something else? Thank you.

Rolf Buch

Should I do Austria and Sweden first before Helene is going into more detailed figures. So, yes, in Austria, probably the rental growth is a little bit lower than the Vonovia average because the big money is not made during the rental period, but during the disposal period.

In Sweden, we are seeing at the moment due to the new government, a significant increase in the underlying rental growth without modernization. I cannot give you guidance, I am just saying the tendency of what the team is telling us here is that it will be significantly more than what you have seen in the last years. And then, of course, Sweden has a little bit higher yield in the investment, and relatively to Vonovia, of course, more investment in numbers of units.

So, Sweden will definitely contribute to the total growth. Of course, unfortunately, Sweden is still small, so that is why the absolute figure to contribution is not big. But in relative figures, growth rate in Sweden will be higher than in Germany.

Helene von Roeder

Okay, I will certainly do the easy topics like tax. So, the tax rate basically is generated and tweaked if and when we sell portfolios, as Rolf just said. We are done with the non-core disposals or more or less done with the non-core disposals, so you should not expect any more tax impact from that. Clearly, there will be tax to some extent in respect to development to sell, and there will be tax in respect to the recurring sales. You have the numbers for that; what we are expecting in terms of numbers of fragments to be sold.

The consolidation effect, yes, you have two effects coming here. One is clearly the old, well-known value-add consolidation effect. And then, as we discussed, I think, last time, in the development to hold business, we are clearly generating a margin. The margin being the difference between the market value of the building and the construction costs. That margin is shown in the development business, because that is how we manage the development business, but is not a cash component. And as it is not a cash component that is why we deduct it in the consolidation line.

Valerie Guezi-Jacob

Thank you. Maybe just one question you forgot to answer is what do you expect in terms of growth from the market in your 4.4% guidance?

Helene von Roeder

We have it in here and I would need some glasses, we have the 2018 numbers.

Rolf Buch

In theory, it is more or less the same, it is probably slightly going down.

Valerie Guezi-Jacob

Thank you very much. Thank you.

Operator

Thank you. The next question is from Christopher Fremantle of Morgan Stanley. Your line is now open, please go ahead.

Christopher Fremantle

Yes, good afternoon, I had two questions. One specific and one general, please. The specific question is on the rental business and the margins. I know you already gave quite a lot of guidance, but can you just help us to understand how the margin on the rental business might change going forward in the next year or two, given that there are these various consolidation effects in 2019 which I think are margin dilutive, but you also have, I would assume, still some outstanding synergies still to recognize.

So, could you help us just understand how that margin is going to develop and what the components are please? That is the first question.

Rolf Buch

So, I think we are not giving you a guidance for the 2019 margin, but you completely rightly expressed, and I said it also in my presentation, that the effect of Buwog will help because we are actually adding a significant amount of apartments on our German platform and this, of course, will improve the EBITDA margin for the German platform.

Also, please keep in mind that the EBITDA margin which we are running at the moment in Sweden and Austria is lower than the German EBITDA margin. The combined EBITDA margin, as you can see in the slide, actually is a little bit less than maybe we will see in Germany only. But our explicit target is to show that we can increase the margin in Sweden and in Austria, most especially in Sweden. So, the 2,300 units of course will help to improve the EBITDA margin in Sweden as well.

So, you will see overall, increasing this margin also in the future, definitely for 2019 and then we will see what happens with acquisitions in Sweden and other countries. So, I am not afraid of this at the moment and I am not afraid, at all, that page four, will be one of my most favorite slides also for the future.

Christopher Fremantle

Okay, and then just a more general question please. I know there has been a reasonable amount of press coverage this year around holding a referendum on re-nationalizing apartments in Berlin and working against large landlords. Can you just give a general comment about how you assess the risk of that in relation to your business; either in Berlin or the risk of that sort of movement spreading more broadly to your German business please? Thank you.

Rolf Buch

So, I think the press coverage is, I would say, in general, we have more press coverage all over Germany because the shortage of housing is becoming more important. So, people are getting nervous as you know, and you can see in our yield compression. The markets are getting tougher, it is more and more difficult to find a rental apartment if you do not have one. It is more and more difficult to find an apartment to buy.

So, the prices are going up, that is why it is normal that we have more coverage in the press about the housing aspect. Actually, as we have said before, housing is probably one of the top topics in Germany at the moment for the politicians and for the upcoming elections. So, that is why I think it is very normal that you see more coverage.

We have a very specific Berlin phenomenon which is this nationalization campaign; which is a Berlin-only phenomenon. Actually, we all, as professional landlords are surprised about the debate because it is an irrational debate, but you can answer the question saying okay, yes, now we have a constitution, this is not possible, this is a very technical effect. I am only saying actually this is an emotional debate and there is origin behind it, and that is why we, as landlords, are well advised to take it serious, to think about it and to use the energy of the debate to re-direct it in a sense; that we are talking about what can we, as landlords do, to improve the situation for the people living in Berlin.

So, re-nationalization, I think this is very clear in this arena, is completely not helping to reduce the shortage of housing, actually it is the reverse. Berlin would spend billions of money, which they do not have, to buy existing buildings instead of investing this money into new construction. So, I think in this round, it is very easy, but obviously it is not as easy as in this round to have the debate and I think we have to re-direct the debate about topics, saying what has to be changed in Berlin that we can compensate and that we can handle the problems that we need an additional 30,000 units in Berlin every year. This is not solved by re-nationalization, but I think this is why this debate has a chance, and, of course, a risk as well. But I see it as a chance that this will change in a better debate.

Christopher Fremantle

Thank you.

Operator

Thank you. The next question is from Kai Klose of Berenberg. Your line is now open, please go ahead.

Kai Klose

Yes, hello, good afternoon. I have got a question on page 31 of the presentation. The increase in the capitalized internal expenses – could you give a split where the increase was coming from – from a higher volume of modernization and / or from, let us say, a higher volume of internalized activities?

The second question would be on page 26, where you show the split of the fair value per square meter between land and building – could you indicate what was the uplift in the value of the land in the average value per square meter? And the last question would be on the split of the single unit sales. Could you give us a regional split between Germany and Austria? Thank you.

Helene von Roeder

I think we could try and give a guestimate now, but I would like to take these questions offline because they are so detailed, and I would rather we get back to you on those two.

Kai Klose

Sure.

Rolf Buch

But to be very clear – land, in the moment, as long as we do not change the rules of the game – in Germany is exploding. Prices for land in the big city is unbelievably growing and that is why the percentage of land would probably increase and not decrease because land is growing faster than the construction cost index.

But you know, as you probably also know, there is also debate about this because this is, also from my point, probably not an acceptable phenomenon which politicians can accept for a long term. Because this explosion of land prices will lead to explosion of rent and that is why I would not build a land bank just for speculation reasons, because this is probably a business which will come to an end. It has no impact on Vonovia, but as you are invested also in other companies, this probably is not a sustainable strategy for the long term.

Kai Klose

Many thanks.

Operator

Thank you. The next question is from Sander Bunck of Barclays. Please go ahead, your line is now open.

Sander Bunck

Hi, afternoon. I have got three questions, please. I will ask them one by one. The first one, just a point of clarification. Within the consolidation impact for your FFO, does this include the reversal sum of the book gains that you achieve in the development segments? Because I think in the EBITDA from the development segment, you also include book gains for development to hold. Can you just confirm that it is reversed out in the consolidation part?

Helene von Roeder

Yes, I can confirm that. So, those are the book gains of development to hold and new constructions which we are reversing out in that consolidation line.

Sander Bunck

Great, thank you. Second one is another question on taxes, and more on the recurring bit of the business. How are you looking for tax losses carried forward and what kind of stabilized tax rate should we expect to see there over the next three to five years?

Helene von Roeder

As we have, I think, 500 entities; the tax planning is highly complex. I do not see a reason for a big change, but I think let us also take that answer back and give a clear one.

Rolf Buch

But there are tax losses carried forward in this company, and keep in mind, that in Germany we are depreciating the assets. So that is why there is a tax buffer anyway.

Sander Bunck

Okay, that is very clear. The last one, and this is a bit more of a technical question, can you just remind me what the difference is between equity hybrid and debt hybrid?

Helene von Roeder

The quick answer is the fact that the debt hybrid is going to be paid back soon. Other than that, the equity hybrid is structured in such a way that in the IFRS accounts, it is counted as equity and that is the way we are looking at this instrument in our numbers.

Sander Bunck

Sorry, you say because it gets paid back soon it is debt hybrid?

Helene von Roeder

As we have announced, we are aiming to use the proceeds from the Deutsche Wohnen disposals to pay back the debt hybrid.

Sander Bunck

Sure, but it is just more in terms of subordination and how the different things work; just trying to understand. And also, does that mean that some of the future equity hybrid will turn then into debt hybrid? Or does that remain equity hybrid?

Helene von Roeder

The equity hybrid is structured in such a way that it is equity-only IFRS accounts. There is no sort of change or switch between an equity hybrid into a debt hybrid. Those are different types of structures that you use.

Sander Bunck

Okay, understood. But I know this is still a bit out – but I assume you do intend to pay down the equity hybrid as well in 2021?

Helene von Roeder

Oh, that is such a long time to go, to be honest, I do not know.

Sander Bunck

Okay, that is very clear. Thank you.

Operator

The next question is from Manuel Martin of Oddo BHF. Your line is now open.

Manuel Martin

Yes, hello. Two questions from my side, please. Question one is to give us an update on your modular construction activity – of the current status right now, and maybe you could give us an outlook on what could happen to your modular construction in the next time? That would be the first question.

Rolf Buch

Let me answer the first question first because it is much easier for us, otherwise we forget the second question. I think the modular construction is doing well. We are constantly building modular constructions. We are still experimenting with different tools. In the moment, we also see in some of the providers of the modular construction some cost increases. So, that is why we probably also shift, it is good that we have several players.

To shift from one to the other, we are still developing also new forms of semi-modular construction. So, there is still a lot of room for improvement. So, there is no single, simple answer but at the moment, we are constructing buildings with a modular construction in all three types –wood, steel and concrete only and there is also in the pipeline a significant part of the new construction will be modular construction. But at the same time, we are developing new means, new optimization because there is still a lot of potential outside. If we build by conventional methods in the field.

Manuel Martin

Okay, but you are still in the phase of constructing maybe 500 units per year, with a modular basis or a bit less?

Rolf Buch

A little bit more.

Manuel Martin

Okay, and when you do think we might see a ramp-up in number of units? Will it take maybe two or three years?

Rolf Buch

It depends on the construction permission. To be very clear, I am telling this also to the politicians – the biggest probability that is the problem of construction permissions will go away in the next four or five years, is close to zero. So, we will discuss in five years from now, in 2024 still the lack of construction permissions.

Manuel Martin

Second question, more general question, we are seeing the discussion amongst politicians about further rent regulation and here especially what will happen to property tax issues. Will this be passed over to landlords so that the landlords have to pay the property tax and no more the tenant? Will that be what the socialist party wants? Any opinion or idea on that topic from your side?

Rolf Buch

To be concrete, a part of the Social Democratic Party wants, not the whole. And the Social Democratic Party, I think, has at the moment, a magnitude of 15-16% of voting shares. So, this is far away from being a majority. Of course, they are part of the government. I think still this is a populist argument because if you would not allow to pass it over to the tenant, the Grundsteuer actually becomes a wealth tax which was actually abolished in Germany.

So, there are a lot of points where actually the Minister of Finance, who is also Social Democratic Party, has to really think about it and keep in mind, they have to pass the law in the second half of the year, otherwise there will be no Grundsteuer anymore. So, I think there is a lot of room. We are not very concerned about it.

Manuel Martin

Okay. Thank you very much.

Rolf Buch

I think there was another question about further rental control. I think the rental control is done. We had the Mietpreisbremse, we had the modernization, I think, for this period. There is nothing major coming up. There is still this period for the rent table which is under discussion, but we do not care too much at the moment. So, this is probably nothing which we expect very soon.

Manuel Martin

Okay, great. Thanks.

Operator

The next question we have received comes from Andres Toome of Green Street Advisors. Your line is now open, please go ahead.

Andres Toome

Hi, good afternoon. I just wanted to ask whether you can provide any color about your expectations or views regarding Mietspiegel 2019 in Vonovia locations, and additionally, do you see any threat that Mietspiegel in Berlin could be adversely affected due to the political noise that is coming from there?

Rolf Buch

So, I think for the German Mietspiegel in general, the Vonovia location; you will see as every year some better and some worse. So, we do not see any major change to the years before. And talking about Berlin and looking at the situation in Berlin, looking about the discussion in the population I would not be surprised or it is definitely clear that there is a lot of political pressure on the Mietspiegel what will be the end outcome of it; I do not know. Berlin is, for me, at the moment a very difficult to predict place to be.

Andres Toome

Okay, thank you very much.

Operator

Thank you. If there are no further questions, I will hand back to you.

Rene Hoffmann

Okay, thanks everyone for joining. That is it for today's earnings call. Thanks for participating. As a reminder, our Q1-2019 results will come out on May 7th. Until then, we will be on the road quite a bit and we hope to speak on one or the other occasion with most of you. As always, feel free to reach out to me or the team with any questions or comments you may have. That is it from us today. Have a great one, bye bye.

Rolf Buch

Thank you very much.