

Transcription

Vonovia's Analyst and Investor Call (MoU SNI)

October 18, 2017

Rene Hoffmann

Welcome everybody to Vonovia's Analyst & Investor conference call regarding the signing of the memorandum of understanding with France's largest landlord SNI. We appreciate you dialing in on such short notice. This call is hosted by CEO Rolf Buch and CFO Stefan Kirsten. Before I hand over to Rolf, two opening remarks from my side: First, if you have not had a chance to download the presentation yet, you will find it on our IR website on the financial reports and presentations page. Second, due to logistical reasons, we will need to limit this call to 30 minutes. I will be available on a bilateral basis after this call and will be happy to address any questions you may have. And with that, over to Rolf.

Rolf Buch

Thank you, Rene. So, the good news for you all is that we are not giving you any information which would force you to change your models. We are not giving you any update on our business today which forces to change your models; this you will get with the Q3; and we are not announcing any investment decisions or takeovers. This call is just a question to be very transparent. As you know, we always have said that Vonovia is focused only on Germany. And we have re-emphasized this as we have bought Conwert. We are using now an incident that in itself – for you as an investor base this is probably not very important – to inform you that it might be the case in the long-term future that we will adapt our strategy. And, with this, I go a little bit in the executive summary.

So, as you know, we have signed a memorandum of understanding with SNI, which is the largest landlord in France. You will see later in the figures. It has the same size as Vonovia. Both companies have agreed to work together to exchange best practices and knowledge about their respective markets. The MoU of the signature is part of the effort of Vonovia to find and analyze potential for an extension into European metropolitan areas. A preliminary desktop analysis suggests that the problem with the European market, especially in the metropolitan areas, are not so different than we have thought before.

But to define on this, a more comprehensive and detailed analysis is required. To date – this is sure – Germany is the only sizable listed market in Europe that offers liquid assets to the residential real estate sector. Vonovia is now in the early stage of analyzing ways to unlock this

potential, if there is a possibility to unlock the potential of these big markets for the investor base. The MoU of Vonovia, the signing of the MoU with SNI, is the first step just to learn better, and this might lead to further steps in the future. So, where is Vonovia today? I don't think we have to go through the whole details. I think over the last ten years, Vonovia has built a German-wide residential company of scale. I think we have shown that scales matter. We have acquired 230,000 residential units, but it is as important as we have sold 50,000 units to be more concentrated actually in the 15 big cities. We have developed a leading operational platform that shows efficiency of scale of industrialization and digitalization. We have early addressed two mega-trends: energetic efficiency, which is not a German mega-trend at all but this is a European mega-trend, and demographic change.

Vonovia, because we have also sold and bought enough portfolio, is now concentrated on the regional market, 15 regional markets, which above average return to growth potential. And we have established ourselves as a capital market in the listed sector. So all these stable bases, which are supported by a lot of mega-trends, gives us the possibility to look abroad, to see if there is any possibility for Vonovia to generate value outside Germany. We have done actually a desktop analysis and the question was, is Germany really unique? And the answer is no. European and other regulations, they are not that big change. The need for energy efficiency, the trend of urbanization, increasing shortage of lower-mid-income housing, profound social changes are the topic not only in Germany, but in a lot of other markets. We have believed in the past that the low home ownership in Germany is a unique situation, makes the market unique. We have seen that the size of the market in Germany is unique. And now we have to realize that Paris or Randstad the rental markets are much bigger than the German market.

Other European countries have similar urbanization trends and already start on a higher level, and of course higher urbanization is good news for residential players. And the level of tenant protection that we thought is very specific in Germany is very similar in some other European countries. So, that is why we think it is the time for us to look carefully – and I am underlining to look; we are not going to invest – to look carefully and to understand different markets in Europe, and we are doing a priority by regulatory environment, by size and accessibility of the housing market, and by favorable fundamentals. And France -

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of course, just the size argument - is probably the market, which we would, should look at first.

On the next page, you can see very clearly that ownership in the big European cities is much lower than the German average, and in the first cities it is probably also in the magnitude of the big German cities. And on the right side we see what I meant when I am saying a big size of Paris market. Paris market alone is bigger than the first eight German markets together, and it is massive. And that is why - if the hypothesis is right that the situation is more or less comparable in the different markets: residential, landlord, just concentrated on mega-region - we cannot ignore Paris.

We also see the urbanization trend. It is all the same. You see there are some markets which even have a much stronger urbanization trend, which actually would mean that these are more interesting than the German market. And you also see on the right side, on page 6, that the rental regulation is very much urban comparable. So, it is not the fact that Germany has a very specific high tenant protection, nor a very big one.

The analysis suggests that Germany is not unique. And the MoU with SNI is now our tool to verify if we see this is really the case. Many of Germany's residential attractions are also found elsewhere in Europe, in the number of attractive markets in metropolitan areas throughout Europe. What sets Germany really apart - and this is unique in Germany - is that we have a sizeable and liquid market of listed residential companies to invest. I think the reasons we can discuss later; there is a lot of reasons why this is. But it is not an underlying fundamental market which is defined. And in contrast to our business-to-business real estate asset class, where you all can invest directly in property, a business-to-consumer-driven renting company needs an operating platform. And today, investors cannot allocate funds themselves because this platform is not available as a liquid investment outside Germany. There is one exception: Sweden does this, but it is much smaller. And that is why I think it is a good idea for Vonovia to think if there is a possibility to develop the platform of choice for these investors.

And, with this, we will add an element to our strategy, which is shown on page 8. So, we will now actively look if there is any positive activities in Europe. I repeat again: Now it is time to understand the different markets. And afterwards, if we have understood the different markets, then we can decide if this is really an

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opportunistic approach. So we are in a very early stage but it is a question of transparency.

To give you some insight about SNI, you can see on page 9, they have more or less the same size of units. The rental income is € 200 million higher than of Vonovia, which is due to the fact that the average rent in France is a little bit higher than in Germany. They have a much lower EBITDA margin, which can be the result of less efficiency, but I think we have to understand much better what are the reasons for this. And, because they are close to the French state, they of course have a much bigger, better rating than Vonovia. As you can see on the lower right, group SNI is present in all big metropolitan areas in France.

The main point of the MoUs – I do not go too much in detail – is really to pool expertise and to exchange knowledge, to address the challenges. There is also, for example, purchasing power; we have to address if there is any possibility to put our purchasing powers together. In all my fairness I cannot lock windows. In this case you could even sell the double number of windows, but this is all very early, so we have to explore the potential. And of course, we do not exclude also potential investments of investment partnerships but now we have to start to put those experts on our side, to find out if there is anything which we can learn from each other.

So, what can you expect? You can expect that we carefully and systematically approach to build knowledge on board on Vonovia to look for and understand better opportunities. What you cannot expect is that we lack on focus on the German market. The German market is still our priority. Please do not expect premature capital allocations. It is much too early for this. And do not expect, please, that key Vonovia people are dedicating an unreasonable amount of time and energy in this project. This is, comparable to other projects, a small project for us.

So, again, no reason to change your models. No reason to change your view on Vonovia. What we are doing here is, actually, we get an additional option to understand better and, if we have understood the market better, there might be the possibility to offer you alternative investment opportunities in addition to the traditional German model.

And, with this, I hand over back to Rene.

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Rene Hoffmann

Then we can go to Q&A, please, operator.

QUESTION AND ANSWER SECTION

Operator

Thank you. Now we will begin our question-and-answer session. The first question comes from Valérie of Exane BNPP. Please go ahead, your line is now open.

Valérie Guezi

Yes, hello, good afternoon. Thank you very much for the presentation. I guess in the presentation you are pointing out a lot of similarities between France and Germany. I guess one of the attractions of investing in Germany, what you do not show for investor, is the amount of rental growth and asset value growth that is still existing. Maybe can you comment on so far in your analysis? Have you identified some other countries in Europe where you see similar potential? And, in particular, in presentation you are showing that the rent-to-income ratios in France and Germany are similar. Do you think that means that we can extract similar growth in the two countries? Thank you.

Rolf Buch

So I think a mistake what we have done, and what a lot of also bankers have done, we have looked too much on the capital market and what is available on the capital market. We have completely forgotten that, for example in France, we have still a non-profit housing sector, which is developing, which is actually not considered as a capital market. So we are looking about years, about prices, about transactions. We are actually looking on the non-social housing part while the origin of Vonovia and all other is social housing. So we are comparing apples with non-apples. So I think that is why this was for me the eye-opening element in France, to see a company like SNI, which actually has the same history. You know, in France we still have the model of social housing, which was finished in Germany after the bankruptcy of Neue Heimat, and you see at the moment in

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France, for example, there is a lot of debates in this country about the reorganization of social housing. So yes, I see some potential there.

The apartment itself, the regulation itself, is very comparable. So of course France has a system where the rent is more related to inflation, while we have our Mietspiegel [rent index]. On the other hand, for new rent in France there is a system which seems to be similar to the Mietspiegel. So, the difference between the systems is not meaningful as long as you compare the right markets. But this is a first desktop analysis and now we really have to verify this thesis.

Valérie Guezi

Okay, thank you. Can I ask a follow-up question?

Rolf Buch

Yes.

Valérie Guezi

You know a lot of assets from SNI, if I am not wrong, used to be owned by ECAM that sold them. HR goes to the SNI, and at the time there were a lot of CAPEX going into these assets and that was dragging returns a lot. And do you think in France you can make basically your CAPEX model work because there is not the sort of modernization or regulation as in Germany?

Rolf Buch

I am coming now on the very top. I think all companies in Europe have signed legally-binding agreements to reduce their CO₂ emissions. Probably France is a little bit later under pressure because they have the nuclear power plants, but one day they have to start to do the modernization. And this has to be financed somehow. So, I am not saying that this might be exactly the same model like in Germany, but it might be another way of financing. But the job has to be done, and this means if you are able to do this, in industrialized spaces, you will get profit out of it. I can tell you another country, because it is publicly known that I am a member of the supervisory board of the KWG, that they are doing energetic modernizations. Regulation is not exactly the same, but the result of rent increase is more or less the same as in Vonovia.

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Valérie Guezi

Thank you very much.

Operator

Thank you. The next question comes from Georg Kandlers of Bankhaus Lampe. Please go ahead, your line is now open.

Georg Kandlers

Yes, now this adding the European element to your strategy, does this increase the likelihood that you keep the Austrian assets in your portfolio? And also, I was quite surprised that rental regulation in Austria, or tenant protection, is less than in Germany.

Rolf Buch

Yes, so first, the analysis of rental regulation is not us, it is the European Commission who has done the analysis, so we have to go more in detail. This is not Vonovia's, as you look at the source. The second is, I think it does not change our answer to Austria. We always said we wait now for the squeeze-out. If the squeeze-out happens and if the company is 100% Vonovia then we will continue to think about potential in Austria. By the way, you see very clearly how we are going, how we are thinking. We think about size of markets. And then the question which will be discussed is the size of the Vienna market, if this is big enough to be relevant for Vonovia. So, I think what you see in this presentation a little bit more: we are not going country-wise, but we are focusing now more on metropolitan areas.

Georg Kandlers

Okay, thank you.

Operator

Thank you. The next question comes from Charles Boissier of UBS. Please go ahead, your line is now open.

Charles Boissier

Yes, good afternoon. Thank you for taking my questions. Two questions, if I may. First, would any acquisitions outside of Germany be subject to the same four acquisition criteria as any acquisition in Germany, so FFR equities, NAV per share, non-dilutive, etcetera? And then, second question, my understanding prior to today's announcement is, you still are operating in a very fragmented market. I calculated you are 1.5% of ownership of the rental residential market. You are emphasizing that you are more focusing on big cities, so I guess it is a slightly higher number. But is today's announcement an indication that medium term you see fewer projects for extension in Germany? Thank you.

Rolf Buch

So, the market share. Of course what we, and we have done it ourselves, we have always said that we have 2% market share in Germany. If you are focusing, and what you have seen is, our strategy in the last years is on metropolitan areas; we are now in 15. Of course, our market share in this metropolitan area is much higher. This is food for thought. On the other hand, it is clear that we are not finished with the consolidation in Germany. But this is irrelevant to the question if there is a potential outside. Because you know our view in Germany at the moment is that the prices are relatively high and I will not buy too expensively so that my successor has to depreciate afterwards, so that is why we will not do this. And the second question ...

Stefan Kirsten

Yes, on your first question there is a very brief answer: yes. The criteria will fully fit, and the criteria defined from the capital markets into our business and the criteria will not only fit, they will be adjusted on top because it has to build on an existing German operation, so we would not jeopardize our very successful business model. We would always do it to reduce risks with the partner, and we will always share best practices first. As aggressive as we sometimes appear in the market, we are very cautious if we amend our strategy and this is the first change or amendment to the strategy since the IPO, so therefore the long answer is again: yes, with a couple of verbal explanations on top.

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Charles Boissier

Okay, thank you.

Rolf Buch

Again, I would, this call is really to be transparent. I think we were criticized too often to give too many surprises to the market. If we are doing acquisition, of course we have to make a surprise because otherwise the acquisition is too expensive. In this case here, there is no reason not to give you all the transparency of our doing and that is why I think it is important to give it in a very early stage. There is a lot of questions still open, which we have to answer. But one answer was very clear from Stefan. The criteria stay the same because there would be no reason why we should have a different criteria.

Rene Hoffmann

Angela, we have to be in the last five minutes, please, if you can just push forward.

Operator

Yes, then we have now our last question of Marios Pastou of Credit Suisse. Please go ahead, your line is now open.

Marios Pastou

Hi, good afternoon. Thank you for the update. Just a very quick question for me. I just wondered if, for example, the desk space studies, etcetera, into various markets goes ahead and is successful, when would be the earliest possible investment outside of Germany, in your opinion?

Rolf Buch

I really do not know. I think we need enough time to really understand the different market models. This is actually a process which we start now, we have not given ourselves a finished end date, because I think this would not be worth it. For example, take the case of putting our purchasing power together. This can happen relatively quickly, but this is not an investment. Other things, if we really understand the mechanics, why the rent in France is higher than in Germany,

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this will take some time; and then also there has to be opportunity. So I cannot answer this question, really. And this is too early. I think the next step which you can expect from us is that we inform you regularly about the process of our way to gain knowledge.

Stefan Kirsten

Let me illustrate before, let me try to defy a little bit your fears. There is nothing in the making at the moment.

Marios Pastou

Okay, very helpful, thank you.

Stefan Kirsten

Yeah, I mean, so we were more on the long end here. There is nothing in the making at the moment. This is not a call which will be repeated in 48 hours with a deal, okay. That is not going to happen. This is a call, as Rolf pointed out several times, to give the market the right level of transparency because we alter our strategy for the first time in five years.

Marios Pastou

Okay, thank you.

Operator

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

Rene Hoffmann

Thank you very much, Angela. I am glad that we were able to finish on time as intended. Thank you everybody for dialing in. And again, if you have follow-up questions down the road, please do give me a call, drop me an email. I am happy to take care of it. Thanks everybody for dialing in and have a great day.