Transcription
H1 2017 Results Analyst & Investor Call
August 2, 2017

Rene Hoffmann

Thank you Marcia and welcome everybody to the conference call on Vonovia's earnings for the first six months of 2017. I suppose you have all had a chance to look at the material we published this morning, including the presentation for this call. Your hosts today are CEO Rolf Buch (CEO) and CFO Dr. A. Stefan Kirsten (CFO). They will lead through this presentation first and then open up for your questions. As we are in different places today, bear with us please if we have a slight delay in responding to your questions in the Q&A. And with that I am glad to hand over to Rolf.

Rolf Buch (CEO)

Yes, hello also from my side, welcome to our call, I hope you all enjoy holidays. I will enjoy holidays after tomorrow, so that is why I am looking forward. So I would like to give you a little bit of highlights on the half year 2017. You can see that the built-in growth dynamic continues to deliver significant results. We will show an accelerated rental growth up to 3.7% year-on-year, last year it was 2.8%. The adjusted EBITDA operations up by 8.9% and the FFO 1 per share is up by 15.7%. If you look on the average shared numbers of share, it is even up by 18.1%. Second message is our very important investment program, the execution of this program is running full speed, 98% of the project of the 730m target investment volume is completed or committed, so meaning we have signed contracts with suppliers, all this material to build it. And the growing pipeline or space projects, creation projects, I think we will achieve an annual 2000 units per annum, but still, we will come back to the status depending on construction permissions. The half-year evaluation supports positive momentum, it actually shows the strengths of our portfolio. We have done evaluation exercise compromising around 2/3 of our portfolio, these are actually the 20 largest cities plus five additional locations and we got a 1.5 billion like-for-like value increase. This is overall an increase of 5.2% of the overall portfolio but if you look only on the portfolio, which is evaluated, there is the 7.1% increase. And due to the fact that organic growth momentum continues we are able to confirm our 2017 guidance. By the way, I do not want to forget to mention that the operation indication of conwert is completed. The performance of the last six months continues, it confirms our expectation for the full year and the final guidance for

2017 and the initial guidance for 2018 will be delivered in our Q9 months results in November as always.

Let us go to the next page; actually you have seen this page now since the Q4 2016 and we will show it and before have shown it in the first quarter. I think it is an important page and we want to underline again that the growth of the company is not coming from acquisitions, in average we have around 1.1% more residential units. This leads in total, including rental income increase, to an increase of our rental income of 7.6% or 58.5 million, and you can see that we actually handled these or we deliver these 58 million down to the FFO, it is even more in the FFO, we end up with 69.9 million. Keep in mind here our operational costs, operational expenses are a little bit higher than expected. This is due to the fact that these comprise still the full cost of the platform for the conwert. This platform is now with you, so we will have much better results in the second half of the year. But it also shows that we are able to deliver, to pass through the whole amount of rental income to the bottom-line and I do not think that this will change in the next future. So you can expect the phenomena for the next years and with this I hand over to Stefan.

Dr. A. Stefan Kirsten (CFO)

Thank you Rolf and a very warm welcome from me too. The quarter was, let us say uneventfully successful for us and therefore I will keep my remarks brief, I am on page four now. Rolf mentioned 7.6% rental income increase and that translates to 3.7% of organic rent growth. Keep in mind we come later to the guidance, our guidance of 3.8 to 4% and spot values for the year end. So we are very well on track to achieve this. You have seen the same picture, which you have seen last quarter, space creation is not the match winner but it is starting and as Rolf said we are getting a promising pipeline of building permits together. The match winner is clearly our modernization program which is delivering 1.9% in the first half year and 1.7% on market driven rent growth is also a piece of good news. On the right hand side you see our growth trajectory over the last year since the IPO, where we started with organic growth of 1.9%. We are now showing 3.8% to 4% and definitely more than 4% from the next year onwards because of the accelerated modernization and space creation program. Let us move to page five; how does that rental income translate into profits? You are seeing on the left hand side, with the green little boxes, the cost per unit: €570 for last year per unit per year. You can assume that this cost number will drop because the quality of our units is improving and the cost base will get better. Nevertheless, keep in mind Rolf just mentioned it; our operating expenses are a little bit higher than usual because we still have in the first half year the full conwert operating expenses in there. Conwert itself, particularly in Germany, has shrunk down at the margin business. From 1st July onwards you will see the first effect in our Q3 numbers. 7.6% rental income growth translates into adjusted EBITDA rental growth of 7.1%, Rolf mentioned the reasons. I would like to draw your attention to the adjusted EBITDA of the value-add business. There we have a 75% increase. This business is making a stronger and stronger indentation into our P&L and into our success stories. The EBITDA other is the consolidation of internal profits out of this business and therefore needs to be seen in connection with the respective number. So our adjusted EBITDA operations with 8.9% growth rate is pleasing us quite well.

Let us move to page six; that is the financial strategy. There is no real news. We have gone from strength to strength as we have matured as a company post our IPO. On both the assets side as well as on the financing side, our KPI's bailed us out. Around the time of the IPO our financing sources were more limited. Today we have a highly diversified financing structure, as you know, giving us the optionality on various financing instruments. We will continue to monitor our financing strategy instruments and sources on that on an ongoing basis, to remain best in class or be in the group of the best in class companies in Europe; so stay tuned. You see that we still have things to finance during the course of this year but not pre summer breaks.

Let us move to page seven; loan-to-value and debt to EBITDA multiples. Our loan-to-value ratio is within our target range at 43.2%. This was of course significantly helped by the valuation uplift with to which I will mention later. If you put the equity perpetual hybrid in there, you would have a number which is approximately three percentage points higher. So, that all-in-all we are quite happy with what we see here from a development point of view. The increase of the loan-to-value ratio since December 31st is, of course, the acquisition of conwert mainly for debt. On page eight we are having the FFO per share, this number is 15.7% up on the end of period number of shares, this is now important for your models. We have added in the first half of the year 2.8 million shares for conwert and 7.7 million shares for the scrip dividend. The scrip dividend as you might recall had a 50% acceptance, which is the highest acceptance we have in Germany, and we are very happy with that because we gave our shareholders true choice and they chose, half of them chose cash, the others chose scrip. So you can assume it is a working assumption that we will also have scrip dividends in future as long as we trade above adjusted NAV. What is not in the numbers, and this is important now for the next quarters, and your forward modeling is that the merger with GAGFAH and Vonovia, squeezing out the minorities in GAGFAH, has resulted in 8.6 million shares in addition from July onwards. So this is important for you to see. We have seen some of your forecasts out there from the sell-side analysis, what we believe what you are emitting is that we have received in Q2 €12.4 million dividend from our Deutsche Wohnen participation. If you include this you will reach easier the numbers of 96 cents FFO 1 per share end of period, and 98, if you take the average number of shares. The rest in these numbers is rather self-explanatory; you know that we always split the FFO 1 up into the one which contributes to Vonovia shareholders for their perspective, our hybrid capital investors for the perpetual hybrid and our non-controlling interests. The non-controlling interests, by the way, will be increasing because we put co-investor structures into conwert as well as into Gagfah, so that we can do the respective corporate actions. It is the merger at Gagfah that squeezed out at conwert.

On page nine let us talk about valuation; it is for the first time that we have a valuation update on June 30th. We have chosen the 20 largest cities of our portfolio plus five additional locations representing in totality approximately 2/3 of the entire portfolio. All other locations and values were left unchanged and adjusted only for capitalization purposes. The total value uplift, ladies and gentlemen, is 5.2%, it is spreading all over Germany, I will come to that in a second. Our average portfolio is now at €1341 per sqm or 18.5 times NCR. We are happy with what we see here at the moment but let me talk you through the numbers first; 1.5 billion of total value uplift, we then deduct the investment into the properties outside of our view, which is 140 million. We deduct the investments of properties within the review, which is 150 million. And we can of course measure the performance driven valuation increase of 393 million so you never get 830 million of yield compression; yield compression is a result of the total minus these numbers. This yield compression comprises around the whole of Germany and you are seeing a couple of effects. Let us start with the negatives; you see very low growth in Munich, Stuttgart, Freiburg and Hamburg, to a certain degree in Frankfurt. This does not mean that the value growth is not there. In Q1 and Q2 of this year we simply did not have enough transactions together with CBRE as our valuer, so that we could measure the growth properly.

I am expecting a significant uplift there in the second half of the year what you can also see is as usual Berlin; some of you have mentioned that in your flash reports. As a born Berliner who has lived there for a long while, I can tell you it is a very cool city but it is not a hot city from a property investment point of view. The hot cities are Leipzig and Essen, where we in both cases received more than 10% valuation uplift. And then Leipzig, this is of course significantly confirming our view about the conwert transaction, because conwert opened up Leipzig in a way that we now have enough structure and infrastructure there to be successful in this very quickly growing city. So, this is for the first time that we did it. Let me remind you we will only do half year valuations if we expect major valuation changes upwards or downwards. There will be a full year valuation where we will give you an indication on the 8th November and the final results in March 2018.

This of course translates into page ten which is the adjusted NAV per share at 7.6% up in the first half year. This is mainly conwert on one side, it is valuation uplift on the other side, and it is the number of shares increase through conwert and scrip dividend. On the other hand, you see that we have now an EPRA NAV of 18.7 billion. We saw no reason and no triggering event for an impairment testing for the goodwill so the goodwill is unchanged, and the adjusted NAV is 15.8 billion. This resulted in adjusted NAV per share of €33.10, which is a number which reflects the current valuation uplift and everything else we have talked about. With that I would like to hand back to Rolf.

Rolf Buch (CEO)

Thanks Stefan. On page eleven you can see that our investment program is well on track; keep in mind we have increased significant for the year 2017. Our investment targets we still stick with the 7% unlevered yield on cost and now you can see that roughly 300 million is already completed and the remaining part is committed. So, it means it is ordered or under construction. So, you can now be sure that the end of the year you will see the completed 730 million as an unlevered yield of 7% on cost. So, this is good news and this also shows that we are now very positive that we will meet our stretch target for 2018 of around 1 billion. So we are very optimistic there.

On page twelve you also see that we are working not only for the year 2017, but for the years 2019 and beyond. You know about the space creation program our bottleneck is not availability of projects, nor building capacity or financing, but it is the construction permit which takes longer or shorter. By the way of planning, applying for building permits and doing construction work for different projects in parallel, Vonovia is now on its way or is in the way since this time in a way to develop a pipeline to ensure a steady flow of project completion going forward to achieve the target run rate of 2000 new apartments per annum. On the lower end of the slide we have shown you actually the steps you have to achieve if you want to make bigger constructions or smaller constructions. You can see that the minimum time for construction process is 19 months, between 19 months and a few years. So, that is why I am saying we are working here to further the pipeline for the year '19 and '20, which I think is an inbuilt course momentum for the future.

On page 13, you can see, as Stefan mentioned already, the growing constitution from all value-add business, as Stefan has also talked about the NAV calculations. As a reminder this calculation is based on market terms and reflects the estimated value of our bricks only. The value we create through our operating platform is not reflected in the NAV at all. As the value-add business keeps growing this becomes more and more meaningful. Cash flow stability of the value-add business segment is the same as the rental business, because the value add is a part of the rental contract. As a proxy value, when you take our 2017 estimate of around 100 million from value-add business and apply the WACC used in the impairment test, you get to about €5.1 per share, which is 16% on top of our brick-and-mortar NAV. So this actually leads to the conclusion that we as the management team still have the hard work to explain to the market this amount, because we do not think that the €5 per share is reflected in our share price today.

On page 14, you can see that also we are doing no surprises in our sales division. So, keep in mind last year we sold a significant portfolio in the first half year. This year the non-core, non-strategic includes a larger share of conwert commercial, so only 56% of the sold square meters are residential. You see a slight decrease in step up of privatization, which is explained by the value uplift we have seen in the privatization segment as well at the end of last year. And you see even a slightly higher step up in the non-core and non-strategic segment, which I think also gives an indication that we are very optimistic that we will achieve further yield compression even in the future. And with this I hand over to Stefan to give you the guidance for the full year.

Dr. A. Stefan Kirsten (CFO)

Yes, thank you, this is the most boring chart hopefully because we have our guidance unchanged and confirmed and that I must say makes me quite happy. Let us talk a little bit about the season, this is now Q2, which is over. This is the moment when you start setting your top down targets for the next year, this is the moment when you start challenging forecasts, etc. This will all happen within the third quarter. So, what you can expect that we look at the guidance with a very sharp eye for the November 8th presentation but even if we are in some numbers at the upper end of the corridor, we are within the corridor and therefore we left the guidance unchanged. On November 8th, by the way, you will also get the first cut for 2018, as you know this from the past. So, nothing to explain on the guidance side and we are happy that we can fully confirm what we have said already after Q1. Thank you Rolf.

Rolf Buch (CEO)

Thank you Stefan and with this I think let us summarize. I think these figures show again that we have an organic growth momentum in our business, and there is no reason to assume that this organic growth momentum will stop in the future. Secondly, you can see that our investment program 2017 is running on full steam. So, there is no risk that we will not deliver the 730 million, and I think this gives also a very good outcome for the future years because this success makes us very confident that we will deliver also in future what we have promised. You have seen that we have an attractive half year valuation result, which gives you also good indications that Vonovia today is present in the right regions in Germany. And, as Stefan told you, the guidance of 2017 is fully confirmed that you will see a new guidance with the November figures. Thank you very much for taking the time to view our presentation and with this I give back to operator.

QUESTION AND ANSWER SECTION

Operator

Thank you, now we will begin our question and answer session. If you have a question for our speakers please dial zero one on your telephone keypad now to enter the queue; once your name has been announced you can ask a question. If you find your question is answered before it is your turn to speak you can dial zero two to cancel your question. If you are using speaker equipment today please lift the handset before making your selection. One moment please for the first question.

The first question comes from Mr Thomas Neuhold, Kepler Cheuvreux; your line is now open.

Thomas Neuhold

Yes, good afternoon, thank you very much. I have basically three questions that I would like to discuss with you, and I think it is the best to ask them one-by-one. The first is on page 13, the value-add business. You are still in the ramp-up phase for various value-added businesses, can you give us an indication by when you think you will have reached a targeted penetration, particularly for the craftsmen VDS and what kind of EBITDA contribution we can expect from the value-add businesses once you have reached your target penetrations here?

Rolf Buch (CEO)

Yes, thank you for the question. As we have indicated on the page 13, you can see the completion rate, you can see roughly that we are, if you put everything in total, roughly on a 50% completion rate of this business. So this probably gives you also an indication if you assume that we are not developing any other additional services where the extension business could go. But we do not want to give you a long term guidance that is why I am a little bit not very specific here. But keep in mind that we see also a significant additional potential in new services which we are developing; one example, as we mentioned before, is the energy providing, which is now legally possible in Germany because the legislation has changed. So, we will be an energetic provider to our tenants and as well of other similar things, which are in our pipeline. So, I think you can see a massive increase. As I said before, we do not see an end of the value-add growth.

Thomas Neuhold

Thank you. Then the next question is on your craftsmen organization; we have seen recently strong increase in a new construction modernization activity in the German property sector. What impact does this have on your ability to hire enough craftsmen to meet your growth plans? And maybe you can also give us an indication what kind of wage inflation you are facing in this area and what kind of cost inflation generally you expect in the medium term for both in-house and outsourced services, given the strong demand in this space at the moment?

Rolf Buch (CEO)

So yes, you are right, we see significant increase in outsourced services for the construction index and also the availability to buy craftsmen services in an outsourcing way is significant. It is a problem not only price-wise but it is also a problem volume-wise, especially in the big cities. Fortunately, we have our own craftsmen organization, as you know, and we are in line with our long term growth perspective as a craftsman, so we are able to recruit enough craftsmen at roughly 1000 per year. So, we do not have any indications that we will not be able to recruit them. Of course, you see a significant increase in construction costs which is mainly coming by increasing of the margin of the construction companies. We do not see a significant increase in salary level because these are also partly located at least with agreements with the unions and this increase is modest. So we do not think that this will change any of our parameters because we still have a lot of efficiency gains in the craftsmen organizations. This is normal because we only recently built up this organization. So, that is why we assume that in the future years we can compensate inflation by efficiency. So keep in mind, if that is the level, no negative impact for our in-house. For the outsourcing yes, we will see a significant increase in construction but we will compensate this by more in sourcing.

Thomas Neuhold

Okay, and my last question is on the upcoming elections. The Conservative Party CDU recently published its election program and wants to implement several supply site initiatives in order to increase the supply by roughly 1.5 million units under the next elections. I was wondering, if you can share your view on these proposals and do you see any chances or threats evolving out of the potential implementation after the elections of these proposals for your business and your strategy?

Rolf Buch (CEO)

As always Vonovia is political completely neutral, so that is why do not force me to comment any specific program of any party, which is very important at the moment over this time but I am general. I see the tendency of a lot of parties by putting more money in the system to increase the construction. I personally think it is very difficult because if you go down to the analysis, the problem is not the availability of funds or it is more the problem of availability of construction people, but the biggest problem is construction permissions. So, by putting more money in the systems you do not get more construction permissions. That is why I think putting more money in the system will not lead to an increase of constructions. And, by the way, as we have shown you in the slides, if we can increase the construction permission, it will take us 19 months at minimum and I think probably on average a lot of several years. We will not see in the next legislation for the next government a significant increase in construction, just because it is technically not possible.

Thomas Neuhold

Okay. Thank you very much.

Operator

Thank you. The next question comes from Marc Mozzi, Société Générale; your line is now open.

Marc Mozzi

Thank you and very good afternoon gentlemen, three questions as well from me. The first one is effectively on your guidance 2017. I am trying to get a sense of how much of the Berlin Mietspiegel, how much of a change in the Mietspiegelbremse in Northrhein-Westphalia combined represent about 40% of your rental income so relatively a significant data effect, have you discussed it in your guidance? And are you assuming that your EBITDA margin will go down in H2, which it seems unlikely considering the costs and the effects you are expecting. In H1 if I am correct your EBITDA margin has reached an historical high of 73% so I would like to just have a view on that or is there any effect of larger disposals and we all expect around privatization in H2? So, just trying to make a sense of your guidance for 2017. Thank you.

Dr. A. Stefan Kirsten (CFO)

Let us talk about rental growth; our organic rental growth we have given you a 3.8% to 4%. I do not see 4.1 at the moment but I also do not see 3.8 so we are at the upper end of the guidance and still in the corridor. With regards to the EBITDA margin, I am with you; again upper end of the corridor but nothing really which lets us alter the numbers. We still have a couple of financing events which will of course have a limited effect but will have an effect on the FFO and therefore it depends a little bit where the interest rates are in September, as well as in November to influence the FFO number. So, we are very positive on the guidance but I think it would be I would, say, not meaningful to alter ten basis points here, ten basis points there. This is the reason why, after a relatively brief discussion, we kept the guidance unchanged. Is that answering your question?

Marc Mozzi

Perfectly well, so nothing specific on the disposal side as well?

Dr. A. Stefan Kirsten (CFO)

Yes. Disposals, exactly what we said here. The step-ups on the privatization side are a little bit under pressure, I can tell you that because we have the valuation uplifted half year. Privatization numbers will stay in line, non-core will stay opportunistic, you will see things leaving our portfolio in non-core, even with the slight uplift but this should not put too much of a dent into the top line.

Marc Mozzi

Yes, it is perfectly clear. On the yield compression element, can we have a sense of how many dips are we talking about here in H1? If I am correct your growth initial yield end of December 2016 was 5.4%, can we have a sense of where we are at the end of June, please?

Dr. A. Stefan Kirsten (CFO)

Whoops, I have not calculated that, Rene Hoffmann do you have a number or we come back to you and put it on the chart so that everybody can read it when we have it on the internet?

Rene Hoffmann

Yes Marc, if we can take this offline then we will make it available, I do not have it off the cuff, to be honest. So, we are happy to follow up on this one.

Dr. A. Stefan Kirsten (CFO)

Unfortunately not the way how we think but we should be prepared to your question.

Marc Mozzi

I have no third question then, thank you very much.

Operator

Thank you. And the next question is from Mr Marius Pastou, Credit Suisse, your line is now open.

Marios Pastou

Hi, thank you for the update. I have just got a few questions from my side as well. The first one relates to page nine of the presentation. Just having a look, it seems that the investments into the properties outside of the review were at a similar level to the investments within the review so it seems that there is more being invested outside of the core 25 locations. I just wanted you to provide a comment on that. Secondly, in the press releases it is discussing the possible axing of rent ceilings in the likes of NRW and I just wondered how likely that would be in the implication on the portfolio? And then finally, on page 25 of the presentation the maintenance spent per sqm has picked up slightly in H1 and I just wondered if that was a temporary increase or if we should see this going forward as well? Thank you.

Rolf Buch (CEO)

Stefan, should I start with the maintenance of the last one because this is the easiest and you know we had winter and we had some in the first quarter, we had some more energy systems which have to be replaced, which is normal for the winter, but it was a little bit more this year, but this does not mean that we do not go on in the future, so I think this is a one-time effect, which explains the element. To your question investment; in these valuation regions or non-valuation regions, as you know, we have done 20 largest cities and five other locations. Part of them are also Leipzig for example for conwert, which of course directly in conwert, this is not part of our investment probably at the moment, will be in the next year. So this partly explains the part about the investment decision is done actually if you get an empty apartment, or optimized apartment, and this is not necessarily in the big cities, because, as you know, the churn in the big cities is going down because the new tenant knows if he is going to another apartment he will pay much more for a similar quality. Stefan, can you take the rest of the questions?

Dr. A. Stefan Kirsten (CFO)

Yes, let me add one additional aspect to your answer. We are in Q2 so if the modernization started this year, the quick modernization, the quick flips which is optimized apartment and let us say easy outside skim upgrade buildings are done and are in the numbers, so the heavier investments of course go into the big cities but they also take a little bit longer. So, therefore, you will see a shift in that direction. Rent ceilings, well Rolf, it is actually you, this is political.

Rolf Buch (CEO)

Yes, I forgot the question. So as you see now, in Northrhein-Westphalia and also in Schleswig-Holstein, you will see the participation of the Liberal Democrats, which actually decided together with the rent ceiling and also on some other regulations, which will of course in the future have a positive impact, but as we always have said that the Mietpreisspiegel was compensated by us with other means; so that is why do not expect on the other side now, where they do not have a Mietpreisbremse anymore that the uplift is enormous because then we would have been liars beforehand. So in the end ... but of course it is a positive trend because the first time after a long time of years in Germany we see less regulations and more regulation. I think this is the right way to solve the issue of imbalance between supply and demand in this country.

Marios Pastou

Thank you very much.

Operator

Thank you. The next question is from Mr Kai Klose, Berenberg Bank, your line is now open.

Kai Klose

Yes, good afternoon, I have got two quick questions. The first one is on page 13, would you remind us where you see or where we can see the contribution from the real estate asset management for third parties, the WEG-Verwaltung, is it still part of the value-add business or not, I would think so but confirm. And the second question on the new construction activities, could you also remind us of properties which you built on your own land you also have to provide a certain number of units, or have to reserve a certain number of units, for tenants getting social recipients. Thank you.

Rolf Buch (CEO)

So the first question, you are right, there is several more services which is in the value-add business but which are less important than the one which we have shown here. And of course the service business for the WEG, so the Vonovia property management is part of this as well, which is part of the 100 million but it is not so meaningful. The second question was about ... you are right, in reality this is the case and this is also implied in our compression. It depends because we need a construction permission and in some cities the condition to get a construction permission is that you need a part of the apartments that you built has the social restrictions which is included in our calculation. We also build sometimes apartments which are for sale to compensate for this. So this is a mixture but there is no general rule, it depends actually on negotiations with the city.

Kai Klose

Alright, very clear, many thanks.

Operator

Thank you. The next question is from Georg Kanders, Bankhaus Lampe, your line is now open.

Georg Kanders

Good afternoon, so one question I have here. I wonder why there was this high uplift in Essen, this is also to do with your own efforts to improve one of the quarters in Essen?

Rolf Buch (CEO)

Definitely it is.

Dr. A. Stefan Kirsten (CFO)

But that is not monocausal. So, Essen seems to have at the moment a number of transactions which are at higher levels but anything subtle will definitely have an effect.

Georg Kanders

Okay, thanks a lot.

Operator

Thank you, the next question comes from Mr Bernd Janssen, Victoria Partners, your line is now open.

Bernd Janssen

Yes, good afternoon. Two questions, one also on portfolio valuations on page nine, and the other one on page four, the cost structure. Portfolio valuation, I do appreciate that in the end what we see here as value uplift reflects the transaction prices at least where we have seen transactions, but nevertheless a very technical question in two directions. One, typically I think you highlight that whenever you invest, that typically the value uplift would be about 150% or so, if I remember correctly, of the investments undertaken. And the other question on the performance, obviously the value uplift with regards to performance should only reflect the outperformance against the like-for-like rental growth that was expected. So, do we see as investments add up to something like 300 million or so and that was about also what you allocated to investments, do we see part of this uplift already in performance so that the apartments in which you invested had a strong like-for-like rental growth?

Dr. A. Stefan Kirsten (CFO)

Nope, what you have is, if we have a modernization and you have a change for instance of customers through your modernization step, this is under modernization. If you then have follow-ups, let us say this apartment changes hence a year later, then it is in the normal market driven rent. So, the first contract after a modernization move is based in the modernization number on page four. You are aware your uplift number of 150% is a bit on the optimistic side, where at the moment we are working our KPI's internally because from an economic point of view we have more and more different pockets in which we invest and therefore we have to find a more unified way of measuring them, this is something we are intending to present to you in November but I would say the uplift in the 120% to 130% range is more realistic from the anecdotal evidence which we have, it is not systematic evidence, we are still calculating there.

Bernd Janssen

Okay, indeed understood and the second part to this question, performance, I mean you had a market driven rent growth of 1.7%, you nevertheless showed a performance value uplift of 1.3%. So obviously expectations on a very theoretical level were below the 1.7%. That surprised me a bit but is that correct?

Dr. A. Stefan Kirsten (CFO)

No, this is combining two numbers which I would not combine like that. Because, keep in mind that this is just a half year number here, whereas the other number is a full year number so I would say no, this is Äpfel mit Birnen, pears with apples compared.

Bernd Janssen

Okay, even though the 1.7% market driven growth I assume is on a full year right? It is compared to the H1 2016?

Dr. A. Stefan Kirsten (CFO)

That is correct.

Rolf Buch (CEO)

Let us keep in mind and I have to repeat what Stefan already said. This half year valuation is not reflecting the full value. A part of the valuation is just not increased because there is not enough transactions. So keep in mind this is not what was coming but if you do a full year valuation you have more transactions, and then, in some cities you will see most probably a higher value uplift. So this is especially the case in the small cities.

Bernd Janssen

As I mentioned now I would anyway look at transaction data, prices paid and regard the table on page nine whereas it is theoretical exercise to back up those prices paid, but I wanted to understand how this has been built. On page three you mentioned already that operating expenses for understandable reasons increased proportionately to rental growth because of the consolidation of conwert so two questions to that. If I understand it correctly that we should get an update also on synergies with the Q3 number and then therefore obviously also after the extraordinary shareholder meeting of conwert and can you give us any indication of how the cost structure has evolved, if we base it on the old portfolio meeting excluding conwert?

Rolf Buch (CEO)

I think first of all you are completely right, as we mentioned you will get a new guidance including also some of the description of the synergies realized in November. I think the main part of this 10% operational expenses increase is coming from conwert.

Bernd Janssen

So which basically means that there has probably not been a vigorous step in this half or on the line for Vonovia?

Rolf Buch (CEO)

Yes. Keep in mind we were running until June. It is a full show in conwert in parallel, because this was as planned, because you know the transformation of the data took place end of June, because there was some slightly small reductions in the first half, but the big phase reduction is now realized after the 1st of July. All these people, as I mentioned before, are not there anymore because we were running at a lower cost structure since 1st of July. But please give us some time and we will come up with more detailed figures in November.

Bernd Janssen

Alright, thank you.

Dr. A. Stefan Kirsten (CFO)

And we also articulated some views about synergies for this year and for the running years, we are in line with those. So, these numbers do not alter at the moment but also keep in mind that from 1st July onwards, for instance, the comrade staff in Germany has been reduced to 10% of its original staff, so you would see these type of effects from Q3 onwards.

Bernd Janssen

Yes, we are looking forward to the Q3 numbers, thank you.

Operator

Thank you, there are no more questions, I will hand back to Rene Hoffmann.

Rene Hoffmann

Thank you Marcia, one follow up to Marc Mozzi's question with regards to yield compression; we had an in-place multiple of 17.6 at the end of last year. That is now at the half year mark at 18.4. If you translate that into growth yields you drop from 5.7 to 5.4. I hope that answers the question. And with that we are done for today, thank you everybody for dialing in. To those that have their vacation ahead of us, have a great vacation. As always, we are available if you reach out to us, if you have questions let us know and we are looking forward to speaking to you again no later than November 8th, which is our Q3 results date. So, have a great day and see you around, thanks.

(00:46:07)