Transcription

Vonovia SE, May 12, 2016,

EV00041166

Vonovia Q1 Earnings Call

00:30 Rene Hoffmann

Thank you, hello everybody and welcome to Vonovia's first quarter 2016 earnings call. Thank you for dialing at such a late hour, at least it is in our time zone. My name is Rene Hoffman and I have been head of IR at Vonovia since May 1. Your hosts for this call today are CEO Rolf Buch and CFO Dr. Stefan Kirsten. They will lead through the presentation first and then open up for your questions. Before I hand over to them, allow me a quick explanation as to why we do this call in the evening. Most of you may be aware that we had our AGM today, which went well, by the way, voting results have been published on our website. The AGM is reason number one. The second reason is that Unibail is hosting its capital markets day today and in order to minimize the conflict, we scheduled the call for a time at which Unibail told us they would expect to be done with their program today. Either way, we appreciate you dialing in this late. With that I would like to hand over to Rolf Buch.

01:30 Rolf Buch

Thank you very much Rene, also from my side a warm welcome to you and thank you for dialing in so late. The highlights of this quarter are the highlights of a boring quarter but a strong confirmation of our strategy. So we have shown a strong performance in Q1 2016, the main reason is the industrialization effects are achieved faster and better than we originally anticipated, mainly due to the good integration and the very successful and smooth earning of the GAGFAH portfolio but also a slightly faster integration of SÜDEWO. In place rent is now 5.84 €, which is 5.6% more than last year, the like for like rental growth is 2.9%. Adjusted EBITDA of operations is up per unit, so per apartment, it's up 6.4%, so you can see that the scale effects are delivered. FFO per share is up by 26% and not surprisingly, the EPRA NAV is more or less stable because you know we are not doing any revaluation of our portfolio in the first quarter, so that's why it is as expected. The good performance of the first quarter 2016, made us to take the decision to increase our guidance for 2016 because we are very confident that the successful start of the year will continue. The vacancy rate we now think will be at 2.7% and just let me point out: The vacancy rate is no longer a question if we have enough tenants which are interested in renting an apartment, it is now dependent on how much modernization we are doing, because you know in the vacancy rate there are also apartments included that we are temporarily doing the maintenance of modernization, so more or less Vonovia is rented out. You will see this later in the portfolio segmentation. Our new guidance is 21% up on a year to year comparison and it is now 720 to 740 while before it was 690 to 710. The dividend per share, and Stefan will explain that to you in more detail, will be up by 12% on a year on year basis. On the investment I can only say that the investment program which is still an important part of our strategy in 2016 is rolled out and on the way. We confirm the 432 to 500 million investment volume, the program is fully on track with already 117 million on projects, and we will have in this year as announced before an increasing focus on new initiatives and especially space creation. I just wanted to underline that and Stefan will go into this in detail as well, that probably space creation is something else and different than maintenance.

On the next slide is just to underline that we confirm our strategy; most of you have probably seen this since our IPO 2013 we have completely convinced that this strategy is paying off and that is why it is unchanged. You will see in the next slide that the property management delivers the fact of industrialization, so operational performance improvement. Financing strategy this year, Stefan will show you that there is a lot to refinance and to reduce our financing cost in 2016. Portfolio management as you have seen in the last year and will see in this quarter, the disposal program is running very successfully. Keep in mind we think this is a good moment to dispose non-core and non-strategic assets, and at the same time, as I have said already, our investment program is running well and delivering the effects. In some slides later I will show you also that we have new ideas and the new extension segment is also delivering significant parts. What we have a bit softer, you will see this later, is the acquisition pipeline seen in the first quarter, but I will come to this later. And with this I will hand over to Stefan and he will guide you through the figures.

05:53 Dr. Stefan Kirsten

Thank you Rolf and good evening from me too, ladies and gentlemen, I am now on page 4. 2.9% like for like rent growth, you will see this later when we come to page 13 and talk about the guidance that this is smack in the middle of our guidance but let's be reminded that we have increased our in place rent by 5.6%. These 5.6% show the positive effects of a portfolio management strategy which sells non-core and non-strategic and acquires portfolios for instance in Southern Germany and other parts. So you do see effects of the portfolio strategy already. You see that the vacancy rate is down, this will be reflected in our guidance, also you see the adjusted EBITDA of operations. And there you see rental extension 38% up, this is still relatively low, because it will ramp up further, and the other is a corresponding number to consolidate the numbers properly.

FFO1, 58% increase in FFO 1, if you go to the end of period number of shares you are at 26% increase, if you look more from an effectiveness point of view, less from a dividend point of view and look at the average number of shares for the quarter you are at 5.2%. There a single sense increases or decreases the deviation significantly so I would like to monitor that number more over various quarters. Our AFFO is increasing significantly, we have a touch-less capitalized maintenance in this first quarter which is a bit season, a bit mix, nothing really to interpret into. Our FFO2 again 55% up, we had a successful start in the year but we are also expecting to have more sales as they come. Fair value no surprises, why? Because no revaluation, so the only thing you see is that assets are leaving the company and assets are coming in but you do not see any revaluation of the assets. We promised you at the end of Q1 a 46% loan to value ratio, we are now at 45.8%. So I would say we can tick that box.

Ladies and gentlemen let's move to page 5, adjusted EBITDA operations. 51% increase in the adjusted EBITDA Rental, what is for me more important is at the bottom left. At the bottom left you see that we for the first time for the operations have reached an operations margin of more than 77%. You know that we sometimes have different ways to look after maintenance, so therefore if we take maintenance out of that game and just want to measure the cost and earnings profile which we have today in in our company, we have moved since the IPO from 77.4 to 85.2%. That tells you that size matters in our industry and that we are able to capture more and more like a fly wheel these scale effects which are important and good for us. Let's move back to the right. Adjusted EBITDA of the extension area, 7.6 million, 38% up, this percentage rate will increase up to the end of the year because we will ramp up some more projects which is quite normal for us.

Let's move to page 6, maintenance expense capitalized maintenance expense and modernization – and here I would like to focus on square meter numbers, which is on the right hand side. What you see is the 16% decline in maintenance and as I said before, don't over-interpret it, we have our maintenance budgets, we will run through them. This is partly season; it can be mix, that's why capitalization is lower. So I wouldn't over interpret the number, we are on track in our maintenance plan, we are not exceeding them and we are not under-shooting, this is just a snapshot. Our modernization investments are 4.9% up, it is normal that we have a very slow modernization start at the beginning of the year because of the winter season and therefore this is not really a surprise. But let's talk about improving our housing stock and let's demystify a few ideas about maintenance and modernization and for that we have shown you on page 7 some illustration, because we believe that there are still misunderstandings out there in the market. So what is maintenance and what is modernization? If you look on the left hand side at our illustrative flow of funds you find the following: You see rental income, you see maintenance expense, so that is in the FFO, you see operating expenses and you have some extension EBITDAs and others which lead to the adjusted EBITDA from our operations. The maintenance expense gets then, when we come to FFO1, and capitalized maintenance has a portion which is also capitalized. Pure accounting distinction, both are reactive, both are doing nothing less, and that is what we say on the right hand side of the chart, than protecting our EBITDA number which we have, not enhancing it, only protecting it. So we are not allowed to make any increases in our rent, we are just allowed to maintain the EBITDAs, which we have.

Then we have reached the AFFO which is a rather good cash-flow proxy. Out of this AFFO we pay our dividend, we pay one-offs, we pay our perpetual hybrid interest, we have some miscellaneous other costs, like for instance legacy pension cash-outs and things like that. We can then add the cash from sales and financing and then we have a new pot of money and into this pot of money we can invest. And into this pot of money we have to invest in an EPS enhancing way. Why do I say EPS enhancing? We can buy back shares, we can buy companies, we can build new, we can modernize – these are all things where you see an improvement of your numbers. If we can do something which has rent increase, we are in a different section of the German civil code, we are in section 559, not in 558, so throwing capitalized maintenance together with modernization or maintenance together with capitalized maintenance is simply cutting the corner too early and too roughly. Modernization and space creation, like for instance new build, densification of buildings, additional floors, has nothing to do with our maintenance. I hope this clarifies the picture a little bit we will come later to the capital markets day where we illustrate that, of course, much stronger.

Let's move to page 8, FFO per share up 26% year on year. We are here disclosing for the first time the FFO which is attributable to minorities, it was a request which we had from various individuals on your side. We have a more detailed version of that on page 35, you can actually distinguish two types of minorities in this company. You can distinguish red blockers, and I would say standard red blockers which are built for a long period of time, and you can distinguish the others. Everything which is in a standard red blocker for us is de facto a C, and therefore in the EBITDA numbers, so it does not have to be deducted from our FFO number. This is already baked in. And then we have others, like e.g. our cooperation partner with our TSG craftsmen organization who get a certain silent partnership participation, that is a true minority which bites into our FFO number which you have. If you are more interested in that, page 35, and of course the Q and A section in the end. The rest of the numbers is relatively self-explanatory, FFO 1 per share 26.1% up as I said before, if you do this, this is on end of period shares, if you do this on average shares you are between 5 and 6%. So from that point of view you should be okay there. You will also have found out that between our FFO2 and our FFO1 number in 2015 there was a marginal difference on the tax side, I think it is approximately 3 million. The reason is that with the year-end of 2015 we are allocating the taxes sharper to the respective segments and therefore we needed to restate the Q1 2015 number accordingly. It is a minor number, but in case you find a miscount in your models, please look at that specific line.

Page 9 I can make very, very brief, our EPRA NAV per share now adjusted EPRA NAV per share have de facto not changed, anything which is in there is simply spoken a volume change. We will revalue our portfolio in Q4 as always. Let us move to page 10, the loan to value number. The loan to value number is the March 31 number, the net debt is slightly adjusted because we have a couple of sales proceeds which come in later from the LEG transaction and some other transactions which we had, which we already counted in because of the credibility of our counterparties. But in principle you can say 45.8% is the loan to value where we are, in case you want to add back the perpetual equity hybrid, this number increases by 410 basis points, it is just very, very close to the 50% mark.

Let’s move to our maturity profile and then talk a little bit about our financing structure, I am now on page 11. So again, comfortable numbers. You know that we have to reach our unencumbrance ratio by September of this year, SNP published a note a couple of days ago, which puts this front and center, smack into the middle. We are comfortable to do that, for this we will have to take out at least one of the CMBS structures, and I will tell you which one, at the middle of this year. So that is clear. If you look at the other numbers, whether or not you look at our fixed hedge debt ratio to debt ratio, our ICR, our financing costs – we are still committed to the term that we will have reached at least 2.3% or lower for the year 2017, not in 2016. We are very happy with that. With regard to the loan to value target on the right hand side we can tell you that we are comfortable in the 40s, and we are comfortably the FR, even if we would include the equity hybrid at the moment. If we get opportunities to deliver further, because in the current phase of the cycle this makes sense, e.g. through non-core or non-strategic sales, we will not let these opportunities pass. But in principle you can say that our feeling is that we are in a more comfortable road, even if we are still from a loan to value ratio slightly higher our German peers.

What are our key objectives in the short-term? Reach the unencumbrance target, get a balance maturity profile and diversified funding sources. By the way, I can disclose this now, I don’t know if we will be successful in the end, but we are already negotiating one of our major secured loans for a prolongation to stay secured, so it is not that we are all in bonds we are diversified in the way how we intend to finance ourselves further, and we have to keep our finance guide somehow busy in this year. Good, on page 12, just a quick reminder, we are still owning 4.9% of Deutsche Wohnen’s common stock. At yesterday’s closing prices at 27.24 euros per share, our respective book profit would have been approximately 53 million euros, so the book profit, just as a little note, would cover far more than the total cost which we would ever spend on the Deutsche Wohnen project. From a business perspective we have agreed with our Supervisory Board that there is no necessity to sell, so we are intending to keep the participation and therefore if we keep them we have to accordingly treat them from an accounting point of view.

And let me guide you through the accounting methodology because this has some influence on some of the KPI. As you know we are under IFRS, it is a non-current asset because we don’t have any declaring wish within the year and it is in the available for sale securities. It is not treated like cash, it is treated like a financial security. The initial inclusion is that the purchase price of 405.5 million, that this is 24.10 euros for each of the shares. We will account this at a mark to market basis, so at every quarter end you will see that we have this stock breathing as the 30th of the quarter end numbers, up and down, but the differences will not show in the profit and loss statements, it would show up in the other comprehensive income, so they will bypass the profit. If we ever come into a situation that we sell that stock, any overs and unders will immediately hit full force the profit/loss statement. How do we treat this with our non-gap measures? Let’s talk about the NAV. In the NAV the participation is of course fully included because the equity portion is also fully included. On the loan to value treatment, there are two theoretical ways to do it – one is to treat them as cash and deduct them from the loans, the other one is to treat them as houses and add them to the value. We have decided for the conservative route and to add them to the houses, therefore they will be added to the value and not deducted from the loans.

With regard to the FFO there are also two ways to treat this: One way is to have it in the EBITDA, and unfortunately then distort your EBITDA margin because you have no topline against which you can measure the margin, or you say you treat it like a participation and move it more to the interest line. That is what we decided, so our EBITDA margin is not contaminated by having a participation in Wohnen in there, and by the way, the participation in Wohnen is not our role model. The role model is the Verein Bochumer Wohnen where we have a 14% participation since the 70’s, so we just have an equal treatment in the way how we deal with our participation there. So what we have is we have the financing costs for Wohnen, let’s assume it is fully bond-financed, for instance approximately 6 million and we are anticipating a dividend and that dividend will also end up in the FFO interest line. So FFO will be affected, NAV will be affected, EBITDA margins will not be affected and EBITDAs also not, LTV will be affected in the V and the accounting treatment is like any financial participation which we have. I hope that clarifies the matters, if any questions arise in the models, please do us a favor and reach out to the investor relations team who are more than happy together with our accountants to guide you through that.

With that we will come to page 13 which is the guidance page, and I know this is the page that is very close to your and my heart: We have highlighted on the right hand side where we are upping the guidance and I would like to give you an illustration why this is the case. On the like for like rental growth we will stay with the corridor which we have, we have reached in the first quarter 2.9% and I can tell you that this is a tough number to reach. Not because we were over-ambitious, this is very simply that there is a general connotation in Germany that rents are increasing and with that fluctuation is going down. In the past we always said we have a churn of 10% a year that was actually 11 and 11.5% which is down to 9% at the moment. That little shift was already feelable. There is a positive side to that, and therefore you have less new lettings of course, and therefore less rent increases, so we are fighting every day and every corner to get our rental like for like rental growth numbers. The good side of this is the vacancy rate because people who want a new flat therefore have to go into the vacant ones, and therefore our vacancy rate is much lower. That is the reason why we feel able that we can deliver a vacancy of 2.7% for the year 2016. The rental income is stepping up by approx. 20 million, the 20 million are 6 million out of the vacancy effect and 13 million for a portfolio which we acquired on December 5. At that time we were so busy with Deutsche Wohnen that we did not make any major market disclosure, it is part of a Granger portfolio, it is 2420 units, more than 50% in Southern Germany, including Munich, we bought it at 19 times, which cost approximately 250 million euro. So that alone is attributing to 13 million of more rental income. I don't have to explain to you that the integration is going smoothly and is done already because we are already in May, you always have some tinkering at the fringes which is necessary, but that is done as we speak.

On the FFO1, 720 to 740 million, this is an increase of 30 million, this is a number which is meaningful for us, 30 million include 11 million brought forward synergies. So we have synergies which we expected in 2017 to show up in 2016, 7 million out of those in Südewo, keep in mind that the total Südewo number was 12 million when we presented the deal to you last year, and 4 million more in Gagfah which is mainly the reduction of licensees for the old Gagfah EAP system. Earlier synergies: 9 million from the acquisition that I just mentioned, performance improvement of 10 million and the performance improvement mainly on the cost front. There even a little bit better, because we have marginally higher interest versus what we previously thought but in principle you can say that this company is showing scale economies, quicker integration and an acquisition which was. This leads to the FFO per share of 1.55 to 1.59, and nevertheless, even if we are already in May, this is early in the year. Therefore we just wanted to give you an indication about the dividend that we are proposing and let's start by paying out our dividend tomorrow which we have agreed today with our AGM, but we are proposing for the next year approx. 1 euro and 5, and if the year goes better we will look at that number, that is nevertheless a 12% year on year increase, it is a touch below the 70 cent dividend mark but I want to have some inherent conservatism in there because of the part of the period which we are in at the moment.

Good, let's move to page 14 and I would like to illustrate four housekeeping items before I give back to Rolf. The first one, and René has already introduced himself, many of you know him from his time at GAGFAH, I am very happy that we have him as the new investor relations head, after a rather vivid two and a half years, Thomas Eisenlohr decided to pursue other interests, we respect his wish. We wish him all the luck in the world and he was a great help during this period, I am looking very much forward to René whom we integrated with the GAGFAH transaction to move with the investor relations function forward. We intend to do this because next week is a holiday week in Germany and the week after we are in London, Frankfurt, Amsterdam and Paris, with road shows and where we visit conferences or on the road and we are looking forward to getting back into contact with you. Second highlight for us from an investor relations point of view is our capital markets day in 2016. Rolf has pointed out on various occasions that we are having a very exciting development with regard to our modernization and quarter management in Essen, called the Elting Viertel. We would like to invite you for June 6 and 7 into that Elting Viertel, June 6 arrival, panels we would like to explain to you more our extension strategy. We would like to give you an in-depth view about the mechanics, how we make money out of modernization because I understand that there is still some scrutiny on the way how we look at these things. And we would like to talk to you about space creation and innovation, we also intend to show you the Elting Viertel on June 7, we have chosen these days in a way that also our colleagues from the US e.g. who visit the GSA conference of Deutsche Bank in Berlin can come by just flying in earlier, you can then afterwards travel either by plane to wherever you came from or by high-speed train to Berlin and that is why we placed it like that. Save the dates are out, invitations are out, please do us a favor and give us a chance to illustrate our strategies.

On page 15, two additional items: The first one is we do sincerely hope that we can deliver to you a series of quieter quarter without disruptions in acquisitions or capital measures, therefore it makes sense that especially René and his team and we as the management board get a pole into the ground from which we can measure ourselves and we have asked Mackinson Cower to deliver a perception study for us, you might be contacted in June after the capital markets day and we would very much like that the vivid and candid feedback we are receiving from you, normally via all other channels will get into systematic way so that we can improve our service for you.

Last but not least we have been approached by shareholders asking for a full list of all Vonovia property interests, between us, this is approx. 68000 buildings and that made us a bit squeamish. We feel that this is not in the best interest of the company, let alone if we did it on a bilateral basis so the compromise that we are proposing that we this morning publish a list of all our assets by zip code, we are using a four-digit zip code in Germany, this brings the list to a 1000 lines. If you are interested where our assets are, the file is available in Excel and can be down loaded from our website. We intend to have an annual update and if you want to use it, if you have questions, please inform us and reach out to customer relations.

So much from my side, Rolf, back to you.

27:46 Rolf Buch

Thank you and I am continuing to do housekeeping. You know that we always show you our activity driven portfolio clustering, and as you can see on page 16, I only want to address a few figures, if you look at the vacancy rate and our subtotal strategic clusters, and this is what we want to keep. The vacancy rate is even at 2.3% which underlines actually Vonovia while doing so much modernization which is mainly done in this segment, we are completely rented out. The other thing that is probably also interesting for you is the non-strategic and non-core we have a remaining 0.8 billion of value which should be disposed in the near future and other 1.5 billion of value in the privatization segment. By the way, the vacancy on the privatization segment or 4.5 is intended because you know that vacant flats are easier to sell than non-vacant flat. On the next page you see that also our sales program is fully on track. I have often said that It is now the time from our point of view also to sell non-core and non-strategic assets. Here of course is a sale of the portfolio which we sold to LEG, announced in Q4 2015, is now becoming reality. And also our privatization segment, we sold a bit more units in the 1st quarter 2016 versus the 1st quarter 2015. So overall this sales program is fully on track and of course delivering, mainly due to the positive sale of LEG portfolio, 35 million EBITDA sales effect which is 3.5 times higher than the EBITDA which we achieved in the 1st quarter of last year.

On the next page 18, housekeeping as well. You know that we confirm also here as I said, the guidance for 2016 in our modernization program, so it this upgrade buildings is mainly the energetic modernization so we are changing the building here, it has nothing to do with maintenance. We have optimized apartments which is mainly to reconstruct apartments suitable for older people, which also includes elevators, e.g., construction and we have a package which is much more meaningful and which is actually in the majority space creation, so new apartments and new buildings, and also here I think it is very clear that this should not be considered as maintenance because we are increasing the number of square meters which we are renting out. On page 19 I also want to give you a bit of an overview of our existing projects and what is in the pipeline, of course here you will see much more if you visit our capital markets day in Essen. The energy-efficient modernization and the apartment modernization and multi-media are already covered, so this is up and running. Craftsmen service – we are very successful in building that one up, actually number-wise we are above our target in revenues and also in efficiency. Unfortunately we are lagging a bit in numbers of craftsmen that we can hire, it is really a big challenge to hire a craftsman, but the good news is even with lower numbers of craftsmen we are delivering better results than in our budget, so everything is fine and we assume that we will continue to hire craftsmen at the end of the year. We will also have the planned number of craftsmen for the year-end 2016. As I have mentioned, and I think you will see much more in Essen, next time we are also focusing on a way how we can do not only industrialized construction by adding an additional floor but we are very much investigating in ways how we can do industrialized constructions for new buildings that can sit beside existing building, here we have a target of a new construction cross of 1800 euros per square meter maximum. And we are very positive that we will achieve this target by the end of the year. This will of course change the parameter because you know today in Germany you normally have constructions costs of 2500 euros per square meter and putting 1500 euros per square meters in perspective, some book values in some cities, the book value is now middle of the old apartment is close to the costs of our new apartment construction. This probably will give a new boost for value generation in Vonovia. And because that kind of construction needs a difficult size we think that we should be driver and the leader in this market for this new concept.

The last page is also a housekeeping page, and please keep in mind that the portfolio Stefan told you was about 2400 units is not included in this figure, because it was closed on December 31, so these are the figures we can show you after January 1 until March 31, so in this 3-month period we have examined 50000 units, out of this we are still in constant analysis of around 33000 and we have already made a bid of 1000, so this is actually our acquisition pipeline which is a bit softer and so you have seen in comparison in the last year but keep in mind that only the first three months are always a bit softer because we see the portfolio coming to the market a bit later during the year.

Overall let me summarize: We have seen an operation excellent performance in the 1st quarter 2016, which leads actually to an increased guidance and this increased guidance shows that we are very optimistic and very positive about the underlying business, so in the end this shows that our strategy that we have been following since 2013 is increasingly paying off. Investments and innovations will be the main value drivers for growth in the next quarters because we probably have to assume a bit softer acquisition pipeline at the moment. And so with this I open the room for questions.

Q and A

35:17 Marc Mozzi (Societe Generale)

Thank you for giving us all the precision we have been requesting for nearly 12 months, average number of shares and the minorities and the numbers based on the post hybrid– I think it is a great improvement. I have two questions. First question is related to your dividend: I am not expecting you guys to deliver below your FFO guidance. Should we now consider that 65% payout ratio is more the norm which would apply in the future for you as a payout?

36:05 Dr. Stefan A. Kirsten

No, you shouldn't. Let's put it that way: It was my fault. I wanted to just be a touch more conservative at this time of the year, because we normally don't declare a dividend a year in advance and therefore we said we believe in our FFO growth, we were at 72% this year, 70 is a rough guideline. I am not killing your future cash flow models now by changing the dividend policy, okay? So take 105 in and 70% for the future, please.

36:36 Marc Mozzi

The CEO of LEG yesterday said that German portfolio prices are not attractive anymore. Can we have your view on pricing in Germany? I guess he was speaking more about North Rhine Westphalia essentially but we can have your view on pricing portfolio in Germany?

36:59 Rolf Buch

I think my point was not that we are saying that the prices are not attractive but we still see portfolio which we are analyzing and which are attractive from our point of view but what we see of course is that there is some yield compression, so increasing demand for higher prices, that is why it is getting a bit tougher. Of course this is all over Germany. We had a long debate about it which I don't want to reopen, where of course the expectation of the development of different cities might differ from company to company. We feel that there is a lot of attractive cities where we will also buy, even if the price is a bit higher.

37:47 Kai Klose (Berenberg)

Good evening, I have two questions for page 18. The first one: Targeting for 17 a yield of 7%, I think that was the target before but you achieved 7.6 the year before. Any reason why it should be lower compared to the last year? And the second one is when do you expect to have more clarity about the amount to be spent for new initiatives and space creation? And in half the year it would be a bit more narrow range for the demand spent in total?

38:25 Rolf Buch

Probably yes, you are right. You see on the 2013, 14, and 15 that the yield is going up every year a bit. You know the 7% for 16 is there because we always said we want to run a 7% program. You see that we exceed a bit more per year, so there might be also a chance in 2016 that this percentage will be higher. But of course you will see it in 2017 only anyway because you know we are lagging behind one year and that is why we stick to our commitment for 7%. The next one is that you asked to have more clarity on the 430 to 500, which is a wider corridor than you have seen before, we note we are early in the year. We are still asking for construction permissions, that is why later in the year you will get more clarity, but at the moment it is still tough because this depends on if the construction is finished in December or in January. So the model is not changing anything but we have a clear cut in the year of December 31, construction that is unfinished on the 31st does not count because we don't pay it, and so that is why this might be a shift of one building to December to January and that is why we still have this high corridor. But it should not change anything in your long term figures.

39:51 Kai Klose

Could you identify how much SÜDEWO contributed to the overall like to like rental growth in Q1?

40:02 Dr. Stefan A. Kirsten

Let's have other questions, I will check it and come back with the number, okay? By the way, like to like, hopefully not too much because it was not in the numbers last year, but I will give you the contribution for Südewo for this year, just give me a chance to look up the number.

40:23 Kai Klose

If you just ignore for a second the contribution for modernization and enhancing – what would have been the rental growth just from a normalized base list coming from Mietspiegel adjustments and other things except the extension and capex?

40:43 Dr. Stefan A. Kirsten

That is what we normally don't disclose during the year but you can assume that something in the range of 1.5% plus/ minus 10 basis point is the right number there.

40:57 Kai Klose

Many thanks.

41:00 Dr. Stefan A. Kirsten
Let me just very quickly to the non like for like numbers: So Südewo itself is not in the like for like number and has delivered in Q1 a 1.1% increase in rent from – no, that is the only thing I can see here – and has an average rent of 6 euros and 93. Not in the like for like number because we started with them in July last year.

41:35 Bernd Janssen (Victoria Partners)
Good afternoon, 3 short questions. One: A follow up on like for like, the other one on pricing for your disposals and the 3rd one on the tenancy rent law. A follow up on like for like: As you said that the tenant turn over has come down a bit, how have you mainly compensated for that? What has been above expectations? Was it modernization or was it sitting tenants?

42:09 Dr. Stefan A. Kirsten
I wouldn't be able to answer that immediately, honestly, I don't know. We know the churn went down, we are in line with our numbers, it must have been Mietspiegel but this is a guess.

42:25 Rolf Buch
But for more clarity, we don't have the figures but what is happening at the moment is actually that you know we don't have only one Mietspiegel but we have a mixture of *Mietspiegel* and what we have seen is that some Mietspiegel are better, others were worse than expected, so this is probably not mainly Mietspiegel, actually the point is that in the big cities we see that the "*Mietpreisbremse*" is not working at all and that is also it is helpful for us.

42:55 Bernd Janssen
Second question on your potential disposals of non-core non-strategic – the strong pricing that you face when you look for your acquisitions does it potentially help you with your disposal program? I.e. are you more surprised by the prices you might be able to achieve?

43:16 Dr. Stefan A. Kirsten
I would point at the following: We still have our targets, which is around 30% of the privatization and fair market value which were also up by the valuation. But as you have seen in the most recent disposals we are beating these targets.

43:33 Bernd Janssen
It was actually more asking for potential smaller blocks not on privatization?

43:41 Dr. Stefan A. Kirsten
There is one other aspect which we have to keep in mind: these bundles are normally bought by professional buyers but they are also using quite sophisticated financing to get this done and to get the right yields. It is less a matter of the prices go through the roof, it is more like you can sell these types of products because you can get a financing behind it. So that is why Rolf is hesitating to lift any targets and we are extremely pleased when we see that a block which we sell of 600 units or 500 units so gets somebody who has a proper financing. Three years ago you needed two buyers or three buyers because only one made it through the bank door, that is more the climate we are in at the moment.

44:30 Rolf Buch
To clarify, as I said before, we want to speed up the sale of the non-core non-strategic, it actually means to speed it up to a significant amount, this is not possible by selling individual buildings, but this is by selling bigger portfolios, like we have done before.

44.51 Bernd Janssen
Last question on the political front, *Mietrechtsnovellierungsgesetz*, tenancy rent law. Any idea or any thoughts when we will hear on timing more and what is currently your guess of what the risk of some of the key elements coming through?

45:10 Rolf Buch
First of all you know that next year we will have federal elections, so probably after summer the coalition is unable to take any more decisions, especially not in a critical way. You know that the CDU has promised several times publically that they are not ready to pass any more legislation in this respect, what was proposed by the Minister of Justice. On the other hand I would not give a warning and so we are fighting hard because you never know what happens and which kind of compromise will be done in the end. But we have a good chance that this law will not be passed because of the next upcoming elections, because it has to be

passed in this year. I think we have very strong arguments to argue against the law, so I would say that there is still a lot of discussions to be made, but I am optimistic. But you never know.

46:32 Rolf Buch

Thank you. We have shown a good operational excellence in the 1st quarter which leads to guidance increase and which also shows that we are very optimistic for the remaining part of the year. We think that this figure proves that our strategy of organic growth and not only being dependent on acquisition is paying off. And of course we will show you in Essen a lot of new and innovative ideas and at the moment we see a softer acquisition pipeline and we don't know if this will continue during the year or if we will see smaller portfolios coming to the market in a bigger number. So we are optimistic for the company 2016. Thank you.