Transcription

Vonovia SE, August 2, 2016

Operator
Welcome to the H1 results conference call of Vonovia SE. This conference will be recorded.

Rene
Thank you. Hello everyone and welcome to Vonovia's earnings call for the H1 2016 results. 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 as in prior calls, CEO Rolf Buch and CFO Dr. Stefan Kirsten. They will lead through this presentation first and then open up for your questions. And with that I would like to hand over to Rolf Buch.

Rolf Buch
Thank you very much, Rene, welcome also from my side to everyone and thank you for participating in this call and showing interest in our company. I will give you the highlights of the presentation and will talk about the strategy with one slide and then I will hand over to Stefan who will walk you through the figures. We have delivered a strong set of results in the first six months of this year, driven by our operating performance and synergies coming from the prior acquisition. And I have to admit, the company now has a size and we still find more potential for lifting up our efficiency and that is why we were even surprised with the result. In-place rent is up by 5.6% on a comparable basis and like-for-like which excludes acquisition and disposals. It is 2.8%. Adjusted EBITDA Operations grew by 11% per unit, the FFO is up by 44% in absolute amounts and by 16.6% on a per share basis. Since the IPO and especially since the last 12 months we have come a long way with our proactive portfolio management strategy. We have increased the number of units in our strategic cluster by 23,000 in only the last 12 months, at the same time we have reduced our non-core and non-strategic units by around 28,000. The overall in-place rent grew by 5.6% and the fair value per square meter increased by 14.1%. These results, our overall performance and the growing momentum of our underlying business allow us to increase the 2016 guidance a second time. Especially we will increase the like-for-like rental growth to 3% to 3.2% at the end of this year, and this of course gives also a higher basis for the year 2017. And the FFO1 will increase a second time to 740, 760 – this is 20 million more than the last increase and 50 million more than our first guidance. But Stefan will guide you through the detailed figures later, that is why I will now concentrate to show you the strategy slide. I think you are all familiar with the strategy. We like to show this again and again to emphasize the fact that we have an unchanged strategy since the IPO in 2013, and that we think also that this is the right way for going forward.

As the full year guidance for 2016 shows, our comprehensive and partly innovative approach of the business is increasingly paying off. Let me mention a few examples in every bracket of the strategy. In the property management we have grown an average in place rent with a CAGR of 3.5% between 2013 and the first half of 2016. Our vacancy will have declined by 100 basis points since 2013, at the end of this year. And our cost per unit has gone down by 30% since 2013. In our financing strategy we have today the most diverse financing mix, and we are repaying back the largest GAGFAH CMBS and Stefan of course will give you a lot more details, and by paying back the GAGFAH CMBS we have reached our unencumbrance ratio above 50%. In our portfolio management strategy we have sold since the IPO 36,000 non-core non-strategic units and we have invested more than 1 billion through our modernization program since 2013, and this has sustainable improved the asset and the quality of our portfolio. I will come back to this but let me just underline: The quality of the portfolio of Vonovia today is not comparable with the quality of the portfolio you saw in 2013, at the IPO of Deutsche Annington. The extension strategy also pays off while we have not contributed significant results in 2013 today, this segment contributes more than 50 million euros of adjusted EBITDA and as you know, I am convinced that this figure will be much bigger the next year. And finally acquisitions – of course this segment has generated the most headlines. But as you can see also in this guidance we have continued over the last three years to work on all the other four elements, and this is the reason why we today can deliver also growth and upgrade of guidance without acquisitions, but of course to be complete we have acquired around 200,000 units since the IPO by levering our scheme and industrializing our business. And with this I hand over to Stefan. Thank you.

Stefan Kirsten
Thank you, Rolf. Ladies and gentlemen, a very warm welcome also from my side. We are now on page 4. With Rolf's more long term view since 2013 is of course is very helpful to demonstrate the successful execution of our strategy which we have been pursuing since the IPO. Let me focus a bit more on the KPIs for the first six months to demonstrate the momentum we are seeing in our underlying business. Rolf has already pointed out, in-place rent end of period 5.6% up, 2.8% like-for-like, that is 10 basis points less than the first quarter, but these are not meaningful effects. We will talk about that later in the guidance. Our vacancy rate is still dropping. You see the various adjusted EBITDA for operations, rental, extension and other, don't be irritated about the amount in Other, Other is the consolidation amount between extension and rental, because some of the services and profits we make in Extension we have through capitalization not in rental. Our FFO1 looks quite healthy, with 387.8 million, we will come to that point later, that more than 9 million of that is the dividend from our Deutsche Wohnen participation, in case you make some crude calculations on that. FFO1 per share, 16.6% up, adjusted EBITDA in total 35.7% up, what we have and what you see is that the fair value of our real estate portfolio is dropping. Very simple, and I will emphasize this at various times during the course of

today, we do not have any new valuation at half year, and we had a significant disposal to LEG with more than 13,000 units. You also see the dividend being paid out in the very last line, this is 438 million and this is of course a significant number which reduces the NAV of the company and leads to a 69 cent delta on the dividend per share.

Let's move to page 5, our EBITDA and our EBITDA margins. The adjusted EBITDA margin from operations is 71.9%. That we have been growing more than 10 percentage points since our IPO and this has been fueled by two sources: the first one is of course acquisitions, and you need one CEO and one CFO even if the company gets bigger, so that is an obvious one. But our industrialized business model has proven very resilient with regard to efficiency improvements and steps forward as Rolf has just pointed out. Our rental income is 23% up, the key costs are lower in their increases in the first half, 16 to 15, so that is good news, too. With regard to the extension business we are also rising significantly. Extension is sometimes not easy to understand because not everything contributes to the top line, some things are cost savings. But I am sure that we will get together more transparency into the numbers so that they are a better guidance for you. Our adjusted EBITDA operations with 31% increase speaks for itself, hardly of course driven by the acquisitions but also partly by synergies and synergies which we realized earlier. We focused quite a bit on this in our calls when we look at the margins and I also like to look at the margin, the EBITDA margin excluding maintenance, because including maintenance it is influenced, if not even tainted by companies' capitalization ratios and how much or how little a company spends on maintenance and therefore please refer to the 77.4% versus the 87.4%, a ten percentage point increase in the last three years. So this all in all allows to get a better feel in one of the untainted quarters through acquisitions about our operating span.

Let's move to page 6. Again very important the difference between maintenance and modernization. Maintenance is reactive, we are expecting approximately 340 million for the full year, that is 10 million more than what we guided a quarter ago. And this is actually necessary to produce the cash, modernization is the part to spend the cash. And there we have given you quite a wide range between 430 and 500 million which we intend to spend this year, we can narrow the range to 470 to 500 – as we are all aware, the financial means are not the limiting factor but third party approvals, whether it is from tenants who have to move out so that we can optimize their apartments or from authorities because they have to give us permits, on the one side, and on the other side of course the sheer capacity of our own and hired work forces who have to build for half a billion euros. Regarding modernization the machine is running at full speed now, after the first few months of the year we had been a touch slower which is normal due to seasonal effects. We have narrowed the guidance, as I mentioned before, and the current range is largely still a reflection of the uncertainty with regard to building permits and the ability to finish something in time, let's say in October. We are very happy with these developments, I don't want to refer too much to the numbers and I leave this to your questions and Rolf will go into the modernization matter in any case in more detail later.

Let's move to page 7. FFO and FFO per share – the message on FFO is pretty straightforward, it is a one third increase in EBITDA coupled with only marginally higher interest expenses, that leads to a 44% FFO increase in absolute terms and more than 16% on a per share base year-on-year. We know that some of you like to look at the FFO per share on the basis of average shares, in this case the H1 in comparable number is 79 cents, you see this all in the respective end of period shares which we have here. But in principle you see that all numbers are going into the right direction. As we have done in the past we are splitting the FFO up which is attributable to our shareholders, our hybrid investors and of course the minorities, I think we have answered a lot of questions about the minorities in the past. The reason why the previous year's number was significantly higher was the payout of the Gagfah dividend. One thing is very close to my accounting heart, and this is that versus previous years the income tax numbers are broken down between operations and sales, therefore especially the sales FFO you cannot fully relate to the previous year's numbers. We are now more accurate in our tax position, and I would like you to adjust your models accordingly. Either way, however you want to pick and choose in this one you will find the right numbers to judge on our FFOs. Let's move to page 8.

Page 8. This is the "read my lips moment". No portfolio revaluation in H1. We have lots of indications and we will talk about that during the guidance. We have seen the first competitors who have already announced yield compression, I am sure there are other competitors who will you show you compression at half year, we are still sticking to a once-a-year evaluation, and therefore all our numbers about NAV and also LTV, you have no portfolio revaluations. Good. The numbers in the end fall down very simply, because we have paid a 94 cent dividend, so all the shareholders that we have, have already received a share of our NAV per share, and this dividend payment we simply couldn't compensate without revaluation and only six months of numbers. That doesn't make anybody nervous here, it is just sheer seasonality and we will see these numbers of course improving. We will address this later at the guidance in November at our Q3 when we can of course give you a rather detailed view about the potential yield compression for year-end. Good. We have strong indications that in the current market with growing market rents, increasing transaction multiples, and growing margins in our own sales program there will be a meaningful yield compression. Please don't ask us about the numbers, because we simply do not know. Our annual evaluation exercise actually kicked off yesterday and will be in a good shape to report in early November.

Let's move to page 9, the loan to value. Again, nothing really to report. You see the fair value of our real estate portfolio declining, that is the LEG transaction plus a couple of other sales which we did. You see the loan to value ratio now at 47.4% again sheer seasonality, a year ago we were at 51.1%, and at year end at 46.9. As I said, the dividend is the difference.

Let's move to page 10. Page 10 illustrates our maturity profile and everything which has to do with that. We have repaid – and I am quite proud about it – because it is a first for us, we have repaid a bond, we have repaid the 700 million bond which we raised in July 2016, at 2013 it was a three duration and this is absolutely fine and done and in our July numbers, you will also find this in the Annex of our quarterly accounting. We also have committed to early redemption of our largest of the 3 CMBS structures, GRF 1, this is the efficient one to take out. Why? Because in one go it accelerates and lifts our unencumbrance ratio to 57%, and it is also relatively efficient from the brake fees. This has been communicated from us to the servicer and the servicer has told this to the Irish Stock Exchange which published the data on July 27. This in itself is 2.5 million, so how do we pay for that? You know that we had in December a 3 billion bond program which worked well, we have since then paid down a lot of secured debt we have also in early June, because we weren't really sure about the BREXIT vote, at an early stage refinanced ourselves with two 500 million benchmark euro bonds, a bond with an interest rate of 0.875% and a Eurobond with an interest rate of 1.5%, blended interest rate is 1.19% and of course eight years maturity, and we are quite happy with this, because as you all know the BREXIT vote ended more in a surprise than what we expected. When you then look at the maturity profile that simply means we have nothing except for small mortgages which needs to be refinanced in 2016, 2017 by the way is October with the first Yankee and December with a short termer from last December and in 2018 the wall has been nearly chopped in half by the GRF 1 irrevocable commitment to repay. So our maturity profile will get more balanced, we are having two additional CMBS structures which we already announced we will take out under the current market circumstances. Until or within the first quarter of next year. Maturity profile is much smoother, I would also like to highlight the pie chart on the lower left hand side. Of course overall interest rates are an important factor, because they also influence the FFO numbers. But we believe that the funding makes it an access to a wide variety of debt sources is equally important, we consider it vital to be able to choose the best funding sources at any given point in time. And there are little things that make you proud, what makes us proud is for instance is that we can put some of our KfW debt simply on our rating without influencing negatively the unencumbrance rate and these are things which show that size and skill together will change some of these terms in German resi. Rolf has talked a lot about efficiency measures and he will talk more about those from the operating field -

On page 11 you see something that we are doing in the finance field, we are of course measuring and our measure is how much does it cost us to raise 100 million euros of debt, and you see here of course that hybrids are more expensive than normal bond programs, you see standalone bonds, you see Yankees and then you see a very clear progression that we are currently with less than 400,000 euros per 100 million in a fee structure which is rather efficient. This we do by e.g. capping legal fees, having things which are moving away from volumes etc., but we have established ourselves as a first class frequent issuer. On top of that we are all aware that the European Central Bank has its commercial securities purchasing program under way, so far and I haven't looked at the numbers from yesterday, but the numbers the week before showed us that the German Bundesbank has bought four of our bonds already. So what we see is a significant tightening of the respective bonds. Before I hand back to Rolf let me just talk very quickly, because we had a couple of calls today, about the hedges that are in place. We have a total of five hedges as of October last year, these hedges due to the fall in the interest rate, are under water 101 million, we have realized 54.5 million in this quarter by breaking two of the hedges. We have used two other hedges which were fitting well to the bonds that I mentioned before. And they were amortized over time and we have one other hedge open in November, in case we tackle the GRF II structure. So our hedges have proven premature, if you look at the economics, but you are always smarter a year later. On the other hand they have fulfilled their function and we are treating them accordingly in our accounting. On that technical detail, back to Rolf.

Rolf Buch

Thank you Stefan. Let me talk a bit about a very important point, which is our portfolio management. We all know that the standard way of looking at a matrix is the like-for-like rental growth. And while this does make sense to judge an individual portfolio, I think it is also very telling to look at the development of the KPIs, including the disposal and acquisition of assets in order to reflect the impact of the portfolio management strategy. That is why on this page we are showing you the portfolio development of only the last 12 months, including the impact from modernization, disposals and acquisition. The numbers largely speak for themselves, even without acquisitions, and the slide is in the backup, investing in our strategic assets and serving more than half of our non-core non-strategic assets has improved overall portfolio quality. Rents are up by 4.3%, overall vacancy is down by 70 basis points, and the fair value per square meter has grown by almost 12%. But if you then also include the acquisition in the mix and then you see that actually we have acquired portfolios above our average qualities, the number has improved even more. In our strategic cluster, which includes operate, upgrade building and optimize apartments, we have added 23,000 units and have grown in place rent by 0.3% in the last 12 months. Adding the impact from sales, so overall in place rent is up by 5.6% on a much better portfolio. Allow me to make some more internal comments. As you already discussed, we have increased the range of our like-for-like rental growth guidance and Stefan said that to 3% and 3.2% for the year end 2016. In addition to the very stable market rent growth, we are increasingly benefitting from investing sustainable amounts in our products, and this has two main effects. A general generation of additional rent growth on top of the Mietspiegel development and we are creating a new product, fully refurbished flats which are suitable for an elderly population in energy efficient buildings. And this is a very different product from the multi-family commodity apartment that we have all have been used to in the past. Of course we are all aware of the dual impact of rental growth – it increases our top and bottom line and it drives our real estate values. Our overall rental growth is also impacted by disposing below average assets and locations and the acquisition of above-average assets and locations, e.g. Südewo. Modernization, non-core and non-strategic asset sales plus acquisitions are the three basic elements of our proactive portfolio management strategy. And let me underline it, we are only in the beginning to see the effect of these numbers. It is like a fly wheel – it takes time to get started, but when it starts picking up speed and you keep adding to it, it is very hard to slow down, and I will come back to this effect in a slide later.

As you can see on page 13, we are also well on track in our modernization program, we are now later in the year we are able to narrow the range of our 2016 modernization volume to 470 to 500 million. Please keep in mind that this significant increase of modernizations is not shown in our 2016 guidance but will be shown in rental increase in the next years, and because I have learned that you don't like surprises, even if they are good surprises, I think this is very important because this gives you flavor that our rental growth in the next year will be above the 3.3% which we will show in 2016. On the next page, page 14, you can also see that we were, as announced, very successful on larger block sales and that we have more than doubled the EBITDA contribution from sales to 46.5 million in the first six months of this year. And the positive market fundamentals that we are using, and that is why we are selling so actively, are reflected in this fair value step up to 34.5% on condo sales, and even 3.5% on non-core and non-strategic sales. And I think this is also, as Stefan mentioned before, a very interesting element, if it comes to portfolio valuation in the end of this year.

On page 15 I will talk about extension business. I know this segment is still relatively new and I am aware that some of you might still struggle to reflect this extension business in your models. On the upper left hand side you can see the elements that feed into these exact extension segments. On the lower left hand side we are showing some evidence for the increased volume of this part of the business. Don't be put off if you see the large deltas between last year and this year on the upper right. It is mainly because we are running all maintenance and modernization work through TGS since the beginning of this year, so the total maintenance and modernization volume of 810 to 840 is either performed or coordinated by TGS and is shown in these bigger figures. The big advantage of this is that we now have control of 100% of all maintenance and that we get profit e.g. for cheaper windows, even in the case if you are using third-parties craftsmen. To be clear about the absolute amounts: The absolute amounts are still relatively small, at least if you compare it to our normal rental income. But this business is fast growing, as you can see on the lower right of the page. And it comes without any cap or nearly without any cap on capital investments.

Let's go to page 16, as every quarter I would like to give you a short update about our acquisition pipeline. You can see that it remains soft at this point but this is fine for us because we are also happy to grow organically. At the same time, I also want to underline that we are always ready to take opportunities if they come up. We are not certain when the next opportunity will come up, but we are sure that one day there will be a next opportunity. But I also want to underline what Stefan has already said, we have nothing in the pipeline at the moment. Actually summing up, modernization, disposal and acquisition, which we actually call active portfolio management – we have invested since 2013 more than one billion in our modernization program. We have disposed more than 36,000 non-core non-strategic assets and we have acquired at the same time 200,000 units which have an above-average quality. All these main effects actually lead to a material improvement of quality of assets and locations. As I said before, the portfolio of today has nothing to do with the portfolio you know in the year 2013 at the IPO of Deutsche Annington. And that is why we think we are well positioned to benefit from strong underlying fundamentals of German residential market in the future. We know that we have a long term business, and I am very happy that we have decided to follow a long-term strategy and it is now an active portfolio management, you can see the first impacts that this long term strategy pays off and with this I hand back to Stefan who will guide you through the guidance.

Kirsten

Thank you, Rolf. Let me deal with the guidance in one page and you have seen in the last column that we had quite some changes. Let me start with the things that did not change: As Rolf pointed out, as I pointed out, there is no yield compression in these numbers, so therefore don't be surprised that we didn't adjust our EPRA and NAV per share and our adjusted NAV per share. Like-for-like rental growth – I must say I am now five and a half years in the company and a stable number above 3% looked completely out of reach five years ago, so I am very proud to say that with our modernization program and the good work on the underlying, which is section 558 civil code, rental growth we are doing well. On the vacancies you are seeing that our prognosis after being rather cautious in November last year is 50 basis points better than that. The like-for-like rental growth does not fully reflect in the rental income. The reason is relatively simple. These like-for-like rental growth numbers are end of period numbers, so they de facto set the floor for next year in the rental income but they only have a limited influence in this year, because some of these projects get finished at the beginning of the fourth quarter and therefore contribute only to one or two months. Nevertheless, if you see that we are moving 10 million on the rental income our FFO1 moves up by 20 million, this is the 10 million from the top line which falls straight through to the bottom, plus another 20 million of synergies where we are faster and cost savings which we have done. This over-compensates the 10 million additional maintenance then which I have mentioned before. Our new guidance for FFO1 and that is important later when we come to the dividend line, is 740 to 760 million, the ones of you who know us well know that we have our current forecast therefore somewhere in the middle. The FFO1 per share – is a matter of course and is just a result. Maintenance I mentioned, 10 million more, mainly in the area EHS environmental health safety and a couple of packages in heating systems, etc. which we can see after the first half of the year already. Modernization – something which makes us quite proud, not the total amount, the total amount is in any case good, but we are able to narrow the wide range we have given to you, 470 to 500 million. Again, the limiting factor is not financing these things, but it is getting them built.

Now we come to the sales part of our business. We stick to our privatization number, but the fair market value step-up will move up at least by 5 percentage points. On our non-core business, as Rolf has frequently pointed out in the past, we are finding buyers now who can also get the financings done, this will be done on an opportunistic scale. We will see that there is not too much left also in non-core and non-strategic, but nevertheless we expect now and guide a step-up of 5%. These two small steps with regard to our sales program should give you an indication that we are expecting a meaningful yield compression, even – and I repeat myself - if it is not yet in the numbers.

Dividend per share. As Rolf has shown you on the acquisition pipeline update, our pipeline is still soft, as it was in Q1 and while we do not foresee any material changes at this point, the very nature of acquisitions and our opportunistic approach towards them is that you can never be sure. This is why we are still conservative on the dividend, a little more than half way through the year. The 1.05 euro we intend to propose at the moment are already a 12% increase but I would declare them as a minimum dividend, because they do not fit to our stated dividend policy. So what you can expect in November when we present our Q3 numbers is either something comes along as a meaningful acquisition and needs equity, which I, by the way, at the moment don't see as the CFO, or we will revisit the dividend number again in the light of our dividend policy of 70% at FF01. So one of the two effects should happen in November, and that is one of the reasons why we kept the number. I personally feel as the CFO that it is better to err on the conservative side and we don't want to scale back in case we have something larger coming along. And on that high note back to Rolf.

Buch

Thank you, Stefan. So let me wrap up. Actually the size of the business and the operational excellence in the first half of the year also should give you a good visibility for growing momentum and increase of FFO by cost-cutting also in the next periods. Second, and I emphasize again that we now see the fruits of an action-driven portfolio management and this will positively impact the KPIs not only at the end of 2016 but in the following years as well. And then of course a strong cash flow profile is a very stable business model is I think an advantage in volatile markets, and I think it is why it is also appreciated in our stock price. What you can expect from us in the outlook of the 9 month numbers on November 3 – we will give you a final review of our 2016 guidance including the dividend and I think Stefan has been very precise with this. We will give you a range of the expected yield compression which we expect for 2016 and of course as always you will get a first guidance for the year 2017, but we also will bring some more data with us in the nine months reporting which can show you that our portfolio quality presenting different local markets has significantly changed. And that why I probably for the last sentence – this is about the property-management of which I have shown you a few slides. Don't forget that we are seeing in the current numbers of 2016 only the effect of the modernization investments that basically have impacted our investment program up and including 2015. 2016 has a much higher volume and it is just only the beginning to show the effects in 2017 and beyond. And you can see the new like-for-like rental growth is therefore only the beginning of where we see the company moving forward. Thank you very much.

Q AND A SESSION

Bart Gysens, Morgan Stanley

Hi. Good afternoon. I have a question, on page 25 of your presentation, the P and L, it says profit for the period is up 63 million year-on-year, first half on first half. If I look at the capitalized expenses line, that is up 60 million, so basically almost the entire increase in your profit for the period after tax is the fact that you have capitalized more internal expenses, and you clarified that by saying look, we have inserted a lot more through TGS, etc. But can you explain that increase a little bit more, please? Thank you.

Kirsten

Yes, because what is going to happen is the following: If you have capitalized, okay two steps back. There are two ways to structure a P and L, ours is the full cost approach, which is the usual approach in Germany. And unfortunately and less well known than the sales cost approach, which you know in the Anglo Saxon world. So what we do is that you have in the top lines everything you have worked for, including your capitalization. This capitalization of course gets calculated out because you have the cost and cost of materials, cost of personnel, etc. So in the end what you have also seen is a significant rise in these respective numbers, because there are much more people working in this. So if this is really a point of bother for you, let us do a reconciliation and put this on the web, because this is a point of transfer which get frequently asked about. So the reason is very simply – you can outsource, then you have everything which you capitalize simply by buying it, and then you are depreciating it or not under IFRS, or you build it yourself, that means you have the cost base also hidden in all your numbers. Mainly in material costs and personnel expenses, and you take the capitalization in – by the way excluding its respective profits – you take it in because you are adding it to the balance sheet. So it is more a gross versus a net presentation, we will get you a reconciliation and put this on the web.

Gysens
Great, thanks, I thought it was something like that but I just wanted to clarify. And secondly, my other question is, can you split your like-for-like rental growth by the individual drivers? Can you give us some clarity on what is actually pure Mietspiegel indexation and what is modernization?

Kirsten
Bart, we usually do this only at full year because you get all sorts of seasonality effects, at full year I am still expecting something like a 100 1.5% plus minus 10 basis points on the so-called 558, so that is what I call the bread and butter rent increases. And the rest should usually come through the modernization part.

Gysens
But just for my benefit – the fact that you are increasing your like-for-like guidance, can you give us a bit of clarity what is driving that? Is that better Mietspiegel indexation or more modernization?

Buch
No, it is mainly not coming from the Mietspiegel indexation, it is coming from efficient modernization. And of course in some areas where we really need to the end of the year, we are able to offer products like apartments which we are renting out with kitchens, etc, which also helps. But to be very clear, the normal Mietspiegel is very stable, because you see the same Mietspiegel development all over Germany and as you know we are in a lot of locations, so this is really a stable which is not moving.

Remco Simon, Kempen
Just a few questions, please. Rolf you mentioned that acquisitions are a bit soft at the moment. I was wondering if you could elaborate on what you see in the environment? Whether that is the case because you think that prices have gone a bit ahead of themselves and you don’t really see value or whether there is no product or what are you just holding back because you see better opportunities to invest in your own portfolio?

Buch
Remco, thank you for the question. What you see is actually we see at the moment that prices at least in some areas are getting not interesting any more, this is why we are selling like hell, so you can see that on the last half year, we have never had a period like we sold so much and to be very clear we are surprised about the prices we are getting, even for our non-core portfolios. So I think this is a period in time where we think that we should be more on the selling side than on the buying side. So this does not include that sometimes there are opportunities, especially we have German-wide portfolios, but at the moment in various portfolios we see a very high price fact which is of course for all of you known because it is a lower interest environment but we think that we have to think long term and one day you buy a portfolio too expensively and later you have to finance it more expensively, it is not in the interest of the company and so that is why we are disciplined with our approach. So you see us more on the selling side at the moment than on the buying side.

Kirsten
Remco, there is one additional comment, just very quickly. If you add the non-strategic and the non-core units in the company we had a year ago 48,373 units in there. Of course we have since then reshuffled and acquired but also sold, we are now down to 20,406, so we have sold nearly 60%, sold or reshuffled back into the strategic section, more than 60% of our non-core non-strategic, and this can also be seen when we talk about our assets for sale and the amounts there, okay?

Simon
Okay. Maybe to follow up on that: Do you intend to accelerate the sales of that 20,000 units? Or is that just to take a bit of time for selling that?

Buch

So we are in half of the year, we are not reducing the speed of selling and some of the units have some selling restrictions so that is why you cannot assume that we are selling everything this year. So we have to respect some selling restrictions but we are selling as fast as possible and our sales force is working as hard as they worked since the beginning of the year.

Simon

Maybe on the financing side one question: You mentioned before that you overall interest growth to go to sub 2.3% next year, I was wondering if you could maybe give a little bit of an update how you see the financing environment, clearly your bonds have profited a lot from ECB buying of course, financing costs have never been cheaper and I was just wondering if you see some opportunity to maybe proactively tackle some further refinancings to bring those costs down? Following up on that – what your consideration was to cancel two swaps but to keep the others? Maybe a bit more on that please.

Kirsten

Okay. Two things: I do not foresee too many opportunities because we have at the end of 2017 two bonds, which we have to refinance. I ignore the other CMBS structures, because until April next year they will be gone. And I hope no one expects that the financing environment will materially change until then. At least not the interest environment and how the margins are doing, we have to see. So I have two bonds in 2017, which the team is looking at and bond buy-backs prematurely are not really fun. Therefore I don't expect us to tackle those earlier. Then the next key events are in 2019, mainly the debt hybrid. This is something where we will start very early thinking about concepts, but there is again nothing concrete there. So fortunately or unfortunately we have now a balanced maturity profile, we will not pull penalties forward because of the financing benefits. If we cannot prove them that they really go through the P and L properly. That is the first bit, the second aspect is the CMBS structures and to take them out of the market is again a pain in itself from a purely administrative point of view, so let's concentrate on those. Does that answer your question?

Simon

Yes, it does. Maybe on the swaps – just shortly?

Kirsten

Okay. Swaps relatively simple. We had actually over-swapped because we didn't expect the transaction with LEG. And that in itself brought us whatever 700 million of additional cash-in with other sales together, and in that event I would have had a billion more to finance, without those transactions, and then I would have used all my swaps.

Thomas Neuhold, Kepler Cheuvreux

Good afternoon. There is basically only one question left, regarding the outlook for rental growth. Can you firstly give us any indication of how you compare in-place rents to market rents, if you have that figure. And secondly maybe can you also give us an indication for the one billion you spent in modernization by how much you were able to increase rents versus previous in-place rents? Thank you.

Buch

So, the second question I think we have shown in the figures that we delivered 7.6 last year and this year we always take 7% yields, so you can actually calculate the impact of the rent which will be shown in 2017. If you do this calculation you will find out that the rental growth will be significantly above 3.2%, this is just mathematics without giving any guidance, just helping you in the mathematics. The question of in-place rent versus market rent is as we have said before a concept which we don't share because the market rent is not a fixed figure. This is a moving target, it depends on different factors. We are sometimes renting out above market rent, sometimes below market rent, so I think this is theoretically a nice concept but it does not work, especially not if you have a German-wide portfolio.

Kirsten

There is one additional small comment to that. If we can choose, which we in most cases can, we modernize buildings which are already at Mietspiegel or very close to market, so that this happens as a booster. So that is one of the reasons why we are also not showing these gaps, you can expect of our modernization rent comes on top of a fully rented apartment.

Marc Mozzi, Societe Generale

Yes, good afternoon. I have three questions, the first one is – could you indicate or guide us what you would consider to be run rate for your FFO this year on which we should start make our forecast for 2017?

Kirsten
Marc, we will give you fully fetched guidance in November. And we have just started our five-year planning exercise and we will follow up with our budgeting exercise. I must actually say, if I am looking at the data, and we think about your own estimations e.g. for our rental growth, you have a good top line approximation. And you know how our interest rates are developing, the numbers in between don't change that much, they just improve a little bit. So I wouldn't like to give you a run rate, especially not - nobody would dial-in on November 3, so let's not do that.

Mozzi
Coming back on the top line growth expected. You mentioned that you increased in guidance for this year from 2.8 to 3 to 3.2% was linked to modernization. Is that not the occurrence of better guidance on vacancy rate as well? Because if I look at your guidance on your vacancy rate, it goes from 2.7 down to 2.5. So it was entirely driven by that.

Kirsten
Like-for-like is without vacancy. The vacancy rate shouldn't play a major role in that. We rent a square meter this year with X, and next year with X plus 1. That is not the meaningful effect, that is an effect if you talk about the absolute top line number. So if you fuel the rental income number, then of course vacancy reduction plays and like-for-like rent increase. I must actually say I am mixed about these like-for-like numbers. They are very good if you want to measure this over a period of time, but in the end what you have to look at, what are the rent increases you are getting out of your portfolio with all the portfolio effects and volume effects? And we are of course selling at the bottom end and buying more at the top end, as you all have noticed for instance with the Südewo transaction. But a vacancy should not play a role there.

Buch
That is why talked in this presentation only on a like-for-like but in the in place rent development, which is above 5%. And keep in mind, we are actually selling at the moment significant portfolio which has no rental growth because of bad locations. And we have bought in the last part of the year 2015 above average rental growth potential. And this has of course in the like-for-like, you don't see it, because we only compare assets which we own this year and which we have owned a year before and in the in-place rent of course you see it, and that is why the in-place rent figure is so much higher than the like-for-like.

Kirsten
Marc, did we understand your question correctly?

Mozzi
No, no, no – it was perfectly fine. I was not thinking that way but fine. In the event you were to find a large acquisition and you would finance it by raising equity, would you consider over-equitizing it?

Kirsten
At 47% I am in my comfort zone, I am expecting a significant yield compression. I am not the person, as a CFO you never say never, but it shouldn't be up on the agenda at the moment.

Mozzi
Fine. And the last one is more just if you can come back to me on how you calculate your H1 2015 FFO per share on the way to that original number of share because using your numbers I am not able to find your 79 but I find your 83, but it would be great if you could help me on that – where is the 5% difference?

Kirsten
Yes Marc, René will come back to you on that.

Peter Papadakos, Green Street Advisors
Hi there, I have two questions, please. One is on the volumes of modernization. So the 470-500 million, assuming your yield which is around 7, that should contribute let's say around 30 to 35 million Euros, so that should be about a 2 % plus, maybe 2.2% like-for-like for 2017. But then what happened to 18? Because you need to keep pushing the volumes up to grow rents more.

Buch
So you know, and this is probably not too much emphasized in this presentation, you know that in former times we used to have the upgrade building and optimize apartment program in our modernization. We are now putting as modernization our adding

additional flats to the buildings, and even new constructions inside existing building. Of course why the potential for increasing this investment is massive. It is a technical restriction for us, because we have to build an absolutely new model, as we have shown you on the Capital Markets Day, and we will get in the next weeks the permission of the first serial construction here in Bochum, so that is why I have no doubt that we can increase the investment in this now three programs in the future and it is also clear that the new one is a new construction we will deliver a minimum 7% yield.

Kirsten

Peter, let me water down the wine a little bit. The 7% with which we started in the IPO were always 6% on rental increases and 1% on vacancy reduction, most of these programs yield more. But as our current vacancy numbers, the vacancy reduction effect is of course a little bit muted.

Papadakos

Maybe it is related, on page 5 where you show the EBITDA margin history – just to play devil's advocate, but was it maybe that the 60% of IPO was an unreasonably low number from the previous owners? And you are just stabilizing to a more reasonable number now as a professionally run German Resi company? Is the 72% still low in your view? Or is it where it should be?

Buch

So keep in mind that we were owned by a private equity company so they have reduced also costs before. I think what it is all about is about we were operating in 2013 with 140 / 150000 units in a Germany-wide platform. And now we are operating with 350,000, this is a scale effect but of course we were below some of our competitors which are only in one city in the beginning, because if you have the same size, then the platform of course is per unit more expensive because you have to manage all Germany. But of course the scale effect is coming up. As you can see in the first half year, guidance and the first half year figures, we still find in our platform a lot of optimization potential, and this is not done in the end of 2016, so I am personally convinced that you will see getting this figure going up in the future, without committing to any speed, because I think this is where you have to do a lot of small things, so this is not one big decision, this is a lot of small tuning but I think there is still room for improvement in the next years. And this is normal. We have just put two companies together, they are now working together, but of course if you do so, you still have some fat all over the place and we will have to get this fat out in the next years.

Kai Klose, Berenberg Bank

Yes, good afternoon gentlemen, I have three quick questions. The first one – on page 12, how many units of the non-core non-strategic part have been reshuffled into the core portfolio? Second question is on the third party, the WEG Verwaltung on page 15, you mentioned you have about 53,000 units managing for third parties – how much revenue do you collect from this activity? And where do I find this in the P and L and what is the margin on this business? Thank you.

Buch

First of all the first question is simple, it is a reshuffling from non-core non-strategic is not meaningful, it is 4,000 and this has something to do with the combination of Gagfah and Annington, and Südewo, we looked at it and we found a few which is now being a critical mass and that is why they are finding themselves. So not bad portfolios; just portfolios which are more than 50 km away from our next center, and now we have a lot together and that is why they are not 50 km away. So the main success of reducing the non-core non-strategic is by disposing in several packages. This is the first question, and the second question was about our third-party management. This is not a meaningful figure today in the extension business, because part of it was just added this year. It will be more meaningful if we realize the scale effect in this business in the future. But keep in mind we get this business actually without any investment, and so this is investment-free. It is a pure service business and of course in the future we think that we can generate the same amount of synergies also in this part, because also for example we can use our craftsmen even in third-party managed flats. For this we don't have to own it. But this is more future potential, it is not too meaningful at the moment.

Klose

Okay, you have 56.7 million income in the extension business for external sources so I would assume that a large part or that third-party business shows up here?

Buch

No, a significant part of this is for example the television signal, the metering, and things like this.

Klose

Sorry to ask again but is it 10 million on the third-party business or is it really a single digit number?

Buch
René will come back to you with a detailed figure.

Klose
And the last question, on the vacancy site. You were saying with 2.7 you were fully occupied? And which reason you now have noticed stronger than expected vacancy reduction?

Buch
I think that if you are at 2.8 in the summer you are automatically at 2.5 at the end of the year because you know the seasonality of the vacancy. Keep in mind that we have not only sold portfolios which have low rental potential but also the higher vacancy as you can see on the slide of the portfolio, so part of the vacancy reduction is actually that we have sold portfolios with a higher vacancy rate, which actually means that we are now with a high concentrated portfolio which are fully rented out.

Klose
Thank you. And the last question on the portfolio investment on page 13. Is it possible to specify how many applications you have asked for new constructions or how many you expect within the next year or one and a half years?

Buch
We have today in the German press, because this is very important for the German press, we have given a figure which is actually at the moment we have thousands apartments in the process, which is actually finished, so we are waiting for the construction permission. And this 1,000 is actually in this year but I think we will have to increase it, it is not only because it is a very interesting investment but I think it is also important because in Germany we need much more, so we will have to go further on the road above 1,000, again in November we will give you more detailed guidance for the year 2017 and beyond, that is why this is the official number at the moment, 1,000 this year.

Klose
Last question, a quick word on regulation. In the Q1 2016 Earnings Call, you mentioned that the new law is not expected to come before the next Federal Election, is there anything to be mentioned now or does it still stand like that?

Buch
I think we have holiday season in the parliament now, so what I said in the Q1 reporting was that nothing will come before the holiday season, and we know after the holiday season, there will be an election campaign because we also have an election in Berlin before the big election in Germany next year, so we don't expect anything because we don't see that there is an agreement possible. And also to be very honest, Germany has at the moment more difficult problems and political debates than rental regulation.

Peter Yu, Standard Life Investments
Hi. I have a few quick questions for Stefan on the KFW loans you mentioned. I was wondering if you could elaborate a bit more on the point you made on the character loans and the credit rating relationship and also just am I right in thinking that's the 1% modernization on page 10 and if you can give any ideas on sort of how big you expect that to grow? What is the maturity you are getting in this and the costs?

Kirsten
The picture is more complicated but let me try to simplify down. KfW does not give you a direct loan if you are a company or an individual who is building something. KfW always gives a loan to a bank, and that bank gives the loan to you. And that bank normally needs a security which is directly linked to the respective building or the respective flat or the respective project. Due to the number of projects we are doing with them, the size, the structures, the programs, how we are working. We have developed a far more symbiotic relationship between us, a small group of banks at the moment it is two, plus KfW, and we have discussed with the banks that life is much easier if you are not going for a secured structure where you always have to lend against portfolios, get into the register, etc. Treat us like a normal corporate, which means you take our credit profile as stated from the rating agencies. With that you automatically do not contaminate through your modernization program your unencumbrance ratio. On top of that you also don't have the usual restrictions with regard to loan to values, so you can be very flexible and we are between 10% and 100% on Kfw, dependent upon how the matter looks. The volumes at the moment are still low, they are in let's say a 100 to 200 million a year, and they are not the only debt which we are putting onto the respective modernization programs, but I am coming from an environment here where we did 1.5 million a year, because our CMBS structures were choking us. So from that point of view I see a lot of improvement and we have become a quite meaningful partner to KfW, and by

the way, other development banks. What are the terms and conditions in KfW? They are 10 year at zero, first five years no amortization and then a couple of goodies in between to adjust them to the market structures. And by the way the administrative burden has also been reduced by electronic gateways which we developed together, so that we are using this tool whenever we feel that a certain modernization project is suitable for it. Does that answer your question?

Yu

Perfect. Thanks a lot.

Buch

Then thank you for your participation and for your questions. I wish you a nice afternoon and hope to see you soon. Thank you.