

Make Room for Innovation

VONOVIA

Capital Markets Day 2016 / Essen / June 6th 2016

Modernization

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Portfolio strategy & modernization track record

From a single product program to a product portfolio

Governance & control

Wrap-up & discussion

Starting point

Action-driven & value-enhancing portfolio strategy

Dynamic

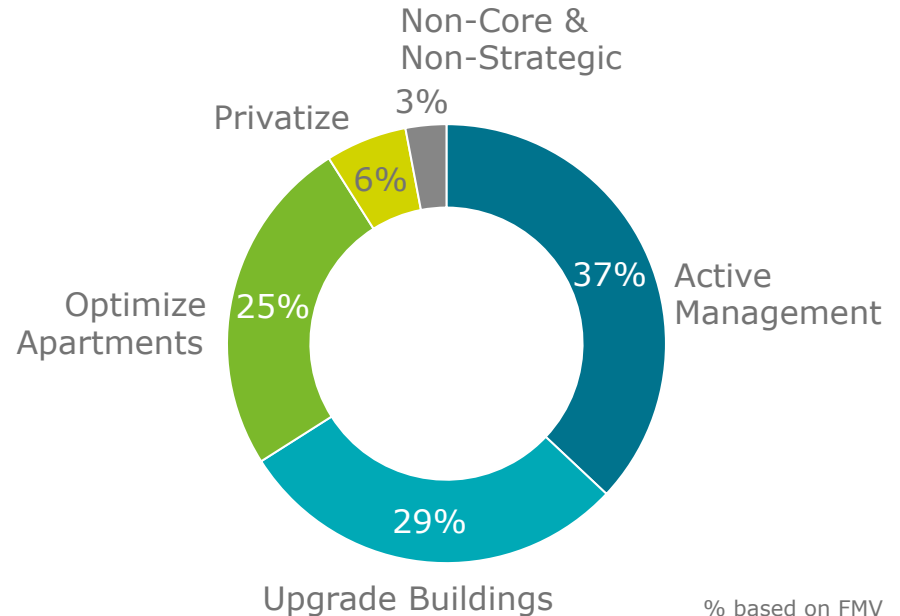
Determined by management action

Detailed

Selected on building or even apartment level

Value-enhancing

Micro vs macro location

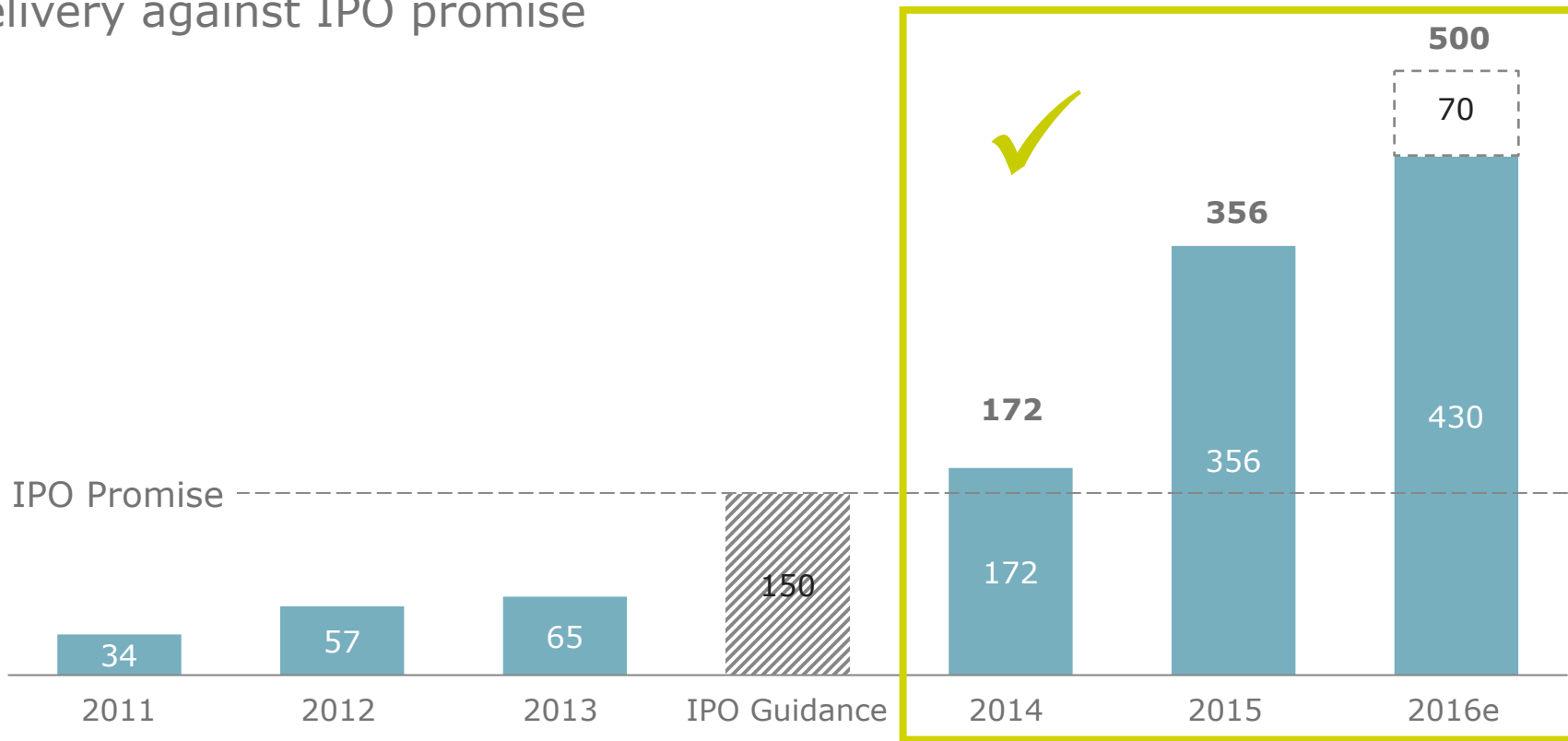


% based on FMV
Q1 2016

Track record

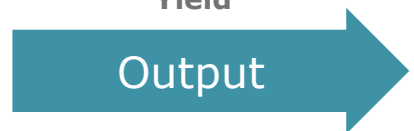
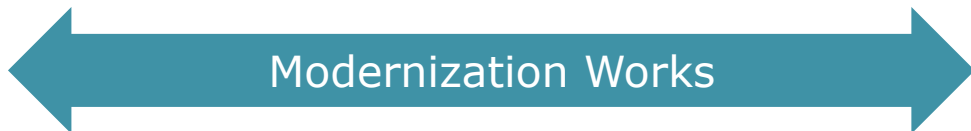
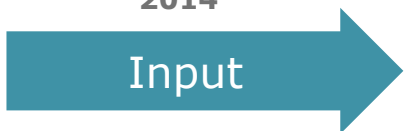
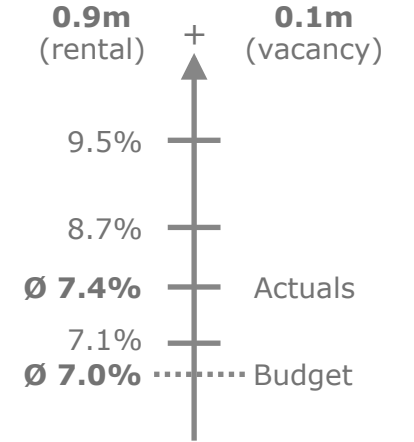
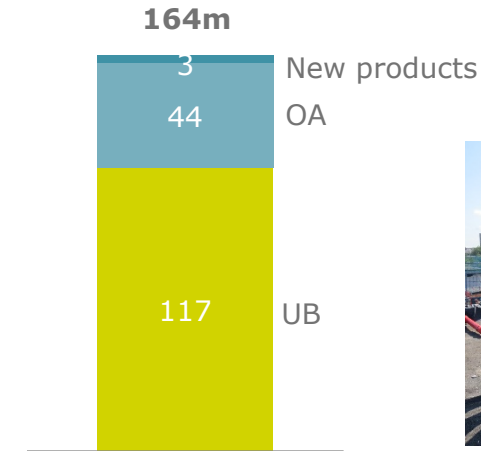
Delivery against IPO promise

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Track record – program year 2014

Exceeding high expectations!



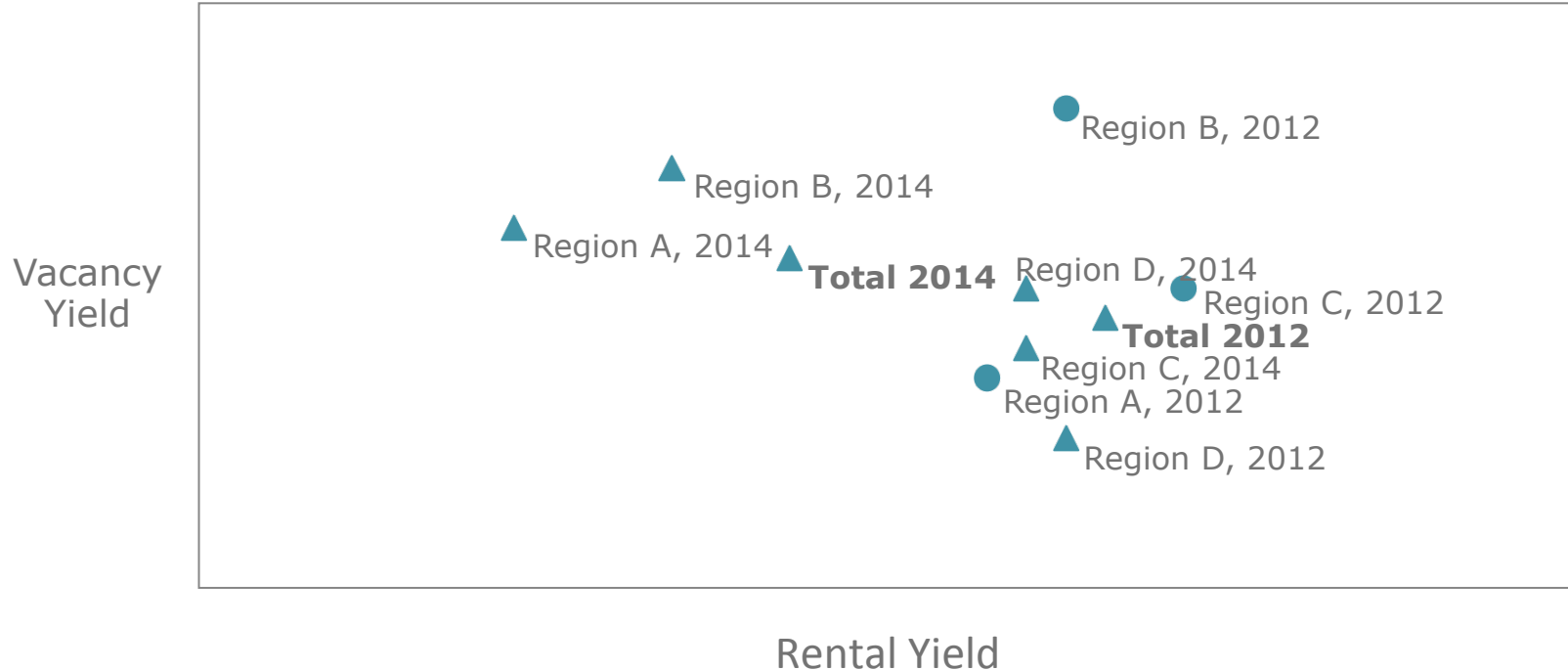
All constructions started in calendar year 2014

All construction work finished and invoiced prior to program year cut-off dates (UB/NP: 31-12-2015; OA: 30-06-2015)

Yield at cut-off dates (incl. from avoided vacancy for UB)

Track record – yield distribution

It's the projects, not the region!



Track record – invest distribution

It's the local opportunities, not the macro location!

Location	Total invest 2012-2014 (DA)	
	units	€m invest
Dortmund	2,813	44.6
Frankfurt	1,817	27.1
Berlin	1,691	22.9
Bonn	1,164	18.9
Kassel	717	11.0
Köln	647	8.4
Essen	793	7.2
Darmstadt	336	6.6
Aachen	320	6.3
Gelsenkirchen	369	5.7
Augsburg	410	5.2
Bochum	528	4.5
München	673	4.4
Altenholz	223	4.3
Duisburg	377	4.1
Düsseldorf	541	4.1
Wiesbaden	224	3.9
Rosenheim	145	3.8
Landshut	93	3.6
Recklinghausen	198	3.1
Schwarzenbek	110	3.0

- > Nine out of TOP20 invest locations are B-locations
- > €88m or 44% of TOP20 invest flown into B-locations
- > Value uplift in B-locations mainly possible through product upgrade

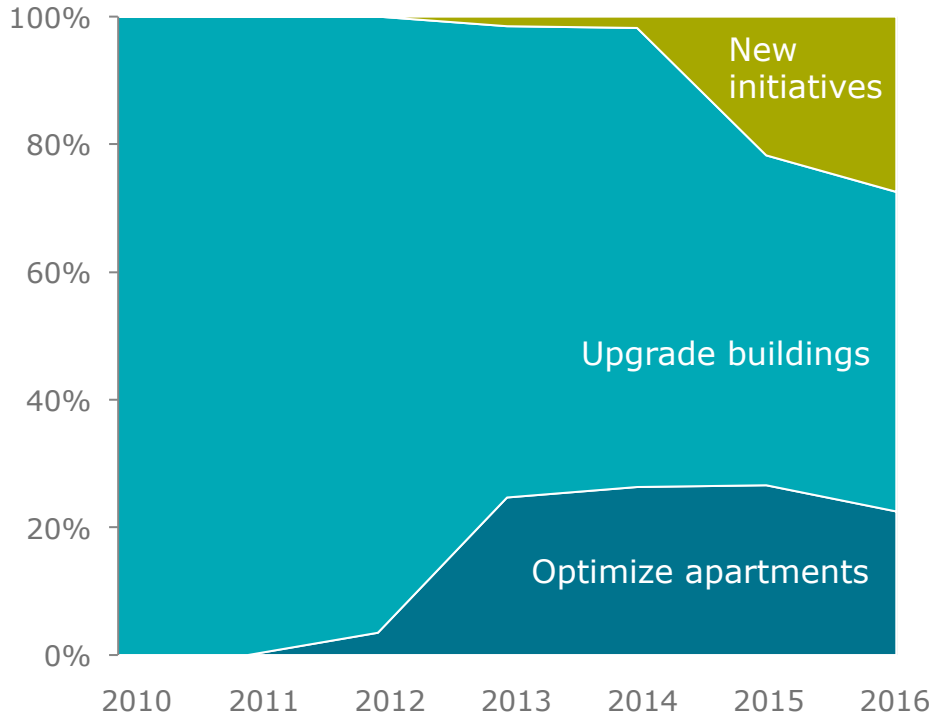
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From a single product to an innovative product portfolio



Modernization snapshot

Upgrade buildings

Key metrics of case study – Castrop-Rauxel

	Before Modernization	After Modernization	Difference
Gross rent (€/m ² /m)	4.56	5.66	+1.10
Gross rent (€k)	138	172	+34
Yield from rent	= 34/565 = 6.0%		
Vacancy loss + PTU loss + bad debt (€k)	18	10	-8
Yield from vacancy	= 8/565 = 1.4%		

before



after



Modernization snapshot

Optimize apartments

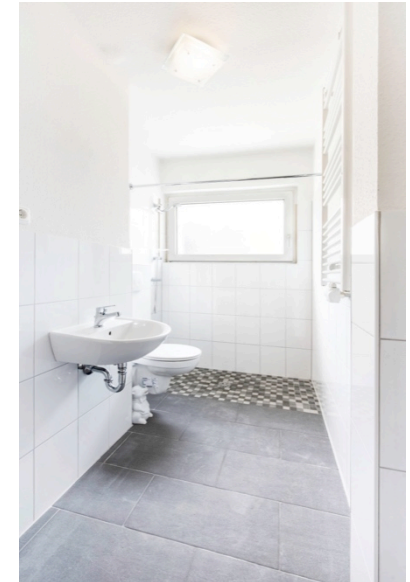
Key metrics

- 41 apartments piloted in 2012, more than 4,000 apartments refurbished in 2015
- Application of KfW funding, senior living standard
- Positive development of average yield
- Increased scale and experience have led to increasing returns over time

before



after



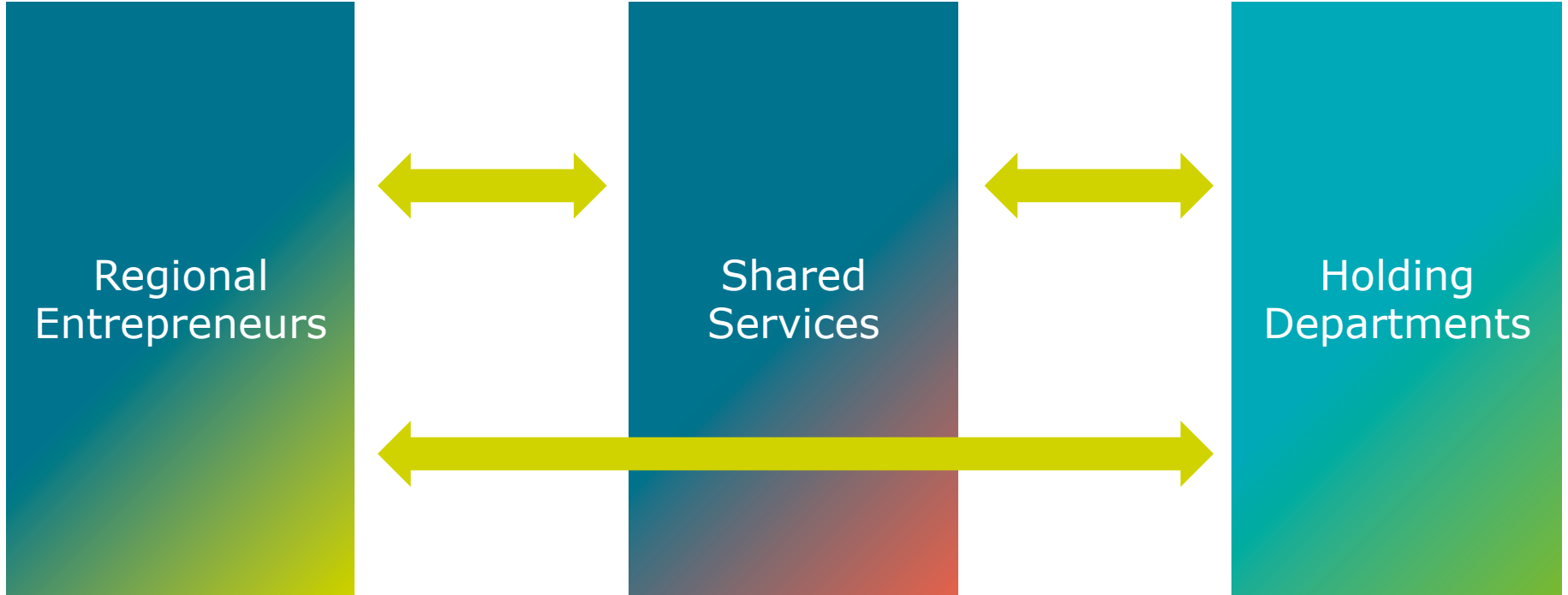
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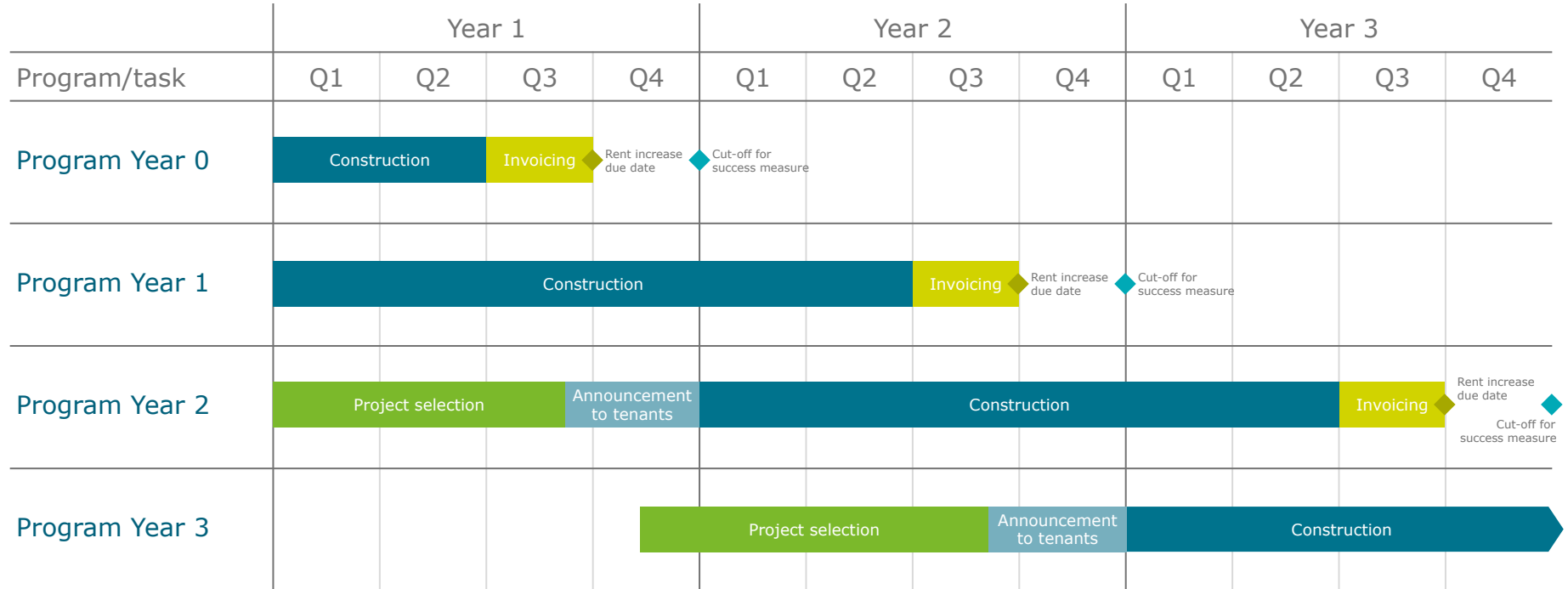
Governance & control

Wrap-up & discussion

Clear division of power



Industrialized program logic



- Dedicated calculation tool for each individual project
- Construction planning in SAP
- Standard templates for planning/controlling
- Post completion audits to identify lessons learned

Results

Yield-Betrachtung (Netto-Anfangsrendite Modernisierung - Cash-Flow Betrachtung)												
Yield-Jahr	2015											
Yield vor Steuer	Gesamt	Wohnen Bestand					Wohnen Neubau	Gewerbe Bestand				Parken
		Gesamt	Miete	Leerstand	Instandhaltung	Gesamt		Miete	Leerstand	Instandhaltung		
Unlevered Yield	9,14%	9,14%	5,59%	0,98%	2,57%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	
Unlevered Yield	9,14%	5,59%	0,98%	2,57%	0,00%							
Levered Yield	21,91%	13,40%	2,34%	6,17%	0,00%							
Wohnen Bestand - Miete nach Modernisierung												
	Miete vor Modernisierung	Umlage Modernisierung	Max. Miete nach Modernisierung	Zinsvorteil Förderprogramm	Zuschussvorteil Förderprogramm	Max. Miete mit Förderprogramm	Markt-Miete nach Modernisierung	Mieterhöhung ü. Max Miete n. Mod	Miete nach Modernisierung			
Miete 2015 [EUR/qm]	6,03	1,72	7,55	0,18	0,00	7,38	7,45	Nein	7,38			
Modernisierungskosten												
	Wohnen Bestand	Wohnen Neubau	Gewerbe	Parken	Summe							
Baukosten [EUR]		490.762	0	0	490.762							
davon förderfähig (KfW 152)		347.471	0	0	347.471							
davon förderfähig (KfW 159)		0	0	0	0							

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Wrap-up & discussion

1

A differentiating factor vs. our competition –
announced & successfully delivered

2

Our investment thesis further developed –
both quantitatively and qualitatively

3

Capabilities deeply rooted in organizational DNA –
supported by robust governance mechanism

ΥΠΟΝΟΜΙΑ



A few stimulating discussion points to start with ...

“

Capitalized Maintenance
("CAPEX") vs.
Modernization –
there is no difference!

“

High spend levels –
aren't there any better
alternatives?

“

"Pimp my portfolio" –
buying rent increase
through modernization is
not sustainable!

Maintenance or Modernization?

Illustrative Flow of Funds

	Rental Income
-	Maintenance Expense
-	Operating expenses (“Platform costs”)
+	adj. EBITDA Extension and Other
=	Adj. EBITDA Operations
-	Interest
-	Current Income Tax Rental
=	FFO 1
-	Capitalized Maintenance
=	AFFO
-	dividends, one-offs, perpetual hybrid interest, misc.
+	cash from sales, financing



Investments

- › Modernization & Space Creation

Maintenance

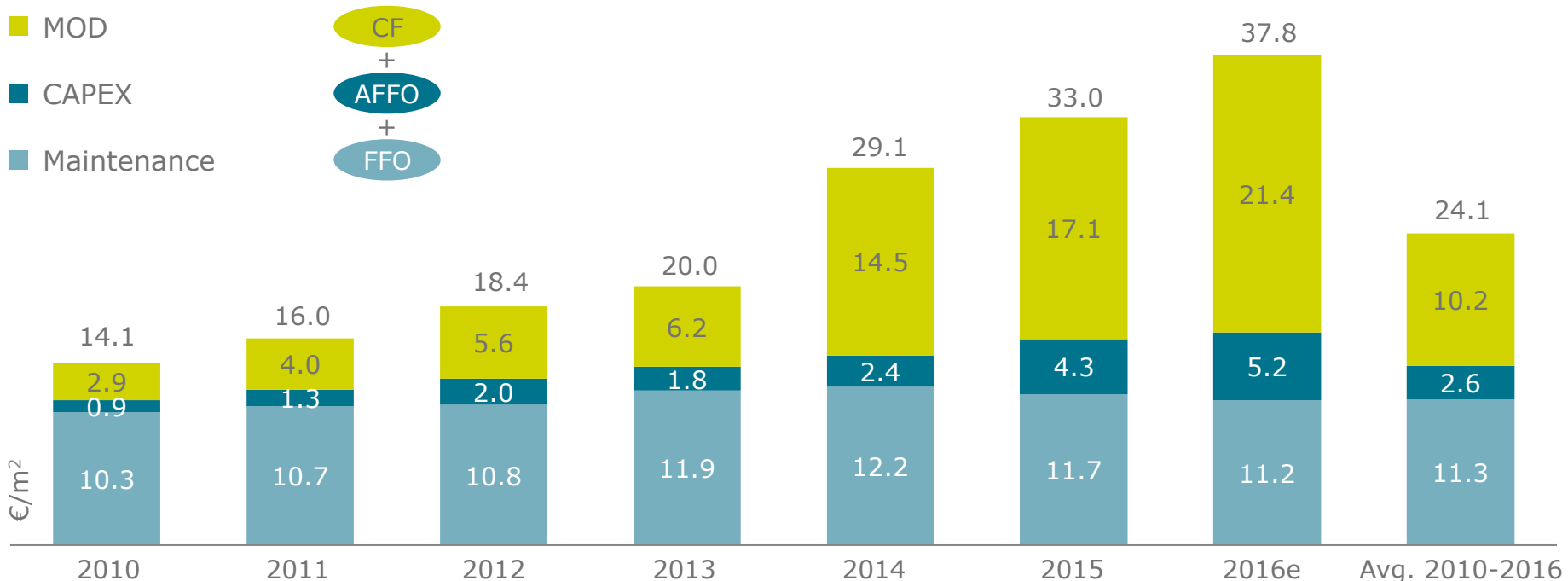
- › Allocation between expensed maintenance and capitalized maintenance is a major swing factor in operating margin
- › Regardless of the capitalization rate, however, both combined are largely governed by German Civil Code §558 and essentially protect future EBITDAs as they are reactive, non-discretionary measures
- › Represent what is required to broadly maintain the property value

Modernization

- › Changes the character of a building
- › Generates a measurable return on investment (rent growth/value growth)
- › Grows future EBITDAs
- › Modernization governed by German Civil Code §559
- › Discretionary & pro-active

High spend levels

Substantial increase only in discretionary category



Modernization

- Proactive, discretionary investments creating additional value for the portfolio
- Full Modernization of pre-identified units or buildings
- Fully discretionary
- Track record: stable yields of at least 7% at steeply increasing volumes

Capex

- Reactive expenses & investments ensuring the long-term sustainability of the portfolio with no explicit return

Maintenance

- Small repairs: mainly within flats, carried out according to tenancy agreement
- Vacant flat refurbishment: refurbishment at minimum cost of approx. 1,800 per unit for re-letting
- Large repairs: Minimum standard to ensure long-term sustainability of portfolio
- WEG provisions: Maintenance provision set by housing associations

General

Regular rent increase

- Market rent of residential units grows faster than in-place rent because of significant restrictions on rent increases in Germany
- Rent increases in existing tenancy need to be agreed by both parties, lessor and tenant
 - The lessor is legally not allowed to end the lease agreement if the tenant does not accept the rent increase
 - The tenant is allowed to end the lease agreement in case of a rent increase
- Rent increases because of Modernizations or increased ancillary costs are considered separately

Restrictions on increasing rent

- Rent increases can only be implemented every 15 months
- Rent increases are capped by the so-called "Kappungsgrenze": they can be raised by no more than 15/20% over a three-year period
- Revised rents must not exceed the local norm, that can be measured by
 - An external appraiser
 - The average of three comparable apartments
 - The local norm (so-called Mietspiegel)

Rent increase after Modernization

- The so-called "Modernisierungsumlage" is a special form of rent increase which is possible after a Modernization
 - The lessor can ask for a rent increase after a Modernization that leads to a higher energy efficiency or an increased dwelling value
 - Maintenance expenses cannot be allocated (e.g. the cost of repairing a window cannot be allocated but the cost difference between a normal and an energy-efficient window can be allocated)
-
- The "Kappungsgrenze" and the limitation through the Mietspiegel do not hold for rent increases following Modernizations
 - The legally allowed rent increase is capped by 11% of the Modernization expenses (specific costs caused by the Modernization including interest on credit, administrative costs, loss of rent due to vacancy, etc. cannot be allocated)

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