Transcription
Q1 2017 Results Analyst & Investor Call
May 24, 2017

Rene Hoffmann

Thank you Angela and welcome everybody to the conference call of Vonovia's earnings for the first three months of 2017. I suppose you all have had a chance to look at the material we published this morning including the comprehensive presentation for this call. Your hosts today are CEO Rolf Buch and CFO Stefan Kirsten. They will lead through this presentation first and then open up for your questions. Allow me one remark in terms of logistics: we are in different places today so bear with us if we have a slight delay in responding to your questions later in the Q&A. And with that I would like to hand the call over to Rolf Buch.

Rolf Buch (CEO)

Yes. Hello also from my side. Welcome and I am sitting in the sunny Bochum, so everything is fine, like our Q1 results. So I would like to give you the highlights. I think you can see in the first Q1 result that our built-in organic growth will continue, our accelerated organic rental growth is now 3.4%. EBITDA operation is up by 8.7% and this is more or less the same number of units and same number of square meters. Our FFO per share is up by 17.5%.

As you know our investment program is very important not only for this year but especially for the future and that is why we are happy to announce that the investment program of 2017 is fully underway. The majority of the projects, nearly everything is already ordered so we can confirm the investment volume of €730 million in 2017. And because we are often asked, we have a pipeline of space creation of about 2,000 new units which will be initiated in 2017.

This is the first time that we include the conwert completely. It is completely consolidated in the Q1 numbers, and very important, you can see already in the Q1 numbers that we keep our promises. You can see in the figures that the conwert integration is FFO and NAV accretive from the first day of consolidation. And then, of course, later in the call we will give you a compelling guidance for 2017, which actually includes an organic rental growth guidance of 3.8% to 4% and then FFO 1 between €900 and €920 million.

On the next page, this page, we have introduced, I think in the Q4 reporting of the year 2016. Actually, this slide was made to show you that, even with a shrinking or stable portfolio, we are delivering significant FFO growth that we are able to pass down the topline growth all the way down to the FFO.

Here again - and I will bore you, it will be boring - you will see it now quarter after quarter; we show you here again that we were able to pass down the 25 million on the topline growth down to the FFO actually with a bigger amount of 31.9 million. And keep in mind this quarter we still have the burden of the fully doubled cost of the conwert because this cost will go away after conwert is integrated, so this slide will improve even in the next quarters. And with this I hand over to Stefan who would like to explain you a little bit more about our rental growth development.

Dr. A. Stefan Kirsten (CFO)

Well thank you Rolf and a very warm welcome here also from me. Rene and I are sitting in the States at the moment, attending a conference. Let us talk a little bit about page four; that is the accelerated rent growth momentum.

As Rolf has just pointed out you will see growth numbers continuously happening for us and we have shown you this type of table in our last Q4 results for the first time. Our focus is the organic rent growth, which is like-for-like plus space creation, so that our new build program will also be included there in future years. 3.4% year-on-year with a first-time contribution from space creation is the key headline, but let us go through it line by line.

Our subtotal in market-driven rent growth is 30 bps lower than on the comparable quarter a year ago. This is a pure timing difference; it has to do with some Mietspiegel but Rolf will illustrate that at a later point. You see the clear impact of modernization and a small impact of space creation. Please bear one thing in mind and I cannot repeat myself often enough: we are harvesting now the modernization program of 2016 so of last year; it has nothing to do with the €730 million we are spending this year. These were, by the way, €472 million; 0.1% in space creation is actually rounded up so it is somewhere between 0.5 and 0.1 and it is only 99 flats but you know what: all of our key programs started slowly and then accelerate quickly.

And with that I would like to move to page five to what Rolf also pointed out: one of our more critical issues: can we deliver the modernization programs in cost, spec and time? And to quote a former US president, "yes we can." We have already completed €114 million. We have kicked off the next half billion, as you can see in the chart, and I am expecting the €730 million to really hit the ground during the course of this year. You know that our commitment levels will go up to a billion so that we will create a bow wave, which makes then a further acceleration to a billion run rate easier in the following years. We are fully on track with our investment program. We expect to come out at our guided level and we will keep you posted about this program on a quarter-by-quarter basis because this is, of course, one of the most critical parts we have in our organization.

On page six we would like to update you on the EBITDA Extension. Just let me give you one reminder: when Rolf showed the KPI chart, we only have 0.3% more square footage on an average basis. The reason is that the conwert acquisition works from a square footage point of view, not from a quality of earnings point of view, from a square footage point of view, just replacing our sales of last year, where we sold something like 23,000 units. So we are more than happy to say that the adjusted EBITDA rental with plus 6.2% is nearly showing the rental income increase on the same square footage basis. That makes us, of course, quite happy. There is a touch too much maintenance expense in there, which from our point of view has a little bit to do with heating system maintenance etcetera, this will reverse back to our standard levels within the next quarters, but this is nothing to worry about.

Then you see a small section about Extension. Extension follows a completely different dynamic. You see growth rates of more than 100%. You know that our guidance is €100 million for this year as an Extension contribution. We will talk later quickly about Extension when we come to the capital markets day, which we intend to hold in June. So our adjusted EBITDA operation is up by 8.7% and this is, of course, something which is important for us.

What is also important, on page seven, that is financing but I can touch it very briefly. The chart does not look very different than from the one which we have shown to you in March, but we have added the whole conwert debt plus the conwert payments which we made and, again, this does not move the needle. We still have a small program ahead of us for the year 2017, which is €560 million, approximately, of bonds which become due early October, and another

€750 million which become due in early December, and we will refinance all those of course in due course. We see additional opportunities in the upcoming refinancings because we truly believe that, at least for this and the next year, we will see low interest rates still supporting our FFO growth.

On page eight you see our LTV chart. We have had a lot of discussions amongst us in the community, within the firm, with some banks about loan-to-value ratios and I see this also from the very first analyst reactions to our numbers. I must actually say the V is the subjective number in that formula. Running on US bond covenants and on rating, we look far more critically at debt-to-EBITDA multiples as a company because that excludes any distortion – positive or negative – from the valuation. And there at 11.1 times we feel comfortable. We have had lower numbers before but keep in mind that we bought conwert nearly all in cash.

Unsurprisingly our loan to value is up from the year-end number from 41.6% to 44.4. There are few of you who also include the equity hybrid into the numbers and it is at 47.7. What are the next steps which will influence this figure? It is the dividend payment in June. I do not know how much it will influence the number because I simply do not know how much goes into the scrip dividend and how much into the cash dividend; so we will find this one out. Then we will of course have a half-year valuation and a full-year valuation. So we are now at the upper end of our comfort zone and our prognosis is that at the end of the year we will be smack in the comfort zone or even at the lower end. So from that point of view there is no point of concern here from our view.

One of the other key numbers is on page nine; the FFO 1, FFO 1 per share up 17.5%. This is for me one of the key highlights of this Q1 result. We talked about the adjusted EBITDA of operations with 8.7. You have seen the FFO 1 going up 17.1. As always we show you to whom this is attributable: Vonovia shareholders, hybrid capital investors and non-controlling interests. So this is always done and you are seeing interest expense is almost 11% lower. Just bear in mind that we early redeemed the last CMBS structure with Taurus in February this year, so the whole CMBS refinancings are done. So, all in all, this should give you an idea where our FFO is starting and, with that, I hand back to Rolf.

Rolf Buch (CEO)

Thank you, Stefan. So, on page ten you will see, as always, our proactive portfolio management clustering, where we are sorting actually all our buildings in different action clusters. Here the first time we show you also this including the portfolio of conwert. For now, we have included the whole strategic portfolio of conwert into our Operate cluster. We will sort it out during the ordinary course of sorting, which will happen in the middle or after summer, as always, and then we will sort it into Upgrade Buildings and Optimize Apartments. So for now, one third of our portfolio is in Operate and two thirds are in our investment clusters and will drive modernization programs for the coming years, but keep in mind: after sorting of conwert, these Operate plus Upgrade and Optimize Apartments will become bigger.

In terms of fair value, 96% is in the strategic and privatization cluster. Of the remaining 4%, 2% are in our Non-Core and Non-Strategic cluster and only 2% are in Vienna. For the Non-Core and Non-Strategic cluster, as always said, we will sell probably half of it this year and half of it next year, because we will still use the good market conditions to sell portfolios where we think we are not the best owner for the long term.

On the next slide, on page eleven, we show you then actually all our strategic markets to help you a little bit to get a better feeling on our portfolio quality. We have introduced this slide in the Q3 of last year. If you look at the in-place rent margin and the annual rental growth estimated by CBRE, you recognize interesting difference in the multiples for similar rental growth potential.

Earlier, we used this slide also to say one word about the mix figure in Berlin. As you can see, our biggest portfolio in value is in Berlin, so of course we are looking very carefully on Berlin as well. I am not in the role to give advice to the investment community, but I would like to give you some food of thought. As you know, in Berlin we have a very critical political situation with the left-left-green government. I think it is not too helpful if we as an investment community celebrate this high Mietspiegel increase, because this will put more pressure on the government. And, in addition to it, we should talk a little bit about more reality because, if you look on the Mietspiegel and absolute figures, it shows a 9.4% increase.

In reality, the government has taken away a lot of add-ons which we used in the past. So, for our portfolio, and I think this is the normal portfolio for Berlin, the net effect will be only 6% to 7%. And this is for two years so, in the end, I think it is better to talk about 3% and to 3.5% rental increase per year because this is much closer to inflation ratios. Having said this, you also see on the slide that we are not only in Berlin but we are covering all other big important areas in Germany, and I like the approach that we have a lot of marketing about Berlin, but I have to tell you that there is other places which are also very interesting.

For example we just have seen a Mietspiegel in Dresden. It shows only 6.8% rental growth but in reality – because they have not changed the parameters – for example, for our portfolio, it will lead to a 9.5% net rental growth versus a 6% to 7% net rental growth in Berlin. So this means Berlin is nice, Berlin is fantastic, but there are other very fantastic places in Germany as well, and that is why we are happy and I think we feel happy with our strategy to cover all over Germany because I think we can play very well the different areas. And, even if you look on the multiples and the growth rate projected by CBRE, you see that there might be also other interesting places in Germany besides Berlin.

On the next page, on page twelve, because this is related to portfolio, I would like to give you information about the NAV development. Of course there is not a lot which happened, because you know that we have not done a revaluation in the Q1 figures, so what you see here is actually the increase in NAV per share is actually the Q1 earnings. But more important the impact of the first consolidation of conwert, so here on this slide you see that conwert is from day one onward not only FFO accretive but also NAV per share accretive.

On page 13, we deliver you the normal figure for the Extension business. Stefan has already talked about the figures of the Extension contribution in the Q1 and I would like to add here one thing and I will do it now every quarter. As you know in our NAV this is just the value of the bricks. The NAV is not reflecting the value of our platform and the NAV is not reflecting from the significant cash flow of FFO which we are getting out of this Extension.

Let me also add that the cash flow of the Extension business – because it is linked to the rental contracts – has the same stability than the original rental income and rental FFO coming out of rental. There is only one difference: the Extension business is growing much faster, because we still have a lot of more room. So if you do as a proxy value, you just take in account our 2017 estimate of about €100 million for Extension and apply the WACC, which we have in our impairment test, you get around €5.2 more per share, which is a 17% uplift on the brick and mortar NAV. This is also just food for thought because these types of Extensions is probably something which differ from Vonovia from other listed players.

On the next page, I just wanted to give you an update about our sales program. Of course, you have to keep in mind that, in Q1 2016, we had a significant sales of the significant portfolio to LEG, which also included some privatization units so, if you adjust this effect, the sales volume is broadly stable. You see a slightly improved privatization margin in Q1 2017 in spite of the increase of fair values due to the revaluation which we made in the first quarter of 2016. For information purpose only, in the Non-Core and Non-Strategic there is included around €220 million of conwert sales which are mostly the non-strategic conwert commercial buildings. And with this, I hand over to Stefan. Thank you.

Dr. A. Stefan Kirsten (CFO)

Thank you. Let us talk a little bit about conwert and the guidance and the capital markets, then. On page 15, you see the diamond which we are presenting to you since several years about our acquisition criteria. You know that we own conwert up to 93% now. We have asked for a squeeze-out; this will be decided in end of August at an extraordinary conwert general meeting.

Let us keep one thing in mind: that transaction is a pure cash transaction so it will not create any more Vonovia shares. Austrian law prohibits a share-to-share offer there. The strategic figure is completely different: 84% of the top 25 locations, it is Dresden, it is Leipzig, it is Berlin, it is Potsdam – we love that portfolio. It is already in the first quarter 3 cents per share accretive, 12 cent per share NAV accretion and we never even discussed the rating so our BBB+ rating had enough headroom to digest the whole conwert stake. So we are very pleased with the way how the company came to us and we are, of course, very pleased that we were able to do this on a de facto debt-financed basis.

We guessed around Q4 that we will have a €60 million FFO contribution for the year 2017. We will only have €52 million after going into the in-depth analysis. This includes €12.5 million of financing cost and €5 million of already initial synergy savings for the year. The number is a bit lower driven by two factors: on one side, the conwert non-core sales program was more successful than what we all anticipated and therefore we are lacking some FFO, especially from non-core and commercial units. On the other side, we have shifted the FFO definition onto our normal definition, which has a more conservative stance versus taxation and tax payments, so we are not unhappy about €52 million. The whole year, whether or not in shares or in cash, would have worked with this number too. It is now much more concrete. With that, I would like to move to the guidance.

And that gives you also an impression that a major contributor to the guidance is not only conwert, but also the organic performance of Vonovia ex-conwert. We have put a couple of dots on the side where we have changes, so organic growth rent 3.8% to 4%. I can tell you this is not conwert-driven, this is just the company going through the motions in the first quarter and, I must say, scraping at the 4% level is a very, very important manifestation of our current growth strength. Rental income is subsequently going up. Rolf has just mentioned the Mietspiegel in Dresden. Before we all go overboard, this is unfortunately already completely in the forecast reflected. Berlin is not, I cannot quantify it at the moment; we have to go, because of these little features which are now missing in the Mietspiegel, really house-by-house through the matter. We will update you as it is meaningful, but the key point is we will deliver more topline.

We will also deliver more FFO 1; €900 to €920 million and I will talk about the FFO 1 per share, 1.88 at a later stage again when we talk about the dividend. The important aspect for me is, this is based on the assumption that we have published, as you might know, the GAGFAH exchange ratios, so this will create €8.5 million new Vonovia shares from the GAGFAH merger and we are in the process of having a scrip dividend for the first time. There it is a simple assumption that we would have €6 million new shares created through that. This is the reason why we are a little bit fluffy on the FFO 1 per share bit. It is not the FFO this time; it is the share.

You are seeing that we reduced our margin from the step-up from privatizations: this is a technical effect. Bear in mind that after the Q4 results we did not change our guidance, even if it says March it is de facto a November guidance, early November of last year. At that time we knew the total amount of valuation uplift, but we did not know how much it is affecting our privatization portfolios and, therefore, we are seeing that the margins are slightly reduced there. It is a technicality but this is a number we guide and therefore, we did not intend to hide it from you.

So much for the upped guidance, let me remind you on page 17 about our dividend policy. On the left-hand side, you can see that we are working from mid-July onwards purely for equity and, from September onwards, exclusively for the dividend and I must say a stable business which can deliver that fills us, of course, with pride. On the right-hand side, you see the dividend and the FFO per share. Our dividend policy is still 70% of the FFO so, depending on the share number, that means €1.30 to €1.33 as a dividend level, and it is a meaningful increase from the €1.12 which we are paying out at the moment.

There is one other aspect I would like to draw your attention to, and this is the difference between the €1.30 and the €1.88. This means that we have 58 cents per share for other corporate purposes, mainly as the equity portion also for our modernization program. We are paying the interest for our equity hybrid holders, too, from these amounts. Please let me remind you, especially the buy side, about the scrip dividend. You have a choice for the €1.12 dividend until June 6 to choose a scrip dividend or a cash dividend. The scrip dividend will be calculated: the calculation formula is in the papers on a base of early June and the scrip dividend will have a 3% discount for the shares in comparison to the cash. The payout will happen in the second half of June for cash and for shares - on page 20 are the exact dates.

We are at the moment guesstimating, and it is only guesstimating, a 40% acceptance level; this is based on eOn, Lufthansa and Telekom, but not based on any knowledge which we have from the investment community. But, please bear in mind, it is a bit different than the previous years; you have to make a choice. If you do not answer any calls and do not fill out any papers you would get the amounts in cash.

Last but not least, on page 18, we have a capital markets day on June 19 and June 20 and this will be another unique view in Vonovia's machine room. And we have listened to your feedback last year: we will make it shorter, we will make it closer to the business and we will of course use this in a way that you can arrive on Monday in due time. We have a dinner, Tuesday full-day presentations and construction projects etcetera and you have enough time to either travel back or go to the Deutsche Bank conference, which is in Berlin. So we are saving de facto one complete day. Our key breakout sessions will be about modular construction, so the Lego house; it will be about customer service and we will visit our call center in Duisburg and about the Extension business – Rolf has mentioned various aspects about Extension. We still have the feeling that we need to explain more so that you can digest the merits of that business in a better way. If you have not yet registered for the CMD, please contact our IR team. You can always register late, but we would prefer to know the number of people at May 26. With that, I would like to hand back to Rolf. Thank you.

Rolf Buch (CFO)

Yes. Thank you, Stefan, and for me it is actually to wrap up this presentation. You have seen that we are able to deliver the same amount of apartments and square meters, a constant built-in organic growth momentum. That is why we are in a comfortable situation not to be forced and whether we are in our comfort zone on the LTV. This has got two effects: ability to deliver organic growth plus no pressure from LTV. We think that we are in a comfortable situation that we do not have to do acquisitions, which is good because we are not risking to pay too much money. Second is we have a high degree of visibility for the ambitious investment program 2017, including space program, so everything is in line, which is important for the development for the year 2018 and going forward. Conwert indication is fully on track. We have given you a compelling guidance for 2017. If you would be more interested in the composition of the 2017 guidance, probably you can ask your question. Stefan will give you more some details how it breaks up between conwert and Vonovia business and of course we will have a valuation update for the Q2 reporting on August 2, where we expect some effects because we still see prices in Germany rising. And, with this, I hand over to Rene and to the questions. Thank you.

Rene Hoffmann

Thank you, Rolf. Operator, if you can give us the first question and take it from the top?

QUESTION AND ANSWER SECTION

Operator

The first question comes from Bianca Riemer of Morgan Stanley. Please go ahead: your line is now open.

Bianca Riemer

Yes, good afternoon. You mentioned that, despite the Mietspiegel uplift in Berlin of 9.4%, your portfolio in Berlin will only see rental growth of 6% to 7% as a result. Could you give us a little bit more detail on how you got to those numbers please?

Rolf Buch (CEO)

Yes, actually if you understand how a Mietspiegel is done, the figure of 9.4% is an average of all locations and of the basis, especially in the Mietspiegel in Berlin before, you were used to have add-ons, for example for a garbage place or for different functions like a special carpet, things like this; these all have been gone, that is why in the end to calculate your net figures you have to understand which is actually falling out, which is very difficult because you have to go apartment by apartment, so this takes some time so that is why our best guess is, if we are putting out this effect, it is more between 6% and 7%.

Bianca Riemer

Ok, thank you.

Rolf Buch (CEO)

This is a pure political influence in the Mietspiegel. So they decided to distance the two … to actually kill all the additions which were before in the Mietspiegel and of course now in other Mietspiegels.

Bianca Riemer

Okay, and for Dresden on the other hand you are expecting a much higher impact on your rental growth in Dresden from the Mietspiegel. What is the driving force there?

Rolf Buch (CEO)

In Dresden, actually, it is the fact that they have not put this political influence, so they have not get rid of any add-ons so every add-on stays the same. Plus, as I said, the average is average over a whole city, and in Dresden our places and our type of building has increased more than the average.

Bianca Riemer

Okay, thank you very much.

Operator

Thank you. The next question comes from Marc Mozzi of Société Générale. Your line is now open.

Marc Mozzi

Yes, a very good morning, gentlemen. Again, sorry, coming back on this Mietspiegel thing, just to make it clear for everyone: so, if I understand well, in Berlin on one side you are not as well located as the average so, therefore, you do not have the full effect of being in the spots where you have the highest rental growth. And secondly, if I understand correctly, on those add-ons, you had those add-ons which does not anymore count into the calculation of the Mietspiegel; is that the way I should see it?

Rolf Buch (CEO)

The first point you are wrong. The impact what it is really explaining the difference is the add-ons which are gone and which are not gone only for Vonovia but which will be gone for everybody.

Marc Mozzi

Okay, well, I do not get it but whatever. So overall if we take into account Berlin, Dresden and overall Mietspiegel, which seems to be on a higher range of what everyone was expecting for the Mietspiegel, do you think that you will need to increase your topline guidance at some point when everything...when the DAX will be down?

Rolf Buch (CEO)

I think Stefan has responded this question already so I have nothing to add to this. We will as we got more information and if this is meaningful we will keep you updated.

Marc Mozzi

Okay, another point which is something new for me and I was not fully aware of that Extension, which are not discounted in your net as a value. I would like to understand why because, on my basic understanding of how that works, on one side, you have additional income; on the other side you have got additional space, so why is it not retained as additional value?

Rolf Buch (CEO)

No, the Extension are the business where we are selling television signals, where we are selling metering, which delivers today, and the third-party business where we deliver today actually or we will deliver this year €100 million and, as you know, the CBRE is just evaluating the bricks and mortars of the building on the assumption that it is owned by an independent third party. So this valuation does not take in account the additional values and this valuation does not take into account the additional cost savings which we have in our platform, and if you take then the €100 million and discount this of that, then you are coming to the additional value which I think also LEG pointed out in their call, and I think it is also our task to point out that the NAV traditionally calculated does not reflect this in fact.

Dr. A. Stefan Kirsten (CFO)

And Marc, please allow me to clarify further, please have no misunderstanding, Extension does not mean more square footage, that is new build. New build is of course in the NAV: there is not a single Extension number in our NAV. We just try to discount the value of the Extension business, which is completely outside. Does that clarify a little bit more?

Marc Mozzi

Definitely, I was just lost in translation on that one. Sorry. Thank you. That is it for me.

Operator

Thank you, the next question comes from Remco Simon.

Remco Simon

Good afternoon, gentlemen. Just a couple of questions from my side. First of all, you mentioned that the increase in your rental growth estimate to 3.8% to 4% for this year was not driven by conwert, but could you perhaps give us some more indication of what drove the increase? Is that a higher contribution from CAPEX, or from modernizations, or is it more space creation, or is that higher market rental growth?

Dr. A. Stefan Kirsten (CFO)

Okay, you have now all digested our table on page four so we will have of course higher modernization growth because we increased from, I think, €350 to €470 million our modernization spend. I do not believe that space creation will be mega meaningful because last year we started with modular buildings and new square footage. This will be far more meaningful in the future. And we are seeing also effects in the market-driven rent growth, even if this is now in the first quarter 30 bps lower. I mean Dresden alone, Dresden is our number two location value wise and I think our number one location from the number of units, is of course pushing through so I am expecting at least previous year's level of 1.9% in the normal market-driven rental growth. So again, all cylinders, but do not expect too much from space creation, it is not a meaningful number, we just wanted to introduce the concept to the market as early as possible. Renka, does that answer your question?

Remco Simon

Yes, that is very helpful, thank you. Secondly, on your expectation for FFO contribution from conwert, you explained the difference partly due to a change in FFO definition and partly due to disposals; could you give us some indication of the size of each of those two factors? Of the difference between the €60 million and the €52 million?

Dr. A. Stefan Kirsten (CFO)

Roughly half and half. The situation is the following: the conwert definition was that, if you have enough losses carried forward, you only pay taxes if you sell something. Our definition is that we are looking, legal entity by legal entity, how much tax do we have to attribute to a certain ... to the sales result and all the other taxes stay of course the cash taxes, stay of course in the FFO definition. This is a touch more conservative, this is approximately €4 million and the other €4 million comes from non-core assets which conwert sold and where we simply do not see the FFO. Again, let us bear in mind, when we gave you the last guesstimate, we started from a conwert guidance also from end of last year because we did not have any more detailed material so from that point of view I am not unhappy that I am bullet-park there.

Remco Simon

Fair enough, and last question, you seem to an interesting difference in valuation multiples relative to very similar rental growth in different locations, especially Berlin came much higher, multiples for not much higher rental growth. Should we conclude from that that you believe that the Berlin market is perhaps getting a bit overvalued and alternatively if you are seeing similar rental growth in areas where you have got a much higher ingoing yield or lower multiple, is it something which would potentially entice you to start selling more of your Berlin assets and recycle that in markets which could give you a higher yield with similar growth?

Rolf Buch (CEO)

No, I think what I would like to ... the objective of the slide is right in saying that Berlin is attractive but there are other places which are more attractive but technically speaking we still have Berlin, and Berlin is not the worst place. So if we are talking about selling out of our strategic portfolio, we would probably first think about others like, as you could see in the slide for example in North Rhine-Westphalia or North Ruhr area part, so Berlin is okay but we just wanted to point out that there is more attractive places elsewhere. Also to be very clear, it is very difficult to find this type of portfolio and it is also not very easy to sell this type of portfolio so that is why I do not see that we are taking 38,000 in Berlin and selling it to somebody and buying 38,000 somewhere else.

Remco Simon

Okay, thank you.

Operator

Thank you, the next question comes from Mike Wessel of CAML; your line is now open.

Mike Bessell

Afternoon gentlemen, following on from the Berlin question, could I ask about your plans for the Deutsche Wohnen stake, particularly given recent press speculation that seems to be benefiting their share price and hurting yours, just wanted your views on that? And similarly, should we read anything into the fact that you have put Vienna as a separate line? Is this any views yet as to whether this is non-strategic, non-core or will be a new core part of the business?

Rolf Buch (CEO)

I start with the second question. Vienna is, as you know, is for us not something which necessarily we have to own, you know, we have bought conwert because we wanted to have the German assets. Vienna in itself is nice, in the end we will make the decision after we have taken full control of conwert so at the moment priority is to integrate conwert and later we will take a decision if we keep it, if we sell it or actually these are the two options and of course selling you can sell it with a hike or you can sell it as in privatization, that will bring higher margins but it is not our most strategic and that is why it is not in the strategic, not decided. For the first question, I probably would like to hand over to Stefan and I can probably add something afterwards concerning the Deutsche Wohnen stake.

Dr. A. Stefan Kirsten (CFO)

Okay, I do the 4.74% and Rolf do the strategy afterwards. No, there is nothing happening from our point of view. Again, we believe in a) Berlin as a city, b) Deutsche Wohnen as a company and c) that the management will deliver on its promises and therefore we have had a very good run with that stake at the moment with regard to the latest interviews and back to Rolf.

Rolf Buch (CEO)

I think we got a clear message from the capital market about a year ago. We have learned, so I think we have different topics to discuss at the moment, so actually there is nothing to add to this speculation; I have clearly said we have other priorities at the moment than to help on this speculation.

Mike Bessell

Thank you guys.

Operator

Thank you, the next question comes from Kai Klose of Berenberg; please go ahead, your line is now open.

Kai Klose

Yes, hello. I have got two quick questions on page ten of the presentation, first of all, the conwert portfolio, has there been any change in the specification where it should come up as operate, upgrade or optimize apartments compared to what you noticed a couple of months ago? The second question, could you indicate what was organic or rental growth for the three main segments, operate, upgrade and optimize apartments?

Rolf Buch (CEO)

For the first question, no, we have no change, actually we have in this view but you know that this is a very detailed process, the sorting process and as we have done with the prior acquisitions, we are always including it in the normal sorting process to happen in August/September this year. So that is why for practical reasons we have added everything to operate but there is no information other that you should conclude more optimization, it is just the practical way because any help even if we find and optimize and operate building and optimize apartment project we will not start it this year because this is in the machine and we have to plan it so it is for next year. So this is I think answering your question. And the next, the detailed, I do not have it in mind, Rene do you have it here somewhere by the clusters?

Dr. A. Stefan Kirsten (CFO)

Let me start then. Rolf, we usually do this after Q4 but what you can always assume is the highest rental growth we have in optimize apartments, then comes upgrade building, the privatize and operate on one level and then non-strategic and non-core, that is the qualitative ranking. Quantitatively, let me see where I would want to provide this within the year, normally we do not do this but let's find out, it would be something for next quarter if we do.

Kai Klose

Okay and to close off, you mentioned that the maintenance expenses from Q2 should fall a bit further, when looking to page 24 of the presentation, the CAPEX ratio or capitalization rate has also somewhat changed, was a bit lower in Q1, it is about to fall because you are going to go back to 10% of CAPEX, of capitalization rate or is it just this year that the amount is about to decrease in the second quarter and for the remainder of the year?

Dr. A. Stefan Kirsten (CFO)

Okay, you see, it is always a bit cumbersome if you are 6,000 kilometers apart from each other. No, what I am expecting is that we will keep our maintenance guidance which is at €340 million in total plus/minus €10 million, you know, you can never know whether or not you have any reactive events in there. I do not see the maintenance capitalization rate, ratio should fall further, 20% is a rule of thumb for us, we had one spike after GAGFAH but then we stayed always in this number so I would not tinker in the models around these lines because I honestly do not know it better than you do.

Rolf Buch (CEO)

I just want to add one thing, the first quarter the maintenance was a little bit higher because, you know, we had some winter months and like our peers we also were struggling with heating systems which had to be repaired and the repair of course is maintenance and that is why maintenance is up a little bit but this is nothing to worry because now we have a nice summer.

Kai Klose

Great, many thanks for the answers.

Operator

Thank you, the next question comes from Marius Perseaux of Credit Suisse; your line is now open.

Marios Pastou

Hi there, I just have a very quick question on page 14 of the presentation, did I hear you mention that €270 million of the income from disposals relates to conwert commercial disposals? If so, how much of the commercial element is left to sell and if we strip that out and purely look at the residential units sold, what fair value step-up was achieved? Thank you.

Rolf Buch (CEO)

So actually, you know that we are committed to sell all the non-core and non-strategic commercial of conwert. Actually, the management of conwert is committed to sell it at the end of the year. I do not know Stefan, do we have the exact figure how much is left? Otherwise we will deliver it to you later.

Dr. A. Stefan Kirsten (CFO)

No, let's put it on the page for a later bit but value-wise something €300, €600 million max, €400, something in that range.

Rolf Buch (CEO)

But also what is the case is that conwert is achieving slightly above the cost asset value if they are selling it, so they are doing a small premium but not very meaningful like our non-strategic sales.

Marios Pastou

Okay, that makes sense, thank you.

Operator

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

Georg Kanders

Good afternoon, could you please provide some information on the ancillary cost balance, because, you know, you only showed the gross costs? And the second question I have, are there now all merger-related costs with conwert in the balance sheet and in the P&L?

Dr. A. Stefan Kirsten (CFO)

I will start with the second question, yeah, everything we know about conwert with regard to restructuring plans, etcetera is at least accrued for but not cashed out. We yesterday approved the last fees for advice also so this is all done. With regard to the ancillary costs, can you give me the page to which you are referring because ancillary costs is for us passed through utility in the end and therefore we are not making any profits on this; therefore I am not focusing on this, can you give me the numbers you are referring to?

Georg Kanders

Yeah, you only presented the overall amount of costs there; material costs and other and the only information we got on the costs is on the maintenance costs.

Dr. A. Stefan Kirsten (CFO)

Okay, Georg then let us do the following, let's take this one offline because it sounds rather specific and if I believe that this is something for a wider group we will include the charges for future reference, is that helping?

Georg Kanders

Yeah, this helps, thanks.

Dr. A. Stefan Kirsten (CFO)

Okay, Rene will pick this up, yeah.

Operator

Okay thank you. The next question comes from Bernd Jansen of Victoria Partners; your line is now open.

Bernd Jansen

Yeah, good afternoon, three questions and I might take them... ask them one by one. First question would be on conwert. Should we expect or could you give us any comments on the core commercial portfolio, what you intend to do at this stage or would we have to wait until the first-half results? And also conwert, they have a very low capitalization rate with regards to maintenance CAPEX. Is that going to change and is this also part of the reason why the FFO conwert could come down?

Rolf Buch (CEO)

So I think first of all, in conwert there is no ... in the end all commercial buildings which will be sold. There was a definition in conwert that they consider even the small shops, which are in a living building, so in a normal building with apartments, they consider commercial, which we of course now consider part of the building so there is no core commercial left because of course we will apply our definition also to the conwert portfolio. And the second is maintenance. We will also apply the same maintenance strategy like for the whole Vonovia and the same definition so this will be very difficult in the future to distinguish between conwert and Vonovia because, you know, for the people who are in these buildings they do not know even if it is former conwert or former Deutsche Wohnen, Vonovia or GAGFAH property.

Dr. A. Stefan Kirsten (CFO)

I hope, Rolf meant Deutsche Annington. Just one additional aspect to conwert had its main buildings particularly in Austria and in the bigger areas in good shape over the years and therefore you can expect on average a slightly lower maintenance level than what we are having.

Bernd Jansen

Okay, but this should mean that the overall the capitalization rate should come down in order to make it somewhat more comparable to your accounting?

Dr. A. Stefan Kirsten (CFO)

Marginally, yeah.

Bernd Jansen

Okay, then just one figure if that was possible, I guess we learn more about the Extension business during the capital markets day but as the EBITDA Extension has gone up very strongly, again the question as already in the last quarterly call, could you give us an indication of how much the own craftsmen organization has roughly contributed to that EBITDA Extension in percentage?

Rolf Buch (CEO)

We are not giving you this in detail, especially not in the Q1 but it is an important part.

Bernd Jansen

Okay, so I should wait for the capital market day, okay. And a final question related to page 11, just for getting a better understanding of the CBRE forecasts and your rent growth and the impact on valuation. If I understand it correctly then CBRE typically assumes a much lower growth rate in their property valuations and then somewhat adjust for that in the capitalization rate. So when we try to forecast how your H1 valuation result could look like, we should not compare the assumed growth rates from CBRE against your reported but most likely against a much lower implied growth rate in the fair values today, is that correct?

Dr. A. Stefan Kirsten (CFO)

Firstly, of course everybody wants to model now, honestly I do not even know the number, not even remotely so we are working this one through, you are absolutely right. To put it very bluntly, we extract more cash flow out of a building than what the CBRE assumptions on average are. And what we do is we value through the CBRE methodology with our own staff, they play their own methodology in, we then get the dots all over the place and then we are narrowing the extremes down until we have a tracking error, a combined tracking of less than 10 basis points but it is fair to assume that we have on average slightly higher rates in growth because CBRE will have to take the whole market in and there should be a benefit of being the industrial leader in the market, is that answering your question?

Berndt Jansen

I think that for this call it is probably worth at some stage a more detailed discussion, yeah, thank you.

Dr. A. Stefan Kirsten (CFO)

Let's wait for the half-year valuations and then we can look at it.

Operator

Thank you, the next question comes from Moritz Rieser of Warburg; your line is now open.

Moritz Rieser

Hello gentlemen, two questions from my side, this year we have general elections in Germany and politicians are discussing schemes to hinder companies to save stamp duty by extracting acquisitions of share deals. My questions, first since acquisitions are the turbo of your strategy, what are your recent thoughts on this topic and a possible outcome of the finance minister conference in October where solutions to hinder share deals should be presented. And second, do you believe M&A activity in the sector will be boosted in the coming months in order to avoid these schemes?

Rolf Buch (CEO)

So first of all, I have to correct you. Acquisition is an add-on but the company is not dependent on the acquisition, which I think we will make very clear. I think there is still an open discussion; it is a lot of arguments because the finance ministers in the states think that this tax is not a state tax anymore but a federal tax which is of course not in their interest that is why I think the first approach is now stopped. On the other hand you also see – and we will see it in the election programs of the different parties, my assumption is that in some very important parties you will not have this as a target so I think we have to wait really after the election. Definitely before the elections there will be no decision taken on this point. And this means that of course we do not think that this is a factor which will boost M&A at the moment.

Moritz Rieser

That was helpful, thank you.

Operator

Thank you; there are no further questions at the moment. As a reminder, if you would like to ask a question please press 01 on your telephone keypad now. As there are no further questions I would hand back to the speakers.

Rene Hoffmann

Thank you very much Angela, and that concludes today's call, thank you everybody for dialing in. We have a couple of follow ups, if you have any additional questions feel free to reach out to myself or somebody from the team and we look forward to welcoming you in Bochum to our CMD on June 19 and 20 and certainly see you then hopefully or speak to you on August 2 when we have our Q2 results or anywhere in between when you reach out or when we are on the road. So thanks everybody and have a good day.