Transcription
9M Results Analyst & Investor Call
November 3, 2016

Operator

Dear Ladies and Gentlemen, welcome to the Vonovia SE 9 months 2016 earnings call. At our customer's request, this conference will be recorded. As a reminder, all participants will be in the listen only mode. After the presentation, there will be an opportunity to ask questions. If any participants have difficulties hearing the conference, please press the star followed by zero on your telephone keypad for operator's assistance. May I now hand you over to Rene Hoffmann, who will lead you through this conference. Please go ahead.

Rene Hoffmann

Thank you, Yasmine, and welcome, everybody, to the conference call on Vonovia's Earnings for the First Nine Months of 2016. I suppose you've all had a chance to look at the material we published this morning, includi ng the 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.

And with that, I would like to hand it over to Rolf.

Rolf Buch (CEO)

Thank you, Rene. So also from my side a warm welcome and thank you that you are able to attend our presentation. I am very happy to present the results of the first nine months 2016. As you have probably seen, we have included some extensive material on portfolio management, which I will go through later in the presentation. But first things first, highlights of the first nine months.

Our operation continues to run smoothly with 2.8% like-for-like rental growth, adjusted EBITDA Operations of €832.2 million, this is an 8.4% average uplift on a per unit basis, and an FFO of €571.6 million, or €1.23 per share. This is an uplift of around 30% year on year.

Driven by this result, by our investment and our expectation of considerable yield compression in specific areas, we currently estimate the valuation uplift to be between €3.5 billion to €3.9 billion, compared to the end of last year. We see this as a clear proof of our strategy because I can tell you we would not have seen the same valuation uplift in our old Deutsche Annington portfolio three years ago. Our valuation uplift is a 20% uplift in comparison to last year.

Due to a lot of discussions which I had with you, we learnt that it is not very easy for you to figure out about our portfolio and our portfolio quality. So we think we have to make your life easier. To help you to better understand our geographic exposure and the market potential going forward, we are introducing an enhanced portfolio reporting in which we are looking at 15 regional markets that make our strategic portfolio. As I said, I will get to this a little bit later. This will be an important part of this presentation.

On the next page, we have finalized our guidance for this year. FFO is expected to come out at the upper end of the range, so around €760 million, or approximately €1.63 per share. Our dividend proposal to the AGM in May next year is expected to be €1.12 per share, and this is irrespective of the outcome of the conwert tender. Stefan will give you some more details on this.

In light of our expectation for the very uplift at the end of the year, we estimate our EPRA NAV to be around €36 per share at December 31 this year. This is, as I mentioned before, 20% uplift. We are also sharing, for the first time, our guidance for 2017. I understand that this is quite early in comparison to some other DAX companies, but I think this is an advantage of German resi; we can very much predict our business very early and on a very stable basis.

We expect our like-for-like rental growth to accelerate to 3.5% to 3.7%. This increase is mostly incremental contribution from our investments from the year 2016. And I repeat this again; this is always the same, the investment of one-year is an increase of rent next year. So this rent increase has nothing to do with the massively increased investment program which we are doing in 2017. We estimate to see double-digit organic FFO growth to between €830 million and €850 million, which translates to €1.78 to €1.82 per share.

In terms of investment, we have agreed and approved to initiate a €1 billion investment program for 2017. Of that amount, we think that work for about €700 million to €730 million will be completed and accounted for in the year FY 2017, with the rest coming early 2018. So the €1 billion will come. It is just a question how much you will see in the books in the end of 2017. And that's why we are explicitly saying this, because we don't want to see you unsatisfied in the end of next year.

If you include the estimates for our performance, as well as the planned investment, but exclude any further expectable yield compression assumptions, you get to around €37 to €38 on EPRA NAV per share at the end of next year. But, I repeat, the €36 is including yield compression for this year. The €37, €38 is excluding further yield compressions for the year 2017.

The next slide you know very well; this is our strategic slide. I don't think I have to go in detail, but we like to show it every time to show you, and to prove you, that we have not changed our strategy since the IPO. Of course we have, in the last quarters, often talked about scalability and efficiency, about financing mix and about our extension business, and acquisitions was, from time-to-time, a topic.

But today, in this presentation, we will emphasize on portfolio management, as I have said, because portfolio management probably needs a little bit longer to show its effect, but it also will have, long term, very important impact for our business.

And this is I hand over to you, Stefan.

Dr. A. Stefan Kirsten (CFO)

Thank you, Rolf. It's a touch more complicated today, because we are not sitting in one room, so please also consider when you ask your questions today. A very warm welcome from me, too, I'm on page 5 now, and that illustrates our very good nine-month period. Even if we focus on portfolio and portfolio quality, let me guide you through the numbers, even if this is just one KPI page. There is much more in the appendix, from page 51 onwards, so that you find the respective numbers, end of period, on-spot shares and average shares, et cetera as you are used to by us.

Our one page overview on the relevant KPIs shows you that the numbers are not just up, because this is normal if you're in an inquisitive mood, but that on an absolute basis, but that we have also grown on a relative basis. And you will see this later when we go through the respective guidance charts.

So we are enjoying a good ride, as you can see. Our spot in-place rent like-for-like growth is at 2.8%. You know that our guidance is higher, so you can expect something for the fourth quarter. Our vacancy rate is down; there is a certain seasonality in it. Our average cost per unit is also in good shape for this year, due to the acquisitions and the scalability of the business.

And our FFO 1 per share is 30% up at end of period, which is, for us, relevant from a dividend point of view. But from an economic point of view, it makes more sense to measure them on an average number of outstanding shares, then it's at least 7% up. All in all, we are enjoying an excellent ride at the moment and we do not see that the performance of the company is, at any point, at an inflection point or turning.

On page six, you see what we mean when we say size and scale matters. The EBITDA margin, both including and excluding maintenance, continues to move up. And between us, from a definitive point of view, I don't care whether or not it's 71.8% or 71.6%, or whether or not you have certain cost bases in, as long as you measure it steadily.

From the IPO to the nine-month numbers of 2016, we have improved by 10 percentage points our EBITDA margin in whatever dimension you see that. And if you do that whilst you are growing significantly, it is very clear that you are moving in a scalable business, and that's the key purpose of this page.

On page seven, I would like to, again, reiterate; maintenance, ladies and gentlemen, is reactive. It is preserving our EBITDA. Modernization is proactive. It is increasing our EBITDA. What's important for us is that we can show you stable maintenance expenses on a per square meter basis. I would like you to focus on the right-hand side of the chart.

Irrespective of inflationary pressures, because building inflation and, therefore, inflation for maintenance, is at a higher level, approximately 400 to 500 basis points higher than standard CPIs, which will be covered by our increased productivity with our own craftsmen organization.

You see a significant decline in capitalized maintenance. This has nothing to do with the change in accounting rules. It's just the mix of projects which we have, and that's something which is very important to understand. For a person who works for us in the field, it is maintenance, maintenance and maintenance. They don't even know what capitalization or operating costs are.

Whether or not it's capitalized, or not capitalized, is decided by a predefined and audited catalog in our SAP system. So what happens is, somebody puts a key in for a certain maintenance measure and this thing automatically flows into a catalog where -- in the catalog, we decide, is it OpEx or is it Capex. Therefore, we sometimes have also difficulties to guide you exactly how much capitalized maintenance or operating maintenance will happen, because of this simple fact.

So as you can see when you look at our guidance, we're a little below what you might expect. I believe that this is seasonality. We're keeping the guidance number in at €340 million because we believe that this is what our bricks and mortar are using at the maintenance level for this year.

Let's move to page eight, loan to value reduction. You're having, at the top part of the page, a very detailed loan to value reduction, which is very uninspiring, because this is the nine-month numbers. As you know, we didn't revaluate at half-year or now. Our revaluation will happen at yearend, even if we can give you a good estimate during the course of today. If we take the valuation uplift, including the yield compression, into account, our pro forma loan to value ratio at the end of this year will be at 42%.

And now let's talk for a second about conwert. You are aware that, in conwert, we have a cash offer and a share offer out there and that cash offer and share offer is, at the moment, tilting more towards cash. Let's see how the stock price develops on our side and what will be the more efficient route.

If you look at these loan to value numbers, I can assure you that even if it is all cash, dependent on the acceptance levels, let's say between 55% and 95%, the loan to value ratio will oscillate between 43% and 45%. So whatever happens on conwert, we will stay in our loan to value comfort zone. That is, of course, important when you look at the way how conwert will be financed.

Let's move to page nine. Page nine shows you the debt maturity profile and the funding mix. The three key buzzwords, and I'll touch more into details, is it's balanced, it's diversified and with an unencumberance ratio of more than 56% it's also BBB+ compliant.

We published this morning this chart and I've received various calls because people said, hang on, hang on, there are two red crosses in the CMBS structures; we haven't repaid them, that is absolutely correct. We have earmarked the GRF-2 and the WOBA Taurus CMBS for early redemption, this early redemption can and may happen either in November, and/or February next year, but definitely ahead of the scheduled 2018 maturity.

It is an opportunity for us because we will, of course, capture a significant difference between the existing rates in the market and the historic rates which govern the CMBS structures.

Excuse me -- we have, since the Q2 presentation, refinanced, or redeemed, €1.8 billion of GRF-1 and you are, of course, aware that we have repaid €700 million of bond that was due in the year. We have also taken in, in a private transaction

€500 million of cash, which we may use on the GRF-2 business, and this was a heart-to-heart deal with a couple of financial institutions who offered us very favorable terms.

Our current interest rate is 2.3%; we are expecting this number to come down, which is quite normal if you see our financing part, so we're oscillating towards the 2% line. When we will reach it depends when we will take the new volume in on one side, and which terms and conditions happen there.

But, ladies and gentlemen, let's not forget one thing, we are still in extraordinary low interest times. So whether or not we get excited because some interest numbers move up about 15 basis points, or move down by 15 basis points, this is a very low interest environment. And we have the opportunity to use our diversified funding mix and capitalize on these amounts.

On page 10, I would like to address the 2016 guidance for the last time, and I would like to repeat that it's for 2016; you will later see a chart for 2017.

The 2016 guidance is excluding conwert, of course, because conwert is not playing a role in this year, but it's including our best estimate on yield compression. I will drill a little bit deeper on dividends and the yield compression in the next two charts, but let's focus here on 2016.

We're having 3% to 3.2% of like-for-like rental growth; we are standing to our 2.5% vacancy at the end of the period. You have to keep in mind that this is the effect of technical vacancy; there is nothing much to improve because you need some vacancy alone for modernization, but you also have churn. We, therefore, stick to our rental income top line.

And with regard to the FFO 1, we move to the upper end of the guidance and we will oscillate around 760 million, which comprises to €1.63 FFO 1 per share. And this is a number which is, of course, a significant increase versus previous year and it shows the capabilities of the organization.

The EPRA NAV per share at €36, approximately because we are not finalized, is including the benefits from performance, the benefits from our own investments, as well as the yield compression. I will illustrate that later.

Most other numbers are absolutely in line with what you know. What is important is that we have almost 20,000 units sold in our non-core environment to better owners. We will continuously keep selling on an opportunistic basis, but we're expecting to have approximately 24,000 units in non-core, non-strategic segments which we will take out of our business, which should improve further our portfolio with regard to our respective strategies.

Last, but not least, the dividend. On the dividend, I can tell you that we had €1.05 as a conservative minimum dividend addressed in August 2016. We are now going to €1.12, and I will show you where the 19% increase comes from and why it is not affected by conwert.

Let's move to page 11, please. You will see this chart again later with more illustrations when Rolf presents the portfolio. The valuation process for us is still underway. How do we do that? We are putting in a deadline for the 31 of December, that's the valuation point. We are doing, with our own valuation department, an entity by entity valuation. We are then matching that with CBRE. This leads, of course, to differences and we clear the worst differences in either direction first and narrow ourselves to the middle, on a case by case basis, until we have a tracking arrow which is less than 10 basis points in the absolute amount.

Our current estimate, which is already very solid, is that we will have €3.5 billion to €3.9 billion of value increase, fuelled by three drivers: a better performance, that's obvious when you look at our numbers; the investments which we promised you and which we will deliver, and which will fuel the rental growth of next year; as well as the yield compression and that yield compression happens in A locations as we all know, but also in secondary locations.

And I must say we did a gamble, to a certain degree, when we acquired in Kiel, in Bremen, and when we kept Darmstadt, Dresden, Heidenheim, these type of places. And we are seeing that they are flourishing quite nicely at the moment, and that that was obviously the right strategic decision. So €2.3 billion to €2.5 billion of pure yield compression which pushes, of course, also our NAV. Rolf will later show you some more detail about that.

Our dividend policy is 70% of FFO 1. Now we don't know how many shares will leave our system as new shares for conwert and we, therefore, sat down and thought very hard how we can have our shareholders participate in the very good numbers which we are showing. So you have two cases; you have the case without conwert, so it's 0% acceptance ratio.

Our guidance is around €760 million, total shares is €466 million, FFO per share is clear, payout ratio leads to €1.12. The dividend payout will be a good €0.5 billion. If we take conwert on, and we don't know what the acceptance level will be, and we assume now a 75% acceptance level, we are, of course, also getting the dividend which is stored in the conwert shares which we are buying. So this dividend we can push 100% to our shareholder base, but we will have €38 million new shares which we have to offer.

At 70% payout ratio, again we come to €1.12 and you see the detailed calculation there. We will then have a dividend payout volume of €566 million. So however we turn it, we will oscillate around the €1.12, and this is, therefore, the Management Board's proposal to the Supervisory Board, and to the Annual General Meeting, to be paid out in May next year.

And I've heard that question various times over the last days; if we get new shares out for conwert because the conwert transaction happens, these shares will have the full dividend entitlement for 2016 to be paid, so the €1.12.

With that, I'd like to hand back to Rolf.

Rolf Buch (CEO)

Thank you, Stefan. So now we are coming to the portfolio management. As you know we have three dimensions in portfolio management to improve the quality of the portfolio.

The first is to sell portfolio which is below average and, therefore, we have this non-core, non-strategic. Second is to buy portfolio above average, which we have done in the past, and, of course, shareholders' investment. But let's go through it, or let's start with the EBITDA sales, with our sales activity.

Due to the attractive market for seller which we see in the moment, we have changed, as announced, our strategy to do more package deals to speed up our sales program. As a result, we have managed to almost double the EBITDA contribution from sales to €65.5 million for the first nine months of this year.

But let me repeat what I'm always saying; we are not doing sales to generate EBITDA sales, we are doing sales to improve our portfolio. The EBITDA sales are just a side effect. But the positive market fundamentals are also reflected in the fair market value step up with 35.4% on condo sales, and 3.9% on non-core and non-strategic sales.

So, on the next page I will provide you some more additional color for our sales channels. The momentum across many local markets that we are seeing in the valuation process is also evident in the privatization sales. While per square meter prices grew by 3.6% between 2014 and 2015, they grew by more than 22% during the first nine months of this year. And this is across all locations, as our overall location mix in the portfolio cluster has not changed, as you can see on the left side of the page.

With regards to non-core and non-strategic, we wanted to give you some more color on the estimated timeframe for this disposal. We started at the beginning of the year with remaining 37,000 units, of which we have sold close to 20,000 until now. There was a small reclassification, which was normal in the sorting process every year. This takes us to 18,400 as of September 30.

Of the 4,500 which is signed, reserved, or in the pipeline, we expect to close the vast majority before the end of the year. That leaves us with around 14,000 going into the New Year. These 14,000 includes almost 4,000 that have sales restrictions, that's why cannot be sold in the year 2017. The remaining 10,000 we should be able to sell mostly in 2017.

So this means that we are coming to an end of our disposal program, at least of non-core and non-strategic. What is the impact in the well-known activity driven portfolio clustering? This is a familiar breakdown along the line what we call activity driven portfolio, so comparison of the share of total fair value, at the IPO, and as per Q3 of this year shows that our portfolio has changed materially. While, at the IPO, we have 13% of our portfolio value in non-core and non-strategic locations, we have reduced this number down to 3%.

At the same time, our strategic portfolio, which was back in 2013 73%, is now 91% of the total portfolio today. But I think it is also worthwhile to look at our upgrade building and optimize apartment segment. You know that we have invested a significant amount of money to change this to operate.

So it is counterintuitive that this number is still growing; it's a higher percentage now than we used to show in the IPO 2013. The explanation is very easy. We have gone, in the last three years, through a big learning curve and that's why we are now more efficient in this investment program. And this means there is a bigger portion of portfolio which is attractive for this value enhancing investment. Some of you wondered that we will stop investment in upgrade building and optimized apartment. I don't think that this is a fact for the foreseeable future.

Coming to the second point which is investing in our buildings. As we always do in fall of every year, we have resolved our investment program for the following year, in this case, for the year 2017. For 2017, we expect to initiate a €1 billion investment program. Some of this volume will be spilled over in 2018 as I said before, but we think that €700 million to €730 million will be completed and accounted for by the end of 2017.

We see the success of this investment in the portfolio improvement and the increase in operating performance. That's why we are so excited to raise the bar yet again, and to ramp-up our investment program. Again, this is not a problem of capital available or buildings available it's just a question to make our organization even more performing.

An increasing contribution is expected to come from new construction, or space creation as we would like to call it, which will obviously depend also on building permissions, where we are a little bit less concrete today, on how much will be booked in the year 2017.

Please allow me one additional remark in this context. This investment volume is only possible if you have a smooth and stable internal organization to coordinate and to implement these volumes. We are very confident about our organization. And I am personally proud of these people who are running this amount of investment every day.

So the increase in investment volume is also a reflection of our successful in sourcing and operational strategy. On the next page, on page 17 you see the summary what we have done with our portfolio in the last three years. We have invested, in the last three years, more than €1 billion in our value-enhancing investment program and made our products just better.

In the same time, we have sold around 40,000 non-core and non-strategic units, and we have acquired more than 200,000 units, and we have explained it to you piece-by-piece, always with an above average portfolio quality. With these numbers, I think it is fair to say that Vonovia's portfolio today is materially different from the portfolio we had at our IPO.

In fact, we have sold nearly 30% of the old Deutsche Annington portfolio. How different it is now, and how much potential we will see, going forward, is what I'd like to show you in the following slide. You know the slide, our famous total return matrix. And you are very familiar with it. That in the horizontal we see the market return and the vertical curve we are showing the expected value growth.

We have put Vonovia's portfolio, over the course of the time, into this framework, and it shows that we are going in the right direction. Today's portfolio is not only bigger. It is also in more attractive markets which stock better potential going forward. And what is equally important? We are moving up and away from the WACC zone but in the right direction.

And if you benchmark our portfolio against external sources such as a study on "Schwarmstädte" which is a very interesting study about growing metropolitan areas. Actually, the author of the study has looked by age group and found out that, in some cities, the young people are moving in and staying and in other cities, actually older people are moving in, and in some cities people are moving out.

Of course, it is evident to say that the cities where young people move in and stay, is much more important than others.

There is a second Prognos ranking, and we have explanation for the Schwarmstädte and the Prognos ranking, both in the appendix. And you can see, in both rankings, that we are moving in the right direction on our portfolios.

Stefan has already talked about the yield compression and the expected value uplift of the end of this year. So I would like to give you some additional color which is the regional distribution regarding our fair value expectations.

The red markers in these slides indicate Schwarmstädte, so the growing young metropolitan areas. As you can see on the map, there is a good momentum across large parts of the country, with a higher valuation result expected for the large prime cities, and considerable value growth in many other locations as well.

Of course, you can see also on this map, and in the appendix, that we are reducing overall the locations. This is still a definition by cities and, of course, in a numbers of cities, in some cities, we are only own one or two buildings, will be reduced dramatically in this year and next year.

But coming back to the point that we have to make your life easier and this is all about the presentation of the portfolio. You are used to our action-driven portfolio clustering, which we have introduced at the IPO, because the main topic of the IPO was industrialization and our investment programs. And this sorting is actually to help you to sort our buildings according to these different activities.

On the other hand, on the very right side, you are seeing that, of course, we need the sorting of the portfolio to operate, or to use our operating platform, which is more or less a mixture of geographic and regional connections.

Historically, we also have shown you, I think in every quarter, the geographic breakdown, like it is done traditionally, by federal states or by individual cities. The problem with showing the portfolio with cities, or with individual states, is the following. The challenge is, with this, is the federal state is too large, and the individual city is too small, because it ignores the catchment areas around the cities.

Let me give you some examples. For example, Saxony does not exhibit the same characteristics as Dresden which, in turn, is very different from Chemnitz. The same is for many other federal states and cities; I can give you thousands of examples.

Looking only on an individual city like Munich, for example, lacks totally the fact that there are small city locations connected to Munich, via local train exhibit, very similar growth pattern as Munich itself. Actually, in the very famous example of Bochum, Essen and Dortmund, if you drive through the cities, you even cannot find out when you are leaving the city, and entering a new city.

So the concept of cities, which was built a long time ago, of some legal administration points, does not reflect the characteristic of the German market. So we have worked very hard and we have now formed 15 clusters, which we call markets, that form homogeneous areas, because they have similar characteristics and development potential, they share commuter relations and are actually connected and are, from the real estate perspective, one individual market.

If you compare this market with external data, such as empirica Schwarmstädte or the Prognos ranking, you get a rather clear view as to the strong potential of these markets versus the rest of the country. This is in the next slide.

In the next slide, we show you a very detailed matrix, and I think this needs some time to digest, of these 15 regions, there's a lot of different KPIs. There is, for example, the multiple in-place rent which you have to pay to buy portfolio, there is an annualized in-place, and there is the like-for-like rental growth, which we have seen in the last year. There is re-letting rental growth, which we have seen in the last year.

There is an average forecast of CBRE, which is not always in line with our own perspective for the future. And then you have two columns, which is the question, is this a Schwarmstadt or how is the ranking of Prognos? Please keep in mind that the ranking of Prognos is better if it comes to smaller number, so the best ranking is one and the worst ranking is, I think, eight.

But I give you now some examples. For example, if you look our biggest city in fair value, Berlin, we are buying for 18.1 and we are getting a like-for-like rental growth in average of 3.2%, while we can buy in Frankfurt for a multiple of 17.4, and we get a like-for-like growth of 3.7%. Or even more extreme, in Westphalia, in Münster and Osnabrück, you can buy for 13 times, and you get the same rental growth like in some others, like 3.2%.

So I think this matrix is really a lot of information for you, and I think you should digest it. We will report it in the future and we'll also report you the development according to this matrix. If you now use this individual market and can put it into the Schwarmstädte study, or into the Prognos study, you can see how good the portfolio has developed for Vonovia or Deutsche Annington in former times, since the IPO.

On the left column, you always see our portfolio and the sorting into Schwarmstädte, for example on the left side, on the time of the IPO. You see the development by value growth and by sales from Deutsche Annington's portfolio today to Vonovia's portfolio, or former Deutsche Annington, or remaining Deutsche Annington portfolio in 2016, and then you see the impact of the acquisitions and the value growth in the overall portfolio transactions start.

And you can see that we have moved the portfolio strategically from 54% value of the portfolio share was in Schwarmstädte in the IPO, and it's now 68%. Even more extreme is the Prognos study; 53% was in Prognos location, which are above average, and today it's 71%.

And I can tell you, I prefer to have a portfolio in Schwarmstädte, or in above-average quality living situations than in below-quality living situations.

So that's why we are happy that we have gone through this journey for the last three years, and I think this is also the reason why you have seen so big yield compression this year, because I don’t tell you a secret, the yield compression in Non-Schwarmstädte is very small and the one in Schwarmstädte is very high, and this is the same for attractive locations in comparison to unattractive locations.

But this also gives you a feeling that the potential of Vonovia has a big future, and for my personal judgment, I think that this was not seen enough on the market and that's why we found that we have to provide you better information.

The last, which I don't spend – we will not spend too much time today is our fourth element; this is extension business. This extension business is becoming an increasing relevant contributor to our bottom line.

The beauty of this part of the business is that the growth is almost inherent and that it involves limited amount of capital, so future growth is expected to come on limited investments.

We have been trying and testing different extension strategies. The in-sourcing of craftsmen is still that largest driver, but we are starting now with the in-sourcing of gardening, which will have the same potential in a few years. But we also have our multimedia services, our third-party and condo management and the smart metering business.

And these strategies are being rolled out to own numbers of units in our portfolio, which enable us to continue this higher double-digit growth rate. So for me, also the projection of above 60% growth rates 2017 is not a surprise; we will deliver actually nearly close to €90 million FFO/EBITDA, whatever you take, because there's nearly no investment.

So that's our portfolio valuation, in space and market terms. I repeat again, it does not include the contribution from the extension business. So our EPRA NAV number is before extension. For 2017 we expect, as I said, an adjusted EBITDA of at least 90 million in this segment.

Also for the completeness, we have promised to present you every quarter our acquisition pipeline; it remains somewhat softer at this point, which is fine for us because we are happy to grow organically. So comparison of the two previous years, and where we are at this point into the year, shows the volatility in this part of our business.

It’s important is that we follow a completely opportunistic approach here, because you cannot predict it and it would be a mistake, as I repeat, to incentivize the management to do acquisitions. But while we are uncertain there will – while we are certain that there will be opportunities down the road, we are uncertain when they will come and what will come.

And with this, I give back to you, Stefan, to do the guidance for 2017.

Dr. A. Stefan Kirsten (CFO)

Thank you. Well, ladies and gentlemen, let me do the guidance and a little bit of housekeeping, and also give you an update on conwert. We are now on page 26 and I will really read it from the very top to the very bottom. This is the guidance for 2017. You know that, over the last two years, we were always providing you in November with the respective guidance; there are no effects from a potential conwert takeover taken into account. So this is a guidance which is actually based on zero acquisitions, because we have not acquired anything which isn't in the full number for 2016 included.

Our top-line growth, on a like-for-like end of period basis, so the spot top-line growth, will be between 3.5% and 3.7%. Let me make one thing clear, which Rolf has already iterated. Our usual rental growth is around 1.5%, plus/minus 10 basis points. The rest is fuelled by the modernization program and it is never the modernization program of the same year, it's always the modernization program of the previous year.

So I've seen a couple of comments today in the media that this is fuelled by the modernization program of €700 million to €730 million, no, it is not. This number will contribute to 2018 and gives you an indication where we should then land.

Our vacancy at the end of the period will be below 2.5%. This has also to do with the sales in non-core and non-strategic, because these are usually units which have a higher vacancy rate. Why is our rental income constant? Because, we have sold 24,000 units in non-core, and approximately 2,500 units in privatization.

So even with the shrinking number of residential units which we have, we are able, through the rental growth and through the vacancy, to keep our top-line flat. That flat top-line is, nevertheless, yielding an FFO1 of €830 million to €850 million; this is on average, let's say, €80 million more than what we can deliver in this year.

I cannot give you a detailed breakdown now because we are still finalizing our budgeting process, but you can roughly assume that 50% comes from operations. So in the EBITDA area, and 50% comes from refinancing. These values can still slightly fluctuate. It really depends when we refinance with which instrument.

So our FFO1 per share, based on the existing number of shares, is around €1.80. Now we come to the EPRA NAV per share. The EPRA NAV per share, and again, this is important and I would like to reiterate, does include the 2016 yield compression but not the 2017 yield compression. I'll address that in a second. But the number should be in the range of €37 to €38.

What does that mean? It simply means that we are taking in our normal rent increases which we are expecting, as well as our investments, but no yield compression for the respective year. Let's put the yield compression into context. Between 2014 and 2016 the minimum yield compression in our portfolio has been 2.2% per year. The maximum 7.1% and the average has been 4.6%.

We cannot judge, at the moment, in which direction the yield compression goes. We still believe it's there also in the future, and you have a trumpet between 2.2% and 7.1% from which you have to choose. And I'm sure that you're a smart as we are, in having a view in looking forward at that.

We will have a look at yield compressions for the next year more thoroughly, because we are seeing that this seems to be a trend which will keep for prolonged period, as we see it.

The maintenance level is expected to be constant. In modernization, we are pushing a program of €1 billion per year. You cannot spend €1 billion per year in our business in the way how we are structured. We're expecting that we will be able to spend, during the year, something in the range of €700 million to €730 million, with the rest flowing over into 2018, because this is new builds. These are things which just have a longer pay ratio.

Again, I can confirm to you that our budgeting numbers show us an average yield, unlevered, of 7%, or around 7%, on this modernization spend.

Privatizations, we're expecting 2,300 units. Fair market value step-ups will be the same. Non-core, Rolf has given you an indication that we will sell the majority of our 10,000 non-restricted units but, nevertheless, our strategy is still to be opportunistic.

The fair market value step-up, also after the last valuation round, should be in the range of zero for these types of non-core businesses. And our dividend policy is intact. This dividend policy applied to the respective FFO per share is showing a 12% increase of the already increased dividend to approximately €1.24, €1.25. Based on the last stock exchange data, this is a 3.5% dividend yield in a company which is growing solidly and in a stable way.

Let me just see whether I missed anything. No. Then let's move to conwert. That's on page 27. We are, and this is the most important sentence, all on track with every process, with regard to conwert. We're enthusiastic about the opportunity to join forces with them.

Our prospectuses, antitrust approvals, financing arrangements and offer documents are all in the shape where we would like to have them at this point in time. We're expecting to publish the offer documents on 17 of November. And we're expecting to have the end of the first acceptance period on 19 of December.

We, as well as you, will have clarity about the cconwert transaction on 22nd of December, so that we can use the Christmas holidays, and the first weeks of January, to generate the respective shares and settle the whole amounts.

We are also expecting that, directly after we know whether or not we have a majority, we will ask for an Extraordinary General Meeting of conwert in the second half, more closer to the end of January. After the first acceptance period, there's a second acceptance period going, which leads to the end of March, or middle of March. And then in April, settlement will be done there.

So the whole legalistic integration with taking control is over in April. We're already, of course, thinking about the economic integration of the entity if we're successful here. You are aware that this is a friendly deal. This is going to happen then in the period after we have taken control.

Let's talk about the cash offer and the share offer. We have a cash offer out there, because that's mandatory under Austrian law. You have seen that our share price at the moment, makes the cash offer more attractive than the share offer.

We are more than willing to pay the cash offer, if the necessity arises. We have to have, in any case, the financing in place in the moment when we have the offer documentation out.

There has been a Reuters' article this morning about imminent equity rise, which could easily be misunderstood. So let's do a distinction of cases. Case A, we don't get conwert. If we don't get conwert, we will end up at 42% loan to value and there is no reason to look at equity.

Case B, we get conwert and it will be an all shares deal because our shares are rallying and it's more efficient to do it in shares. Then we will of course have a capital increase in kind against the conwert shares to towards the conwert shareholders. So that's what was meant with is there a capital increase.

Case C, is -- it's all in cash and we can afford it from a ratings point of view; we can afford it from a liquidity point of view. I will not rule out that we will then look at the transaction and say, okay, does it make sense to prep it up with an accelerated book build or not?

But this is a decision which we and our Supervisory Board will definitely not tackle before January. And I don't expect it at the moment to happen. So whatever happens, we have all the flexibility and all the willingness to take conwert into the Vonovia family. And, as I said before, we're very enthusiastic about the opportunity.

Let's move to page 28, which is a housekeeping page and it deals with investor relations. Very happy that Rene has moved extremely well into his role and I would like to stress four items on that page.

The first one is we have now an investor relations app. You can download it and it is, de facto, replicating our webpage and from my point of view easier to navigate. And I think it's a neat tool, so that you have easy accessibility on your mobile devices. Try it on your iPad please not on your iPhone; on the iPhone the numbers get very small and I'm a big fan of big numbers.

So the second aspect is the Makinson Cowell perception study. Thank you very much for participating. We had 30 in-depth interviews. They confirmed a lot of our views, which is good news because you don't want always bad surprises.

But they also pointed to certain areas where we can do better going forward and this was a very, very, very good exercise for us. So thank you for taking the time to giving us in a structured way, that feedback. We will repeat that every two years.

The third aspect is we'll be on the road quite a bit, as you can see in the financial calendar. We are also casting our net wider now, so we are increasingly including Asia into our itineraries because especially pension funds and certain sovereign wealth funds are discovering European and German resi. And the February trip will be the third one within 18 months.

Obviously, Europe and North America are - and will remain the focus for our activities. Please reach out to our investor relations team if you want to be included in any of the road shows or in the conference schedules.

Last, but not least, a technical issue. We all expect to take control of conwert in the end of January. This will of course, delay our timing for the Q1 and the Q2 reports because we have to get a listed entity, which has a considerable number of legal entities in its group, into our accounting systems and into our accounting processes.

So take the timing for Q1, Q2, maybe Q3, but I'm expecting only Q1, Q2, with a little grain of salt, because it may shift due to the first consolidation of conwert. What you can expect is that, if conwert works as a transaction, you will have, with the Q1 numbers, an updated guidance, and updated numbers, including conwert, as you have seen with GAGFAH and all the other transactions.

That finishes the housekeeping part. Back to Rolf, please.

Rolf Buch (CEO)

Thank you, Stefan, for the housekeeping. This is my last slide where I would like to wrap up what we have shown to you. I think you have seen that our operational excellence also has continued in the third quarter. You know that we are thinking sometimes of a flywheel effect, so we are able, with this operational excellence, actually also in 2017 even if the top line stays flat, to improve the FFO by 10%.

We have shown you, and in detailed explained you where the valuation uplift of 20% is coming from in the year 2016. We have tried to give you, and to start with you in a discussion, to give you more additional transparency about our regional market reporting. And – this reporting, and the figures we have shown you, support that portfolio quality has improved a lot, and – which also gives a lot of future growth potential.

The 2016 guidance is finalized; we'll end up at the upper end of range, the range of the FFO with €760 million. We have seen an increased NAV expectation, and we have told you that we will propose an increased dividend per share to our AGM in May.

And as you have seen in our guidance 2017, we are also very confident of our future, even without acquisitions, because FFO will grow, even without conwert, more than 10%. And you have heard that the conwert offer is well on track, which will boost our results. But this is, again, on top of the guidance which we gave you.

Thank you very much for your participation. We are open for questions.

QUESTION AND ANSWER SECTION

Operator

Thank you. Now we will begin our question-and-answer session. The first question comes from Marc Mozzi, Société Générale.

Marc Mozzi

Yeah. Thank you. Good afternoon, gentlemen. I have three questions, essentially. The first one is trying to understand a bit about these efficiency gains you've been talking about, operational efficiency gains you've been talking about for quite a while now. I would like to understand, what is currently the cost internalization rate you have? You mentioned something around 50% targeted for the year and 70%, 80% for next year. I would like to have a follow-up on that.

And then the other question is, how many cities are you targeting at full speed with this new clustering? I think you mentioned 400-ish cities. How many cities do you have currently, close to 24,000 units this quarter? That would be the first question.

Rolf Buch (CEO)

So, Marc, I think, for the cities, there must be something in the appendix. We have today 720 cities but – and we will go to year-end of 665, and I think it will go down to around 400 locations. But because you are French, please I would like to remind you that, of course, this is like considering Paris as 10 or 15 different cities. So that's why we introduced the regions now because, in Germany, the city is an administrative definition, it has nothing to do with a market which we consider. That's why also sometimes the definition of city sounds so high because, for example, around Munich there are a lot of small towns which, from the real estate perspective, are Munich. But legally, if you show cities, it's actually considered an independent city. So that's why we put it in the appendix because it was our historical view, but I think there's a misleading if you looked at absolute locations. Of course, what is not misleading is the reduction from 818 to 400 because this gives you a feeling of the reduction of complexitivity. The next one is - Efficiency. So it’s actually, we are now in 2017 we think that we will be around 7% of the OpEx maintenance in-house, 70%, seven zero. And 20% to 30% will be on the capitalized maintenance and modernization, in-house. Is this the answer for your question?

Marc Mozzi

Yes, partly. I will do a follow-up on that one. Then can you give us a flavor of, out of the €2.3 billion to €2.5 billion of asset revaluation coming from yield compression, what comes from secondary location and what comes from prime locations? I'm sure you've got a sense of what is the proportion?

Dr. A. Stefan Kirsten (CFO)

This is Stefan. Yes. The bulk is still from primary locations. But the relationship – I won't give you exact numbers because we are still, at the moment, breaking it down to cities and to locations. But the bulk is still from the primary locations. But the total percentage, which comes from secondary and tertiary locations by the way, has disproportionately increased versus the last year.

So you can still say the top seven spots are still casting the limelight. But the B locations, and I'm here at the Munsters of the world, and the Augsburgs of the world, are catching up rapidly. And now, from a percentage point of view, definitely be the driver for the next years.

Rolf Buch (CEO)

Only one additional remark; of course, we are also keen and we follow on every detail of the cities which we recently have acquired. A big surprise for us were probably cities like Bremen, Kiel, and Stuttgart, which are delivering nearly the same value uplift percentage-wise than the big cities. So this is a very differentiated picture. That's why I advise everybody to look on the Schwarmstädte study, because the Schwarmstädte study gives you a very good feeling.

So big city is not necessarily the same like a big city. You have big cities in Germany which are attractive for these young people and, therefore, of course, the increase in the future growth of these cities will be much bigger than other big cities, which do not deliver it. So it's not a question of size; it's a question of the structure of the city. Of course the top five, like Munich, Hamburg, Frankfurt, Berlin, these cities are big and that's why they are attractive, and they are in the same time also Schwarmstädte. But there are smaller cities which are Schwarmstädte as well.

Marc Mozzi

Okay. Thank you very much. And the last one will be on, have I understand the conwert deal is something you definitely think it will happen? What will be the FFO for 2017, including conwert, in your view?

Dr. A. Stefan Kirsten (CFO)

We are deliberately not guiding anything on conwert because conwert, Marc, is, at the moment, a listed entity in its own right and they will give their own guidance, and you know our assumptions on synergies. So please forgive us that we don't believe that this is the right call to handle this sort of information.

Marc Mozzi

Thank you very much.

Operator

Thank you. The next question comes from Mr. Thomas Neuhold, Kepler Cheuvreux.

Thomas Neuhold

Firstly, thank you very much for the more detailed portfolio presentation; that's really very helpful. I have basically three topics which I wanted to discuss. Firstly, regarding your investment program, especially the new construction activities, can you give us an indication what the expected unleveraged yield is on the new space created and what construction costs you are facing currently?

And going forward, can you give us already an indication what potential you see for new space creation over the next three to five years? And if possible, can you maybe also give us an indication what the run rate of your total investment program could be in the next three to five years? That's the first question. Then I have two other ones.

Rolf Buch (CEO)

So only to answer the first question; was a lot of detailed questions. The volume in the €1 billion, the volume for space creation and other related initiatives is around €300 million. The construction price, which we are in the moment doing in Bochum in our first building which we are doing pre-fabricated, is around

€1,800 per square meter, all-in, including the garden. So this is all, but excluding the cost of land because, in our cases, we already own the land.

For the second part, which is topping one more floor on an existing building, we are now, in the case in Dortmund, which is close by, where we probably will go close to €1,500, because we can use the existing infrastructure. I want to repeat again that this building will have higher quality of the traditional manufactured buildings -- higher quality, because it's normally manufactured in the factory.

I just heard a few weeks ago a common saying somebody told me, can you believe that somebody with a cigarette behind his ear will build you a BMW? And I said, no, I would like to have it built in the factory, and I think it was the same today. We are still building these people with a cigarette behind the ear our buildings with estimates and I think we are now doing it much better. This is, I think, the first thing.

Coming to the run rate, I think we now pushed the organization to go to this €1 billion. And this is also internally strong work to push the operations to deliver this.

So I think this will be a new plateau, so probably it is fair to say that in 2018/2019 you should not expect that because it does not make sense to push an organization upwards and then to reduce it. But for the time being, I think €1 billion is a fair run rate. In the future, you know our ambitions. Then, of course, if we have achieved the €1 billion, we will probably ask for more, but I think in the moment it's a good run rate for the next years.

Thomas Neuhold

Can you please also comment on the yield on the new space created?

Rolf Buch (CEO)

Yes, this is very important. For all these activities, we want to have an average yield of 7%, which is definitely also the case in the new construction. Of course, I am not telling a secret. If you build an apartment in Munich for €1,800, your yield is much higher than 7%. So this might be also a mixture. But the 7% is for our energetic modernization, for the optimized apartment, and for the new construction and other initiatives, always the same target yield. This is an unlevered yield and, of course, all these activities come together with their attractive and subsidized financing structure for KfW.

Thomas Neuhold

Thank you. The second question is on financing costs. We have seen recently a slight increase in German Government bond yields; can you give us an indication where your current spot financing costs are, or would be, for seven to 10 years' financing?

Dr. A. Stefan Kirsten (CFO)

At the moment, you can assume eight years' benchmark bond unsecured just below 1% all in.

Thomas Neuhold

Thank you.

Dr. A. Stefan Kirsten (CFO)

As mentioned in my part of the presentation that we got an opportunistic transaction of €500 million. This was a short termer; this was a two-year number. We got that in at zero percentage points.

Thomas Neuhold

Okay. The last question is on the regulatory environment. We have elections next year in Germany and the renting prices have gone up quite nicely and strongly in some cities. How important do you think this is going to be a topic for the left wing parties at the next elections? And are you already aware of any new potential proposals, which, if they implement it, could severely negatively impact your business, going forward?

Rolf Buch (CEO)

Thank you for this question. I think this depends. Let me start from the beginning. You know that there is still a pending legislation Mietrechtspaket II. Our estimate, and the estimate of the association, is that there is a high probability that this government will not pass this legislation any more. I would probably exclude that it will be exactly passed like it is today in the paper. There might be a chance, and I say it's a chance, that we find a compromise for a legislation which does not hurt too much. Then we solve it for the election campaign.

If this is not happening, and I would say the probability is high that this is not happening, then this will definitely be the topic for the elections next year. As you can see, for example the election of Berlin, it was a strong topic there. And then we have to see what will be the outcome of the election.

But in the end, and I think this is also all politicians know it, the problem is not solved by regulations. The problem is solved by incentivizing companies like us to build more apartments and this you are not achieving by doing more regulation. This you are achieving by reducing regulation, probably not about rental regulation but by, for example, construction permissions, construction processes.

So I think there is also an understanding from the politicians that they have to move onward. So, yes, if there is no solution for the Mietrechtspaket II, we will hear a lot of noise in the election. But for all investors, don't be too nervous, this is election noise. After the election, we will go on.

Thomas Neuhold

Okay. Thank you very much.

Operator

The next question comes from Ben Richford, Credit Suisse.

Ben Richford

Hi, guys. Just wanted to ask if you could help me understand the difference in growth rate between your FFO 1 and AFFO, especially given that your capitalized maintenance doesn't seem to have changed too much? It seems like a dramatically different growth rate?

Dr. A. Stefan Kirsten (CFO)

This is Stefan. No, the capitalized maintenance part has changed significantly.

Ben Richford

Is that enough to explain the difference?

Dr. A. Stefan Kirsten (CFO)

Yes, that's the only difference we have.

Ben Richford

Okay. Thank you for that. And then to fund conwert, if it's a cash consideration, would you not just sell your stake in Deutsche Wohnen?

Dr. A. Stefan Kirsten (CFO)

Well, let's put it that way. The short answer is, at the moment, no, because the Deutsche Wohnen stake is still crystallizing a lot of value for us. The longer answer is that we would, in our initial funding attempts, look at conwert from a pure liquidity and debt perspective.

And, due to the fact that we have financing events in the beginning of next year with the Taurus WOBA CMBS, we might go into the market with some bond financing within the next weeks, dependent on the developments in the markets, especially the event risks which are ahead of us in the next weeks.

Rolf Buch (CEO)

To come back to answer to the Deutsche Wohnen question, it's very simple; it's the same statement. We think that the management of Deutsche Wohnen is doing a good job. They have developed a very attractive portfolio in Berlin and we see that the development of values all over Germany, and especially in the big cities, is not over. So we believe in the future of our industry, independent on interest development. So there is no necessity to sel l it at the moment. So we are happy, let's just say.

Ben Richford

Do you see a better value in Deutsche Wohnen shares than Vonovia shares at today's share price?

Rolf Buch (CEO)

No. I would not go this route. We just say that actually we believe that also – actually, from our perspective, Deutsche Wohnen shares is an add-on in Berlin.

Ben Richford

Okay. Thank you.

Operator

The next question comes from Kai Klose, Berenberg Bank.

Kai Klose

Good afternoon. I have a question on page 16 regarding the investment program. How confident are you to maintain, or potentially even to increase or to improve the targeted return of 7%, let's say, of the investment split, seeing more for extension and for space creation, given the fact that construction costs are rising? And the second question is on the sales activities on page 13. May we have a split of the selling costs between condo sales and portfolio sales?

Rolf Buch (CEO)

Okay, let's start with your question on page 16; your question was, can you achieve the 7%? I would say, actually, you can see, in the past that we were able, mainly due to learning curves, to increase the target which was, in the beginning 7% to 7.2% to 7.4% and 7.6%. These was more or less finalized figures. So 7% for 2016 is, by the definition, not finished. So there might be also a chance that this figure goes up, but at the moment we stick with 7%. And we are very confident that we keep the 7% because, due to the regulation in Germany, even a price increase from modernization is transferred directly to the rent so it does not impact the yield. Does this answer the question?

Kai Klose

Yes.

Rolf Buch (CEO)

And then again, I repeat my sentence from the beginning; a new construction for €1800 in Munich definitely will deliver much above 7%, as you can calculate. And on page 13, you are asking for the sales cost. We are not splitting it up but, of course, it is clear that, if you do package deals, the sales cost is going down.

Kai Klose

Sure. One follow-up question on the extension – on the space creation, would you also consider developing for sale because currently, you develop for your own accounts for renting? Would you also consider to develop condos and then to sell it to homeowners or to private investors?

Rolf Buch (CEO)

For the time being, it is not our strategy. We are even going so far and saying we are only developing buildings on land which we own and which is close to our existing infrastructures, because I believe a typical development business has a completely different risk profile than the business we are doing today. And that's why we should not go into development because, as a development, you are building a building and then you hope that you can rent it or sell it.

The advantage that we do buildings close to our existing buildings, and on existing land, actually we know exactly the market for the rental market. We know exactly, before we even do the first construction, how much rental we'll get for this specific product. That's why this is comparable to our today's risk profile while the development is a completely different risk profile.

That's why, in the moment, we have enough work to do for our own and for rent, so this is not a topic which we talk about this moment in the Management Board because I think we should deliver on our existing land for our buildings. We have done enough and we should not think to use this capacity for other purposes.

Kai Klose

All right. And the very last question, on page 24 regarding the extension strategy, you are guiding for quite a strong growth in the adjusted EBITDA for the extension to more than €90 million in 2017. Could you be a bit more specific where the growth is coming from? Is it from completely new initiatives, or just rolling out and gaining speed for the current projects you currently have ongoing?

Rolf Buch (CEO)

Of course, it's coming from initial initiatives, because this is their nature. A pilot never develops a big contribution. The pilot develops a big contribution if we roll it out, so this is, of course, clear this value is coming from the rolling out. We are still rolling out our craftsmen organization. As I said, we will probably hire 1,000 people more in the next year in the craftsmen organization. We are fastly rolling out, in the moment, the cable business and metering business. In both cases, there is still something to come in 2018 and 2019. Especially, the cable business will be coming to an end, but the metering business is just starting. And, for example, the gardening business has probably, on the long run, similar potential like the craftsmen and there we are just starting.

So - but to answer your question, of course, a jump is coming from the fact that we roll out business which we started one or two years ago. But there's new business which you don't see in the figure, which will probably contribute to this figure in the next years.

Actually, to be honest, I am surprised about the fact that people are surprised by this increased number. I think this is logic and, if this number is not increasing, this would mean our strategy would have been wrong.

Kai Klose

Okay. Thank you very much.

Operator

The next question comes from Thomas Rothäusler, Jefferies.

Thomas Rothäusler

Hi. Good afternoon. I do have a question on page 16, the increased investment program you have presented today. Could you provide a rough split into the upgrade, the optimize and the new initiatives for this new investment volume?

Rolf Buch (CEO)

A rough split, I have given you around €300 -- no, really rough figures, around €300 million would be -- do we have it somewhere in the appendix, around €300 million would be for space creation and new initiatives related to this optimize apartments is around €150 million and upgrade building is the remaining piece.

Thomas Rothäusler

Okay, great.

Rolf Buch (CEO)

But this is roughly so this might be adjust -- in €100 millions more or less.

Thomas Rothäusler

Yes. And then just one question on the re-letting growth you have.

Rolf Buch (CEO)

One additional remark to this because it is important, of course, these programs are - we differentiate where we show it independently. In the end, as you have seen, for example, on our last Capital Market Day, it's a combination. So we are building new additional floors while we are modernizing the building. So in the end, this is one big bill which we try then, artificially, to split between the two programs but, in the end, of course, it's a combination of the programs. That's why this figure is a very tentative, very, very soft figure because you can have a lot of detailed discussion where the money belongs to.

Thomas Rothäusler

Okay, thank you. And just another question on the re-letting rental growth you have shown for the first time, I think, for the Schwarmstädte. Could you also provide the gap to the in-place rent, basically showing the rent revisionary potential like the others do or do you think that's not useful or?

Rolf Buch (CEO)

We still have a lot of debate, as always the same. The problem is that the question is how you define it. If you take the highest ever possible rent you get for a similar -- singular apartment, you have always the debate, does this apartment comparable to the next apartment? So you can make, in Germany we would say, a lot of “Schindluder” and because we don't want to get this route and, in the moment, think that this is not an appropriate figure to publish. It would be very easy to show you very, very enormous demands because sometimes we are re-letting for double of the rent and - but this is not where you can say then it comes to a revision of that potential.

Thomas Rothäusler

In this respect, what's the average churn rate currently?

Rolf Buch (CEO)

Around 10%. It’s going down a little bit.

Thomas Rothäusler

Okay, thank you very much.

Operator

The next question comes from Georg Kanders, Bankhaus Lampe.

Georg Kanders

Good afternoon. As far as I learned, the shareholder in conwert has accepted the share offer, has Adler also the right to opt for the cash offer?

Dr. A. Stefan Kirsten (CFO)

This is Stefan. We have signed a share offer agreement with Adler, and Adler is willing to provide approximately 25% of conwert shares. The short answer is, no. I hope that answers your question.

Georg Kanders

Yeah, thank you.

Operator

There are no further questions at the moment. I hand back to the speakers.

Rene Hoffmann

Okay, so there's no more questions. That concludes today's call. Thank you, everybody, for dialing in. As always, if you have follow-up questions, or more questions down the road, feel free to reach out. We're more than happy to help.

And with that, I'll close the call and have a good day, everyone.

Rolf Buch (CEO)

Thank you very much for your participation.