

Open Letter
July 29, 2020

Vonovia's decision not to participate in this year's GRESB survey

Dear Mr. van Tongeren,

As Europe's largest listed residential real estate company, ESG is a key priority for us.

We make substantial investments in climate protection, and we are committed to the climate protection targets of the German government. We believe it is crucial to guide our company along the climate path for real estate assets towards a climate neutral housing portfolio. We conduct research in the field of renewable energy and actively contribute to climate protection through energy-efficient modernization of at least 3% of our portfolio every year. We do this based on the premise that climate protection must remain affordable for our customers, and we live up to our social responsibility.

In order to step up our efforts we have reorganized responsibilities within our organization and have established a dedicated sustainability department, the head of which reports directly to the CEO. The primary objectives of the new department are to further develop our sustainability strategy, to firmly anchor all aspects of sustainability in our business model, and to develop clear targets against which we can measure our success.

The main ESG areas are our

- commitment towards climate protection and reaching our targets;
- responsibility towards our customers, employees and society in general;
- efforts towards a trusting, reliable and transparent corporate governance.

All stakeholders must be able to verify our successful ESG management and our sustainable strategy through appropriate forms of reporting and documentation. In this context, ESG rankings, including GRESB, are important to us, as benchmarking allows for the external review of our efforts and of our track record.

Over the past few months we have therefore invested a substantial amount of time and energy in the GRESB survey; we spoke with our peers as well as the GRESB team. At the end, we came to the conclusion that we will not be participating in the survey and will not be submitting our data this year.

We would like to explain our rationale as follows:

Owing to a change in methodology, for the first time this year, the GRESB survey requests portfolio data on asset or building level. However, it is neither technically possible within the GRESB tool nor does it make sense for us to upload the data for our portfolio with its 415,000 apartments in more than 60,000 buildings.

In order to submit our data we would have to aggregate the data into clusters. For the purpose of aggregating, GRESB recommends to cluster the data by city. The cluster of a city, however, does not make any sense for the residential sector because a housing market does not end at the city limits but rather develops in conurbation areas around larger cities. In managing our operating business and in our external reporting we have defined regional markets to take this fact into account. Aggregating the GRESB data on the level of a regional market, however, delivers misleading and often meaningless results.

The following examples demonstrate the challenge for large residential companies:

Data aggregation

Aggregating data to render averages for certain criteria, such as construction year or energy efficiency classes of buildings, makes the response almost meaningless, compared to reporting frequency distributions, for example.

Furthermore, data aggregation has repeatedly led to technical problems in the form of error messages, as the tool strictly requires reporting companies to upload the database into the system.

Efficiency Measures

The aggregation to clusters does not work for "true/false" data queries. For modernization work such as renewable energy, new windows, thermal insulation, etc. one would have to define a threshold below which the response would be "false" and above which the response would be "true" and vice versa. However, this would not reveal much about the penetration of the requested characteristic within the cluster, as there would be no difference between 0% and 49% on the one hand and 51% and 100% on the other (in this case assuming the threshold was set at 50%). True/false responses for a cluster do not allow for adequately reflecting the degree of a specific characteristic and render the response meaningless.

Asset Characteristics

Many of the required criteria stem from commercial properties and are not applicable to the residential sector, most certainly not when aggregated to clusters:

- Cooling tower
- Leak detection system
- Drip/smart irrigation
- (Ventilation) automation system upgrades / replacements
- Management system upgrades / replacements
- Green certificates (in Germany the energy efficiency of a building is documented in an energy performance certificate (*Energieausweis*))

These are some of the examples why we have decided not to participate in this year's GRESB survey. This decision is by no means an indication that we are relenting in our sustainability efforts. On the contrary, we will continue to actively participate in other rankings (CDP, RobecoSAM, Sustainability, MSCI and ISS-oekom) and will be submitting our data. Furthermore, we are conducting a comprehensive stakeholder survey as part of our materiality matrix to gain additional insights into our sustainability performance and strategy. We also aim to maintain our gold standard for our EPRA sustainability reporting.

We are very keen on participating in the GRESB survey, as we are well aware that it serves as a crucial source of information for real estate investors around the world. In order for us to do so, however, some of the criteria and methodology would have to be reviewed in order to account for the particularities of a large, granular residential portfolio so that we are able to report in a way that is correct and meaningful.

We would gladly engage in a dialogue on how to achieve this and to contribute our experience and our expertise. The goal should be to allow for the reporting of meaningful data, mindful of typical residential features such as

- Reporting on a portfolio level; by country
- Efficiency classes and construction years not as the average of a cluster but as frequency distributions across the portfolio
- CO2 emissions and CO2 intensity on a portfolio level
- CO2 reduction through modernization; modernization ratios; share of efficiently modernized portfolio

We hope to be able to start the dialogue at your earliest convenience to openly exchange ideas and to develop solutions on how to enable owners of large residential portfolios to submit correct and meaningful data to the GRESB survey.

Sincerely,

Rolf Buch, CEO

