

VONOVIA

# Capital Markets Day

## Rent Growth – Regulatory Framework

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September 28, 2023

# Rent Growth – Regulatory Framework

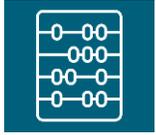
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Housing market in Germany



Rental regulation



*Mietspiegel* and local comparable rent (*OVM*)



Rent growth opportunities in relation to local comparable rent (*OVM*)



Mechanics of *Mietspiegel* and local comparable rent (*OVM*)



Rent growth momentum



Vonovia's rent management

# Big Picture Overview (1)

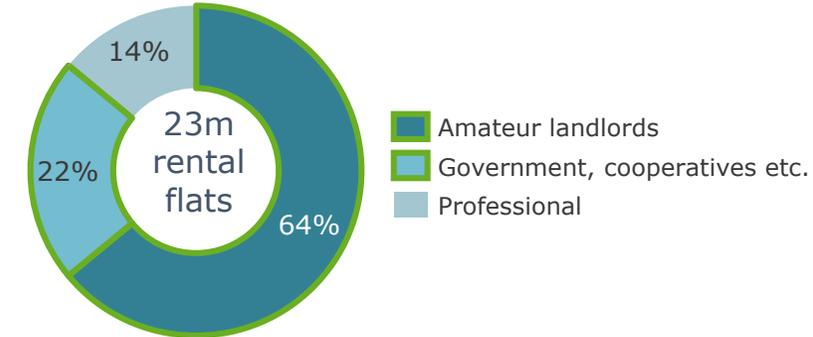
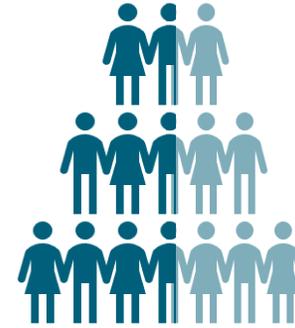
## Germany Is a Country of Tenants

- Germany has the highest tenant ratio in the EU<sup>1</sup>
- Amateur landlords are the largest owner group<sup>2</sup>
- Housing meets a fundamental demand for which there is no replacement or substitute

→ **Political implications for both tenants and landlords**

- Rental regulation follows market-based approach that:
  - reconciles the interests of both sides and safeguards the rules of what can(not) be done
  - defines rights & obligations
- Key issue: rental level ( § 556 – § 559 German Civil Code (*BGB*))

### Housing Market in Germany



~15m apartments are managed by retail owners and another ~5m by governments, cooperatives or similar owners. Only ~3m are owned by listed and unlisted professional players<sup>2</sup>



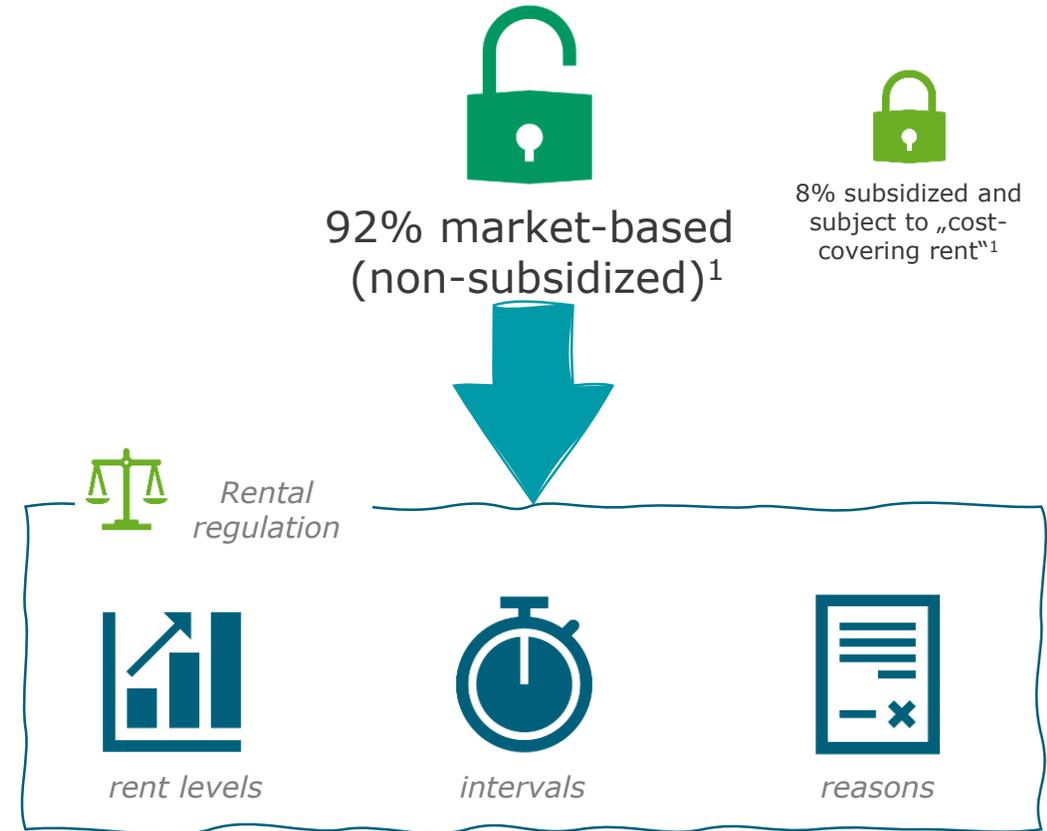
<sup>1</sup> Federal Statistics Office. <sup>2</sup> GdW (Association of German Housing Companies)

# Big Picture Overview (2)

## Rental Regulation Governs Rental Levels and Sets the Rules for Rent Increases

- General distinction based on financing:
  - (1) Non-subsidized (general rental regulation) or
  - (2) subsidized (cost-covering rent)
- Both types of regulation allow for rent increases
- 92% of Vonovia's apartments are non-subsidized

- For non-subsidized apartments rental regulation distinguishes between
  - (1) New letting
  - (2) Sitting tenant
- Regulation governs rent levels, intervals, and reasons for rent growth



<sup>1</sup> Percentages refer to Vonovia's portfolio

# Local Comparable Rent (*OVM*) As Key Reference Point

Mietspiegel Is Highly Relevant for *OVM*

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## 1. Mietspiegel for *OVM* calculation



**Mietspiegel is the main instrument for calculating the local comparable rent (*OVM*)**

- Other instruments for calculating the local comparable rent are also governed by law:
  - Comparable apartments
  - Expert reports

## 2. *OVM* as Key Reference Point in Residential Market

- The *OVM* is relevant for both new lettings and sitting tenants
- It is derived from customary rental levels for comparable apartments in the city
- Comparable apartments: type, size, equipment, condition, and location incl. energy-related features
- Customary rents: Rents that were agreed or changed during the last six years

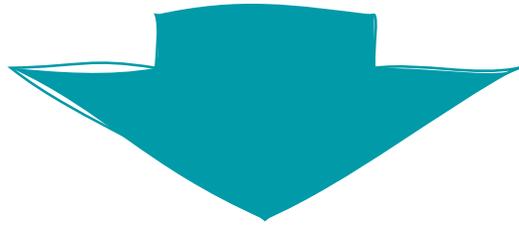
## 3. Benefits of *OVM*

- The *OVM* forms a standardized basis for applying rental regulation: new lettings, rent increases based on §558, profiteering
- Calculation is transparent for all parties
- Increased market transparency: *OVM* is a combination of new lettings and existing contracts

# Every *Mietspiegel* Is Different

Detailed, Bottom-up *Mietspiegel* Follow a Scientific Approach

- Objective, empirical, and representative data analysis
- There are 2 different types of *Mietspiegel*:
  - (1) simple *Mietspiegel* (*einfacher Mietspiegel*)
  - (2) detailed *Mietspiegel* (*qualifizierter Mietspiegel*)
- Framework for *Mietspiegel* is legally fixed, but:
  - No *Mietspiegel* is exactly like any other and there are differences across the more than 200 *Mietspiegel* in Vonovia locations

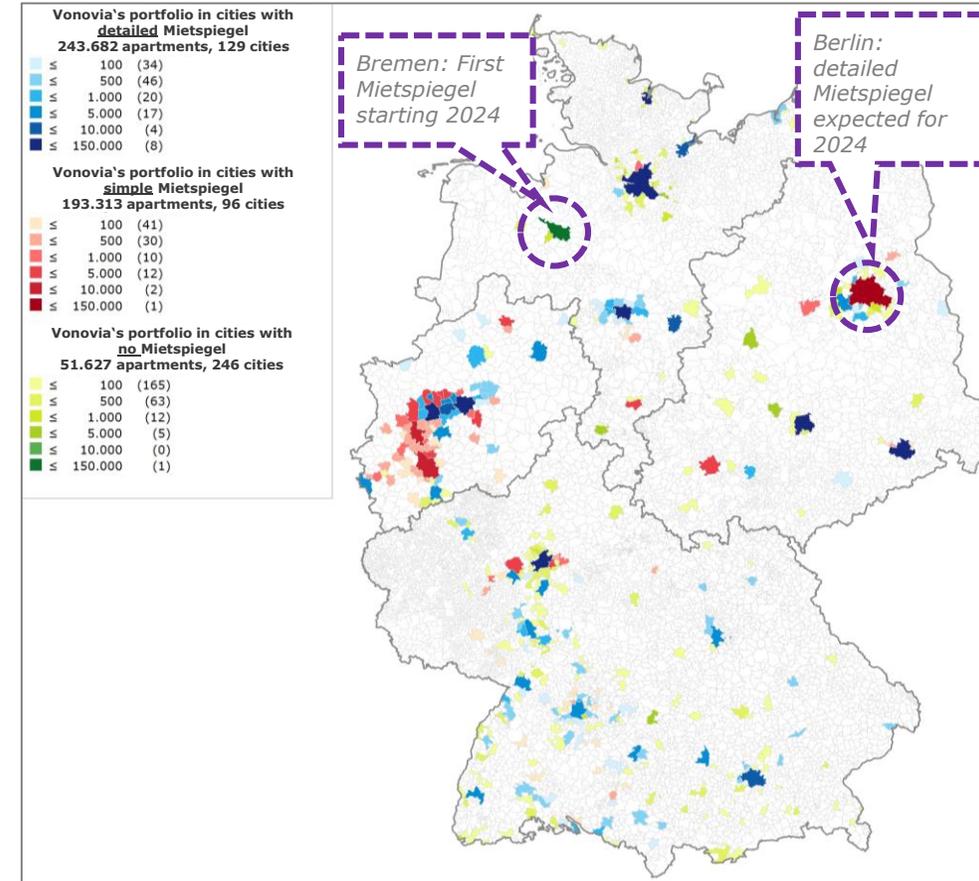


**Mietspiegel are calculated based on a scientifically recognized methodology in order to be a true and fair reflection of the market**

# Mietspiegel Types and Vonovia Exposure

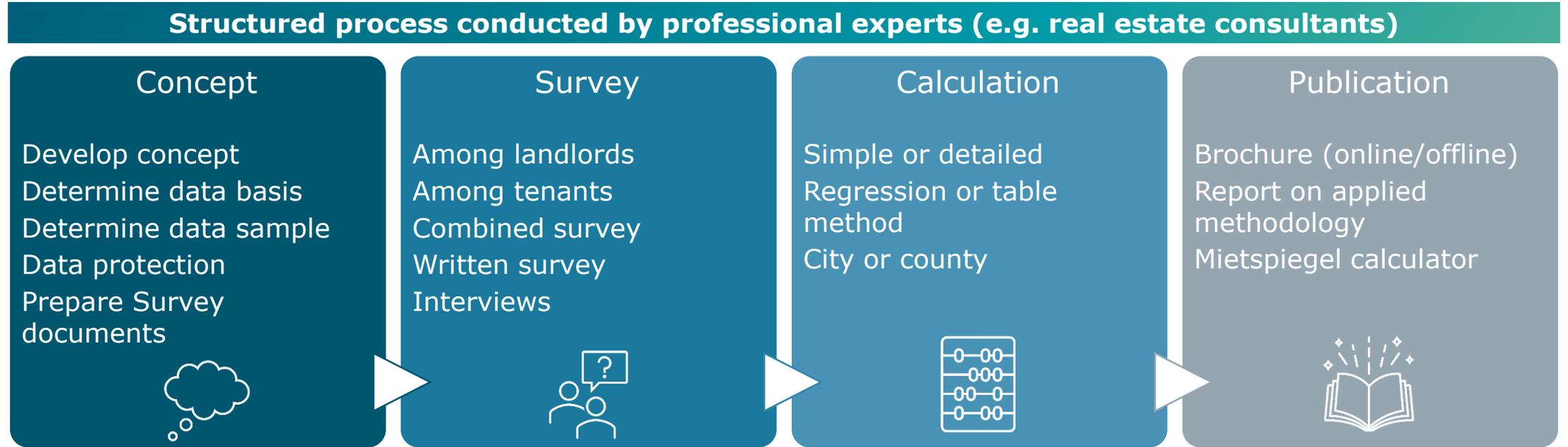
Majority of Apartments in Cities with Detailed Mietspiegel

Type	Example	Main characteristics	Vonovia share
Simple Mietspiegel	Bottrop	<ul style="list-style-type: none"> <li>Overview of customary rents but statistically less robust than detailed Mietspiegel</li> <li>Mandatory for cities with &gt; 50k inhabitants</li> <li>Rolled-over every 2 years (e.g. CPI-linked growth)</li> </ul>	11%
Detailed Mietspiegel	Dresden	<ul style="list-style-type: none"> <li>Based on scientifically recognized methodology</li> <li>Mandatory for cities with &gt; 50k inhabitants from Jan 2024 on</li> <li>Rolled-over every 2 years (e.g. CPI-linked growth)</li> <li>Bottom-up analysis every 4 years</li> </ul>	74%
Other instruments	Heidenheim	<ul style="list-style-type: none"> <li>Comparable apartments</li> <li>Expert reports</li> </ul>	15%

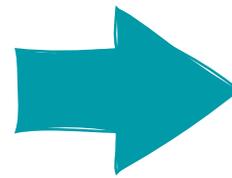


# Various Parties are Involved in Calculating a Mietspiegel

Vonovia is often One of them



- Process is monitored by representatives from city and landlord & tenant community
- Sufficient for one group to do the Mietspiegel if the others accept the results



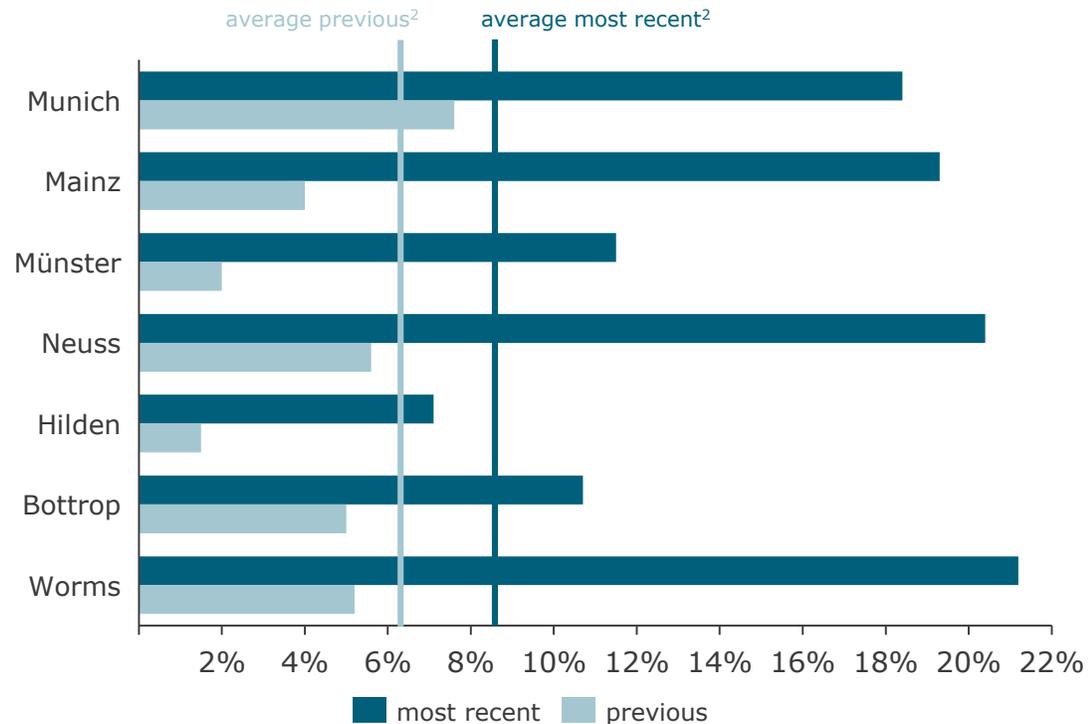
- ✓ In most cases, a **Mietspiegel committee** is set up to monitor the calculation
- ✓ **Vonovia** is a member of numerous Mietspiegel committees and an active supporter (e.g. Dresden)

# Accelerating Mietspiegel Growth in 2023

Majority of Mietspiegel Turned Out Higher than Previous Versions

## Accelerating Mietspiegel growth

The chart shows the average OVM growth as it applies to Vonovia's portfolio; it is not automatically the rent growth that can be implemented for all units.<sup>1</sup>



## Expected Mietspiegel in 2024

The majority of the Mietspiegel in our portfolio will be detailed Mietspiegel from next year and will be completely recreated.<sup>3</sup>

Mietspiegel	Type	Est. timing for update <sup>3</sup>
Berlin	Detailed / Bottom-up	Q2 2024
Frankfurt	Detailed / Roll-over	Q2 2024
Essen	Detailed / Bottom-up	Q3 2024
Hamburg	Detailed / Bottom-up	Q4 2023 / Q1 2024
Bremen	Detailed / Bottom-up	Q1 2024
Hanover	Simple / Roll-over	Q4 2023 / Q1 2024
Braunschweig	Detailed / Roll-over	Q3 2024
Lübeck	Detailed / Bottom-up	Q1 2024
Düsseldorf	Simple / Roll-over	Q4 2023 / Q1 2024
Bonn	Detailed / Bottom-up	Q3 2024
Potsdam	Detailed / Bottom-up	Q3 2024

<sup>1</sup> Limiting factors why the headline MSP growth may not apply to all units in our portfolio can include: units are subsidized (Mietspiegel does not apply), units are vacant, lease agreement is younger than 15 months, maximum rent growth over three years ("Kappungsgrenze"; currently 15% or 20%) has already been achieved, rent level is already at or above Mietspiegel (recent new letting, modernization), modernization investment is planned or underway. <sup>2</sup> Simple average. <sup>3</sup> Vonovia estimate based on publication date of previous Mietspiegel and/or best guess based on local market knowledge.

# Overview of Rent Growth Opportunities in Relation to OVM (1)

## New Lettings Agreed above OVM

- Rental amount depends on new lettings vs. existing tenants
- The 10% cap on relettings (*Mietpreisbremse*) applies to markets defined as „tight“ (e.g. Frankfurt since 2019)
  - Markets can be designated as “tight” for a period of up to five years
  - Responsibility for designation lies with federal states
- Applicability: *Mietpreisbremse* does not apply for new constructions and modernization<sup>1</sup>



Type of rent increase	Rent growth potential <small>*costs for modernizations would come on top</small>	Comment
New letting with <i>Mietpreisbremse</i>	OVM + 10%	<ul style="list-style-type: none"><li>▪ Exception: modernization, new construction, previous rent was already higher</li></ul>
New letting without <i>Mietpreisbremse</i>	OVM + market potential	<ul style="list-style-type: none"><li>▪ Laws against profiteering may apply</li></ul>
Existing tenants	OVM	<ul style="list-style-type: none"><li>▪ OVM development (e.g. new Mietspiegel) reflects the rental growth potential</li></ul>

<sup>1</sup> Modernization costs can be added in the amount of up to 8%

# Overview of Rent Growth Opportunities in Relation to OVM (2)

56% of apartments recurrently adjustable

% apartments



## ▪ In-place rent = OVM

- New Mietspiegel / new OVM leads to rental growth potential
- Other rental law limitations have to be checked. (1) maximum rent increase over three years; (2) 15 months between two adjustments

## ▪ In-place rent already higher than OVM

- Due to modernization strategy or relettings in past years
- Increases in Mietspiegel/ OVM lead to rental growth potential

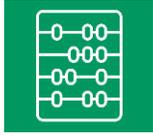
# Rent Growth – Regulatory Framework



Germany is a country of tenants



Rental regulation governs rent levels and rent growth; local comparable rent (*OVM*) is the key reference point



Detailed *Mietspiegel* are based on scientifically recognized methodologies



New lettings are agreed above the *Mietspiegel*; future growth potential in existing lettings



Mechanics of *Mietspiegel* and local comparable rent (*OVM*)



Rent growth momentum



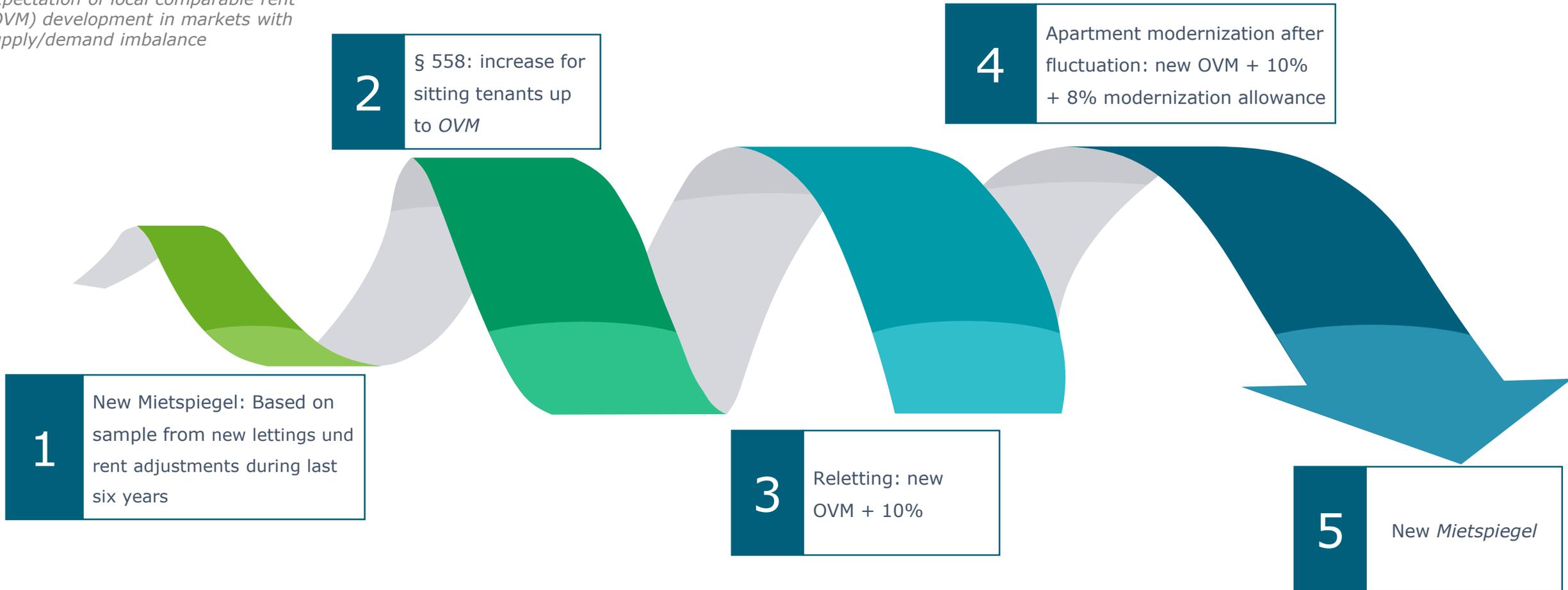
Vonovia's rent management

# Momentum from Supply/Demand Imbalance

*OVM/Mietspiegel* Concept Leads to a Compounding Effect

Supply/demand imbalance and *Mietspiegel* mechanics lead to increasing momentum compared to prior years

Expectation of local comparable rent (*OVM*) development in markets with supply/demand imbalance

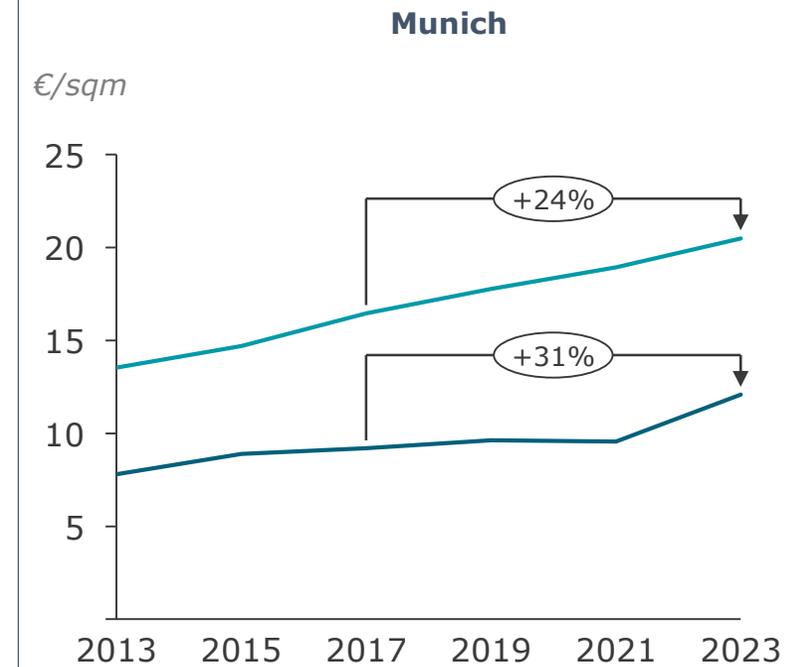
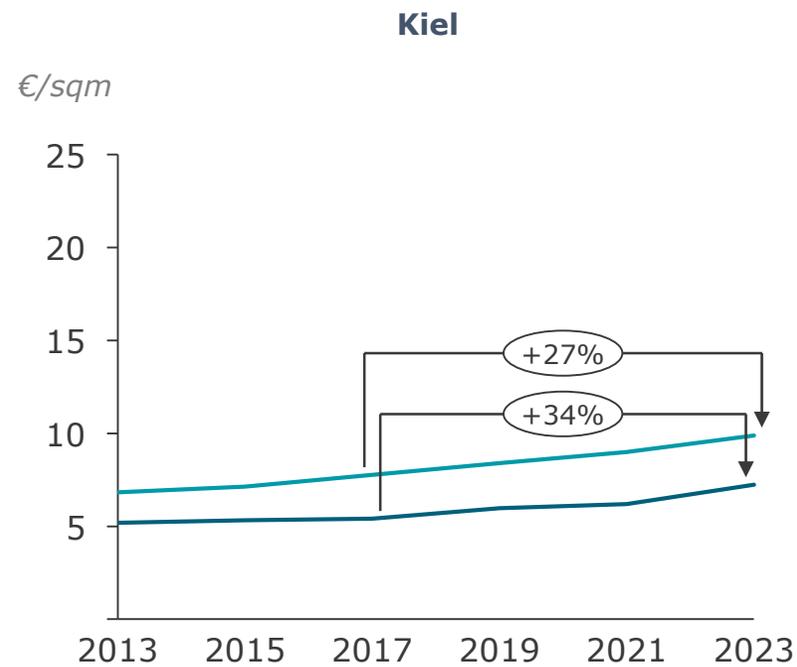
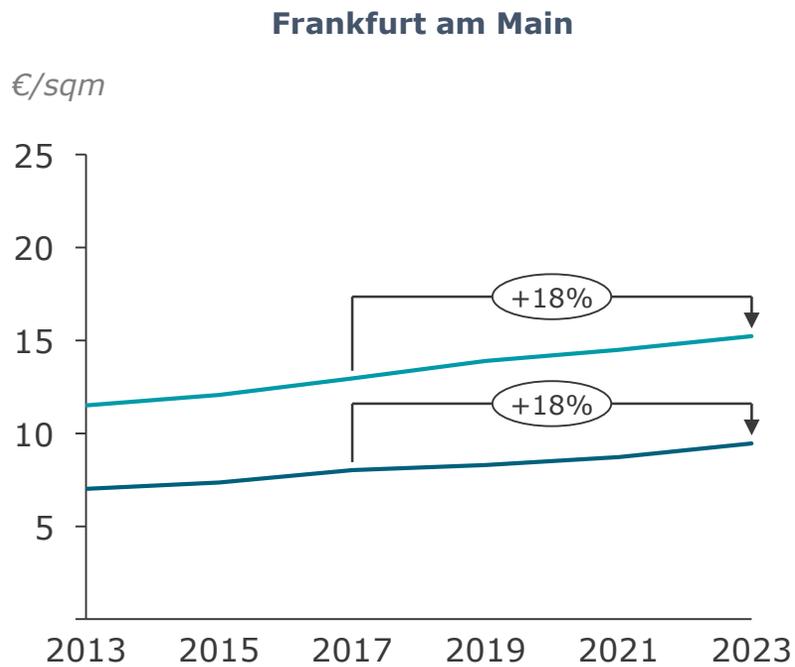


# Rent Growth Examples in Vonovia Locations

## Momentum and Visibility on Direction of Travel

- Structural supply/demand imbalance in urban areas
- Growth rates for Mietspiegel and OVM are in line with market rents, sometimes even higher
- Rental growth potential through OVM development partial not immediate (other rental law regulations), not lost and only delayed

— Asking rents (€/sqm)<sup>1</sup> — Vonovia OVM **[not rent growth]** (€/sqm)



<sup>1</sup> Value Data Insights (formerly empirica-systeme)

# Professional and Active Rental Management

Enabler for Continuous and Predictable Rental Growth

Rent development as a digitalized process and unique in the residential sector



## Comprehensive data set

- Data collection on site via iPad and SAP interface
- Deep understanding of the data and high degree of usability
- Comprehensive market knowledge



## Systematic calculation

- > 200 *Mietspiegel* mapped in SAP
- General approach to rent growth in SAP: proactive and with foresight
- Automatic calculation to make full potential transparent and available



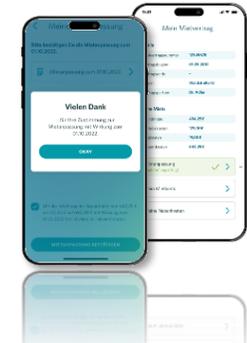
## Specialist team

- Professional customer management
- Database for all legal cases



## Customer focus

- Tenants can give consent via the App – digital process easier and faster than paper-based
- Very high success rate without many disputes
- Solutions for hardship cases



Our rent development processes are best-in-class

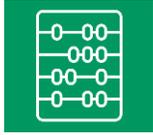
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Detailed *Mietspiegel* are based on scientifically recognized methodologies



New lettings are agreed above the *Mietspiegel*; future growth potential in existing lettings



Supply/demand imbalance and *Mietspiegel* mechanics lead to increasing momentum and compounding effect



Momentum and visibility on direction of travel



Professional management and data-driven approach safeguard maximum performance

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