Transcription
FY 2017 Results Analyst & Investor Call
March 6, 2018

Rene Hoffmann, Vonovia SE - Head of IR

Thank you, Judith, and welcome, everybody, to the conference call of Vonovia's results for the full year 2017. I assume you have all had a chance to look at the material we published on our IR website this morning, including the presentation for this call.

Your hosts today are CEO, Rolf Buch; and CFO, Stefan Kirsten. They will lead through our presentation first and then open up for your questions.

So without further delay, let me hand you over to Rolf.

Rolf Buch, Vonovia SE - CEO

Yes. Thank you, Rene. Also,a very welcome from my side to our full year 2017 earnings call. Following today's agenda, which you will see on page 2, I will briefly walk you through the highlights, and we will talk then about the fiscal year 2017 results, some housekeeping facts and after the wrap-up, we will be open for Q&As.

So on the next page, you will see the highlights, and you will see at the end of the presentation in more detail, but at this point, I do want to highlight that this is our fifth annual result presentation as a listed company. And we have successfully put the company on a sustainable growth trajectory, its KPIs improving year-after-year. We have built a business model and an operating platform that deliver solid and broadly predictable results, and our 5 years track record clearly shows this.

If you focus on 2017, the main financial highlights, you can see on the page. Organic rental growth is up by 4.2 %, which is slightly above our last given guidance and this is 90 basis points more than previous year. EBITDA margins are up by 73.2 %, including maintenance. This is 230 basis points up in comparison to the previous year. So cost per unit is down by 7.7 %, and accordingly, the adjusted EBITDA operations is up by close to 12 %.

The FFO figure is also slightly above the upper end of the corridor, which we have given in the latest guidance. It is € 920.8 million, which is 21% above previous year and this brings you to € 1.90 per share or for the ones who prefer average shares, it is € 1.93 per share. This is 18.4 % above previous year.

So some of you who are also looking on valuation and adjusted NAV, we have seen aggregated value growth of close to € 4.3 billion in 2017, of which 3 % is coming from performance, 3 % is coming from investments and 8.9 % is coming from yield compression. Please keep in mind that our view is that yield compression probably cannot be assumed every year, but performance improvement and investment will be seen also in the future years. Fair value of € 1,475 per square meter. This is a 19.7 multiple of net cold rent and the adjusted NAV per share is up by 25.2 % at a value of € 38.49 per share.

You also probably have seen the announcement yesterday about the upcoming changes to the supervisory board and the management board. Here, at Vonovia, we are excited to propose to the AGM in May, Jürgen Fitschen as a new member. It makes us quite proud that we were able to attract a man of his caliber, and we are looking forward to benefit from his experience and expertise. I'm personally looking very forward to learn a lot from him. It is expected that Jürgen Fitschen will be elected as Chairman of the Supervisory Board, succeeding Professor Dr. Ernst, who has been holding that position in the interim since the passing of our former Chairman, Wulf Bernotat.

We will also see changes in the management board, including Stefan Kirsten, who has decided to step down at the end of the AGM in May in order to enable Vonovia to take the next steps in the development under the financial leadership of Helene von Roeder as new CFO, who will assume the joint responsibility of all financial functions. Since GAGFAH, we have actually split the financial functions in two, and this will now be unified under Helene's management after the AGM.

On the next page, page 4, this is the presentation slide which I like the most because it shows that even if there only little more apartments and little more square meters, we can grow the EBITDA and FFO significantly. So, the average size of our portfolio didn't change too much. It is only 2.3 % more units than in 2016. So basically, we have replaced the non-core sales with the conwert portfolio. Rental growth overall improved by quality and by investment and resulted in 8.4 % rental income growth, which is actually, in absolute figures, close to € 130 million. And I am very happy to show you, again, and I think this is several times we have done it already that we can transfer this € 130 million of top line growth just down into the EBITDA operations where the growth is € 130 million. So this means that due to improvements of efficiency and due to the Value-add Business, we are able actually to compensate completely inflation elements, plus in this case, in this year, also, the double cost for the first half year of conwert. And then due to the fact that we have positive effects from refinancing, we actually made out of the € 130 million more EBITDA operations, € 160 million more FFO 1. This phenomenon we have shown you now for quarters, and I think this phenomenon will be a phenomenon that you will see also in the future, which is very important for the future economical development.

And with this, I hand over to Stefan.

A. Stefan Kirsten, Vonovia SE - CFO

Thank you, Rolf. Well, ladies and gentlemen, also, a very warm welcome from me. Let's move to page 5, please. You may be able to beat it a little bit up on forecasting because we were a bit less optimistic at the beginning of the year, but not on growth. Like-for-like sales growth of 4.1 % and organic growth of 4.2 % speaks for itself. This is a German-wide portfolio with all the attached low risk and ladies and gentlemen, the trend continues.

If you look at the left-hand side, at the subtotal market-driven rent growth, you see the 1.6 %. This is a touch more than last year at 1.5 %. If you then move to the right-hand side, you see that in the year 2013, we already had 1.6 %. This is the bread-and-butter rent increase without major investments into the properties. This is a lot of tedious work, a lot of diligent approaches, but in the end, this is the bread and butter which we are able to deliver each and every year. When you then on the left-hand side look at modernization, you can see that this is where the music plays, 2.5 %, 250 basis points on modernization growth. On the right-hand side, again, the corresponding number since 2013. Please keep in mind that this is mainly fueled by the investment track record which you see in the chart below, with a time lag of 1 year. So we will benefit this year from the € 779 million of investments in 2017, and we will benefit next year from the € 1 billion, which we are intending to start here today. So the growth pattern is still intact. This includes also space creation, at the moment, still small, but definitely growing. It just takes more time to get all the relevant approvals done etc.

So our most important number is the subtotal for organic rent, 4.2 %. You will hear a lot from us about acquisitions, about BUWOG, et cetera, but always keep in mind, this is the fundamental growth engine of the company.

On page 6, I would like to talk to you about the EBITDA margin. If you look on the left-hand side at the EBITDA margin without maintenance, because maintenance is sometimes differently treated amongst different companies, not differently treated within our company over time. You see including conwert, but of course, excluding BUWOG, a number of 88.6 %. So we have been able, since our IPO, to deliver 11 percentage points more EBITDA, which is, of course, mainly driven by efficiencies and acquisitions. We are, by the way, in-depth in discussions with the technical working groups at EPRA to get a more unified maintenance terminology done, which is not easy, but it should help you in the future.

Let's move to the right-hand side. Adjusted EBITDA rental 9.9 % up. Value-add Business, one of our absolute pets, more than € 100 million as promised. Keep in mind, we guide something in the € 120 million range now. But the adjusted EBITDA other increases is absolutely not surprising because this is the consolidation number for profits, which, for instance, value-add does in the rental business. Adjusted EBITDA operations 11.9 %, up to € 1.224 billion.

If we then look at the balance sheet, this is page 7 now. Let's have a look at the loan-to-value. We are at the moment in our loan-to-value definition with 39.8 %, below our target range of 40 % to 45 %. If you include the perpetual hybrid at 300 basis points, you are then at 42.8 %. This is all pre-BUWOG. You know that we have the BUWOG offer on its way. I will later talk about that, what that means to the loan-to-value number dependent on acceptance levels, which we are getting there. We haven't shown you the presentation of any financing mix anymore for a simple reason, it's simply too boring. You will see this on page 48, if you're interested in the details. BUWOG, I will address later.

On page 8, we are looking at our FFO per share. The FFO per share has this time an asymmetric contribution because of the € 130.2 million from the EBITDA operations and only € 35.2 million from interest expense. There are 3 reasons for that. A, our operation is simply growing faster, it has conwert included, which, of course, is positive on the EBITDA operations, but negative on the interest expense because it was de facto a fully levered deal. B, we're running a little bit out of expensive refinancings. We have a couple of hybrids left and a couple of secured loans, but in principle, this is a little bit diminishing because we are replacing the first set of bonds at the moment. And C, the synergistic effect, which you can see in the operations, do not always reflect in the more linear business model of financing. Our FFO 1 is at € 921 million. This is around our guidance. You see, as always, the FFO 1, which is attributable to hybrid capital investors for the perpetual hybrid, that's the interest of € 40 million. And there is a non-controlling interest, and this is a bit higher. This has simply to do with restructurings we did below the conwert level.

What's always important for me as a CFO is the AFFO number, this one beats our proposed dividend by € 200 million. So we can be sure that we are not carving out any substance. At the bottom, you see FFO 1 per share for end of period, number of shares and average number of shares. The end of period number of shares is important for us because this is the basis for the dividend. But of course, the more accurate measurement is the average number of shares. So you'll find both in that respective chart.

Let's move to page 9, please, which is the development of the adjusted NAV per share over the year. You can see the single quarters over there. And what you can also see is that our adjusted NAV is only adjusted about goodwill. We'll talk about goodwill at later stage and has grown by 30.3 %. If you then take the goodwill out and calculate this with the appropriate number of shares, I'll talk about shares in a second, we end up at € 38.49. So we are at the moment trading with a discount to adjusted NAV per share.

What were the capital increases in the last year? We created 19.1 million shares. This is 4.1 % out of which came 7.7 million shares through the scrip dividend, 2.8 million through conwert and 8.6 million through GAGFAH. So this is a little bit hidden, it was not too much on the surface, but it was, of course, a nice effect on our relevant ratios.

Let's talk about our portfolio, on page 10, please. What you see on page 10 is a slight change in the portfolio clustering because with new build and everything else, it became a bit too complicated. We are doing 4 things with our assets. We either operate them, we invest into them, we privatize them or we sell them. This is our annual restructuring of or reshuffling of the respective asset base. And what's utmost important for us is with 61 % of the total fair value is still in the Invest section we're having sufficient potential for the annual € 1 billion investment volume to come. Particularly, when you bear in mind that 3/4 of this are on the modernization bit, the rest is on new build, which doesn't belong, of course, here into this chart. We are happy with the clustering, which we have here, and you see also that on the selling aspects, there are only 11,500 residential units left. So if the markets hold and we can keep on selling them, this is a foreseeable end for this part of our portfolio.

Ladies and gentlemen, let's move to valuation on page 11. Our overall like-for-like value growth is € 4.229 billion, that's 14.8 % growth. This is split into 3 components, same as last year, 26 % is performance, 16 % is investment and 58 % is yield compression. Rolf rightly pointed out that yield compression is not a law of physics. Yield compression happens when the market cycle is there. But what we can assure you is that the performance and investment-driven returns will stay also in future. The winners were, again, the regional market in Berlin with nearly 22 %. And of course, Munichs, Hamburgs, Rhinelands of the world, but keep in mind that the growth rates are diminishing. So what we are seeing is catching-up effects of the cities like Leipzig, the Ruhr Area and other regional markets will stay the same. So that is not unimportant when you look at the way how we invest in future.

Geographically, you see the same thing on page 12, again. Where did it all happen? Yes, it's in Berlin. And but it is also very important that investment decisions which we made in Bremen through Vitus, Kiel, the Southern Ruhr Area, Leipzig, Dresden have all become very, very lucrative for us. And therefore, we're very much looking forward for this story to continue. At the bottom-left side, you see a chart, which we haven't shown you before, which is who are our top runners on yield compression, modernization and performance. But that gives you a feel that it's not all Berlin but it is across Germany in the respective areas of emphasis for us.

Ladies and gentlemen, let's move to page 13, the impairment test. The impairment test is the other side of the valuation coin. You know that we have in totality several cash generating units onto which we apply our goodwill. As I've illustrated over various quarters already, the WACC change, the change of the weighted average cost of capital post-tax, was endangering some of our goodwill and in this case, it is Berlin. We are writing off the Berlin goodwill at the level of € 337 million in its entirety. We have then run, of course, sensitivities on all other regions, but even at the highest possible foreseeable market WACC, all the other regions have enough headroom. The headroom is shrinking, which is normal when you have yield compression at this level, but the headroom is still there. If the WACC would have been at last year's level, we would have had no goodwill amortization at all, but we have, of course, to cope with 2 effects. The first one is, that long-term interest rates, or let's say base rates, were rising. And the second one is that this is a peer group WACC and you saw a deleveraging effect within the peer group. I must personally say with an accounting background that this is exactly what IFRS wanted with goodwills, and it is a tripwire to show in which part, under the current interest rate regime, growth is justified by future cash flows.

Page 14. This is a page, which is, a, interesting and b, very important for us because for the first time, we give you an indication in our actual square meter value number, how much is building and how much is land. And now, you can see that with € 885 per square meter, roughly, roughly, we are a galaxy away from even our cheapest modular construction or any conventional construction. Therefore, this portfolio still has room upwards if, as we know, the structural demand-supply imbalance stays the same.

With that, I hand back to Rolf.

Rolf Eberhard Buch, Vonovia SE - CEO

Thank you, Stefan, and this is my role always to tell you something about our Value-add Business. I think the left side of the page you know already. Our Value-add Business this time, as you can see on the right side, is the first time that it contributed a 3 digit figure, it was € 102 million of EBITDA in 2017, and we are very confident as Stefan said before, that we will grow this figure at least by 20 % in 2018. The growth comes from existing or penetration of the existing businesses, which are already proven. And in the same time, you can see here the first time that we have included something like energy. Today, we are actually renting out apartments linked with an energy supply contract, so we are in a pure trading business. As you know, there was a legislation change in Germany last summer, which allows us now to sell self-produced electricity to our tenants, with significant benefits because we don't have to pay all the fees which you normally have to pay if you are an electricity provider. So we are preparing ourselves in the moment by signing electricity supply contracts with relatively small margins, for this big next step. We are simultaneously also building the first and extending our first solar powers on the roofs and this gives us a possibility in the future to sell self-produced electricity to our tenants, and this, in German, we call it *Mieterstrom*. This will be a very important factor. It will take us a while, but then it can be in the magnitude of the contribution of our craftsmen organization today.

On the next slide, you can see a little bit of wrap-up of our sales activities. You can see that the sales activities have in total contributed an EBITDA sales of more than € 110 million. Our privatization margin remains strong with 32.7 % overall and 35 % if you look at the individual sales only. And this is in spite of the significant value growth we have seen in this portfolio by the revaluation. We have still 14,000 apartments in our Privatization Portfolio left, which we are very optimistic that we will continuously sell 2,000 to 2,500 year by year. But the fact that we can show and we can keep this margin also gives you an indication that the revaluation gains, as Stefan has mentioned, are real value uplifts in the market. In our sell portfolio, we disposed our non-core assets at an average premium to fair value of 7.9%.

As Stefan showed earlier, we only have 11,500 units left in this portfolio. So we would expect that the sale of the Sell Portfolio will end up this year.

And with this, I hand over to you, Stefan for guidance.

A. Stefan Kirsten, Vonovia SE - CFO

Yes, I'll just do 1 guidance slide, and I must tell you this will be a very brief presentation. The guidance is completely unchanged. But it's also ex BUWOG. Just very quickly. With Q1, we are expecting to have the BUWOG balance sheet in our numbers, but do not expect a detailed joint guidance at this point in time. This will be more a guesstimate, as you know it from our conwert process, which we had a year ago. The full guidance will at earliest be possible for Q2, which we will also shift into late August, early September. But again, on the guidance numbers, no changes as long as the portfolio is Vonovia as it is.

Housekeeping today starts with Rolf.

Rolf Buch, Vonovia SE - CEO

So the first housekeeping is as we always promise to update you on our cooperation with SNI, which is now called Caisse des Dépôts Habitat. We have done very successful workshops in November and until January this year. We had a complete meeting between both management teams and their closest managers where we have shown and exchanged the results. We, as Vonovia, are now able to calculate every single portfolio, which is or would be available in France, and we have a complete understanding on how house business in France is working, also, all the specifics of social housing regimes in France.

Actually, to make it very brief, it is very close to what we have seen and experienced in Germany, as we had also a nonprofit regime 30 years ago. So as people who have been longer with us are saying, actually, they have the same covenants, they have the same problems, they have the same challenges, but also, they have the same chances.

So as you know, we are pursuing here also purely opportunistic strategy. So that's why we are now prepared to put after every portfolio, which we get a very detailed price. We know now for sure that this is our model how we operate, we could extract significant more FFO than the players in France can do so, including SNI. So now, we have to wait for our potential and also, for some legislation changes. There is, in the moment, a new legislation in the making. This might even bring us the possibility that we also, as a listed company, are allowed to invest in social housing in France. Keep in mind, that social housing is the birth of Vonovia also in Germany. So we see a lot of similarities. We will continue our very successful cooperation with Caisse des Dépôts, which also makes us a good partner of the French government.

Now coming to our governance, two governance slides. First of all, the Supervisory Board. We are very glad to be able to propose to the AGM in May, Jürgen Fitschen as a new member of Vonovia's Supervisory Board. Once appointed by the AGM, he is expected to be elected as Chairman of the Supervisory Board and succeed Professor Dr. Ernst, who had served as interim Chairman following the passing of Wulf Bernotat. As I said before, we are excited about this addition to our board. Jürgen Fitschen has comprehensive international experience, outstanding management skills and an exceptional understanding of political situations. He is probably one of the best-connected managers Germany has, not only in Germany, but in a lot of other countries. And I'm personally looking forward to work together with him very closely.

As previously announced, if the tender offer of BUWOG is successful, Vitus Eckert currently Chairman of BUWOG's Supervisory Board, will also be proposed as an ordinary member of the Supervisory Board of Vonovia, queue for election in our AGM in May 2018.

It is a fundamental task in the German governance of the supervisory board to make sure that there's a long-term continuity, especially in management and especially, it is due in our business. The board also has to take care about diversity in age and all other diversity aspects. That's why as Gerald Klinck has announced in August 4, the board also looked on as a replacement of Gerald under this respect. As announced on January 23, 2018, Helene von Roeder has been appointed to Vonovia's management board and will take over, in her first step, Gerald Klinck's responsibility during the year. This is what I call long-term succession planning. Helene von Roeder is much younger than the remaining members of the management board and that's why it is assured that we will have a long-term continuity into the board.

Stefan, who has actually supported this selection significantly has now decided to step down a little bit earlier at his own request, effective from the end of the AGM in May. Stefan wants to enable the company and he probably can say some words himself, enable the company to take the next step in his development under the financial leadership of Helene von Roeder as CFO of Vonovia in a joint responsibility. Keep in mind, since the merger of GAGFAH, we have split the CFO function in an internal CFO and an external CFO, and Stefan is together with me, the opinion that it makes more sense to join this 2 activities under 1 responsibility in the long-term, also, long-term horizon.

I would like to emphasize that I really enjoyed working together with you, Stefan. Actually, I spent more time with you than with my wife in the last 5 years. It was a very exciting and is still a very exciting time. I think you, Stefan, have brought us in a very strong position in financing and creating a stable basis for Vonovia's successful development. You are responsible for the majority of projects, including the refinancing of grant. You were here much longer than I was, so I know that you have done a tremendous job, also, before 2013. I think you are responsible that grant is refinanced. You helped me, we two together, we made the successful IPO and you promoted the successful inclusion in the DAX 30. And of course, we should not forget that this was you, who did all this great financings for the major corporate acquisitions we have done in the last years. So again, for me, it will be probably a bigger change than for you, Stefan, because I have to go on and still I have to emphasize that we have spent so much good time in the last years. So this is also a sad moment for me. But I'm glad that you will be on my side in the future. You will take a lot of different roles in Vonovia, including some very important listed companies, which we will have in the future.

And finally, to complete before I hand over to Stefan, finally, you know, this was a part of the offer for BUWOG, Daniel Riedl will join Vonovia's management board, also, at the next Annual General Meeting in the case that we get the majority of the shares in the tender offer of BUWOG.

A. Stefan Kirsten, Vonovia SE - CFO

Thank you. Now comes my housekeeping section. I'm a little bit blushing after these words, but ladies and gentlemen, allow me to address a few comments before I come to my slides, which I received over the last day since my stepping down from the CFO position as public.

Let me start with the effective summary. This is friendly, friendly and friendly, again. So everybody, who's looking for any controversy there, will not find anything because there is none. And on top of that, ladies and gentlemen, this is Germany, which means we are contract based. So don't be surprised if you see me on the roadshow for the Q1, et cetera. After the AGM, it may be a bit rarer to find me in the company.

Let's talk about the macro timing. Rolf has already pointed that out, it took us 7 years to create this national champion. I have less than 3 years left on my contract. So it won't be meaningful in the internationalization contract because this is something which takes at least as long as creating this national champion. So there are now 2 ways to do it. One is, you de facto go slow and then hand over after 1/3 of the part is done or the second aspect is, you take 8 years and frustrate your successor. Both is not my style. I must actually say, having worked with Helene also in getting her up to speed on the company, I'm extremely happy to hand this from my point of view well-run ship into experienced hands.

One other comment, which I received has to do with the micro timing. How on earth can you have a CFO stepping down a day before the results? Again, ladies and gentlemen, this is much time off, okay? Yesterday was the very first board meeting after Christmas. And in the moment, when the board makes a decision, we under German law have to get out. So at 20 to 3, we had to announce Jürgen Fitschen, at 5:30, we had to announce me, and at 7 in the morning, we had to announce the numbers. This is something, which could be done maybe a touch more elegant, but not much more elegant. And I'm quite happy that it was a surprise to all of you because it shows that we are still not leaking as an organization. So from that point of view on the micro timing, apologies if there were any misunderstandings and uncertainties out there, we couldn't change that. There is nothing in the numbers which forces me to resign. So let's make this very, very clear.

What can you expect in the transition period for the next 2 months? The first thing you can expect that Rolf and I for the next 2.5 weeks will be on the road, including a few days at MIPIM, where we will mainly see banking contacts from my point of view. You can expect that with Gerald as well as I have a serious and fundamental transition to Helene von Roeder. You can also expect me to bid you farewell at the Q1 call on 7th of May, and then my last day will be the AGM, on the 9th of May. We have agreed amongst each other that if we get the majority of BUWOG, I would join the BUWOG board, not the management board, but the supervisory board. And particularly, the fixed income investors, as you know that we have a Dutch financing company, called Vonovia Finance B.V., which also issues capital market products, I will stay there as Chairman of the Supervisory Board. So each time, when capital market questions are involved, I will still have at least 1 finger in the pie.

Having said that, let's talk about BUWOG, and this is now page 21. Ladies and gentlemen, we sent out a note at lunchtime that the MAC clause will not bite anymore because they are no 6 consecutive days left. I know that the volatility in the stock markets make some of you nervous, that included us, but between us and the control lies just the decision of the BUWOG shareholders with a deadline on March 12. I am hugely optimistic that we will obtain majority. What's going to happen then? On March 15, in the morning, we will publish our final result of the initial acceptance period by Vonovia. I'm expecting majority and that means that we will then try to replace our existing financing in the debt capital markets in due course. There is an additional acceptance period starting 16th of March and ending 18th of June. This is the same like you have seen in the conwert last year, where passive funds can tender their shares and everybody else can make up their mind about the offer.

On the 26th of March, we will, if we have the majority pay and settle - that simply means that we will also at that day take control. First consolidation point for us to take control is 31st of March. So therefore, in the Q1, you will only see the balance sheet but no P&L. This will be published on the 7th of May. This is a slight change to what you have in your original calendar to give Christoph Schauerte and his team a touch more time to digest all the data. This is the update of BUWOG.

Let's keep on housekeeping. You've seen the valuation uplift for the full year. This party, ladies and gentlemen, is not over. We have seen this on Slides 11 and 12. We believe that there is enough significant valuation change to perform a half year valuation in analogy to what we have done in 2017. You know that this is not a matter of course for us, because each time, it's a dedicated decision of the management board, but we believe that the valuation here is significant, and we would do this, by the way, also, when valuations would go down. But as Rolf rightly pointed out, we will still have further yield compression to come.

On page 23, I would like to make you aware of the scrip dividend. We think the scrip dividend is a good thing as it offers open choice to investors. The success last year with a 50 % taking of the scrip confirms this and in the back of that, we had the highest acceptance levels. Our plan is to offer a scrip alternative this year again, but only if we are in a meaningful way with our share price close to the adjusted NAV per share at the respective moment. That respective moment, ladies and gentlemen, will be directly before our Annual General Meeting. Based on the decision of the Supervisory Board, based on the recommendation of the Management Board and we will then see where the share price is at that point in time. You know that our adjusted NAV per share at the moment is at € 38.49, and I don't foresee that we would at the current share price, for instance, opt for a scrip. But all in all, we are preparing for it. Be aware, cut-off point for us, 9th of May. The scrip dividend itself would then go from the 11th of May to the 28th of May so that everybody can make up their respective mind.

Let's keep on our housekeeping, Capital Markets Day, this time in Berlin. We are having close to 14,000 units in Berlin. You've seen that Berlin is still happening. You see here the presentations and workshops, it's our proven concept to give you a look straight into our workplace and into our management teams. This would be for the first time also an opportunity that Helene von Roeder can present herself to the market. And as we do every 2 years, we will have a follow-on with a perception study. We will ask selected sell-side and buy-side analysts to give us their feedback so that we can improve our investor relations function and our face to the market further.

Before I hand back to Rolf, just very quickly. This is not a farewell call today for me. We still have Q1. So on the 7th of May, you'll hear me, again.

Rolf.

Rolf Buch, Vonovia SE - CEO

Thank you, Stefan, and I'm happy that this is not a farewell, and I'm looking forward for the next 2 weeks where we will spend a lot of time together.

So coming to the next Slide 25. This slide gives me a little bit to look backwards, and this is not only a look backward for 1 year, but for the last 5 years since we have published officially figures, because this was the date of our IPO. This strategy slide is more or less the same which we have shown you in the IPO except the element number 6, which are the European activities, which were adjusted or added to this slide last summer.

So let's go through the 4 principal pillars: the property management; the financing, the portfolio management; and the Value-add Business. In property management, we have got our operating KPIs fully under control, and we have significantly expanded our EBITDA margin by almost 10 percentage points. This has been possible through economies of scale, digitalization, standardization and our constant process optimization. This is a proof that German resi is a scalable business model with a B2C nature, and we have built an industrialized organization operation regime to serve this mass business and to provide the right product and service to all our customers. I do not see that this trend, which has been a stable trend for the last 5 years, will see an end in the foreseeable future.

The next element is our financing. Our organic growth and acquisition growth has come on the back of a declining LTV and growing interest coverage ratio. Our finance position is rock-solid with a well-balanced, maturity profile and highly diverse funding instruments. And that should be not underestimated. Over the last 5 years, we have established ourselves as one of the largest corporate bond issuers in the Eurozone. So also, this gives us a stability and a stable base for the next years to come.

In the portfolio management, I think you have seen often these slides, there's a different mixture of our portfolio. We have done a tremendous job in the last 5 years. We have disposed close to 50,000 apartments, and we have closed around 1/3 of the locations, which we had originally owned as Deutsche Annington. We have today a concentrated portfolio of 15 regional markets that has an above average growth potential. This, you can see also very clearly in our valuation results in 2017. At the same time, we have built an investment strategy and capability that enable us to substantially drive organic growth. This year, it's the first year in which we will be investing € 1 billion in our portfolio and increasingly in space creation via intelligent modular construction. Specially, this investment program is just in the beginning. It is not coming to the end for the foreseeable future, and we will deliver significant growth momentum out of this program in the next years.

And then we are coming to the Value-add Business. Top line revenue and bottom-line savings in this part of our business makes this the most dynamic part of Vonovia. The business was almost non-existing 5 years ago and it now contributed in 2017 around € 100 million EBITDA. I'm confident that this Value-add Business will continue to grow in this fast pace and will become one of the major contributors of value for Vonovia in the foreseeable future.

All this progress we have made since the IPO and up in the FFO 1, and ultimately, into dividend per share for our shareholders. We have almost doubled the amount of time we are able to work exclusively towards the dividend. But it was only 2.5 months in 2013, we worked 4.4 months in 2017, only for our shareholders. Between 2017 and 2013, we have an average growth rate of 18.5 % in our dividend. And if you understand the mechanics especially of page 4, I don't see that there is any change in trend for the next years to come.

So let me do the wrap-up. The successful development since the IPO continued in 2017, and will continue in the next years. In line with our sustainable growth trajectory on which we have put the company thanks to our strategy, we remain very confident on the outlook of 2018.

Market fundamentals are continuing being supportive. Q1 reporting on May 7 will be the first estimate on FFO contribution from the BUWOG tender offer if the offer is successful and changes in the supervisory board and management board represent and make it sure that we always will have a smooth transaction and safeguard the long-term management of the company.

And with this, thank you very much. I'll hand back to Rene.

Rene Hoffmann, Vonovia SE - Head of IR

Okay. Now let me open up for your questions, please.

QUESTION AND ANSWER SECTION

Operator: The first question is from Charles Boissier, UBS. Your line is now open.

Charles Boissier: Yes, can you hear me?

Rene Hoffmann: We can hear you just fine.

Charles Boissier: All right. Thank you, Rene. I essentially have three questions. The first one is quite far in the appendix on page 71. You mentioned that an extension of the reference period for Mietspiegel is without material negative consequences on the entire industry. I do realize that it will vary by city and it's also very early as we don't even know yet if the extension would be to eight years. But what would be your definition of material negative consequences? And if I may, I'm just going to go through the other two questions. The second one is, I think, on France, you said that you mentioned that you have a complete understanding of the market. Are we basically now at the point where the due diligence stage is completed and are we essentially at the next stage, which is bidding on this, when and if they become available, and I do realize that it will be opportunistic and so on. And then the last question, and apologies if it's a misunderstanding, but I think you mentioned three drivers in the revaluation, you mentioned performance and it was in line with what you had guided, yield compression in line. And then investments, you had mentioned, I think, € 460 million in H2 and I think you achieved € 405 million. So could you indicate why the valuation impact was lower than guided? And maybe I'm misunderstanding, but by comparison, the impact on like-for-like trend for modernization is actually larger for 2017 and it's unchanged for 2018. So that's just a timing issue, but would be great to clarify. Thank you.

A. Stefan Kirsten: Charles, allow me to start with the last question. I hope, I understood that correctly. Our half-year valuation was a valuation of only selected spots, and these selected spots are the ones where we expected higher swings, and which were also condensed in us, so mainly the cities. It's much easier if you have only a city portfolio to evaluate than if you have to evaluate the whole of Baden-Württemberg, for instance. So from that point of view, it had more an indicative function than an actual function. The other aspect is, of course, that if you look at investments, this cash outcome has to do with when we pay the invoice, whereas, the performance bit is, of course, when you do the rent increases. And therefore you can have shift. I didn't do this internally. I didn't look at how many percentages did that cover at half-year on performance or investments because for us we look at the full year and the half-year indication may be a little bit off. In principle, what you see is with an extended investment program, which we have at the moment with our € 1 billion, you can see all these numbers to rise because they have two effects on us. The first one is, the investment number goes up. And the second aspect is, of course, the rent increases go up. And the rent increases with their respective multipliers feed the performance number. So this is the only thing I can give you as a clear intention. We can have a look at the data, but we didn't look at it before.

Rolf Buch: So before I'm coming to the rent regulation, in Germany, which was, of course, my most favorite topic, I will answer your other questions. Yes, you are right, we are now in a situation that we can participate in every bid, which is coming to the market. We are today as good in our model as we are in Germany. So of course, yes, we are ready for opportunities. And we will evaluate every time an opportunity is coming. If we are doing it ourselves or prefer doing it together with Caisse des Dépôts because this gives us a much better support from the French government. Keep in mind that today there is a part, there's of course free housing, which is very expensive and very low yielding. There is this immediate, intermediate housing, where we are legally allowed to acquire, which might be interesting, but this is a question of available portfolios. And there's still the sector of so pure social housing, where we are not allowed to distribute dividend and that's why it is not on an attractive portfolio. There is, in the moment, a new legislation in the making where these strong rules for social housing will be a little bit weaker. I don't have a 100 % clear understanding of this legislation yet, but it seems to me that France is doing a little bit into the direction what Germany has done. So I am positive, but this is, again, nothing you should put in your business model, because this development is purely opportunistic and it can take longer than only a few quarters. But we are well prepared. Coming to the market, to the German regulation. I think you're referring to page 69, 70 and 71 and 72 actually -- no, 71 on our slides.

Charles Boissier: Yes.

Rolf Buch: Probably we can go to every part. The first time, the *Mietpreisbremse*. The government is talking or the new coalition partners are talking about a significant increase in the *Mietpreisbremse*. You know, in the *Mietpreisbremse*, there was always a clause where the owner can ask for the previous rent at least. In this clause, it was never said that the owner has to tell the previous rent. So we have some owners, which declare the € 500 and this is the biggest rent. Now a significant increase of the *Mietpreisbremse* is that the owner has officially to declare that his previous rent was € 500. So as I explained, this is ridiculous if an owner is accordance to the law, which Vonovia is, actually this was automatically the case. So a politician might call it – *Verschärfung der Mietpreisbremse*, so big increase of the *Mietpreisbremse* in the end, it is just what I think should be legal anyway. Next one is the modernization allocation. You know that in special reasons, they want to reduce the modernization from 11 % to 8 %. Here, of course, it can have in individual modernization programs an impact on Vonovia, but we have enough programs because this is only in a few regions. For example, it's not the case all over North Rhine-Westphalia, so we have the possibility to shift some programs in order. Secondly we never used or very seldom used 11 %, so that’s why I think this point has no impact in Vonovia. You asked also about what brings major impact. This actually means that you will see it in the figures. Then there is coming the € 3 per square meter as maximum rental increase per square meter by modernization. This will have a significant impact on a lot of players, but because Vonovia has established this well economical process of modernization, our modernization spend is lower than a lot of our peers. And I can tell you, we have probably closer than 1 % of our modernization - less than 1 % of our modernization has led to an increase of rent of above € 3. We think that € 3 is a very good margin, very good amount to protect also tenants. So we are not concerned at this at all. But this might be the case for especially private landlords, which will probably see a significant impact by this legislation. Then coming to the extension of the reference period of the *Mietspiegel*. So actually this was a misunderstanding between the politicians. They actually saw that this would not have any impact at all. Of course, from 2 to 3 years, this will have a slight impact because we will get some rent increase 1 year later. Of course, you cannot see it in one-year figures because we are covered by all *Mietspiegel*. This is more important if you are located in only a very few cities. Of course, there you will have a delay in rental growth by one year into Vonovia’s overall, this does not have major impact, but it has an impact. And then the extension of the reference period of the *Mietspiegel* from 4 years backward to 8 years backward, this would have a significant impact. But fortunately, actually, the decision is that they will verify and I’m very relaxed because I think the outcome of the verification will be nothing will happen. Is your question answered?

Is that OK for you?

Charles Boissier: Yes. Perfect. Thank you very much.

Operator: The next question is from Thomas Neuhold, Kepler Cheuvreux.

Thomas Neuhold: Good afternoon. Thank you for taking my questions. I have basically have two questions. Firstly, on the new Value-add Business energy. Can you elaborate a little bit more on the potential time frame for the roll-out and target penetration you want to reach for this new Value-add Business? And you mentioned that this business could contribute in the long run, a similar EBITDA than the craftsmanship organization today. Can you tell us what the contribution of the craftsmanship organization was to the EBITDA in 2017? And the second question is on your space creation business. Can you please provide us an update on the number of units you want to build this year? Is it still around 1,500 units? And going forward, if the BUWOG acquisition is successful, can you already provide us some details how the BUWOG integration acquisition could change your development strategy going forward? Do you plan to significantly increase the portion of developments into your own new portfolio? And what kind of annual run rate could be realistically achievable in the long run once you have approval from the Board? Thank you.

Rolf Buch: The electricity. So you know what -- with electricity, what we are really starting is to sell electricity to every tenant that signs a new contract with us. In the moment, we are in the pilot phase. We see something around 60 %, 70 % of all tenants are actually signing. So they buy electricity from us. So of course, this takes a few years because it depends on how much churn we have because we are applying this model in the moment only for our new tenants. We haven't taken the decision if we want to do, also, some selling activities for sitting tenants, which legally we can, but this is not decided. But in the end, this all is just a preparation. This probably selling electricity and making the margin out of it has probably the magnitude of our cable TV business. The much bigger magnitude is actually coming from the fact that we are now allowed to sell self-produced energy to the tenants and this makes a big difference. You know we don't declare different results in our Value-add Business for obvious reasons because we don't want to have discussion about the thing. But as you know, the craftsmanship organization today is more than 50 % of our value-add business. So this gives you also an indication where do I think energy is coming. And how long it will take? It will take several years, like -- keep in mind, the cable TV business we started around 4, 5 years ago. So it will take us definitely 4 or 5 years to come to full potential. So for space creation, we are committed to build around 2,000 units per year. We have a lot of discussions with the different municipalities about building construction permissions, which is the biggest issue. That's why we're also a little bit hesitant to give you a commitment. We have enough land, we have enough capacity, and we have enough investment volume. The construction permission is somehow difficult to get. But we are still committed to have 2,000 year-by-year, but we cannot assure you that every construction will be finished at December 31. It might have an overlap into the next year. And the impact of BUWOG, of course, with BUWOG, you will get a significant development capacity. You also will get knowledge in the business, which we are not in because today, I would say, we are in a very soft development. So we are building apartments on existing ground. So we don't have the risk that we buy land for a price assuming a construction permission and then you don't get the construction permission. And more important, we are today not in the business to build a house and later take a risk if in 4 or 5 years from now the selling price of the square meter would be 3,000 or 4,000 euros. So we will sit together as soon as we get the majority. We will sit together, we will, Klaus Freiberg and myself and we will try to shift the BUWOG development capacity more to the trend to own and not to sell. Of course, we are not saying we are doing 100 % to own because I think to sell is also a very attractive model. But keep in mind, the problem of a developer today is that he has to predict the value of something he is planning to do in 4 years from now. But we definitely can give a developer a backstop option. So we know exactly what this building is at minimum value for us in 5 years from now or 4 years from now because we can predict very precisely the rent you will get at this apartment in 4 years from now. So that's why we probably can help the developer, BUWOG to spend less money and to protect himself because we can give him an in-house build protection by just saying, for this amount we are buying it ourselves. So this is the way how I'm thinking. I think it will be a very interesting element and, of course, because Vonovia is much bigger, we also would like to try to expand the development business a little bit further to what they are doing today at BUWOG.

Operator: The next question is from Sander Bunck, Barclays.

Sander Bunck: Hi, good afternoon, thanks a lot for the presentation. I've got two questions, and I'll start with the first one. On the CapEx modernization spend, on page 27, can you just provide a bit more detail on that? So you're looking to spend € 1 billion, that is what was previously was guided. And is this kind of a run rate number you expect to be the same for the next, say, 5 years? And then, also, we did not split, I think, around roughly € 600 million of that is on Upgrade Building or Optimize Apartments, which has a yield of 7 %, if I'm correct. The remainder of that has an 8 % IRR. So probably a bit lower unit cost. Would you expect those, that split, to remain roughly the same? And also do you give them custom IRR numbers? And whether that actually comes into question, does it also mean that given that the € 600 million of yield in CapEx, could feed into your 4.6 % to 4.8 % like-for-like rental growth that you expect that to stay roughly the same over the medium term? That's the first question.

A. Stefan Kirsten: Sander, thanks for the questions. Well, if we look at € 1 billion, you can assume that this is a run rate for the time being until our Chief Operating Officer finds ways to increase, yes? But till then, it's a run rate for us. What you can roughly assume and you were right in some of your estimates, we are having, I mean, very rough numbers, approximately € 150 million in Upgrade in the apartment optimization, € 600 million in Upgrade Buildings, and € 250 million and this is always plus minus € 50 million easily in new construction. All of them together deliver to you a yield-to-cost between 6 %, 7 %.

You sometimes have programs, which deliver 10 %. You have sometimes programs, which you have to fit in even if there are just slightly above WACC. But from that point of view, you can assume in your models the same thing -- everything, which is under new construction will end up in our rental book chart under new space or on the space creation, everything else in the like-for-like number. Does that answer your question?

Sander Bunck: Yes, it does. And it also means that therefore the 4.6 % to 4.8 % like-for-like rental growth is probably going to be a pretty stable run rate going forward?

A. Stefan Kirsten: No, I wouldn't say that because this is based on € 779 million of investment and we are putting another 25 % or 30 % on it. So I wouldn't be surprised and I'm not talking with BUWOG or anything else. I wouldn't be surprised if you see 5 % as a run rate.

Sander Bunck: 5 % as a run rate. Excellent. Thank you. And then on the second question, on SNI and you mentioned that now you've reached a stage that you can put a price on every portfolio. Can you give us an indication that already any portfolios came by and how many portfolios have you looked already? And kind of what is the pricing difference where you underwrite the portfolios and what the vendor is asking? Is there a material difference? Or do you feel that you can meet vendors' asking prices?

Rolf Buch: I think there is not a significant market yet actually happening in this type of portfolio. So it is too early actually to disclose so many portfolios we have looked on and so many portfolios we have reduced. I think the portfolios which will come on the market in the future and in the intermediate will probably define its price to market prices. So I don't think that there will be a significant difference.

Sander Bunck: Okay. I think you mentioned previously that you're able to...

Rolf Buch: See, actually, this is interesting for us. You see two types of markets in which we actually see in Austria versus Germany. In Austria, you see a market where the rental yield is a little bit lower and therefore you're making more uplift later if you're selling the apartments. In Germany, you're seeing a little bit higher rental yield, but less uplift. So in the end, if the market in France will develop, like we expect, we will probably see a market more close to the Austrian version than to the German version. But this is not materially changing, and I think we are shaping the market in the moment together with CDI.

Sander Bunck: Okay, excellent. And is there then a minimum size you would be looking forward to enter the market? Or could it be a small as, say, € 100 million? Or does it need to be materially bigger than that for you to make sense?

Rolf Eberhard Buch: It depends on a lot of different factors, probably less on the amount of money, more on the condensations of the buildings, so if I get ten buildings in the same cartier, this is much better than 20 buildings spread all over Paris.

Sander Bunck: That's very helpful. Thanks a lot, gentlemen.

Rolf Buch: Also, to add to this, I think, here, we are not alone, even for example, as we are small, we can do something together to exploit other parts of the existing structure of SNI. So together with SNI, we are probably able even to go on for smaller portfolios because I don't tell you a secret for SNI, they would like to have an operational platform like we have today for the existing portfolio. So that's why I think they also have a high interest to help us to build together with them something in France.

Sander Bunck: Okay. And in that case, I missed the first part of the answer, but would that mean, on a JV basis then for smaller portfolios? Or how do I see that?

A. Stefan Kirsten: We will find the right legal forms so that it is contributing value to our shareholders. Should be a statement now, okay.

Operator: The next question is from Valerie Jacob, Exane BNP Paribas. Jacob is not anymore in the queue. I introduce the next one, Markus Scheufler, Deutsche Bank.

Markus Scheufler: Yes, thank you very much. Most of my questions were answered, but just as a quick follow-up, you expect significant revaluations in the half-year again, can you quantify just a little bit more in terms of what do you mean by significant? And maybe, kind of, where does it come from?

A. Stefan Kirsten: Where does it come from? You can round up the usual suspects, to quote Humphrey Bogart, and significant means something between € 1 billion and € 1.5 billion with the data status we have at the moment.

Operator: The next question is from Marc Mozzi, Societe Generale.

Marc Mozzi: Just wanted to clarify what we should expect from the consolidation of BUWOG in Q1? First of all, because BUWOG end of the year is, not sure if I'm correct, so shall we expect revaluation in your Q1 net asset value coming from BUWOG? Secondly, how you're going to deal with the working capital requirements coming from the housebuilding activity of BUWOG, which is in ramp-up phase, i.e. it should absorb a lot of free cash flow? And finally, is the FFO you're going to consolidate from BUWOG going to be including privatization as it is already disclosed by the company?

A. Stefan Kisten: Marc, thank you. This is all in my perch. Let's follow-up with the last question, I'm actually a big fan of the structuring, which we have in FFO 1, FFO 2, and AFFO. So it would be a lot of convincing for me or my successor to change this to recurring FFO. So I believe that end up what you're seeing with conwert already that we will adjust the numbers, which we report to our respective standards. First aspect. Second aspect. We don't have control of the company, but our working hypothesis at the moment is that you will see the revalued BUWOG already. And that BUWOG will issue an ad hoc about the revaluation terms because they will not be out with the year-end numbers at that point in time. That's the working assumption, which we have to harden once we have control. At the moment, we just have informal discussions, which are under NDA, but which are between 2 listed companies. So I can't offer you anything better at the moment, but that's the working assumption we work upon. First point was the working capital requirements for the development business. Honestly, we haven't run too many models on that at the moment, let's get BUWOG in and then deal with this because, let's say, financing or cash flows as a hindrance to our expansion plans is something, which we don't know any more for a few years and we will cross that bridge when we get there. I know it's a bit dissatisfying as an answer, but that's the best I can give you at the moment. Okay?

Marc Mozzi: Yes, thank you. And I have a last one...

Rolf Buch: And from a business perspective, you have a question of FFO, recurring FFO and FFO 2. I think it is a good move, I think, BUWOG has done a great job in explaining the market about recurring FFO, but I think FFO 1 and FFO 2 have 2 different underlying business models. We all agree that FFO 1 is coming from rental business, which has an enormous stability, in our case 13.5 years. So the value of FFO 2 is something else than the value you're getting out of development business. And that's why I think we should be transparent to the market and that's why we should show FFO 1 and FFO 2 in separate practice. You can discuss in such FFO 2 bracket if you want to show a development FFO versus a privatization FFO 2, but this is more a debate than the FFO 2 category than mixing FFO 1 and FFO 2 together. In the end, it is all about transparency, and we will try to do as max transparency as we are doing. So showing you the normal recurring business out of our normal operating business of rent out apartments probably an FFO coming from development and an FFO which is coming from privatization. This would probably be the way I think we will go into future.

Marc Mozzi: Great. The final one about your expansion in Europe and/or in Germany. In the next 12 months, where do you see the most likely Vonovia moving? In Germany? Or outside of Germany knowing that you're doing € 5 billion of acquisition every year since your IPO?

Rolf Buch: Marc, it doesn't mean that we will do € 5 billion of acquisition in the year 2018. So this trend, I like your trend, but this might shift and to be very precise, there was also 1 year that we have not done any acquisition because we've done the acquisition in January and not in December. So I think there's not a rule to do it. And to be open, I don't know. It depends all on opportunities. So we are in both fields completely opportunistic. If a great deal happens in Germany, we will do the great deal in Germany. If a great deal and possibility will happen outside Germany, we will try to do it outside Germany. All deals have to fit with our criteria, all deals have to make strategic sense, so the criteria set for acquisition is the same. So that's why I cannot answer your questions honestly. We have both opportunities, but the most important message is we don't need to do acquisitions. We will develop the FFO further without acquisitions. And of course, one thing is clear, if we are doing a € 5 billion acquisition, we need also equity and then we need the support by the market as well.

Operator: The next question is from Christopher Fremantle, Morgan Stanley.

Christopher Fremantle: It's Chris Fremantle from Morgan Stanley. You said that you are planning for a scrip dividend, but I think you said you may choose not to do it if the share price is close to where it is today at the NAV discount is trading at today. I just want to ask a slightly broader question about usage of cash in the context of the international expansion that you're signaling. I mean if you are still trading at a similar discount to NAV, are there any circumstances where you would consider buying back stock rather than using that cash to expand internationally?

A. Stefan Kisten: Yes, but that zone we definitely haven't reached. I mean let's look at the buyback programs, which you've seen in real estate. 1 of them came via Unibail until they found something different. But these were stocks, which were complete differently besieged than what we have at the moment, we have at the moment a volatility blip. Therefore, you will see in our AGM agenda that we get routinely an approval to buy back shares because you need this with AGM approval in Germany. But that's not on the chart.

It is something we are definitely looking at like any other investment. So it is in our investment universe, a component, which we look at in our strategic plan. But it is nothing - it's no alarm plan, which goes active at the moment because the share price is not even remotely there. But you're absolutely right about the scrip dividend. For me, the litmus test is always the adjusted NAV per share and this is the actual one, which would be the one for Q1. So let's all be excited how many percentage points we get from BUWOG because that's a force having effect on the number.

Operator: The next question is from Kai Klose, Berenberg Bank.

Kai Klose: It's Kai Klose from Berenberg. Three quick questions. The first one is on Page 11, with the new portfolios - I'm sorry on Page 10, with the new portfolio split. The Invest, and the Operate sub-segments both are very similar KPIs in terms of value per square meter. It's just that the invest units have a higher rent multiple. How does that work when you're going to spend more on the invest units for maintenance and CapEx, are then they'd be shifted into the Operate sub-segment? Or are they going to stay in the Invest sub-portfolio? Second question is on page 33 of the presentation. We had about € 87 million of non-recurring items in the adjusted EBITDA reconciliation, if you could give more clarity on that? And the last question is on page 14, thanks for the split of the value per square meter between land and property, between land and building.

Could you just indicate how the value of the land was determined? On multiples? And how that has changed from '15, '16 and now to '17?

A. Stefan Kisten: Well, Kai, these are complicated questions. Again, I think, let me start with the last one. You know when we deliver our square meter or square footage value, this is based on approximately 6,800 valuation units which we have.

The split between land and building is based on a model, which we tested on, let's say, a representative number of items, but it's not split on valuing every single flat we have, that's simply not possible. So I cannot tell you whether or not it's € 897 versus € 583, but I can tell you it's definitely less than 50% and it's significant. So again, you might know from the Capital Market Days, our Value head Walter Sprenger is trying to do the most thorough job there. I know that he has looked at thousand data pieces, land prices based on CBRE databases. But it is not the value which we have, for instance, in our SAP system. We were just insisting because we wanted to get this chart clearer. One-offs. The one-off number in our company has 2 effects at the moment. The first one, it is usually completely and utterly driven by acquisitions. We had in the last few years a couple of workers' programs, early retirement programs in there, but if you look at, I mean, yesterday presented to the audit committee, if you look at 2016 and 2017, out of the € 87 million, more than half of it is strictly acquisition growth. I would say, 2/3 to 3/4 even. And this is either conwert but also the merger of GAGFAH, which you can include there and the beginning, of course, of BUWOG. The third aspect to it is what you normally get when you have these non-GAAP corrections and you see this as a CFO, within 5 or 6 years, you get a bit of mission creep in there. So we've tightened the definition from 2018 onwards, starting with our budget because, of course, it affects the system. And you will see from a tendency a slightly lower number there. But this is in the big game, it's homeopathic, it's more important for educational purposes internally. Your first question was on invest.

Okay. What we do once a year is in summer, finalizing with a management board decision in September, we regroup with our portfolio controlling department each and every single flat, house, piece of land into the categories. And of course, once we have upgraded something, it moves back into Operate because we don't want to sell it. So that happens - that's the process, which starts usually in June, July, go through the summer and we, in the management board, see at some point in time, structuring with all sorts of economic analysis behind it. What is important for us is that we have at the moment € 20 million plus of fair market value where we can invest in the future, which means we have enough material to spend our € 1 billion minus new space creation on. That's the important bit.

But that's an exercise we do religiously every year because it determines the value of our housing stock, which is 89% of all balance sheet.

Rolf Buch: Okay, so probably to add one word to this. New constructions make it automatically in Operate as the new construction has nothing, no possibility to Invest. In the investment you know and the programs are running and not just showing separately, we have this upgrade building and optimized apartments. So an apartment, which is optimized, can still stay in Invest because we still have an upgrade building potential left there. So this means actually an Invest is not only that the building has technically opportunity to be invested, but is also by price-wise. So we don't put an apartment, which is in the city where we don't think we get € 3 more rent, for example, € 2.50 more rent, which we need from the investment, we put this apartment also in Operate.

Operator: The next question is from Bernd Janssen, VictoriaPartners.

Bernd Janssen: Just one question left related to page 5, market-driven rental growth like-for-like. I think you guided or said that going forward something like 1.5 % contribution from market driven would be a good estimate. I was a bit surprised by the low contribution from new lettings in 2017. And as I assume the reversionary potential has not come down, I guess, it either depends on tenant turnover or that you might have used the tenant turnover to undertake modernization and it's therefore rather included in modernization than in new lettings? Is the latter correct?

A. Stefan Kisten: Bernd, absolutely. New lettings is affected by actually 3 aspects. The first one is that our vacancy rate is, of course, down. The second one is people stay longer. So we're now in 13 years, remember the IPO times when we were close to 10 years only on the duration. And the other point is, more and more apartments fulfill the footprint of getting modernized. In the moment if they are modernized in a new letting, they are, of course, in the modernization bracket, new lettings up there is just that we do the technical inspection, cleaning up, painting off and off we go. And therefore the contribution of this channel is naturally lower than what you've seen in the past.

Rolf Buch: It is clear, this is a market trend all over. This is not a specific in Vonovia's fluctuation, especially in hot cities, it's going down because all the tenants know that if they leave the apartment, they're never going to get an apartment for this price again.

Bernd Janssen: So this means that within the, let's say, roughly 1.5 % market driven going forward that we should expect a clear dominance by sitting tenants in the future?

A. Stefan Kisten: As we see the market at the moment absolutely. But what you can also see is that this number is plus minus 10 basis points, rather constant. By the way, this has to do with subsidized rent, which we still have whatever 10 %, 12 % of our rent base, 12 % is still there on the subsidized base.

Rolf Buch: Yes.

Operator: The last question is from Valerie Jacob, Exane BNP Paribas.

Valerie Jacob: I'm sorry about earlier. I just got three questions. My first one is, during the H1 presentation, you made a comment that Berlin was not a hot city anymore. And that you were seeing more growth in Leipzig. And if I look at what you're presenting today, Berlin as well, are you reporting the highest asset value growth. So I just wanted to understand what happened over H2? Do you think it is market related, and what basically is your forecast for the different region going forward? My second question is about goodwill. I mean, there's a slight impairment now and I just wanted to understand the sensitivity on the goodwill and what cost of capital would you need for all the goodwill to be impaired? And my last question is for you, Stefan, I mean, you said that you are going because of your contract ends. I don't really understand German contract law, but I will have thought that your contract could be extended so maybe if you can comment on that?

A. Stefan Kisten: Yes, as I mentioned, let's talk about my contract first because that's very close to my heart, obviously. No, but -- of course, you can extend these contracts, the problem is, what you do when you do this at board level, you do this for 5 years, that would frustrate every potential successor you have. I mean, let's keep this in mind, if you mean a generation shift, if you mean more continuity because you want a staggered aging structure in your management board, and there is a point in time where you just simply have to take this leap of faith and that's what we do at the moment. I hope that answers your question.

Goodwill. We have never published the sensitivity, but you can assume that it takes at least another 120 basis points until the majority of the goodwill is wiped out. And keep in mind that we already had a big swing from 3.1 % to 3.6 % post-tax in our WACC. Again, I wouldn't be too worried about it because that's just a function of discounting. What worries me more is if I have valuation increases and that brings me to the Berlin question. If you have valuation increases where you have difficulties to justify them with rising cash flows. And that's exactly what we saw in the last years in Berlin. Nobody said that the party is over. Berlin is still an excellent market. It is growing slower than in the past. It's still the majority of the growth because it comes from such a low level. But this growth is less fueled by cash flow generation than more fueled by the perception that it's great. And there are enough transactions in there, which show us that Berlin makes a lot of sense. This is one of the reasons why we are consequently still investing in Berlin. But I must actually say, we are hugely happy. If you look at the little ones around, keep in mind, we're German-wide and therefore we like the Dresdens, we like the Leipzigs, we like the Kiels and the Bremens of world. I hope that answers your question.

Rolf Buch: So only to go in a more detailed explanation, I think you are referring to page 12. If you look back in this page, you see actually on the left side, you see the yield compression. You see the 13.2 % in Berlin and you see that some other regions have similar yield compressions, which was not the case in the previous years. So that's why I think our theories that some areas are catching up in terms of yield compression is still right. We have nothing against Berlin. That's why we have close to 40,000 units in Berlin, we're happy owners in Berlin and we are still happy shareholder of Deutsche Wohnen, which is mainly driven on the facts that Deutsche Wohnen as a majority in Berlin. So we have nothing against Berlin. We are just putting your awereness on the fact some other regions are catching up in terms of yield compression. In terms of the overall value growth, there actually are the 2 effects of performance and investment coming. So if we put all our investments, for example, in Bremen, € 1 billion, then you would see, I don't know, 40 % value uplift. So that's why the right side is the totality. So yield compression, investment and performance. So that's why the right side gives you a view specifically on Vonovia and here you can see that we are heavily investing in Berlin because we have 13 % yield compression and 21 % or close to 22 % full value. So this means 8 % is coming out of performance and investment. So we are heavily investing in Berlin. But the right side on this slide really gives you the Vonovia view while the left side probably gives you also an indication on the largest market.

Operator: As there are no further questions, I would like to hand back to you, gentlemen.

Rene Hoffmann: Thank you, Judith. And thanks, everyone, for joining us on this call. We hope to see you on the road over the coming days. And as always, if you have questions or comments, please do reach out to me or my colleagues. And as a reminder, Stefan said it before, the Q1 earnings call will be on May 7, with results out at 7 in the morning, as always. And with that, have a good day, everyone.