

SOCIETY AND CUSTOMERS

The satisfaction of our customers, the quality of our portfolio and the ability to provide new homes are all vital for the long-term success of our company. It is of fundamental importance to Vonovia that we can guarantee our customers homes that they can stay in long term. In order to offer our customers attractive, secure homes with a high living standard, we align our business decisions with the needs of our tenants and develop our portfolio in a holistic manner according to socially relevant issues.

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Our Approach regarding Society and Customers

☒ 103-1, 103-2, 103-3

Management Approach 103-1

In order to fulfil our tenants' needs we consistently pursue solution-oriented approaches for our activities on the residential property market that focus on these needs (see chapter Customer Satisfaction → p. 40 et seq.). It is our aim to promote long-term loyalty to the company among our tenants. This means we have to guarantee that the homes remain affordable in the long term, i.e., our measures must ensure that we can provide modern, energy-efficient and also affordable homes for all population groups. The main focus of our activities therefore is on renting out our buildings efficiently, using digitized processes, for instance, such as our customer portal, and creating new homes (new constructions and vertical expansion). The aim is to alleviate the tense situation on the residential property markets (see chapter Creating Living Space and Affordable Rents → p. 46 et seq.). The debate surrounding the allocation of modernization costs has shown that the acceptance for cost allocation – even for measures to protect the climate and improve living standards – is declining significantly. Vonovia has thus pledged:

- > not to conduct modernization work in the future that would add more than €2 per month to the tenant's basic rent per m²,
- > to ensure that our customers can stay in their homes, and
- > to investigate hardship cases individually and actively look for solutions.

We develop existing homes according to peoples' needs. This includes senior-friendly apartment conversion, the establishment of residential communities supervised by nursing assistants or offering assistance to older tenants in moving. When it comes to our portfolio properties, our focus is on quality and we aim to create an attractive residential environment with a high standard of living that tenants can actively help shape. This also means that we:

- > use environmentally friendly and safe materials,
- > equip our apartments with modern fittings, and
- > offer our tenants additional services for more comfort.

Safety and healthy living are fundamental elements in the design of our apartments and the surrounding area (see chapter Portfolio Maintenance and Tenant Health and Safety → p. 43 et seq.).

When it comes to the composition of our portfolio, we strive to develop and acquire properties that are close together. This not only allows us to increase the efficiency of our management, but also provides us with a holistic overview that enables us to adopt new approaches. We take social, ecological and economic circumstances into consideration in our approaches by:

- > making infrastructure available (e.g., mobility offers),
- > creating spaces for well-being,
- > designing green spaces and community spaces, and
- > cooperating with social, pedagogical and cultural institutions.

We initiate participation concepts in order to purposefully include the people living in our neighborhoods and to increase acceptance of the measures we intend to take. This allows us to strengthen neighborhoods and networks, and we benefit as a company from peoples' suggestions and lessons learned (see chapter Neighborhood Development → p. 50 et seq.).

This results in the following material topics for Vonovia related to society and customers, which are visually depicted in our materiality matrix:

- > Portfolio maintenance
- > Tenant health and safety
- > Creation of homes
- > Affordable rents
- > Neighborhood development
- > Social commitment

In the following chapters we will deal with these topics in more depth and explain their importance to Vonovia. We will describe the management approach, challenges, opportunities and risks, targets, measures and indicators for each topic.

Challenges, Opportunities and Risks 103-1

Discussions in the political and public spheres have shown that our business goes hand in hand with high reputational risks. This can have a negative impact:

- > on demand for our homes,
- > in the form of stricter regulations on the residential property market, and
- > on Vonovia's attractiveness as an employer.

In this regard, a lack of skilled workers, continually climbing construction costs, rising requirements (e.g., the increase in regulations and legislative processes such as tenancy law and modernization cost allocation) and drawn out administration processes (e.g., relating to construction approvals) constitute particular challenges for Vonovia.

Neighborhoods that tenants consider to offer a particularly high standard of living increase Vonovia's attractiveness and demand for our homes. We support this effect through our growth strategy and the development of new fields of business within the Value-add segment, ensuring that new opportunities are created for Vonovia. We can, for instance, increasingly generate cost advantages, improve the planning for measures and better overcome capacity bottlenecks by increasing the number of employees we have. By decentralizing our structures further, we can increase proximity to our tenants. Simultaneously, we generate efficiency advantages by standardizing processes and managing partial functions centrally. Serial construction enables us to keep costs low and shorten the time of construction work.

Objectives, Measures and Indicators 103-2, 103-3

It is our aim to increase customer satisfaction further, thereby securing the foundation of our economic success. We leave nothing to chance in this area and purposefully align all measures that we take to generate positive effects.

One material aspect of this work is the preservation and improvement of the quality of our portfolio properties, which we primarily achieve through maintenance and modernization measures to improve energy efficiency and the standard of living (see chapter Increasing Portfolio Quality → p. 43 et seq.). In 2017, we set ourselves the target of implementing a modernization rate (refurbishment rate) of more than 3% per year for the first time, and in the reporting year achieved almost 5% for the second consecutive time. This means we exceeded the target once more. We always focus on the health and safety of our tenants in all that we do, for example, in the choice of

materials used in construction and the implementation of security concepts.

Constructing new homes has been the focus of our activities for a number of years. The size of our company allows us to achieve economies of scale in many areas, reduce costs and thereby offer affordable homes. Modular and serial construction methods, which we have employed for just as long, also play an important role.

In all of our activities, we never lose sight of our stakeholders' interests. We have established processes that enable us to include our stakeholders' interests in our planning and decision making and thus find the best solutions for our neighborhoods. Our stakeholders' ideas, opinions and suggestions are an important element of Vonovia's neighborhood development work.

Outlook for 2019

In the medium term, we intend to expand the current scale of our customer satisfaction surveys further.

We will push forward with our conversion measures for accessible homes in 2019 and within this context also aim to increase the speed with which elevators are repaired and installed while also reducing the costs associated with this work.

We also plan to invest more in customer services in order to increase the amount of services we offer.

We will again implement new neighborhood development measures in 2019 and improve communities and the standard of living in our neighborhoods, such as Stuttgart-Kornwestheim or Dresden-Altreick, for example, by putting new ideas into practice.

Customer Satisfaction

☒ 102-43, 102-44, 103-1, 103-2, 103-3, 203-2

Management Approach 103-1

Vonovia sees itself as a service provider that offers tenants attractive homes and housing-related services. Satisfaction with our services is the key to our economic success and every employee is encouraged to actively contribute to improving our services. We support this:

- > through our central service center, caretakers on site, our technicians and the residential environment organization,
- > by processing issues rapidly and in a straightforward and reliable manner,
- > with comprehensive investment in maintenance and modernization work,
- > by establishing self-service functions, via the customer portal, for example, and
- > through service offers that provide real added value for our customers.

Our employees are there for our tenants during service hours and on weekends in emergencies, e.g., for urgent repairs. Tenants' direct contacts are well connected within the company and make sure that our service promise is fulfilled.

Whether and to what extent our customers use the services we offer as part of our Value-add strategy is the decisive indicator that helps us to determine if our offers are appropriate.

Establishment in the Organization 103-2

Thematically and organizationally, customer satisfaction is assigned to our customer services department, however, every Vonovia employee is obliged to ensure customer satisfaction. The customer services department commissions a service provider to conduct a random survey in the full portfolio once a quarter. The results are prepared by the training & quality department along with suitable measures, which are then fed back to the customer service department along with the findings. This depart-

ment then distributes the findings of the survey to all of the Group's operational areas, which then implement the appropriate measures.

Challenges, Opportunities and Risks 103-1

The ongoing housing shortage and rising rents, particularly in conurbations, have resulted in tensions on the German residential property market. Alongside rents, expectations regarding the quality of the homes and the service provided by Vonovia as a landlord are also rising. This provides us with an opportunity to set ourselves apart from the competition with outstanding service and rapid reaction times.

The public discussion regarding modernization cost allocation has shown us that acceptance for rent increases is limited. For us, this issue primarily brings with it a reputational risk that may impact our company and the success of Vonovia. That is why it is important to us to increase our communications with tenants in this regard. Vonovia has now decided on a voluntary modernization cost allocation cap (see chapter Society and Customers, → p. 37 et seq.). We also want to improve the quality of our ancillary expense billing in order to further minimize the risk of sending out bills that are incorrect, as every incorrect ancillary expense bill that we send out is one too many.

The digitization of our processes brings with it a myriad of opportunities, including an effect on customer satisfaction. For example, we are boosting our online presence and expanding our self-service functions in the online customer portal for the benefit of our customers. This means it will be even easier for customers to contact us.

Objectives, Measures and Indicators

103-2, 103-3

Measures to Determine Customer Satisfaction

The Customer Satisfaction Index (CSI) is one of our main key performance indicators that we use for determining and managing customer satisfaction. It is also relevant for Management Board remuneration (see chapter Our Service Promise [AR 2018, p. 88 et seq.](#), [www.reports.vonovia.de](#)). The CSI is determined at regular intervals by means of systematic customer surveys and reflects how our services are perceived and accepted by our customers (see Establishment in the Organization [→ p. 40](#)). The findings of the survey are included in our investment decisions and measurement planning processes.

The customer surveys cover:

- > overarching topics such as image, loyalty and overall satisfaction,
- > issue-specific feedback on customer service, maintenance and modernization measures,
- > feedback on repairs, residential buildings and external areas. [102-43, 102-44](#)

Further customer satisfaction indicators include the vacancy rate, tenant fluctuation and the direct comments of tenants. Interviews conducted with tenants, e.g., service calls to ask new tenants about how happy they are with Vonovia, provide us with an additional source of feedback that aids internal quality assurance.

Our focus on personal contact with our tenants is one of our greatest strengths. This allows us to boost customer loyalty and satisfaction. We are therefore constantly working to improve our customer service, for instance, by optimizing communication between the central point of contact and our employees on site and monitoring the time it takes to process customer queries. We aim to reduce the average length of processing time further.

Measures to Increase Customer Satisfaction

As rents rise, so do tenants' service expectations. Vonovia is not exempt from this change and is taking appropriate action – such as improving the quality of our ancillary expense billing. This is accompanied by an expansion of our online presence and the self-service functions on the customer platform. In 2019, we will launch an app for our tenants in order to reach another milestone in our service strategy. In the future, this will enable our customers to monitor the status of their personal queries and our services, for example. Customers will also be able to receive push notifications with information from Vonovia, pay online, book appointments and download documents.

In 2018, Vonovia took over customer service for our electricity customers. This service is now well established and gives us a better overview of our customers and their needs.

Value-add Offers

Add-on products and housing-related services, or Value-add offers as we call them, supplement our core service, rental, and also create added comfort and value for our customers. We are continually reviewing additional service approaches that could increase customer satisfaction and expand our portfolio whenever appropriate. Those areas that have already been established successfully largely include the caretaker organization, the craftsmen's organization, the residential environment organization, multimedia services and metering services. In addition, we are currently expanding our offers to include energy supply and home automation.

Before services are added to our range of offers they must fulfil three conditions:

1. Provide added value
2. Be economical and affordable
3. Be suitable for standardization and implementation on a large scale

We can generate cost advantages for the benefit of our customers by providing offers that are subject to economies of scale. Examples include the bathroom, kitchen and security packages that we actively offer. [203-2](#)

Energy Services Offers

We increase our customers' flexibility through smart metering solutions that read water and heating consumption meters digitally. This also enables us to create ancillary expense bills faster. We intend to expand this service further in the coming years. In 2017, around 80,000 residential units used this service. In 2018, this figure was up to around 130,000.

We also continued to pursue the landlord-to-tenant electricity concept in 2018, as part of the decentralized energy supply concept, and installed additional photovoltaic plants (PV plants). As of December 31, 2018, we had a total of 208 PV plants in operation. Our numerous cogeneration units (CHP units) allow us to provide heating and hot potable water (see chapter Energy Efficiency and Reducing Greenhouse Gas Emissions → p.58 et seq.). In 2019, we aim to expand our energy services and sales offers further.

Residential Environment Services

We provide a number of residential environment services through our caretakers, technicians and gardeners, such as caretaking services, cleaning work and maintenance of green spaces. This allows us to perform high-quality repairs and modernization measures quickly, and provide our customers with a well-maintained residential environment. We offer our older tenants smart home solutions with innovative assistance systems by cooperating with social institutions and care services. We also provide senior-friendly apartment conversions. Thanks to standardized processes and economies of scale, our tenants benefit from cost advantages when it comes to procurement.

For more information about our services, we refer to the Annual Report (see chapter Our Service Promise → AR 2018, p. 88 et seq.).

Management of Hardship Cases

The discussions surrounding modernization cost allocation have shown us that we have to communicate with customers more about their individual situations and the consequences of energy efficiency modernizations, and pay closer attention to their specific needs. We are thus currently in the process of expanding our hardship management work. Four employees in Bochum are responsible for initiating contact with customers once notification of hardship is received and for launching a preliminary review. They then pass the case on to one of 20 neighborhood managers who take responsibility for contact with these customers. In a private interview, the manager records the tenant's situation in order to work on a solution together before the modernization work begins.

In personal hardship cases, for example, where the tenant is elderly or ill, Vonovia provides support during the construction work, including moving furniture and other objects or helping to move the tenant into a senior-friendly or barrier-free apartment. In economic hardship cases, for example, if tenants are no longer able to afford their rent following modernization due to low income, the neighborhood manager develops an individual solution, such as a gradual rent increase or a reduction of the modernization cost allocation for a certain period of time. A gradual increase in the rent enables the tenant to keep rental payments affordable over a longer period of time or, if necessary in the long term, to find a new home. In such cases, we work with the tenant to review the impact that different factors would have on the rent they pay; for example, if their financial situation were to improve due to a change in career.

Portfolio Maintenance and Tenant Health and Safety

☒ 102-15, 103-1, 103-2, 103-3

Management Approach 103-1

Vonovia's overarching goal is to continually increase the company's value through profitability and sustainability strategies. We want to manage our portfolio efficiently, while maintaining high living standards for customers.

Vonovia's German portfolio consists of approximately 360,000 apartments (incl. German BUWOG portfolios). The quality and structural condition are of the utmost importance to the company. After all, we can only gain long-term loyalty and be successful in the future if our tenants are safe and healthy in their homes and enjoy a high standard and good quality of living.

On the one hand, we define portfolio quality as the good structural condition of our properties. This includes all issues relating to maintenance and modernization. In addition to increasing the standard of living and attractiveness of homes, this point also relates to the health of the tenants, which we support by using environmentally friendly materials or by eliminating hazardous substances.

On the other hand, portfolio quality also covers issues relating to the residential environment. Tenants' sense of security is boosted through well-lit and cleverly designed exterior spaces, and areas designed to increase well-being are created in the neighborhood that are as free as possible from airborne and noise pollution.

Establishment in the Organization 103-2

Changes affecting the structural condition of our buildings are usually conducted by the technical service, while the residential environment service takes care of the area directly surrounding our apartments. The procurement department – in cooperation with the portfolio management department – also plays a role here as it procures construction materials.

Challenges, Opportunities and Risks 103-1

Managing and maintaining residential properties entails business risks for Vonovia. The construction boom in Germany and the associated scarcity of technician capacities mean that the cost of construction is continually rising, and implementing our construction measures economically is more difficult. Prolonged construction approval periods are also leading to an increase in the amount of time it takes to complete construction measures and a risk that construction costs could increase.

Insufficient information regarding the materials used in construction or the implementation of construction regulations also pose a particular challenge for Vonovia. We counter this risk by surveying properties in person, regularly checking building safety while taking all statutory construction regulations into consideration, checking for potentially hazardous materials, creating fire protection concepts where necessary and including professional planners to optimize construction work on our portfolio. In addition, clear specifications and strict quality specifications apply to the selection of materials.

Objectives, Measures and Indicators

103-2, 103-3

Increasing Portfolio Quality

Portfolio quality means:

- > ensuring the sound structural condition of our buildings through maintenance and modernization work,
- > guaranteeing our tenants' safety and health,
- > achieving value and return from the portfolio, which we aim to improve through new constructions, holistic neighborhood development and targeted acquisitions and sales.

Our maintenance and modernization measures are based on operational and strategic considerations, with a particular focus on increasing customer satisfaction.

Maintenance	Modernization
Aim:	Aim:
Long-term preservation of the building stock.	Increasing the standards and value in use of buildings.
Measures:	Measures:
Regular economic expenses planned over the long term, which allow us to avoid peaks in spending and additional costs	Measures to improve standards of living within closed apartment spaces (e.g., new balconies and kitchens, bathroom modernizations, senior-friendly conversions)
Planning oriented toward long-term and short-term needs	Energy-efficiency measures on building shells or supply infrastructure (e.g., apartment insulation, window and roof replacement, modern heating units)
Employing economies of scale to reduce costs	

In 2018, we once again exceeded our target of 3% and achieved a rate of almost 5% with our energy-efficiency program in Germany, which equates to approximately 18,000 apartments.

In 2018, we conducted measures to raise the standard of living in a total of 15,000 apartments (2017: 11,000). In the coming years, we will strive to maintain this level of work to improve standards of living, or even increase it.

In the reporting year, we continued to improve the green spaces belonging to our properties, for instance, by converting old wooded areas into lawns. This has allowed us to create leisure spaces for our customers in their neighborhoods, increasing the quality of our leisure spaces in external areas.

Expenses for Maintenance and Modernization

Vonovia is maintaining its high level of investment. The key areas of focus are improvements to existing building stock, new construction and adding extra stories to existing buildings.

We made the following investments in 2018:

Maintenance and Modernization

in € million	2017	2018
Maintenance and ongoing maintenance ²⁾	346	430
Intensity of maintenance (€/m ²) ²⁾	16	18
Modernization ^{1) 2)}	779	1,139
Intensity of modernization (€/m ²) ²⁾	35	37
Total	1,125	1,569
Total (€/m²) ²⁾	51	55
Measures to improve the standard of living ³⁾	200	250

¹⁾ Incl. new construction: 2018: € 234.3 million, 2017: € 65.7 million.

²⁾ The scope covers Vonovia Group's complete scope of consolidation.

³⁾ This includes measures requested by existing tenants.

Health Safety of the Building Materials

It is important to us that our customers live in healthy homes. We therefore carefully select materials that meet modern standards for our construction work. This means that we exclusively use safe materials in our apartments and take meticulous care to prevent mold. If mold should be discovered in one of our apartments despite our meticulous care, the technical service eliminates the mold and launches prevention measures – immediately and without appointing blame.

In agreement with portfolio management, the procurement department decides which materials are used for work in the Vonovia buildings according to precise process guidelines laid out in our product manual. This allows us to react rapidly to legal changes and take the corresponding measures. We expect our subcontractors to strictly adhere to all of our product guidelines so that we can ensure all measures exhibit the same quality.

All materials must:

- > pass various quality controls taking into consideration their potential impact during the life cycle, and
- > meet the applicable safety, health and environmental standards.

In 2018, we decided that we would increase our use of mineral fiber as an insulation material in future energy-efficient modernization measures on facades. When

selecting products, we also look at energy efficiency – for instance, in choosing boilers – and pay particular attention to water quality in the portfolio properties, e.g., by installing special filter systems (see chapter Environmental Protection in Connection with Conversions and New Construction → p. 65 et seq.).

There was no need to conduct any special health and safety checks in connection with the materials used in the reporting year.

Safety Concepts and Other Measures

Safety Concepts

We strive to ensure the safety of our tenants both in and around their homes because it is a fundamental prerequisite for personal well-being. A subjective sense of safety also plays an important role in establishing this feeling.

102-15

We therefore ensure that:

- > there are no “scary spaces” – such as unlit parking lots or paths,
- > there is sufficient lighting on paths, parking spaces and in foyers and halls,
- > we test and offer safety solutions to improve protection against burglary, in cooperation with the State Office of Criminal Investigations in North Rhine-Westphalia, such as reinforced bolts and burglar-proof apartment entrance doors,
- > we identify hazards by physically inspecting all open spaces and playgrounds every two years,

- > we adhere to all traffic safety obligation regulations without exception in order to minimize hazard risks in the long term,
- > we initiate measures immediately on identifying defects or risks in order to prevent accidents in open spaces on our properties.

Reducing Noise Pollution

Noise pollution can come from a variety of our sources in our neighborhoods – but it always impacts the well-being of our tenants. We want our tenants to live with as little noise pollution as possible, and therefore install sound-proof windows along streets with heavy traffic, for example. Complaints are often made about noise caused by other tenants. In these cases, Vonovia acts as mediator and strives to find a solution that is mutually acceptable to both parties. House rules in different languages serve to create a common understanding of living together.

Noise caused by construction work cannot be prevented. We aim to foster understanding for this among residents by announcing construction as early as possible at tenant assemblies and during office hours as well as through small gestures such as tenant parties. We endeavor to keep the disturbances caused by construction work as low as possible, because in certain cases, such as vertical expansions, apartments in the building remain occupied by tenants. Modular approaches for new construction work enable us to keep construction times to a minimum as the prefabricated residential modules only need to be put together by technicians and finalized with interior fittings.

Safety inspections

	Inspection schedule	Total inspection list	Target inspections 2018 ¹⁾	Actual inspections 2018 (EPRA H&S assets)
Buildings	Every 2 years	52,900	30,653	90% ²⁾
Open spaces with buildings	Every 2 years	35,187,000	13,702,026	100%
Open spaces without buildings	Every 2 years	2,746,000	1,464,274	100%
Trees	Depending on type of tree and pre-existing damage every 1, 2 or 3 years	214,000	152,617	100%
Playgrounds	Depending on playground equipment category 1 to 4 times a year	1,200	2,569	100%

Vonovia has established standard processes for handling defects discovered as a result of inspections, which provide for prompt handling. These processes continued to function perfectly during the reporting period (EPRA H&S-Comp).

¹⁾ The checks are conducted every two years from the date of the first inspection; the annual certificates are therefore not distributed exactly equally. (50%-50%).

²⁾ Missing inspections were caught up on at the beginning of 2019.

Creating Appropriate Living Space and Affordable Rents

102-15, 103-1, 103-2, 103-3, 203-2, 413-1

Management Approach 103-1

The situation on the German housing market did not change in 2018 and housing demand continues to significantly exceed supply – particularly in metropolitan areas. This has resulted in rising rents and housing shortages. At the same time, construction of new buildings lags behind housing demand, particularly in metropolitan regions, despite a greater amount of construction being completed. Vonovia aims to counter this trend and to offer affordable homes, first and foremost through efficient processes and economies of scale, and to alleviate the situation on the housing market through the construction of new homes. This is the only way to lessen the pressure on the housing market. Vonovia is therefore continually investing in the expansion of its portfolio through new construction and acquisition, and offers conditions that in some cases – such as in Berlin – are significantly below the standard local comparative rents for newly constructed homes.

The housing market is also still undergoing a transformation due to demographic changes. On average, the population in Germany is aging and the number of one-person households is increasing. These developments are posing considerable challenges for the housing industry, particularly when it comes to providing homes that meet the needs of tenants. Vonovia intends to tackle these challenges with new constructions and by converting existing stock, e.g., changing the size of apartments and conducting senior-friendly apartment conversions.

The fact that awareness of the housing problems has noticeably increased in recent years also plays an important part here. Surveys suggest that the prevailing opinion is that policymakers have made the wrong housing policy decisions in the past and that they are still doing too little to combat the problem. This shortage of housing and the development in property prices/rent that this entails has created a subjective sense of inequality that pervades all sections of society, with political decision-makers under increased pressure to rectify the situation. Vonovia acts

between the political and social spheres in this tense environment, although the political framework is having an ever greater impact. We respond to these developments by forming individual agreements with some cities and municipalities, which enables us to continue offering affordable homes.

Establishment in the Organization 103-2

The planning of new apartment construction either takes place via the BUWOG companies' development departments or the technical service. They are also usually in charge of expansions and conversions. In the field of portfolio and rental management, rent is calculated in coordination with the regions and hardship management processing.

Challenges, Opportunities and Risks 103-1

Providing new homes that are also affordable carries both risks and opportunities for Vonovia. This is because we are active in an area where social housing, tenancy law and social political issues are intensely scrutinized publicly.

Over the past few years, construction costs have risen significantly – partially due to the higher cost of construction materials and services, a multitude of statutory requirements and regulations, and higher land prices, taxes and fees. In addition, we must also assume time delays in both the construction approval process and in the availability of construction services due to the construction sector working at full capacity. For example, the construction of an apartment building currently takes around two years from project planning to completion. This makes it increasingly difficult for Vonovia to create affordable homes the short run. By using serial construction methods, we can counter these developments a little by shortening construction times, but not fully compensate for them.

Tenancy law is also constantly changing and impacting our operations. Stricter regulations carry the potential risk of lowering incentives to create new housing and renovate existing housing. On the other hand, these regulations also contribute to making the situation more predictable and secure for both tenants and landlords.

In our opinion, serial/modular construction methods are an important way forward as they enable us to create new homes. The lower level of disruption that these construction methods cause for residents also increases acceptance for new construction and densification further in society. Nevertheless, the company still faces challenges. Individual local building regulations make the building process and adaptation of modular systems more difficult. Wooden hybrid construction properties, for example, cannot be erected in all federal states as intended due to different fire protection requirements. In addition, the requirements that apply in terms of accessibility have an impact on the modular concept and, as a result, on the construction costs.

Objectives, Measures and Indicators

103-2, 103-3, 203-2

We make use of a variety of options to keep costs as low as possible for our tenants when providing new affordable homes that meet society's needs. Alongside voluntary agreements and obligations, these include the exploitation of economies of scale, lowering construction costs by deploying serial construction methods and conversions in existing stock to meet needs.

Rent Cap Agreements

One of the first successful steps we have taken in restricting the burden on our tenants is the cap on allocable costs for modernization services. The intensity of the public debate surrounding rent increases as a result of modernization measures has shown the importance of this issue. Vonovia has thus pledged:

- > not to conduct modernization work in the future that would add more than two euros per month to the tenant's basic rent per square meter,
- > to ensure that our customers can stay in their homes, and
- > to investigate hardship cases individually and actively look for solutions.

Including our tenants at an early stage is important in this regard. By doing this, we aim to ensure that measures that increase the value of our stock and environmentally friendly refurbishments are still carried out, i.e., that we can ensure that we meet our responsibilities for climate protection measures.

A second element is the demand for homes. An increasing number of our homes are losing their social housing status. Whereas back in 1990, there were still around three million apartments classified as social housing in Germany, this figure is set to have fallen to around one million by 2020. Around 10% of Vonovia's homes are subject to social housing pricing restrictions. While there are now set rules in place for new constructions regarding rental price and occupancy-controlled homes – for instance, the Berlin model for cooperative building development sites, where 30% of the floor space must be occupancy controlled – there are usually no new regulations for existing properties. However, in many housing markets, Vonovia comes to voluntary agreements or finds individual solutions with cities and municipalities that also include new commitments for existing properties – and thus exceeds the statutory laws in many locations. We communicate with mayors, municipal authorities as well as tenants' associations (see Open Dialogue → p. 28 et seq.).

Achieving Economies of Scale

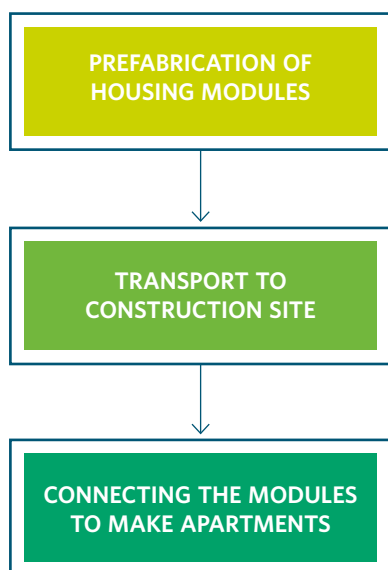
Vonovia primarily achieves economies of scale through standardized processes and the scale of the organization. This enables us to generate cost advantages in the management of the portfolio and the procurement of services, which we pass on to our tenants through lower ancillary expenses, for example. We also apply standardized processes when investing in existing properties and use the same materials wherever possible for maintenance and modernization measures. This allows us to buy in bulk, which means we receive the materials at special conditions, for instance, in the form of a lower purchase price or a better quality standard for the same price.

New Construction, and Serial Planning and Construction 102-15, 413-1

Vonovia wants to offer homes that are affordable to a broad section of the population. In order to ensure that we can, we must keep construction costs low. Serial planning and construction make this possible. In this context, we do not set up individual projects to plan construction activities, but rather use systematic, standardized serial processes and then divide the planned homes into individual modules. This enables to reduce the costs and construction times considerably while also guaranteeing uniform quality standards. The shorter construction periods also

allow us to reduce the noise pollution and dirt that the residents are exposed to.

Modular approach for new construction work:



The fact that Vonovia has a large amount of land and potential for vertical expansion, even in central locations, continues to have a positive impact as it means that there is no need to acquire expensive building plots.

The individual building regulations in different federal states mentioned above make the serial approach to construction, which we apply to reduce construction costs, more difficult. In order to meet the challenges that these circumstances pose, we work closely with politicians and municipalities as well as building authorities. We invest a lot of time in long-term and detailed planning.

The public debates in the reporting year have shown that including citizens in construction measures is becoming increasingly important if the measures are to be implemented successfully. Vonovia therefore takes the approach of including tenants and other stakeholders in the planning of new construction measures or vertical expansion and takes on board their ideas, views and suggestions. For example, we speak to local advisory boards and tenants' associations early on and organize regular informational events. Where appropriate, we also bring in mediator support to deal with particularly complicated cases.

In 2018, we began and completed several serial construction projects in all our regions in Germany, such as two apartment buildings with steel modules in Wiesbaden and

a new building using reinforced concrete modules in Dresden.

In 2018, the construction of more than 1,000 new apartments began, some of which have already been completed. We are maintaining the high level of our investment program and will once more invest approximately € 1.3 billion to € 1.6 billion, primarily in energy-efficiency modernization and new construction. We aim to expand the range of tasks completed by our technical service and to deploy technicians for interior work in coordination with partner companies.

Needs-based Conversions and Extensions 102-15, 413-1

The increasing changes in housing needs presents the housing industry with the task of adapting homes – even and particularly existing stock – to meet people's needs. Alongside the fact that the German population is aging, there is additional demand from the rise in one and two-person households. This development is fueling the need for apartments to accommodate smaller households. Many of these apartments require fully accessible fittings and entry in order to enable elderly tenants to stay in their homes for as long as possible. Virtually no other aspect is as important to maintaining quality of living as remaining in your own home – even if care is needed.

To us, fully accessible means:

- > that apartments can ideally be accessed by elevator,
- > that thresholds and steps are leveled out and there are no floor level differences exceeding two centimeters, and
- > that wider entry and internal doors are fitted along with walk-in showers and accessible wash basins.

Our new constructions usually contain fully accessible features that exceed the statutory requirements, and during modernization measures we review the potential for improving accessibility. Our measures also include communal areas, where we widen entry doors or ensure there is separate space for storing walkers and other aids, for example.

We strive to meet changing needs, for instance, by conducting adequate senior-friendly conversions, establishing residential communities supervised by nursing assistants or offering elderly tenants support in their everyday lives.

We are testing models in Essen and Berlin, which we will roll out to other locations in future should they prove successful.

For our model project in Essen, we have established a supervised residential community for people suffering from dementia, where the people live together in one home and receive external care and support services. For this, four apartments, now inhabited by ten people with senile dementia who help each other in their daily routines, were joined together and made fully accessible. Responsible for this “Demenz-WG” (shared apartment for people with senile dementia) is the home care service provider Humanika. This manner of cohabitation offers elderly people and people with dementia the opportunity to live together and grow old on their own terms and to deal with their increasing need for care.

In the Reinickendorf district of Berlin, Vonovia is working on a neighborhood with a social project that focuses on the cohabitation of different generations. 145 senior-friendly and fully accessible one to two-room apartments will be created in two tower blocks – right in the heart of the neighborhood. In addition to precise floor plans, fittings such as automatic entry doors, larger bathrooms with non-slip flooring and handles, central power supply disconnection, special electricity sockets and built-in cupboards in the hall with room to store walkers are also included. We are also cooperating with the association “Johanniter Unfall-Hilfe,” with whom we have created a concept for neighborhood meetings. The aim is to enable people to live independently in their own homes in a supportive environment, even in old age. Various everyday support services, including a pharmacy and laundry service, home care services, on-call emergency doctors, a meal delivery service and group activities such as trips, cooking together and memory training, are all designed to foster participation and higher quality of living.

Neighborhood Development

☒ 102-15, 103-1, 103-2, 103-3, 413-1

Management Approach 103-1

Vonovia believes that all areas in which it has large contiguous groups of buildings offer particular opportunities for sustainable development. These neighborhoods provide us with the opportunity to implement both construction and social measures. This brings with it a special responsibility, and the necessity of working with other players in urban society as partners. After all, developing entire neighborhoods is a project that requires the participation of many different people and stakeholder groups. Our aim is to cooperatively contribute to making our neighborhoods diverse and open spaces that people can identify with and where they can enjoy a high standard of living.

The holistic development of our neighborhoods is one of the areas that offers the greatest development potential for Vonovia. Neighborhood development includes key measures extending beyond modernization and maintenance to include the creation of new homes using new construction and vertical expansion measures, as well as measures to shape the residential environment.

We aim to develop entire areas of towns and cities with our holistic approach to neighborhood development by working with buildings within the same area, their surroundings and local districts. We take both economic and social criteria into consideration and are committed to diverse social issues. The goal of this is to achieve an increase in the value of our property portfolio, which in turn is reflected in visible improvements for our customers in the attractiveness of the living space and the neighborhood alike.

The early inclusion of stakeholders in planning and decision-making processes allows us to record differing interests and to boost acceptance of our activities through targeted communication and participation measures.

Terms such as “living neighborhoods” or “neighborhoods worth living in” show that quality of living is increasingly

being associated with life at a neighborhood level. As a result, neighborhoods are moving into the spotlight of the housing and real estate industry. In many respects, however, there is still a lack of sound research findings. In order to change this, Vonovia SE is sponsoring a professorship for “Neighborhood development, in particular residential living within the neighborhood” at the EBZ Business School – University of Applied Sciences. The aim of the endowment professorship is to research which parameters contribute to successful and forward-looking neighborhood development and what role residential real estate companies can play in this process.

Establishment in the Organization 103-2

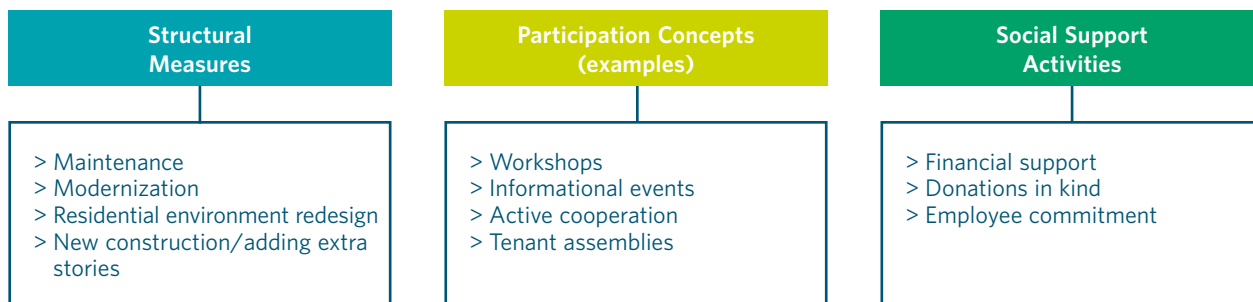
Regional responsibility for neighborhood development lies with the regional managers, who coordinate measures with the regional managing directors. The measures are increasingly implemented by our own neighborhood developers on site, which allows us to deal with special issues that come up as needed. Our portfolio and tenant management department provides centralized support for neighborhood planning.

The investment measures are bundled in a neighborhood development plan spanning a period of several years and expanded to include further measures. These measures comprise infrastructure improvements, urban development issues and the realization of fully-integrated energy concepts and social and environmental measures.. These components are given due consideration right from the planning phase of the development projects of the BUWOG companies.

Challenges, Opportunities and Risks 103-1

The development of our neighborhoods is accompanied by a number of diverse social factors. Modernization and densification measures are becoming increasingly important in countering the scarcity of homes, yet acceptance is sometimes lacking for these measures. The inclusion of all

Neighborhood Development Measures



stakeholders, especially tenants and municipal politicians, is a considerable challenge, but also one of our most important tasks. We are convinced that we can mitigate associated risks and lead cooperative discussion with active communication and by including tenants.

By providing a positive image of neighborhood development work to raise acceptance, we are taking the opportunity to increase general customer satisfaction further, establishing ourselves in the town's local society and contributing to the sustainable development of entire areas of towns or cities.

Finding the right balance between investment, economic viability and the affordability of homes remains important to Vonovia in its large-scale neighborhood development projects. We counter these challenges by making voluntary commitments or by utilizing public funding.

Objectives, Measures and Indicators

103-2, 103-3

Eleven neighborhoods were developed across Germany in 2018 as part of the neighborhood development investment program, affecting approximately 6,800 apartments. We have already identified potential projects and needs beyond this, and in the next few years will help numerous tenants by conducting further neighborhood developments. In addition to structural measures to improve the quality of living long term, this will also include social projects that promote a sense of community and interaction within the neighborhoods. We hope to give our older tenants the opportunity to stay in their homes as long as possible, while also promoting a sense of community and the diversity of our tenants.

You can find out more about our neighborhood development approach in the management report in our 2018 annual report (see chapter Non-financial Declaration [AR 2018, p. 77 et seq.](#)).

Construction Measures and Mobility Concepts

Investments are planned for the long term. The structural measures will be complemented by further measures, such as infrastructure improvements for demolition activities that may be necessary, the realization of holistic energy concepts and urban development issues.

The residential environment plays a key role in Vonovia's neighborhood development measures, in particular. Residential environment measures such as the creation of new green spaces and playgrounds, as well as moves to design neighborhood centers outside of buildings to provide residents with a place to meet up and communicate can, in the short term, help to increase the acceptance of renovation measures and, in the long term, create real added value for tenants. Particularly in urban environments, the issue of spaces for relaxation is becoming an increasingly important factor in terms of how people assess their quality of life, and will continue to do so in the future.

Projects such as the establishment of communal gardens for tenants can also make a positive contribution to fostering social development, particularly in neighborhoods facing cultural challenges and a difficult environment.

As part of the construction work in developing residential surroundings, mobility concepts, which we implement in partnership with towns and municipalities, are gaining in importance. In Munich, for instance, concepts such as car sharing are applied to the number of parking spaces, enabling the overall number to be reduced. We intend to add e-scooters, e-bikes and cargo bikes to our concepts and hope to encourage more towns and municipalities to apply such mobility concepts to their construction planning.

You can find an overview of structural measures taken in this sustainability report in the chapters Portfolio

Maintenance and Tenant Health and Safety → [p.43 et seq.](#), and Creating Living Space and Affordable Rents → [p.46 et seq.](#)

Participation Concepts

When implementing neighborhood measures we often have to take a number of diverging interests into consideration. The active involvement of residents, public interest groups and other stakeholders in the neighborhood as well as the cooperation with towns and municipalities will help identify solutions to create neighborhoods worth living in. In this way, our tenants are involved in designing the residential environment (for example, in tenant workshops, allowing them to actively contribute to facade and playground design, route/pathway design, etc.), among other things. Participation and extensive communication involving all partners is a key component for the successful implementation of large neighborhood development projects. We do this through a number of measures. Examples are provided in the following neighborhood developments:

Berlin-Tegel (Ziekowkiez):

- > Completion of a social agreement with the Reinkickendorf district of Berlin. Main points of the agreement:
 - > Social acceptability of the modernization through a cap on the modernization cost allocation at €1.75 on basic rent per square meter and consistent consideration of social hardship,
 - > exclusion of rent increases in the first five years following modernization work,
 - > establishment of tenant contact hours and a fixed contact on site,
 - > inclusion of the agreement in every lease agreement.
- > Opening of community center „JOVO-Treff“ for seniors in cooperation with Johanniter-Unfall-Hilfe e.V. in June 2018, including a big party for the tenants.
- > Information event in November 2018 at Reinickendorf town hall to provide information to tenants and residents, and to give a complete overview of the planned work and the social agreement.
- > Opening of a “Kiezschau Fenster” (shop window for the area) with local contacts and presentation of a 3D model of the planned measures; providing informational material and opportunities for direct participation (e.g., notice board for residents to post requests and suggestions).
- > Employees of Vonovia and Zebralog, our communication and participation partner, conducting hundreds of “Haustürgespräche” (chats on the doorstep).

> Zebralog creating a comprehensive participation concept and experienced professional planners created a comprehensive mobility concept.

> Creating a social infrastructure with senior-friendly apartments, new childcare centers, planning for new local amenities and new parking space rental.

> Workshop planning for tenant participation in 2019 for residential environment and mobility.

Hamburg-Wilhelmsburg:

> On-schedule start to construction work – the first 15 loft apartments in the shell were completed by the end of 2018.

> Opening of a meeting point for social and cultural interaction in October in partnership with Schotstek e.V., a non-profit organization in Hamburg, and providing customers with a migration background with offers for certain occasions, such as tutoring, language courses, kids’ programs, talks and concerts – from March 2019, offers are set to be made available continually.

> Discussions with the “Mitte” district office regarding a leisure space and traffic concept aimed at freeing up leisure spaces and designing them in such a way that they make neighborhoods more lively.

> Supporting the cultural district festival “48h Wilhelmsburg” in June 2019.

Social Support Activities 413-1

It is the local people who are committed to the neighborhood initiatives, social institutions, associations and cultural institutions that shape our neighborhoods. But each neighborhood is different and has different requirements and faces different challenges – e.g., access to education may be lacking, or the neighborhoods lack cultural institutions, or there is no interaction between the different age groups.

This is why Vonovia cooperates with local social and state institutions such as daycare centers and schools, welfare organizations and other social agencies, and charitable and cultural institutions. Our business areas also support specific local projects and initiatives. We base our conduct in this area on our donation and sponsoring guidelines and support projects that promote community, education and culture, and thus contribute to the development of our neighborhoods. We differentiate in three categories: financial support, donations in kind and our employees’ personal commitment. These categories are not always clear-cut, as a combination of categories is often employed.

The objective of all these measures is to provide neighborhoods in which we have portfolio properties with the support that they need and help them develop. However,

the impressions of those involved are collected for further use during feedback and discussion rounds.

The following two examples are just a small sampling of our many activities.

Frankfurt Praunheim:

- > The construction of 36 new residential units, seven of which were publicly funded and are reserved for families with a right to rent-controlled homes.
- > Financial support for the "SAZ-ROCK" youth center of the quarter.
- > Diverse activities, regular homework assistance and advice, access to PCs and internet as well as educational projects.

Kiel Gaarden Ost (Gustav-Schatz-Hof):

- > Social community project in collaboration with the Frank Group, which operates a community center through Diakonie Altholstein, to strengthen the sense of community between different groups of the population and to promote dialogue.
- > Focus on cultural exchange across different generations
- > Linking assisted living and care offers with open migration and senior citizen work, targeted help with integration for residents with a migration background, advice and assistance for struggling households, public events and mediation.
- > Coffee meetings, play and crafts afternoons, group events with AWO Kinderhaus, crafts groups and memory training for senior citizens, seminars, religious celebrations and summer festivals.

Oberhausen (Friedrich-Karl Straße):

- > Focusing on the promotion of social interaction within the property with social and art projects and implementation of a „vertical development of the quarter“ to develop security and quality of living from within.
- > Cooperation with the artists' collective (Kultur im Turm e.V.) and joined implementation of diverse projects:
 - > Rent-free use of three apartments used for projects (language tuition, art projects, musical events, seats from ads) for kitev
 - > Implementation of the project „Refugee's Kitchen“
 - > Light installation „Vielfalt ist unsere Heimat“ - Glück-auf! (diversity is our home - ayeup!) On the roof
 - > Planning of a concierge service for the barrier-free conversion of the the entry hall and other additional construction measures.

In addition to neighborhood development, which is planned and implemented at a local level, Vonovia also centrally organizes its own select projects:

- > **Vonovia Photo Competition:** Vonovia Photo Competition: Vonovia organizes an annual photo competition with the theme of "home." The prize money amounts to € 42,000 and is divided into three main prizes and one new talent award. The award is aimed at professional photographers and up-and-comers. An independent jury chooses the winners, with experts from the areas of photography, journalism, art and teaching as well as the real estate industry. In its second year, the competition has already established itself as one of Germany's most important photography competitions.

🔗 <https://award.vonovia.de>

- > **VfL Bochum:** Our company has a particular attachment to Bochum: the local stadium is named the Vonovia Ruhrstadion and is the home of second-division VfL Bochum and our "living room". The club and Vonovia will also work on a number of other joint activities as part of the cooperation. Vonovia will, for example, support VfL Talentwerk, the club's youth training program. And in 2019, a number of football camps for kids will be held in partnership with the football school.

🔗 www.vfl-bochum.de

- > **Foundation Work:** Vonovia also uses foundations to show its social commitment by providing support to tenants, the rental environment, and in cases of social hardship. The company is currently involved in four foundations: Vonovia Stiftung, Vonovia Mieterstiftung e.V., Stiftung Mensch und Wohnen and Stiftung Pro Bochum 🔗 www.vonovia-stiftung.de

You can find out more about our social commitment work in our 2018 annual report and at 🔗 www.vonovia.de. (see chapter Non-financial Declaration 🔗 [AR 2018, p. 78](#))