



Global Equities case study:

Vonovia

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CASE STUDY: Vonovia

Based in Bochum, Germany, Vonovia manages, leases and sells residential real estate.

Employs more than
10,000
people 

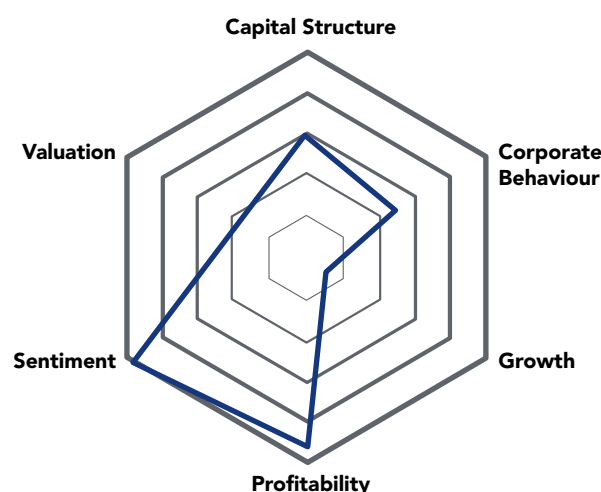
Owns around
415,000
residential units in cities and regions
in Germany, Sweden and Austria 

Within our Global Equities portfolios, we like stocks with robust financial statements, competitive strength and a proven ability to consistently beat revenue and earnings expectations. Ideally, these companies should also be guided by impressive management teams, mitigate environmental, social and governance (ESG) risks and appear cheap relative to peers. As very few stocks embody such an ideal investment, we identify those with the most attractive combinations of characteristics in every market environment. One such example is Vonovia, a German real estate company which focuses on the provision of affordable housing, which we hold in our Global Equities portfolios.

A publicly listed company since 2013, sustainable business practices are core to its strategy. Vonovia offers tenants affordable and attractive homes, thanks to its innovative construction techniques and experience. Its business model allows it to provide solutions to issues facing society, such as the structural shortage of housing (which represents an attractive growth opportunity), environmental and climate protection, and supporting biodiversity, by building new, low impact, sustainable homes. It makes long-term investments in the maintenance, modernisation and senior-friendly conversion of its projects.

According to the Alpha Model – our proprietary automated analyst which assesses the attractiveness of companies in the investable universe from multiple angles over the long term – the company has improving earnings, allied to good operational efficiency, margin growth, balance sheet strength and a strong ESG profile (see Figure 1). Indeed, this is reflected in Vonovia's share price, which has risen steadily in recent years – and despite the coronavirus-induced market sell-off in March 2020, it has recovered ground and, like other German real estate stocks, it is back on a stable trajectory (see Figure 2). In the company's Q3 Income Statement, it noted that its operating business is "only marginally affected" by the ongoing pandemic, with the long-term megatrends mentioned earlier seen as the dominant forces driving its business¹.

Figure 1. Structurally sound: Vonovia ranks well on the Alpha Model



Source: Federated Hermes, as at December 2020.

Figure 2. Vonovia's share price has gained momentum in recent years



Source: Bloomberg, as at December 2020.

¹ "Interim statement for the third quarter of 2020," published by Vonovia in September 2020.

Building on solid foundations: Vonovia's approach to sustainability

Its focus on sustainability means that Vonovia believes it has an obligation not only towards its customers but its shareholders and the wider society. As such, the company is guided by three basic principles of sustainability to:

- Take economic responsibility for the company;
- Make an ecological contribution to environmental and climate protection; and
- Assume social responsibility for its tenants and the neighbourhoods they live in.

These principles are based on the laws and regulations that apply in the countries in which it operates, while national and supranational standards and agreements serve as a guide for the company's sustainability framework, including the 2015 Paris Agreement and the German government's 2050 climate protection plan. In its 2019 Sustainability Report, Vonovia also committed to focusing on the Sustainable Development Goals, specifically the goals that impact its business model. It aims to report on this process in its 2020 Sustainability Report, which at the time of writing has not yet been published.

In addition to this, Vonovia embraces ESG, regularly reviewing the impact its business activities have on these factors. Most materially, as a real estate business, Vonovia faces significant transition risk – and as investors we look for companies leading in this area, with strong policies, processes and the strategic incorporation of climate change impacts. Indeed, Vonovia meets such criteria. From an environmental perspective, the company is a supporter of Germany's climate goals and its approach targets three areas – the modernisation of its existing portfolio to boost energy efficiency; energy optimised design using new construction

techniques and high energy efficiency standards; renewable energy initiatives, including solar panels, green electricity suppliers and electromobility charging points; and biodiversity, where its efforts include the establishment of 100 insect habitats in 2020, the creation of wildflower meadows spanning around 100,000m², the plantation of 1,000 climate-resilient large trees and the maintenance of about 14 million m² of green spaces².

From a societal standpoint, Vonovia seeks to provide affordable housing, by using innovations, such as modular techniques to cut down the cost of construction, while energy saving measures make their properties more affordable on a day-to-day basis. In addition, the company works to improve properties and communal areas to make them accessible for all, particularly aging populations and e-mobility, as well as supporting a variety of projects that encourage coexistence, education and culture. For example, Vonovia provides central funding for community programmes and social activities.

Finally, in terms of sustainable corporate governance, the company has identified long-term growth, corporate governance, compliance and anti-corruption, and open dialogue with society as key topics of focus. For example, in 2019, the company organised 179 tenant meetings and consultation processes, established a new partner portal for suppliers and implemented its Business Partner Code³.

Overall, these favourable ESG attributes contribute positively to our assessment of Vonovia as an investment over the long term. Companies which embed sustainable thinking in their strategies are better positioned to navigate an environment where natural capital and broader impact to society are crucial to an ongoing license to operate within the growing European housing segment.

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² See <https://reports.vonovia.de/2019/sustainability-report/environment/environmental-protection-in-the-portfolio/objectives-measures-and-indicators.html>

³ "2019 Sustainability Report," published by Vonovia in 2020.

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