

THE DEUTSCHE ANNINGTON
REAL ESTATE GROUP IN THE

First Half of 2009

- Economy recovers slightly in the 2nd quarter
- Equity situation in the banking sector remains tense
- Business performance of the Group on course for the year as a whole
- Core business segment, Property Management, provides positive stimulus
- Selective apartment sales continue
- Cutting energy consumption remains important part of our modernisation activities

“In 2009, we have set ourselves a major goal: we are turning Deutsche Annington into a customer-minded service provider. Today, we are creating the right conditions for taking customer satisfaction to a higher level to further boost our earning power. We can now be contacted nearly 20 hours longer during the week, we want to solve our customers’ problems faster and we spend much more time with our customers where they live. We have taken a great step forward in the first half of 2009. We are proud that the challenges of this fundamental restructuring have virtually all been mastered and overall our customer satisfaction is increasing.”



Major Economic Developments

Economy has recovered slightly

According to a survey of the Munich-based ifo institute, the global economic climate improved slightly in the second quarter of 2009 for the first time since the autumn of 2007. Nevertheless, the positive expectations were initially limited to the following six months. The medium-term forecast of the overall economic situation was even worse and fell to a new historic low. However, the September forecasts see the medium-term prospects stabilising – apart from the labour markets. Governments throughout the world have introduced programmes to boost their economies. Furthermore, the expansive monetary policy of the central banks is gradually having an effect. Action to stabilise the financial markets has also been taken in many countries. Last but not least, real incomes are being boosted by the sharp fall in raw materials prices. Nevertheless, a rapid recovery of the global economy is not to be expected.

The precarious equity situation of the banking sector in the USA and Europe remains a central problem. This has been caused by the fact that write-offs and value adjustments had to be made, particularly on structured securities, to an extent which has threatened the very existence of the banks.

According to the Federal Statistical Office, the German economy grew slightly again in the second quarter of 2009 for the first time since the first quarter of 2008. Price, season and calendar-adjusted, gross domestic product (GDP) increased by 0.3% as against the first quarter of 2009. Compared with the second quarter of 2008, price-adjusted GDP fell by 7.1%. Economic development in the second quarter of 2009 was buoyed by private consumption and public sector spending which increased by 0.7% and 0.4% respectively compared with the first quarter. Positive stimulus also came from building investments, which were 1.4% up on the previous quarter. As price-adjusted imports fell much more sharply than exports, the trade surplus also contributed towards GDP growth. By contrast, the general reduction in stocks had a negative impact.

Moderate development of net rents

According to surveys of the Federal Statistical Office, net rents hardly rose on a national average between 2002 and 2006. These surveys also showed that net rents have increased moderately since 2006: for example, in July 2008 net rents had only increased by 1.3% compared with the same month in the previous year. However, at 1.7%, the rents for lower-priced units are rising faster than those for other residential units (according to a study conducted by HSH Real Estate). A similar development is to be seen for apartments in big cities. Experts believe that this trend will continue. Overall, rent rises in 2009 will probably be above the forecast inflation rate of 1%.

Fewer new builds lead to gap between supply and demand

At the end of 2008, Immobilienverband Deutschland (IVD) warned of a housing shortage in the old German states. In its report, it stated that, due to slack construction activity and the steady rise in single-person households, the number of residential units vacant in some cities in the old German states had already fallen below the 1% mark. Thus, the vacancy rate was well below the turnover reserve of 2 to 3% which a functioning market needs to compensate for moves and renovation work. The IVD is already talking of a current shortage of rental accommodation. The reasons it gives are the abolition of both reducing-balance depreciation on new properties and the home-owners allowance. It believes that the current situation will not change as long as there are no incentives for building new homes.

Business Review

Comprehensive restructuring of the company successfully implemented

Last year, we started setting a new course for our business. The aim was to further increase customer satisfaction and to cut process costs by using cutting-edge technology. In the first half of 2009, Deutsche Annington introduced the new business process model step by step. The innovations range from digital tenant files and dynamic field staff management to the latest technology for our staff.

The pivotal results are, first of all, maximum availability. Alongside the repair hotline which is manned seven days a week, we have set up central tenant and service centres where we can be reached at a standard service number from all over Germany from 8 a.m. to 6 p.m. Mondays to Fridays and from 9 a.m. to 1 p.m. Saturdays.

Secondly, we have improved our service quality. Most queries can now already be settled during the first phone call. Our tenant centre is manned by trained real estate specialists. They have been given high decision-making powers and can directly access the most important files electronically so they can quickly give our customers the requested information. To achieve this, we have digitalised more than 55 million pages of paper.

Thirdly, we can react even faster to new situations. Electronic communication between central and field staff, for example, makes it possible for our tenant centre staff to enter appointments directly in the field workers' diaries while they are on the phone to the customer. The field workers can then concentrate fully on providing local tenant service without having to consult other people. Now our field workers make up to 1,100 visits to our tenants at some 650 locations throughout Germany every day. Thanks to the new workflows, in future Deutsche Annington will be much more customer-focused, more efficient and faster. Each of these improvements will further boost our customer satisfaction and business performance.

Core business segment, Property Management, proves to be stable

Property Management, the core business segment of Deutsche Annington, has developed positively despite the economic crisis and the comprehensive restructuring programme which we have initiated. In the first half of 2009, we managed to virtually match the strong results of the previous year on the Property Management side, the main contributory factor being moderate rent rises within statutory limits.

Energy conservation remains important part of modernisation work

Last year, Deutsche Annington started a modernisation programme. Around 90 modernisation and maintenance measures were carried out or planned throughout Germany in 2008 and 2009, focusing on saving energy (thermal insulation of facades, roofs, etc.) as well as improving the quality of the housing (e.g. by adding balconies). By making these investments in its housing portfolio, Deutsche Annington is increasing the attractiveness of its residential units and, not least, ensuring sustained rental income.

Selective apartment sales continued

In 2009, Deutsche Annington continued its strategy of selective sales to complement the positive performance of the core business segment, Property Management. As rents are stable to rising and the demand for property to buy is stagnating, the company's clear focus is on keeping properties in the portfolio. Given our high occupancy rates, letting is in many cases more value enhancing than selling. As a result, again this year fewer apartments are being earmarked for sale and, as planned, fewer units were sold in the first half of 2009.

Market for acquisitions returning to normal

After buying 1,364 units in 2008, Deutsche Annington has continued to look for opportunities to acquire housing portfolios. In the first half of 2009, we thoroughly examined 413 offers involving some 210,000 units. During these analyses, it became clear that prices for large residential portfolios are indeed partly returning to normal as already signposted in 2008. Overall, we believe that the high-price phase of 2005 and 2006 is over. Nevertheless, in our opinion, the bare price per square metre says little about the future profitability of the property. Therefore, we assess the quality of the units of each portfolio individually. The decisive assessment criteria for us are to what extent the residential portfolios on offer fit in with Deutsche Annington's strategy and whether their acquisition makes economic sense. The examination of the residential portfolios up for sale in the first half of 2009 has led to concrete negotiations which will be continued in the course of the year.

Crisis on financial markets has so far had no effect on financing conditions

As the financial crisis has developed, the situation on the financial markets has changed greatly. For example, the margin and equity requirements for new acquisition funding and refinancing have increased significantly. As things now stand, the financial crisis will have no effect on Deutsche Annington in the short term thanks to the favourable refinancing profile of the acquisition credit lines. We do not need to do any appreciable refinancing until 2013 apart from existing rolling mortgage loans and the Hallam securitisation. In view of the tense situation on the financial markets, we regard the loan agreements signed at the end of 2008 and beginning of 2009 as a positive sign for the continued likelihood of raising further funds. They show that the financial markets see Deutsche Annington as a reliable partner.

Responsibility

Health management for all employees

Deutsche Annington is making a special effort to strengthen its record as a family-friendly employer. Our “BALANCE 2010” project was launched in 2007 with our certification as a family-friendly company under the work and family audit “audit berufundfamilie®” performed by the non-profit Hertie Foundation. As part of this project, we are also offering a wide-ranging health management programme in 2009 (stop smoking courses, health checks, massages at the workplace, sports offers at reduced rates).

Strong social involvement

Our foundations and the company, Deutsche Annington Immobilien GmbH, invested some € 82,000 in social activities in the first half of 2009 alone. Our focus remains to help in cases of personal hardship and the sponsoring of projects and initiatives for children and young people.

In 2009, Deutsche Annington is supporting the media educational school project “Newspaper and School” (Zeus) set up by the WAZ media group. Thus, we are making a contribution toward children’s education and media competence through newspapers and the internet. In the Zeus project, school children research and write on subjects which interest them. School classes in the area in which the newspapers of the WAZ media group in North Rhine-Westphalia are circulated can apply and take part in the project. These classes then receive their daily newspaper every day for seven weeks during the project phase. The newspaper is then actively incorporated into the lessons and the school children are encouraged not just to read but also work with the newspaper as a medium and write their own reports.

In North Rhine-Westphalia, Deutsche Annington has entered into a special partnership. In order to improve the educational opportunities of the young people in our housing estates, together with the “Reading Foundation”, we offer our tenants material for developing language and reading skills in the family from the child’s first year of age. Interested families receive three different reading sets with books, painting and handicraft articles as well as information material for the parents. To make it easier for foreign families to help their children, the information material is also available in both Turkish and Russian.

Through this initiative, Deutsche Annington would like to help all children to get off to a good start in kindergarten and school and have a successful education. With the help of Deutsche Annington, the charity, Caritas, opened a disabled-friendly advice centre and a café-cum-meeting place for residents in the Hassel district of Gelsenkirchen. Deutsche Annington is providing Caritas with specially renovated rooms rent-free, initially for two years. The Deutsche Annington Foundation donated the furnishings and equipment for the kitchen and the café-cum-meeting place.