

MAGAZINE
in the Annual Report 2010



Deutsche
Wohnen

ROOM TO GROW

TO
GROW



Deutsche Wohnen

The German economy and real estate market are currently particularly attractive, especially globally operating investors are increasingly recognising the advantages offered by Germany: Its real estate market has been extremely stable for over 20 years, giving it a special status in comparison to elsewhere in the world. The best prospects are offered by the residential asset class in German metropolitan areas. Metropolitan areas are becoming increasingly attractive and important, and are a magnet for many people.

It is exactly in this area that Deutsche Wohnen, one of the leading German residential property companies, has the core of its portfolio. With a current total of 47,688 residential units – including acquisitions – and 443 commercial properties, mainly in Berlin and the greater Rhine-Main area, the company is excellently placed to participate significantly in the growth potential of the market. The focus of its operating activities is the management and development of its own portfolio, whose value is continually increasing. The continuous optimisation of its core holdings and strategic additions and disposals are allowing Deutsche Wohnen as a large publicly listed residential property company to grow in a sustainable and profitable manner and to play an active part in the industry's current consolidation process. The shares of Deutsche Wohnen AG are listed in the MDAX index of Deutsche Börse.

SUSTAINABLE PROFITABLE



Michael Zahn, Chief Executive Officer
Helmut Ullrich, Chief Financial Officer

“We give growth
a high priority.”

“Excellent conditions give us
plenty of room to grow.”

Deutsche Wohnen is looking back on a very successful financial year. What is on the agenda for 2011?

Michael Zahn: “We operate in the fast-growing areas of Germany and our property know-how allows us to derive the best possible value from our portfolios. We also have efficient and scalable internal processes. In short, we have shown that our business model works. And now we are focusing on growth.”

Helmut Ullrich: “The capital markets are also clearly recognising the trust placed in our business model. Our market capitalisation increased significantly in the last financial year by 56%. In addition, the change in the shareholder structure resulted in an increased free float and a higher liquidity of our share. We were delighted to be included in the MDAX in December. These are positive parameters that boost our efforts to attract new capital – capital that we need for future growth.”

Which markets are you targeting for future growth?

Michael Zahn: “For years we have been witnessing fundamental demographic changes in Germany; some rural areas are being depopulated, while the attractive metropolitan areas are growing. Therefore, we will continue to cut back on our portfolio holdings in peripheral locations while also seeking to achieve operative and strategic growth in areas such as Berlin, the Rhine-Main region and the Rhine-Neckar region. We look very closely at what the market has to offer. But we do not take action unless a portfolio or strategic investment really fits in with our plans. Sheer size is not our goal.”

Are you in a position to achieve these ambitious plans?

Helmut Ullrich: “All the key figures for the valuation of a property company improved yet again in 2010. Ahead of time, and as the first large company in the industry sector to do so, we have settled practically all of our refinancing issues up to 2015. This has allowed us to optimise our interest rate structure, so that debt capital costs will start to fall sustainably from 2011. We are in the best possible position with regard to financial matters and capital market issues.”

Michael Zahn: “And we have a very strong management team. Even with a rationalised and trimmed-down personnel structure, we place great emphasis on apprenticeship, and many of our former trainees now work in management roles within the company. Even without state regulation, we already have a quota of female employees of over 60% within the company, and of 44% in management positions. From a strategic and operational point of view, we are well prepared for the future in every aspect.”

room to



With plenty of room to grow, Deutsche Wohnen AG has an excellent position in the attractive residential real estate asset class in the most stable economy in Europe.

The German residential property market provides investment opportunities in metropolitan areas in particular and is noted for secure cash flows and stable yields with low risks. Especially prime locations with rising residential demand are increasingly attractive for investors. Deutsche Wohnen has a high-quality residential property portfolio in these fast-growing areas. Deutsche Wohnen will grow profitably under these favourable market conditions and continue to build on its strengths by applying professional asset management and making strategic acquisitions.

4

room
for prospect

The German economy has proven its stability during the crisis and is back on a growth course.

10

room
for substance

Residential property is an ideal asset class due to the sustainability of its value and the protection it offers against inflation.

18

room
for development

Demographic developments and migration to fast-growing metropolitan areas are generating increased demand for additional residential units.

28

room
for achievement

Deutsche Wohnen pursues its goals in a targeted manner with a stable business model and takes opportunities as they arise.

Room for prospect Growth and a leading role in the global economy make Germany currently one of the most interesting countries for property investment.

form

follows



function

Louis Sullivan, Chicago School

Our solid business model has proven itself during the crisis. The **economic upturn** offers us numerous forms of growth.

THE GERMAN ECONOMY
IS THE PRECURSOR FOR
ECONOMIC GROWTH IN
THE EUROZONE

Gartenstraße, Neustadt



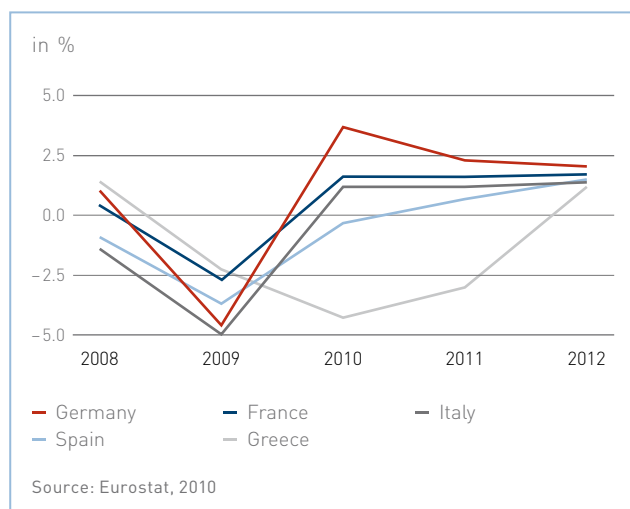
COURSE GROWTH

Germany is emerging from the crisis with sustained strength

Germany, the home market of Deutsche Wohnen AG, is emerging from the crisis with sustained strength. Initial calculations by the German Federal Statistical Office show that Germany's price adjusted gross domestic product (GDP) increased by 3.6% in 2010. The German Institute for Economic Research in Berlin (DIW Berlin) forecasts growth for the German economy over the full year 2011 of 2.0%. After the deepest recession in the post-war period, the German economy is thus already on an upswing and is leading other countries in the eurozone by an impressive margin. Recovery in Germany took hold much earlier than in most other advanced economies. The increase in real gross domestic product in 2010 was in fact likely among the highest of all the G7 countries.

THE GERMAN
ECONOMY HAS
PROVEN **STABILITY**
DURING THE
CRISIS AND IS
BACK ON A
GROWTH COURSE

Growth rates of real GDP in Europe



Heterogeneous developments in Europe

In comparison with Germany, the economic situation in the other countries in the eurozone was quite mixed and consistently weaker. Over the course of 2010, the imbalances within the eurozone continued to increase. For example, the range of GDP growth in the second quarter of 2010 varied between +2.2% in Germany and -1.8% in Greece. Consequently, it was the export-oriented economies in the eurozone that profited in particular from the recovery in world trade. Whilst private consumption was able to generate growth in Germany, this was not the case throughout the entire eurozone. Though the average unemployment rate in the euro area is around 10%, but with a rate of nearly 20% Spain in particular is pushing the overall average up. The forecast for economic growth across the whole eurozone for the year 2010 is around 1.7%, and 1.4% for 2011.

Emerging markets dictating global economic growth

After a strong first half-year, the recovery of the global economy slowed during the course of 2010. Growth in global production of 3.7% is forecast for the year 2010; in 2011 it is expected to expand by 2.8%. Once again, this is primarily due to emerging markets, with China leading the way.

Key figures on economic development in Germany

Changes in % as against previous year ¹⁾	2008	2009	2010 ²⁾	2011 ²⁾
Private consumption	0.7	-0.2	0.1	1.4
Public (state) consumption	2.3	2.9	2.8	1.2
Gross investments	2.5	-10.1	5.7	3.3
Equipment	3.5	-22.6	8.9	5.8
Construction	1.2	-1.5	3.7	1.5
Other facilities	6.5	5.6	5.9	5.2
Gross domestic product (GDP)	1.0	-4.7	3.6	2.0
Active population ³⁾ (in thousand people)	40,276	40,271	40,365	40,595
Unemployed population (in thousand people)	3,268	3,423	3,234	2,934
Unemployment rate from German Federal Employment Agency ⁴⁾ (in %)	7.8	8.2	7.7	7.0
Consumer prices ⁵⁾	2.6	0.4	1.1	1.6

¹⁾ Price-adjusted information
²⁾ Institute forecasts
³⁾ Incl. inbound commuters, excl. outbound commuters
⁴⁾ Unemployed as % of civil population in employment (as defined by German Federal Employment Agency)
⁵⁾ Consumer price index (2005 = 100)

Sources: Eurostat, Statistische Ämter der Länder, Bundesagentur für Arbeit, institute forecasts, 2010

High export levels driving growth

German economic growth was supported in particular by the increase in exports (+15%) and investment activity (+5.7%). Even if the growth rate slows somewhat in the future, mood indicators remain at a high level and are supported by rising order books in industry. In addition, the ongoing improvement on the employment market indicates continuing expected growth for companies.

German domestic economy taking off

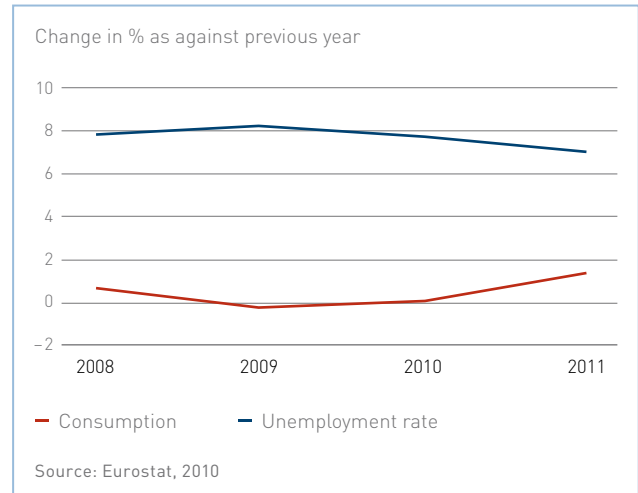
Independent economic institutes expect the economic recovery to continue in 2011, though the pace will be noticeably slower than in 2010, mainly due to weaker foreign demand. However, at the start of 2011, relatively low unemployment and minimal price increases are likely to contribute to dynamic consumer demand. At the same time, growing capacity utilisation will boost investment activity. In the coming year, domestic demand in Germany will provide the basis for noticeable growth in production.



Germany's recovery from the crisis has been met with general admiration, also in particular due to comparatively stable developments in the employment market. Furthermore, Germany is increasingly regarded as **an engine for economic growth**, and if there is any criticism at all, it is of the almost overwhelming international competitiveness, combined with the challenge of converting successful export activities into stimulus for domestic demand.

Jahresgutachten Sachverständigenrat, 2010

Unemployment rate and consumption in Germany



Employment market boosts private consumption

The pleasing development of the employment market in 2009 and 2010 was a surprise to many and is receiving great recognition from abroad. Although in 2009 the OECD had forecast 5 million unemployed in Germany for the year 2010, the actual number in October 2010 fell below 3 million. The unemployment rate of 7% is therefore lower than the annual average before the deepest recession of the post-war period.

Positive employment figures, together with only slight price rises, are leading to growth in private consumption. Real available income is expected to increase by about 1% in both 2010 and 2011 and will thus provide a boost for private consumption. The average savings rate is forecast to be over 11% for 2010, but is anticipated to fall somewhat during the course of 2011. However, despite recent growth in consumption, average private consumption is likely to stagnate in 2010. In 2011, on the other hand, private consumption is expected to see a strong increase of 0.6%.



The economy's engine is running **robustly** and smoothly.

Hans-Werner Sinn, at the presentation of the October Ifo Business Climate Index, 22 October 2010

GERMANY IS **ESPECIALLY** DISTINGUISHED BY: STABLE SOCIAL CONDITIONS, DOMESTIC SECURITY, GOOD INFRASTRUCTURE, HIGH LEVEL OF DIRECT INVESTMENT FROM ABROAD.

STRONG

Investment in construction increases by 3%

The economic recovery combined with backlog effects is also leading to strong growth in investment. Capital expenditure for equipment recovered considerably in the first half of 2010. However, despite a rise of around 6% as against the first half of 2009, investment in machinery and tools was still around 20% lower than before the crisis. Investment in construction projects also intensified during the course of 2010. Growth of about 3% is expected for 2010; in 2011 it should be around 1%.

Economic policy lays groundwork for future growth

The economic recovery in Germany is supported by an economic policy of moderation, creating a framework that allows the German economy to take advantage of future growth opportunities. Germany already has very stable social conditions, good domestic security, a sound infrastructure and a high level of direct investment from abroad. These structures, which were built up over decades and modernised over time, provide the basis for the current economic upswing.

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Yes, I think so. The Americans in particular are envious of our economic strength, which is primarily based on strong industry and intact social partnerships. Unions and employer associations work together constructively – despite differing views and opinions. We have an intact social system and are technology leaders in many sectors.

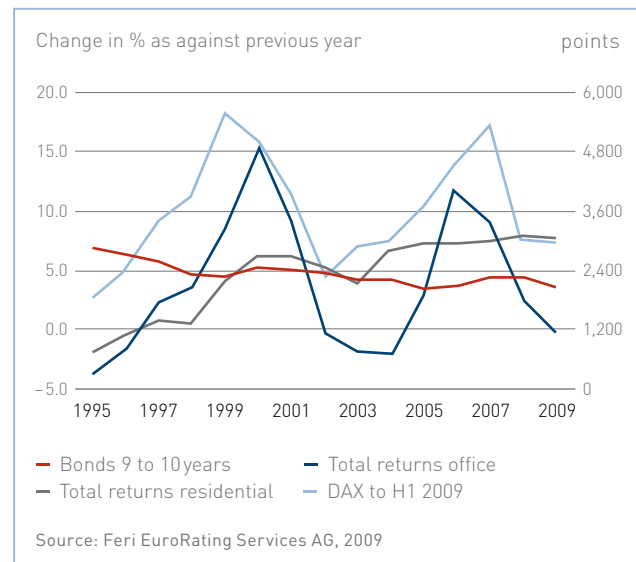
Thomas Straubhaar, renowned economist, on the question “Order books in many industries are full, exports are booming, unemployment is under three million – is the German economy a role model for the whole world?”

Interview with Hamburger Abendblatt, November 2010



Voelklinger Weg, Frankfurt/Main

Comparative performance Germany



weniger ist

M+

mehr

RESIDENTIAL PROPERTY
IN GERMANY OFFERS HIGH
SECURITY OF RETURNS

We **focus** on attractive residential property in fast-growing areas of Germany.

Ludwig Mies van der Rohe



Hufeisensiedlung Britz, Berlin

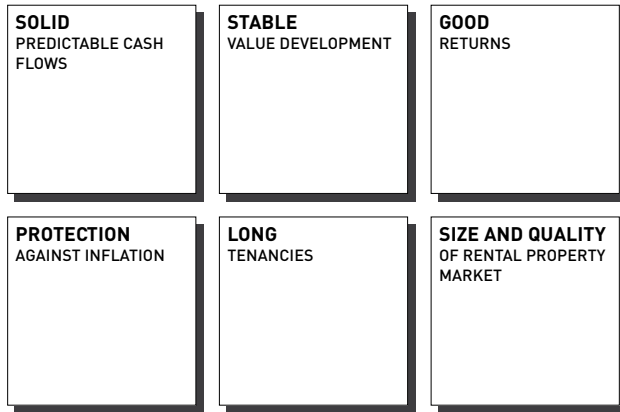
Room for substance

Residential properties in good locations are regarded as stable in value, whilst those in excellent locations are considered a value-enhancing investment.



Weißer Stadt, Berlin

RESIDENTIAL PROPERTY ASSET CLASS IN GERMANY



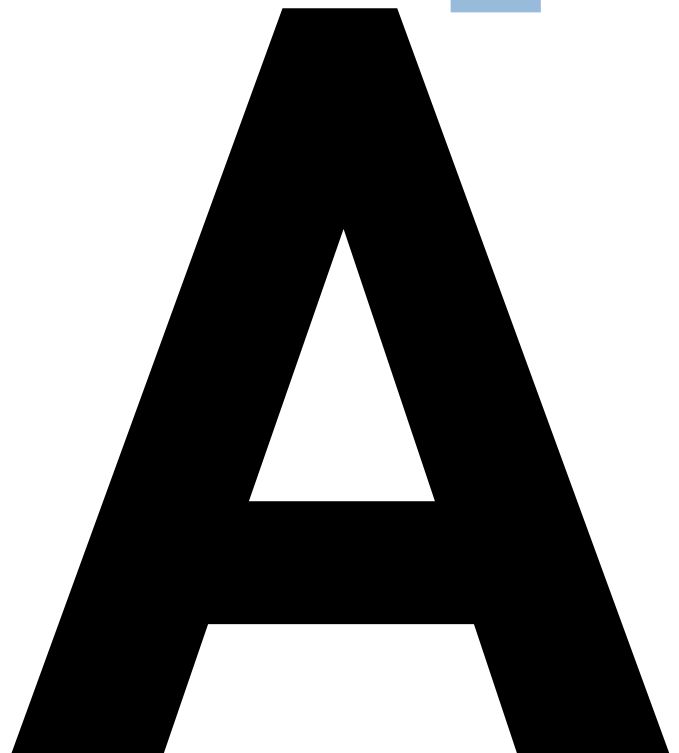
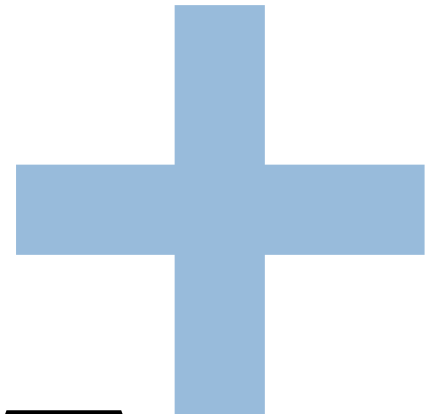
DUE TO ITS STABLE
VALUE AND PROTECTION
AGAINST INFLATION,
RESIDENTIAL PROPERTY IS

AN IDEAL ASSET CLASS

German residential property market particularly attractive in international comparison

International property markets have been subject to strong fluctuations in recent years. In 2009 the residential property market in the eurozone, for example, showed the strongest fall in house prices since the early 1980s. However, from a historical perspective the general level is still relatively high. Developments in some market sectors are still quite mixed: while prices in residential property markets in Ireland and Spain have fallen significantly after a very strong rise, the German market has been extremely stable for more than 20 years. It therefore has a unique standing in international comparison.

Research carried out by Deutsche Bank also concludes no indication of overvaluation. Investment activity in the residential property market in Germany remained at a low level in recent years and there was little fluctuation in prices for residential property. This stability is also valued by institutional investors, who – at low risk – wish to profit from good cash flows, low volatility and stable returns. As a result, the German residential property market remains an attractive investment target, in particular in metropolitan areas. The situation is very different in most other OECD countries.

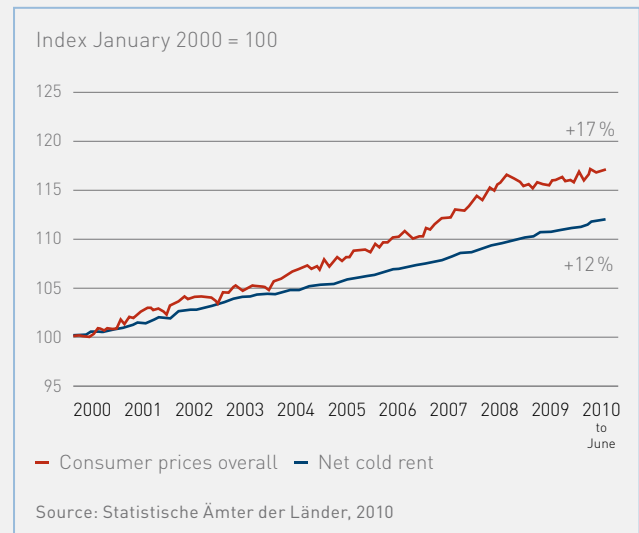


Eurozone hit by downward adjustments

In many industrial countries, the financial and economic crisis was preceded by a significant collapse in house prices. For this reason, stabilisation of the market for residential property is seen as a basic precondition for a sustainable economic recovery. The necessary correction required for this is already fairly advanced in the USA. However, it would seem that house prices in many European countries, such as Spain, Ireland, Italy, France and the UK, have remained at high levels. Residential rental prices have also been subject to strong fluctuations in those countries in past years. The situation in Germany is different: Here, house prices, before and during the crisis, saw only moderate growth, while rental prices rose continuously. Overall, residential rental prices in Germany increased between 1999 and 2010 by about 12%.

The supply side of the residential property market is also charged with risk in many countries. In the boom years between 2003 and 2007, considerably more houses were completed than in the previous five years, particularly in Spain, Ireland, Italy and Sweden. The number of completions in this period fell only in Germany and the Netherlands, meaning there was no excess supply that would have led to a subsequent fall in prices.

Change in residential consumer prices



Hufeisensiedlung Britz, Berlin



German residential market with room for more

In view of its current robust state and its perspectives, the German residential property market is undercapitalised, even though the residential segment in Germany is low-risk and offers comparatively secure cash flows and stable profits. According to the property databank IPD, returns from German residential property have outperformed yields from office property for the seventh year running. Investors polled by IPD earned average returns of 4.4% between 1999 and 2009, partly from rents and partly from value increases of the relevant properties. According to the IPD index, institutional investors in Germany earned total returns of 5.3% in 2009 alone.

Secure cash flows, low volatility and stable returns make this asset class increasingly attractive, particularly in light of the ongoing uncertain situation on the international capital markets.

Oliver Schötz-van der Hoff, Director of National Residential Investment at BNP Paribas Real Estate, Das Investment, 4 November 2010

Price-rent ratio in OECD countries

current status	15-year average	35-year average	Long-term low
USA	7.3	11.5	26.5
Eurozone	13.2	16.3	37.3
UK	10.8	33.4	102.7
Germany	-13.1	-27.7	0.0
France	26.6	35.6	77.2
Spain	20.2	12.9	45.5
Ireland	22.3	83.5	395.0
Italy	12.9	12.9	45.5
Netherlands	15.7	39.1	125.3
Sweden	54.6	67.6	161.2
Norway	34.6	57.1	152.0
Finland	24.4	43.0	115.3

Source: OECD, DB Research 2010

An increase in the key figure of "price-rent ratio" signals significant incorrect valuations in Europe, which in turn probably indicate that higher rent payments can be expected. Significant deviations in this indicator from the long-term average point to structural changes or may be seen as evidence of a bubble. This key figure is well above the average and the long-term lows for many eurozone countries, though Germany is an exception to this rule.



INCREASE OF INVESTMENT VOLUME IN THE GERMAN RESIDENTIAL PROPERTY MARKET TO

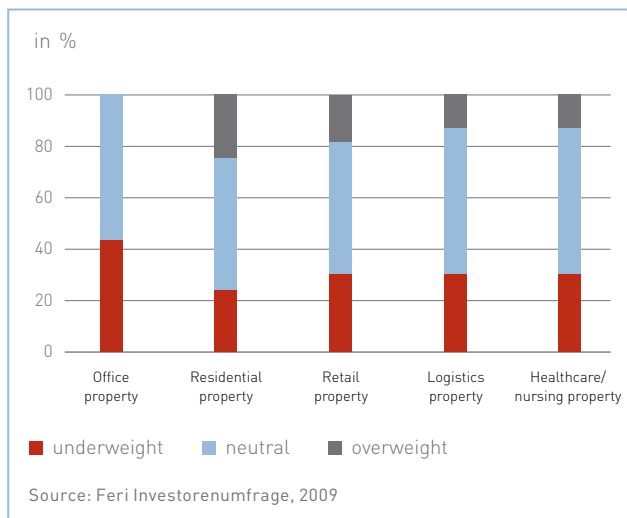


BILLION EURO

Growing interest from large scale investors

The asset class has recently become much more popular among institutional investors. These investors are becoming one of the most important demand-side groups in German property markets, as evidenced by the Ernst & Young Trend Barometer 2010. According to calculations by BNP Paribas Real Estate, investment volumes in the German residential property market increased to almost EUR 3.8 billion for the full year 2010, a year-on-year rise of 3%. Large deals above EUR 100 million accounted for 30% of total activity.

Investor poll November 2009 on appraisal of asset classes



Prices in prime locations have already risen in recent months and will continue to rise, in the opinion of poll participants. In addition, the residential property segment is performing better than the segments office property, retail property and hotels. Over the long term, it is expected that investors will focus on prime locations, with their rising demand for residential living space. On average, residential prices in Germany are expected to rise by about 1.5% in the next two years. This is bolstered by low completion figures, the rapid economic recovery, low interest rates and the interest of many investors in secure investment products.



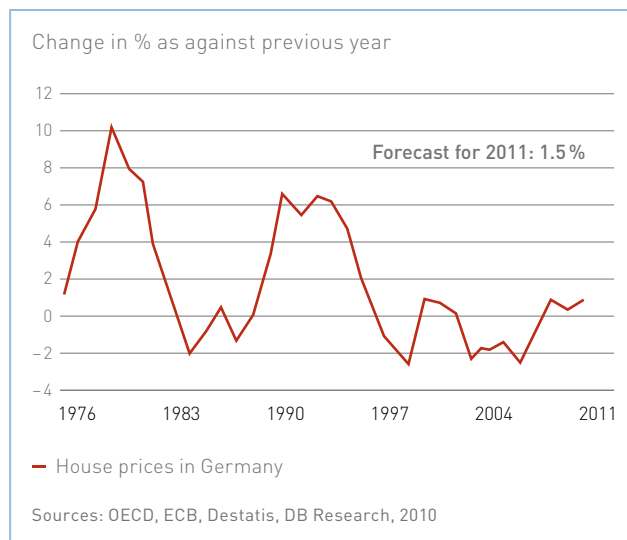
Since the start of the financial crisis, more and more investors are showing interest in buying a house or an apartment. This trend continues unabated. Worries about creeping currency devaluation are leading risk-averse investors **back to real estate**.

Tobias Just, Head of Property Market Analysis at Deutsche Bank (Wirtschaftswoche, 2010)

Niddagaustraße, Frankfurt/Main



Moderate rises in prices expected



Backlog demand among foreign investors

The current reanimation of the transaction market for residential property portfolios in comparison to 2009 is in particular due to increased activity on the part of foreign investors and companies, boosting both supply and demand in the first half of 2010. Though over 70 % of transactions in the first half of 2010 were still attributable to German investors, foreign buyers already represented the majority of large deals. Foreign investors nearly doubled their share of total investment from 20 % in 2009 to 38 % in the fourth quarter of 2010.

It is also expected that the future will see a further rise in trading of residential property portfolios in Germany. According to a study by Ernst & Young, one reason for the increasing interest from foreign investors is that asset management of residential property is becoming increasingly professionalised, placing a return orientation at the forefront. The issue of sustainability is, however, also becoming more important for investors.

Pending investments require high capital commitments

Residential property is faced with substantial demographic and ecological challenges. The renovations necessary to make buildings energy-efficient or to provide barrier-free living space require immense levels of investment, which can scarcely be funded by the industry itself. The basis for future growth is thus formed by refinancing through private capital; all companies face international competition in this area. Yet residential property seems to have profited from the financial markets crisis. Above-average credit ranking and collateral security of this economic segment in comparison with other industries make it attractive for banks and investors.

Consolidation of property industry has started

Another tendency in the German property market is the upcoming consolidation of the sector. In contrast to many other European countries, there are still many small companies operating in the German market, a fact that has been seen negatively by international investors in the past. However, the trend towards consolidation is now firmly established. Initial significant transactions have already taken place, including, for example, the takeover of Colonia Real Estate AG by TAG Immobilien AG. The voluntary takeover offer was made by TAG Immobilien in December 2010. This acquisition follows on the heels of the merger of two similar-sized residential property companies, the fusion of Deutsche Wohnen AG and the Berlin company GEHAG GmbH in 2007. With further acquisitions to come.

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Though overall everyone seems to see a cooling of commercial property markets, this does not apply to a segment-specific analysis of one market sector – the residential property market. It is showing a truly **dynamic development** – whether for property at portfolio level, in the market for renovation and building, or in the rental markets in metropolitan areas.

Dr Thomas Beyerle, Aberdeen Research
(ImmobilienFOKUS, 2010)

THE RESIDENTIAL PROPERTY MARKET:

D
Y **N** **A**
M **I** **C**

D

PRIME LOCATIONS WITH INCREASING
RESIDENTIAL DEMAND
ARE BECOMING MORE ATTRACTIVE

bunt



Dardanellenweg, Berlin

We are using our **opportunities** for growth in Berlin, Frankfurt/Main and other future promising metropolitan areas.

ist meine Lieblingsfarbe.

Walter Gropius



Room for development

Away from the countryside, into the city – in the future, more and more people will move into large German metropolitan areas.

Gropiusstadt, Berlin



Germany's population is shrinking – but the **metropolitan areas** are growing.

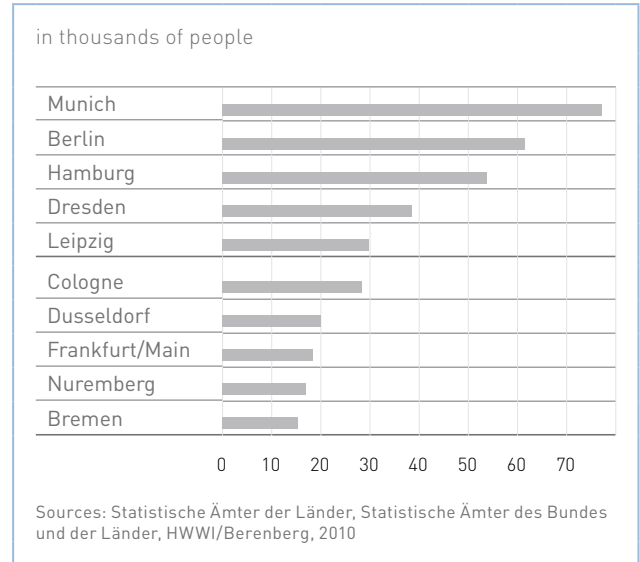
Deutsches Institut für Wirtschaftsforschung (DIW Berlin), 2010

Metropolitan areas becoming more attractive

Germany is in the midst of a substantial demographic transformation. One significant current trend is that large German cities have become increasingly attractive and significant as residential and business locations in recent years. As a result, significant migration toward metropolitan areas is taking place within Germany.

In fact, resident numbers in these areas rose by almost 3% between 1999 and 2008, though the overall population of Germany fell slightly. Young people in particular are moving to the larger urban areas. This means that the 18–25 age group in these areas is growing almost twice as fast as the German average. The differences in the 25–30 age group are even more significant, with an increase in the metropolitan areas of over 12%, while in Germany as a whole these numbers have fallen by almost 5%. The highest levels of net migration between 1999 and 2008 were achieved in Munich, Hamburg and Berlin, all of which have shown very dynamic population migration since 2005. Other German cities, with the exception of Duisburg, have also seen positive net migration trends.

Net migration from 2003 to 2009



DEMOGRAPHIC DEVELOPMENTS AND MIGRATION TO FAST-GROWING

metropolitan areas ARE GENERATING INCREASED DEMAND FOR ADDITIONAL RESIDENTIAL UNITS.

Cities profit from location decisions

Cities are becoming more and more important for the economic growth of a country. Employment growth in German cities has been higher than the national average since 1999. Location decisions by companies and employees are directly linked or even determine one another: Workers choose their place of residence and work; however, the availability of sufficient qualified workers is also a decisive locational factor for companies. For this reason positive demographic and economic developments are often linked.

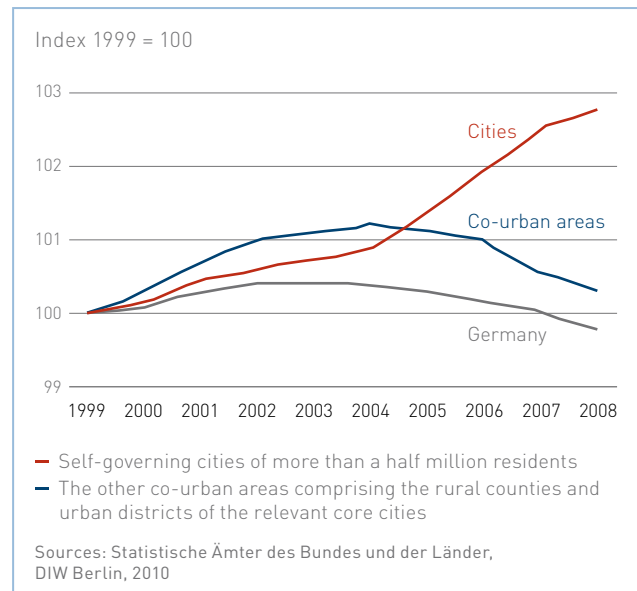
Another reason behind the increasing migration of people into larger cities may be the desire of Germans to enjoy a better quality of life, for example with regard to cultural aspects. A traditional and equally important motivation behind the migration to metropolitan areas is to take up further education, particularly at universities, with their corresponding infrastructure for young people.



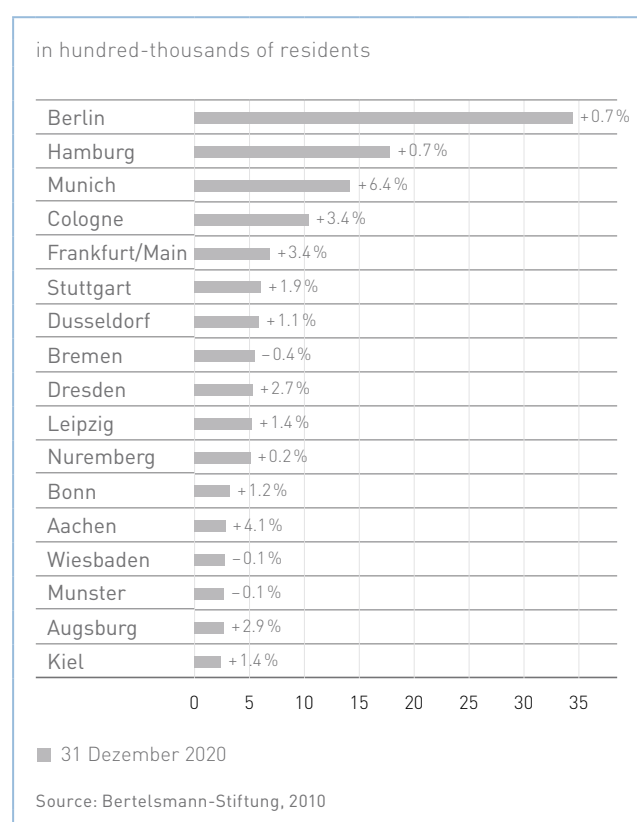
There is not one single German residential property market, but rather many different regional markets, which all show different development trends.

Tobias Just, Deutsche Bank Research, 3 September 2010

Population of Germany



Population forecast for 2010 to 2020





Berlin therefore holds **great development potential for the future and large projects** like the new airport BBI, and will ensure further growth and positive development in areas of the city that have hitherto attracted less interest.

Hermann Wüstefeld, Head of Product Development and Management for closed-end funds at DWS (Das Investment, 2010)

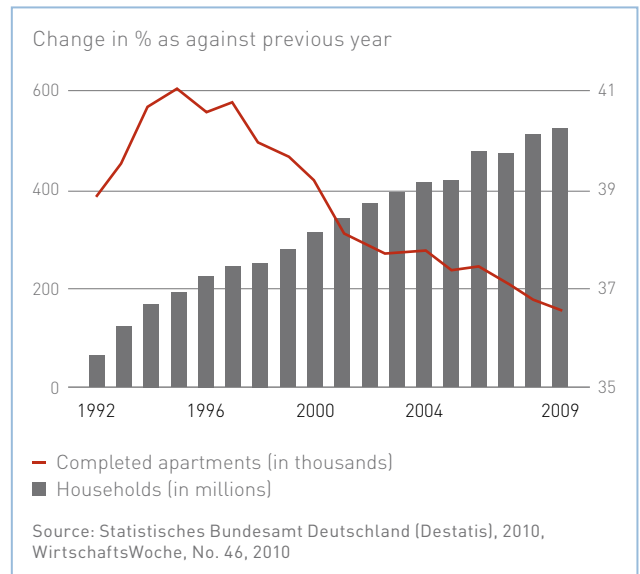
Johannesallee, Frankfurt/Main



40.19 million households

IN GERMANY

Increase in number of private households in Germany

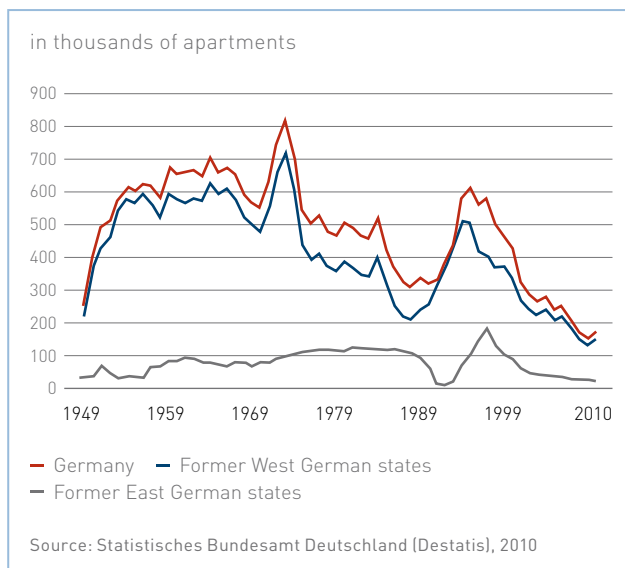


Apartment space on offer must be adjusted to meet changed requirements

The current developments described above, including the key factors of age structure, life expectancy, average household size and migration to metropolitan areas, are pivotal in shaping the residential property market over the long term, and with it the existing stock of properties. On the one hand, the residential property market needs to change in order to accommodate the needs of an increasing elderly population. On the other hand, it must also provide sufficient affordable housing for people on lower incomes.

Above all, it is becoming more and more difficult to find sufficient amounts of affordable housing in German metropolitan areas, due to the strong migratory shifts and the trend towards smaller households. Rising transport costs and sustainability issues lead to a growing number of residents want to live closer to city centres, which transfers residential demand further towards cities as well. In coming years this will place increased pressure on rents and house prices in German cities. This challenge must also be addressed by the German real estate sector, not least because of the slow improvement in construction rates and the limited availability of free land.

Completed apartments in Germany



Increasing number of households despite shrinking population

Another significant demographic development is the rising age of the population and the decrease in the German population overall. This is mainly due to the ongoing low birth rate and people's increasing life expectancy. Whereas the age group of 65 and older currently makes up about 20% of the total population, the share will be about 29% by 2030 and even 34% by 2060. As a result, the proportion of workers in the total population is falling continually.

Nevertheless, the number of private households in Germany continues to increase. In 2009 there were 40.19 million households in Germany, 0.3% more than in 2008. This is mainly due to the rising number of single-person households, which continues to grow in the metropolitan areas in particular, and reached a level of 39.8% in 2009. At the same time, the number of square metres per person also continues to expand.



Berlin has reversed the trend. Between 2005 and 2009, Berlin demonstrated on average more than double the amount of economic growth of the whole of Germany, a development clearly due to expansion in the service sector.

Karl Brenke, scientific consultant to Board of DIW Berlin, 11 August 2010

Berlin and Frankfurt/Main lead HWWI city rankings

In a city ranking carried out in 2010, the Hamburg Institute of International Economics (HWWI) and Berenberg Bank analysed the 30 largest cities in Germany with respect to economic and demographic development, education, innovative capabilities, internationalism and access to other European urban areas. The results show that there are currently substantial differences between German cities with respect to location factors and demographic dynamics.

As in the last study from 2008 Frankfurt/Main and Munich performed the best, taking the top two places, mainly due to their location factors and excellent demographic prospects. Places three to seven are occupied by Dusseldorf, Bonn, Cologne, Wiesbaden and Hamburg. Berlin took a huge leap from place 24 to 8, as it has shown a dynamic growth in recent times and has a particularly favourable demographic outlook.

HWWI/Berenberg City Ranking: 2008 and 2010 rankings

	2010	2008	Change
Frankfurt/Main	1	1	=
Munich	2	2	=
Dusseldorf	3	11	↑
Bonn	4	9	↑
Cologne	5	7	↗
Wiesbaden	6	4	↘
Hamburg	7	7	=
Berlin	8	24	↑
Dresden	9	5	↘
Hanover	10	15	↑

Source: HWWI/Berenberg, 2010

Dynamic growth in the Berlin metropolitan area

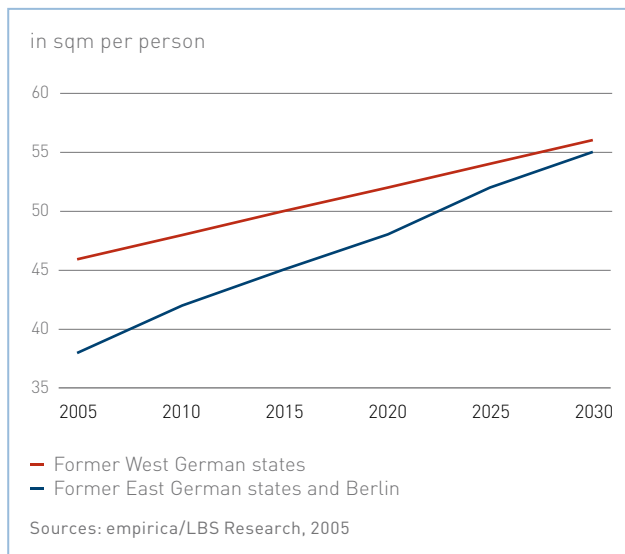
One of the most important metropolitan areas is Berlin, Germany's capital and with 3.4 million residents also the largest city in Germany. With its extensive creativity, highly qualified workers and increasing economic importance, Berlin has great innovative ability and capacity for future development. This makes Berlin particularly attractive to migrants: the migration balance for the period from 2003 to 2009 is 60,966 people; this is the second-highest figure after Munich. Employment figures also increased between 2003 and 2008 by 7.3%, a peak value in comparison with the rest of the country. The capital has thus shown a highly dynamic growth trend in recent years, and its demographic outlook is excellent.

Rents in Berlin are still relatively low, however, particularly in comparison to other German metropolitan areas. Another advantage offered – rents in Berlin are only about half as high as in Munich, the most expensive city in Germany. This also means that there is substantial potential for investors to increase rents. With resident numbers rising for several years, the demand for additional residential units is also on an upward trend, and this may lead to a shortage of residential space. At the same time, the number of people per household continues to fall with only few new apartments being built. While the number of residents increased by over 60,000, from 3.38 million in 2000 to 3.442 million in 2009, the number of households rose by over 160,000. According to the residential market report by the Berlin Investment Bank (IBB), the number of single-person households alone increased by 22.9% to 1.05 million between 1999 and 2008. In addition to increasing individualisation and the trend towards smaller families, this is also caused by the rise in the number of small households with elderly residents resulting from a higher life expectancy.

For some time, growing numbers of foreign investors have begun to show interest in the attractive residential property market in Berlin. An investment in this market pays off and can yield high returns right away. According to IPD, in 2009 the nationwide average total return was 5.3%; in Berlin returns were 9.1%. Other positive factors from the investor point of view are the low level of new construction, ongoing migration to Berlin, the growing number of households, and the high market liquidity.

modern.

Development of residential space in Germany



Frankfurt/Main ahead in all national comparisons

Frankfurt/Main is also one of the most attractive German metropolitan areas. With around 672,000 residents, it is the largest city in Hessen and the fifth largest city in Germany. The Frankfurt/Rhine-Main region has a strong and dynamic economy – number two out of the eleven German metropolitan areas. The GDP per employee was EUR 86,805 in 2008, in second place behind Dusseldorf in comparison with the rest of the country. The population enjoys an above-average income and high purchasing power – further location advantages in favour of the banking city. Today it is one of the richest and best-performing metropolitan areas in Europe, which is made evident by the large number of international companies located in the city.

In the annual study “European Cities Monitor 2009” published by Cushman & Wakefield, Frankfurt came in third behind London and Paris as the best location for international groups in Europe. In the HWWI/Berenberg city ranking, Frankfurt/Main landed first place, mainly due to its good location factors and excellent demographic outlook, emphasising that Frankfurt is the German city with the best transport connections to the 41 European metropolitan areas. A reason is its favourable geographical location and its large international airport.

Net cold rents in Frankfurt are comparatively high, though still significantly lower than in Munich. The increasing number of residents and the simultaneous decline in construction is creating stronger demand for apartments. With population growth of 4.4% between 2003 and 2009, Frankfurt ranks fourth in a national comparison. In addition, the population forecast for the period until 2020 anticipates further growth, particularly among young people under the age of 20. The number of households is rising even more strongly here, due to the trend towards individualised living space.

The Frankfurt residential property market, therefore, also offers attractive investment opportunities. This is demonstrated by the rising revenue figures for residential property: in the first half of 2010, 10% more residential units were sold than in the first half of 2009, and almost 30% more than in the same period of 2008.

Deutsche Wohnen portfolio in fast-growing metropolitan areas

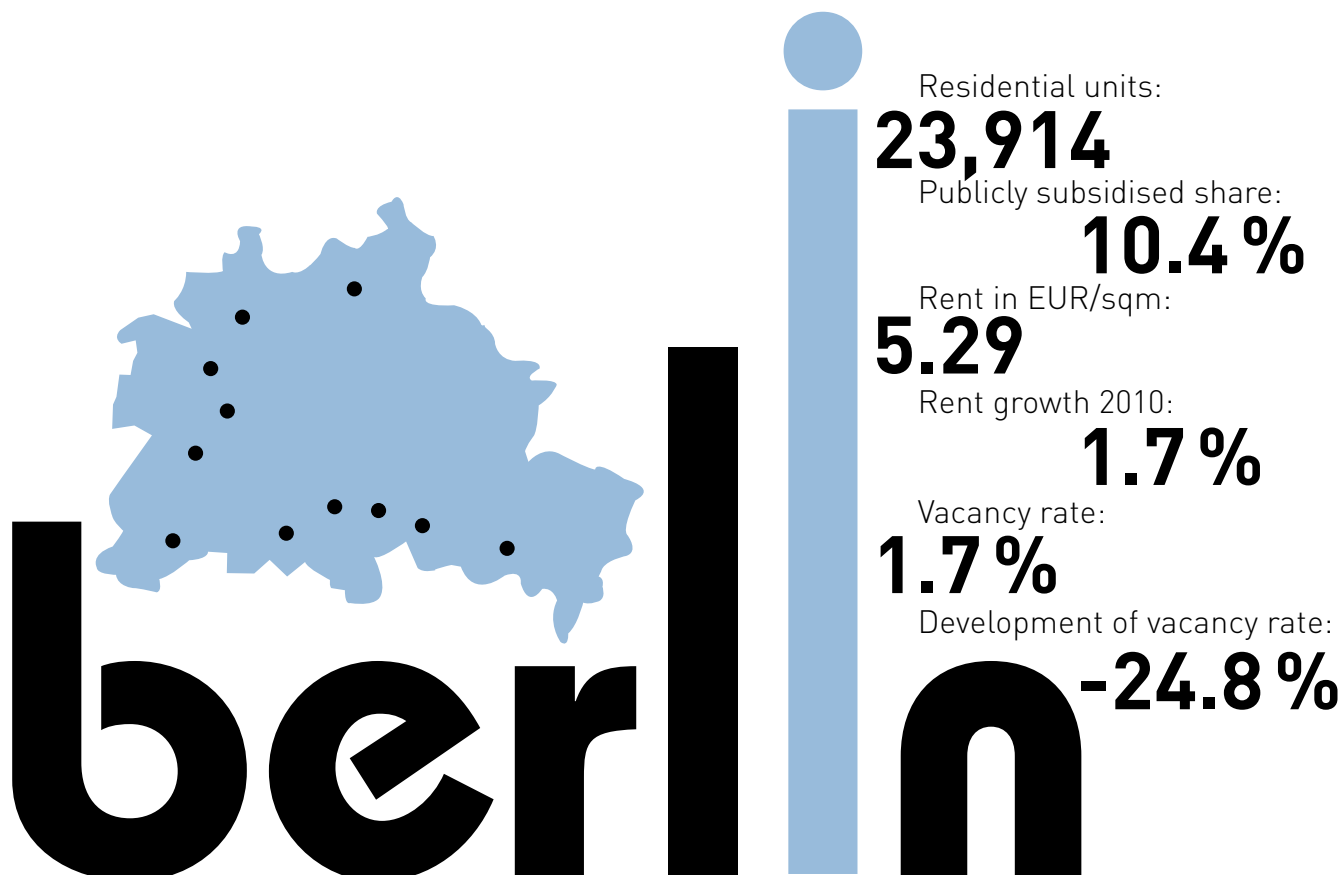
Deutsche Wohnen AG has an attractive property portfolio in the fast-growing regions Berlin and Frankfurt/Rhine-Main: 53.7% of our core portfolio is in Berlin and 19.8% in the Frankfurt/Rhine-Main region. We are already profiting from this today, and will profit even more from demographic developments in Germany, the migration movements to the fast-growing metropolitan areas of Germany, and the residential property situation in those cities in the future. Among the most well-known residential estates and buildings of Deutsche Wohnen are Colonie Zeilsheim in Frankfurt (part of the former works residential estate of Hoechst AG), the Hufeisensiedlung Britz in Berlin-Neukölln (one of the six UNESCO world heritage estates), and Gropiusstadt in Berlin-Neukölln. This was the largest and most modern urban residential development project in Germany when it was built in the 1950s.

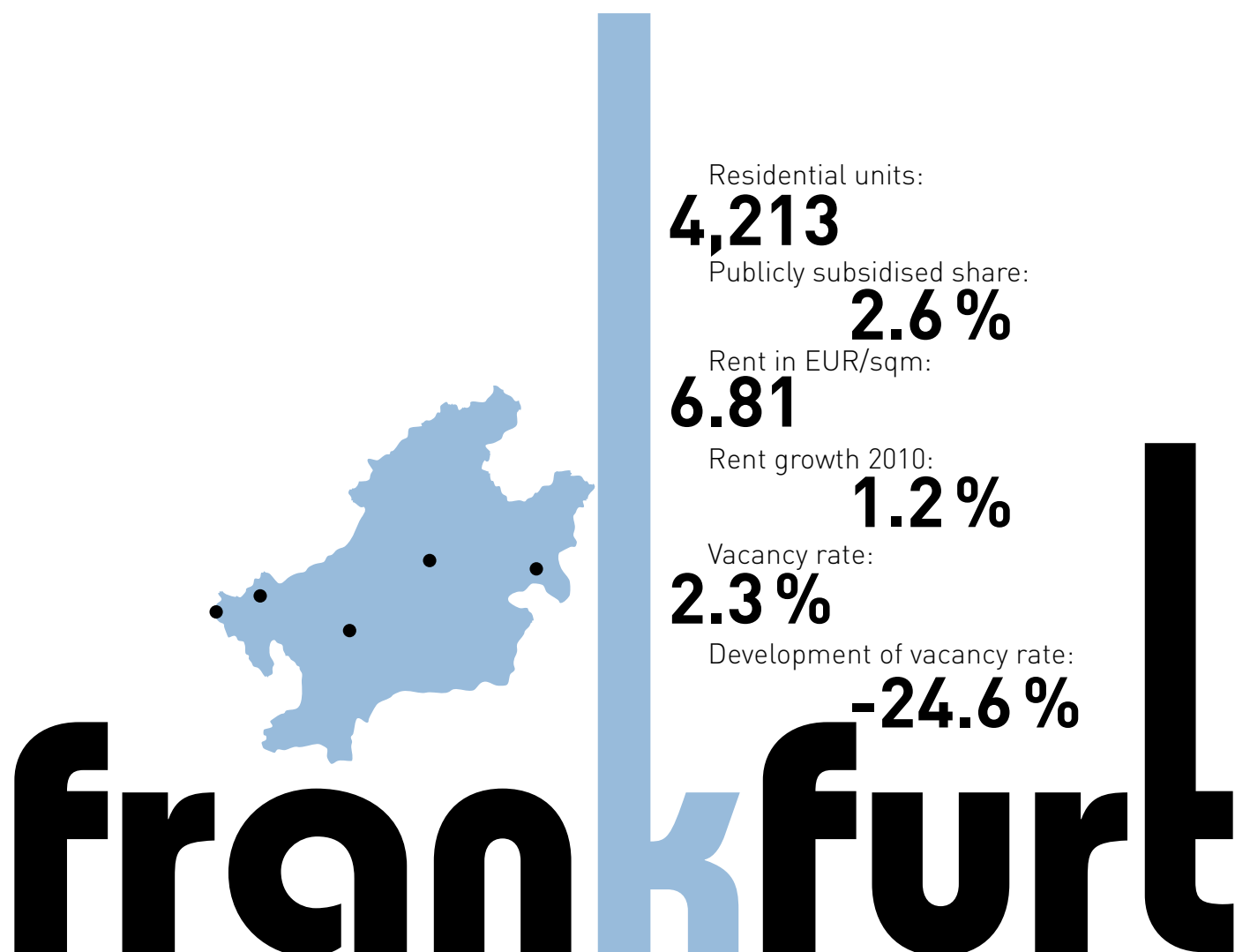
OUR RESIDENTIAL PROPERTY PORTFOLIO

2010	Residential units	Rent price development ¹⁾	Vacancy
NEUKÖLLN/BRITZ	7,525	1.7 % to 4.88 EUR/sqm	1.6 %
STEGLITZ ZEHLENDORF ²⁾	5,880	1.2 % to 5.42 EUR/sqm	1.0 %
CHARLOTTENBURG-WILMERSDORF	3,462	2.4 % to 6.11 EUR/sqm	1.7 %
TEMPELHOF-SCHÖNEBERG ³⁾	2,182	1.1 % to 5.04 EUR/sqm	2.1 %
PANKOW	1,495	2.9 % to 5.20 EUR/sqm	3.1 %
REINICKENDORF	1,406	2.9 % to 5.07 EUR/sqm	1.5 %
TREPTOW-KÖPENICK	964	2.7 % to 5.28 EUR/sqm	5.1 %
OTHER	1,000	3.7 % to 5.43 EUR/sqm	1.2 %

Statements relate to total portfolio

¹⁾ In-place rent, comparison 31/12/2010 to 31/12/2009
²⁾ Incl. acquisitions, without acquisitions development current gross rent of 2.2%
³⁾ Incl. acquisitions, without acquisitions development current gross rent of 1.6%





2010	Residential units	Rent price development ¹⁾	Vacancy
ZEILSHEIM	904	1.6 % to 6.55 EUR/sqm	1.8 %
UNTERLIEDERBACH	867	1.1 % to 6.90 EUR/sqm	1.8 %
GRIESHEIM	648	2.5 % to 6.64 EUR/sqm	2.7 %
FECHENHEIM	595	0.5 % to 6.98 EUR/sqm	2.4 %
WESTEND-NORD	430	1.5 % to 6.69 EUR/sqm	1.6 %
OTHER	769	0.5 % to 7.18 EUR/sqm	3.5 %

Statements relate to total portfolio

¹⁾ Rent price, comparison 31/12/2010 to 31/12/2009

Room for achievement Only those who are well prepared can benefit from current opportunities on the German residential property market.

Dahlemer Weg, Berlin

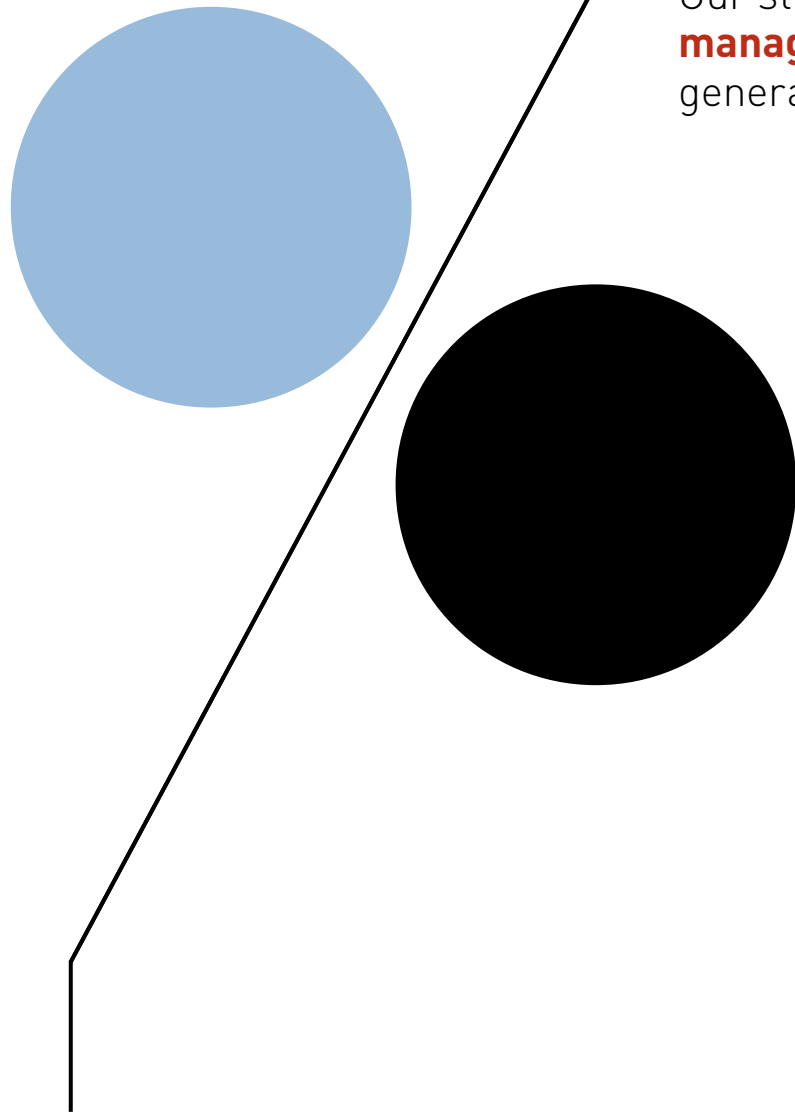


100%

EXPERTISE, EXPERIENCE
AND MARKET KNOWLEDGE
AS ASSET MANAGER

was wir aus ihm machen.

Our strategic **asset and portfolio management** puts us in a position to generate growth in rental income.



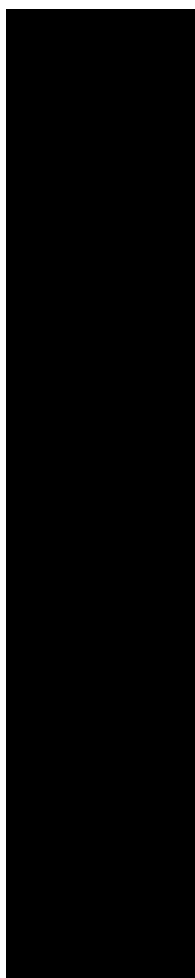
Jeder Stoff ist nur das wert,

Ludwig Mies van der Rohe

Halskestraße, Berlin



Our aim:



INCREASING INCOME

DEUTSCHE WOHNEN
PURSUES ITS GOALS
IN A TARGETED MANNER
AND TAKES
OPPORTUNITIES
AS THEY ARISE

Deutsche Wohnen AG is well positioned

Global economic developments, national politics, industry-specific trends and demographic migration tendencies are factors that strongly affect our daily work and our strategic orientation. However, they create challenges but they also offer great opportunities for the development of the company. Over the past months, Deutsche Wohnen has demonstrated that it pursues its goals in a targeted manner and knows how to take advantage of opportunities as they arise, underlining its leading position within the residential property asset class.

Milestone early refinancing

In the past financial year, Deutsche Wohnen took an important step towards setting the company's future agenda for further development by optimising its debt capital structure. Loans for a total of EUR 516 million were refinanced at favourable interest rates, and additional long-term loans totalling EUR 94 million were agreed. This means that we have now successfully extended all important loan obligations for the next five years.

As we have also optimised our interest hedging structures, the average interest rate from 2011 will fall from 4.4% to 4.0%. The hedging ratio is now at an appropriate level of between 75% and 80%, depending on the drawdown of the credit facilities. This provides us with the opportunity to further benefit more strongly from anticipated low interest rates in the short-term.

These steps set important standards for the property industry and demonstrate that Deutsche Wohnen is in a position to generate the financial funds it requires. Our transactions were also well received by the financial markets, and our share price increased significantly after the announcement of our refinancing measures.

Strategic focus on metropolitan areas pays off

In order to identify long-term trends at an early stage, the analysis and forecasting of market developments plays an important part in our daily work. We are thus profiting today from the new company strategic orientation introduced back in 2007 and our focus on German metropolitan areas. The demographic changes brought about by increasing life expectancy and lower average household sizes as well as the trend towards metropolitan regions have been evident for several years. Growing markets such as Berlin, Frankfurt/Main or the Rhine-Main region will also continue with above-average growth in the future and will have a positive effect on the value of our residential portfolio. In the future, we will also exploit the market potential of our portfolio via selective modernisation measures and energy-efficient renovation. As parts of Brandenburg and the Rhineland-Palatinate have shrinking markets, we will continue to gradually reduce our portfolio in these areas. Over the past financial year, we have made great progress here with the disposal of 805 units in these areas.

In our core regions, we will also continue to sell individual apartments to select tenants or owner-occupiers in order to free up tied capital. With good market conditions and corresponding value growth, we will sell small packages of the portfolio to institutional buyers in these core regions.

Organisation attuned to core competencies

The two main value drivers of management and disposals are key pillars of our Group structure. The holding company as an umbrella company has responsibility for overarching management functions as well as the Corporate Finance division. In order to efficiently cover these core functions internally, Deutsche Wohnen relies on highly qualified employees with a strong sense of commitment to the company. Outsourcing solutions are limited to standardised services, such as Facility Management, those are provided by professional companies with whom we have a partnership. We will continue to extend our core competences and in the Disposals division, for example, seek to work without the aid of brokers as far as possible.

The topic of apprenticeship is a central component of our human resources strategy. 30 trainees, or almost 10% of our workforce, are today training as professional property consultants with Deutsche Wohnen. Investment in high-quality training has already paid off, as many of our former trainees are now valuable employees of the company and are often found in management positions. With a performance-based, fair remuneration system and an open corporate culture, we seek to bind our employees to the company for the long term and are thus laying the foundation for successful future performance.

As an integrated Group, we have bundled our activities into
three operating companies:

DEUTSCHE WOHNEN AG



Focus on shareholder value and stable cash flow

The outstandingly positive performance of Deutsche Wohnen AG over the past three years is apparent from the development of five key performance indicators that are very relevant for us: a strong, stable cash flow (FFO), the financing structure/liquidity (LTV), the yield from residential property management (NOI), the asset value (EPRA NAV) and shareholder value (share price/market capitalisation).

Significant increase in FFO

The FFO (Funds from Operations) of Deutsche Wohnen AG, which reflects the long-term cash flow of a property company or its long-term operating results, including the result from privatisation business, saw a significant jump of 75% from EUR 26.1 million in 2008 to EUR 45.8 million in 2010. In 2010 alone, FFO per share increased by 30% to EUR 0.56. Even without the contribution from disposals – i.e. from long-term business – FFO has more than doubled from EUR 0.16 per share in 2008 to EUR 0.40 per share in 2010. This underlines the significant expansion of a strong and stable cash flow, even without disposals, and a simultaneous reduction of debt.

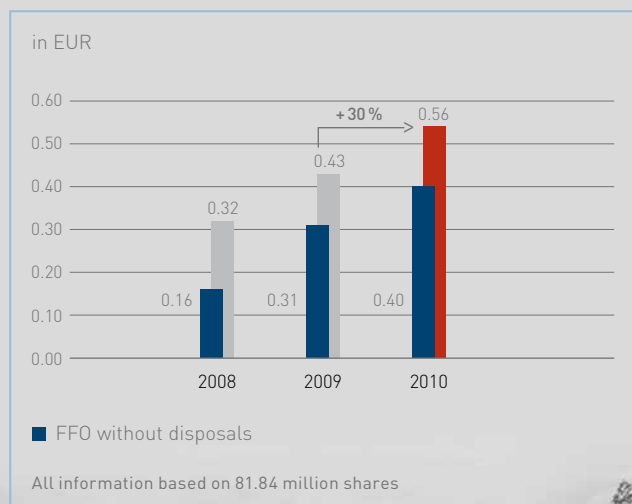
Reduction of debt position

We have also improved our financial structure considerably in recent years by significantly reducing the company's debt position, as was announced in advance of the capital increase in autumn 2009. As we have paid back debt amounting to EUR 444 million over the past three years, we were able to reduce the LTV (Loan to Value) ratio to 60.4%. We are therefore operating at the lower end of the intended LTV ratio of between 60 and 65%. As a result, we will be able to considerably reduce the charges from interest and regular repayments compared to 2008 by EUR 42 million to EUR 112 million p.a.

Operating result from residential property management improved

As nearly the same level of gross rental income was generated over the last three years from a smaller property portfolio, due to individual privatisation and portfolio realignment, the operating performance (return) of our residential property portfolio has been improved demonstrably.

Funds from Operations (FFO) per share

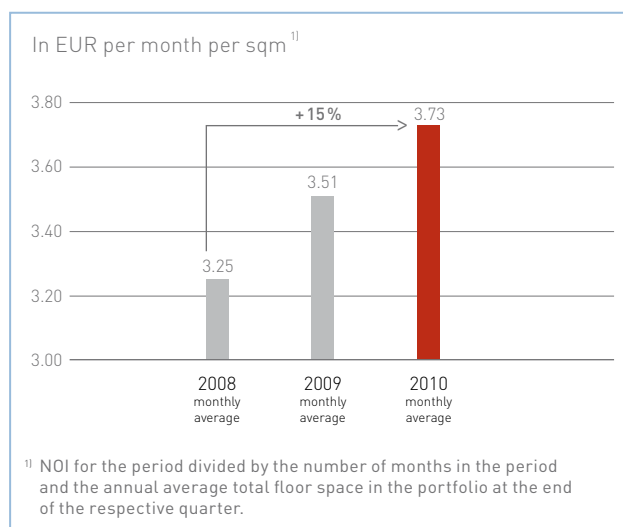


Am Kuckucksschlag, Frankfurt/Main



The Net Operating Income (NOI), i.e. operating result from residential property management less personnel expenses as well as general and administration expenses, increased in recent years by 15% to EUR 3.73 per month per sqm.

Net Operating Income (NOI)

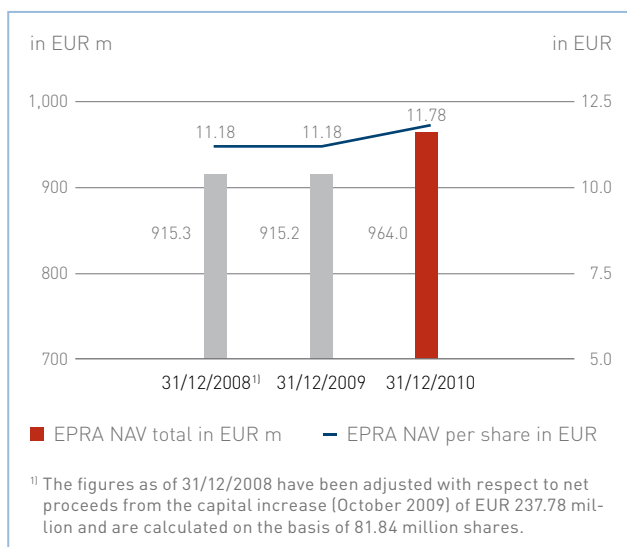


EPRA NAV per share increases

The NNAV (Net Net Asset Value) represents the asset value or "intrinsic value" of a property company. EPRA NAV is used to highlight the long-term fair value of equity. It is calculated on the basis of equity (before minority interests) adjusted for effects from the exercise of options, convertible bonds and other equity rights, the market values of derivative financial instruments as well as deferred taxes (net credit and debit balances), i.e. adjusted for items that have no effect on the long-term development of the Group.

EPRA NAV saw a significant increase as of 31 December 2010 to EUR 11.78 per share (+5.4%), mainly due to the positive consolidated result achieved.

EPRA NAV



Share price reflects successful company development

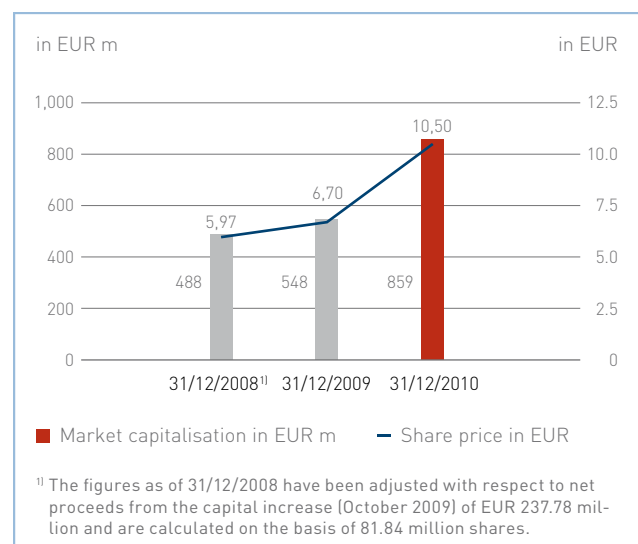
The market capitalisation of Deutsche Wohnen AG increased between 31 December 2008 (adjusted by net issue proceeds from the capital increase) and 31 December 2010 by over 75% to around EUR 859 million. The share price increased by more than 56% in 2010 alone. These figures reflect investors' positive reactions to the successful operative growth of the company.

INCREASE IN SHARE PRICE FOR 2010 BY



Discounting of the share price for EPRA NAV has fallen significantly to 10.9% as of the end of the financial year 2010 (end of 2009: discount of 40.1%). Deutsche Wohnen AG has thus performed significantly better than its peer group. The low NNAV-discount acknowledges our performance in recent years and strengthens our resolve to continue on the path we have chosen.

Market capitalisation and share price





The merger of GEHAG and Deutsche Wohnen AG created a **forward-looking Group**, which was able to demonstrate its strengths in 2010: experienced managers consistently generate sustainable increases in value for this extraordinary property portfolio, favourable market conditions are used to settle all refinancing issues, and transparent reporting is rewarded by the capital markets. Next year the big challenge is to continue to scale up this successful business model.

Michael Zahn, Chief Executive Officer
of Deutsche Wohnen AG

Well equipped to seize future opportunities

Deutsche Wohnen AG is based in the currently most prosperous economy in Europe, the "residential property" asset class is becoming hugely important and the company's portfolio is noted for its above-average locations and quality indicators. Thus, there can be only one conclusion: the prospects for our company are extremely positive. On this basis, Deutsche Wohnen AG is well equipped to take on the challenges and opportunities the future presents under these favourable market conditions.

Our management team has deep and extensive experience in the property market: the GEHAG, Berlin – one of the main asset companies in the Group – has been operating and managing residential property since 1924. Many years of experience as an established company with a clear business model makes Deutsche Wohnen AG an ideal partner for property investment. At the same time, we remain clearly focused on our core competence in the residential property segment and avoid taking on projects outside this sector.

Stronger recognition on capital markets

In the future, Deutsche Wohnen aims to be more strongly recognised as an asset manager in capital and property markets as well as by business partners, banks, multipliers and the general public. In Germany, more than half of the total wealth of over EUR 7 trillion is invested in property. This immense macroeconomic importance is, however, not yet reflected in the small and highly fragmented capital market for publicly listed property companies in Germany. At the end of December 2010, the commercial and residential property companies listed in the SDAX and MDAX had a market capitalisation totalling around EUR 6.4 billion, out of this around EUR 3 billion was accounted for by just two companies. Deutsche Wohnen AG, whose market capitalisation was EUR 859 million as of 30 December 2010, is facing the challenge of increasing the attractiveness of the "residential property" asset class in the capital markets.

We are convinced that the property markets – particularly the residential property market – are among the winners of the financial crisis because secure, stable and inflation-proof investment forms are regaining importance. Positive recognition on the part of capital market participants is evident from the increased analyst coverage of Deutsche Wohnen AG. In the financial year 2010, UBS, Goldman Sachs and Close Brothers Seydler began to track the Deutsche Wohnen share. Morgan Stanley, Metzler and Silvia Quandt joined them at the start of 2011 (as of 25 February 2011). This brings the total number of analysts (as of the end of February) to 16. Further well-known banks have indicated they will initiate the coverage during the course of 2011.

The share has become even more attractive following the non-scheduled introduction into the MDAX completed on 8 December 2010. Deutsche Wohnen AG is now one of the 50 medium-sized German publicly listed companies that are also receiving increased attention in the international capital markets. Its inclusion in one of Europe's most important indices will boost the share price further and support the company's expansion plans.

Dividend distributions planned for 2010

As announced at the beginning of the year Deutsche Wohnen AG has reinstated its dividend for 2010 after a period of three years. We plan to pay a dividend of EUR 0.20 per share for the financial year 2010. This means that we will be distributing half of the operating result from residential property management – without disposals proceeds – to our shareholders. We believe in a sustainable dividend policy which is based in particular on the improved results from the rental business.

Sustainable growth through new acquisitions

As part of our growth course we continue to concentrate on sustainability and high quality. We were able to buy **1,808 residential units** in the past financial year, exclusively residential holdings in our core regions. We will continue to buy small portfolios in the core regions and dispose of holdings in structurally weak regions.

In order to continue the consolidation of Deutsche Wohnen's market position in its core markets, the company will also begin opening up potential in adjoining regions with long-term prosperity. We firmly expect the next two to three years to offer new opportunities on the market that are likely to fit well with our portfolio strategy. We are also prepared to buy whole companies if they operate in expanding markets, economies of scale can be made, and the success parameters of Deutsche Wohnen would improve further as a result of the acquisition. However, we reject a focus on size only.

Based on this premise, we are certain that the market will support our expansion plans in line with corresponding capital market conditions.

WE WILL TAKE ON THE
CHALLENGES OF THE

F

FUTURE

Siemensstadt, Berlin



2010

DEUTSCHE WOHNEN

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