

THE DEUTSCHE ANNINGTON IMMOBILIEN GROUP

IN THE

FIRST HALF OF

2010

- Economy continues to recover; financial markets remain fragile
- Business performance on track
- Core business segment, Property Management, shows stable development
- Selective apartment sales continue
- Financial situation remains sound
- Market provides good conditions for further acquisitions



“Last year, we completely restructured our company – with great success. One year after the start of implementation, we can say that nearly all tasks have been mastered. Our aim is to achieve a sustained increase in our service quality as well as a continuous improvement in our earning power. We have never been so close to our customers. Our employees make up to 1,100 on-site visits every day. Alongside providing the repair hotline, which is manned 24/7, we are now also available to answer our customers’ basic inquiries and questions 54 hours a week. That is some 20 hours more than before the changeover to the new organisational model. The availability rate of the customer centre is now continually over 70%; in the New Customer department it even tops 90%. Thus our availability will exceed the average rate of slightly more than 50% before the changeover. The number of residential units looked after per employee is now more than 200; before the new organisation it was 173. This all shows that the combination of individual customer care and standardisation of mass processes in the housing industry works. It improves our performance as landlords and is good for our customers.”



Overall economic development

Economy back to a steady course, positive economic trend stabilises

Aided by expansive monetary policies of the central banks and government economic stimulus packages in 2010, the global economy has returned to a steady course. However, the pace of recovery varies from region to region. According to a survey conducted by the Munich-based ifo Institute, the economic climate has brightened considerably, above all in Asia. In North America, trade levels have also improved and are now slightly above the long-term average. In Western Europe, by contrast, the index remained virtually unchanged in the first half of 2010 and fell short of the long-term average. The ifo Institute is expecting the global economy to continue to recover in the next six months and global gross domestic product to increase by 4.1 % in 2010.

As a result of the Greek debt crisis, the international financial markets were again in turmoil in the spring of 2010. Greece's considerably worsened budget and economic situation led in May to a massive loss of confidence that subsequently also affected other highly indebted member states of the eurozone. In these countries the prices of government bonds fell and the external value of the euro also plummeted. In the meantime, the finance ministers' support measures for Greece and the creation of a European Stabilisation Mechanism have countered the decline in prices for southern European government bonds and have reduced the volatility of the markets; a trend reversal in the international financial markets has, however, not come about. The interest-rate spreads of late have been greater than before the decision on the European rescue packages in May 2010.

The German economy grew significantly in the second quarter of 2010, according to figures published by the Federal Statistical Office. Price, season and calendar-adjusted, gross domestic product (GDP) was 2.2% higher than in the first quarter. This was the first time in the history of unified Germany that such growth compared with the first quarter had been experienced. Compared with the second quarter of 2009, price-adjusted GDP increased by 4.1%. Economic development in the second quarter of 2010 was boosted by positive momentum both from the domestic market and abroad. Investment and foreign trade enjoyed the biggest upswing. Investment in plant and equipment (+4.4%) and in construction (+5.2%) was well up on the previous quarter. Here, however, it must be remembered that above all capital investment is still at a relatively low level after, in some cases, double-digit declines during the 2008/2009 economic crisis. The increase in construction investments was partly due to catch-up effects after the comparatively severe winter. Exports of goods and services (+8.2%) rose compared with the previous quarter more sharply than imports (+7.0%) so that the export surplus (balance of trade surplus) contributed 0.8 percentage points to the growth of GDP. There was also a pleasing development of domestic consumption: Consumer spending rose by 0.6% compared with the first three months of the year. Public-sector spending also increased slightly by 0.4%.

Moderate increase in rents continues

According to the market rent index regularly determined by the Hamburg research institute F+B, net rents in Germany have increased again: The average rent increase in the 505 towns and cities surveyed is 1.0% and the average rent is € 6.19/m²/month. With an average market rent of € 11.15/m²/month, Munich is this year once again the most expensive residential property rental market. It is followed by Frankfurt/Main with € 9.24/m²/month and Stuttgart with an average rent of € 8.43/m²/month. All three cities show rent increases of up to 2.0% compared with the previous year. In Hamburg and Berlin, rents rose by 4.0% and 2.5% respectively, with rents averaging € 8.10 and € 5.66/m²/month.

No uniform pattern of development for residential property prices

The prices for owner-occupied properties increased slightly in the second quarter of 2010, according to surveys of the Association of German Pfandbrief banks (vdp). Compared with the previous quarter, the vdp overall index for owner-occupied houses rose by 1.1%. By contrast, the prices for owner-occupied apartments fell by 0.6%. The prices of both houses and apartments are expected to rise again in the third quarter of 2010. The reasons for this are the positive overall economic development and continuing good demand for housing.

Residential properties still in demand from investors

The upswing on the German investment market forecast for 2010 could be more moderate than initially expected: According to a market survey of Berlin Hyp and Landesbank Berlin, an increase in the transaction volumes of 20% compared with the previous year is rather unlikely. Broken down into types of use, the residential real estate segment is likely to show the highest rise. 71% of those surveyed are expecting higher transaction volumes for residential properties. With office and logistics real estate, most of those surveyed are expecting the market volume to stabilise. As far as purchase price and the development of rents are concerned, forecasts are again best for the residential real estate segment. In the coming 12 months, over 60% of respondents are expecting prices and rents to rise.

Business Review

Efficiency and performance considerably increased

In the last two financial years, the Deutsche Annington Immobilien Group invested more than € 60 million in the reorganisation of the company. The aim was to further increase customer satisfaction and service quality while, at the same time, reducing process costs through the use of cutting-edge technology.

The first months of the current year were marked by the new business processes introduced last year. On the basis of the progress achieved by the end of 2009, the Deutsche Annington Immobilien Group got off to a good start to 2010 and continued its positive course in the first six months.

After the implementation of the new business organisation, we now not only have a repair hotline manned seven days a week but also a central customer centre, 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. Thus our employees in the customer centre are now available 54 hours a week to handle our customers' inquiries. Before the new organisation it was 35 hours.

Over the course of a year, our customers contact us roughly 1.9 million times by phone, e-mail or post. We issue some 40,000 rent certificates for submission to the authorities. Every day we get an average of 2,730 tenant inquiries. Nearly two thirds of the inquiries relate to administrative questions that can be resolved centrally, such as master data changes or ancillary cost bills. The rest divide up into 25% repairs and a good 10% administrative matters, such as moves to a new apartment. Roughly three quarters of the inquiries can be dealt with immediately. Questions that the customer service staff cannot answer directly on the phone are handled by our tenant field service workers who go out to the customers. Every day, our employees make up to 1,100 local calls. We have never been so close to our customers.

After a temporary dip in performance levels in the immediate follow-up to the introduction to the new business process model, we managed to enhance the overall performance and efficiency of Deutsche Annington in the first half of 2010. For example, we have distinctly improved the telephone availability of our customer centre: it is now continually over 70%; in the New Customer department it even tops 90%. Thus our availability well exceeds the average rate of 50% before the changeover. The number of residential units looked after per employee is now more than 200; before the new organisation it was 173. At the same time, the average number of new lets a week rose in a year-on-year comparison from 301 to 419 rental contracts.

All in all, in the first six months of 2010, we managed to enhance service quality and, at the same time, reduce process costs. Against this background and assuming that the efficiency measures taken as part of the restructuring will continue having their full effect, we are expecting a positive development of business for 2010 as a whole.

Core business segment, Property Management, shows stable development

Deutsche Annington's core business segment, Property Management, developed positively in the first half of 2010. This was above all due to the new processes and structures introduced last year. After initial performance losses in the immediate follow-up to the change-over to the new business process model, our business processes have now largely returned to normal: With more than 15,000 prospective tenants a week, we managed to achieve a considerably higher letting rate than before the change-over. Overall, in the first six months of the year, the results of the rental business were virtually on a par with the good level of the previous year.

Energy-saving modernisation measures remain an important component of investment

Deutsche Annington is continually upgrading its apartments through targeted modernisation and maintenance work. In the current financial year, investment in the housing stock will continue at roughly the same high level of the previous year. Most of the investments will go into energy-saving measures as well as improving the quality of the housing. Energy consumption falls significantly in the modernised residential estates, which in turn reduces emissions of climate-damaging CO₂. This effect not only benefits the environment but also our tenants in the form of lower ancillary cost bills. At the same time, these investments increase the attractiveness of our residential units and therefore ultimately ensure sustained rental income.

Furthermore, in the interest of our tenants, we have further extended our energy procurement competence. An energy manager has been working for our company since May 2010. His job is to negotiate regional master agreements for Deutsche Annington, for example for the supply of gas, electricity and oil. The aim is to obtain conditions which are advantageous for our tenants. Only our tenants profit from these cost savings. In the past, Deutsche Annington's experience with changing suppliers has been positive and it has already signed new contracts with energy utilities offering better conditions for the tenants. For example, some 10,000 tenants in Dortmund will be saving another roughly 15% this year thanks to a new gas supply contract after already jointly saving on paper a high six-figure amount last year by changing suppliers.

Selective apartment sales continued

To complement the successful core business of Property Management, we are also continuing our strategy of selective apartment sales in 2010. We are expecting demand for residential property to buy to be on a par with last year as purchase prices remained stable overall in 2009. Against this background, we believe that we will sell roughly the same number of units in 2010 as last year. Irrespective of our current strategy, our experience in selling residential properties in a socially acceptable manner and our comprehensive knowledge of the market enable us to adapt our selling activities at any time to any change in demand. The new business processes again help greatly to make us flexible.

Good chances for further acquisitions

In the last two years, Deutsche Annington acquired some 6,000 residential units and successfully integrated them into the company. In future, we will continue to expand our portfolio with economically sensible acquisitions. We have the financial scope to acquire even relatively large portfolios at any time. The main criteria for us when considering the purchase of properties are whether they suit the Deutsche Annington strategy and whether the acquisition makes economic sense. In view of the current situation in the German residential real estate market, we see good chances to continue our course of growth through acquisitions. In the wake of the financial crisis, it can be assumed that the situation of local authorities will deteriorate and therefore there could be pressure on public-sector housing companies to sell properties. Furthermore, the first private-sector investors are starting to sell their housing portfolios.

Financial market crisis has no significant effects on financing conditions

The situation on the financial markets has changed greatly since the start of the financial crisis. The banks now demand much higher margins and equity for new acquisitions and refinancing.

In view of the continuing credit crisis, we regard the takeover and continuation of an existing capital market loan negotiated in 2009 with Eurohypo (as part of the acquisition of the majority of the shares in Prima Wohnbauten Privatisierungs-Management GmbH from IMW AG) as a positive sign that it is still possible to raise further funds. The refinancing costs for the existing rolling mortgages were kept constant. Here we again believe that, alongside lower base rates, the main reason is the good credit standing of Deutsche Annington. Given the attractive location and good condition of the residential portfolio provided as security, we are expecting a positive conclusion to the ongoing negotiations with the banks on the refinancing of the Hallam portfolio. Overall, we feel this justifies us in saying that Deutsche Annington is regarded as a reliable partner in the financial market.

Responsibility

Employees: Commitment to health and the family

For Deutsche Annington, one important focus is on health management. It concentrates on sports activities as a form of preventive health care. In the “balance body & mind” field, we demonstrate our commitment to health care for our employees with annual health days, flu vaccinations and cancer screening.

At the same time, Deutsche Annington is making a particular effort to strengthen its profile as a family-friendly employer. Our “BALANCE 2010” project began in 2007 with our certification as a family-friendly company as part of the audit berufundfamilie® performed by the non-profit Hertie Foundation. In June 2010, we were awarded the “Beruf und Familie” audit certificate by the Federal Minister for Families for our HR Policy. Three years ago we received the basic certificate and have now been successfully recertified.

Customers and the local community: Active involvement as a socially responsible landlord

We have again been involved in many social projects on our residential estates. Through our two foundations and our sponsoring, we provided funding of some € 150,000 in the first half of 2010. As always, the focus is on help to people in need and the backing of projects and initiatives for children and young people:

Since 2009, Deutsche Annington has been supporting the media educational school project “Newspaper and School” (Zeus) set up by the WAZ media group. With it, we want to make a contribution towards children’s education and the promotion of media competence through newspapers and the Internet.

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 a child’s first year of age. To make it easier for foreign families to help their children, the information material is also available in both Turkish and Russian.

Deutsche Annington and Auslandsgesellschaft Deutschland e.V. have joined forces and adopted a new approach in one of our housing estates in the Nette district of Dortmund: as part of the “Living and Learning” project, the estate residents are being offered German courses free of charge. Deutsche Annington is providing the rooms rent-free and also funding the first language course. With this project, Deutsche Annington wants to help overcome language barriers and create good neighbourhood structures.

In view of the demographic development, we are trying to find ways of helping our tenants continue living in their homes to a ripe old age. The services offered are not only to be designed for elderly people but also for adolescents and young families.

In 2009, Deutsche Annington launched a project in cooperation with the charity, Caritas, in Gelsenkirchen: When modernising a multi-family house, we set up a disabled-friendly advice centre with a café-cum-meeting place for tenants. Out of two ground-floor apartments, we made one handicapped-accessible unit. The specially converted rooms are being provided for Caritas rent-free, initially for two years.

As part of a project in cooperation with Johanniter-Unfall-Hilfe e.V. in Dortmund, a disabled-friendly advice centre and meeting place was also opened on one of our housing estates at the end of June 2010, on a similar line to the Caritas project. Deutsche Annington is providing specially converted rooms for Johanniter-Unfall-Hilfe rent-free, initially for two years. The charity also received € 15,000 from the Deutsche Annington Foundation for the interior furnishings.

Further projects are planned in Duisburg, Bochum and Berlin.