Management Board Report on Agenda Item 8 (Passing of a resolution on the creation of Authorized Capital 2014 with the possibility of excluding subscription rights)

With regard to Item 8 of the General Shareholders Meeting on June 11, 2014, the Management Board and the Supervisory Board propose cancelling the existing authorized capital and replacing this with a new authorized capital (Authorized Capital 2014). In accordance with Section 203 paragraph 2 sentence 2 in conjunction with Section 186 paragraph 4 sentence 2 German Stock Corporation Act (*AktG*), the Management Board provides the reasons for authorizing the exclusion of shareholders' subscription rights when issuing new shares in Agenda Item 8 of the General Shareholders Meeting:

The Management Board did not utilize the authorization granted to them by the General Shareholders Meeting on May 28, 2013 to increase the Company's share capital, with the consent of the Supervisory Board, by up to EUR 80,378,000.00 once or several times in the period until May 27, 2018 through the issuance of up to 80,378,000 new no-par value bearer shares against contribution in cash and/or in kind (Authorized Capital 2013).

On August 20, 2013, the Management Board and Supervisory Board of the Company passed precautionary resolutions to increase the Company's share capital using the Company's Authorized Capital 2013 of up to 33,781,428 new bearer shares under the exclusion of subscription rights for a voluntary public tender offer to the shareholders of GSW Immobilien AG. During the course of the voluntary public tender offer however, it transpired that it was not necessary to carry out this capital increase from Authorized Capital 2013. Consequently, these utilization resolutions were cancelled. The Articles of Association thus contain the original amount of corresponding authorized capital in Section 4a.

On the basis of the resolutions passed by the Extraordinary Shareholders Meeting on September 30, 2013, the Company increased its share capital from EUR 168,907,143.00 to EUR 286,216,731.00. In order to ensure that the Company continues to be flexible enough in the future to extensively increase its equity capital, where necessary, the existing Authorized Capital 2013 shall be cancelled, a new authorized capital be created and the Articles of Association be changed accordingly.

The new authorized capital (Authorized Capital 2014) proposed in Agenda Item 8 a) of the General Shareholders Meeting on June 11, 2014 will grant the Management Board authorization to increase the Company's share capital, with the consent of the Supervisory Board, by up to EUR 85,000,000.00 once or several times in the period until June 10, 2017 through the issuance of up to 85,000,000 new no-par value bearer shares against a contribution in cash and/or in kind.

The Authorized Capital 2014 shall also allow the Company to continue to raise the capital required for its further development on the markets in the short term by issuing new shares as well as to flexibly benefit from a favorable market environment in order to fulfill its future financing needs quickly. As decisions regarding the fulfillment of future capital requirements are normally made at short notice, it is important that the Company is not restricted by the timing of the annual General Shareholders Meeting or by the long notice period required for convening an Extraordinary General Shareholders Meeting. Legislators have made accommodations for this situation in the form of the "authorized capital".

Upon utilization of the Authorized Capital 2014 for the issuance of shares against contributions in cash, shareholders have subscription rights in principle (Section 203 paragraph 1 sentence 1 in conjunction with Section 186 paragraph 1 German Stock Corporation Act (*AktG*)), although indirect subscription rights within the meaning of Section 186 paragraph 5 German Stock Corporation Act (*AktG*) would also suffice. The issuing of shares while granting such indirect subscription rights is already deemed by the law as not being an exclusion of subscription rights. Shareholders are ultimately granted the same subscription rights as with a direct subscription. For technical settlement-related reasons only, one or several credit institutions are involved in the transaction.

The Management Board shall however be authorized, with the consent of the Supervisory Board, to exclude subscription rights in certain cases.

(i) The Management Board shall be able to exclude subscription rights for fractional amounts with the consent of the Supervisory Board. The aim of this exclusion of subscription rights is to simplify the process of issuing new shares with general shareholders' subscription rights, as this makes a technically feasible subscription ratio possible. The fractional amount is normally low for each shareholder, therefore the potential dilutive effect is likewise considered to be low. On the other hand, the cost of issuing shares without such exclusion is significantly higher. The exclusion therefore serves to ensure that an issuance is practical and can be carried out much easier. The fractions of new shares excluded from the shareholders' subscription rights will be realized either by sale on a stock exchange or in any other manner so as to best further the Company's interests. The Management Board and the Supervisory Board deem the potential exclusion of subscription rights as objectively justified for these reasons as well as being reasonable in consideration of shareholder interests.

(ii) The Management Board shall also be able to exclude subscription rights with the consent of the Supervisory board, to the extent that it is necessary for holders of warrant-linked bonds or convertible bonds to be provided subscription rights on new shares. Warrant-linked bonds and convertible bonds provide dilution protection in their issuance conditions, which grants the holder subscription rights on new shares for subsequent share issues. They will thus be treated as though they are already shareholders. In order to be able to provide bonds with such dilution protection, the shareholders' subscription rights must be excluded from these shares. This serves to make the placement of bonds easier and thus fulfills the shareholders' interests of the Company having an optimal financial structure. Furthermore, the exclusion of subscription rights in favor of the holders of bonds that grant an option or conversion right or create an option or conversion obligation offers the advantage that, in the event that the authorization is exercised, the option or conversion price does not need to be reduced for the holders of existing bonds that grant an option or conversion right or create an option or conversion obligation according to the respective terms and conditions of the bond. This allows for an increased cash inflow and is therefore in the interest of the Company and its shareholders.

(iii) In the event of capital increases for cash, subscription rights can also be excluded if the shares are issued at a price that is not significantly lower than the stock market price and such an increase in capital does not exceed 10 % of the share capital (simplified exclusion of subscription rights in accordance with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*)).

The authorization enables the Company to flexibly respond to all favorable capital market situations that arise and to flexibly place new shares on very short notice, i.e. without having to offer subscriptions for at least two weeks. The exclusion of subscription rights allows for an extremely quick response and placement close to the market price, i.e. without the usual discount for issuing subscriptions. This lays the foundations for generating the highest possible disposal amount and for increasing equity as much as possible. The authorization for the simplified exclusion of subscription rights is objectively justified not least due to the fact that an increased cash inflow can often be generated.

Such a capital increase must not exceed 10 % of the share capital on the date on which the authorization becomes effective or on the date on which it is exercised. The resolution proposal also provides for a deduction clause. The maximum 10 % of the share capital relating to this exclusion of subscription rights includes shares that have been or are to be issued to service bonds carrying conversion and/or option rights and/or a conversion obligation in accordance with Section 221 paragraph 4 sentence 2 in conjunction with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*) within the term of the authorization under exclusion of subscription rights. The sale of treasury shares is also included insofar as they are sold using an authorization within the term of this authorization under exclusion of subscription rights according to Section 71 paragraph 1 number 8 sentence 5 clause 2 in conjunction with Section 186 paragraph 3 sentence 4 German Stock Corporation Act (*AktG*).

The simplified exclusion of subscription rights requires the issue price of the new shares to not be significantly lower than the market price. Should there be a discount on the current stock market price, subject to special circumstances in individual cases, it is not expected to be greater than 5 % of the stock market price. This ensures that the shareholders' need for protection is taken into account in terms of a dilution of the value of their participation. Fixing the issue price close to the stock market price ensures that the value of subscription rights for the new shares is for all intents and purposes very low. Shareholders have the option of maintaining their relative participation ratio by acquiring additional shares on the stock exchange.

(iv) Furthermore, subscription rights to shares are planned to be excluded so that shares can be issued to employees of the Company and/or its affiliates particularly also under the share options program described in Agenda Item 16 of the Company's General Shareholders Meeting on June 11, 2014, whereby the pro rata amount of the new shares issued from the share capital may not exceed 5 % of the Company's share capital, neither with respect to the date on which the resolution for this authorization is passed by the General Shareholders Meeting nor the date on which such authorization is exercised. The issue of employee shares will allow employees to hold a stake in the Company and participate in its success, thus increasing employee loyalty to the Company. The shares issued under this authorization must not, together with the Company's treasury shares and shares from the Company's conditional capital that are issued to employees and executive bodies of the Company or its affiliates, exceed a pro rata amount of 5 % of the share capital, neither with respect to the date on which the resolution for this authorization is passed by the General Shareholders Meeting nor the date on which such authorization is exercised.

(v) Subscription rights can also be excluded when increasing capital against contributions in kind. The Company should also be able to continue to make acquisitions of, in particular, companies, parts of companies, participations or other assets (especially real estate portfolios and shares in real estate companies), and respond to offers about acquisitions or mergers in order to become more competitive and increase the profitability and value of the Company. Furthermore, the exclusion of subscription rights is also intended to be used to service convertible bonds and warrant-linked bonds as well as convertible or warrant-linked participation rights that are issued against assets in kind. Experience shows that shareholders of attractive acquisition objects will sometimes have a strong interest – e.g. in order to maintain some influence on the object being the contribution in kind – in acquiring no-par value shares (with the ability to vote) in the Company as compensation. From the perspective of an optimal financing structure, the option of not effecting compensation exclusively in cash, but also in shares, or exclusively in shares, also has the advantage that to the extent new shares can be used as acquisition currency the liquidity of the Company can be preserved, borrowing be avoided, and the seller be allowed to participate in future share performance. This will result in an improvement to the Company's competitive position in terms of acquisitions.

The ability to use Company shares as acquisition currency thus provides the Company with the requisite room for maneuver to rapidly and flexibly seize such acquisition opportunities as well as enables the Company to acquire even larger units in return for shares. It should also be possible, in some circumstances, to acquire assets and commodities (in particular, real estate portfolios and shares in real estate companies) in return for shares. In both cases, the shareholders' subscription rights must be able to be excluded. As such acquisitions frequently have to be completed at short notice, it is important that these decisions are not generally resolved at General Shareholders Meetings, which occur just once a year. This requires an authorized capital, which the Management Board is able to quickly access upon receiving approval from the Supervisory Board.

The same applies to the servicing of conversion rights and obligations under conversion bonds and warrant-linked bonds, as well as convertible or warrant-linked participation rights (or a combination of these instruments) (collectively referred to as "bonds"), which are likewise issued for the purpose of acquiring companies, parts of companies, participations in companies, or other assets on the basis of the authorization under Agenda Item 9 of the General Shareholders Meeting on June 11, 2014 under the exclusion of shareholders' subscription rights. New shares are issued against assets in kind, either in form of the bond or the non-cash payment made on the bond. This causes an increase in the flexibility of the Company with respect to the servicing of conversion rights and obligations. The offering of bonds in place of or in addition to shares or cash payments can represent an attractive alternative, which increases the Company's competitive position in terms of acquisitions thanks to the additional flexibility. Shareholders are protected by the subscription rights that they are entitled to upon the issue of bonds carrying a conversion right or obligation.

Instances in which subscription rights can be excluded for bonds carrying a conversion right or obligation are detailed in the report on Agenda Item 9. When opportunities arise to merge with another company or to acquire companies, parts of companies, participations in companies, or other assets, the Management Board will carefully check whether it should make use of the authorization to increase capital by granting new shares. This also includes, in particular, the examination of the valuation ratio between the Company and the investment made in any company or other assets, as well as the setting of the issue price for new shares and the other terms of the share issuance. The Management Board will only use the authorized capital if it is confident that the merger or acquisition of the company or part of the company or the acquisition of a participation against the granting of new shares is in the best interest of the Company and its shareholders. The Supervisory Board will only give its required consent if it arrives at the same conclusion.

The aforementioned authorizations for the exclusion of subscription rights are limited, in sum, to an amount which may not exceed 20 % of the share capital, neither with respect to the date on which the authorization becomes effective nor the date on which such authorization is exercised. This 20 % limit shall also include treasury shares that are sold within the term of this authorization under exclusion of subscription rights as well as those shares issued to service bonds (including participation rights) carrying conversion or option rights or a conversion obligation (or a combination of these instruments), provided that the bonds or participation rights are issued within the term of the authorization under the exclusion of subscription rights using the authorization granted in Agenda Item 9 of the General Shareholders Meeting on June 11, 2014. To the extent that during the term of the authorization to exclude shareholders' subscription rights described in the preceding paragraphs rights are established to subscribe to shares of Deutsche Wohnen AG in exchange for shares of GSW Immobilien AG through the entry into force of the domination agreement between Deutsche Wohnen AG and GSW Immobilien AG concluded on April 30, 2014, the number of these shares of Deutsche Wohnen AG will also be included in the above-mentioned 20 % limit. In addition, the following shares are also to be included in this 20 % limit: the shares from the conditional capital that are issued to service stock option rights, if the stock option rights are granted during the term of this authorization on the basis of the authorization under Agenda Item 16 of the General Shareholders Meeting of the Company on

June 11, 2014. This restriction ensures that there is limited potential for shareholders excluded from subscription rights having their voting rights diluted. In consideration of all of these circumstances, the authorization to exclude subscription rights within the outlined limits is necessary, commensurate, appropriate and required in the interest of the Company.

If, during the course of a financial year, the Management Board utilizes any of the aforementioned authorizations to exclude subscription rights as part of a capital increase from Authorized Capital 2014, it shall report on this matter at the subsequent General Shareholders Meeting.