Deutsche Wohnen AG

» 9M 2016 results

Conference Call, 15 November 2016

» Agenda

1. 9M 2016 results
2. Investment update & Outlook
3. Q&A

» 9M 2016 results

» Financial highlights 9M 2016

Operational development		
In EUR m	**9M 2016**	**YoY**
NOI letting	**414.6**	**+15.1%**
NOI margin	*78.8%*	*+2.6ppt*
Like-for-like rental growth	*3.2%*	*+0.1ppt*
Vacancy rate	*1.8%*	*-0.3ppt*
NOI nursing	**13.7**	**+14.2%**
FFO contribution	*10.4*	*+13.0%*
Occupancy rate	*98.7%*	*+2.2ppt*
Earnings from disposals	**46.4**	**-23.7%**
Gross margin privatization	*40%*	*-1ppt*
Gross margin inst. sales	*12%*	*+4ppt*
Free cash flow impact	*255.1*	*-37.5%*
ICR	**5.7x**	**+1.5x**

KPIs		
In EUR m	**9M 2016**	**YoY**
FFO I (after minorities)	**301.4**	**+31.8%**
in EUR/ share[1)]	*0.89*	*+21.9%*
FFO I margin	*57.3%*	*+9.0ppt*
FFO II (after minorities)	**347.8**	**+20.1%**
in EUR/ share[1)]	*1.03*	*+12.0%*
Adj. EBITDA (excl. disposals)[2)]	**405.0**	**+18.6%**
Adj. EBITDA margin	*77.0%*	*+4.8ppt*
Cost ratio	*10.0%*	*-1.6ppt*
Cost per unit[3)] (in EUR)	*435*	*-14.0%*
In EUR m	**9M 2016**	**YTD**
EPRA NAV per share (undiluted)[4)]	**25.10**	**9.1%**
LTV	**41.7%**	**+3.7ppt**

1) Based on weighted average shares outstanding (9M 2016: 337.44m; 9M 2015: 315.27m); 2) Adjusted for one-off effects excluding disposals; 3) Corporate expenses annualized divided by avg. units in period; 4) based on 337.5m shares outstanding

» Portfolio update 9M 2016 – attractive reversionary potential

Strategic cluster	Residential units	% of total measured by fair value	In-place rent[1] 30/09/2016 EUR/sqm/month	Rent potential[2] 30/09/2016 in %	Vacancy 30/09/2016 in %	Fair value 30/09/2016 EUR/sqm	Multiple in-place rent	Multiple market rent
Strategic core and growth regions	**154,343**	**98.5%**	**6.07**	**22%**	**1.7%**	**1,396**	**19.1**	**15.6**
$Core^+$	134,996	89.6%	6.15	25%	1.7%	1,458	19.7	15.8
Core	19,347	8.9%	5.56	13%	1.9%	983	14.8	13.3
Non-core	3,931	1.5%	5.21	n/a	5.1%	761	12.6	10.8
Total	**158,274**	**100%**	**6.05**	**21%**	**1.8%**	**1,379**	**19.0**	**15.5**
Thereof Greater Berlin	***110,776***	***72.9%***	***6.04***	***25%***	***1.7%***	***1,459***	***20.2***	***15.9***

- **Further rent potential in $Core^+$ regions of unchanged ~25%**

- **Attractive spread between in-place and market rent multiples of c. 4x offer further potential for NAV growth**

- **Vacancy rate in $Core^+$ portfolio declined by 20bps over 12 months to c. 1.7%**

1) Contractually owed rent from rented apartments divided by rented area; 2) Unrestricted residential units (letting portfolio); rent potential = new-letting rent compared to in-place rent (letting portfolio);

» Strong like-for-like development in Berlin

Like-for-like 30/09/2016	Residential units number	In-place rent[1)] 30/09/2016 EUR/sqm/month	In-place rent[1)] 30/09/2015 EUR/sqm/month	Change y-o-y	Vacancy 30/09/2016 in %	Vacancy 30/09/2015 in %	Change y-o-y
Core$^+$	**123,344**	**6.11**	**5.91**	**3.5%**	**1.5%**	**1.6%**	**-0.1pp**
Greater Berlin	102,995	6.04	5.82	3.8%	1.5%	1.7%	-0.2pp
Rhine-Main	8,457	7.48	7.31	2.3%	1.5%	1.3%	+0.2pp
Mannheim/Ludwigshafen	4,762	5.73	5.67	1.0%	0.6%	1.1%	-0.5pp
Rhineland	4,474	6.01	5.86	2.5%	1.0%	1.2%	-0.2pp
Dresden	2,656	5.29	5.16	2.5%	2.6%	2.3%	+0.3pp
Core	**13,787**	**5.55**	**5.47**	**1.4%**	**1.9%**	**2.3%**	**-0.4pp**
Hanover / Brunswick	8,100	5.61	5.53	1.4%	1.8%	2.0%	-0.2pp
Core cities eastern Germany	4,559	5.45	5.38	1.2%	2.0%	2.8%	-0.8pp
Kiel / Lübeck	1,128	5.44	5.35	1.7%	2.0%	3.4%	-1.4pp
Total Letting portfolio[2)]	**137,131**	**6.05**	**5.86**	**3.2%**	**1.5%**	**1.7%**	**-0.2pp**
Total	**142,241**	**6.03**	**5.85**	**3.2%**	**1.8%**	**1.8%**	**-**

- **Strong like-for-like rental growth in Core$^+$ (3.5%) and in particular in Berlin (3.8%)**
- **Like-for-like vacancy in Core$^+$ letting portfolio at 1.5% - portfolio fully rented out**
- **Strong like-for-like vacancy reduction by 40bps also in Core regions to 1.9%**

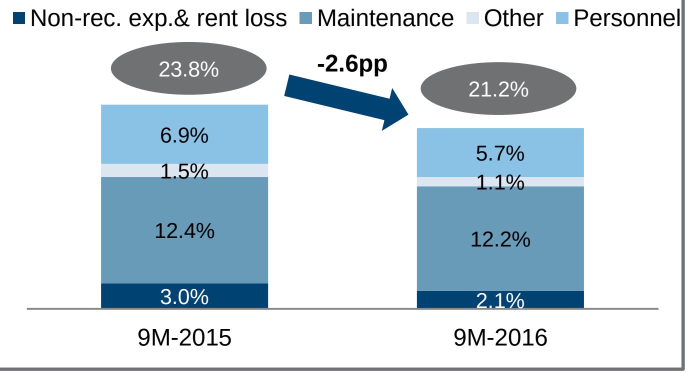
1) Contractually owed rent from rented apartments divided by rented area; 2) Excluding non-core and properties held for sale/ privatization

» Strong earnings and cash contributions from letting

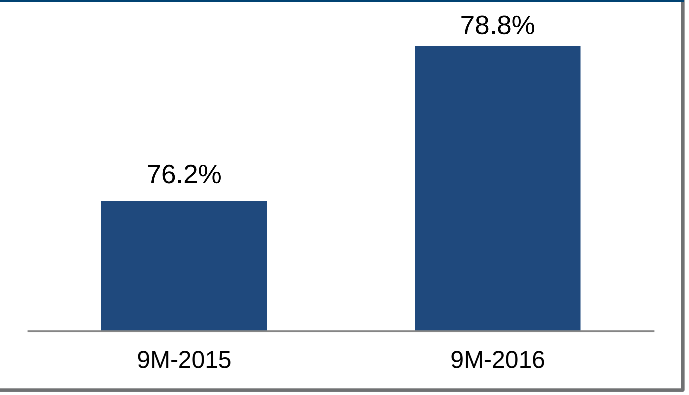
in EUR m	9M 2016	9M 2015
Rental income	**526.1**	**473.1**
Non-recoverable expenses	(6.2)	(9.4)
Rental loss	(4.8)	(4.6)
Maintenance	(64.4)	(58.9)
Others	(6.0)	(7.2)
Earnings from Residential Property Management	**444.7**	**393.0**
Personnel, general and administrative expenses	(30.1)	(32.7)
Net Operating Income (NOI)	**414.6**	**360.3**
NOI margin	78.8%	76.2%
NOI in EUR / sqm / month	4.69	4.40

in EUR m	9M 2016	9M 2015
Net operating income (NOI)	414.6	360.3
Cash interest expenses	(76.0)	(93.6)
Cash flow from portfolio after cash interest expenses	**338.6**	**266.7**
Cash flow margin	**64.4%**	**56.4%**

Significant reduction of operational cost items (in % of rental income)



Significant improvement of NOI margin



- **Improved NOI margin driven by rental growth combined with efficient management of operational costs**

» Growing prices as demonstrated by disposal business

Disposals	Privatization		Institutional sales		Total	
with closing in	9M 2016	9M 2015	9M 2016	9M 2015	9M 2016	9M 2015
No. of units	1,061	1,479	2,544	6,951	3,605	8,430
Proceeds (EUR m)	125.5	145.8	175.5	447.1	301.0	592.9
Book value	89.9	103.2	156.5	413.5	246.4	516.7
Price in EUR per sqm	1,538	1,384	961	942	n/a	n/a
Earnings (EUR m)	28.7	33.8	17.7	27.0	46.4	60.8
Gross margin	40%	41%	12%	8%	22%	15%
Cash flow impact (EUR m)	111.7	83.7	143.4	324.7	255.1	408.4

- **Disposal business contributed cash flows of EUR 255m in 9M 2016**

- **Privatization: Disposal of below-average quality at continued attractive margins; privatizations in Berlin moving towards EUR 2,000 per sqm**

- **Institutional sales: consisted predominantly of a Berlin city-border portfolio with 900 units and further ~900 units in Merseburg**

» High profitability from nursing “operations” and “assets”

Operations (in EUR m)	9M 2016	9M 2015
Total income	52.4	49.9
Total expenses	(47.1)	(45.9)
EBITDA operations	**5.3**	**4.0**
EBITDA margin	10.1%	8.0%
Lease expenses[1)]	9.7	9.6
EBITDAR	**15.0**	**13.6**
EBITDAR margin	28.6%	27.3%

in EUR m	9M 2016	9M 2015
Nursing	41.5	39.7
Living	4.9	4.6
Other	6.0	5.6

in EUR m	9M 2016	9M 2015
Staff	(26.7)	(25.2)
Rent / lease	(9.7)	(9.6)
Other	(10.7)	(11.1)

Assets (in EUR m)	9M 2016	9M 2015
Lease income[1)]	8.9	8.3
Total expenses	(0.5)	(0.3)
EBITDA assets	**8.4**	**8.0**

Operations & Assets (in EUR m)	9M 2016	9M 2015
Total EBITDA	**13.7**	**12.0**
Interest expenses[2)]	(3.3)	(2.8)
FFO I contribution	**10.4**	**9.2**

Set out in the consolidated group financial statements as “Earnings from nursing and assisted living”

Includes fee payable to operational partner of EUR 1.5m for 9M 2015 and EUR 2m for 9M 2016

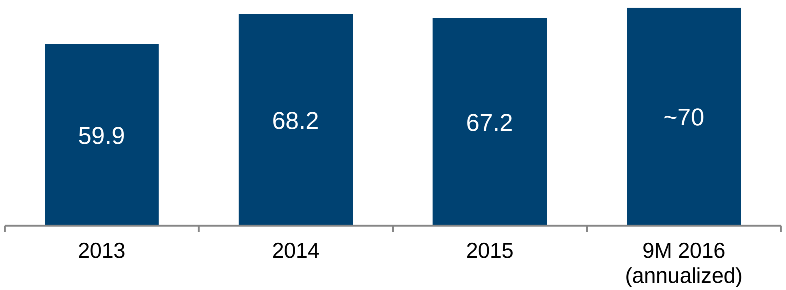
- **EBITDAR margin of 28.6% or 1.5x lease revenues proof points for operational excellence**

1) *The delta between lease expenses (operations) and lease income assets derives from one nursing facility which is only operated but not owned by Deutsche Wohnen group*
2) *Including proportional interest cost due to minority stake in operations;*

» Strong operating performance of the nursing business

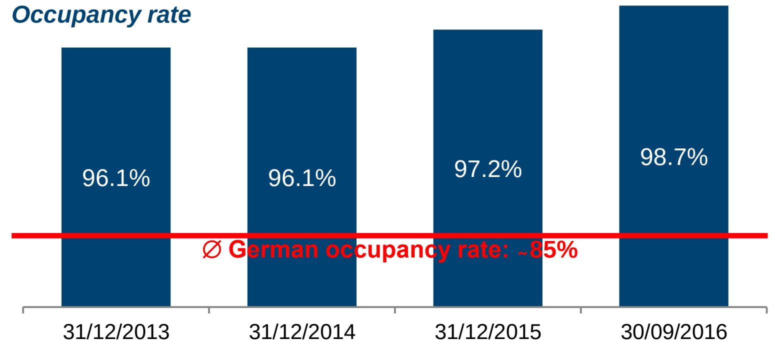
Strong revenue growth

Revenues (EURm)



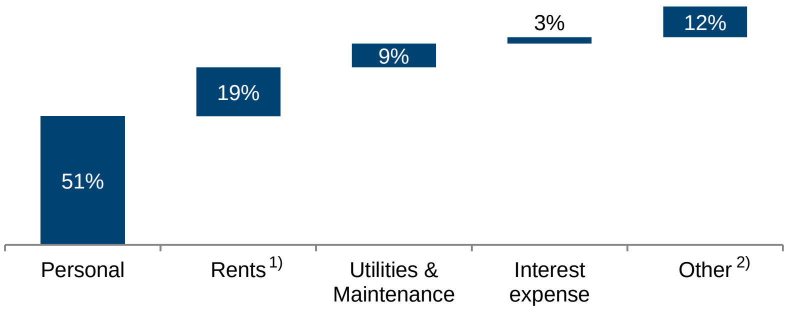
High occupancy rate is a good proof point for operational excellence

Occupancy rate



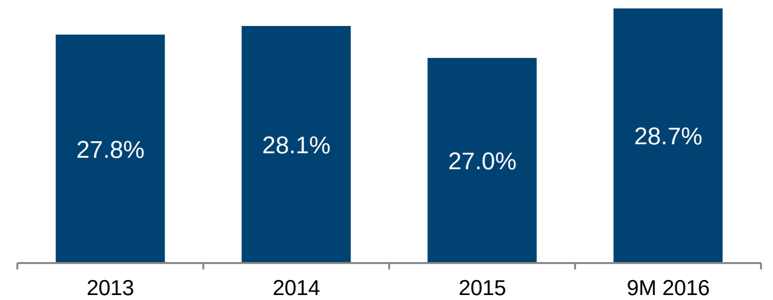
Nursing is a staff-intense business

Major expense items (9M 2016) in % of total revenue



Attractive EBITDAR margins

EBITDAR margin operating business [3]



1) Rents for internally operated facilities are consolidated on group accounting level; 2) Incl. housekeeping supplies, laundry, catering, other

3) EBITDAR = EBITDA before rents;

» Nursing homes - portfolio overview

Existing nursing business: Assets and operating business[1)]

Katharinenhof

Region	Facilities #	# of places: Nursing #	Assisted living #	Total #	Area (sqm)	Occupancy rate	Fair Value (30/06/2016)
Greater Berlin	12	1,072	370	1,442	84,250	98.0%	
Saxony	7	436	39	475	21,836	99.4%	
Lower Saxony	1	131	-	131	5,427	98.7%	
Total	**20**	**1,639**	**409**	**2,048**	**111,513**	**98.4%**	**161.4m**

Recent Pegasus acquisition: Assets only[2)]

Other operators

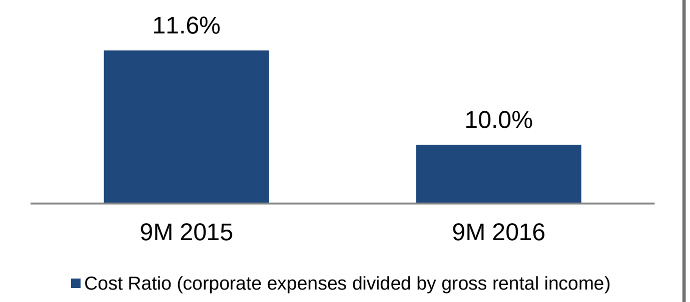
Region	Facilities #	# of places: Nursing #	Assisted living #	Total #	Area (sqm)	WALT	Purchase price
Bavaria	7	999	-	999	41,193	12.3	
North-Rhine Westphalia	5	721	187	908	46,117	13.9	
Lower Saxony	4	661	-	661	24,460	11.2	
Rhineland-Palatinate	4	409	208	617	29,276	14.0	
Baden-Württemberg	5	557	16	573	24,216	13.9	
Other	3	374	-	374	14,324	9.0	
Total	**28**	**3,721**	**411**	**4,132**	**179,586**	**12.6**	**420.5m**
Total	**48**	**5,360**	**820**	**6,180**	**291,099**	**n/a**	**n/a**

1) Katharinenhof manages 20 facilities, thereof Deutsche Wohnen owns 19 facilities; 2) Relates to recently acquired assets (Pegasus portfolio)

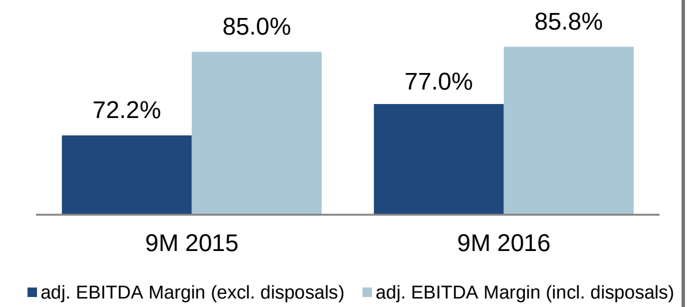
» Significant step up in EBITDA margin

in EUR m	9M 2016	9M 2015
Earnings from Residential Property Management	444.7	393.0
Earnings from Disposals	46.4	60.8
Earnings from Nursing and Assisted Living	13.7	12.0
Segment contribution margin	**504.8**	**465.8**
Corporate expenses	(52.4)	(54.8)
Other operating expenses/income	(1.0)	(34.5)
EBITDA	**451.4**	**376.5**
One-offs	0.0	25.7
adj. EBITDA (incl. disposals)	**451.4**	**402.2**
Earnings from Disposals	(46.4)	(60.8)
adj. EBITDA (excl. disposals)	**405.0**	**341.4**

Development of cost ratio



Development of adj. EBITDA margin

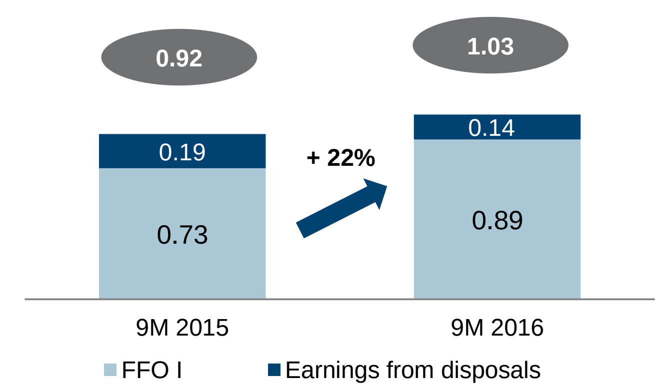


- **Adj. EBITDA margin up by 4.8pp (excl. disposals) driven by improvement of NOI and reduction of corporate expenses**

» Operational improvements, acquisitions and lower interest expenses drive FFO growth

in EUR m	9M 2016	9M 2015
EBITDA (adjusted)	**451.4**	**402.2**
Earnings from Disposals	(46.4)	(60.8)
At equity valuation	1.5	1.5
Interest expense/ income	(78.6)	(94.4)
Income taxes	(21.3)	(14.0)
Minorities	(5.2)	(5.8)
FFO I	**301.4**	**228.7**
Earnings from Disposals	46.4	60.8
FFO II	**347.8**	**289.5**
FFO I per share in EUR[1)]	***0.89***	***0.73***
FFO II per share in EUR[1)]	***1.03***	***0.92***

FFO per share development in EUR



Diluted FFO I of EUR 0.83 per share pro forma conversion of in-the money convertible bonds

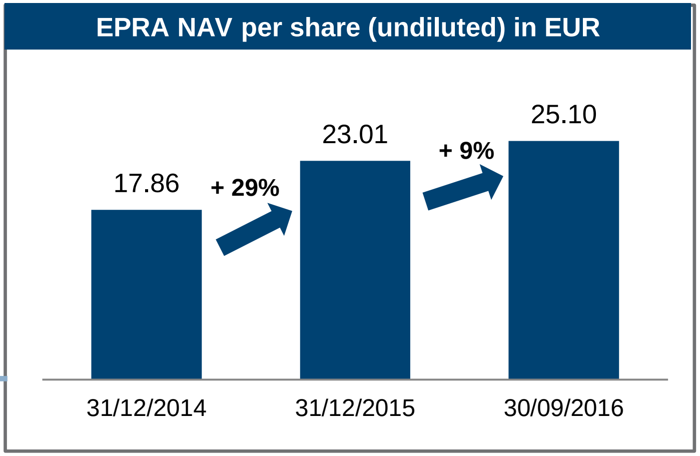
- **FFO I per share increased by 22% yoy**

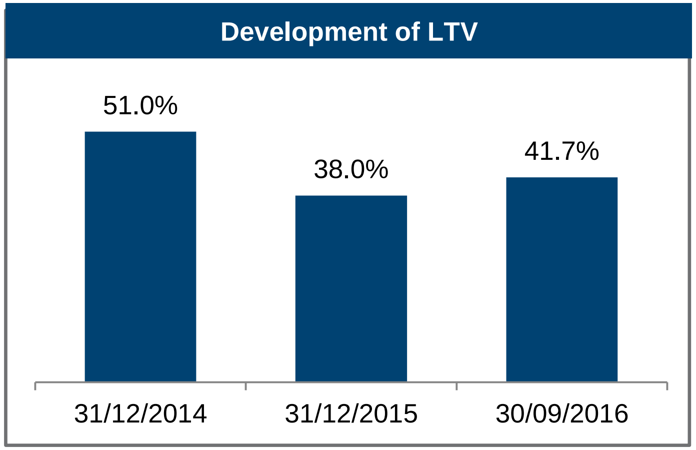
- **Dividend expected to increase by 35% to EUR ~0.73 per share for 2016[2)]**

1) Based on weighted average shares outstanding (9M 2016: 337.44m; 9M 2015: 315.27m); 2) Based on FFO I guidance of at least EUR 380m and 337.5m shares outstanding

» Steady increase of EPRA NAV per share

in EUR m	30/09/2016	31/12/2015
Equity (before non-controlling interests)	7,062.5	6,653.5
Fair values of derivative financial instruments	60.0	44.8
Deferred taxes (net)	1,349.5	1,064.1
EPRA NAV (undiluted)	**8,472.0**	**7,762.4**
Shares outstanding (in m)	*337.5*	*337.4*
EPRA NAV per share in EUR (undiluted)	**25.10**	**23.01**
Effects of exercise of convertibles	1,097.4[1)]	952.1
EPRA NAV (diluted)	**9,569.4**	**8,714.5**
Shares diluted (in m)	*370.8*	*370.2*
EPRA NAV per share in EUR (diluted)	**25.81**	**23.54**
Goodwill GSW	(535.1)	(535.1)
Shares outstanding (in m)	*337.5*	*337.4*
Adj. NAV per share (undiluted)	**23.52**	**21.42**





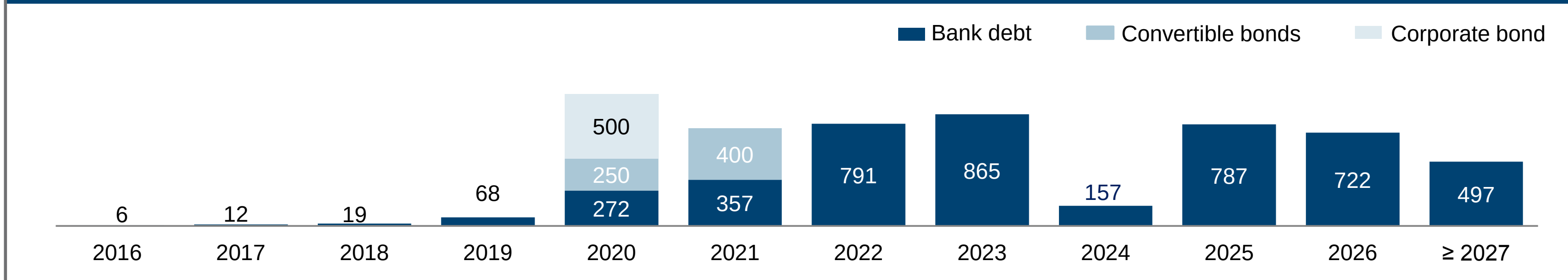
1) Current strike price: 17.45 EUR and 21.01 EUR correspond to ~33.4m shares

» Conservative long term capital structure with 1.6% interest costs

Rating	A- / A3; stable outlook
LTV	41.7%
ICR[1)]	5.7x
Ø maturity	8.5 years
% secured bank debt	74%
% unsecured debt	26%
Ø interest cost	1.6% (~84% hedged)
Key financial principles	LTV: 35-40% fully flexible regarding secured or unsecured financing

- Low leverage, long maturities and best in class rating
- Flexible financing approach to optimize financing costs
- No significant maturities until and including 2019
- Convertible bonds accounted 100% as debt
- Base case LTV 2016 <40% expected[2)]
- **Target LTV range: 35-40%**

Balanced maturity profile with no significant debt maturities in the next 4 years[3)]

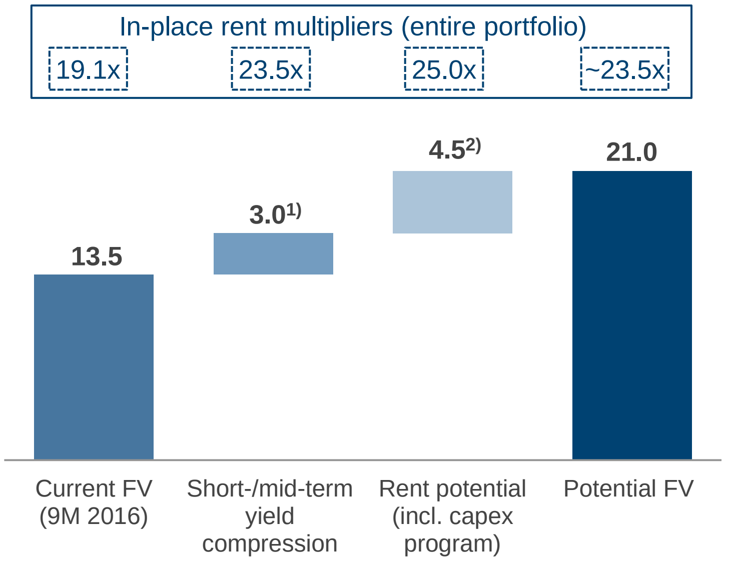


1) adjusted EBITDA/ interest expenses, 2) Excluding changes in valuation of financial instruments, 3) based on notional amounts

» Investment update & outlook

» More than EUR 7bn value potential for Deutsche Wohnen with at least EUR 2.2bn value uplift expected for total year 2016

Value potential (EUR bn, incl. capex)[1)]



- Transactional evidence in Berlin for average quality assets points towards:
  - 25-30x in place rent multipliers
  - Prices per sqm EUR >2,000
- Further significant yield compression in Deutsche Wohnen's Core+ portfolio expected
  - c. EUR 3bn fair value step-up of in the short to medium term expected
  - At least EUR 1.5bn expected by year end 2016
- Identified EUR 180m rent potential - including the contribution from the capex program - offers a further fair value potential of EUR c. 4.5bn
- Based on today's parameters DW's portfolio should be valued at c. EUR 21bn in the longer term

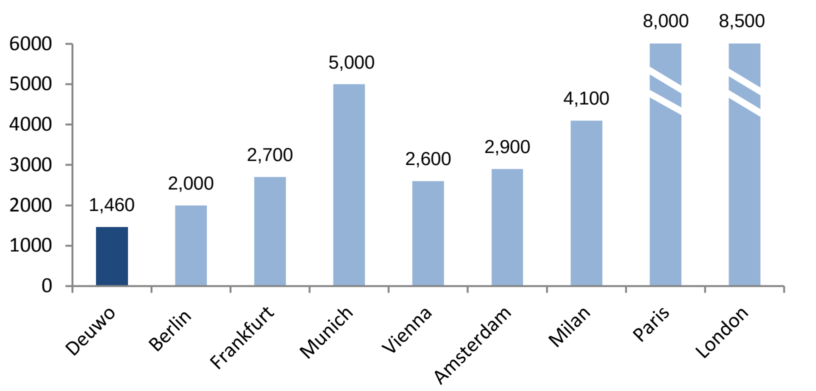
- **Long-term capital value growth of c. EUR 6bn (excl. capitalized investments) expected to translate into c. 70% NAV growth or c. EUR 18 per share**

- **Driven by yield compression in particular in Berlin a further revaluation of the portfolio of at least EUR 2.2bn expected for 2016 (thereof EUR 0.7bn already realized at H1 2016)**

1) Based on current annual rents of EUR 700m x 4.4 multiple spread 2) Based on annual Rent potential of EUR 180m x 25.0 multiple

» Long-term Berlin has huge catch up potential compared to other German and European metropolitan areas

Residential price per sqm (existing stock)



Source: CBRE reports, empirica

Top City ranking in real estate survey 2017

Rank	City	Rents	Capital Values
1	Berlin	↗	↗
2	Hamburg	↗	↗
3	Frankfurt	↗	↗
4	Dublin	↗	↗
5	Munich	↗	↗
17	Paris	→	→
27	London	↘	↘

Source: Emerging Trends in Real Estate ® - Europe 2017

- **Price levels in Berlin - Deutsche Wohnen book values in particular - are significantly below German and other west European areas, offering huge catch-up potential**
- **Replacement cost including land are currently at around 3,000 EUR/ sqm (2 x book values)**
- **Berlins attractiveness as dynamic Top European investment place underlined by recent surveys**

» Investments in best micro locations within Core+ regions as accelerator for rental and value growth

			Quality[1)]		1. Rent potential		2. Value potential		
Location cluster	Units	Targeted capex EUR m	Pre capex	Post capex	Pre capex	Post capex	Pre capex EUR/sqm	Targeted capex EUR/sqm	Mid term market expectation EUR/sqm
Hot Spot	~13,000	~450	3.9	1.9	29%	65%	1,580	~640	3,500
Growth	~14,500	~500	3.8	1.9	23%	44%	1,410	~640	3,000
Stable	~2,500	~70	4.1	2.0	24%	32%	1,000	~490	2,400
Total[1)]	**~30,000**	**~1,000**	**3.9**	**1.9**	**26%**	**52%**	**1,440**	**~630**	**3,200**

Note: excluding new construction

- Focus on best micro locations, predominately in hot spot and growth areas within Core+ regions - quality as precondition to drive rental and thereby value growth
- Based on detailed portfolio analysis significant step-up of existing capex program from EUR 400m (17,000 units) to EUR 1,000m (30,0000 units), scheduled to be executed by 2021
  - Investments of c. EUR 550m for pro-active refurbishments and c. EUR 450m for modernizations to upgrade the quality of the product underpin the comprehensive investment approach
  - Value enhancing capex measures of EUR 450m can be directly charged to the tenant, translating into an attractive yield on cost of 7-8%
  - Significant investment of EUR 630 per sqm leads to fully modernized investment stock post capex
- Rent potential will increase from EUR 120m to EUR180m post capex – doubling of reversionary potential to c. 50% for the investment portfolio
- Significant fair value uplift on top of capitalized investments of c. EUR 1,100 per sqm expected (>50% margin on fair value uplift)

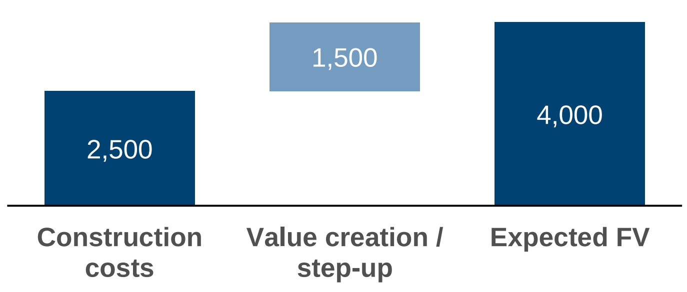
1) Scale for technical building condition: 1=new construction, 2=fully modernised existing stock, 3=average quality, 4=short term investment need, >5=significant capex backlog

» New construction pipeline – capitalizing on land bank

New construction pipeline								
Location cluster	**Units**	**Total investment (EUR m)**	**Construction costs (per sqm)**	**Market value (per sqm)**	**Market rent (per sqm/month)**	**Rent (EUR m)**	**Rent multiple on cost**	**Market value multiple**
New construction	1,800	380	2,500	4,000	12.0	21	17x	28x
Roof extensions/addition	400	70	2,400	4,300	13.0	4	15x	27x
Total mid-term (by 2020)	**2,200**	**450**	**2,500**	**4,000**	**12.2**	**25**	**17x**	**28x**
Mid to long-term pipeline	~10,000	~2,000				~100		

- New construction predominantly located in Berlin and Frankfurt am Main
- Expected NOI-yield of 5% (FFO yield ~8% overall[1)])
- Significant value creation contribution of EUR ~1,500 per sqm translating into ROI of ~60%
- ~10,000 units planned mid to long-term (mainly in the Berlin region and on existing land bank)

Value creation (EUR per sqm)



- **Rent potential of c. EUR 25m mid-term and c. EUR 100m p.a. long-term from new construction**

1) LTV of 50% on invest assumed

» Bolt-on acquisitions: Focus on selected value enhancing acquisitions but at lower pace compared to past years

Residential

- No attractive acquisition opportunities in the listed segment
- Acquisition of quality portfolios with strong anchor in Core+ markets, however more challenging as expected development largely reflected in price considerations of sellers
- Capital allocation decisions currently biased towards internal growth - targeted capex measures allow Deutsche Wohnen to capture value upside margin itself


- Attractive bolt-on acquisitions of c. 640 units in Core+ regions for c. EUR 100m or EUR 2,000 per sqm
- High quality, fully refurbished portfolio with attractive rent levels

Nursing

- EUR 40bn nursing market expected to grow significantly in coming years with estimated additional 300,000 beds required by 2030
- Focus on acquisition of assets, preferably in combination with operations to enhance yields
- Adherence to strict acquisition criteria – good location for nursing property ≠ good location for residential property
- Contribution of nursing business not expected to exceed c. 15% of group EBITDA in the medium term[1)]


- Acquisition of Pegasus portfolio with c. 4,100 places for c. EUR 420m or gross yield of 6.5%
- High quality facilities in good locations predominantly in Western Germany

- **Attractive pipeline of additional smaller bolt-on acquisitions in residential and nursing of c. EUR 200m**

1) Current EBITDA contribution of nursing business, pro forma for the recently announced Pegasus acquisition, amounts to c. 7%

» Executive summary: Key strategic priorities to accelerate rental and value growth

	Focus	Highlights
1 Investments existing stock	▪ Improve quality for top locations to crystallize rent and value growth ▪ Core+, in particular Berlin	▪ Capex program increased to EUR 1bn for 30,000 units by 2021 ▪ Reversionary potential post capex doubled from c. 25% to 50% ▪ >50% margin on fair value uplift
2 Investments new construction	▪ Redensification / addition of floors on top of existing buildings ▪ Monetization of existing land bank	▪ 2,200 units for close to EUR 0.5bn investment volume by 2020 ▪ ROI ~60% based on construction costs ▪ Another c. 10,000 units realizable in the long-term
3 Bolt-on acquisitions	▪ Nursing assets, ideally in combination with operations ▪ High-quality residential portfolios with strong anchor in Core+	▪ Successful acquisition of Pegasus portfolio with RoCE >6%

» NAV guidance increased for 2016

	2015	9M 2016	Guidance 2016[1)]		Comments
			Old	New	
EPRA NAV per share (undiluted)	23.01	25.10	>26	~30	▪ Based on transactional evidence at least EUR 2.2bn expected to be realized for 2016 (EUR 0.7bn already realized with H1 2016) ▪ Excluding changes in goodwill impairment and valuation of financial instruments and convertible bonds
FFO I (in EUR m)	303	301.4	>380	>380	▪ Excluding recently acquired nursing portfolio with transfer in Q4 2016/Q1 2017 (Pegasus) ▪ Acquisition expected to contribute c. EUR 23m (annual run rate)
Dividend per share	0.54	n/a	0.73	0.73	▪ Based on 65% pay-out ratio of FFO I and 337.5m shares outstanding
LTV	43%[2)]	41.7%	<40%	<40%	▪ LTV target range reduced from 35-45% to 35-40% ▪ Commitment to leverage discipline in light of asset appreciation

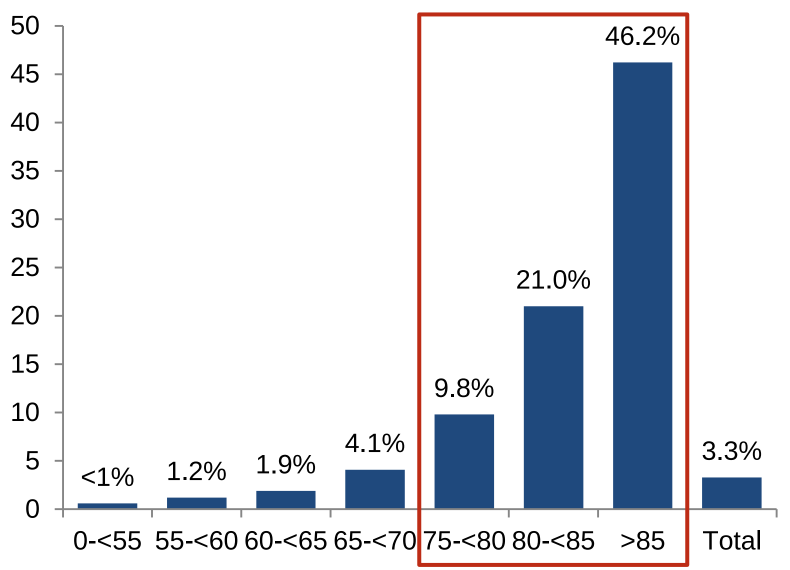
1) Without acquisitions and opportunistic portfolio disposal as well as excluding changes in goodwill impairment and valuation of financial instruments, based on current number of outstanding shares
2) Pro forma acquisitions

» Q&A

» Appendix 1 – nursing segment presentation

» Overview of German nursing market

Care dependent people by age groups



Source: Federal Statistical Office 2015, BBSR (2015), Georg Consulting (2016)

Overview of market segments

2.6m care dependent people

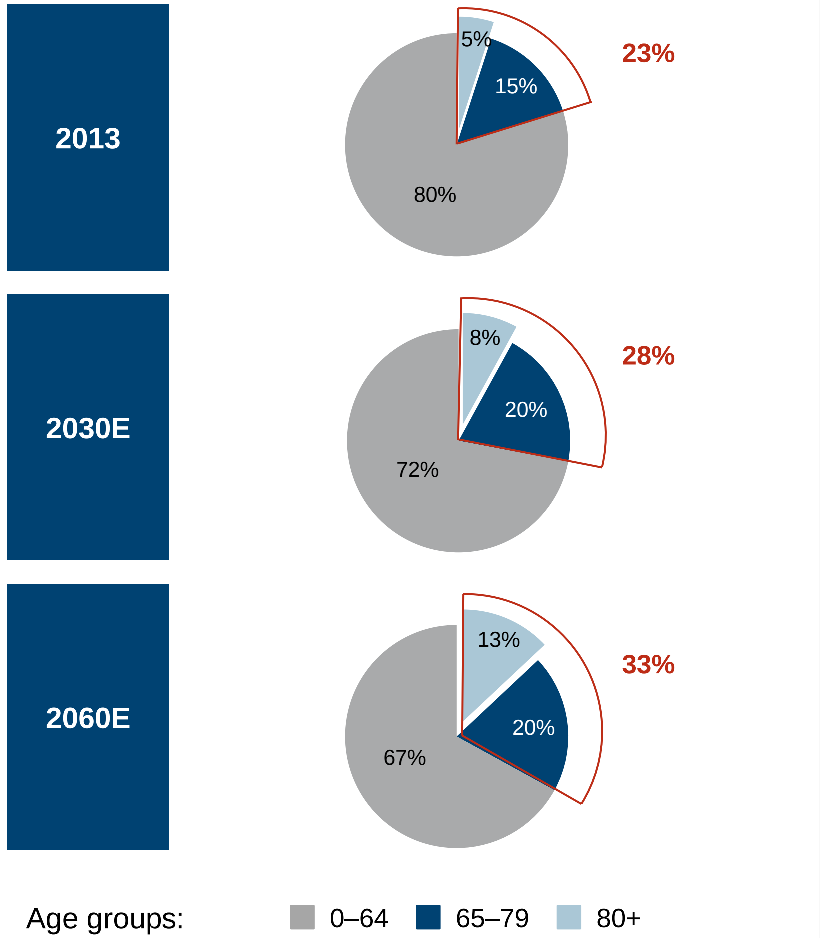
1.86m (71%) outpatient care	**0.76m (29%) inpatient care**
thereof 1.25m provided by relatives	c.13,000 nursing facilities
0.62m by ambulant nursing services	

Source: Federal Statistical Office 2013

- **Germany is the biggest nursing market in Europe with c. EUR 40bn annual spend, of which c. EUR 28bn inpatient and EUR 12bn outpatient nursing care**
- **Presently c. 2.6m care dependent people in Germany, of which c. 764,000 or c. 30% permanently live in one of c. 13,000 nursing facilities with nearly 900,000 beds**
- **The likelihood of requiring professional care significantly increases above the age of 75**

» Key demographic trends in Germany

Increasing share of age groups 65+ and 80+



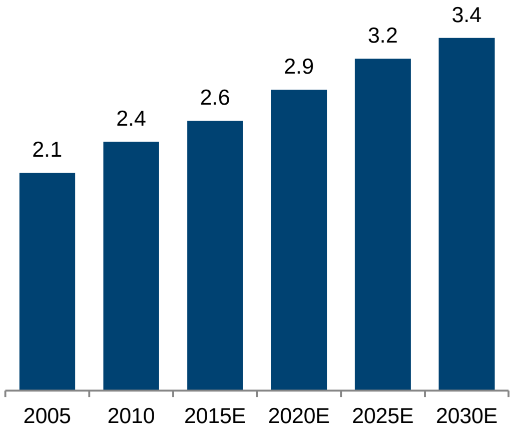
Source: Federal Statistical Office, 2015

Ageing population leads to increasing demand for nursing homes

- Nursing care market driven by (irreversible) demographic trends - increasing demand for social, medical and nursing services
- Main reasons for aging German population are:
  - Decreasing birth rates
  - Ageing of former baby boomer generations
  - Increasing life expectancy
- Until 2030 the age group >80 years is expected to increase by more than 60%
  - Approx. 8% of the German population will be >80 years in 2030
  - Increased demand for specialized facilities to serve e.g. Alzheimer’s disease / dementia
- The requirement for professional service structures in nursing care are further boosted by ongoing trends:
  - Increasing mobility
  - Bigger distance between family members
  - Higher share of employment of all family members

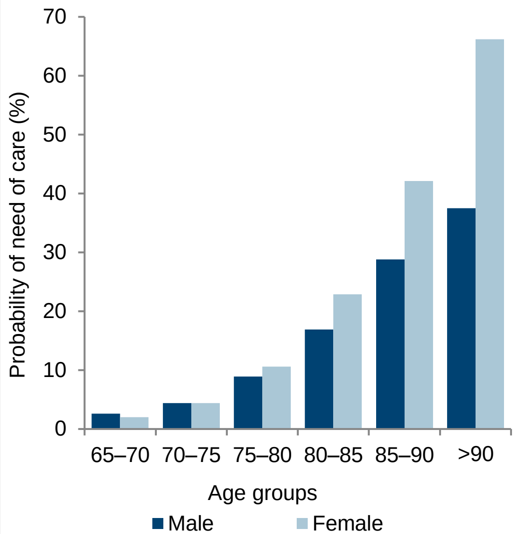
» Outlook for German nursing market

Estimated number of people in need of care (m)



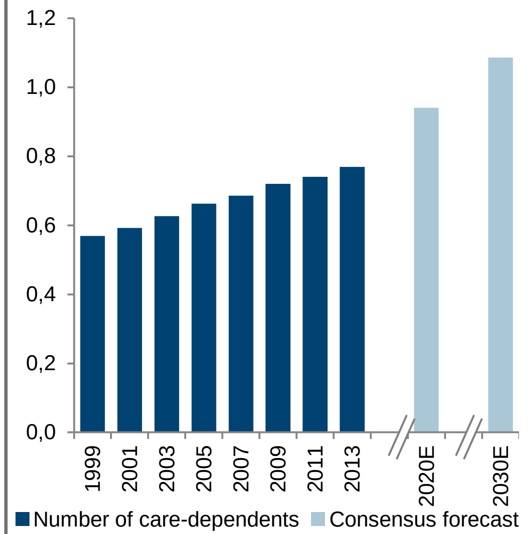
Source: Destatis and Terranus Research

Probability of need of care by age group (%)



Source: Destatis and Terranus Research

Forecast for inpatient care (# of beds in m)

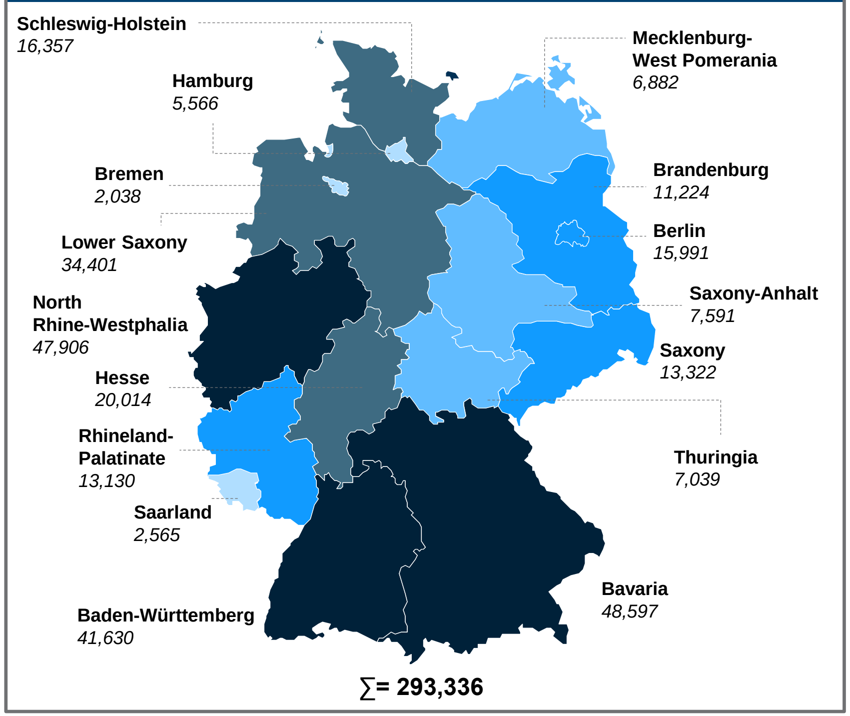


Source: D&S Healthcare

- **By 2030, an estimated additional 800,000 people will be in need of care compared to 2015**
- **The market for nursing homes remains a growth market with estimated 300,000 additional beds required by 2030, which will require significant capital investments in the market**

» Forecast - required additional nursing home beds by federal state

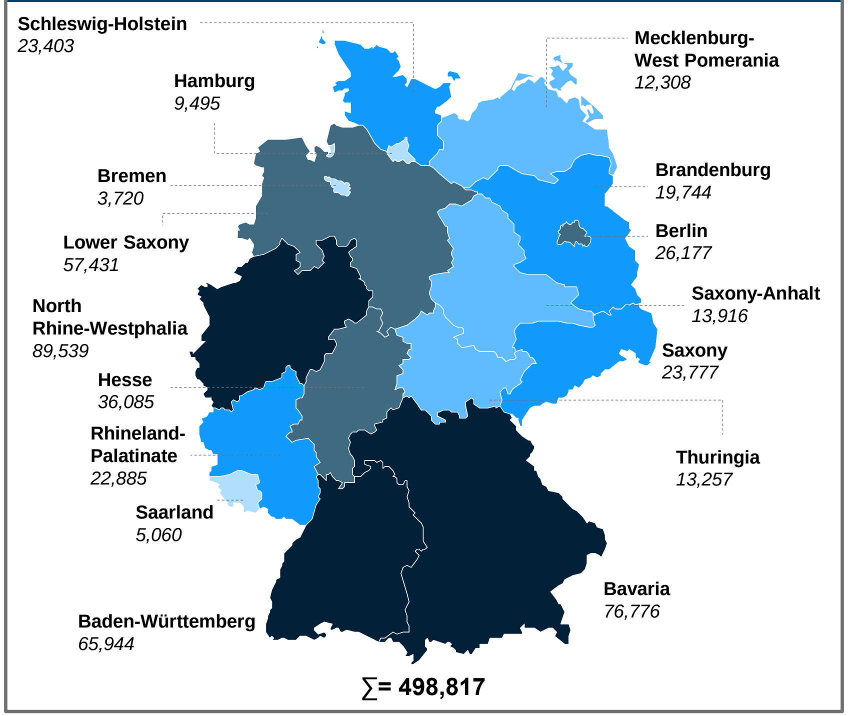
Additional demand for care beds by 2030 (constant nursing home ratio 2013)[1]



Number of care beds:

≥ 2,000 – <6,000 · ≥ 6,000 – <10,000 · ≥ 10,000 – <16,000 · ≥ 16,000 – <40,000 · ≥ 40,000 – <50,000

Additional demand for care beds by 2030 (nursing home ratio 2013 +5%)[2]



Number of care beds:

≥ 3,000 – <10,000 · ≥ 10,000 – <16,000 · ≥ 16,000 – <25,000 · ≥ 25,000 – <60,000 · ≥ 60,000 – <90,000

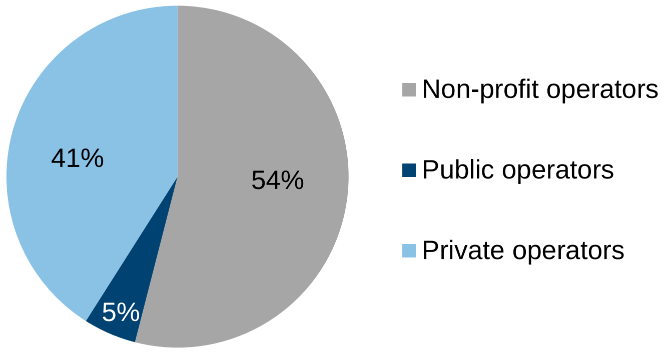
Source: Federal Statistical Office 2015, Georg Consulting (2016)

- **In all federal states and in almost all urban districts strong demand for additional nursing homes beds**
- **Good location for nursing property ≠ good location for residential property**

1) Scenario assumes constant proportion of the number of people in need of care to the number of nursing homes as in 2013 (basic ratio); 2) Scenario assumes 5 percentage-point increase in in the number of people in need of care compared to 2013

» Market structure – nursing home operators

Nursing home operators split by type (# of beds)



Source: Federal Statistical Office in Germany 2013

Top private operators (by # of beds)

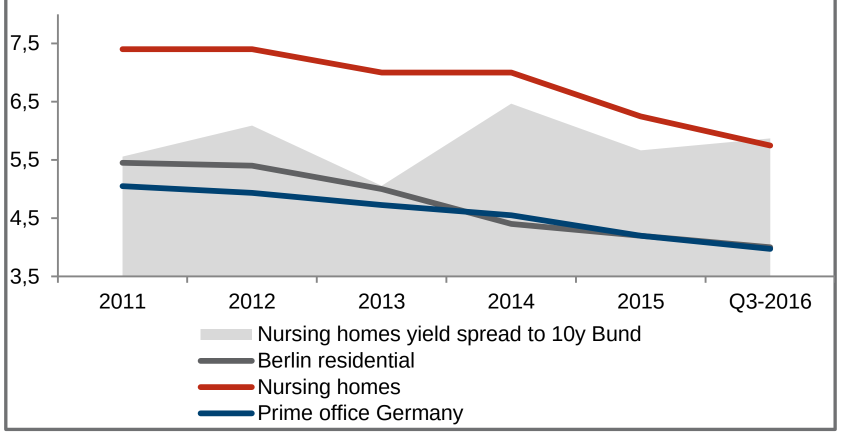
Operator	# of facilities	# of beds	Market share (%)	Occupancy (%)
Korian	228	24,775	3.1%	86.8%
Pro Seniore	97	13,101	1.6%	81.1%
Alloheim	124	12,169	1.5%	88.3%
Orpea / Silver Care	129	10,979	1.4%	91.6%
Kursana	96	9,241	1.2%	91.0%
Vitanas	58	7,582	0.9%	88.8%
Azurit	76	7,031	0.9%	83.7%

Source: Savills: Nursing homes market Germany 2016 (August 2016)

- Nursing home operator market is very fragmented
  - Top ten private operators only account for c. 13% of overall market (measured by number of beds)
  - Non-profit and public operators manage c. 60%
  - Many small (family) operators, often with less than 10 facilities and capex backlog
- Occupancy levels vary widely across operators and regions
  - Average occupancy rate of only c. 85%
  - Free capacity in many instances does not fulfil today’s standards for nursing homes (i.e.: free capacity ≠ available capacity)
- Significant consolidation trend among private operators in recent years
  - 3 of the top 5 operators are international companies (France: Korian and Orpea; USA: Alloheim/Carlyle)
  - Consolidation is expected to continue and to accelerate professionalism (and therewith profitability) of overall sector
- Private operators increase their capacity the fastest (by acquisition or greenfield projects); growth of non-profit operators limited by funding constraints

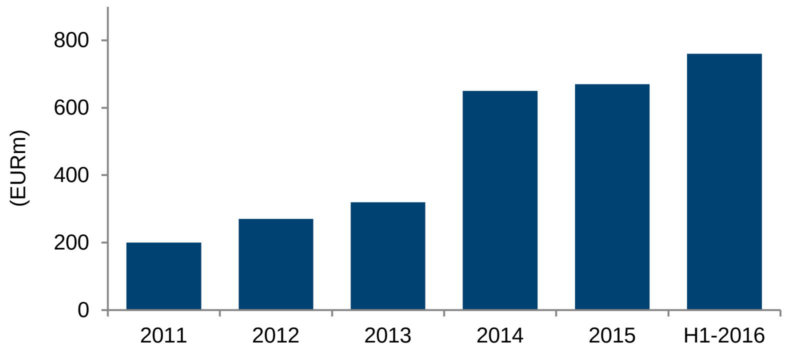
» Market structure – nursing home properties

Nursing homes yield spread significantly above other asset classes



Source: CBRE 2016

Increasing transaction volumes in nursing home property market

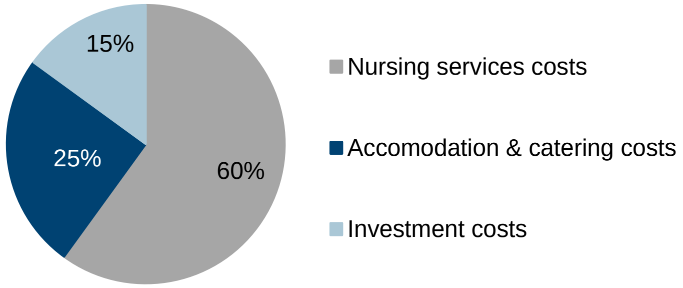


Source: Savills, 2016

- Nursing home property market accounts for c. 1-3% of overall commercial real estate transaction volume
- Nursing home properties offer attractive yields at low risk:
  - ➢ Fundamentals for niche sector remain strong and promising for the long-term
  - ➢ Transaction prices are still demonstrating significant yield premiums to comparable asset classes
  - ➢ Nursing market offers value catch-up potential from widening of spread vs. other asset classes
  - ➢ Very limited number of insolvencies in past years underscore low risk profile of sector
- Transaction volumes increased significantly over past years and 2016 pointing towards a record year
- Professional investors represented largest purchaser group over last years
- Key limiting factor of further increased transaction volumes is scarcity of supply despite positive macro outlook

» Overview of regulatory environment in Germany (1/2)

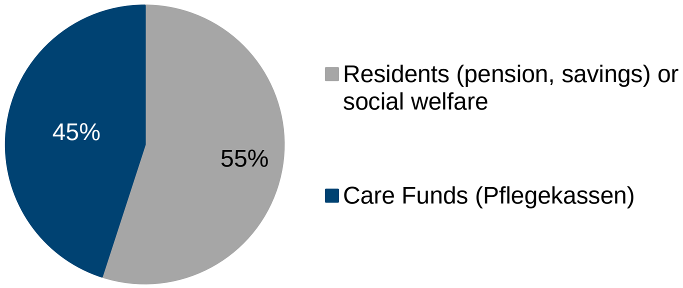
Standard daily cost breakdown of nursing homes



Source: Knight Frank Research, 2014

Funding of nursing home costs

Average Payment Breakdown



Source: Knight Frank Research, 2014

- Germany is one of few countries which requires all citizens to have either public or private long-term care insurance
  - Care Funds (Pflegekassen) provide a cost cover for care related services to the operator, based on the level of patient care necessary
  - Care Funds supported by mandatory social insurance as provided by care insurance law[1)]
  - Funded at a contribution rate of 2.35% of gross salary increasing by 0.2% as of 2017 (childless employees pay an additional contribution of 0.25%)
  - Until December 2016 there are 3 levels of care; starting from 2017 there will be 5 levels with increased funding of higher dependent people
- In addition to national regulation, there are different regional legislations on fit-out standards, multi-occupancy ratios minimum room measurement and employee skills (not homogeneous)

- **Germany has one of the most stable funding systems for long-term care in Europe with currently c. EUR 7bn funding surplus**

1) Pflegeversicherungsgesetz

» Overview of regulatory environment in Germany (2/2)

New homes authorization

- No formal permission (except for building laws) required to set up new nursing homes
- Operators entitled to enter into new supply contract with Care Funds (Pflegekassen) as soon as structural requirements for operating a nursing home are met

Quality requirements

- Independent operators (MDK[1)]) check process structure and performance quality
- Frequency of quality assurance audits of outpatient and inpatient care has historically increased
- Mandatory publication of MDK quality reports of each nursing home planned through latest regulatory initiatives to increase transparency

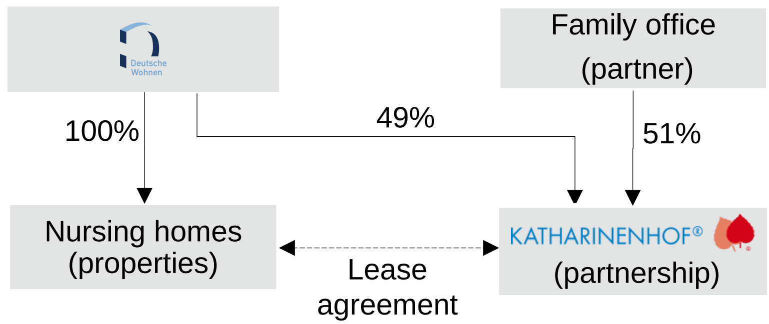
Pricing & financing

- Prices for nursing care services strictly regulated and negotiated with authorities and revised every 1-2 years, usually above cost inflation
- Total cost for a nursing home place is funded by the respective resident, care fund and, if required, social welfare (depending on residents' income)
  - Vast majority of nursing services costs is financed by care fund; level of reimbursements are defined by laws, depending on level of care required
  - Accommodation & catering as well as investment costs are , in principle, financed by resident (or social welfare system); investment rates are set freely for resident not receiving public aid
  - Operators are free to generate additional revenues from secondary services, financed by respective resident

1) MDK – German Health Insurance Medical Service

» Deutsche Wohnen nursing business at a glance

Legal structure of DW nursing business



Operating management via Katharinenhof brand

- Above industry average quality of services as demonstrated by very good ratings granted by MDK[1)]
- Assisted living facilities offer rental apartments to senior citizens along with an extensive range of services
- Full inpatient nursing care promotes an active lifestyle for patients in exalted quality
- Outpatient care services offer assistance and care for the elderly in their households

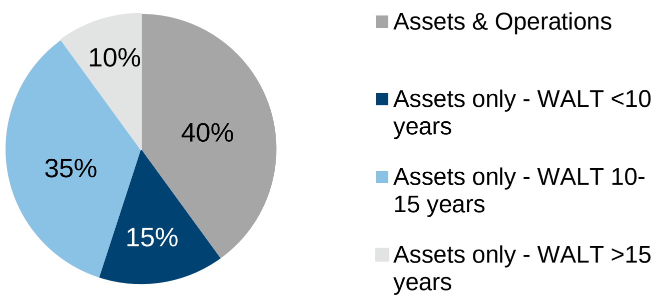
- Beginning of 2015, the operational business of Katharinenhof was transferred into a partnership structure
  - ➢ Deutsche Wohnen has a 49% stake; fully consolidated
  - ➢ 51% partner is a family office
- Currently 20 facilities with more than 2,000 beds are managed by the Katharinenhof partnership
- Deutsche Wohnen 100% owns 19 facilities of the Katharinenhof properties with a fair value of c. EUR 161m
- In August 2016, Deutsche Wohnen acquired 28 facilities with more than 4,100 beds, thus expanding its holdings in this segment significantly
- The acquisition makes Deutsche Wohnen one of the leading providers in Germany of high-quality residential and nursing facilities for elderly people

- **Since almost 20 years Deutsche Wohnen plays an active role in the area of nursing and assisted living**

- **MDK scores are between 1.0-1.2 corresponding to an overall industry ranking of 3rd place**

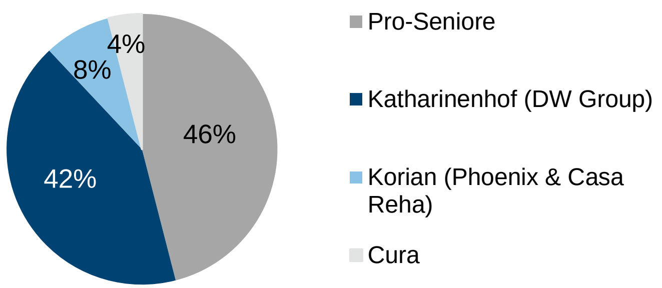
» Portfolio details pro forma recent acquisition

Assets & Operations versus Assets only



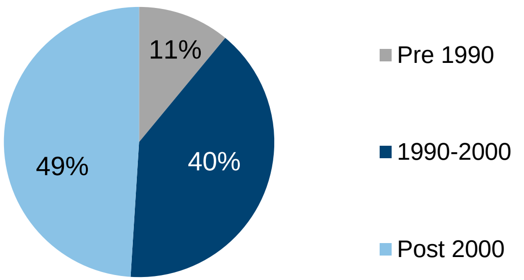
=> Large share of facilities owned and operated

Distribution by operators



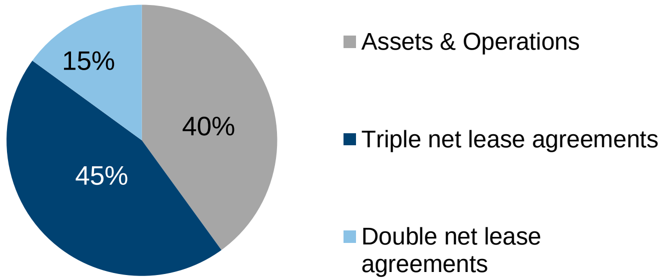
=> Largest private operators serve as lead covenants

Distribution by year of construction



=> Relatively new facilities with little to no capex backlog

Distribution by type of lease agreement



=> Secured cash flows with limited investment needs for outsourced operations

» Portfolio images (1/2)

Uferpalais

Uferpalais

Im Schlossgarten

Wolkenstein

» Portfolio images (2/2)

Heinrich-Lassen

Am Lunapark

Wilsdruff

Wilsdruff

» Competitive strength and strategy

Significant internal growth potential	▪ Accelerate internal growth by further specialization of facilities on dependency needs (e.g. dementia) ▪ Enhancement of product offering (combination of outpatient care and day-care with existing nursing facilities) ▪ Active management of care levels to enhance profitability mix
Further expansion via M&A and/or greenfield projects	▪ Fragmented market with promising fundamental outlook offers room for consolidation ▪ Attractive yield spread compared to comparable asset classes ▪ Focus on acquisition of real estate properties, preferably in combination with operational management to enhance yields ▪ Adherence to strict acquisition criteria focussing on quality, market positioning and expected value upside
Significant contribution to profitability	▪ Overall contribution of nursing business not to exceed c. 15% of group EBITDA in the medium term
Key competitive advantages	▪ Long-lasting expertise on both, the asset as well as operational side as demonstrated by best in class occupancy ratios for self managed facilities ▪ Proven track record for successful integration of acquired business (e.g. Lebenswerk 2012 and Uferpalais 2013) ▪ Low cost of funding

» Overview of "Pegasus" acquisition (1/2)

Object of purchase	▪ 28 nursing (c. 3,700 places) and assisted living facilities (c. 400 places) with 180k sqm ▪ Only assets acquired, not the operating business
Pricing & deal structure	▪ Purchase price: EUR 420m ▪ 6.5% gross yield ▪ Asset deal
Lease revenues	▪ EUR 27.3m p.a.
Margins (run rate)	▪ Expected EBITDA margin of c. 95%
WALT	▪ Weighted average lease term of c. 13 years (c. 24 years including extension option)
Expected closing	▪ Q4 2016 – Q1 2017

- Facilities of high quality in good locations predominantly in West Germany
  - Good market positioning from a price/ performance perspective
  - More than 75% of buildings constructed after 2000
- Well-known operators with proven track record and high credit-worthiness as lead covenant
  - Mature operations with avg. occupancy of 87%, in line with German average
  - Among top 10 operators in Germany
- Approx. 80% of lease agreements structured as triple net contracts incl. indexation
  - Contracts provide for defined investments to be undertaken by lessee to maintain quality of assets during lease term
  - No material capex backlog
  - All but one lease contracts linked to German CPI

- **Executed on communicated strategy to grow nursing and assisted living business – attractive add-on business with high earnings contribution at low risk profile**

» Overview of “Pegasus” acquisition (2/2)

Pro Seniore Residenz (Oberau, Bavaria)

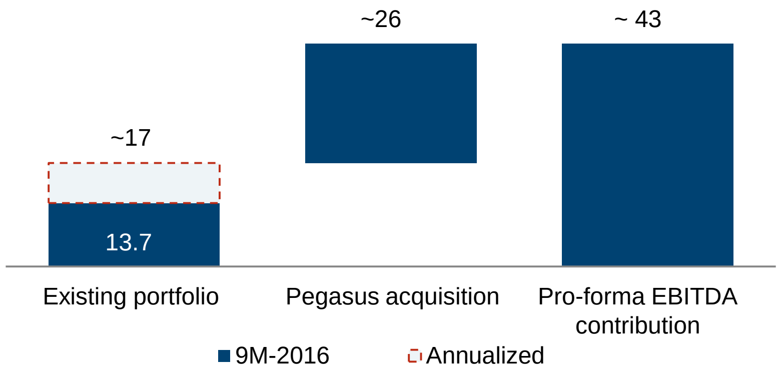
Pro Seniore Residenz (Kempten, Bavaria)

Pro Seniore Residenz (Radolfzell, Baden-Württemberg)

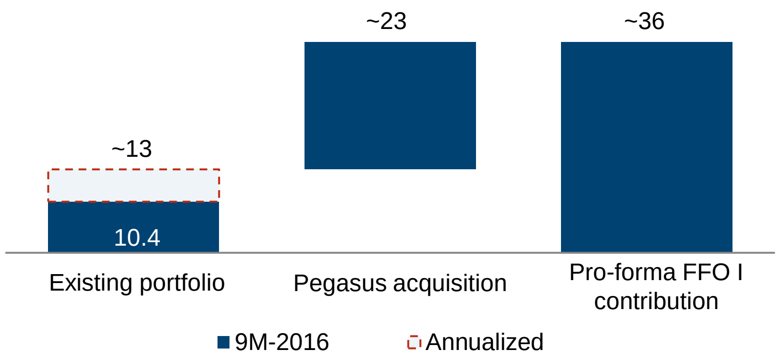
Sozialkonzept Cäcilienhof (Garbsen, Lower Saxony)

» Successful Pegasus acquisition will drive earnings growth further

EBITDA contribution of nursing business (EUR m)



FFO I contribution of nursing business (EUR m)



- **Expected EBITDA contribution including acquired nursing portfolio of EUR ~43m (annual run rate), translating into of RoCE of c. 7%**

- **FFO I contribution of EUR ~36m (annual run rate) expected, translating into an FFO I yield of c. 10% based on Deutsche Wohnen’s capital structure with c. 40% LTV**

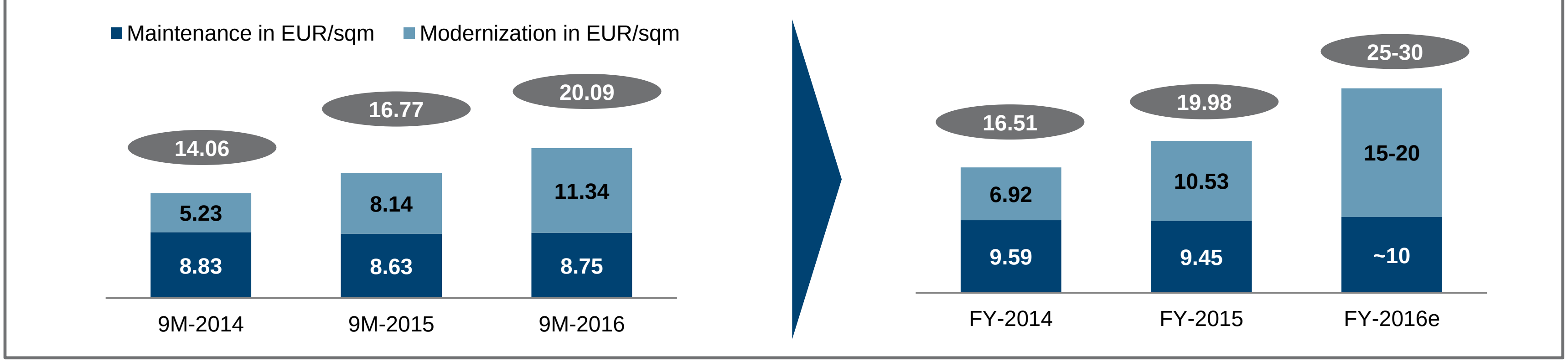
» Appendix – general section

» Focused and increasing investments into the portfolio

	9M 2016	9M 2015
	EUR m	EUR m
Maintenance (expensed through p&l)	64.4	58.9
Modernization (capitalized on balance sheet)	83.5	55.6
Total	147.9	114.5
Total EUR/ sqm[1)]	20.09	16.77
Capitalization rate	56.5%	48.6%

Maintenance and capex will increase in the course of the year to EUR 25-30 per sqm

Capex & maintenance per sqm



1) Based on the quarterly average area

» Bridge from adjusted EBITDA to profit

in EUR m	9M 2016	9M 2015
EBITDA (adjusted)	**451.4**	**402.2**
Depreciation	(4.6)	(4.1)
At equity valuation	1.5	1.5
Financial result (net)[1)]	(88.5)	(96.8)
EBT (adjusted)	**359.8**	**302.8**
Valuation properties	731.3	705.0
One-offs	(6.4)	(83.4)
Valuation SWAP and convertible bonds	(155.2)	(139.0)
EBT	**929.5**	**785.4**
Current taxes	(21.3)	(21.0)
Deferred taxes	(269.8)	(242.7)
Profit	**638.4**	**521.7**
Profit attributable to the shareholders of the parent company	*618.2*	*500.2*
Earnings per share[2)]	1.83	1.59

in EUR m	9M 2016	9M 2015
Interest expenses	(79.3)	(94.9)
In % of rents	*~15%*	*~20%*
Non-cash interest expenses	(9.9)	(2.5)
Interest income	0.7	0.6
Financial result (net)	**(88.5)**	**(96.8)**

Thereof EUR (10.9m) from valuation of derivatives and EUR (144.3) m from convertible bonds

1) Adjusted for Valuation of SWAPs and convertible bonds; 2) Based on weighted average shares outstanding (9M-16: 337.44m; 9M-15: 315.27m)

» Summary balance sheet

Assets

in EUR m	30/09/2016	31/12/2015
Investment properties	13,481.7	11,859.1
Other non-current assets	630.7	614.3
Deferred tax assets	346.4	325.5
Non current assets	**14,458.8**	**12,798.9**
Land and buildings held for sale	381.3	66.9
Trade receivables	20.5	13.4
Other current assets	127.5	159.3
Cash and cash equivalents	277.8	661.6
Current assets	**807.1**	**901.2**
Total assets	**15,265.9**	**13,700.1**

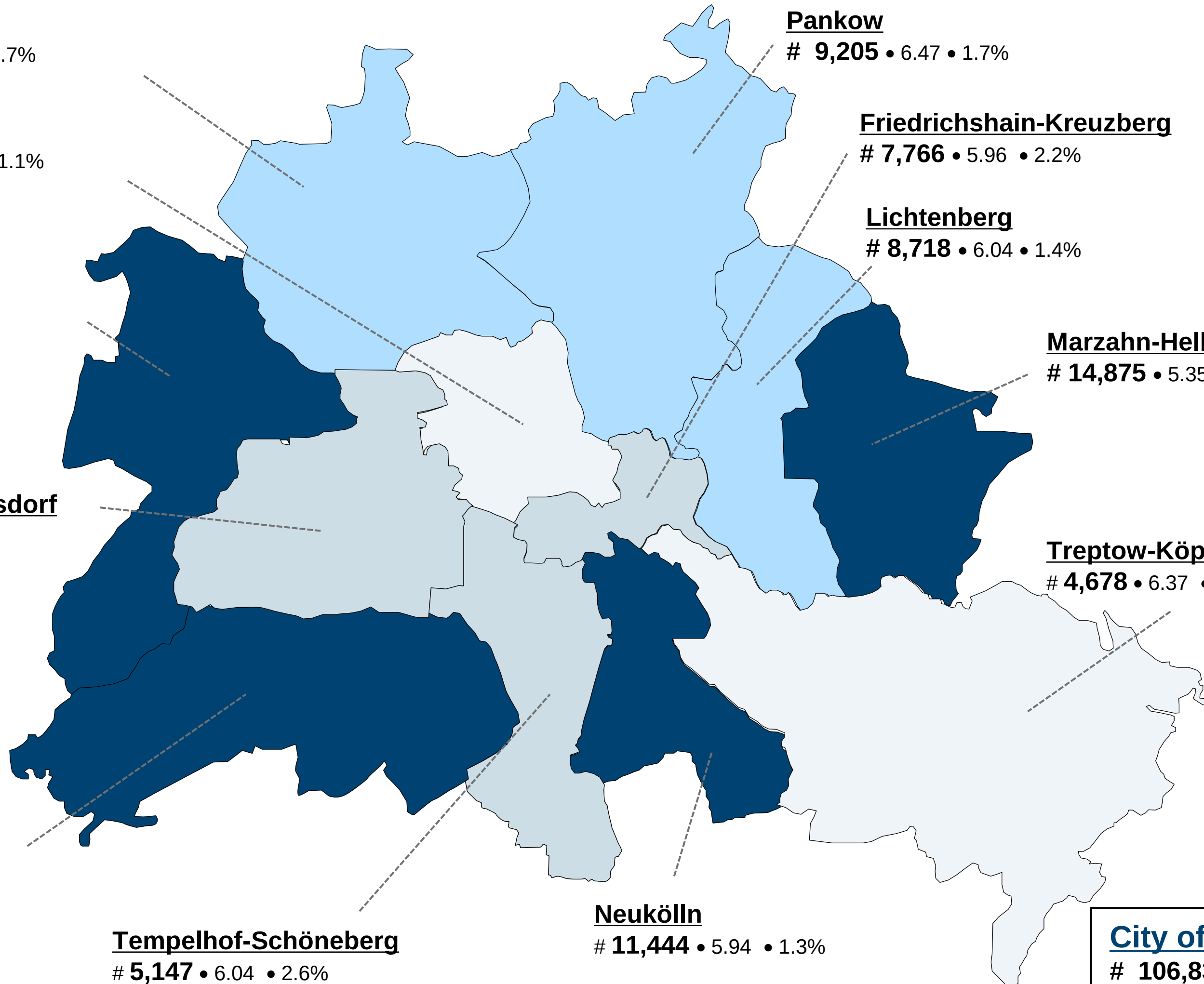
Equity and Liabilities

in EUR m	30/09/2016	31/12/2015
Total equity	**7,315.5**	**6,872.0**
Financial liabilities	4,466.7	3,780.4
Convertibles	1,109.2	965.4
Bonds	497.4	498.3
Tax liabilities	54.4	37.5
Deferred tax liabilities	1,396.4	1,110.2
Derivatives	60.0	44.8
Other liabilities	366.3	391.5
Total liabilities	**7,950.4**	**6,828.1**
Total equity and liabilities	**15,265.9**	**13,700.1**

- **Investment properties represent ~88% of total assets**

- **Strong balance sheet structure offering comfort throughout market cycles**

» THE BERLIN-PORTFOLIO AT A GLANCE



Reinickendorf
9,365 • 5.99 • 1.7%

Mitte
3,338 • 6.11 • 1.1%

Spandau
13,689 • 5.87 • 1.7%

Charlottenburg-Wilmersdorf
7,684 • 6.76 • 2.1%

Steglitz-Zehlendorf
10,927 • 6.42 • 1.9%

Tempelhof-Schöneberg
5,147 • 6.04 • 2.6%

Neukölln
11,444 • 5.94 • 1.3%

Pankow
9,205 • 6.47 • 1.7%

Friedrichshain-Kreuzberg
7,766 • 5.96 • 2.2%

Lichtenberg
8,718 • 6.04 • 1.4%

Marzahn-Hellersdorf
14,875 • 5.35 • 1.1%

Treptow-Köpenick
4,678 • 6.37 • 1.4%

City of Berlin
106,836 • 6.04 • 1.7%
Greater Berlin
110,776 • 6.04 • 1.7%

> 3,000	> 5,000	>8,000	>10,000

 # units • in-place rent (EUR/m²) • vacancy

» Disclaimer

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