

# Deutsche Office

H1 / 2015

11 AUGUST 2015

# DISCLAIMER

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, general economic conditions, including in particular economic conditions in the core business of DO Deutsche Office AG and core markets, general competitive factors, the impact of acquisitions, including related integration issues, and reorganization measures. Furthermore, the development of financial markets, interest rate levels, currency exchange rates, as well as national and international changes in laws and regulations, in particular regarding tax matters, can have a corresponding impact. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

The company assumes no obligation to update any information contained herein.

## Notes:

Merger of PO REIT into Deutsche Office became effective on 21 January 2014. Financial statements therefore include only February – June 2014 figures for the former PO REIT, unless otherwise indicated with “pro-forma” or “PF”.

Unless otherwise indicated, all values have been rounded up or down to units of a thousand euros (EUR k) or million euros (EUR m). In some cases, this may result in minor discrepancies in the tables and graphs included in the presentation and in the totals provided.

# DEUTSCHE OFFICE IN H1/2015

## **Strong operating performance**

- Letting volume of c76.7k sqm in H1/2015 (c8.5 % of gross lettable area)
- Vacancy reduced by 350 bps y-o-y to 15.9 %
- Expected vacancy for YE 2015 in a range of 14 – 13 %

## **Attractive acquisition on the back of lucrative disposals**

- Acquisition of a fully let office property in Stuttgart with attractive Gross Initial Yield of 13.9 %
- Consistent execution of active asset management approach: realizing disposal gains in the real estate cycle

## **Further deleveraging and reduction of financing cost**

- Net-Loan-to-Value (Net-LTV) reduced to 51.9 % (-80 bps q-o-q and -160 bps vs. Dec 2014)
- Financial result improved by 44 % y-o-y to EUR -13.6m

## **Cost further reduced**

- Admin cost ratio decreased y-o-y by 1.7 %-points to 7.8 %
- Cost leadership position confirmed

## **Strong FFO development**

- FFO increased y-o-y by 18 % to EUR 24.8m on the back of increasing occupancy, improved financial result despite property disposals

## **Net Asset Value (NAV) increase vs. Dec 2014**

- NAV per share at EUR 4.46 vs. EUR 4.45 as of Dec 2014 despite dividend payment of EUR 0.15 per share

## **Guidance for FY 2015 specified**

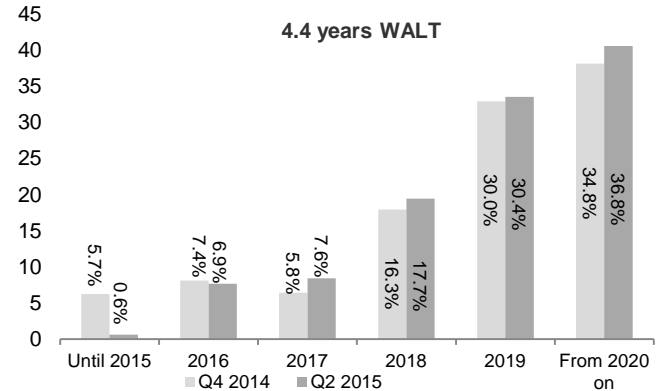
- Revenues of EUR c107m (formerly: EUR 105 – 107m ) and FFO of EUR 52m (formerly: at least EUR 50m) expected
- Stable dividend with pay-out ratio of 50 – 60 % of FFO going forward

# STRONG OPERATING PERFORMANCE

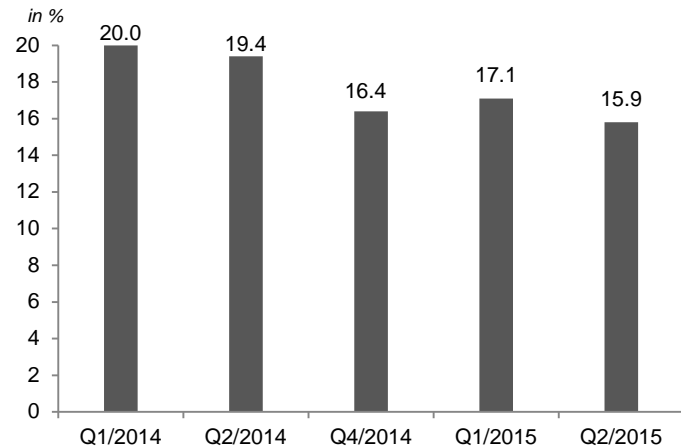
## Letting result in H1/2015

- Total letting volume c76.7k sqm (c8.5 % of gross lettable area of investment properties)
  - thereof c28.5k sqm new leases
  - thereof c48.2k sqm lease extensions
  - thereof in challenging markets
    - Dusseldorf: c13.5k sqm
    - Frankfurt: c2.0k sqm
- Q2/15 letting volume c24.1k sqm
  - thereof c16.6k sqm new leases
  - thereof c7.5k sqm lease extensions
- Vacancy decrease y-o-y by 350 bps to 15.9%
  - Vacancy of c14 - 13 % expected for end of Q4/2015
- WALT: 4.4 yrs
- Average rent of EUR 11.48/sqm for new leases of office space in H1/2015, on average c5.5 % above expectations

## Lease Expiry Profile 30 June 2015



## Vacancy Development Investment Properties



# LETTING HIGHLIGHTS Q2/2015



Gross lettable area: 36,079 sqm

## Dusseldorf, AM SEESTERN 1

- 10 yrs lease contract (c2.5k sqm) signed with nursing home operator Alloheim
- Tenant moves its headquarters from Dusseldorf media harbour to AM SEESTERN 1
- Vacancy reduced by c9 %-points to c71 %
- WALT: 5.1 yrs



Gross lettable area: 20,159 sqm

## Bruchsal, Vichystrasse

- Lease contract for 11.2k sqm (3 yrs) signed with logistics company
- Tenant moves in gradually starting on October 1, 2015. Full-time logistical operations to start December 1, 2015.
- Vacancy reduced by c49 %-points to c12 %
- WALT: 4.5 yrs

# LETTING HIGHLIGHTS (CONTINUED)



Gross lettable area: 11,495 sqm

## Nuremberg, Lina-Ammon-Strasse

- 1.1k sqm lease extensions (4 yrs) with health insurance company AOK
- Vacancy at c23 %
- WALT: 4.0 yrs



Gross lettable area: 12,219 sqm

## Munich/ Ismaning, Gutenbergstrasse

- Letting volume in Q2/2015 of c2.0k sqm corresponds to c16 % of lettable area
- c1.4k sqm new lease (10 yrs) with a vocational training academy and 300 sqm (5yrs) with Carbonite Deutschland, a leading supplier of hybrid backup & recovery systems
- Vacancy reduced by 15 %-points YTD to 54.1 %
- WALT: 5.8 yrs



Gross lettable area: 6,445 sqm

## Nuremberg, Sigmund-Schuckert-Haus

- Letting volume of c2.8k sqm corresponds to c43 % of lettable area
- Full occupancy reached by renting out remaining lettable area to the State of Bavaria (5 yrs) for the Police Headquarters Middle Franconia
- WALT: 4.5 yrs

# UPDATE DISPOSAL ACTIVITIES



Gross lettable area: 22,010 sqm

## Dusseldorf, Immermannhof

- Disposal price of EUR c60m (Yield: c6 %)
- Another successful example for active asset management: Disposal with stabilized vacancy and book gain of 2 % vs. valuation YE 2014
- Closing expected for Q3/2015



Gross lettable area: 10,382 sqm

## Bonn, Potsdamer Platz

- Disposal price of EUR c24m (Yield: c6 %)
- Exit 7 % above valuation YE 2014: Attractive exit price realized
- Closing expected for Q4/2015

# LATEST ACQUISITION



## Stuttgart, Vaihinger Strasse “Atlanta Business Center”

- Highly attractive acquisition: Purchase price of EUR c27m results in a GIY of 13.9 %
- Tenant is a leading German automobile manufacturer
- Lease with unlimited term; termination with notice period of 2 yrs
- Annual net cold rent of EUR 3.8m and annual FFO-contribution of EUR 3.4m due to highly attractive transaction- and financing conditions
- Significant value accretion potential alongside with Deutsche Office’s active asset management approach
- Closed July 31, 2015

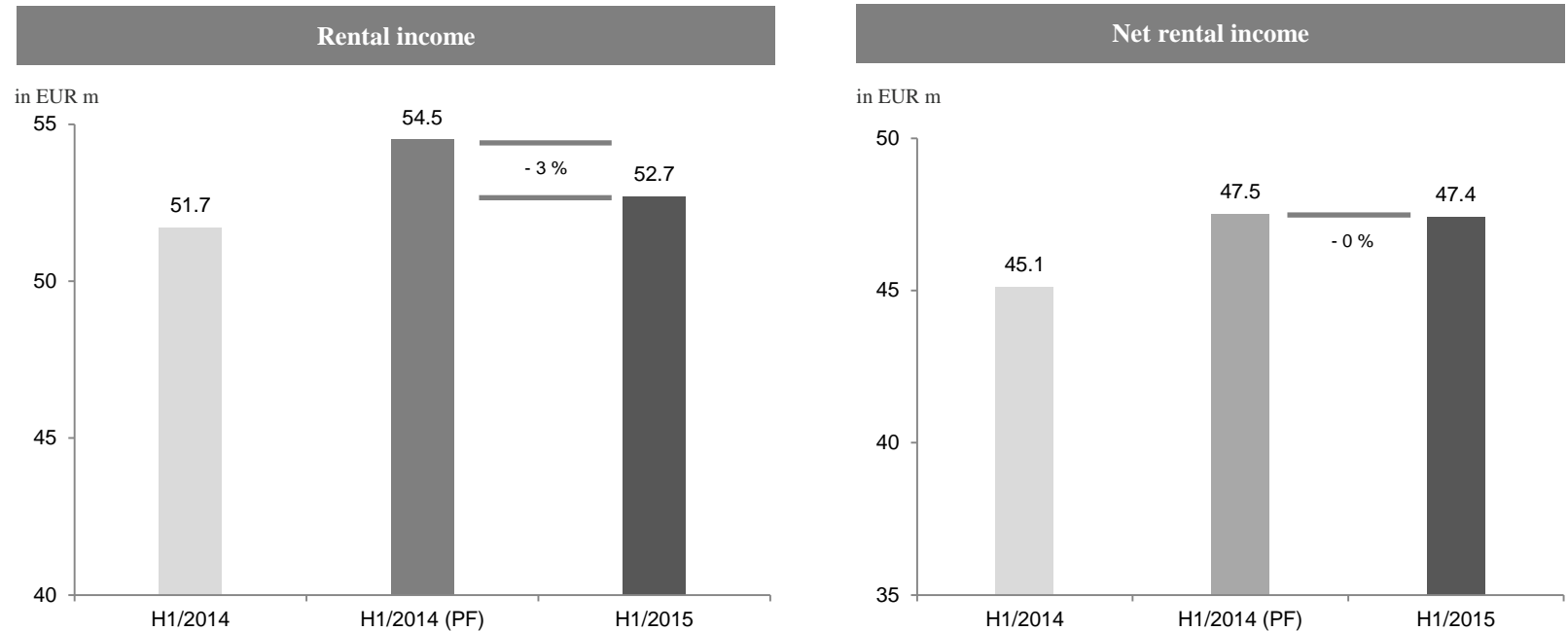


Gross lettable area: 22,010 sqm



# FINANCIALS H1/2015

# RENTAL INCOME AND NET RENTAL INCOME



## Summary

- Rental income decreased by 3 % y-o-y in H1/2015 due to property disposals
- Net rental income nearly (NRI) reached H1/2014 levels despite property disposals on the back of improved occupancy and NRI-margin
- NRI-margin will be improving further in the quarters to come

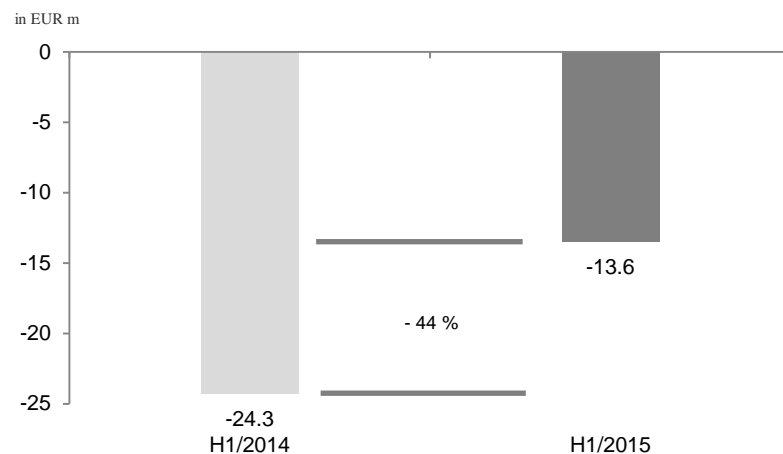
# MARKET LEADING COST BASE FURTHER IMPROVED

| EPRA-Cost                                   |              |              |        |              |
|---------------------------------------------|--------------|--------------|--------|--------------|
| in EUR m                                    | H1/2015      | H1/2014 (PF) | Change | H1/2014      |
| Non-recoverable property related expenses   | -5.4         | -7.0         | -23%   | -6.6         |
| Administrative expenses*                    | -4.1         | -5.1         | -20%   | -4.9         |
| EPRA-Cost (incl. Vacancy cost)              | -9.5         | -12.1        | -21%   | -11.5        |
| Vacancy cost                                | 3.2          | 3.9          | -18%   | 3.7          |
| EPRA-Cost (excl. Vacancy cost)              | -6.3         | -8.2         | -23%   | -7.8         |
| Rental income                               | 52.7         | 54.5         | -3%    | 51.7         |
| <b>EPRA-Cost ratio (incl. vacancy cost)</b> | <b>18.0%</b> | <b>22.2%</b> |        | <b>22.2%</b> |
| EPRA-Cost ratio (excl. vacancy cost)        | 12.0%        | 15.0%        |        | 15.1%        |
| thereof: Net service charges                | 4.2%         | 5.7%         |        | 5.6%         |
| <b>Administrative cost</b>                  | <b>7.8%</b>  | <b>9.4%</b>  |        | <b>9.5%</b>  |

## Comments

- Merger synergies fully kicking in
- EPRA-Cost ratio further reduced by 0.7 %-point vs. Q1/15 to 18 %
- Admin cost ratio decreased y-o-y by 1.7 %-points to below 8 %

## Financial Result\*\*



## Comments

- Significant improvement of financial result y-o-y and q-o-q
  - Reduction of Net-LTV to 51.9 %
  - Improvement of average cost of debt to 3.3 %

# GROWING FUNDS FROM OPERATIONS

| Funds from Operations (FFO)   |                |               |              |               |
|-------------------------------|----------------|---------------|--------------|---------------|
| in EUR m                      | H1/2015        | H1/2014 (PF)  | Change       | H1/2014       |
| Rental Income                 | 52.7           | 54.5          | -3 %         | 51.7          |
| Net rental income             | 47.4           | 47.5          | 0 %          | 45.1          |
| Administrative expenses*      | -4.1           | -5.1          | -20 %        | -4.9          |
| Other income/ other expenses* | 0.0            | -0.2          | -100 %       | 0.4           |
| Financial result*             | -18.5          | -21.1         | -12 %        | -19.5         |
| <b>Funds from Operations</b>  | <b>24.8</b>    | <b>21.1</b>   | <b>+18 %</b> | <b>21.1</b>   |
| <b>FFO per share (in EUR)</b> | <b>0.14***</b> | <b>0.13**</b> | <b>6 %</b>   | <b>0.13**</b> |

\* Adjusted for one-off-, extraordinary effects and fair value adjustments of derivatives

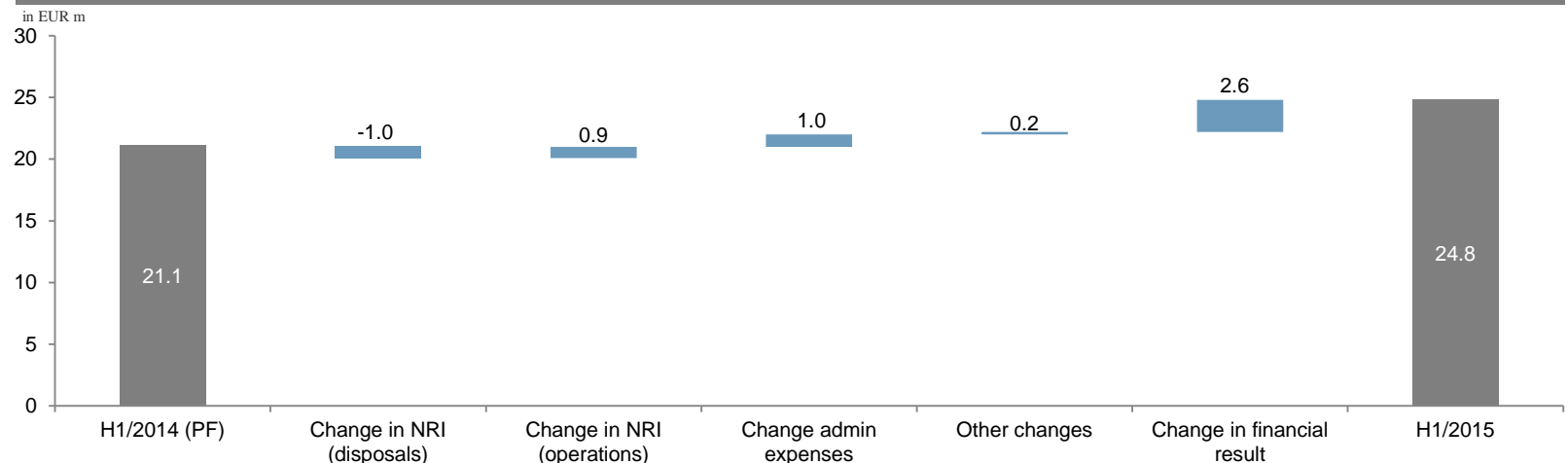
\*\* Based on 163.5m shares

\*\*\* Based on 180.5m shares

## Comments

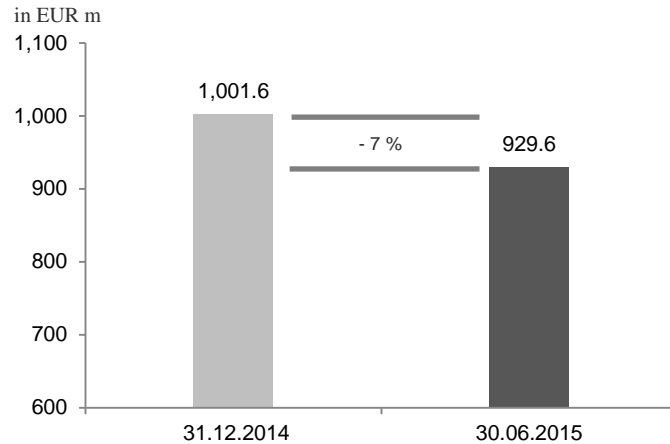
- FFO increased 18 % y-o-y to EUR c24.8m aided by reduced administrative expenses and improved financial result
- FFO improving further over the coming quarters

## FFO Bridge (Q2/2014 (PF) to Q2/2015)

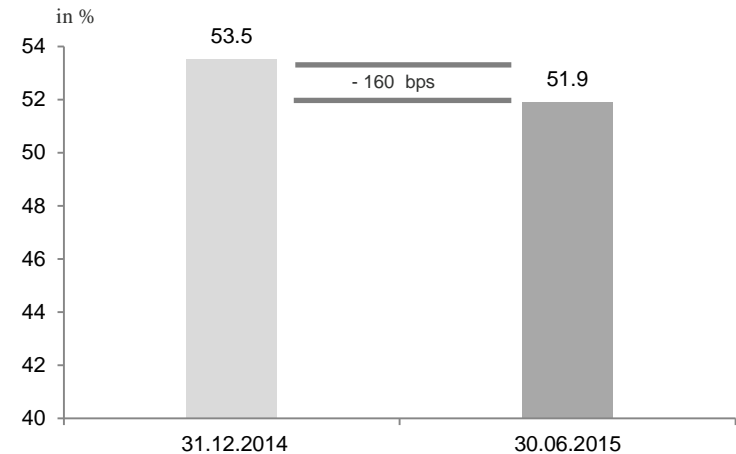


# CONTINUOUSLY IMPROVING FINANCING STRUCTURE

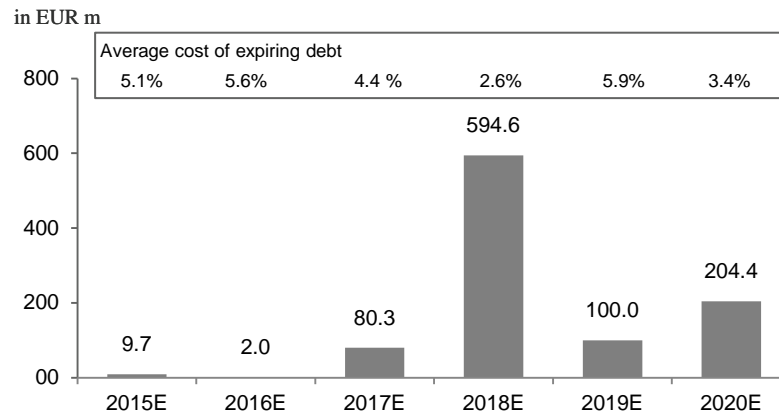
## Net debt



## Net-Loan-to-value



## Debt maturity profile



## Comments

- Net debt decreased by 7 % to below EUR 1bn
- Net-LTV further reduced to 51.9 %
- Average cost of debt at 3.3 % with further improvement potential
- Hedging: 88 % (68 % via swaps, 20 % via caps)
- Average debt maturity 3.8 yrs with no material maturity prior to June 2017
- Market-based financial covenants with comfortable headroom

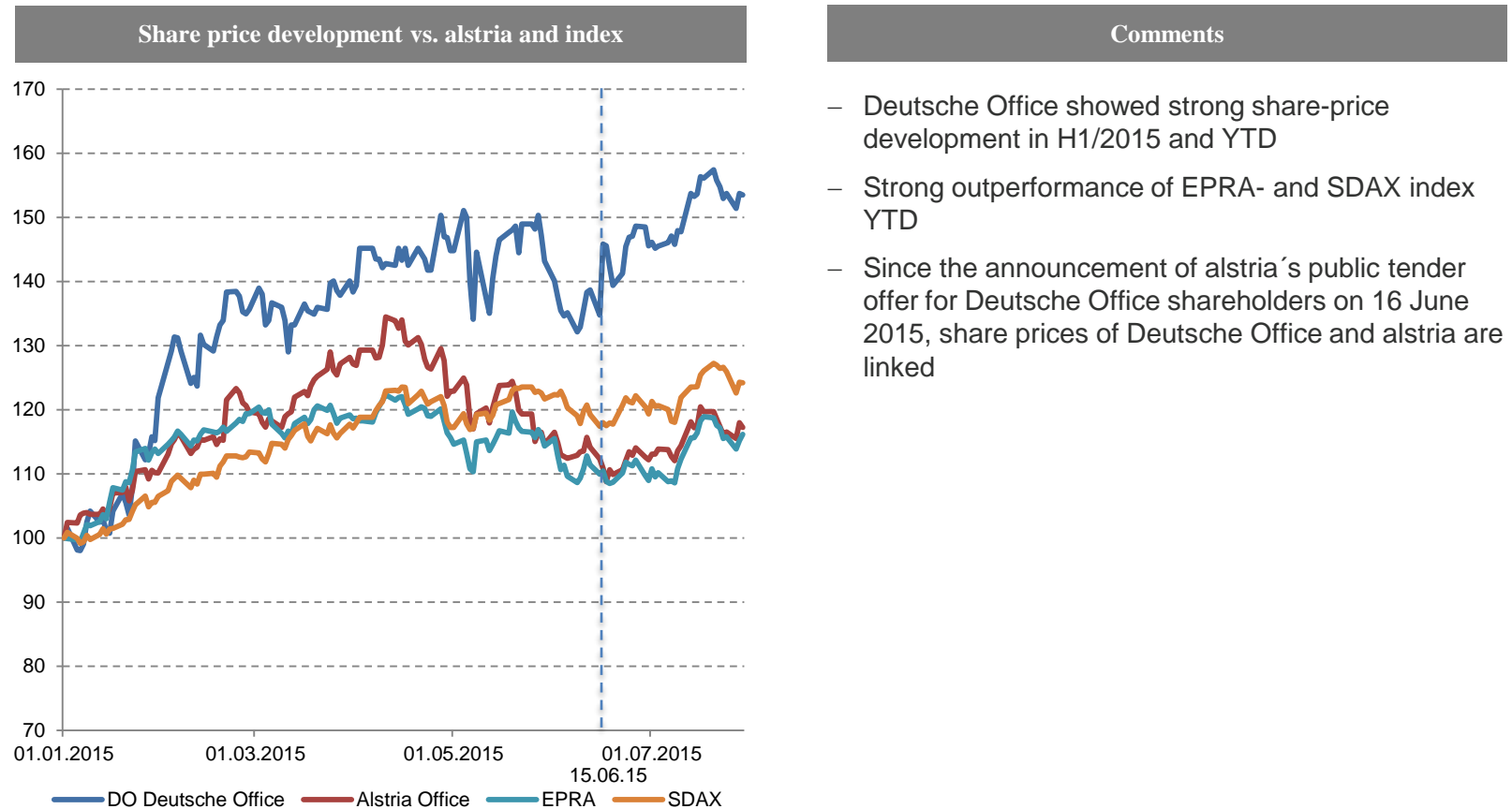
# NAV PER SHARE INCREASES FURTHER TO EUR 4.46

| Net Asset Value                                  |              |              |
|--------------------------------------------------|--------------|--------------|
|                                                  | 30/06/2015   | 31/12/2014   |
| <b>in EUR m</b>                                  |              |              |
| Investment properties                            | 1,708.6      | 1,780.7      |
| Assets held for sale                             | 83.7         | 92.8         |
| Interest bearing loans                           | -988.2       | -1,050.5     |
| Cash and cash equivalents                        | 69.8         | 63.5         |
| Other assets and liabilities                     | -68.4        | -83.5        |
| <b>Net Asset Value (NAV)</b>                     | <b>805.5</b> | <b>803.0</b> |
| <b>Net Asset Value (NAV) per share* (in EUR)</b> | <b>4.46</b>  | <b>4.45</b>  |
| Fair value of derivative financial instruments   | 39.1         | 51.9         |
| <b>Diluted EPRA-NAV</b>                          | <b>844.6</b> | <b>854.9</b> |
| <b>Diluted EPRA-NAV per share* (in EUR)</b>      | <b>4.68</b>  | <b>4.74</b>  |
| Fair value of derivative financial instruments   | -39.1        | -51.9        |
| <b>Diluted EPRA-NNNAV</b>                        | <b>805.5</b> | <b>803.0</b> |
| <b>Diluted EPRA-NNNAV per share* (in EUR)</b>    | <b>4.46</b>  | <b>4.45</b>  |

\* 180,529,633 shares as of balance sheet date used for calculation.

| Comments                                                                                                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| – NAV increase to EUR 805.5m despite dividend payment in Q2/2015                                                                                                                           |
| – NAV per share with EUR 4.46 above December 2014                                                                                                                                          |
| – Fair values of derivatives improved vs. December 2014 by EUR 12.8m or 25 % <ul style="list-style-type: none"> <li>– Further improvement of fair values expected going forward</li> </ul> |
| – Further regular debt amortization of EUR 10.6m scheduled for H2/2015                                                                                                                     |

# SHARE PRICE DEVELOPMENT



# PUBLIC TENDER OFFER



# ANNOUNCED PUBLIC TENDER OFFER BY ALSTRIA

## **alstria announced to issue a public tender offer for all shares of Deutsche Office on June 16, 2015**

- Structured as an all share offer
- alstria intends to offer approx. 68.8m new alstria shares in exchange for all outstanding shares of Deutsche Office (exchange ratio 1 : 0.381)
- Funds managed by Oaktree have signed an undertaking agreement with alstria. Pursuant to the agreement, the majority shareholders irrevocably committed to tender their up to 60.5% stake in Deutsche Office to alstria

## **EGM of alstria on July 23, 2015**

- alstria shareholders approved resolutions for the respective capital increase in connection with the announced public tender offer

## **Deutsche Office will publish a reasoned statement based on published tender offer**

- Publication of offer document expected for end of August 2015
- Management is in the process of assessing the full impact of the potential change of control on various aspects of Deutsche Office (including our operations and employees)
- Management needs to make sure that also from an integration point of view the transaction is well thought through and will ultimately create value for Deutsche Office shareholders
- A reasoned statement on the intended transaction will be published after the publication of the offer document

# GUIDANCE FY 2015

# KEY PERFORMANCE INDICATORS

## KPI Expectations

|                           | H1/2015   | FY 2015e   | Comment                                                                                   |
|---------------------------|-----------|------------|-------------------------------------------------------------------------------------------|
| Vacancy rate              | 15.9 %    | 14 – 13 %  | H1/2015 goal of ≤ 16 % reached                                                            |
| Funds From Operations     | EUR 24.8m | EUR 52m    | Increasing FFO-growth momentum expected over the next quarters                            |
| Cost of Debt              | 3.3 %     | < 3.3 %    | Favorable market environment                                                              |
| Net-LTV                   | 51.9 %    | < 50 %     | Main driver: Scheduled amortization c1% of GAV and further debt repayments from disposals |
| Net Asset Value per share | EUR 4.46  | > EUR 4.51 | Main driver: Retained earnings, improvement of derivatives and amortization               |

## FY 2015 GUIDANCE BASED ON CURRENT PORTFOLIO

- Rental income of EUR c107m expected in FY 2015 (formerly EUR 105 – 107m)
- We expect FFO to increase from EUR 47m in 2014 to EUR 52m (formerly EUR 50m plus) in FY 2015
- We expect a stable dividend with a pay-out ratio of 50 – 60 % of FFO going forward

THANK YOU VERY MUCH FOR YOUR ATTENTION

# APPENDIX

# FINANCIAL CALENDAR\*

|                      |                                                              |
|----------------------|--------------------------------------------------------------|
| 08 Sep 2015          | EPRA Conference, Berlin                                      |
| 21 Sep 2015          | Goldman Sachs/ Berenberg German Corporate Conference, Munich |
| 22 Sep 2015          | Baader Investment Conference, Munich                         |
| 01 October 2015      | SocGen Pan-European Real Estate Conference, London           |
| 05 – 07 October 2015 | EXPO REAL, Munich                                            |
| 11 Nov 2015          | Publication of 9M/2015 Report                                |
| 24 Nov 2015          | Commerzbank Real Estate Conference, London                   |
| 19 Jan 2016          | German Corporate Conference Kepler Cheuvreux, Frankfurt      |

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