



COLONIA REAL ESTATE AG— Accentro deal boosts cash flow

CRE's privatisation company becomes most important
privatisation group in Berlin

We remain buyers of CRE AG.

Real estate and special situations

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Colonia Real Estate AG

Ticker	KBU GR / KBUG.DE	Last Price	2,63 €	Target Price	>7,00€
Shares outstanding	22.83m	average turnover	220.000		
Market capitalisation	60,00	Change 12m%	-76,00%		
Free float	80,0%				
Change ytd%	-8,00%				
Latest news					
Next interm	31.03.2009 (2008 final)	AGM	July 2009	Website	www.cre.ag
CEO	S.Rind	CFO	V.Lemke	IR	G.Niessen

• Key points

- CRE announced that its 70% subsidiary Accentro has been exclusively appointed to market GSW Immobilien GmbH's Berlin portfolio to tenants and capital investors
- **Positive cash flow is expected in 2009** from this service agreement.
- Accentro received a portfolio of **4,500 units for exclusive privatisation** within the next four years.
- Privatisation volume is expected to be around €320m (i.e. €71,000/unit), plus €110m additional assets
- Accentro receives up to 5% selling margin, of which about 50% are costs. Revenues hence around €2.5 – 3m
- Pre-tax profits for CRE should come in at around €1.2m - €1.5m
- **NAV still well above 11.00€/share** (which is the book value estimated by end of 2008)
- **CRE shares still trade around 25% of NAV: CRE's cost cut efforts and the new Accentro deal lead to positive cash flows already in 2009.**

• Recommendation

- CRE is most transparent and hence should assume less risk aversion than its peer group, which still might face IFRS40 valuation adjustments.
- CRE is cash flow positive in 2009, which should also be a trigger for reduction of risk aversion
- CRE's free cash flow position will increase in 2009 through net profits from Accentro transactions
- Accentro activities will add to cash flow, without draining additional equity requirements
- Buy, as CRE currently trades at a 25% of NAV

• ...but, what can go wrong?

CRE enters with the Accentro deal a relatively new business field. However, the business risk involved for CRE is little: Accentro will increase its staff significantly in 2009, in order to scope with the expected demand. However, these staff costs are purely success income related and will not be an ongoing cost burden. Office costs will be minimal as well, as Accentro's new offices in Berlin will be within the GSW premises.

- **Uncertainty with private investors and tenants remains high.**
 - Not completely unlikely: given the economic turmoil and the inability of politicians and economists to provide a consistent program, uncertainty is high, currently. Tenants feel less inclined to acquire their apartment – even with interest rates as low as currently – if they are uncertain over their future employment status. Investors, on the other hand, might act reluctant as long as they feel that asset prices might deteriorate further. Also, tenant quality becomes an issue.
- **Financing issues.**
 - CRE is dependent on tenants' and investors' ability to get loans. At the moment, banks have boosted retail mortgage loan activities, as they see high margins and little risk in this business. The issue is, whether the conditions remain as favourable in the future. Increasing interest rates will make it more difficult for tenants to finance their flats at the same – or lower – costs than their current rent.
- **Management issues.**
 - CRE is dependent on the ability of the Accentro management to recruit excellent salespersons. Clearly, the demand for these people is increasing, as individual unit sales are currently the only way to maintain high exit margins in residential real estate management. It might therefore not be unrealistic to assume that (a) either margins decline as more individual sales activities emerge in general, (b) salesmen demand a larger proportion of the exit profit or (c) both.
- **Shareholder risk.**
 - Swiss Real Estate as 20% shareholder has been replaced by Liechtensteiner Landesbank. Other, mainly US shareholders have sold their positions. It seems as if momentum investors have exited the sector and CRE. Hence, the shareholder structure should have improved, with long term investors becoming the predominant shareholders in CRE.

• CRE proved right in entering privatisation field

Colonia Real Estate moved into the privatisation business as part of its asset management activities rather early in 2007. With the privatisation platform, CRE aimed to benefit from an expected rise in privatisation as a result of the extension of the 'Riester Rente' to real estate investments. Given the mounting uncertainties in the latter half of the year 2008, the expected increase did not materialize. However, with the abolition of almost all Tax incentives on investments in Germany in 2008, private investors began focussing on the real estate sector. Hence, companies such as Patrizia Immobilien, Franconofurt and Gagfah reported of an increase in demand by investors.

Also CRE was very successful in 2008: on behalf of GSW, Accentro privatised 400 units. In total, Accentro sold 550 units.

It became clear that in particular well rented, higher end apartments were in demand by these 'capital investors' who invest not for self occupation but for letting. Hence, the focus of real estate privatisation companies was on getting access to this segment of the residential real estate sector.

CRE itself said to sell some of its own apartments in 2009. Together with the GSW privatisation portfolio, Accentro could possibly sell more than 1.500 units in 2009, i.e. trebling the 2008 privatisation volume. Most recently, also Gagfah said that it will return to its original business model and increase its privatisation activities.

Comment

The transaction between CRE's Accentro and GSW Immobilien grants Accentro precisely this access. Therefore, it is likely that Accentro is able to fulfil its expected privatisation volume. In addition, GSW Immobilien added assets worth some €110m for disposal to Accentro. Here, GSW bundled assets from inner city gardens to high end villas. These assets were in the past acquired as parts of portfolios, but do not typically fit within residential portfolios.

• Company ad-hoc news

GSW Immobilien, Berlin and CRE Accentro intensify their cooperation in the condominium sales of residential properties

- * **Largest condominium resale contract for CRE group**
- * **GSW focuses on core business**

Berlin, January 28. 2009 - GSW Immobilien GmbH and CRE Accentro GmbH, a subsidiary of the Colonia Real Estate AG (ISIN: DE0006338007), intensify their cooperation for the condominium resale of residential properties. Starting 2009 CRE Accentro will take over the exclusive condominium resale for GSW. This includes organizing the sales process as well as marketing activities.

This is another consequent step for GSW in their strategy to focus on core business since 2006. 'Henceforth we can concentrate on value creating asset management and efficient and qualitative management as well as the increase of customer satisfaction and the optimization of internal processes', states the GSW managing director Jörg Schwagenscheidt.

Further he explains: 'We chose CRE Accentro was because they have more than ten years of experience in this business and we can continue on the successful sales activities we already started together during last year'. Because of the new business, CRE Accentro will enlarge their office in Berlin. Managing Director Jacopo Mingazzini says: 'We will open a new head office in the centre of Berlin and at the same time we will hire new employees. The capital of Germany will thus be, next to Stuttgart the most important location for the company.'

• Company description and current assessments

The acquisitions carried out in 2007 expanded the Group's holdings in high-return residential portfolios to about 19,800 units. As part of CRE's active portfolio management, management is considering shedding some residential and commercial properties, and has already sold Disch Haus and its hotel assets. The dramatic deterioration of the financial markets and in its wake, the real estate transaction markets as well led, however, to an almost complete paralysis of the markets.

The announced partial sales of the residential real estate portfolio will not likely be fully completed in 2008. Based on the results for the third quarter of 2008 and due to the continued difficult market environment for transactions, the CRE had adjusted its annual guidance accordingly and expects a consolidated loss of €55 to 60 million by year end 2008, excluding possible interest rate hedging losses, as these are going to be booked against equity on the balance sheet (income neutral).

No substantial losses from the reappraisal of the real estate portfolio at year end 2008 are expected. It is thus fully expected that no dividend will be paid for 2008.

With the reappraisal of the real estate portfolios as of the third quarter of 2008, the Management Board feels that all significant negative market impacts of the financial crisis have been depicted in the balance sheet.

The positive rental income trend and the adjusted measurement of the real estate portfolio in conjunction with the planned cost savings should make it possible to obtain sustained surpluses from business operations starting in 2009, i.e. CRE will become cash flow positive by Q1/Q2 2009, according to CRE.



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