



Colonia Real Estate AG

Quality check

- CRE received fresh funds this year: a small capital increase boosted equity – and cash – by €3.7m in March. The 96% conversion rate of outstanding warrants by June 1st increased capital by a further €13m. Overall equity ratio is now close to 27%.
- CRE is expected to continue restructuring its debt portfolio, allowing for further financial stability. So far, no debt repayment is scheduled until 2011.
- CRE has impaired its entire portfolio in 2008, which led to the overall loss of more than €82m. We expect hardly any further IFRS impairments in 2009.
- Q2 2009 should have seen the company shifting into positive cash flow from rental operations. As with other residential companies, we expect positive contribution from the privatisation business in 2009.
- CRE group equity should be around €240m after the capital increases. With no negative cash flow in 2009, the price/NAV ratio should improve. CRE's market cap is €82,5m. We recommend the stock with a target of €7.50.

Real estate

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Key points from this note

CRE increased its capital by cash injection of combined €17m (+ 7.5%) in the past 2 months. Simultaneously, the liquidity of the company increased by the same amount. CRE will use the fresh funds to further improve its financial standing. In Q1 2009, CRE booked a €8.4m gain from a debt restructuring. We assume that CRE would further seek to refinance certain debt positions, potentially achieving 'haircuts' as demonstrated by the above mentioned deal in Q1 2009.

A key element of our CRE recommendation is that we assume CRE's residential portfolio has been sufficiently devalued and would no longer require negative IFRS impairment charges. The assumption is based on the fact that the aggregated rental income would be sufficient to pay for CRE's costs and debt service.

Insofar, it would be necessary to carefully evaluate the most important partial portfolios of CRE: the northern German (near Hamburg) portfolio (8% of total assets by units) and the Salzgitter (45% of total assets by units) portfolio. The latter's situation is such that the debt has an LTV covenant ratio of 80% and currently trades at 53% and 65% (the portfolio is financed through two loan facilities). The Hamburg assets have been recently fully refurbished (mostly financed by a low interest KfW Bank facility). Here, the issue is, whether CRE achieves full occupancy of the refurbished apartments at appropriate rent levels.

We have visited both portfolios.

The Elmshorn/ltzehoe portfolio consists of 1,573 residential units with 100,220sqm of rental space, with additional commercial space and parking space leading to a total number of units of 1,659. Vacancy is high at 23.2% (based on residential units only), but is artificially increased by the inclusion of a building (43 units) designated to be torn down. CRE assumes rental income to reach €4.8m net in 2009, while current rent run rate would amount to €4.5m. Our impression was positive: high investments suggest that CRE would at least achieve its targeted rental income in 2009. Vacancy rates should decline markedly in the next 18 months.

The Salzgitter Emersion portfolio was an overall positive surprise.

The portfolio consists of 8,721 residential units, of which 1,750 (20.1%) are vacant. CRE's current rent would lead to €23.7m annual rental income, with CRE expecting €24.3m in 2009. CRE's units are located in and around the city centre. Vivacon's portfolios, in contrast, are about 30 minutes away from the centre. Salzgitter is, based on the city's surface, one of Germany's largest cities. The majority of the portfolio is renovated. CRE will reduce renovation investments to units free and available for new tenants, limiting the renovation amount to approx. €3,500/unit (€50/sqm). CRE expects rents to be €0.50 - €1.00/sqm higher after renovation, leading to a four year amortisation period. Michael Schierenberg, who successfully reduced vacancies in Berlin, is in charge of the portfolio. His enthusiasm let us believe that CRE's portfolio would achieve market typical vacancy rates of around 10% within the next 18 months.

We recommend accumulating CRE shares at this level. CRE's shares still trade at around 30% of NAV after a 7.6% devaluation in 2008.

Most recent irritation on director's dealings impaired the sentiment for the stock. We have looked in detail on the announced dealing details and suggest that the entire board INCREASES its commitment to the company by €295,000.

We expect CRE to deliver and

- **Become cash flow positive by Q2 2009, thanks to new and aggressive cost cut management by CFO Lemke**
- **Continue to restructure its debt portfolio in 2009, following the debt repurchase, which led to a €8.4m debt reduction (= extraordinary gain) in Q1 2009**
- **Benefit further from rental income gains thanks to refurbishment and new rental contracts. At times of record low new apartment building, rents appear to be at least stable.**
- **We recommend the stock with a target price of €7,50/share. At this price target, investors would still get a 15% discount to the 2009 expected balance sheet equity and a 25% discount to the 2010 balance sheet equity.**

Hamburg/Elmshorn/Itzehoe

CRE bought the Elmshorn and Itzehoe portfolio with initially 1,577 units in December 2006 for an initial investment of €38.2m, which led to an initial rental yield of 12.4%, although the initial vacancy rate was 23.7%. CRE only paid €377/sqm, because the portfolio was ripe for renovation. This renovation was scheduled for the following years, leading to additional investments of approx. €400/sqm, leading to a total purchase price of €750 – 780/sqm. The portfolio represents around 8% of CRE's residential portfolio.

The investment was financed by a KfW Bank supported loan, which carries very low interest rates for the next decade (a loan by Investitionsbank SH, refinanced as of today up to 50% by KfW Bank). The complete energetic and optical renovation of the buildings and the apartments allowed CRE to raise rent per sqm by up to €1.20 – or > 25% - to €5.70. However, this level still allows for further rent increases, as it is still below the average rental level in the region.

According to the current 'Mietspiegel' (average official rent level), Elmshorn rents are €6.00/sqm for apartments in buildings completed before 1948, €6.50/sqm for apartments built since then (i.e. the CRE apartments) and €7.00 for first occupation of newly built apartments (all based on average apartment size of 70 sqm).

Table: CRE's Elmshorn portfolio
Elmshorn & Itzehoe

Apartments	1.531
vacancy (05/09)	365
vacancy rate %	23,8%
Size sqm	98.772
avg. Size	64,51
Total rental income 08	4.036.365
Current ann. rents equals: € rent/sqm	5,01
CRE est. ann. rent 09	4.804.340

Source: CRE, SQR estimates

Elmshorn is in the direct vicinity of Hamburg and is a typical commuting community. Key highway and railway links connect the city with Hamburg. The distance to Hamburg airport is 28km (17 miles) and about 35km to the city centre. Itzehoe is about 20km further out, hence the overall rental level there is a touch, we understand €0.50/sqm lower than in Elmshorn (i.e. €5.00 – 5,50/sqm for apartments comparable to those within CRE's portfolio).

Elmshorn is a city within the Pinneberg county (north-west of Hamburg), which is the smallest by surface size (664sqkm) but is home to 10% of the Schleswig-Holstein population with 300,000 inhabitants. The county is growing, not only for its proximity to Hamburg, but also due to its own industrial and agricultural companies. These contribute 11.6% of the state's GDP. Pinneberg county is part of the 'Metropolregion Hamburg'. Itzehoe is located in the adjacent Steinburg county and is the county's capital.

Chart: 'Metropolregion Hamburg'



Source: www.kreis-pinneberg.de/

The portfolio (Elmshorn part) consists out of a very close area near the city centre of Elmshorn and its predominant building styles are 'Riegel' buildings. These buildings are three/four stories high and host 8 – 12 apartments. They typically have a flat roof and one built-in balcony per unit. Unit sizes range between 60sqm and 80 sqm. These buildings were typically erected between the late 60ties and early 70ties of the last century. Compounds like the one of CRE have one central heating for the entire compound, with electrical hot water system installed.

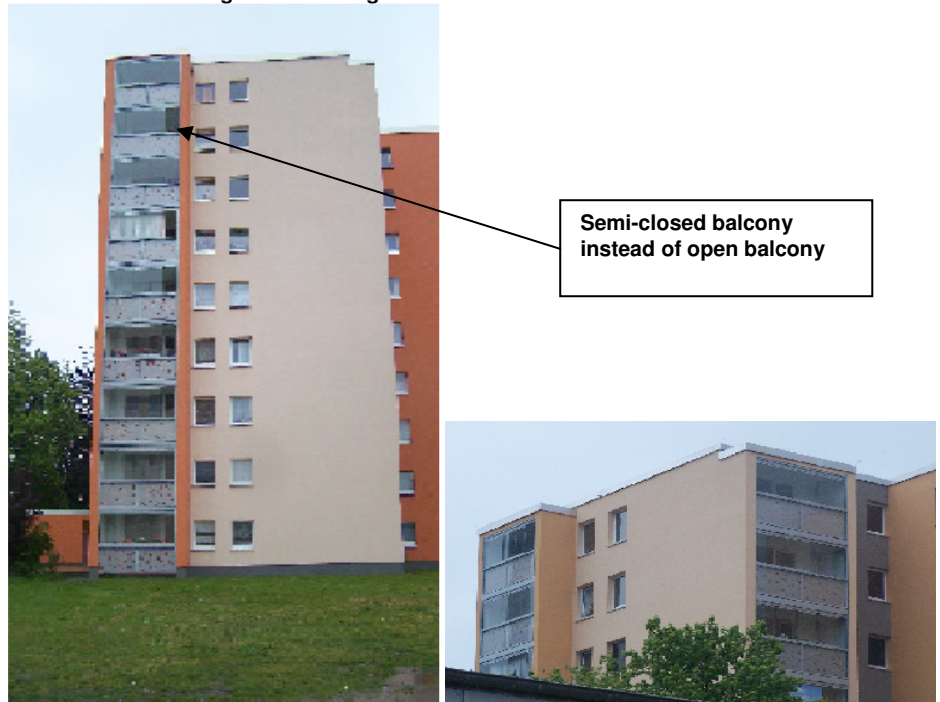
Photo: renovated 'Riegel' building



Source: SQR photo, June 2009

The area is wide open, with trees and lawn between the buildings. The wide space between the buildings allows for privacy on balconies. The total compound also includes some high rise buildings. Here CRE covered the balconies and created new living space, allowing the firm to increase the rent for this space by 50%. These buildings are well occupied by elderly persons, with barrier-free entrances and lifts.

Photos: renovated high rise buildings



Source: SQR photos

CRE finished the renovation in 2008 and is now active in re-letting the renovated apartments. CRE invested €43m and will see its average per sqm rent increasing by initially €1.20 to €5.70/sqm/month. Tenants like the fact that the new units have significantly lower rent side costs. Parts of this advantage play into CRE's hands.

Rental yield is attractive, even after the renovation: based on the purchase price and the assumed renovation costs of approx. €400/sqm, CRE's asset at cost stands at €780/sqm after renovation. Assumed a rent of €5.70/sqm/month, CRE would cash in €68.40 p.a., a rental yield of 8.8%. Operating costs are seen low for the time being, as full renovation (including the typical 5-year warranty in Germany) has just been finished.

the current property manager is Curanis. This company (interestingly enough: a subsidiary of Vivacon, but, according to the local Curanis management, shielded from events at Vivacon) actively advertises the units locally and within the region under the slogan 'Blaues Wohnen'.

Photo: 'Blaues Wohnen' flyer



Blaues Wohnen:
ökologisch und preiswert

Durch aufwändige und umfassende Wärmeschutzdämmung aller Gebäude wird die Wärme gehalten. Und auch die Bedürfnisse unserer Mieter.

bis zu 40% Energieeinsparung radikal niedrige Nebenkosten = sehr niedrige Mieten!

Ein Blick auf die Wärmebildkamera zeigt deutlich die Energieeinsparung: Die rote, da, wo es grün, gelb oder sogar rot ist, verliert das Haus Wärme. Alles was blau ist, ist gut, wärmegedämmt und spart Ihr Geld.

Vorher: Wärmeverlust
Nachher: Kein Wärmeverlust
(Gut: Wohngelände Kormor-Straße Elmshorn)

Je länger desto besser!

Ihr Weg zum Blaues Wohnen:
einfach und fair

Blaues Wohnen ist ökologisch, preiswert und ganz einfach! Rufen Sie uns an, wir zeigen Ihnen gerne unsere Musterwohnungen und helfen Sie kompetent, fair und freundlich.

Vermietungshotline:
04121 450 55 97

Besuchen Sie unsere Musterwohnung
Am Bickendorfer Weg 100 / Elmshorn
Besichtigung nach So. + So. 10.00 - 14.00 Uhr

Die Vermietung läuft ab sofort!
(ohne Maklerprovision!)

Information | Vermietungsbüro:
Curanis Wohnimmobilien GmbH
Curanis Staffen, Bickendorfer Damm 9, Elmshorn
Telefon: 04121 450 55 97 oder 04121 450 55 97 414

CURANIS
The real estate partner

Ein Projekt der: **CRE** Kolbe & Lee GmbH & Co. KG

Blaues Wohnen in Elmshorn

ein modernisiertes
Wohnungsquartier

ökologisch und preiswert
jetzt mieten

Vermietungshotline: 04121 450 55 97

Blaues Wohnen stands for 'ecological living' and is adopted from the fact that infra-red heat detecting cameras produce the colour blue for cold areas, red and green for hot areas. The right part of the flyer explains the effect of the insulation efforts: while previously ('Vorher') the façade and the windows did not contain the heat inside the building, the situation improved significantly thereafter ('Nachher'). The flyer suggests that heating costs and side costs would decline by up to 40% from previous levels.

CRE offers a 60sqm flat for €353.50 (i.e. €5.89/sqm), with additional side costs of €84.00 (26% of net rent), a 65sqm flat for €358.00 (€5.50/sqm and additional €85 side costs, 23.7%) and a larger, four-room apartment for €430.00 (€5.51/sqm, 23% side costs).

Current vacancy is still around 24%. Based on the demand pattern, CRE expects to cut this vacancy towards the 10% bracket within the next 12 months. Pick up rates are good, and existing tenants stay in their apartments around 5 years. Some tenants are living in their flats for more than 40 years.

CRE expects to increase rental income to €4.8m this year. At full occupancy and at the current rent levels for renovated flats of €5.70, the Elmshorn portfolio has a rental potential of €6.75m p.a. Hence, CRE should continue to increase rental revenues further.

An interesting feature is an empty high-rise building with 42 units. Excluding this building, the portfolio vacancy rate is just 17%. CRE wants to tore the building down and considers building semi-detached single homes instead on the 88,000sqft (8,000sqm) area. CRE is negotiating with Vodafone, which operates a mobile phone transmitter, on a 13-year lease to allow re-positioning their antenna. Once done, CRE might look to develop this area – only pre-sold, i.e. without any operational risk for the company.

The Elmshorn portfolio was, we believe, almost 100% financed. The reason being that the KfW Bank loan is very attractive at interest rates between 0.5% and 2.0%. At 0.5%, the €43m investment carries the same cash interest cost burden as a €4.3m loan, i.e. €215,000 annually. Based on this calculation, the pay-back period for the investment in insulation and modernisation is about 43 months, or 4.7 years – rather attractive ROI.

CRE achieved a refinancing of a loan originally granted by a US bank in Q1 2009, which was part of the Elmshorn finance. CRE negotiated a haircut of €8.4m, which would imply a positive equity in the portfolio of 10%, based on acquisition costs. Given the potential improvement on rental income, the intrinsic equity in the portfolio should rise further, we assume towards 18 – 20%.

Salzgitter

CRE acquired the Emersion portfolio from Babcock Brown in 2007. The Salzgitter portfolio is part of the former Preussag AG housing company, which is headquartered in Hannover.

CRE bought the Emersion portfolio with initially 8,721 units in February 2007 for an initial investment of €360m (including the Domus portfolio, which has additional 1,136 units), which led to an initial rental yield of 8.3%, although the initial vacancy rate was 16.1%. CRE paid €576/sqm. The Emersion portfolio represents around 44.1% of CRE's residential portfolio.

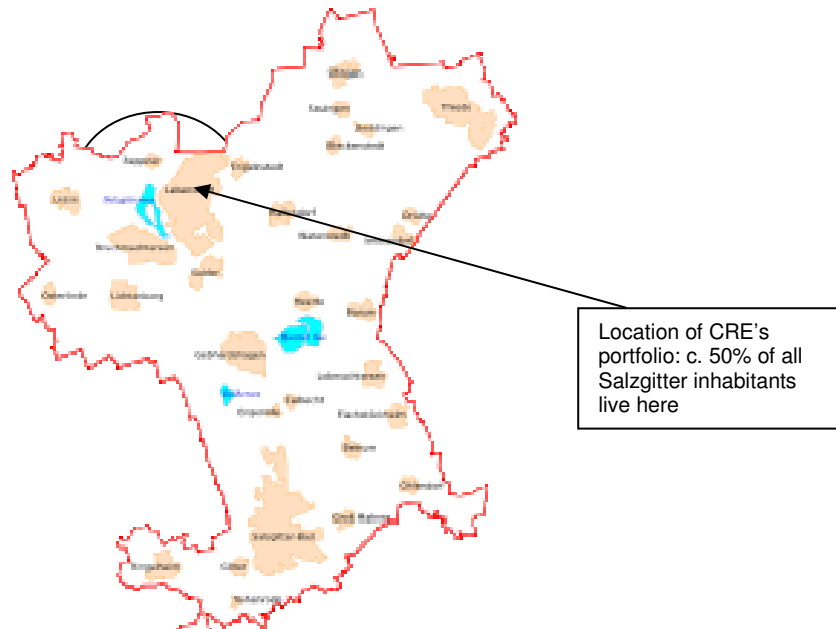
Table: The Emersion portfolio

Salzgitter		Fredenberg		Hallendorf	
Lebenstedt		Fredenberg		Hallendorf	
Apartments	6.250	Apartments	2.085	Apartments	386
vacancy (05/09)	1.135	vacancy (05/09)	575	vacancy (05/09)	40
vacancy rate %	18,2%	vacancy rate %	27,6%	vacancy rate %e	10,4%
Size sqm	356.546	Size sqm	164.658	Size sqm	21.266
avg. Size	57,05	avg. Size	78,97	avg. Size	55,09
Total rental income 08	16.027.536	Total rental income 08	6.257.979	Total rental income 08	999.470
Other rents (garages commercial)	452.904	Other rents (garages commercial)	351.156	Other rents (garages commercial)	20.136
Current ann. rents	16.480.440	Current ann. rents	6.609.135	Current ann. rents	1.019.606
equals: € rent/sqm	4,58	equals: € rent/sqm	4,37	equals: € rent/sqm	4,37
CRE est. ann. rent 09	16.525.000	CRE est. ann. rent 09	6.750.900	CRE est. ann. rent 09	1.050.085

Source: CRE, SQR estimates

Salzgitter is an artificial town creation from the late 1937 out of 27 communities. The official declaration as a major city was in 1942. From its sheer size (surface) Salzgitter is one of Germany's largest cities, covering 226sqkm (Frankfurt: 248.3sqkm), with an east-west extension of 19km (Frankfurt: 23km) and a south-north extension of 24km (Frankfurt: 23.3km). Salzgitter is 23km south-west of Braunschweig and 51km south-east of Hannover

Chart: City of Salzgitter



Source: Wikipedia

As an overall city Salzgitter saw a small decline in inhabitants. At the end of April 2009, Salzgitter had 103,285 inhabitants (Frankfurt: 663,494), 55 less than the month before. The decline was strong in Lebenstedt (-411), which looks like a big number, but is actually in line with the overall decline, i.e. 1%. Lebenstedt houses 42% of overall Salzgitter inhabitants. However, overall the situation stabilized. The same is true for the unemployment ratio, which stood at 10.3% by the end of April (Frankfurt: 10.6% by June 2009).

The reason for the rather unexciting unemployment rate is that Salzgitter is not just Salzgitter AG, but also a major site for Volkswagen (7,000 employees in Salzgitter), Bosch GmbH, MAN, Alstom and Voith (train systems), Ikea (distribution centre), ALDI (distribution centre), and Schenker (logistic centre).

CRE's portfolio is predominantly in Lebenstedt, which we see as the core city within the Salzgitter communities. Here CRE is the leading supplier of rental space. In Salzgitter, the city is similar to Berlin in a way that home ownership is low at around 14%.

Chart: CRE's portfolio (coloured areas) in Salzgitter



Source: CRE

CRE's key task is to reduce vacancies. CRE decided to implement its key asset manager from Berlin to Salzgitter to lead this task.

Michael Schierenberg, who successfully reduced vacancies in Berlin portfolios of CRE, has replaced the local property manager Krueger Immobilien and is now looking to implement an active and result-orientated management. CRE decided to work in this crucial period not with free-lancers on the letting side, allowing CRE to benefit directly from its letting success and have full control over the letting process. Previously, with the former asset/property manager, this was not the case and the letting activities were best characterized as administrating existing tenants instead of creating demand and attracting new tenants. CRE might decide to reduce its own letting staff, once the vacancy reduction target is achieved, in order to reduce overhead costs.

Schierenberg developed a 'brand' for CRE, called 'meine SZitty' (my city), which plays with the car plate abbreviation for Salzgitter 'SZ' and its pronunciation, which sounds as 'city'. This brand basically diverts clients from negative experiences made with the previous property manager. When launching a survey together with a survey company in Salzgitter in order to find out about the most pressing needs of tenants, CRE's tenants actually called the survey company to ask for help and support, as they never were able to track the previous property manager.

Schierenberg instantly changed this and focuses on accessibility of the property/asset manager for its tenants, creating a positive 'we care' image. This said he has opened a 'meine SZitty' office in the most frequented shopping area in Salzgitter, allowing tenants and interested parties to enter the office and instantly get replies.

Photo: 'meine SZitty' tenant contact shop in Salzgitter Lebenstedt



Source: SQR photo

The success of the first 'letting shop' will lead to the opening of a similar, larger office in Fredenberg, which is in the southern part of the Salzgitter lake and represents CRE's second largest partial portfolio in Salzgitter. This area is well located, but was less attractive in the past, mainly due to high fluctuation and low identification of tenants with the area.

CRE has finished the renovation of a key building just opposite of the suburb's shopping and convention centre, where the next 'meine SZitty' shop will open. The Salzgitter city has earmarked a 7-digit amount to re-vitalise the city court and the shopping centre. CRE believes that the close proximity to this local development will create a significant increase in acceptance of the 'meine SZitty' brand.

In Fredenberg, CRE works closely together with the local social service office and city administration, which is also located in the shopping centre. CRE will therefore be able to get first hand information on the city's requirements. In fact, Salzgitter has asked to use the 'meine SZitty' brand for its own purposes, which CRE refused to allow for the time being. The brand is in process to create a positive image without recourse on CRE or the asset manager.

In order to create this link CRE has decided to sponsor the local ice hockey team, which will be renamed 'CRE Steelers' from the next season, using the 'meine SZitty' logo on shirts and scarves. This will, we believe allow for strong awareness of the brand beyond the city limits of Salzgitter. This – again – is important for CRE as the largest house owner in the city: migration should ask for 'meine SZitty' apartments, and CRE can offer these. In addition, local traffic is seen as being attracted by the brand, allowing CRE to attract tenants away from other local landlords. **The flyer on the side illustrates the 'meine SZitty' brand creation (SchöWoMiBa stands for 'better living with balcony')**

CRE will not overpay for renovation. Initially the company renovated the bathrooms, floors and equipped the flats with new windows.

On the floor side, CRE realized that the existing wooden floor just needs abrasion to create a very good floor, which reduces costs per unit. These cost savings will be used to respond to the most requested improvement: the entrance doors and staircases, as well and illumination.



CRE's activities in Salzgitter are all about creating a desirable brand. The payment for the brand costs are lower vacancies. With a vacancy rate of 20%, which is, according to Schierenberg, almost twice the average levels in the city, the upside is significant. The high vacancy rate is not a function of worse house quality – in fact, we came back from the site visit with the impression that CRE's assets are mostly of equal or better quality than the rest – but from ineffective letting activities and inappropriate property management.

CRE's Fredenberg object is in fact part of an architect tour through Salzgitter, which focuses on appropriately renovated assets. In the following, we show two photos: the colourful building on the left is CRE's asset (as mentioned, across the Fredenberg city centre), while the other (not part of CRE's portfolio) is exactly on the opposite side of the street.

Photos: renovated asset of CRE (left) and opposite side (right)



Source: SQR photos

Renovated assets let CRE allow for rent increases between €0,40 and €0.75/sqm/month. This will limit investment to approx. €3,000 - €3,500/unit, of €53/sqm. Based on a €0.60 rent increase, the incremental return on investment of €53/sqm is around 13.6%. CRE said for vacant apartments, such investment makes sense.

We understand that CRE will not overspend on its Salzgitter portfolio. Instead, it will use the creation of a new, positive image brand to lure tenants away from other landlords and from adjacent cities. In fact, Schierenberg advertises in the major cities around Salzgitter with the argument, that tenants can invest the savings on rents in the Hannover or Braunschweig.

Indeed, average rents in these cities are higher, according to 'Mietspiegel':

Table: potential annual savings by moving to CRE assets in Salzgitter

Rents per sqm/month	before 1948	before 2009	newly built fully renovated
Salzgitter CRE			
Lebenstedt	4,58	4,58	5,50
Salzgitter CRE			
Fredenberg	4,37	4,37	5,00
Braunschweig	4,75	4,75	6,05
potential saving Lebenstedt p.a.	132,60	132,60	429,00
potential saving Fredenberg p.a.	296,40	296,40	819,00
Peine	5,11	5,11	5,75
potential saving Lebenstedt p.a.	413,40	413,40	195,00
potential saving Fredenberg p.a.	577,20	577,20	585,00
Hannover	5,00	5,00	6,00
potential saving Lebenstedt p.a.	327,60	327,60	390,00
potential saving Fredenberg p.a.	491,40	491,40	780,00

Based on a 65 sqm apartment, per annum at current rents

Source: CRE, 'Mietspiegel' tables of various cities, dd 12/2008

Particular giving the current economic situation, cheaper living space is of certain attraction. We understand from CRE that the current rent level of assets in Salzgitter fulfil the requirements of the social security in Germany and in Salzgitter. In other words: even if unemployment were to rise, the social security network would step in and pay the same rents as currently paid by the tenant, suggesting no rent losses on the current tenant structure.

Photo: Lebenstedt assets



Source: SQR photo

Portfolio opportunity

CRE's Salzgitter portfolio seems to be in good shape. The shift towards the in-house asset management and the exchange of the property management should reduce rent related costs, while at the same time, letting success should rise. The close relation to the local and city governments and social security networks, and the creation of an own brand allows CRE to actively differentiate from its competition and create an effective entry barrier for competitors. This is particularly true for its sponsorship and cooperation with the local ice-hockey team. In addition, it seems to be unlikely that other asset managers come into the core shopping centres of Lebenstedt and Fredenberg, given that CRE is predominant player in these important and most populous city areas of Salzgitter.

Table: upside potential for the Salzgitter portfolio

Salzgitter	
Total	
Apartments	8.721
vacancy (05/09)	1.750
vacancy rate %	20,1%
Size sqm	542.470
avg. Size	62,20
Total rental income 08	23.284.985
Other rents (garages commercial)	424.619
Current ann. rents	23.709.604
equals: € rent/sqm	4,56
CRE est. ann. rent 09	24.325.985
Rental potential at 10% vacancies	26.405.989
% change from current	11,4%
Difference capitalized at 6% (=value potential)	52.016.738

Source: CRE, SQR estimates

The table above converts the 'risk' in the portfolio into a 'chance', assuming that CRE under the helm of Schierenberg and his team in Salzgitter succeeds within the next 18 – 24 months and reduce the vacancy rates to market average levels. These are currently at around 10%.

Assuming just the current rental levels, a reduction in vacancies would add some €2m to the net rental income. Capitalized at 6%, the portfolio value would be increased by €52m, or around 60% of CRE's current market capitalisation. At 10% capitalisation rate, the potential upside would still be €31m.

Directors' dealing at recent warrant expiry

We have looked at the most recent action of director's dealing in CRE shares in the past week, when the warrant expired. We understand that some action has been taken, which suggested a significant selling by the management board. From a combined date, taken from the website of CRE, it suggests that the overall management action during that time suggests that the management acquired CRE shares to the tune of a counter value of €295,000.00.

Table: Director's dealing summary

Directors' dealing		Date	Action	asset	size	value
Friedrich Thiele	CIO	01. Jun	sell	warrants	176.000	1.760,00 €
Friedrich Thiele	CIO	04. Jun	purchase	share	16.000	- 48.000,00 €
Volker Lemke	CFO	29. Mai	sell	warrants	180.500	10.830,00 €
Volker Lemke	CFO	29. Mai	forfeit	warrants	19.500	- €
Stephan Rind	CEO	29. Mai	sell	share	526.664	1.653.724,96 €
Stephan Rind	CEO	29. Mai	purchase	share	666.664	- 1.999.992,00 €
Stephan Rind	CEO	28. Mai	sell	share	60.000	215.400,00 €
Primus	related	01. Jun	purchase	share	41.667	- 125.001,00 €
Primus	related	28. Mai	purchase	warrants	62.500	- 3.750,00 €
Net position Stephan Rind	CEO					- 130.867,04 €
Net position Friedrich Thiele	CIO					- 46.240,00 €
Net position Primus	related					- 128.751,00 €
Net position Volker Lemke	CFO					10.830,00 €
Net position managing board						- 295.028,04 €

Source: CRE director'S dealing ad-hoc news. http://www.cre.ag/37/Investor_Relations/IR_News/Directors_Dealings.htm

Valuation & Action

We continue recommending CRE shares at the current level. CRE's shares trade at 30% of NAV after a 7.5% devaluation in 2008, which includes a significant – we assume 75% - devaluation of co-investments, where CRE has no influence (note: CRE's Asset Management unit Resolution lost the management contract for the Oaktree portfolio as of January 2009). Buy with a target price of €7,50/share.

We expect CRE to deliver and

- Become cash flow positive by Q2 2009, thanks to new and aggressive cost cut management by CFO Lemke
- Continue to restructure its debt portfolio in 2009, following the most recent debt renegotiation, which led to a €8.4m debt reduction (= extraordinary gain)
- Benefit further from rental income gains thanks to refurbishment and new rental contracts. At times of record low new apartment building, rents appear to be at least stable.

CRE financials

CRE P&L €'000	2006	2007	2008	2009e	2010e	2011e	CAGR
Group Performance	85.699	98.614	107.407	178.271	196.720	204.289	19,0%
Rental income gross	20.461	51.228	89.467	91.397	95.319	98.877	37,0%
- thereof passed on revenues	4.191	10.246	17.893	18.279	19.064	19.775	36,4%
Fee income gross (AM)	3.031	15.313	9.443	8.500	19.875	21.000	47,3%
Fee income gross (FM)	-	2.300	-	-	-	-	
Trade income gross	62.000	-	2.351	73.373	76.526	79.412	5,1%
Other income	207	19.528	6.140	5.000	5.000	5.000	89,1%
Costs of goods sold trade	54.574	-	2.097	71.723	65.047	67.501	4,3%
Costs of goods sold rental	9.632	28.406	58.401	55.748	48.890	50.715	39,4%
Costs of goods sold AM/FM	2.805	16.073	10.640	6.750	18.841	19.993	48,1%
Administrative costs	8.940	31.019	20.899	12.250	10.998	10.121	2,5%
- thereof personal	6.800	12.146	14.471	7.236	6.693	6.860	0,2%
Other costs	918	284	2.331	2.750	2.750	2.750	24,5%
Operating Costs	76.869	75.782	94.368	149.220	146.527	151.079	14,5%
EBITDA	8.830	22.832	13.040	29.050	50.193	53.210	43,2%
EBIT	8.830	22.832	13.040	29.050	50.193	53.210	43,2%
EBIT after non-recurring	8.830	22.832	12.525	37.450	50.193	53.210	43,2%
Pre tax income	42.443	53.508	94.369	2.906	19.248	32.031	-5,5%
Net income	30.321	65.970	82.568	4.337	16.565	26.586	-2,6%
EPS €	1,93	2,94	3,62	0,15	0,58	0,93	-13,5%
Number of shares	15.704	22.466	22.826	28.460	28.460	28.460	
EBITDA margin	10,3%	23,2%	12,1%	16,3%	25,5%	26,0%	
Pre tax margin	49,5%	54,3%	-87,9%	1,6%	9,8%	15,7%	
NOI margin (rental)	52,9%	44,6%	34,7%	39,0%	48,7%	48,7%	
Admin cost ratio	10,4%	31,5%	19,5%	6,9%	5,6%	5,0%	
Average share price €				2,85	2,85	2,85	
Average P/E				18,7	4,9	3,1	

CRE Balance Sheet	2006	2007	2008	2009e	2010e	2011e
Balance sheet total (assets)	420.153	1.033.897	927.969	946.928	966.386	1.147.486
Property/Financial assets	353.220	918.902	835.401	860.972	870.354	1.032.030
deferred tax assets	4.520	8.116	10.713	10.178	9.669	9.185
other long term assets	124	3.714	6.152	6.152	6.152	6.152
Total capital assets	371.262	955.881	863.545	886.655	893.605	1.055.583
Property held for sale	7.645	24.019	33.547	25.000	35.000	25.000
Current assets (excl. cash)	12.891	51.792	49.092	39.854	49.018	40.312
Cash and equivalents	35.999	26.224	15.332	20.418	23.763	51.591
Total current assets	48.891	78.016	64.424	60.273	72.781	91.903
Balance sheet total (debt&equity)	420.153	1.033.897	927.969	946.928	966.386	1.147.486
base capital	15.704	22.466	22.826	28.460	28.460	28.460
capital reserves	44.268	216.635	222.772	222.772	222.772	222.772
retained earnings	39.235	82.318	6.560	4.149	11.827	38.414
minorities&others	946	1.663	13.737	825	2.825	2.824
Shareholders Equity	100.153	323.082	225.299	247.907	265.884	292.469
bank loans (long term)	113.929	498.358	525.569	537.986	537.407	677.250
deferred tax liabilities	16.115	53.871	40.514	39.578	40.460	43.535
Total long term debt	182.348	606.212	621.786	629.968	630.272	773.189
bank loans (short term)	26.911	64.836	38.068	18.052	10.000	9.436
Short term debt	137.652	104.602	80.884	69.052	70.231	81.827
Equity ratio %	23,8%	31,2%	24,3%	26,2%	27,5%	25,5%
NAV		16,30	11,65	9,71	10,33	11,38
Shareprice to NAV		0%	0%	29%	28%	25%

CRE Cash Flow	2007	2008	2009e	2010e	2011e	CAGR
Net profit	67.125	82.924	2.412	15.976	26.586	-20,7%
NOPAT	83.354	55.453	41.821	58.164	70.947	-3,9%
Operating cash flow	1.561	4.206	41.821	58.164	70.947	159,7%
Interest costs	22.790	29.439	30.766	30.514	33.147	9,8%
Interest income	3.277	1.395	724	881	1.381	-19,4%
Cash income taxes	17.079	437	1.429	2.390	2.370	-39,0%
Total operating cash flow	35.031	24.275	11.986	181	5.064	-38,3%
Investments	276.832	26.498	15.000	7.500	5.000	-63,3%
Capital increases	179.025	5.490	13.377	-	-	-
related costs	11.117	409	250	-	-	-
other capital movements/bond buy	1.143	-	8.400	10.000	-	-
Acquisition of minority stakes	19.728	-	2.000	-	-	-
Dividends	-	5.705	-	-	5.000	-
Increase in debt	175.846	86.995	1.563	1.231	155.114	-3,1%
Redemption of debt	25.647	51.100	15.000	-	105.000	42,2%
others	2.567	4.609	-	-	-	-
Financing	302.089	39.880	6.090	8.769	45.114	-37,8%
Change in cash	9.775	10.892	3.076	1.088	35.050	

CRE Cash Flow	2007	2008	2009e	2010e	2011e	CAGR
Operating cash flow		5.601	42.545	59.045	72.328	134,6%
Interest payments	-	29.439	30.766	30.514	33.147	4,0%
Redemptions/take out	-	35.886	15.700	700	10.000	-34,7%
Debt service		6.448	15.066	29.814	23.147	-253,1%
Investments		26.498	15.000	7.500	5.000	-42,6%
Issue of capital	-	5.081	13.127	-	-	-
Dividends	-	5.705	-	-	5.000	-4,3%
One off effects	-	514,60	8.400,00	-	-	-100,0%
Cash Flow		15.587	17.206	21.731	39.181	-236,0%

Disclaimer

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