

Hold

Upgrade from Reduce

Current €1.74

Target €2.00

Previous €5.000

Current price equivalent

\$2.19

Market cap

€39,717t

\$49,991t

52-week high/low

€18.89/€1.780

Price perf.	1M	3M	12M
Price (€)	3.0	6.5	17.5
Absolute (%)	-40.6	-73.4	-89.9
Rel market (%)	-39.2	-57.0	-81.2
Rel sector (%)	-42.7	-65.4	-78.6

Source: DKIB, Thomson IBES

KBUG.DE KBU GR

Research Analysts

Kai Klose

+44 (0)20 7475 2436

kai.klose@dkib.com

Colonia Real Estate

Expecting recovery for 2010

We have adjusted our forecasts for Colonia and expect a positive FFO only or 2010. Despite of positive results in the residential business we expect a slowdown in rental growth as the portfolio is less focused on growth regions. Results for the asset and funds management is still below expectations. As cost savings are positive and no bank loans are due in 2009 we upgrade the stock to hold.

Colonia Real Estate forecasts

Year	Sales EUR m	EBIT incl associates EUR m	EBIT margin %	Net income EUR m	Dil EPS incl except EUR	Funds from operations EUR m	P/E x	EV/ EBITDA x	Yield %	P/NAV x
Dec-2006A	129	52	40.2	30	1.73	5	0.9	2.5	0.0	0.3
Dec-2007A	148	83	56.2	66	2.63	30	0.5	6.1	14.4	0.1
Dec-2008E	106	(30)	(27.8)	(59)	(2.35)	(0)	NM	NM	0.0	0.2
Dec-2009E	173	20	11.6	(14)	(0.56)	(5)	NM	18.9	0.0	0.2
Dec-2010E	176	24	13.6	(9)	(0.36)	(0)	NM	20.9	0.0	0.2

Source: Company data, Dresdner Kleinwort Research estimates

- ▶ In the conference call on Friday Colonia confirmed that the hotel portfolio has been sold after the value has been written-down from €27m to €24m. So the realised disposal gain equalling market value at €24m has taken place at a reduced book value and we would have appreciated a clear communication in this respect. However, due to the repayment of short-term debt the deal seems to be useful in our view.
- ▶ We think that the stable financing position is currently the most attractive point regarding Colonia. The company has only €5m of short-term debt and the average duration of bank debt points out at 6.7 years and all covenants have been reached. We have understood that there are only for two portfolio LTV-covenants of 80% in place and the current LTV-levels at 65% and 69% are well below.
- ▶ Different to the company we do not expect that the company will reach a positive FFO already in 2009. The reasons are 1) lower rental growth in the portfolio due to a general slowdown of residential rents in Germany, 2) low earnings and a too high cost base for the asset and funds management and 3) cost savings have been positive in Q3 but further progress will be lower than intended by Colonia in our view and will take longer.
- ▶ In general we would highly appreciate when Colonia would consider to focus only on the residential real estate business and co-investment/asset management for commercial properties in the future. The earnings contribution of non-core activities as fund management, residential privatisation (Accentro) and advisory on project developments (COVER) is too low as well as the strategic fit is missing in our view. However, Colonia's track

Online research:

www.dresdnerkleinwort.com/research

Bloomberg:

DKIB1<GO>

A member of Allianz 

Please refer to the Disclosure Appendix for all relevant disclosures and our disclaimer. In respect of any compendium report covering six or more companies, all relevant disclosures are available on our website www.dresdnerkleinwort.com/research/disclosures or by contacting the Dresdner Kleinwort Research Department at the address below.

Dresdner Bank AG London Branch, authorised by the German Federal Financial Supervisory Authority and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of our authorisation and regulation by the Financial Services Authority are available from us on request. Dresdner Bank AG London Branch is a Member Firm of the London Stock Exchange. Registered in England and Wales No FC007638. Located at: 30 Gresham Street, London EC2V 7PG. Telex: 885540 DRES BK G. Incorporated in Germany with limited liability. A Member of the Dresdner Bank Group.

record in managing and upgrading residential properties is high and so the company should move "back to the roots".

- ▶ Since our downgrade to reduce on 27 Oct the stock has lost more than 13% leading to -90% YTD so that Colonia is the worst performing German property stocks. We think that the bottom has been found as on current levels the residential portfolio is significantly undervalued and Colonia's financing situation is rather solid. However, we do not expect an immediate rebound as the earnings situation is low. In addition, the sentiment is still negative and the management still needs to explain why the cost base could increase so much though the CEO has been with the company since the very beginning.
- ▶ We have lowered our earnings forecast by 10% on average for 2009 and 2010 reflecting a rental growth of 2% and only a moderate increase in occupancy rates. For the asset management only in 2010 at the earliest we expect Colonia to compensate the decrease in AuM of about €1.0bn after the termination of Oaktree at the end of 2008.

We forecast an NAV for 2008-2010 per share of €10.55, €12.88 and €13.57.

For the valuation we focus on EVA, sum of the parts and Return on NAV which points out at €2.00 as new target price that we upgrade the stock to neutral.

Disclosure appendix

Disclosures under US regulations

The relevant research analyst(s), as named on the front cover of this report, certify that (a) the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this report; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this report. The relevant research analyst(s) named on this report are not registered / qualified as research analysts with FINRA. The research analyst(s) may not be associated persons of the Dresdner Kleinwort Securities LLC and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Any forecasts or price targets shown for companies and/or securities discussed in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Dresdner Kleinwort or by other sources relied upon in the report were inapposite.

Recommendation history charts

Past performance is not an indicator of future performance.



Equity Research - Recommendation definition

Absolute basis

(Except as otherwise noted, expected performance over next 12 months)

Buy:	10% or greater increase in share price	Sell:	10% or more decrease in share price
Add:	5-10% increase in share price	Reduce:	5-10% decrease in share price
Hold:	+5%/-5% variation in share price		

The following Dresdner Kleinwort Equity Research teams adopt a sector relative approach to stock recommendations: Banks

Sector* relative basis

(Except as otherwise noted, expected performance over next 12 months)

Buy:	Stock expected to outperform its sector and be among the most attractive in its sector.
Hold:	Stock expected to perform in-line with its sector, and may increase/decrease in value, but remain less attractive than Buy-rated stocks/more attractive than Sell-rated stocks.
Sell:	Stock expected to underperform its sector, and may increase/decrease in value, but be among the least attractive in its sector.

* A sector comprises stocks covered by one or more analysts which share a common industry and which together constitute those analysts' coverage universe. For a full list of Dresdner Kleinwort's covered stocks by sector, please click [here](#).

Distribution of Dresdner Kleinwort equity recommendations as of 30 Sep 2008

	All covered companies		Companies where a Dresdner Kleinwort company has provided investment banking services (in the last 12 months)	
Buy/Add	335	57%	45	13%
Hold	180	31%	17	9%
Sell/Reduce	73	12%	9	12%
Total	588		71	

Source: Dresdner Kleinwort

Additional disclosures under other non-US regulations

Dresdner Kleinwort or an affiliate regularly holds trading positions in the shares of Colonia Real Estate.

In respect of any compendium report covering six or more listed companies, please refer to the following website for all relevant disclosures: <http://www.dresdnerkleinwort.com/disclosures/>

Unless otherwise specified, any security prices mentioned in this report are the prices prevailing in the home market at the time the report was issued. Certain compiled publications refer to securities previously priced and dated.

Disclaimer

This report has been prepared by Dresdner Kleinwort, by the specific legal entity named above.

United Kingdom: This report is a communication made, or approved for communication in the UK, by Dresdner Bank AG London Branch (authorised by the German Federal Financial Supervisory Authority and authorised and subject to limited regulation by the Financial Services Authority. Details about the extent of our authorisation and regulation by the Financial Services Authority are available from us on request). Dresdner Bank AG London Branch is a Member Firm of the London Stock Exchange. This report is directed exclusively to eligible counterparties and professional clients. It is not directed at retail clients and any investments or services to which the report may relate are not available to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this report. Dresdner Bank AG London Branch does not deal for, or advise or otherwise offer any investment services to retail clients.

European Economic Area: Where this report has been produced by a legal entity outside of the EEA, the report has been re-issued by Dresdner Bank AG London Branch for distribution into the EEA. Dresdner Kleinwort Research GmbH is regulated by the Federal Financial Supervisory Authority ('BaFin') by the laws of Germany.

United States: Where this report has been approved for distribution in the US, such distribution is by either: (i) Dresdner Kleinwort Securities LLC; or (ii) other Dresdner Kleinwort companies to US Institutional Investors and Major US Institutional Investors only ; or (iii) if the report relates to non-US exchange traded futures, Dresdner Kleinwort Limited. Dresdner Kleinwort Securities LLC, or in case (iii) Dresdner Kleinwort Limited, accepts responsibility for this report in the US. Any US persons wishing to effect a transaction through Dresdner Kleinwort (a) in any security mentioned in this report may only do so through Dresdner Kleinwort Securities LLC, telephone: (+1 212) 429 2000; or (b) in a non-US exchange traded future may only do so through Dresdner Kleinwort Limited, telephone: (+ 11 44) 20 7623 8000; or (c) in a banking product may only do so through Dresdner Bank AG New York Branch, telephone (+1 212) 969 2700.

Singapore: This research report is being distributed for Dresdner Kleinwort in Singapore by Dresdner Bank AG, Singapore Branch, purely as a resource and for general informational purposes only, and is intended for general circulation. Accordingly, this research report does not take into account the specific investment objectives, financial situation, or needs of any particular person and is exempted from the same by Regulation 34 of the Financial Advisers Regulations ('FAR') (as required under Section 27 of the Financial Advisers Act (Cap. 110) of Singapore ('FAA')).

Hong Kong: This report is being distributed for Dresdner Kleinwort in Hong Kong by Dresdner Bank AG, London branch. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue this report, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong, other than with respect to the securities referred to in this report which are or are intended to be disposed of only to persons outside Hong Kong or only to 'professional investors' within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made thereunder, and to persons whose ordinary business is to buy and sell shares or

debentures.

Japan: Where this report is being distributed in Japan, such distribution is by either (i) Dresdner Kleinwort (Japan) Limited Tokyo Branch (registered and regulated by the Financial Services Agency and General Trading Participant of TSE, Regular Transaction Participant and Transaction Participant in Futures Transaction of OSE, Participant of JASDAQ) to Japanese investors excluding private customers or (ii) other Dresdner Kleinwort companies, to entities falling within the proviso of the Article 58-2 of the Financial Instruments and Exchange Law (the 'FIEL') and the Article 17-3 of the Enforcement Order for the FIEL. Any Japanese persons not falling within (ii) wishing to effect a transaction through Dresdner Kleinwort in any security mentioned in this report may only do so through Dresdner Kleinwort (Japan) Limited Tokyo Branch, telephone: (+ 813) 6230 6000.

Australia: Dresdner Bank AG ('DBAG') does not hold an Australian financial services licence. This report is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for DBAG under Class Order 04/1313. DBAG is regulated by BaFin under the laws of Germany which differs from Australian laws.

This report contains general information only, does not take account of the specific circumstances of any recipient and should not be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. Each recipient should consider the appropriateness of any investment decision having regard to their own circumstances, the full range of information available and appropriate professional advice. The information and opinions in this report constitute judgment as at the date of this report, have been compiled or arrived at from sources believed to be reliable and in good faith (but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness) and are subject to change without notice. Dresdner Kleinwort may amend, supplement or update the contents of this report in such form and in such timescales as Dresdner Kleinwort deems appropriate. Recommendations and opinions herein reflect Dresdner Kleinwort's expectations over the 12 month period following publication from the perspective of long-only investment clients. Dresdner Kleinwort reserves the right to express different or contrary recommendations and opinions for different timescales or for other types of investment client. This report does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer to buy or subscribe for, any securities, nor should it or any part of it form the basis of, or be relied on in any connection with, any contract or commitment whatsoever. Dresdner Kleinwort accepts no liability whatsoever for any loss or damage arising from any use of this report or its contents. Whilst Dresdner Kleinwort may provide hyperlinks to web-sites of entities mentioned in this report, the inclusion of a link does not imply that Dresdner Kleinwort endorses, recommends or approves any material on the linked page or accessible from it. Dresdner Kleinwort accepts no responsibility whatsoever for any such material, nor for any consequences of its use. This report is for the use of the addressees only, is supplied to you solely in your capacity as an investment professional or knowledgeable and experienced investor for your information and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Dresdner Kleinwort. Dresdner Kleinwort may distribute reports such as this in hard copy, electronically or by Voiceblast. Dresdner Kleinwort and/or any of its clients may undertake or have undertaken transactions for their own account in the securities mentioned in this report or any related investments prior to your receipt of it. Dresdner Kleinwort specifically draws recipients attention to the disclosures contained in the Disclosure Appendix but notes that, excluding (i) Dresdner Kleinwort Securities LLC and (ii) the research analyst(s) responsible for this report unless specifically addressed in the 'Disclosures under US regulations': (a) Dresdner Kleinwort and its directors, officers, representatives and employees may have positions in or options on the securities mentioned in this report or any related investments or may buy, sell or offer to buy or sell such securities or any related investments as principal or agent on the open market or otherwise; and (b) Dresdner Kleinwort may conduct, solicit and/or engage in other investment and/or commercial banking business (including without limitation loans, debt securities and/or derivative, currency and commodity transactions) with the issuers or relating to the securities mentioned in this report. Accordingly, information may be available to Dresdner Kleinwort, which is not reflected in this report or the disclosures. In this notice "Dresdner Kleinwort" means Dresdner Bank AG and any of its affiliated or associated companies and their directors, officers, representatives or employees and/or any persons connected with them. Additional information on the contents of this report is available at <http://www.dresdnerkleinwort.com/research> and on request.

© Dresdner Bank AG London Branch 2008