



Colonia Real Estate AG

2008 kitchen sinking

- 2008 results mark a kitchen sinking clean-up of CRE's balance sheet. Total assets fell by 10.4% to €928m, after IFRS impairments of €57,2m on the residential portfolio and €13.8m on co-investments
- 2008 net loss of €82.9m is higher than CRE's own estimate of €55-60m, chiefly as CRE decided to impair its co-investments (Oaktree) drastically in light of the worsening office market condition
- Debt restructuring is shaping up: no short term debt re-financing until 2011, with total current debt of €627m (€638m by end of Q3 2008). 83% of debt is non-recourse.
- No LTV covenant breaks expected as only 3 out of 9 sub-portfolios have LTV covenants (at 80%). Domus is at 64%, Wohnen III at 68% and Emerson at 53%. Overall debt service covenants are ICR (115-135%) and DCR (110-120%). CRE is at 158% and 135%, respectively.
- CRE group equity stood at €225m and translates in an equity ratio of 24.3%. With no negative cash flow in 2009, the ratio should improve. CRE's market cap is €68m.

Colonia Real Estate AG (consensus data and SQR estimates)

COLONIA REAL ESTATE AG

		Year end Dec., in € millions			
		2007	2008	2009e	2010e
Price target	7,50 €				
Up/downside	Profit loss				
167%	Sales	107.407	178.271	196.720	204.289
	y-o-y in %		66,0%	10,3%	3,8%
No of analysts	EBITDA	22.832	13.040	29.050	50.193
6	EBIT (I)	22.832	12.525	37.450	50.193
	EBIT margin in %	21,3%	7,0%	19,0%	24,6%
	Net income	65.970	82.568	4.337	16.565
	EPS SQR (€)	2,94	3,62	0,16	0,61
	y-o-y in %		-123,2%		382,0%
Headquarter	EPS consensus (€)	3,31	2,52	0,37	0,01
CRE AG	DPS (€)	0,25	-	-	-
Cologne	Payout ratio %	7,6%	0,0%	0,0%	0,0%
DE	Dividend yield %				
	IR Cash flow				
Hr. Busch	Net income	65.970	82.568	4.337	16.565
	Depreciation/Amortisation	0,47	0,50	4,73	1,92
	Operating cash flow	35.031	24.275	11.986	181
www.cre.ag	Investments	276.832	26.498	15.000	7.500
ir@cre.ag	Free cash flow	9.775	10.892	3.076	1.088
49-221-7160-71-0					
	Stock data				
Main Market	Balance sheet/Key ratios				
SDAX	Total Assets	1.033,90	928,00	946,00	966,00
	Closing net debt (cash)	593,52	617,50	581,00	603,50
	Gearing	209%	267%	293%	302%
Market cap:	ROE	2,71%	-21,23%	-8,63%	3,75%
64,14 €	ROA	9,07%	1,35%	3,95%	5,19%
No.of shares					
22,83	Valuation				
Daily volume(shares m)	Enterprise value	974,09	681,64	645,14	667,64
0,08	Book value	284,31	231,55	198,50	199,70
	Market cap	380,57	64,14	64,14	64,14
	EV/Sales	6,20	3,83	3,29	3,27
Indices	EV/EBITDA	1.004,22	41,95	19,14	15,14
SDAX	PER	5,77	1,12	7,59	281,00
	PBV	1,34	0,24	0,28	0,28
	NAV	16,20	11,65	10,09	10,73

Source: bloomberg, Silvia Quandt Research

Key points from this note

CRE cleaned its balance sheet under the helm of new CFO Volker Lemke. The residential portfolio was de-valued by 7.6% on the 2007 base, more than three times the average for the German market. CRE previously did not aggressively increase the asset value of its portfolio, but seems to have built in a healthy cushion at current – we believe – rock bottom valuation. **CRE cut asset values strongly and impaired its co-investments drastically. As rent defaults declined constantly and vacancies fell, we would see this as a bottom valuation for CRE's portfolio. NAV now stand at €11.65/share, while CRE trades at €2.85, or 25% of NAV.**

Following the IFRS impairment, CRE's residential portfolio values at €865m, which contributes €60m in rental income (7% yield). Based on the current market capitalisation, the market values CRE's portfolio with €553/sqm and a yield of 8,64%. CRE's impairment was – as with other residential real estate companies – chiefly due to higher discount rates as a result of the credit crunch. Operationally, CRE achieved a 22% increase in rental income, an increase of 2% on rents per sqm (to €4.62) and a strong decrease in vacancies to 13.1%. **Balance sheet ratios came in below CRE's expectations due to the sharp IFRS impairment. With cost cuts in place, CRE should show positive cash flows in Q2 2009. In Q1 2009, equity ratios will improve through an €8.4m gain on a debt deal.**

Cost cuts continued in Q4 2008 and will do so in 2009. In 2008, administrative costs fell by 31% to €20,9m. Further cost cuts towards an annualized rate of €12.5m should be expected throughout 2009. At that cost rate, CRE should be cash flow positive. CRE does not restrict itself on operational cost cuts, but actively works on restructuring its debt portfolio. In Q1 2009, €8.4m in extraordinary gains from debt restructuring were booked. **CRE proves by restructuring its debt portfolio its ability to actively operate on the real estate and financial market side. We expect further improvements on the debt side in 2009.**

Operating results and earnings development underline the positive trend, CRE entered since the cost cut program started in September 2008. NRI rose by 22.1% to €60.8m (which is equal to CRE's current market capitalisation), NOI jumped 20% to €38,9m (€31.1m non-adjusted for capex). EBIT fell to - €58.5m (cash EBIT was +€12.5m). **2008 was still cash flow negative, but cost reductions and stable rising rental income will lead to positive cash flow in Q2 2009, we believe. Therefore, CRE will no longer 'burn cash', which should lead to the stock price reflecting the underlying asset value.**

We recommend accumulating CRE shares at this level. CRE's shares trade at 25% of NAV after a 7.6% devaluation, 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).

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.**

We recommend to buy CRE with a target price of €7,50

2008 results review

2008 was a devastating year for real estate stocks. Also CRE suffered from the weak real estate market condition.

However, these were mainly a function of sharply declining transaction volumes due to difficult financing conditions, which led to high yield requirements. Based on these conditions, appraisers increased their discount rates (=risk premia) to reflect these conditions. In other words, operational improvements were wiped out by deteriorating financing conditions.

As a result, IFRS40 valuations collapsed – and these declines were anticipated by investors, leading to low stock prices for real estate stocks. In addition, the fear of asset sales under stress (fire sales) impaired sentiment further. As a result, some real estate companies needed to increase capital at prices, which basically wiped out share price recovery potential for existing shareholders.

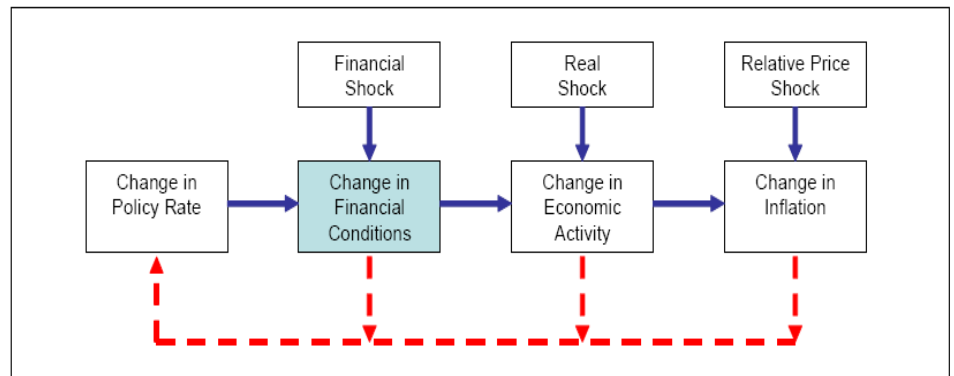
2008 results, which are now released by real companies, reflect this scenario. IVG, Deutsche Wohnen AG, Alstria Office, Gagfah and others reported net losses, but were partly able to show cash earnings. However, NAV's declined, leading to shares now trading at lower discounts to NAV than before. Deutsche Euroshop AG was the noticeable exception to this development.

We believe that most of the valuation losses in the residential market segment have been met by IFRS appraisers.

However, the situation might be different in the office and logistic segment, where declines to the tune of 12% are expected for the next 18 months.

Nobel prize winner Paul Krugman sees the following 'path' of policy changes and effects.

Chart: Interdependencies between economies, markets and policy actions



Source: Michael R. Rosenberg, 2008

Currently – around the G20 summit in London – we are in the 2nd phase, i.e. changing the financial conditions. A change in economic activity is set to follow thereafter, as well as a potential increase in inflation. The real estate sector has gone through most of the 'financial and real' shocks already, as indicated by share price movements in 2008/09.

Chart: Share price developments of real estate stocks in selected European markets



Source: CRE presentation 31.03.2009

We would therefore expect that real estate stocks, which have undertaken the necessary re-valuation of their portfolios ('real shock' action) following the worsening credit conditions in 2008 ('financial shock' reaction) are now prepared to benefit from a shift in sentiment towards the effects of potentially rising inflation rates. These would, we assume, have positive impacts on the rental income stream, while financing remains at attractive levels.

The reason is that real estate companies, such as CRE, have actively restructured their debt portfolios and are now almost immune against rising interest rates. In case of CRE, reported net profits would even rise, as the value of their implemented interest rate hedges would increase and result in book profits, as they have impaired (admittedly non-cash) net profits in 2008.

We, however, would not see a massive return of inflation in 2009 or early 2010, as long as this term describes consumer prices. However, following the recent valuation corrections in the real estate market (reflected by the share price movements shown above), lower risk premia and higher inflation EXPECTATIONS might lead to increasing demand for attractive real estate assets. As mentioned above, logistic and office assets are most likely laggards in so far as they would feel the effects of the 'real shock' – according to the graph above – only in the coming quarters. CRE has adopted this view by cutting the value of its co-investments in office assets (Oaktree portfolio) by 75% (!) to around €5m on its balance sheet as of December 2008.

Residential assets might be less affected, and hence become the focus of potentially increasing transaction volumes. Currently, market operators expect transaction volume in Germany to decline

Table: Development of real estate transaction volumes in Germany

Transaction volume	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008e	2009e
commercial	30,0	30,0	30,0	36,0	36,0	34,0	40,0	83,0	82,0	30,0	20,0
residential	20,0	17,0	12,0	16,0	17,0	25,0	24,0	36,0	35,0	20,0	20,0
% residential of total	40%	36%	29%	31%	32%	42%	38%	30%	30%	40%	50%

Source: Aengenfeldt research, CRE

We would argue that transaction volume in commercial fields might come in even lower, as Q1 2009 already showed tendencies by banks not to let default their real estate customers.

In so far, previously widely expected fire sales have not occurred so far. In fact, banks refinanced real estate companies in the past weeks, where we detected a focus on the re-financing of residential companies, such as Patrizia Immobilien, Gagfah SA and TAG Tegernsee.

Based on this assumption, residential real estate prices might not come under further severe pressure in 2009, at least not to the same extent as in 2008, when CRE re-valued its portfolio by 7.6% (the range was between the average estimated value decline by JLL and other appraisers of 2.6% and around 8.6%). Yields in the market have moved towards 7% and slightly above this level.

We feel that most companies have started re-valuing their portfolios. CRE was 1st in doing so, having adjusted its portfolio values already in Q3 2008 by around €50m. Further adjustments in Q4 2008 mainly affected its non-residential portfolio, which it holds in co-investments. CRE – and other real estate companies – have actively restructured their debt side during Q1 2009. This implies that previously high short term debt levels have been reduced, limiting re-financing risks going forward.

Share prices have so far not reflected these actions. On the one hand, they still trade at discounts to NAV as in the final quarter of 2008. At the same time, several real estate companies started reducing costs. However, we feel that CRE – again – was leading this trend by cutting costs already in Q4 2008, allowing it to return towards positive cash flow in Q2 2009. Restructuring costs have already been booked in Q4 2008.

Against this background, we feel confident that CRE is set to outperform the sector and become an active consolidator in the market. Its structure is now providing a base for a scalable business model in residential real estate holdings and active asset management, which would include now for the first complete year CRE's privatisation and individual sales activities.

CRE's 2008 results review

Reported loss of €82.9m

CRE reported a surprisingly high loss of €82.9m for 2008, after it already surprised with an €50m IFRS devaluation of its portfolio in Q3 2008. At that time, CEO Rind predicted a full year loss of €55-60m. We understand that the vast majority of the Q4 loss of €33.1m was due to further IFRS adjustment of its co-investments (€13.8m) and further rise in operating expenses as part of the announced cost cut program. Asset sales were initiated in Q4 2008 (such as the sale of the Disch Haus in Cologne), but will only become cash relevant in Q1 2009.

Kitchen sinking at CRE under the guidance of new CFO Lemke. By cutting the asset values of the residential portfolio by 7.6% and the value of the co-investment by 75%, CRE believes that there would be no further negative surprises to be expected.

CRE's 19,559 units are now priced on average at €684/sqm after €733/sqm by the end of Q3 2008 and €760/sqm by end of 2007. The calculation now expects rent increases of 2.1% (previously 2.75%) and an NRI yield of 7.05% (6.51%). Yield after operating costs (NOI) is now at 5.9% after 5.77%.

An important feature is that the IFRS de-valuation does not take into account an investment into residential assets in CRE's northern portfolio of €26m. CRE's auditors see this investment as purchase price increase, as CRE's bought the portfolio under the obligation to renovate and insulate most of the buildings. In other words: these investments were capitalized and increased equity, but did not affect the IFRS40 valuation.

Hence, we would argue that CRE has used a very conservative approach, leaving some – if not all – of the investments as potential asset sale profit, once CRE were to decide to sell the portfolio.

Operating results healthy

CRE's operating – i.e. rental results – look healthy: NRI increased to €60m, up more than 26% on the back of the first full year of operation of its entire 19,600 unit strong portfolio. Rents were positively affected by a net increase in rents of 2% to €4.62/sqm and a further reduction in overall vacancy rate to 13.1%. In addition, CRE reaps benefits from its renovation and insulation program: here, new rents were more than 21% higher at €5.64. CRE has finished 2/3 of its renovation program and is expected to see the full effects of the new rent increases within the next 2 – 3 year.

CRE reported NOI of €38.9m. However, its annual reports show NOI of €31m. The difference is the fact that CRE's auditors see part of the renovation costs as operating costs. CRE will see most of the costs vanishing in the coming years and has invested already 2/3 of potential renovation investments. Its €54m modernisation program was finished in Q4 2008.

For 2008, NOI reached €38.9m, adjusted for the investments and is seen rising to €44m in 2009. By 2012, CRE predicts NOI of €50.3m, while operating costs for the holding would have been fallen towards the €10-11m level.

We expect that CRE will continue to cut costs and receive a constant flow of rents. In so far, NOI should be able to cover costs already by 2009. This would imply that CRE would no longer require IFRS gains to show profits.

Administrative cost cuts envisaged

CRE already saw its administrative costs declining by 33% to €21m in 2008, down from €31m in 2007. CRE reported administrative costs of €19.7m already for the 9 months 2008, suggesting that a strict cost regime has been implemented in Q4 2008. CRE said that it has already implemented annualized cost savings of €8.4m.

Based on the run rate of €1m/months, CFO Lemke now envisages to achieve a cost level of €12.5m in 2009 and potentially €10m in 2010 – or even earlier. Most of the cost cuts were implemented at Resolution, which had to adopt a less growth orientated approach. Also, CRE's Fund Management was sold back to the fund managers, eliminating FM costs in 2009. general administrative costs were cut by streamlining core holding functions:

- The number of subsidiaries – partly created to facilitate growth, which did not occur in 2008 – was cut from a mid 30 level to 18, reducing general holding costs by 50%
- Legal fees and advisory fees are cut by €3.4m, i.e. representing more than 10% of total costs in 2007
- Recurring cost cuts include personnel (€2.5m) and marketing and accounting (€1.1m)
- €3m of cost cut potential has been identified and is in process of implementation. Some of the effects would have been seen in Q1 2009.

CRE is actively addressing its cost issue. Initially, CRE was seen as a pure growth company, which tried to grow its business drastically on an annual basis. Since 2008, this approach is no longer valid. Although CRE sees itself as a consolidator in the real estate market, it realized that it is no longer necessary to keep inventories of human and operating capital for the event of investments. This is particularly true for the asset management unit, which reported a loss in 2008.

Asset & fund management reported revenues of €9.4m (of which 74% is recurring management fee), while costs hit €10.6m, of which €8.3m (118%) is personnel and SG&A cost. We understand that fund management will no longer be part of CRE in 2009 and about 50% of personnel costs will be cut. As a result, CRE's asset management should be profitable in 2009.

Balance sheet restructuring on the way

CRE started to revamp its balance sheet structure in 2008, but did more so in Q1 2009. Chiefly due to the IFRS valuation losses, CRE's balance sheet shrank from €1,034bn in 2007 to €928m, down €106m. By the end of 2008, short term liabilities fell to €80m from €105m a year earlier, while long term liabilities rose from €606m to €621, meaning that the overall level decreased by €10m. Key issue was therefore the loss of equity, which fell by almost €100m to €225m.

CRE bought back €33m in short term debt and re-financed it with a 5.92% 5-year mortgage loan. On this transaction, CRE made €3m in profits, as it bought back the loan below par value. CRE achieved a similar – but more profitable – deal in Q1 2009, when it refinanced a loan, which was initially held by a German bank and Wachovia. As Wachovia exits the Germany market in several business fields, the bank was accepting a €8.4m haircut on its tranche and forfeit additional €3m in pre-closure penalties. The profit from this transaction is booking in Q1 2009. There is no re-financing until 2011.

CRE will, we believe, endeavour further in the field of debt restructuring: currently, two loans appear to be attractive for similar transactions: a €61m convertible loan, due 2011 and a mezzanine loan, which requires CRE to redeem around €5m annually.

CRE has outstanding warrants, which were originally attached to the bond, and which expire in April 2009, at a strike price of €3/share. The likely conversion of the warrant will provide CRE with additional €13.7m cash. We believe that the warrant would even be exercised, if the current market price at the time of the conversion would be below €3/share, simply because the price is hefty below the current NAV of CRE, which is €11.65/share. Given that CRE is seen turning cash flow positive by Q2 2009, unchanged risk premia in the market would imply that CRE's NAV would not be adversely affected by its operation.

NAV at €11.65/share

CRE reported an NAV of €11.65/share, after €13.07 by the end of Q3 2008. We assume that CRE's NAV would be stable under current conditions, excluding risks of fire sales. In addition, we understand that CRE has booked some of its renovation expenditures into equity, leaving some valuation headroom (we estimate €25m). In addition, no value has been attached to the asset management activities, as they were loss making in 2008 and require restructuring, albeit managing assets north of €2bn.

Overall portfolio yield is now comfortably above 7.0% at current valuation, but well above that, if compared with the current market capitalisation. Based on this (around 75% discount to NAV), we reckon that the yield to investors in CRE's shares is more in the range of 9.2 – 9.5%.

As CRE's debt structure is firmly geared towards long term, fixed rate (or swapped variable into fixed), we see little additional risk from its finance side. CRE will not need, we assume, moves into any fire sale transactions.

Only 3 of its 9 portfolios have covenant limits, which are, we understand, far above current rates. Domus and Emersion have trigger rates of 80% LTV, but are trading at 53% and 64%. Both portfolios together would have a value cushion of €130m, which is twice the amount CRE depreciated in 2008 in its kitchen sinking operation. Wohnen III LTV currently stands at 68%, also leaving sufficient room to manoeuvre. Value cushion here is €30m

CRE also reported that other portfolios have either debt coverage ratios (DCR) or interest coverage ratios (ICR). In DCR cases, covenants are at 110 – 120%, with current rates (i.e. by end of 2008) standing at 135%.

Given that CRE expects positive results in Q1 2009 and beyond, while currently not paying dividends, a breach of the DCR covenants appears unlikely.

ICR covenants are between 115 -135%, with CRE reporting a 158% coverage. Again, with strong operating results as a consequence of aggressive cost cuts and rising rental income, ICR covenants should not be an issue.

Growth strategy: Accentro privatisation

Accentro is now part of CRE asset management, but has not been included into our current forecasts. The reason is that the privatisation business needs first to show operating results. Accentro has been awarded with the privatisation of the Berlin GSW portfolio, which consists out of €330m of residential assets and €110m of commercial assets. Accentro is exclusively mandated for these 4,500 units.

CRE expects €2.5m in sales and €1m in net profits in each year between 2009 and 2012.

Privatisations seem, however, to be a strong business. Gagfah reported of record privatisation results, and also Patrizia sees increased demand from individual unit sales.

Privatisation is helped by a number of factors: the state supported Riester Rente allow buyers to utilize their Riester savings as equity surrogate in case of a purchase. Interest rates are low and banks are willing to lend to individual buyers rather than to corporate buyers.

Finally, with the view of potentially rising inflation rates in the next years, rents are undoubtedly going up due to their link to CPI indices. Buyers can lock in current rates now for typically 10 years.

The current bad sentiment, however, seems to be the only stumbling block: while unemployment numbers rise currently (with March 2009 being the first March since WW2 with rising m-o-m unemployment numbers), it seems not clear at the moment, whether the situation is changing soon. In addition, the rising demand for units – given the shortage of new buildings – will increase demand and lead to rising rents, which should fuel purchases.

CRE's Accentro is the only true growth element in CRE's current business model. This is, we believe, fully acceptable. CRE will restructure its balance sheet and operations first, before consolidating. In the meantime, it will benefit from off-balance sheet transactions, i.e. service income. We believe that success in this field will also allow CRE to consider selling parts of its own portfolio through Accentro. In this case, returns would rise, but FFO would be lower, as selling income is not part of FFO calculations.

Positive cash flow in 2009

CRE – as other highly leveraged companies – focused on net earnings in the past. In 2008, it paid a dividend on 2007 results, which were helped by strong valuation gains.

Cash flow was not a key focus, as growth and the building of portfolios and corporate structures were top priority. This changed in 2008 and will from now on be a top issue for CRE. The appointment of new management and the implementation of a cost cut program are the most visible signs.

Table: Cash flow development (CRE reporting structure)

CRE Cash Flow	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	5.700	10.000	-34,7%
Debt service	6.448	15.066	24.814	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	-	-	
Cash Flow	- 15.587	3.076	7.089	35.051	

Source: CRE, Silvia Quandt Research GmbH

Valuation & Action

We recommend accumulating CRE shares at this level. CRE's shares trade at 25% of NAV after a 7.6% devaluation, 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).

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.**

We believe that CRE continues to deliver and act in line with the new strategy. This implies that CRE would no longer 'bite' into its NAV, suggesting that total NAV, i.e. including effects from the streamlined asset management and Accentro would actually rise, we believe towards a SOP of €16,11/share (NAV excluding asset management around €10 – 11/share (fully diluted, i.e. after the full exercise of the outstanding warrants)

At these levels, CRE is cheap and its shares should move towards the NAV, as cash flows should be positive. By 2010, we could see cash flow yields of 12%, which implies a significant risk premium at current price levels.

Due to current market volatility, it is difficult to assess, which measures should be applied to CRE. We would argue that peer group comparisons are of little value, given that the uncertainty of current earnings estimates. We assume that CRE's earnings estimates for 2009 are solid, given the clear strategy of the group and the reliance on rental income and not on asset sales.

Deutsche EuroShop AG, although in a different market field, trades at discounts to NAV of just under 30%. One reason is that DEQ has long lasting rental contracts, alongside conservative accounting policies, appropriately high transparency and a long established management. A key driver, however, is that DEQ's LTV is around 50% only.

CRE has a less established management (at first sight, although the new team combines decades of experience in real estate market segments), develops higher transparency and enacted conservative accounting. CRE's tenants typically have infinite rent contracts, which are regularly adjusted by CPI like rates. Most important, however, is the fact that CRE's rental income is even more granulate than that of DEQ.

Although the comparison seems inappropriate at first sight, the change in CRE's focus should lead the stock to trade at a significantly lower discount to NAV. Particularly non-capital consuming service activities should boost returns. IN so far, we would suggest that an more appropriate share price for

CRE is around €7 – 8/share for the time being. BUY.

CRE adjusted financials

Table: P&L accounts (abbreviated)

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	0,16	0,61	0,97	-12,8%	
Number of shares	15.704	22.466	22.826	27.285	27.285	27.285		
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				17,9	4,7	2,9		

Source: CRE, Silvia Quandt Research GmbH

Table: Balance sheet (abbreviated)

CRE Balance Sheet	2006	2007	2008	2009e	2010e	2011e	CAGR
Balance sheet total (assets)	420.153	1.033.897	927.969	946.928	966.386	1.147.486	22,3%
Property/Financial assets	353.220	918.902	835.401	860.972	870.354	1.032.030	23,9%
deferred tax assets	4.520	8.116	10.713	10.178	9.669	9.185	15,2%
other long term assets	124	3.714	6.152	6.152	6.152	6.152	118,3%
Total capital assets	371.262	955.881	863.545	886.655	893.605	1.055.583	23,2%
Property held for sale	7.645	24.019	33.547	25.000	35.000	25.000	26,7%
Current assets (excl. cash)	12.891	51.792	49.092	39.854	49.018	40.312	25,6%
Cash and equivalents	35.999	26.224	15.332	20.418	23.763	51.591	7,5%
Total current assets	48.891	78.016	64.424	60.273	72.781	91.903	13,5%
Balance sheet total (debt&equity)	420.153	1.033.897	927.969	946.928	966.386	1.147.486	22,3%
base capital	15.704	22.466	22.826	27.285	27.285	27.285	11,7%
capital reserves	44.268	216.635	222.772	222.772	222.772	222.772	38,2%
retained earnings	39.235	82.318	6.560	4.149	11.827	38.414	-0,4%
minorities&others	946	1.663	13.737	2.000	4.000	4.000	33,4%
Shareholders Equity	100.153	323.082	225.299	247.908	265.884	292.470	23,9%
bank loans (long term)	113.929	498.358	525.569	537.986	537.407	677.250	42,8%
deferred tax liabilities	16.115	53.871	40.514	39.578	40.460	43.535	22,0%
Total long term debt	182.348	606.212	621.786	629.968	630.272	773.189	33,5%
bank loans (short term)	26.911	64.836	38.068	18.052	10.000	9.436	-18,9%
Short term debt	137.652	104.602	80.884	69.052	70.231	81.827	-9,9%
Equity ratio %	23,8%	31,2%	24,3%	26,2%	27,5%	25,5%	
NAV		16,30	11,65	10,09	10,73	11,83	
Shareprice to NAV		0%	0%	28%	27%	24%	

Source: CRE, Silvia Quandt Research GmbH

Table: Cash Flow (abbreviated)

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	- 1.390	- 2.370	-39,0%
Total operating cash flow	- 35.031	- 24.275	11.986	5.819	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	- 5.000	- 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	7.088	35.050	

Source: CRE, Silvia Quandt Research GmbH

CRE ad-hoc news

Colonia Real Estate announces preliminary figures for fiscal year 2008

* Market valuation of real estate portfolio and financial instruments of -75 million Euros lead to negative results of 82.9 million Euros * Core business remains positive: EBITDA at 12.5 million Euros - net rental income rises by 26.3 percent to approx. 60 million Euros * Strong first quarter promises comeback to profit zone for full year 2009

Cologne, March 31, 2009 - After preliminary, unaudited figures and due to high non cash effective market valuation changes Colonia Real Estate AG (ISIN DE0006338007) reports a loss of 82.9 million Euros (2007: 67.1 million Euros) for the fiscal year 2008. Especially the tightening of the financial crisis led to a negative market valuation of the property assets of -71 million Euros. This equals a depreciation of the whole real estate portfolio including the co-investments of 7.6 percent in comparison to the previous year. Therefore, the earnings before interest and tax (EBIT) fell to -58.2 million Euros (2007: 83.3 million Euros). Before depreciations earnings (EBITDA) were at 12.5 million Euros (2007: 22.5 million Euros).

However, CRE was able to further improve their core business: rental income (NRI) increased from 47.5 million Euros in 2007 to 60 million Euros for the fiscal year 2008 which equals to a growth of 26.3 percent. Net operating income (NOI) increased by 17.9 percent to 38.9 million Euros (2007: 33 million Euros). In 2008 the vacancy rate decreased significantly from 15.2 to 13.1 percent. At the same time average rent increased by 2 percent to 4.62 Euros per square meter (same-store basis). The new rents for refurbished portfolios increased above average from about 4.5 Euro (original rent) to 5.64 per square meter.

Less contribution from Asset and Funds Management in 2008 Revenue contribution from the asset and funds management declined 15 percent to 9.4 million Euros (2007: 11.2 million Euros). Together both business units showed net losses of 1.2 million Euros. The loss mainly derived from the funds management, which was sold in December 2008.

Significant cost reduction - improved financial situation The cost reduction program of CRE which was introduced September 2008 showed first effects. The overall administration costs were reduced from 31 million Euros in 2007 to 20.9 million Euros for the fiscal year 2008, which is a reduction of 32.6 percent. Solely in the fourth quarter 2009 administration costs were 2.2 million Euros including restructuring costs of 0.5 million Euros.

Terms and conditions of the loan portfolio improved significantly through asset disposal, debt buy-backs and the restructuring of single loans. The total debt portfolio of 627 million Euros is fixed at an average interest rate of 4.7 percent p.a. and an average maturity of 8.3 years.

Due to the improved cost situation, rising rental income and successful refinancing a positive cash flow for the first quarter 2009 is likely.

'The world wide financial crisis had a negative impact on the value development of the real estate market and resulted in high depreciation of our real estate portfolio. With the depreciation based on independent

external appraiser we cleaned our balance sheet and start from a solid basis for 2009. The significantly improved cost structure, rising rents together with vacancy reduction should generate cash earnings for the fiscal year 2009', says Stephan Rind, CEO of Colonia Real Estate. Rind states further: 'after the successful refinancing of our north German properties we already expect strong earnings in the first quarter of 2009. With the recent sale of a 4,000 residential unit portfolio to domestic investors and a recovery of the 'Pfandbrief' market we see the first signs for a sustainable stabilisation of the German residential market'.

About Colonia Real Estate AG

With around 20,000 residential units and total assets of approx. 900 million Euros, Colonia Real Estate is Germany's third largest publicly traded residential property company. The asset management of the CRE Group is responsible for more than 2.1 billion Euros real estate assets under management.

Disclaimer

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5 avoids	0

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Silvia Quandt Research GmbH

Grüneburgweg 18
60322 Frankfurt

Tel: + 49 69 95 92 90 93 -0

Fax: + 49 69 95 92 90 93 – 11