Real Estate
Germany

Current price	**€33.50***
Target price	**€40.00**
Market cap.	€91.4m
Free float	42%
Average daily trade	15,000 shares
Derivative(s)	no

Colonia Real Estate

Buy

KBU GR Equity

(Initiation)

Slim, fast and hungry…

Colonia Real Estate emerged from the shell of the bankrupt Kueppersbusch AG to become what we believe to be one of the most promising real estate groups in Germany. With its opportunistic investment approach, ten-step screening model and ability to make decisions quickly, it is unique in Germany. After the acquisition of the 3,488 apartment Grasmus residential portfolio and the invitation of Cerberus as shareholder, CRE looks set for a quantum leap in growth.

Converted out of Kueppersbusch

In November 2003, the insolvent Kueppersbusch AG was converted into Colonia Real Estate and started its life as a real estate holding group. Prior to this, Swiss Real Estate became the new major shareholder. CRE aims to achieve an IRR of 15% on its capital employed and expects to hold on to assets for between two and eight years.

2004 – year of becoming established

In 2004 CRE started its real estate business through the 86% acquisition of three Marriott hotels. It also formed new investment and asset management units. Together with the recently established CRE Research & Management subsidiary, CRE now operates in all sectors of the real estate process.

2005 – quantum leap in sales and earnings

With the acquisition of the 3,488 apartment portfolio, CRE jumps into a new league in the real estate business, and becoming the fourth largest listed residential property owner. Fast privatisation and the ability to achieve synergies in other projects should boost earnings in 2006 and beyond.

Valuation remains attractive

The stock price has risen by more than 100% so far in 2005, in anticipation of positive EBIT results and acquisitions. These did materialise, and we believe the newly formed CRE Research group will open ways for further, structured real estate transactions.

Key data

Year-end Dec	2004	2005E	2006E	2007E	2008E	2009E
Sales (€m)	0.8	12.4	44.9	68.2	96.5	128.6
EBITDA (€m)	(0.4)	8.7	24.2	34.0	45.6	54.6
EBIT (€m)	(0.5)	5.7	20.6	29.3	40.1	48.7
PBT (€m)	(0.9)	2.3	12.0	18.0	29.3	38.2
Capital employed (€m)	28.1	99.4	139.5	188.1	233.1	270.0
EPS (€)	(0.24)	0.48	2.18	3.33	5.47	7.18
DPS (€m)	-	-	0.75	1.00	1.50	2.00
EV/Sales (x)	51.32	14.85	5.07	3.94	3.11	2.48
EV/EBITDA (x)		21.11	9.41	7.89	6.58	5.84
EV/EBIT (x)		31.95	11.09	9.15	7.48	6.56
ROCE (%, PBT)	-0.9%	1.7%	6.4%	7.7%	10.8%	12.7%
P/E (x)	-29.6	72.1	15.8	10.4	6.3	4.8
Dividend yield (%)	0%	0%	2.2%	2.9%	4.3%	5.8%

Source: Commerzbank Corporates & Markets

Sector view
With the introduction of REITs, the German real estate market should receive a boost in terms of transaction volume. We would expect this trend to lead to selectively higher prices.

What's changed

- Rights issue to boost liquidity
- Acquisition of large residential asset catapults CRE into a new league

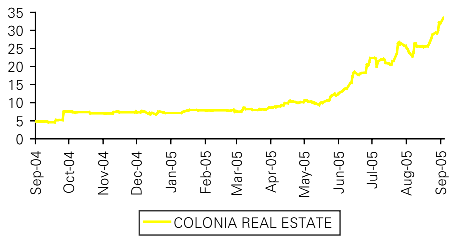
News flow

- Capital increase 1:4 at €23.75
- 9 September 2005 EPRA conference Paris
- Further acquisitions planned in 2005 and 2006

Company profile

Colonia Real Estate is born out of the old Kueppersbusch AG. The company focuses on distressed real estate assets, which it buys, restructures and rents or sells out. The acquisition of 3,488 flat residential area, the largest in the company's history, represents a quantum leap. CRE has already adopted REITs structures. A new business field, CRE Research, should boost the group's real estate asset management functions.

Price performance



Source: Datastream

**Price as at close 12 September*

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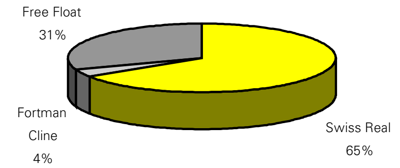
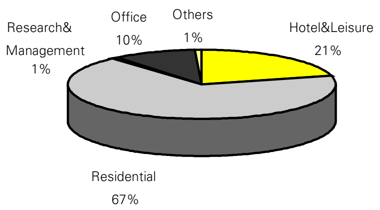
For important disclosure information please see page 27-28

Shareholder Structure



Assets by Division



Corporate management

Investor Relations contact	
	Stefan Rind, CEO
Reporting	Quarterly
Share buyback program	yes, since 2005
Management incentives	Yes
Incentive program	Yes
Employee share scheme	Yes
CEO / CFO in place since	2002, 2004

Profit & Loss

Year end Dec. (€m)	2003	2004	2005E	2006E	2007E	2008E
Sales	0.25	0.82	12.37	44.94	68.23	96.55
Cost of goods sold	(0.30)	(0.82)	(2.20)	(14.95)	(27.54)	(42.45)
Gross profit	(0.06)	(0.00)	10.17	29.99	40.69	54.10
Total op. expenses	(0.40)	(1.27)	(3.67)	(20.70)	(34.20)	(50.97)
EBITDA	(0.15)	(0.45)	8.70	24.24	34.03	45.58
Depreciation & amortisation	(0.01)	(0.01)	(2.95)	(3.69)	(4.69)	(5.46)
EBIT	(0.15)	(0.46)	5.75	17.73	25.55	36.34
Pre-tax profit	0.18	(0.87)	2.32	11.95	17.97	29.26
Income taxes	0.00	0.24	(0.81)	(4.18)	(6.29)	(10.24)
Income tax rate	-1.1%	27.6%	35.0%	35.0%	35.0%	35.0%
Reported net income	(18.62)	(0.63)	1.51	7.47	11.38	18.72
No. of shares (m)	2,250	2.610	3.148	3.410	3.410	3.410
EPS (E)	(0.01)	(0.24)	0.48	2.18	3.33	5.47

Source: Commerzbank Corporates & Markets

Balance Sheet

Year end Dec. (€m)	2003	2004	2005E	2006E	2007E	2008E
Cash & equivalents	0.41	0.02	21.19	23.65	27.63	34.42
Receivables	0.00	1.45	3.50	5.00	6.50	8.00
Inventories	3.66	26.22	97.00	154.29	209.59	252.76
Total current assets	4.50	27.67	102.90	163.29	220.09	264.76
Total assets	4.84	28.48	127.06	186.91	250.75	302.19
Total equity	(0.00)	3.22	24.49	29.70	37.65	51.24
Financial debt	4.53	23.69	94.92	132.30	176.84	215.07
Other debt items	-	1.57	7.65	24.92	36.26	35.88
Balance sheet total	4.84	28.48	127.06	186.91	250.75	302.19

Source: Commerzbank Corporates & Markets

Cash Flow

Year end Dec. (€m)	2003	2004	2005E	2006E	2007E	2008E
Net profit	(18.62)	(0.63)	1.51	7.47	11.38	18.72
Operating cash flow	0.18	(22.07)	(60.02)	(17.78)	(12.15)	(1.41)
Investment cash flow	-	-	(77.15)	(23.00)	(24.41)	(28.01)
Financing cash flow	-	19.34	148.14	46.18	68.00	60.97
Changes in funds at year end	0.41	(0.39)	21.17	2.45	3.98	6.79

Source: Commerzbank Corporates & Markets

Key Ratios

Year end Dec.	2003	2004	2005E	2006E	2007E	2008E
COGS	n.m.	100.2%	17.8%	33.3%	40.4%	44.0%
Tax	n.m.	27.6%	35.0%	35.0%	35.0%	35.0%
Gross margin	n.m.	n.m.	70.3%	53.9%	49.9%	47.2%
Operating margin	n.m.	-54.3%	70.3%	53.9%	49.9%	47.2%
Net margin	n.m.	-76.6%	12.2%	16.6%	16.7%	19.4%
ROCE (%)	n.m.	-0.9%	1.7%	6.4%	7.7%	10.8%
ROE (%)	n.m.	-19.6%	6.2%	25.2%	30.2%	36.5%
FCF as % market capitalisation	n.m.	-14.7%	10.0%	4.5%	26.3%	26.4%

Source: Commerzbank Corporates & Markets

Investment summary

Colonia Real Estate – CRE – emerged out of the insolvent Kueppersbusch AG and converted from an industrial company into a real estate group. The legacy businesses and assets no longer affect the company, after the 27 June AGM approved all the necessary adjustments to its capital and debt structures. As a result, CRE has put behind it all the previous issues resulting from the conversion from Kueppersbusch AG.

The new company began its new business in October 2004 with the acquisition of 86% of ARCON Trust, which owns three hotels (run by Marriott) and one office building. With this transaction, CRE became an operational company after three years of restructuring. In the meantime, CRE acquired two further office buildings in Cologne and, most recently, a 3,488 apartment portfolio from the Dutch Grasmus holding company, which is controlled by the Cerberus group. CRE was able to achieve these milestone acquisitions in less than nine months, underpinning its aim to act fast, once a target has been identified. Its five man strong, focused management team also provided a very good example of its ability to structure deals and the respective financing efficiently in cooperation with banks and sellers.

Now that it has put behind it all ties with the old Kueppersbusch AG, CRE is on its way to achieve a strong and well structured capital base, which should be the foundation for further growth. Cerberus will become a shareholder in CRE following the capital increase, and possibly it might participate in financing future asset deals. Following the AGM approvals CRE would have access to around €120m of finance, which could fund further significant deals. Of this, €55m would be derived from future equity offerings. The company announced a target equity ratio of 20%-25% in the medium term, so this, together with retained earnings, would allow CRE to make investments of almost €300m.

CRE is lean and flexible operation. The five man management team works with a proprietary ten-step screening model, which enables CRE to evaluate a large number of opportunities quickly. In 2004, CRE assessed more than 400 projects, but more than 90% were rejected by its screening model. Only four were successfully identified as potentially interesting assets, and CRE bought two: ARCON and a portfolio of two office buildings in Cologne. The other two were beyond the company's limited financial reach at that time.

The strong, efficient and focused management, and an innovative screening process (only two of more than 50 European real estate companies operate a screening tool) plus commitment to outsourcing should allow CRE to make attractive returns over coming years. Following the rights issue, market capitalisation should reach more than €130m, with a free float of about €55m.

Valuation

TABLE 1: **DCF Model**

€m	2004	2005E	2006E	2007E	2008E	2009E	2010E
= NOPAT	0.8	3.9	13.5	19.2	26.2	31.8	36.6
= Free cash flow	-0.7	1.0	7.7	1.4	13.9	21.3	22.5
Cumulated value of cash flows	56.52						
Terminal value	167.29						
Operating value	223.80						
Debt LT	90.70						
Equity value	133.10						
Number of shares (m)	3.42						
Fair value (€)	38.92						

Source: Commerzbank Corporates & Markets

Capital Restructuring

At the AGM on 27 June, CRE received shareholder approval for a number of capital measures, which should:

- Eliminate all legacies from the old Kueppersbusch AG
- Eliminate negative capital reserves
- Convert the major shareholder's loan into equity
- Receive new key shareholders, and
- Form the foundation for substantial growth in the coming years

At the AGM the company has been authorised to cut its base capital by €10.4m to €2.61m. The number of shares would remain unchanged at 2.61m, as the company just adjusts its nominal value per share from €5.0 to €1.0. Through this move, €10.4m in capital would be freed up. At the time of the conversion from Kueppersbusch AG into CRE, legal advisors regard the then booked Kueppersbusch AG base capital of €11.25m as 'not paid in'. As a result, initial CRE shareholders might have been at risk of having to subscribe this amount in due course. The measure to cut the current capital is therefore designed to eliminate this negative legacy share capital. After the transaction, CRE shareholders are in the same position in terms of value, but would no longer have the legal liability to be called on for more funds. CRE has thus finally cut all ties to the old Kueppersbusch AG.

TABLE 2: **CRE's capital development**

€m	2004	2004 new
Base capital	13.1	2.61
Capital reserves	-	
Retained earnings	(10.4)	
Minorities	0.6	0.61
Shareholders' equity	**3.22**	**3.22**

Source: CRE, Commerzbank Corporates & Markets

AGM approval was also gained to convert Swiss Real Estate's initial start-up loans to equity. The loan had a value of €1.098m at the end of 2004 and was converted into 118,000 new CRE shares, equivalent to €9.31 a share. Swiss Real Estate AG (SRE) thereby increased its holding through the operation to 65.8%.

The next transaction was part of the start of the new CRE business model. In October 2004, CRE acquired a portfolio of three hotels and one office building from LAM Immobilien& Beteiligungs AG. The portfolio was held in an ARCON Trust sub holding. LAM AG is part of the Swiss Real Estate group, which is also a major shareholder in CRE. Therefore, significant independent due diligence has been carried out to confirm the group's valuation and asset base. The final transaction was approved by the AGM on 27 June and resulted in LAM becoming a new major shareholder. As part of the transaction, LAM subscribed for 360,000 new CRE shares at a price of €10.00. CRE thus became an operating company with its first sizeable asset. CRE paid for the 86% of the ARCON portfolio with €3.6m in shares and about €23m in debt.

The shares granted to LAM have been entitled for the 2004 fiscal year results. The final step of the capital restructuring includes a 1:4 rights issue, which was approved at the AGM. CRE will issue 682,000 new shares, which would then increase the base share capital to €3.41m.

TABLE 3: **CRE's estimated capital structure after capital measures in 2005**

€m	2004	2004 new	2005E
Base capital	13.1	2.61	3.41
Capital reserves	-		14.4
Retained	(10.4)		0
Minorities	0.6	0.61	0.7
Shareholders Equity	**3.22**	**3.22**	**18.51**

Source: CRE, Commerzbank Corporates & Markets

The decisions at the AGM therefore will have provided the company with a sound equity base for the current business model. At the same event, however, CRE took significant steps to prepare for its future growth. The company used the AGM to set the base for active and fast decision making once it comes to further asset purchases. CRE believes that the time when 'the big eat the small' is over in the German real estate market. Instead, we believe that the time of 'the fast eating the slow' has arrived.

In 2005, CRE could not finance two promising investment opportunities. The following AGM approvals should allow CRE to act fast, once opportunities emerge:

- In 2005, the company will undertake a 4:1 capital increase (see above) at €23.75 a new share, which will start on 14 September, ending 27 September
- The board has approval to issue up to 1.305m shares, primarily intended for asset deals but could also be used to raise cash, without needing further shareholder approval until 2010
- The board has approved to issue 59,000 shares in a similar fashion until 2010.
- The board can issue warrants with a strike price of €12/share up to an equivalent of 1.125m shares
- The board can issue up to 180,000 shares as an employee share plan
- The board has approval to issue up to €10m in subordinated debentures (Genussscheine) until 2010
- The board has approval to issue up to €65m in convertible bonds or bonds with warrants attached, equivalent to a maximum of 1.305m shares, until 2010
- The board has been approved to acquire own shares. These shares can be canceled or used for other purposes, until November 2006.

The measures should enable CRE to increase its financial war chest by more than €120m in the coming 24 months, in addition to its retained earnings and bank loans.

TABLE 4: **CRE's development of financial power (€m)**

Share capital adjustments	Shares	Est. price per share	Est. total amount	Start year
Rights issue	682,000	15.00	10,230,000	2005
Asset deal	1,305,000	18.00	23,490,000	2005
Asset deal	59,000	18.00	1,062,000	2005
Warrant issue	1,305,000	12.00	15,660,000	2005
Employee shares	180,000	25.92	4,665,600	2007
Total equity related	**3,531,000**		**55,107,600**	
Convertible bond	1,305,000		65,000,000	
Total financial power			**120,107,600**	

Source: Commerzbank Corporates & Markets

We assume that the shareholder structure by the end of the 2005 capital increase would look as follows.

TABLE 5: **CRE's share capital development and expected shareholders' structure**

Year	2003	2004		2005E			
Shares out	2,250,000 shares	100% percent	2,610,000 shares	100% percent	2,728,000 shares	100% percent	3,410,000 shares
Step 1) ARCON							
LAM -Immo&Beteiligung		13.79%	360,000	13.20%	360,000	13.20%	450,0002
Step 2) Debt conversion							
SRE debt conversion					118,000		
Step 3) Rights issue							
capital increase							682,000
Shareholders by time							
Swiss Real Estate -SRE		64.25%	1,676.925	65.80%	1,794.925	52.64%	1795.000
LAM -Immo&Beteiligung		13.79%	360.000	0.00%	0.000	0.00%	0
Fortman Cline AG		3.79%	98.919	3.63%	98.919	3.63%	123.6488
Free float		18.17%	474.156	30.58%	834.156	43.72%	1490.695

Source: CRE, Commerzbank Corporates &Markets

Capital Increase

CRE announced the details of its capital increase on 13 September. The 1:4 capital increase at €23.75/share would increase the number of shares to 3.41m and would add €16.2m (gross) to the company's balance sheet. The new shares are fully entitled for the 2005 fiscal year, i.e. trade pari passu with the existing stock.

The capital increase marks the final step in the group's capital restructuring measures this year and puts CRE on to a new capital base. In addition, the company would see a change in its shareholder structure. The number of institutional investors is likely to rise, while Swiss Real Estate might reduce its stake through the capital increase. We assumed that SRE would maintain the same number of shares, which would, in return, dilute its holding from about 66% towards 52.64%.

The table above does not include Cerberus as a shareholder. However, CRE announced at the AGM that Cerberus would very much like to become a shareholder in CRE and that this was one condition under which the residential portfolio deal has been achieved. Cerberus is believed to hold between 4%-6% of CRE's capital post the capital increase, according to CRE's CEO Stefan Rind.

Share price drivers

Business model

ROCE driver: Revenue

- Residential portfolio acquisitions to continue in 2006 and beyond
- REITs: possible exit channel could boost business further
- Distressed assets could emerge from large portfolios acquired by private equity firms
- Further assets might emerge from closure of open end and closed end real estate funds

ROCE driver: Margins

- Rental margins improve due to renovation and active tenant coverage
- Demand for residential assets rise as public pension systems deteriorate
- Strong improvement in economies-of-scale
- Low interest rates allow CRE to operate like a private equity fund

ROCE driver: Capital intensity

- Equity capital well geared by low interest cost debt leads to high ROE
- Shareholders are committed to CRE: with Cerberus, a strong partner is on board
- Debt is generally covered by assets. The stringent investment process should eliminate write-off risks
- Interest cover is strong at 3x

Cash flow

- Positive earnings development and stable earnings base through rental income since 2005
- FCF to emerge by 2005 and remain positive and rising throughout the next five years
- ROCE to remain comfortably around 10% even in the phase of strong growth
- CF per share to grow six-fold to €6.60 within the next five years

Strengths

- Focused and experienced management could offer its services to third parties
- Very stringent investment process significantly reduces investment risks
- Fast decision making process
- Core shareholders are active in real estate business and could aid investment process and decisions

Weaknesses

- Still small in national and international terms
- Limited financial power compared with private equity groups, even after the decision on capital measures
- Focus exclusively on Germany

Opportunities

- G-REIT could open a new and interesting exit platform
- Large private equity groups continue to sell smaller asset portfolios. The market remains strong and liquid
- Better visibility in the market after the Cerberus deal allows for more and better offers
- Further strengthening of the new business field 'Asset Management'

Threats

- New entrants likely to emerge. Barriers to entry relatively low
- Saturated market in Germany, benefiting only through the emergence of single person households
- Falling disposable income due to higher social security fees could limit margins in privatisation

Business model

CRE is basically a management company. With only five employees, CRE operates like a real estate investment fund. The analysis of the management and the investment process is crucial for understanding the company's prospects.

Management

CEO Stephan Rind's background and career history combines expertise in private equity business with expertise in real estate markets. Starting in 1991 as analyst in the US and Germany, he covered US REITs. The REIT idea basically merges the benefits of a fund structure on the operational side with the opportunities of fast acting real estate investors. The latter emerged into the current breed of private equity funds, such as Cerberus. After his time as an 'external' analyst, he changed sides to become CIO of the Fortman Cline Group in Switzerland, where he oversaw a total investment volume of €1.2bn within a period of five years. At the same time, he became co-initiator of the German association for alternative investments (BAI). Since 2003, Stephan Rind has been CEO of CRE.

The background as analyst, investor, finance structurer and his knowledge of relevant market participants makes him a unique CEO in the German real estate market. He combined his expertise on the analytic side in CRE's unique 'ten-step screening' process, which makes CRE one of the fastest decision makers within the industry.

CFO Klaus Reichert joined the management team in 2004 as CFO. His expertise is based on a 20-year career at Bayrische Hypothekenbank, where he was responsible for the corporate business until 1989. Thereafter he served as CFO in several German listed companies.

Klaus Reichert's expertise in various industries allows the management team to evaluate the financial structure of its assets in more depth than it would be possible for a pure real estate company. Particularly in the fields of non-residential investments, the knowledge of the tenants' business models and structures is essential to minimise income risk for CRE.

Mr Reichert's contacts with key bankers allows CRE to structure its financial needs quickly and cost efficiently. The capital measures approved at this year's AGM are a good example of this work.

COO Christian Grosch joined the board in 2003 with core responsibilities on organisation, personnel and project management. In common with CEO Rind, he previously worked at Fortman Cline in Switzerland as an asset manager, responsible for the real estate area of the group. Prior to this, he worked at private equity group IQ Capital and at VMR AG, an asset management group.

His experience in asset management allows CRE to better evaluate the risks involved in its entire portfolio, as well as giving it a better understanding of the interactions within its portfolio. Being on the 'buyer' side for most of his career, he functions as the key co-investment decision maker to CEO Rind.

CIO Markus Drews joined the company in 2003 and is the key person when evaluating assets. He has been active in real estate investments for nine years, mainly covering commercial investments. Markus Drews is a certified asset evaluator. His background includes five years as a consultant and agent for residential assets and office buildings, two and a half years with SGE GmbH, which undertook consultancy work for RWE, Haniel and others on non-operational real estate assets and two years with a private real estate group, focusing on real estate assets from distressed sellers.

The supervisory board also consists of real estate experts. Supervisory head Prof. Steiger has considerable experience of real estate investments, mainly through AUFINA, a large German realtor.

Ten-step screening process

The ten-step screening process of CRE is almost unique in the industry. Our of a total of 50 real estate companies in Europe, only two have a structured screening process in place, which allows CRE to pre-select offers sent to it rapidly.

Through this tool, CRE is able to select potential investment projects more quickly and efficiently than its competitors. Lengthy travelling to all the sites of potential investments is no longer required. Therefore, the 'see and hit' rate is one of the highest in the industry. Out of 439 projects offered to CRE in 2004, only 30 passed the initial screening process and CRE decided that only four projects fit its portfolio requirements, less than 1%. Finally, CRE was only able to close on two of these projects.

The important issue with the screening process is that if any of the ten items fail to reach the hurdle rate, the entire project will not be scrutinised further. The rigorous approach allows CRE to act swiftly and avoid – as much as possible – investment errors. An example would be the rating of tenants: in case a tenant rating falls below levels which credit rating agencies would qualify as 'BB', CRE would not continue to evaluate an offer. The reason is that long term rental agreements require a strong tenant to expect a steady rent income flow.

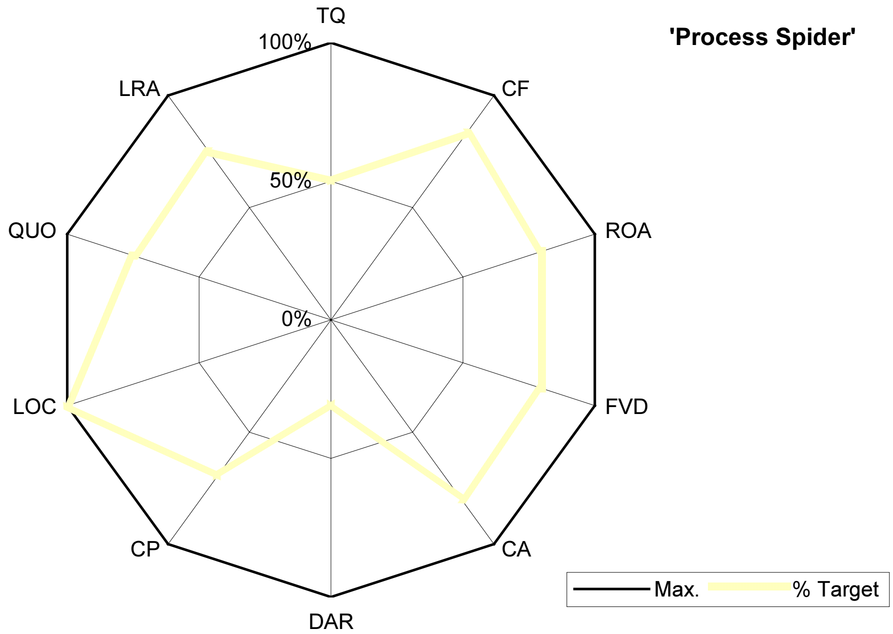
CRE developed the hurdle rates over the past two years and its vast number of analysed projects (see above) allowed it to refine the process further. Therefore, CRE is now in the possession of a proprietary, tested and structured investment screening tool, which is in marked contrast to other, similar real estate companies. This unique process we believe reduces the investment risk for CRE and its investors.

The process

CRE employs a unique and proprietary four-level decision making process, which starts with a quantitative ten-step evaluation screen. Less than 5% of all offers suggested to CRE pass this initial screen. In other words, the likelihood that CRE invests in a difficult real estate environment should be small. At the same time, in most of the cases CRE is almost the only bidder. This interesting situation is a result of its desired investment size of €10m to €50m. This investment bracket is usually too big for local private individuals and too small for the big bulge bracket firms.

CHART 1: **Process Spider**

Quantitative Due Diligence (100%)



Local Analysis (5%)

Qualitative Due Diligence (3%)

Decision Making and Purchase (2%)

Source: Commerzbank Corporates & Markets

The ‘Quantitative Screening Process’ combines building specific elements with elements of the local environment. Through the process, CRE eliminates assets which do not meet its opportunistic approach. The key elements, which describe the ‘distressed’ situation of an asset, are the fair value discount (FVD), the discount to long term achievable rental income (DAR) and the occupancy rate or rent out ratio (QUO).

TABLE 6: **Description**

	Abbreviation
Tenant quality	TQ
Cash flow	CF
Pre tax ROA	ROA
Fair value discount	FVD
Condition of asset	CA
Discount to achievable rent	DAR
Conversion potential	CP
Quality of location	LOC
Rent out ratio	QUO
Length of rental agreement	LRA

Source: Commerzbank Corporates & Markets

CRE sets benchmarks for each of the elements and compares the achieved ratios of a given potential project. CRE only considers visiting a site if the project achieves certain hurdle rates. More than 95% of projects do not pass the initial quantitative screening. This process allows CRE to operate with a very slim management structure, while, at the same time, analyzing a large number of potential opportunities.

CRE developed the process primarily for commercial assets, i.e. hotels and office buildings. Certain factors in the ten point programme would not be suitable for analysing residential assets. However, with certain adjustments, CRE also uses the quantitative process for residential portfolios.

Site visits of potential projects and the associated analysis is more time consuming. The site visit primarily covers aspects outside the building and 'soft' factors, such as the quality of tenants, the local environment and the structure of the asset. In addition, issues such as tenant fluctuation are discussed with the local facility management.

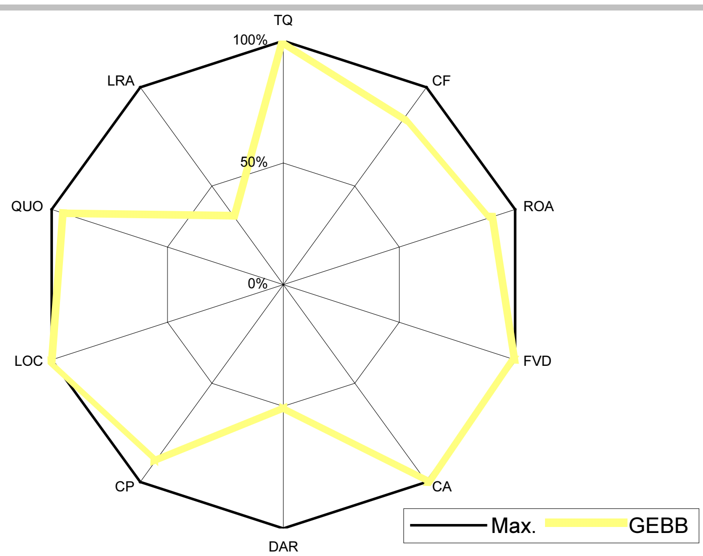
After the visit, all aspects are analysed by the management team. At this stage, aspects about the management and conversion, as well as issues such as optimisation of the tenant structure and potential exit strategies are discussed. This includes a detailed scrutiny of tenant contracts (special rights and duties), potential renovation requirements and an analysis of the purchase price in relation to achievable improvements. The 'qualitative due diligence' leads to the final decision making process.

At this stage, issues related to the purchase, i.e. financing, risk aspects and the possibility of using the asset for collateral purposes are discussed within CRE and with potential financial partners and banks. Typically the period between the first approach and the final decision is only a few months. This suggests that CRE is significantly faster in its decision making process than the competition, while the company at the same time reduces misallocation risks significantly through its detailed and organised approach..

Business models for office buildings and hotel and leisure assets

The ten-step screening was originally designed for the evaluation of commercial buildings. In 2005 CRE invested in two office buildings in Cologne, which fit the criteria. CRE bought the asset out of a distressed situation, which allowed an appropriate discount to the current market value. At the same time, an excellent tenant (subsidiary of the German 'Bundeswehr') could be found, who agreed to a fully indexed seven-year rental contract. This type of agreement is called triple-net contract. The building is of outstanding quality and is relatively new (2001).

CHART 2: **Example of ten-step model**



Source: Commerzbank Corporates & Markets

CRE expects to make two further acquisitions in the office building area during the course of the next 12 months.

TABLE 7: **Hotel revenue model**

€m	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Sub-group sales	-	0.7	2.2	3.1	4.1	4.1	4.1	4.2
Cost of goods sold	-	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
EBITDA	-	0.6	2.0	2.8	3.8	3.8	3.8	3.7
EBIT	-	0.6	1.4	2.3	3.3	3.2	3.2	3.2

Source: Commerzbank Corporates & Markets

We expect CRE to acquire additional hotel assets in 2006 and 2007, which should increase the group's rental income by around 100% over the next two years. The focus should remain on business class category hotels in medium-sized cities. These provide a steady rental income and would not attract significant changes in the underlying value.

TABLE 8: **Office revenue model**

€m	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Sub-group sales	-	-	2.2	3.2	4.4	5.5	5.6	5.7
Costs of goods sold	-	-	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
EBITDA	-	-	1.9	2.9	4.0	5.1	5.2	5.3
EBIT	-	-	1.7	2.6	3.7	4.8	4.9	5.0

Source: Commerzbank Corporates & Markets

We expect CRE to continue investing in profitable assets from 'distressed' sellers. The current office portfolio yields €2.2m annually, and is fully indexed. We assume that CRE adds one building on an annual basis, with similar rental contracts.

Business model residential assets

The business model for the residential real estate segment differs from the models above. CRE typically looks for larger portfolios with about 2,000 to 4,000 apartments. These assets usually consist of several packages of residential buildings in various areas. The price for such large portfolios usually ranges between €400-€500 per square metre. The average apartment size is about 60-75 square metres and need some kind of renovation.

These sort of portfolios usually contain properties from the 1960s and early 1970s boom phase. The buildings were used by the growing population during this period, which was characterized by a nationwide industrial expansion. Therefore, these assets are typically not in the current centres of Germany, but in so-called 'B' – areas. As a result, they did not experience the same price volatility seen in the larger cities, such as Frankfurt or the Rhine-Ruhr area.

CRE identified a trend towards these types of assets, as the number of households will tend to rise over the next decade. This results from the larger demand for single households, both by the young generation and by the retiring generation. Therefore Germany faces a decline in its population on the one hand, but a strong demand for apartments on the other hand. A recent survey suggests that the annual demand of around 350,000 apartments would not be covered by the erection of new buildings. The shortfall would need to be covered by the conversion of existing houses. This is the field of 'privatisation', where current tenants aim to become home owners.

For CRE the recent acquisition of the Grasmus B.V. portfolio opens the way both for privatisation and asset sales.

Example: The Grasmus B.V. portfolio

In 2005, CRE acquired a portfolio of 3,488 apartments across nine locations in northern Germany (Friesland). Grasmus, a subsidiary of Cerberus (US), acquired these assets only in 2003. At the time of the acquisition by Grasmus, 23% of the flats were not let out. Grasmus worked hard with local agents and a local management team and brought the vacancy rate down to 10%.

Despite the excellent structural – i.e. management and tenant structure - condition of the assets, CRE was able to buy these assets at a very attractive price. In addition to the Grasmus shares, which would be valued between €26m to €27.5m (depending on the share price of CRE, as part of the deal would be paid in CRE shares), CRE took over €66.5m in debt. This implies a total price for the flats of €94m, or €26.950 per flat, which compares favourably to recent transactions of block deals in Germany.

TABLE 9: **Transactions in German real estate since 2001**

Deal closed	Deal status	Buy-out firm (s)	Seller of real estate in large blocks	Transaction size (number of units)	Transaction value (€m)	Average price paid per unit (€)
Jan-01	closed	Terra Firma	Eisenbahnerwohnungen	64,000	3,800	59,375
Dec-03	closed	Babcock & Brown	DAL	6,000	269	44,833
Jan-04	closed	KGAL Leasing	Viterra	27,000	550	20,370
May-04	closed	Cerberus Whitehall	GSW	66,000	2,105	31,894
Jul-04	closed	Fortress	GAGFAH	82,000	3,700	45,122
Sep-04	closed	Wohnprojekt	Mira	2,700	121	44,815
Sep-04	closed	Häusser Bau	Mira	1,500	67	44,667
Sep-04	closed	Cerberus	Degewo	2,650	119	44,830
Dec-04	closed	Morgan Stanley / Corpus	Thyssen Krupp	48,000	2,100	43,750
Dec-04	closed	Blackstone Group	WCM	31,000	1,390	44,839
Dec-04	closed	Cerberus Whitehall	Deutsche Bank	7,500	336	44,800
Dec-04	closed	Terra Firma	RWE	4,500	225	50,000
Dec-04	closed	Babcock & Brown	DAL	13,500	605	44,815
Mar-05	closed	Oaktree	GEHAG	21,000	1,000	47,619
Mar-05	closed	GE Real Estate Company Germany	HPE	4,400	190	43,182
Mar-05	closed	Terra Firma	Viterra	138,000	7,000	50,725
Jul-05	closed	Fortress	NILEG	27,000	1,500	55,556
Jul-05	pending	Cerberus / Fortress	Deutsche Wohnen	23,000	1,031	44,826
Jul-05	pending	n.a.	Woba Dresden	47,000	2,107	44,830
Total				616,750	28,215	45,748

Source: Colonia Real Estate AG, Vivacon AG, Conmmerzbank Corporates & Markets

The average prices shown in the table above, i.e. €45.780 per unit, suggests that CRE should be able to achieve significant price gains when selling parts out of the portfolio to block buyers and through the privatisation (see calculation below). In addition, CRE might already benefit from an adjustment in asset values in 2005 as a result of the marking to market required under IFRS40. We have not factored any into our calculations.

CRE bought the portfolio from Cerberus, but maintains the Dutch holding structure. It bought 94% of the company directly and the rest indirectly, in order to structure the acquisition tax efficiently. CRE will consider all possible exit strategies for this portfolio:

- A block sale of the two sites without renovation
- Privatisation of four sites
- Retaining assets in two sites.

CRE states that two sites of the portfolio do not fit the characteristics of the remaining assets. These two sites are high-rise residential buildings rather than the two to five storey buildings making up the rest of the portfolio. The mixed structure is one reason for the attractive purchase price: the €400 a square metre paid compares with as much as €1,000 to €2,000 a square metre seen for renovated property in urban areas.

CRE aims to sell the two sites within the first few months after the close of the transaction with Cerberus.

The remaining seven sites would be either kept or privatised. In both cases, renovation would be required in order to boost rental income or the selling price. CRE expects to invest about €100 to €150 a square metre for the apartments it aims to sell. Four of the seven remaining sites were earmarked to be privatised. The privatisation price could reach around €850 to €1,000 a square metre, leaving CRE with an attractive return. CRE gears the return by using only 25% equity. On that basis, the potential return could reach more than 200% on the invested equity capital:

TABLE 10: **CRE privatisation calculation (per square metre)**

€		
Purchase Price	Part of portfolio purchase	400.00
Investment/renovation	Basic renovation	150.00
Distribution costs/agents	Local selling agents 15%	150.00
Total costs		700.00
Average selling price		1,000.00
Pre-tax return		300.00
Equity investments	25% of purchase+renovation	137.50
Pre-tax return on equity	at €1,000/sqm	218%
Pre-tax return on equity	at €850/sqm	109%

Source: Commerzbank Corporates & Markets

Privatisation is a difficult business, because it requires the current tenants to finance the purchase of the apartment they live in. Most of these tenants rent an apartment precisely because they felt unable to purchase.

However, currently the so called 'affordability index' shows that it has been never easier to acquire an apartment than now. Low interest rates and a relatively well equipped savings book make the purchase possible. In addition, unlike in other countries, German house prices have been stable over the past ten years, while income rose. CRE management and local selling agents attempt to sell only as little as 25% of the flats to tenants annually, a relatively low rate.

The remaining three sites would be kept by CRE. The company would use local facility management to operate the apartment houses and survey the renovation. More intense management should be able to lower the vacancy rate further, boosted by fast and efficient renovation efforts. Through more efficient management and a higher occupancy rate, the yield of the CRE retained portfolio should rise further. CRE has said that it aims to optimise portfolios and assets before disposing them at a good price.

TABLE 11: **Business model residential**

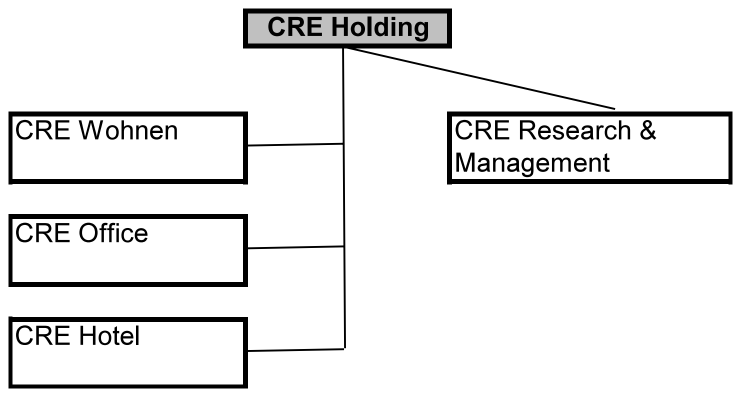
€m	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Sub-group sales	-	-	7.0	36.4	55.8	80.9	111.9	144.2
Cost of goods sold	-	-	(3.0)	(19.9)	(32.7)	(48.3)	(70.9)	(94.9)
EBITDA	0	0	4.0	16.5	23.1	32.6	41.0	49.3
EBIT	0	0	1.6	13.1	18.7	27.4	35.4	43.3

Source: Commerzbank Corporates & Markets

Corporate structure

CRE changed its corporate structure in 2004 into a holding company. The company believes it will be we well placed for the potential introduction of REITs with this new structure. Basically, the holding company consists of three operating and asset holding units and one 'research and management' unit. The latter is designed to serve as both an internal consultant and offers its services to third parties. In light of the renewed interest in real estate assets in Germany by foreigners, this service should prove to be a valuable asset. As third-party services would largely pay for the department as a whole, CRE's internal services would be almost free of internal costs.

CHART 3: **New corporate structure**



Source: Commerzbank Corporates & Markets

Business model research and asset management (R&M)

This business model is rather new for CRE. Currently the group manages its hotel and office assets independently. The acquisition of the Grasmus Company, however, opens a new business field for CRE. Together with the Grasmus assets, CRE was able to secure the current, Netherlands-based management team. This five -man team proved its ability to restructure rental assets since the acquisition of the underlying assets by Cerberus. In the period under review, the team reduced the vacancy rate from 16% to less than 9% and expects to reach just 5% in 2006.

Simultaneously, the management reduced non-performing apartments – i.e. apartments, where the tenant did not pay the rent – from a stunning 18% of potential rental income in the late 1990s to less than 2% in 2005. The Grasmus management employed a creative and new approach in the administration of residential assets: it received the approval to open an encashment agency. There, it employed a call centre with abilities to talk to the tenants in any required language. This resulted in a significant change in the tenant structure towards a well balanced mix.

CRE plans to increase its research and management activities. Through its ten-step investment process, it is able to run similar models for third-parties for a fee. Potential buyers of real estate assets can set their own hurdle rates, and CRE would scan the project.

In addition, the creation of the R&M division allows for co-investments. In certain deals, CRE could become the junior partner in an investment in any kind of real estate asset. CRE would therefore receive a fee for the management and, most likely, for the investments and divestment. In addition, it would keep the asset in the respective investment division, i.e. in the residential, office or hotel investment division.

As a result, the R&M activities are likely to be fully financed from third parties, with the effect of CRE itself receiving its service for free.

In addition, the management capacities are likely to be increased further. CRE's base – the Grasmus portfolio management – allows the company to confidently bid for real estate management contracts of municipalities and companies, which like to retain their assets but aim for higher returns through better and more professional portfolio management.

The beauty of such businesses could lie in the fact that investments advised usually attract an 'investment fee' income of around 1% of the purchased value. CRE would therefore be able to boost its R&M income according to its business activities.

TABLE 12: **Business model R&M**

€m	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Sub-group sales	-	-	1.0	2.3	4.0	6.0	7.0	7.0
Cost of goods sold	-	-	(0.2)	(0.3)	(0.9)	(1.9)	(2.4)	(2.9)
EBITDA	-	-	0.8	2.1	3.2	4.1	4.7	4.1
EBIT	-	-	0.8	2.1	3.2	4.1	4.7	4.1

Source: Commerzbank Corporates & Markets

Colonia Real Estate H1 2005 interim results

CRE reported H1 2005 interim results on 13 September. The company confirmed with the figures the successful start of its business activities.

TABLE 13: **Interims**

€m		H1 2004	H1 2005	% change
Group sales		0.000	1.235	
Other group sales		0.008	0.076	
Group performance		**0.008**	**1.311**	**16,288%**
Personnel costs		-0.216	-0.226	5%
Administrative costs		-0.226	-0.534	136%
Operating costs		**-0.442**	**-0.760**	**72%**
	Margin	*(5525.0)%*	*(58.0)%*	
EBITDA		(0.434)	0.551	
	Margin	*(5425.0)%*	*42.0%*	
Depreciation		(0.005)	(0.006)	20%
EBIT		**(0.439)**	**0.545**	
		(5487.5)%	*41.6%*	
EBIT after non-recurring items		(0.439)	0.545	
	Margin	*(5487.5)%*	*41.6%*	
Interest expense		(0.016)	(0.772)	4,725%
Other financial income/(Expense)		0.000	0.029	
Investment & interest income		0.024	0.000	
Net interest expense		0.000	(0.743)	
Pre tax income		(0.439)	(0.198)	55%
Taxes		(0.119)	(0.052)	
	Tax Rate	*27.1%*	*26.3%*	
Net income		**(0.558)**	**(0.146)**	
Minority interest		0.000	0.018	
Net income to common shareholders		**(0.558)**	**(0.128)**	
	margin	*-6975.00%*	*-9.76%*	
EPS		-0.16	-0.06	

Source: Commerzbank Corporates & Markets

The figures for H1 2004 are not meaningful, as the company started its 'economic' operations only at the end of 2004. In H1 2005, CRE acquired additional office facilities in Cologne. As a result, CRE recorded sales for the first half year of €1.31m, which represents mainly rental income from these assets.

The increase in administrative costs from €226,000 to €553,000 includes costs associated with the Grasmus transaction and costs related to initial administrative costs in relation to the hotel and office acquisitions. However, these cost increase did not prevent the company from achieving a €984,000 improvement in EBIT against H1 2004.

The company reiterates its targets for 2005: sales should reach at least €10.3m and EBIT €3.9m. We do not regard these targets as ambitious and maintain our view that CRE should meet sales of €12.4m and an EBIT of €5.7m.

Market Environment

CRE operates in a market that can perhaps be characterised as 'sleeping beauty'. According to AUFINA, the realtor, residential asset turnover in Western Germany was stagnant between 1992 and 2003 at around €120bn annually. At the same time span, European residential real estate market have boomed, particularly in the UK, Spain, Portugal and France. The requirement to own one's living space as retirement payments are likely to be severely cut emerged only very recently in Germany. At the same time, holders of large scale residential assets began to spin-off these assets. The German real estate market therefore appears set to rise both in value and in annual turnover. We believe CRE is well positioned in all areas to benefit from this, without being exposed to significant market price risks due to its diversified business model and excellent investment risk control system.

According to an EPRA study, the potential investments into the European real estate market are likely to be boosted by the need for reliable returns. As the pension systems in most European countries are not funded, new, funded systems emerged and are politically supported. While pension assets as a percentage of GDP are around 170% in the Netherlands, 150% in Switzerland, 115% in Denmark and almost around 100% in the UK, they amount to only 17% in Germany. Another way of looking at the issue is by dividing the assets by the current population. This shows that the average pension fund size per capita is around €52,000 in Switzerland, €45,000 in the Netherlands and €26,000 in the UK. German pension funds account for around only €5,000 per head.

This low funded pension rate has been a result of the belief that the state pension system is safe. This cannot be seen as true any longer, as the demographic development steers towards a collapse of the system. The general trust in the state pension system, however, also resulted in a very low home ownership ratio: This ratio is only 43% in Germany, compared with 86% in Spain, 69% in the UK and 55% in the Netherlands. If pensions are no longer safe at the expected levels, the current workforce needs to take action to reduce ongoing costs in the future. Rents are the main cost item for pensioners in Germany. As homebuilding consistently falls short of demand (currently, the building association expects 260,000 units to be built in 2005, against an expected demand of 350,000 units), the conversion of large rental estates is an opportune way to close the gap.

However, this conversion will not happen overnight. The first steps are privatisation funds and REITs, which organise the modernisation and selling effort. Funds for these transactions are available. The EPRA study assumes that the structure of REITs and real estate investments suit the pension funds well. Steady income helps to overcome asset-liability mismatches and allows for pension payments. Not surprisingly, the study suggests that institutional money flow into real estate and property investments could reach 11%-15% of assets under management, which are currently around €4,300bn in Europe. This compares with a current average investments in property of around 6.5%. A shift towards even only 11% would result in a €200bn inflow into property. This compares with a total traded property volume in Germany of €120bn annually.

Germany is likely to attract most of these funds, as the market is underdeveloped, although it is the largest property market by value in Europe. The emergence of Anglo-Saxon financial investors might be just the first steps. However, these funds will also need an exit for their investments, with CRE being in one of the best position to help them.

Financials

P&L

CRE receives income from three sources:

- Rental income from residential, office and hotel assets
- Management fees from the R&M division
- Price appreciation from privatisation and asset sales

We reckon that the income stream from rental income should be rather stable. The contracts with hotel operators and office tenants are long term: Marriott Hotels has guaranteed a 'triple net' rental agreement until 2022 for its three sites. The two office buildings are rented out until 2012 to a governmental agency (G.E.B.B.). This agreement is a net rent contract with indexed adjustments.

The rental income from its recently acquired residential portfolio is likely to experience a decline over time. This is due to several factors:

- Sale of apartments via privatisations
- Envisaged block sale of two sites

The privatisation is part of CRE's business model in the residential division. We expect the company to privatise 25% of its designated sites annually. While rental income would decline as a result, the realisation of hidden values is expected to more than compensate this effect by far.

The block sales transaction, which is expected to reduce the number of site to six from eight in 2005/06 should also create a book profit, in our view. The rental income should therefore decline from the original value

For 2005, CRE expects rental income, annualised, as follows:

- €11.5m from the Grasmus portfolio
- €2.02m from the hotel portfolio, and
- €1.01m from the two office buildings

We envisage that the sales of two asset sites from the Grasmus portfolio would generate around €3m in net income, with a transaction value of around €16m to €18m. The re-packaging and restructuring of this part of the portfolio should therefore result in gross earnings of around €150 a square metre. This amount could be used by CRE to reduce debt and/or to re-invest into new portfolios or office/hotel projects. However, as it is not possible for outside analysts to see the pace of these transactions, we have not factored in any earnings from large scale asset sales into our calculation.

TABLE 14: **P&L**

€m	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Sales	0.2	0.3	0.2	0.8	12.4	44.9	68.2	96.5	128.6	161.1
% growth		5%	-4%	231%	1,404%	263%	52%	41%	33%	25%
COGS	-0.2	-0.6	-0.4	-1.3	-3.7	-20.7	-34.2	-51.0	-74.0	-98.7
% of sales	95%	219%	160%	154%	30%	46%	50%	53%	58%	61%
EBITDA	0.0	-0.3	-0.1	-0.4	8.7	24.2	34.0	45.6	54.6	62.4
EBITDA margin	*5%*	*-119%*	*-60%*	*-54%*	*70%*	*54%*	*50%*	*47%*	*42%*	*39%*
% growth		-2,667%	-52%	201%	-2,050%	179%	40%	34%	20%	14%
EBIT	0.0	-0.3	-0.2	-0.5	5.7	20.6	29.3	40.1	48.7	56.1
PTP	0.0	-0.3	0.2	-0.9	2.3	12.0	18.0	29.3	38.2	47.5
PTP margin	*17%*	*-113%*	*71%*	*-105%*	*19%*	*27%*	*26%*	*30%*	*30%*	*30%*
% growth		-798%	-160%	-592%	-368%	416%	50%	63%	31%	24%
NET PROFIT	0.0	-0.1	-18.6	-0.6	1.5	7.5	11.4	18.7	24.5	30.6
Net margin	*-15%*	*-58%*	*-7509%*	*-77%*	*12%*	*17%*	*17%*	*19%*	*19%*	*19%*

Source: Commerzbank Corporates & Markets

The company effectively started operations only in 2004 with the acquisition of the three hotels of the ARCON Trust. As the acquisition was late in the year, effects only occurred in 2005. We assume sales to reflect about an annual privatisation of 15% and an average selling price of €835 a square metre. Both assumptions are below the company's guidance (25% and €850–€1,000 a square metre). However, we think that this conservative approach is justified, given that the group has only been active since 2005 and were so far unable to show a track record in privatisations. We have assumed a decrease in COGS ratio as we see economies of scale in the operations going forward.

On the other hand, we assume that CRE should be able to sell some blocks of assets, as this would be part of its usual business practice, and management has been able to do this in the past. The new partner, Cerberus, should help the company in its efforts, as it might back acquisitions with its own capital.

TABLE 15: **Cash flow**

€m	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Net profit	0.2	-0.6	1.5	7.8	11.7	19.0	24.8	30.9
Depreciation (+)/Appreciation(-)	0.0	0.0	2.8	3.5	4.5	5.3	5.8	6.1
Loss (+)/Profit(-) on asset sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loss (+)/Profit(-) on asset valuation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash adds on land (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share programme (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase (+)/Decrease(-) in minorities	0.0	0.4	0.1	0.3	0.0	0.0	0.0	0.0
Increase (+)/Decrease(-) in def tax lia	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Cash flows	0.2	1.0	4.4	11.6	16.2	24.3	30.6	37.0
Increase (+)/Decrease(-) in other tax lia	0.0	0.0	0.6	0.0	0.3	0.4	0.4	0.4
Increase (+)/Decrease(-) in other prov	0.0	0.0	1.0	0.5	0.8	0.9	1.1	1.1
Increase (+)/Decrease(-) in inventories	0.0	(23.2)	(75.2)	(60.4)	(56.8)	(44.7)	(39.9)	(38.8)
Increase (+)/Decrease(-) in acc payable	-	0.1	9.2	30.6	27.4	17.7	27.5	31.1
Cash flows from operations	0.2	(22.1)	(60.0)	(17.8)	(12.1)	(1.4)	19.8	30.7
Receipts from asset sales (+)	-	-	2.9	4.5	5.6	4.5	4.7	5.0
Payment rel to acquisitions (-)	0.0	0.0	(50.0)	0.0	0.0	0.0	0.0	0.0
Payments for investments in cap assets (-)	-	-	(30.0)	(27.5)	(30.0)	(32.5)	(37.5)	(37.5)
Cash flows from investing activities	0.0	0.0	(77.1)	(23.0)	(24.4)	(28.0)	(32.8)	(32.5)
Increase in long term borrowings (+)	-	-	66.5	25.1	35.1	28.1	9.4	3.2
Long term debt repayments (-)	-	19.3	65.5	21.1	32.9	32.9	24.1	12.0
Net inflow from cap increases (+)	-	-	16.2	-	-	-	-	-
Share buy-backs(+)	-	-	-	-	-	-	-	-
Cash flow from financing	-	19.3	148.1	46.2	68.0	61.0	33.5	15.2
FCF	0.2	(2.7)	11.0	5.4	31.4	31.6	20.5	13.5
Funds at start of year	-	0.4	0.0	21.2	23.6	27.6	34.4	43.3
Funds at end of year	0.4	0.0	21.2	23.6	27.6	34.4	43.3	54.3
Change of funds	0.4	(0.4)	21.2	2.5	4.0	6.8	8.9	11.0
Shares	2,250.0	2.610	3.148	3.410	3.410	3.410	3.410	3.410
CFPS	0.00	0.37	1.39	3.38	4.73	7.10	8.95	10.81
OCFPS	0.00	-8.45	-19.07	-5.20	-3.55	-0.41	5.78	8.99
FreeCFPC		(1.04)	3.48	1.58	9.19	9.23	5.99	3.93

Source: Commerzbank Corporates & Markets

CRE's cash flow is dependent on its success in swiftly disposing of residential assets throughout a given year. CRE currently expects to be able to sell 25% of apartments to tenants annually. We feel that this rate could prove to be too aggressive and we have used only a 15% annual disposal rate. On this basis, CRE should be able to close each year with a positive cash flow after financing, assuming that CRE uses its available capital frame (as of the AGM 2005) mostly in 2005. On the operational side, the company should break even in opCFPS by 2008.

TABLE 16: **Balance Sheet (€m)**

Assets	**2003**	**2004**	**2005E**	**2006E**	**2007E**	**2008E**	**2009E**	**2010E**
Intangible assets	0.000	0.041	1.00	1.00	1.00	1.00	1.00	1.00
Property	0.000	0.750	2.00	2.00	2.00	2.00	2.00	2.00
Investments in associated comp.	0.000	0.000	0	0	0	0	0	0
Capital assets	0.000	0.791	3.0	0.0	3.0	3.0	3.0	3.0
Percent of total B/S	*0.0%*	*2.8%*	*2.4%*	*0.0%*	*1.2%*	*1.0%*	*0.9%*	*0.7%*
Receivables (long term)	0.000	1.402	2.000	3.000	4.000	5.000	6.000	6.000
Property held for sale	3.655	26.220	97.000	154.290	209.587	252.759	291.155	329.486
Percent of total B/S	*74.4%*	*92.1%*	*76.3%*	*82.5%*	*83.6%*	*83.6%*	*83.0%*	*82.2%*
Work-in-process	0.0	0.0	1.4	2.0	2.0	2.0	2.0	2.0
Receivables (curr., for rents, leases)	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Receivables (curr., from sales, comms)	0.0	0.0	0.5	1.0	1.5	2.0	2.5	3.0
Total receivables	0.0	0.0	2.9	4.0	4.5	5.0	5.5	6.0
Total receivables percent of sales	*0.4%*	*5.2%*	*23.5%*	*8.9%*	*6.6%*	*5.2%*	*4.3%*	*3.7%*
Other assets	0.8	0.0	1.0	2.0	2.0	2.0	2.0	2.0
Current assets (excl. cash)	4.5	27.7	102.9	163.3	220.1	264.8	304.7	343.5
Cash and equivalents	*0.4*	*0.0*	*21.2*	*23.6*	*27.6*	*34.4*	*43.3*	*54.3*
Total current assets	4.9	27.7	124.1	186.9	247.7	299.2	347.9	397.8
Liabilities								
Balance sheet total (debt&equity)	4.836	28.477	127.1	186.9	250.8	302.2	350.9	400.8
Base capital	11.3	13.1	3.41	3.41	3.41	3.41	3.41	3.41
Capital reserves	7.2	-	20.37	20.37	20.37	20.37	20.37	20.37
Retained earnings	(18.6)	(10.4)	-	4.90	12.86	26.45	44.15	66.20
Minorities	0.2	0.6	0.70	1.00	1.00	1.00	1.00	1.00
Shareholders' equity	(0.0)	3.219	24.5	29.7	37.7	51.2	68.9	91.0
Deferred tax liabilities	-	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Bank loans (long term)	3.7	23.0	88.5	109.6	142.5	166.6	178.6	182.4
Other long term liabilities	0.2	-	1.0	5.0	7.2	11.2	8.6	8.0
Long term debt	3.9	24.2	90.7	115.8	150.9	179.0	188.4	191.6
Tax provisions	-	-	0.6	0.6	0.9	1.3	1.7	2.2
Other provisions (short term)	-	-	1.0	1.5	2.3	3.2	4.3	5.4
Bank loans (short term)	0.8	0.6	6.42	22.71	34.35	48.51	64.55	80.78
Advances (received cash)	-	-	1.5	7.7	9.2	7.4	8.0	11.3
Advances percent of sales	*0.0%*	*0.0%*	*12.1%*	*17.1%*	*13.5%*	*7.7%*	*6.2%*	*7.0%*
Accounts payable (short term, trade)	0.0	0.3	1.0	4.0	8.0	1.0	1.0	1.0
Other liabilities against associated comp	0.1	0.1	1.4	4.9	7.5	10.6	14.1	17.6
Short term debt	0.9	1.037	11.9	41.4	62.2	72.0	93.6	118.2

Source: Commerzbank Corporates & Markets

TABLE 17: **Stock rating allocation**

	Buy	Hold	Sell
No. of companies under coverage with this rating	32	26	9
% of companies under coverage with this rating	49%	38%	13%

Source: Commerzbank Corporates & Markets

Notes:

Notes:

Notes:

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