



Colonia Real Estate AG

Quarterly Financial Report Q3 2008

Consolidated interim management report for the period from January 1, 2008 to September 30, 2008

Business Developments and Position of the Group

In fiscal 2008, Colonia Real Estate AG is focusing on realizing potential for added value in its portfolios through systematic, sustained asset management. The sale of individual portfolios is also being continued; however, the market environment is currently very strained. Active asset management was further able to reduce vacancies in parts of the residential portfolio in the first nine months, particularly in the third quarter of 2008. In addition to substantial modernizations, creative marketing and price strategies also had an impact in this area. The very extensive energy renovation work at several locations was mostly completed. Primarily in these real estate portfolios, we expect a further increase in the rate of new rentals and a decrease in vacancies by year's end.

Rental earnings increased once again. Compared to the same period last year, the contribution from rental earnings grew by EUR 2.1 million to EUR 25.5 million. In line with planning, rental income grew positively.

However, the financial markets crisis led to an almost complete shutdown of transactions for an extended period. This also had a negative impact on the business of CRE Resolution GmbH which specializes in transaction consulting and processing. For that reason, the Asset and Fund Management segment contributed only EUR 0.9 million to net earnings in the first nine months of 2008 after generating EUR 4.7 million in the year before.

Also, the sales of individual portfolios planned for the third quarter of 2008 were not brought to a conclusion. Based on outside appraisals, the changed market situation has now prompted us to perform reappraisals. The reappraisals led to unrealized (non-cash) losses in the amount EUR 43.9 million.

In all, the Group showed a consolidated loss of EUR 49.8 million in the first nine months of 2008. Adjusted for reappraisal losses and the corresponding tax effects on them, the consolidated loss comes to EUR 13.1 million compared to a consolidated loss of EUR 9.1 million adjusted for the real estate reappraisal in the same period last year.

Despite the difficult financing environment, the Group has succeeded in refinancing almost all financial debt due in 2008 early. After the successful sale of CRE Hotel Immobilien GmbH in the fourth quarter, only EUR 5.0 million of the Group's total liabilities of EUR 636 million are still in the form of short-term loans. At 27.6 percent, the consolidated equity ratio is still in the targeted range of 25-35%.

The various segments performed as described below in the first nine months of 2008.

Investments in residential properties

The acquisitions carried out in 2007 expanded the Group's holdings in high-return residential portfolios to about 19,800 units, with the main emphasis in Germany. In managing the residential portfolio, we handily met our planned targets and partially surpassed them.

Residential portfolios performed as expected again in the third quarter of 2008. Vacancies at the Berlin properties were kept at a low level of 5.5 percent in Marzahn – a great success for our rental team. Not even two years ago, we took over the properties with a vacancy rate of more than 22 percent. Even the inner city portfolios of CRE Wohnen Berlin Holding AG reported an increased leasing rate. Vacancies are only 8 percent after more than 11 percent at the beginning of the year. The Maximilian portfolio in Salzgitter has been taken over by the asset manager CRE Resolution GmbH in the past few months which initiated a vigorous repositioning campaign. Positive net absorption was achieved there in all months of the second and third quarters. Accordingly, the pleasing development of the previous quarter continued in the third quarter so that we can now speak of a sustained turnaround in Salzgitter. Therefore, significant success in reducing the vacancy statistics will be seen by year's end due to the leasing activities that have been carried out. In the portfolios Elmshorn/Itzehoe and Geilenkirchen, the energy renovation was for the most part completed in the third quarter and an initial leasing initiative was started. There has been an immediate significant jump in the leasing figures in the residential areas which have again become attractive. By year's end, we expect a significant reduction in vacancies in these portfolios as well with significantly increasing rents compared to the overall holdings. The average net "cold" rent for new rentals in the Elmshorn / Itzehoe portfolios has already risen to EUR 5.65 per m², compared to about EUR 4.65 for 2007.

The project for the use of renewable energy sources in our portfolios announced in March 2008 had to be shut down. In the difficult financial market environment, it was not possible to find satisfactory solutions for the contractual implementation until very late. However, the long preparatory phase led to a separation from the partner systaic AG. In the next few months, the market should be observed in order to decide if the line of business will still be of economic interest after the feed-in tariffs are reduced in early 2009.

As part of our active portfolio management, management is considering shedding some residential and commercial properties, and has already begun concrete negotiations for the sale. The dramatic deterioration of the financial markets and in its wake, the real estate transaction markets as well led, however, to an almost complete paralysis of the markets. For these reasons, CRE AG was also unable to realize any sales in the third quarter. Gratifyingly, it was possible to sell the hotel portfolio at a market value of approximately EUR 24 million in the fourth quarter. A return on equity exceeding 25% p.a. was realized on the purchase price of EUR 22 million.

Co-investments in commercial properties

In previous years, Colonia Real Estate AG and its subsidiaries have engaged in co-investments in commercial properties with such partners as Merrill Lynch Global Principal Investments, JPMorgan Asset Management, UBS Global Asset Management, Strategic Value Partners LLC, and Oaktree. The total investment for minority interests, including loans granted, came to EUR 26.9 million as of the end of September 2008.

In the first quarter of 2008, Colonia Real Estate AG entered into a joint venture agreement with Merrill Lynch Global Principal Investments, ML-GPI, for the purchase of a mixed portfolio of commercial and residential properties from a German insurance company. The purchase price was roughly EUR 75 million. Colonia Real Estate has a 10% stake as a co-investor. The acquired portfolio comprises 28 properties at nine locations in Germany, with a total area of approximately 69,000 m². About 40 percent of this is residential space and 60 percent is commercial space. ML-GPI and Colonia Real Estate AG are planning to optimize the return on the portfolio by making a lasting reduction in vacancy rates and upgrading the properties.

In the second quarter, we concluded another joint venture with Merrill Lynch GPI for the joint acquisition of a residential portfolio with holdings in Southern Germany and Berlin. The residential portfolios comprise 139,000 m² of space and about 2,000 residential units. We expect to generate substantial appreciation by increasing rents at existing properties and through active asset management. The investment has a medium-term horizon. For the first time, it includes the independent acquisition of an agreement for asset management of a residential portfolio by our subsidiary CRE Resolution GmbH, which until then had worked exclusively for the CRE Group in this segment.

Effective at the end of 2008, OCM German Real Estate Holding AG has exercised its right of exceptional termination of the asset management agreement with CRE Resolution GmbH for the Herkules portfolio.

A contract signed in 2007 with the U.S. investor Strategic Value Partners LLC, for Colonia Real Estate AG to acquire 10 percent of a project company – which in July 2007 acquired the Serail portfolio of fully occupied office properties in Berlin from Berliner Verkehrsbetriebe (BVG) – took effect in the first quarter of 2008. The portfolio has a total gross floor space of about 59,000 m².

In the cases referred to above, CRE Resolution GmbH assisted the investors in the transactions as an advisor, and handles asset management for the portfolios.

The stake in Redevelopment Schanzenstraße in Düsseldorf was sold in the third quarter.

Asset and Fund Management

The asset and fund management business is handled by three companies: CRE Resolution GmbH, CRE Accentro GmbH and Colonia Fonds Management GmbH.

CRE Resolution GmbH handles asset management for the properties in the CRE Group's own portfolio and the portfolios in which the Company holds an interest as a co-investor. At the end of 2007, the total assets under management came to about EUR 3.0 billion.

In commercial asset management, very good leasing results were obtained for our clients in the first nine months. By the end of the first half, about 40,000 m² of space were leased out to new tenants and leases for existing tenants were renewed for 31,000 m². In the third quarter, about 10,500 m² of additional space were leased out to new tenants and leases for existing tenants were renewed for 14,000 m². The leasing markets continue to trend upward all over Germany. However, an increase is seen in tenant incentives and peak rents are increasing more slowly or are already stagnating in some cases. Good properties in prime locations continue to find tenants. However, the demand for B- and C-locations is gradually declining. Due to the softening of the economy, a letup in demand can generally be expected in all locations in the next few quarters.

The extensive energy renovation work was completed according to plan in the Elmshorn/Itzehoe portfolio. The focus is now on new rentals for which a clearly positive trend is already seen. Similarly, the refurbishment work on the Dischhaus property (joint venture with UBS) is nearing completion. At the end of October, the leasing rate there had already reached about 90 percent.

In transactions, we continued to investigate a few properties and some small portfolios; however, as in the second quarter there were no acquisitions. Financing options have become even more limited, and prices are declining. As noted, the transaction volume has continued to decline. In the meantime, it can be assumed that no noteworthy transactions will be added by year's end. Many buyers also expect prices to fall in the next few quarters and therefore do not yet see a reason to buy. There are several institutional buyers with adequate resources who are positioning themselves for the time when a price floor is reached during 2009.

The buildup of our Corporate Real Estate business segment is proceeding. At the time of Expo Real, CRE Resolution GmbH announced a declaration of intent with the property and facility manager RGM in which both partners confirm that they will cooperate in this area in the future. The objective is to offer the entire range of joint service products tailored to larger industrial medium-sized companies and demonstrate to the clients the potential for adding value.

Additional rentals and sales were accomplished in the third quarter for the asset management mandate with Oaktree Capital Management ending effective December 31, 2008. Oaktree will handle asset management in the future through its own platform, German Acorn GmbH.

Promising talks are presently going on concerning new asset management orders with and without co-investment and we expect these discussions will lead to contract signings both during the course of the year and in 2009. Furthermore, three additional asset management mandates valued at approximately EUR 150 million were obtained for the existing customers JPMorgan and Merrill Lynch.

After several exploratory talks, it can be assumed that due to the difficult situation, an increasing number of banks with mandates in asset management or even in the non-performing loans segment will turn to Colonia Real Estate AG.

CRE Accentro GmbH operates in asset management for residential properties, primarily in privatization. Here it works both for third parties and for such Group companies as CRE Wohneigentum GmbH. Privatization engagements for third parties exceed EUR 250 million in all. Activities currently emphasize Berlin, the Rhine-Main region, and the Munich metropolitan area.

Colonia Fonds Management GmbH operates in the preparation of structured fund products. In fiscal 2007 it successfully placed its first structured products, Careinvest I and II, which emphasized nursing homes. The buyer was an open-end real estate specialty fund. The continuing demand for the product led Colonia Fonds Management to acquire additional nursing homes that same year, and to design a closed-end real estate fund. This fund, Careconcept 1, is being placed as a closed-end nursing-home fund for private investors, in a joint venture with the issuer HGA Capital, a subsidiary of HSH Real Estate AG. The fund includes the nursing homes already in the portfolio of Colonia Fonds Management GmbH and a nursing home owned by HSH Real Estate AG. The total investment for the fund is EUR 74.7 million, with equity of EUR 35.5 million to be placed. The placement phase began in September 2008.

Assets, Liabilities, Financial Position, and Profits

Profits

The consolidated loss for the first nine months of 2008 was EUR 49.8 million, compared to a profit of EUR 54.3 million for the same period last year. Most of last year's profit resulted from income from the reappraisal of real estate portfolios as of June 30, 2007. Without that appraisal effect, a loss of around EUR 9.1 million would have been incurred last year. Most of the current year's loss comes from the unrealized losses from the partial real estate reappraisal, the substantially higher administrative expenses caused by the Group's rapid growth and smaller contributions to income from asset and fund management operations.

Results of operations in EUR k	01.01.2008 - 30.09.2008	01.07.2008 - 30.09.2008	01.01.2007 - 30.09.2007	01.07.2007 - 30.09.2007
Estimated rental income	54.116,4	19.556,3	40.955,1	13.597,8
Income shortfalls and reduced rent	-8.876,5	-3.038,9	-6.441,0	-2.763,9
Earnings from operating costs	218,3	73,5	175,5	175,5
Net rent	45.458,2	16.590,9	34.689,7	11.009,4
Service charge income on principal basis	19.492,0	5.153,5	185,3	185,3
Maintenance and renovation	-8.395,8	-3.152,8	-1.136,0	-313,8
Property operating costs	-22.707,4	-9.402,0	-6.016,0	-1.916,8
Other expenses	-8.356,2	-2.092,9	-4.424,1	-1.206,9
Result from residential property management	25.490,7	7.096,7	23.298,9	7.757,2
Sales proceeds	2.351,0	0,0	0,0	0,0
Carrying amount of assets disposed	-2.135,7	0,0	0,0	0,0
Result from sales activities	215,3	0,0	0,0	0,0
Employee expenses	-6.141,4	-1.385,2	-4.611,3	-2.042,9
General administration expenses	-13.561,2	-2.843,1	-7.394,6	-144,9
Administration expenses	-19.702,6	-4.228,3	-12.005,9	-2.187,8
Asset and Funds Management	874,3	258,5	4.743,1	-1.063,8
Others	2.425,3	396,1	-175,0	-278,1
Further business segments	3.299,6	654,6	4.568,1	-1.341,9
EBITDA	9.303,0	3.523,0	15.861,1	4.227,5
Depreciation, amortization and impairment losses	-206,5	-45,4	-217,1	-129,7
Market value adjustment	-43.874,0	-43.874,0	61.462,7	0,0
EBIT	-34.777,5	-40.396,4	77.106,7	4.097,8
Market value adjustment of derivatives	-805,9	-8.851,0	0,0	0,0
Financial earnings	-24.103,4	-9.000,0	-20.935,2	-9.428,0
EBT	-59.686,8	-58.247,4	56.171,5	-5.330,2
Tax	9.886,6	10.474,3	-1.881,6	12.293,3
Earnings after tax	-49.800,2	-47.773,1	54.289,9	6.963,1

The rental of investment properties generated EUR 65.0 million (prior year: EUR 34.9 million) in rental income and income from incidental expenses that can be passed on to tenants.

This income was countered by expenses of EUR 39.5 million (prior year: EUR 11.7 million), so that rentals generated net income of EUR 25.5 million (prior year: EUR 23.3 million).

In the second quarter of 2008, CRE Wohneigentum GmbH generated its first income from the sale of properties held for sale. The gross proceeds were EUR 2.4 million, and yielded a profit of EUR 0.2 million. No additional sales proceeds were generated in the third quarter of 2008.

Administrative expenses rose to EUR 19.9 million as a consequence of the expansion of business operations (prior year: EUR 12.2 million) and consist primarily of personnel expenses, legal and consulting costs, and expenses for stock options. However, the trend is pointing downwards. After EUR 6 million in the first quarter and EUR 9 million in the second quarter, administrative expenses reached only EUR 4.2 million in the third quarter.

Income from asset and fund management operations decreased substantially against the equivalent period last year, from EUR 4.7 million to EUR 0.9 million. Most of this change resulted from the fact that asset management operations yielded less transaction income in the first nine months of 2008 than in the comparable period of 2007.

The market value adjustments apply to the unrealized losses from the partial reappraisal of our real estate holdings, which we had already performed before the reporting date due to the changed market situation. Unrealized gains of EUR 61.5 million were reported in the year before.

The net finance expense came to EUR -24.9 million in the first nine months of 2008 (prior year: EUR -20.9 million). Because of the volatile capital market environment, the yield curves used as a basis in measuring interest-rate swaps declined at first during this period, yielding an expense of EUR 8.5 million for the first quarter of the year. But the substantial rise in yield curves as of June 30, 2008 more than compensated for this expense so that interest rate swaps were written up by EUR 16.6 million against March 31, 2008. The further reduction in the yield curves led to an expense of EUR 8.9 million in the third quarter of 2008. Thus the cumulative effect of the measurement of interest rate swaps in the past nine months was negative, at EUR 0.8 million. The net finance expense of the equivalent period last year includes price losses from securities in the amount of EUR 7.9 million. Without this effect, the net finance expense in the previous year would have been negative at EUR 13.0 million. The increase of the negative finance expense compared to this amount is primarily the consequence of the larger volume of financing.

Assets, liabilities and financial position

Because of sales now pending for individual real estate portfolios, the assets (EUR 96.5 million) and liabilities (EUR 74.0 million) attributable to these properties are recognized separately in the consolidated interim financial statements. The composition of these items is explained in the notes to the consolidated financial statements.

The capital structure improved further in the first nine months. Refinancing and extensions raised the proportion of long-term debt relative to total debt by 3 percentage points against December 31, 2007, to 82%. The equity ratio at September 30, 2008 was 27.6 percent, compared to 31.2 percent at December 31, 2007. The figure is thus still within the targeted range of 25 to 30 percent.

in EUR k	30.09.2008	31.12.2007	Change
Assets			
Non-current assets	844.079,7	955.881,1	-111.801,4
Current assets	46.852,5	78.015,5	-31.163,0
Assets of a disposal group classified as held for sale	96.529,8	0,0	96.529,8
Total assets	987.462,0	1.033.896,6	-46.434,6
Equity and liabilities			
Equity	273.014,7	322.469,2	-49.454,5
Non-current liabilities	587.502,7	606.212,4	-18.709,7
Current liabilities	52.991,3	105.215,0	-52.223,7
Liabilities directly associated with assets held for sale	73.953,3	0,0	73.953,3
Total equity and liabilities	987.462,0	1.033.896,6	-46.434,6

Non-current assets largely consist of investment property (EUR 801.6 million; 12/31/2007: EUR 918.9 million) and minority interests and loans to real estate companies (EUR 26.9 million; 12/31/2007: EUR 25.1 million). Most of the decrease in non-current assets results from the reclassification of assets held for sale (EUR 96.5 million). This effect was partly counteracted by investments associated with the reconditioning of certain investment properties, at EUR 20.7 million.

Properties held for sale, which are recognized as current assets, decreased EUR 19.9 million against December 31, 2007.

The decrease is for nursing homes that are held by Careinvest Drei GmbH & Co. KG, and that have now been deconsolidated as part of the joint placement with the issuer HGA Capital, a subsidiary of HSH Real Estate AG. The other properties included in this item are residential properties planned for privatization, at EUR 4.1 million.

Interest-rate derivatives, which are likewise recognized among current assets and measured at fair value, decreased again because of declining interest rates, and came to EUR 8.2 million as of September 30, 2008 (December 31, 2007: EUR 10.0 million).

Cash funds (liquid funds less current-account liabilities) at the reporting date came to EUR 11.3 million (12/31/2007: EUR 23.7 million). The changes in cash funds for the first nine months of 2008 were as follows:

in EUR k	01.01.2008 - 30.09.2008	01.01.2007 - 30.09.2007	Change
Cash flows used in/from operating activities	-13.672,5	5.077,2	-18.749,7
Cash flows used in investing activities	-22.656,1	-551.502,9	528.846,8
Cash flows from financing activities	24.085,5	568.632,6	-544.547,1
Net change in cash and cash equivalents	-12.243,1	22.206,9	-34.450,0
Cash and cash equivalents at the beginning of the period	23.652,9	35.994,2	
Changes in the scope of consolidation	-92,7	0,0	
Cash and cash equivalents at the end of the period	11.317,1	58.201,1	

Cash used for operating activities in the first nine months of 2008 came to EUR -13.7 million. After adjustment for interest received and paid, and for tax payments, the cash generated by operating activities for the first nine months of 2008 comes to EUR 8.7 million.

The EUR 22.7 million in cash used for investing activities in the first nine months of 2008 resulted primarily from investments associated with the reconditioning of certain investment properties (EUR 20.7) and payments made for co-investments (EUR 2.4 million). The cash used in the same period last year resulted primarily from acquisition activities.

Financing activities generated cash of EUR 24.1 million in the first nine months of 2008. In calculating this figure, EUR 49.3 million was generated from borrowings and EUR 5.5 million came from a capital increase. These cash inflows were countered by loan repayments of EUR 24.6 million, the dividend payment of EUR 5.7 million, and costs of EUR 0.4 million associated with the capital increase. The cash inflow in the equivalent period last year resulted primarily from the capital increase and from draws on loans.

In February 2008, a capital increase of 360,000 no-par shares was carried out by way of step-up equity financing under a master agreement signed with Société Générale in fiscal 2007. The result was a cash inflow of EUR 5.5 million in the first half of 2008. In June 2008, Colonia Real Estate AG paid a dividend for the first time. The distribution of EUR 0.25 per share, as approved by the shareholders' meeting, caused equity to decrease EUR 5.7 million.

Non-current debt largely consists of financial debt (EUR 488.2 million; 12/31/2007: EUR 498.4 million), convertible bonds (EUR 54.8 million; 12/31/2007: EUR 54.0 million), and deferred taxes (EUR 44.5 million; 12/31/2007: EUR 53.9 million). Allowing for the liabilities reclassified in association with assets held for sale, long-term debt increased EUR 36.4 million, to EUR 642.6 million. Most of this increase came from refinancing and extensions of financial debt. Short-term debt as of September 30, 2008 increased accordingly

Changes in the Board of Management

On April 30, 2008, Klaus Reichert resigned as the company's CFO for health reasons. The Supervisory Board of Colonia Real Estate AG appointed Mr. Ingmar Schmitt as CFO, effective May 1, 2008. Effective September 2, 2008, Mr. Schmitt resigned from his position as interim member of the Board of Management according to plan and by mutual agreement. Thereupon, the Supervisory Board appointed Mr. Volker Lemke as CFO on September 2, 2008. As a managing director with CRE Resolution GmbH since January 1, 2007, Volker Lemke was responsible for finance, controlling and taxes. He has been involved in real estate and tax law for more than 15 years and as a tax advisor has served real estate companies of all legal forms. In addition, Mr. Lemke has already served as CFO for finance and taxes with listed real estate companies including Deutsche Real Estate AG.

Christoph Wittkop, who had been responsible for asset management, resigned from the Board of Management of Colonia Real Estate AG as of August 1, 2008. On September 2, 2008, the Supervisory Board appointed Mr. Friedrich Thiele as CIO for Real Estate. Friedrich Thiele had been responsible for residential and commercial properties as well as co-investments with Colonia Real Estate AG since March 1, 2007. In the last one and one-half years, Mr. Thiele has been mainly involved in the positive development of the portfolio, especially in sustainable rental income and value creation. Prior to joining Colonia Real Estate AG, the business school graduate and real estate economist (ebs) served as managing director of Karg Real Estate GmbH in Frankfurt, the asset and portfolio manager of one of Germany's largest family foundations. Prior to that, Mr. Thiele was employed with DGMG (presently RREEF) and Commerz Leasing und Immobilien GmbH.

Risk Report

The uncertainties in the financial and capital markets are now having a substantial effect on the German real estate sector. Because of limited financing options, only a few real estate transactions went through in the first nine months of 2008. For that reason, revenues of the transaction consulting and processing activities of CRE Resolution have been well below the planned figures this year. Although management is confident that the transaction business will pick up again in the next few months, the market situation means that further declines are not out of the question.

The current market environment could also cause delays in the planned sales of portions of the portfolio, making it impossible to realize the invested liquidity until later.

Further material risks and opportunities inherent in future development are described in detail in the Group and parent-company management report for fiscal 2007, and did not change substantially in the first nine months of 2008.

Events after the Reporting Date

In October 2008, Colonia Real Estate AG refinanced its residential portfolios by way of a debt buyback. To this end, a fixed interest mortgage was concluded with a German mortgage bank. The interest rate is less than six percent per annum and the term is for five years. The volume of financing exceeded EUR 30 million.

In November 2008, Colonia Real Estate AG divested itself of its hotel portfolio.

In compliance with Sec. 21 (1) of the German Securities Trading Act (WpHG), SwissReal Estate AG, Zug, Switzerland informed us on November 9, 2008 that its voting rights in Colonia Real Estate AG via shares have fallen below the thresholds of 20%, 15%, 10%, 5% and 3% of the voting rights and now amount to 2.42% (corresponding to 552,672 voting rights).

In compliance with Sec. 21 (1) of the German Securities Trading Act (WpHG), Milfolium Management Inc., Tortola, British Virgin Islands informed us on November 10, 2008 that its voting rights in Colonia Real Estate AG via shares have exceeded the thresholds of 3%, 5%, 10% and 15% of the voting rights and now amount to 19.00% (corresponding to 4,336,864 voting rights). Milfolium Management Inc. is a wholly owned subsidiary of Liechtensteinische Landesbank. Liechtensteinische Landesbank sees the equity investment in Colonia Real Estate AG as an attractive investment in an undervalued real estate company.

No other material events occurred in the period between the reporting date, September 30, 2008, and the date of preparation of this report.

Report on Expected Developments

The crisis in the international financial and capital markets also had a substantial impact on the business performance of Colonia Real Estate in the third quarter. Leading market research institutes such as the Institut der deutsche Wirtschaft in Cologne anticipate a downslide into stagflation and only miniscule growth of less than one percent.

Housing portfolio

Under the assumption of a sharp slowdown in economic growth, it will be possible to realize the potential for increased rents and decreased vacancies in 2009 primarily through modernizations. Based on a comprehensive modernization program which has been mostly completed, Colonia Real Estate AG sees itself as well equipped for making the most of these potentials in the fourth quarter of 2008 and in the coming year. Good vacancy reduction rates were achieved in the modernized portfolio in the third quarter of 2008 – a trend which is currently continuing. The program to increase net rental income will also meet with additional success in the fourth quarter.

Plans to sell selected holdings in the context of active portfolio management have not changed. In particular, we will be shedding lines of business that no longer belong to our focus.

Attractive residential portfolios at favorable purchase prices will be reviewed for acquisition. The Board of Management sees good opportunities for acquiring high-return portfolios in a difficult market environment in the next few months.

Asset management

Because of its strategic long-term focus as a leading integrated real estate investment and asset management group, Colonia Real Estate Group is in a strong position in the real estate business. This position is weakened by the forecast of unfavorable transaction volume continuing in the fourth quarter. No respite in the difficult refinancing conditions is seen in the short term. In the medium term, the market for real estate transactions is not expected to pick up until sometime in 2009.

Projections for 2008

The announced partial sales of the real estate portfolio will not likely be fully completed in 2008.

Based on the results for the third quarter of 2008 and due to the continued difficult market environment for transactions, the Board of Management is adjusting its annual guidance accordingly and expects a consolidated loss of EUR 55 to 60 million by year's end. This includes additional possible interest rate hedging losses.

No substantial losses from the reappraisal of the real estate portfolio at year's end are expected. It is thus fully expected that no dividend will be paid for 2008. With the reappraisal of the real estate portfolios as of the third quarter of 2008, the Management Board feels that all significant negative market impacts of the financial crisis have been depicted in the balance sheet.

The positive rental income trend and the adjusted measurement of the real estate portfolio in conjunction with the planned cost savings should make it possible to obtain sustained surpluses from business operations starting in 2009.

Consolidated Balance Sheet

Assets	in EUR k	30.09.2008	31.12.2007
Assets			
Investment properties		801.638,4	918.902,0
Property, plant and equipment, net		1.203,6	921,5
Intangible assets		2.732,5	2.867,9
Investments in associates		21.646,8	21.359,4
Other financial assets		5.269,9	3.714,1
Deferred tax assets		11.588,5	8.116,2
Total non-current assets		844.079,7	955.881,1
Properties held for sale		4.085,1	24.019,8
Receivables and other assets		18.896,4	17.768,7
Derivative financial instruments		8.204,2	10.003,0
Cash and cash equivalents		15.666,8	26.224,0
Total current assets		46.852,5	78.015,5
Assets of a disposal group classified as held for sale		96.529,8	0,0
Total assets		987.462,0	1.033.896,6

Consolidated Balance Sheet

Equity and liabilities	in EUR k	30.09.2008	31.12.2007
Equity and Liabilities			
Equity			
Subscribed capital		22.825,6	22.465,6
Other reserves		223.249,5	216.635,2
Treasury stock		-42,5	-42,5
Retained earnings		26.049,8	81.705,7
Total shareholders' equity		272.082,4	320.764,0
Minority interests		932,3	1.705,2
Total equity		273.014,7	322.469,2
Liabilities			
Non-current liabilities			
Financial liabilities		488.175,9	498.357,8
Convertible bond		54.756,7	53.983,7
Deferred tax liability		44.455,6	53.870,9
Pension obligations		114,5	0,0
Total non-current liabilities		587.502,7	606.212,4
Current liabilities			
Bank overdraft		4.980,6	2.571,1
Financial liabilities, current portion		16.798,8	64.836,3
Account payables, trade and other payables		30.385,3	37.243,3
Tax liabilities		826,6	564,3
Total current liabilities		52.991,3	105.215,0
Liabilities directly associated with assets held for sale		73.953,3	0,0
Total liabilities		714.447,3	711.427,4
Total equity and liabilities		987.462,0	1.033.896,6

Consolidated Income Statement

in EUR k	01.07.2008 - 30.09.2008	01.07.2007 - 30.09.2007	01.01.2008 - 30.09.2008	01.01.2007 - 30.09.2007
Total income (excluding finance income)	24.713,1	11.763,8	76.385,8	107.090,4
Total expenses (excluding finance costs)	-65.109,4	-7.666,0	-111.163,3	-29.983,7
Gross rental income from investment properties	16.590,9	11.009,4	45.458,2	34.689,7
Service charge income on principal basis	5.153,4	185,3	19.492,0	185,3
Property operating expenses	-14.647,6	-3.437,5	-39.459,5	-11.576,1
Net rental income	7.096,7	7.757,2	25.490,7	23.298,9
Proceeds from Asset and Fund Management	2.723,0	787,6	6.424,8	10.166,0
Expenses for Asset and Fund Management	-2.464,5	-1.851,4	-5.550,5	-5.422,9
Net income from Asset and Fund Management	258,5	-1.063,8	874,3	4.743,1
Proceeds from sale of trading properties	0,0	0,0	2.351,0	0,0
Carrying value of trading properties	0,0	0,0	-2.135,7	0,0
Net income on disposal of trading properties	0,0	0,0	215,3	0,0
Administrative expenses	-4.273,6	-2.317,5	-19.909,1	-12.223,0
Other income	396,1	-218,5	2.659,8	586,7
Other expenses	0,0	-59,6	-234,5	-215,7
Other income (expenses), net	396,1	-278,1	2.425,3	371,0
Net loss on disposal of investment properties	0,0	0,0	0,0	-546,0
Valuation movements	-43.874,0	0,0	-43.874,0	61.462,7
Earnings before interest and tax	-40.396,3	4.097,8	-34.777,5	77.106,7
Finance expenses	-18.027,6	-10.796,4	-27.016,1	-23.994,2
Finance income	176,6	1.368,4	2.106,8	3.059,0
Finance results	-17.851,0	-9.428,0	-24.909,3	-20.935,2
Consolidated results before tax	-58.247,4	-5.330,2	-59.686,8	56.171,5
Income tax	10.474,3	12.293,3	9.886,6	-1.881,6
Consolidated results	-47.773,1	6.963,1	-49.800,2	54.289,9
Attributable to:				
Equity holders of the parent	-48.053,6	7.262,7	-49.950,1	52.798,2
Minority interests	280,5	-299,6	149,9	1.491,7
Consolidated results	-47.773,1	6.963,1	-49.800,2	54.289,9
Earnings per share				
in EUR k				
Basic	-2,10	0,18	-2,19	2,78
Diluted	-1,75	0,18	-1,81	2,13

Consolidated Cash Flow Statement

	in EUR k	01.01.2008 - 30.09.2008	01.01.2007 - 30.09.2007
Operating activities			
Consolidated results		-49.800,2	54.289,9
Plus finance results		24.909,3	20.935,2
Plus income tax		-9.886,7	-1.881,6
= Net operating profit before finance results and tax		-34.777,5	73.343,5
Share-based compensation		1.763,9	1.786,9
Depreciation / Amortization		424,9	217,2
Unrealized valuation movements		43.874,0	-66.044,1
Profit from deconsolidation		-280,9	0,0
Profit from disposal in investments		-38,8	0,0
Realized result on disposals		0,0	546,0
Property operating expenses		0,0	4.175,2
Losses on securities		0,0	8.344,6
Changes in properties held for sale		-786,7	0,0
Changes in receivables		5.679,9	-21.803,4
Changes in liabilities		-7.161,2	15.537,2
Cash generated from operations		8.697,5	16.103,1
Interest paid		-23.435,3	-16.073,7
Interest received		2.106,8	3.059,0
Income taxes paid		-1.041,5	1.988,8
Cash flows from operating activities		-13.672,5	5.077,2
Investing activities			
Capital expenditure on investment properties		0,0	-467.072,3
Capital expenditure on investment properties		-340,9	-3.198,8
Property under construction		-20.658,4	-8.705,7
Acquisition of securities		0,0	-47.651,9
Proceeds from sale of investments		590,0	0,0
Payment for investments in associates and loans		-2.388,4	-24.874,2
Net proceeds / payments for business combinations		141,6	0,0
Cash flows used in investing activities		-22.656,1	-551.502,9
Financing activities			
Proceeds from issue of share capital		5.490,0	179.025,6
Payment of transaction costs for issue of share capital		-408,6	-10.437,2
Proceeds from exercise of employee stock options		0,0	1.218,0
Dividends paid		-5.705,8	0,0
Proceeds from borrowings		49.307,0	408.801,5
Repayment of borrowings		-24.597,1	-9.975,3
Cash flows from financing activities		24.085,5	568.632,6
Net change in cash and cash equivalents		-12.243,1	22.206,9
Cash and cash equivalents at beginning of period		23.652,9	35.994,2
Changes in the scope of consolidation		-92,7	0,0
Cash and cash equivalents at end of period		11.317,1	58.201,1

Changes in Consolidated Equity

in EUR k	Equity attributable to equity holders of the parent				Total	Minority interest	Total
	Subscribed capital	Other reserves	Retained earnings	Treasury stock			
At Jan. 1, 2007	15.704,0	46.258,3	37.244,6	0,0	99.206,9	946,1	100.153,0
Cash capital increase	6.281,6	172.744,0	0,0	0,0	179.025,6	0,0	179.025,6
Cost of cash capital increase after tax	0,0	-10.437,2	0,0	0,0	-10.437,2	0,0	-10.437,2
Share-based compensation	0,0	2.458,3	0,0	0,0	2.458,3	0,0	2.458,3
Exercise of stock options	420,0	798,0	0,0	0,0	1.218,0	0,0	1.218,0
Profit for the period	0,0	0,0	52.798,1	0,0	52.798,1	1.491,7	54.289,8
At Sept. 30, 2007	22.405,6	211.821,4	90.042,7	0,0	324.269,7	2.437,8	326.707,5
At Oct. 1, 2007	22.405,6	211.821,4	90.042,7	0,0	324.269,7	2.437,8	326.707,5
Cost of cash capital increase after tax	0,0	3.656,1	0,0	0,0	-3.656,1	0,0	-3.656,1
Share-based compensation	0,0	810,4	0,0	0,0	810,4	0,0	810,4
Exercise of stock options	60,0	347,4	0,0	0,0	407,4	0,0	407,4
Treasury stock	0,0	0,0	0,0	-42,5	-42,5	0,0	-42,5
Changes in capital due to acquisitions	0,0	0,0	-21.501,1	0,0	-21.501,1	-227,0	-21.728,1
Changes of minority interest	0,0	0,0	0,0	0,0	0,0	-169,6	-169,6
Profit for the period	0,0	0,0	13.164,1	0,0	13.164,1	-336,0	12.827,9
At Dec. 31, 2007	22.465,6	216.635,2	81.705,7	-42,5	320.764,0	1.705,2	322.469,2
At Jan. 01, .2008	22.465,6	216.635,2	81.705,7	-42,5	320.764,0	1.705,2	322.469,2
Cash capital increase	360,0	5.130,0	0,0	0,0	5.490,0	0,0	5.490,0
Cost of cash capital increase after tax	0,0	-279,6	0,0	0,0	-279,6	0,0	-279,6
Dividends	0,0	0,0	-5.705,8	0,0	-5.705,8	0,0	-5.705,8
Share-based compensation	0,0	1.763,9	0,0	0,0	1.763,9	0,0	1.763,9
Changes of minority interest	0,0	0,0	0,0	0,0	0,0	-922,8	-922,8
Loss for the period	0,0	0,0	-49.950,1	0,0	-49.950,1	149,9	-49.800,1
At Sept. 30, 2008	22.825,6	223.249,5	26.049,8	-42,5	272.082,4	932,3	273.014,7

Selected Notes to the Consolidated Interim Financial Statements at September 30, 2008

General Information

Colonia Real Estate AG and its subsidiaries (together called the Colonia Real Estate Group, here CRE) are engaged in the acquisition, sale and management of real estate and companies in which the Group holds equity interests, as well as in real estate asset and fund management. The Group's business activities concentrate on Germany. At present, CRE's portfolio is divided into three segments: Residential Real Estate, Commercial Real Estate and Asset and Fund Management.

Colonia Real Estate AG is a German stock corporation (Aktiengesellschaft) listed on an official exchange, and has its registered office and principal place of business at Zeppelinstrasse 4-8, Cologne, Germany. The company is entered in the Commercial Register of Cologne Local Court, under No. HRB 54006.

Colonia Real Estate stock is listed for trading on the official market of the Frankfurt Stock Exchange, and has been included in that exchange's SDAX index since March 20, 2006.

Reporting Principles

In compliance with Sec. 37x (3) and Sec. 37w (2-4) of the German Securities Trading Act (WpHG) in conjunction with Sec. 37y of the same act, the quarterly financial report of Colonia Real Estate AG includes consolidated interim financial statements and a consolidated interim management report. The consolidated interim financial statements were prepared under International Financial Reporting Standards (IFRS) for interim reporting (IAS 34). The consolidated interim management report was prepared in compliance with the applicable provisions of the German Securities Trading Act. The quarterly report at September 30, 2008, should be read in conjunction with the consolidated financial statements at December 31, 2007.

The quarterly financial report was not reviewed by the independent auditors, nor has it been audited as provided under Sec. 317 of the German Commercial Code (HGB).

Accounting Principles

In accordance with Sec. 315a of the German Commercial Code, the consolidated interim financial statements were prepared in conformity with IFRSs as they apply in the European Union (EU), and with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Colonia Real Estate AG applies all standards of the International Accounting Standards Board (IASB) and all IFRIC interpretations that were in effect and adopted by the European Commission for application within the EU as of the date of preparation of these consolidated interim financial statements.

During the reporting period covered by the consolidated interim financial statements, the following interpretations already adopted by the European Commission took effect:

- IFRIC 11 – IFRS 2 *Group and Treasury Share Transactions*

IFRIC 11 was published in November 2006, and is applicable for the first time to fiscal years beginning on or after March 1, 2007. Under this interpretation, agreements under which employees are granted rights to equity instruments of an entity are to be recognized as share-based payment obligations settled with equity instruments, if the requisite equity instruments are acquired by the entity from a third party or provided by the shareholders. This interpretation has no impact on the consolidated financial statements at present.

- IFRIC 12 *Service Concession Arrangements*

IFRIC 12 was published in November 2006, and is applicable for the first time to fiscal years beginning on or after January 1, 2008. The interpretation governs how obligations undertaken and rights received under service concession agreements are to be recognized and measured in the concession operator's financial statements. The entities included in the Group's consolidated financial statements are not concession operators within the meaning of IFRIC 12. This interpretation therefore has no impact on the Group.

- Amendments to IAS 39 *Financial Instruments (recognition and measurement)* and IFRS 7 *Financial Instruments (disclosures)*

In the wake of the financial markets crisis, the IASB has undertaken amendments to IAS 39 and IFRS 7 which have been adopted by the EU Commission and are applicable retroactively to July 1, 2008. These amendments provide entities the possibility to reclassify some non-derivative financial instruments from the category "financial assets measured at fair value in the income statement" insofar as they have not originally been assigned to this category by exercise of the fair value option, and from the category "financial assets available for sale." This applies in particular to financial instruments which in the absence of a trading intent or in the absence of a designation as "available for sale" originally fulfilled the definition of "loans and receivables." IFRS 7 was adapted accordingly. These amendments had no impact on the Group's assets and liabilities, financial condition and profit or loss.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management in some cases to make estimates and assumptions in regard to recognition and measurement that may affect the amounts of income, expenses, assets or liabilities recognized at the reporting date. More complex areas and areas that involve broader scope for estimation are explained in the consolidated financial statements at December 31, 2007, as are any areas in which assumptions and estimates are of critical importance for the consolidated interim financial statements.

Any and all estimates and evaluations are continuously reassessed, and are founded on historical experience and other factors, including expectations of future events that seem plausible and rational under current circumstances. The Group makes forward-looking estimates and assumptions. By their very nature, the resulting estimates are only rarely borne out by actual later events.

Based on external appraisals, the current strained situation in the real estate markets has now prompted us to reappraise our real estate portfolios even before the reporting date. The reappraisals led to unrealized losses in the amount EUR 43.9 million.

We plan to request an update of the appraisals at year' end on December 31, 2008.

Scope of Consolidation

The consolidated financial statements comprise the financial statements of Colonia Real Estate AG and all its subsidiaries as of September 30, 2008. Subsidiaries' financial statements are prepared using the same accounting policies and the same reporting year as the financial statements of the parent company. The scope of consolidation changed as follows during the first nine months of 2008, as compared to the consolidated financial statements at December 31, 2007:

Because of the entry of HGA Capital Grundbesitz und Anlage GmbH and HSH Real Estate Treuhand GmbH as additional partners, the share held in HGA/Colonia CareConcept 1 Fondsgesellschaft mbH & Co. KG, of Cologne (formerly Careinvest Drei GmbH & Co. KG) has decreased from 56.0% to 20.9%. Plans call for reducing this equity interest further by year's end. HGA/Colonia CareConcept 1 Fondsgesellschaft mbH & Co. KG was therefore deconsolidated in the first half of 2008, and is now recognized as an equity interest in an affiliate. The deconsolidation yielded income of EUR 280.9 thousand.

At the end of June 2008, CRE Resolution GmbH acquired all of COVER Projektentwicklung GmbH, of Düsseldorf, by way of a merger. The merger was carried out at carrying values, with net assets of EUR 25 thousand. In consideration for the acquired shares, a new stake in CRE Resolution GmbH was created and granted, in the amount of EUR 750.00. In the period included in these consolidated interim financial statements, COVER Projektentwicklung GmbH was provisionally first consolidated as of June 1, 2008.

If COVER Projektentwicklung GmbH had been taken over as of January 1, 2008, the loss for the period would have increased by EUR 229.9 thousand.

In addition to these changes, three companies within the Group were merged in the past nine months. This merely reduced the number of Group companies; it made no change within the Group in economic terms.

As of September 30, 2008, the Group consolidated a total of 32 subsidiaries, 26 of them in Germany and 6 of them in other countries.

Consolidation Principles

The principles of consolidation applied in the consolidated interim financial statements at September 30, 2008, do not differ from those used in the consolidated financial statements at December 31, 2007.

Recognition and Measurement Principles

The principles for recognition and measurement applied in the consolidated interim financial statements at September 30, 2008, do not differ from those used in the consolidated financial statements at December 31, 2007.

Exceptional Effects of Market Valuation of Interest-Rate Hedges

The Company uses interest rate derivatives (chiefly swaps) to hedge risks of changing interest rates on its financing. These interest rate derivatives serve solely to hedge risks of interest rate changes, and are not used for speculation. They do not meet the criteria for recognition as a hedge relationship, and therefore gains and losses on changes in fair value are recognized immediately in the income statement.

Interest rate swaps are fair-valued using suitable mathematical models. Discounting is based on the indicative market interest rates (market mean) prevailing on the reporting date, and on indicative volatility figures.

The volatile environment in the capital market caused a divergence in the development of the underlying yield curves in the past few months. The result was a write-up of EUR 8.1 million on interest-rate swaps for the first half of 2008. This is in contrast to a write-down of EUR 8.9 million on interest-rate swaps in the third quarter of 2008 resulting in a negative cumulative impact on the net finance result of EUR 0.8 million. The fair value of interest-rate swaps at the reporting date was EUR 9.2 million (December 31, 2007: EUR 10.0 million).

Capital Increase in H1 2008

In February 2008, a capital increase of 360,000 no-par shares was carried out by way of step-up equity financing under a master agreement signed with Société Générale in fiscal 2007. This capital increase yielded a capital inflow of EUR 5,490.0 thousand in the first half of 2008. The costs of EUR 279.6 thousand (after tax) incurred in this connection were charged directly to other reserves.

Composition of Cash Funds

For purposes of the consolidated cash flow statement, cash funds consist of the following:

	in EUR k	30.09.2008	30.09.2007
Cash and cash equivalents		16.297,7	58.201,1
Bank overdraft		-4.980,6	0,0
Cash funds		11.317,1	58.201,1

About EUR 9.7 million of the recognized credit balances are pledged. The liens extend to all present and future rights to disbursement of the credit balances in the pledged accounts. The liens secure all current and future claims of the lienholder against CRE arising from or connected with the applicable loan agreements. CRE is entitled to make use of the credit balances in the pledged accounts in the ordinary course of business. The lien remains in effect and valid, without restriction, until all secured claims have been satisfied. The recognized credit balances also include EUR 1.5 million in rental security deposit accounts.

Assets and Liabilities Held for Sale

The Group is endeavoring to sell certain residential and commercial properties. Sales are already pending for some portions of the portfolio. In conformity with IFRS 5, the properties and their associated assets and liabilities are therefore recognized separately in the consolidated balance sheet at September 30, 2008. In the past, these properties were recognized under non-current assets, as investment properties.

The summarized line items shown in the consolidated balance sheet at September 30, 2008, are made up of the following:

	in EUR k	30.09.2008
Investment properties		94.048,0
Receivables and other assets		858,0
Derivative financial instruments		992,9
Cash and cash equivalents		630,9
Assets of a disposal group classified as held for sale		96.529,8
Financial liabilities		71.801,5
Deferred tax liabilities		1.709,9
Account payables, trade and other payables		439,6
Tax liabilities		2,3
Liabilities directly associated with assets held for sale		73.953,3

Segment Reporting

The Group is managed by way of business segments that are grouped together on the basis of the economic characteristics of their business, the nature of their products and production processes, and the nature of their customer relationships or characteristics of their sales organizations. At present the Group consists of five segments: residential, commercial and hotel properties, residential property as well as asset management, and fund management.

Intra-Group items are eliminated in the reconciliation column. Additionally, this column contains individual income and expense items that cannot be allocated to the segments directly. These items pertain primarily to the management operations of Colonia Real Estate AG.

Q1-Q3 - 2008

in EUR k	Residential	Commercial / Hotel	Wohn-eigentum	Asset Management	Fund Management	Re-conciliation	Group
Income	64.720,9	2.535,5	2.351,0	5.984,3	1.490,3	-696,2	76.385,8
EBIT	-17.707,3	-5.361,6	215,3	170,2	823,2	-12.917,3	-34.777,5

Q1-Q3 - 2007

in EUR k	Residential	Commercial / Hotel	Wohn-eigentum	Asset Management	Fund Management	Re-conciliation	Group
Income	94.492,0	2.542,6	0,0	13.276,5	2.332,4	-5.553,1	107.090,4
EBIT	76.281,7	2.054,9	0,0	8.823,3	259,0	-10.312,2	77.106,7

Related Party Transactions

During the first nine months of 2008, Colonia Real Estate AG signed a loan agreement with one of its principal shareholders, Swiss Real Estate AG, and received a loan of EUR 2.75 million on arm's-length terms at May 23, 2008.

Otherwise there have been no changes in related party transactions as compared to the consolidated financial statements at December 31, 2007 except for the changes in the Board of Management.

Cologne, November 14, 2008

Colonia Real Estate AG

Stephan Rind

CEO

Volker Lemke

CFO

Friedrich Thiele

CIO