



## Colonia Real Estate

### CRE was awarded the 1st major portfolio for its CRE Resolution Workout Platform

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<b>Rating: Buy</b>	<b>Target price: €7.50</b>	<b>Close 04/09/09: €3.67</b>	<b>RIC: KBUG.DE</b>
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CRE announced today to have been awarded by the insolvency administrator of 'Level One' the handling of a 74,000 sqm large commercial portfolio. CRE was selected due to its proven track record in reducing vacancies and achieve fast and persistent re-lettings. We believe that the deal will increase CRE's asset under management by around €130 - 146m, or by around 7%, but has an over proportionate revenue and earnings potential. The deal is cash earnings enhancing from day one.

#### The transaction

CRE decided already in 2008 that the need for workout asset management would become a desired service by banks and other financing institutions. Given the rather high leverage of some transactions, reduction in rental space and non-performing space is paramount to maintain cash flows required to service the associated debt.

When Level One became insolvent in October 2008, after amassing €1.5bn in debt, which financed the acquisition of 20,000 residential units and 500 commercial units, the relevance of sufficient cash flow became apparent. Since 2009, the insolvency procedure is in place, after initial measures secured the cash flow of €60-80m of rental income.

CRE now received the management of 13 buildings (average size 5,700sqm) in B-cities in western Germany and in Berlin, which we understand are currently under-rented by 33%. CRE will focus on

- Stabilizing cash flows, i.e. preserving current rental income levels
- Reducing vacancies, i.e. work to acquire new tenants and look for extending rental space to existing clients

CRE's contract is an exclusive contract with a three year duration, starting September 2009. The contract also includes CRE Resolution's services in preparing the assets for sale.

#### Economic relevance

We expect the assets being worth about €130 - 146m, i.e. €10.1m per unit. We base this assumption on the following calculation:

- €15.00/sqm rental income for the rented space, i.e. €1.02/average units per annum
- 33% vacancy, i.e. vacancy worth €338,000
- Current rental income € 688,000/unit/year
- Trading multiple around 11 times = €7.5m
- Potential vacancy reduction within 24 months 23% points
- Value of occupancy increase €236,000/month or €2.6m
- Value of assets €130m based on 11 times rental income 2011
- Value of assets €146m based on 14.5 times rental income 2011

Typically, asset managers in the commercial asset management field receive 2 – 3% of net rental income as management fee. We assume that – given the difficult task – the fees are higher for workout portfolios. This is partly due to the fact that a purchase fee is not granted by the insolvency administrator.

We assume that fees earned for selling the assets could also be higher, depending on the selling success. As this is a workout portfolio, where banks and the administrator are keen to exit the assets, top prices are unlikely to be achieved. The task of the asset manager is therefore to achieve high occupancy ahead of the disposal in order to fetch high prices. The selling prices reflect the current rental income, not the potential rental income.

Based on the current occupancy rate, rental income should be around €8.9m. This suggests that annual fee income from existing occupancy level would be around €270,000/p.a. with an option to see additional €90,000/p.a.

In addition, fee income would be achieved by CRE Resolution, when asset are being sold. Also here, a somewhat higher fee should be booked.

## Comment

**We regard the deal as positive and the right sign for CRE. The transaction shows that CRE's decision to create a workout platform was right, allowing for the exploration of its existing workforce. While the deal is cash earnings enhancing this year, we have not altered our 2009 earnings estimates. For 2010, we added €1m to pre tax earnings, reflecting ongoing fee income and asset sale fee revenues. Also for 2011, some €1 – 1.5m should be achieved from the deal.**

## CRE adjusted P&L

CRE P&L €'000	2006	2007	2008	2009e	2010e	2011e
<b>Group Performance</b>	<b>85.699</b>	<b>98.614</b>	<b>107.407</b>	<b>178.271</b>	<b>186.095</b>	<b>192.664</b>
Rental income gross	20.461	51.228	89.467	91.397	95.319	98.877
- thereof passed on revenues	4.191	10.246	17.893	18.279	19.064	19.775
Fee income gross (AM)	3.031	15.313	9.443	8.500	9.250	9.375
Fee income gross (FM)	-	2.300	-	-	-	-
Trade income gross	62.000	-	2.351	73.373	76.526	79.412
Other income	207	19.528	6.140	5.000	5.000	5.000
Costs of goods sold trade	54.574	-	2.097	71.723	65.047	67.501
Costs of goods sold rental	9.632	28.406	58.401	55.748	48.890	50.715
Costs of goods sold AM/FM	2.805	16.073	10.640	6.750	6.704	7.055
Administrative costs	8.940	31.019	20.899	12.250	10.998	10.121
- thereof personal	6.800	12.146	14.471	7.236	6.693	6.860
Other costs	918	284	2.331	2.750	2.750	2.750
<b>Operating Costs</b>	<b>76.869</b>	<b>75.782</b>	<b>94.368</b>	<b>149.220</b>	<b>134.389</b>	<b>138.142</b>
<b>EBITDA</b>	<b>8.830</b>	<b>22.832</b>	<b>13.040</b>	<b>29.050</b>	<b>51.706</b>	<b>54.522</b>
EBIT	8.830	22.832	13.040	29.050	51.706	54.522
<b>EBIT after non-recurring</b>	<b>8.830</b>	<b>22.832</b>	<b>12.525</b>	<b>37.450</b>	<b>51.706</b>	<b>54.522</b>
Pre tax income	42.443	53.508	- 94.369	2.906	21.761	34.844
<b>Net income</b>	<b>30.321</b>	<b>65.970</b>	<b>- 82.568</b>	<b>4.337</b>	<b>18.650</b>	<b>28.921</b>
EPS €	1.93	2.94	- 3.62	0.15	0.66	1.02
Number of shares	15.704	22.466	22.826	28.460	28.460	28.460
EBITDA margin	10.3%	23.2%	12.1%	16.3%	27.8%	28.3%
Pre tax margin	49.5%	54.3%	-87.9%	1.6%	11.7%	18.1%
NOI margin (rental)	52.9%	44.6%	34.7%	39.0%	48.7%	48.7%
Admin cost ratio	10.4%	31.5%	19.5%	6.9%	5.9%	5.3%
<b>Average share price €</b>				<b>3.73</b>	<b>3.73</b>	<b>3.73</b>
<b>Average P/E</b>			-	<b>24.48</b>	<b>5.69</b>	<b>3.67</b>

Source: Silvia Quandt Research GmbH



# Colonia Real Estate

## Ad-hoc news

### **Colonia Real Estate AG: CRE Resolution unit wins workout mandate for former Level One commercial real estate portfolio**

Insolvency administrator commissions company to perform asset management of

- 13 commercial properties
- totalling around 74,000 m<sup>2</sup>
- Success for the new German Workout Platform of CRE Resolution

Cologne, 15 September 2009 - CRE Resolution GmbH, a subsidiary of Colonia Real Estate AG (ISIN DE0006338007), has won a further significant workout mandate. Appointed by the insolvency administrator Rattunde with the acceptance of the Royal Bank of Scotland as the financing institute, CRE Resolution will assume the asset management for a former commercial property portfolio of the Level One Group effective immediately. The scope of the mandate comprises 13 commercial properties with a total space of 74,000 square meters. The vacancy rate for all properties together is currently around 33 percent. The aim of the insolvency administrator and the bank is to stabilize and optimize the properties.

The office and retail properties are located primarily in North Rhine-Westphalia, Berlin and Karlsruhe. 'Reducing the vacancy rate and securing the cash flow are among the top priorities,' says Christoph Wittkop, Speaker for the General Management of CRE Resolution. 'The bank is providing the necessary resources, so that the eventual sale at reasonable prices should be possible.'

According to Wittkop, this mandate is also a success for the German Workout Platform, an alliance of multiple partners offering modular services in the workout sector. The German Workout Platform will be presented to the industry at the upcoming industry trade show EXPO REAL in Munich.

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