Equity Research

WestLB

26 June 2008

Fair Value REIT-AG

A new approach

Pan European Equity
Germany

Financials
Real Estate

Analysts
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WestLB

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Fair Value REIT-AG

BUY

Current price	€6.0
Target price	€9.0

Pan European Equity
Germany
Financials
Property and Investment

INITIATION OF COVERAGE

A new approach

Fair Value REIT-AG is the smaller of two REITs in Germany. The conversion of investments in closed-end funds into shares in the company has created a broadly diversified property portfolio with considerable scope for distributions. In addition, the company has bought up further properties, capitalising on tax advantages of the REIT status. Having full REIT status with a comparatively high free float, the company is an ideal merger partner for companies that, as pre-REITs, acquired properties and, given the current market environment, could conduct an IPO only on the basis of extremely high discounts. We initiate coverage with a Buy rating and a target price of €9.

FY end Dec	Rental income (€m)	EBITDA (€m)	EPS (€)	P/E (x)	P/NAV (%)	Dividend yield (%)
2007A	4.3	-1.1	0.19	33.3	59.6	0
2008E	12.4	6.7	0.16	37.5	58.7	5.0
2009E	14.8	10.5	0.55	10.9	57.3	7.5
2010E	15	10.6	0.61	9.8	56.4	8.3

Source Fair Value REIT-AG, WestLB Research estimates

- **Plentiful source:** The company estimates the volume of investments in closed-end real estate funds that are older than 10 years at around €66bn. As the first company to successfully exchange fund shares for shares in a company, Fair Value should have a competitive edge in further swap actions.
- **Diversified portfolio:** The company has a broadly diversified commercial property portfolio with a high letting rate and a considerable running yield.
- **The company's NAV amounted to €10.10 per share as at 31 March 2008** and was thus significantly above its current share price.
- **As a REIT, the company requires the inflow of external equity.** The company could also use shares as acquisition currency for individual properties or portfolios. Due to its high free float we also regard the company as an excellent candidate for a merger with other real estate companies that are not listed and/or have no sufficient free float.

Key data

in %	1m	3m	12m
Absolute	-9.9	-0.3	n/a
Relative	-1.8	1.1	n/a

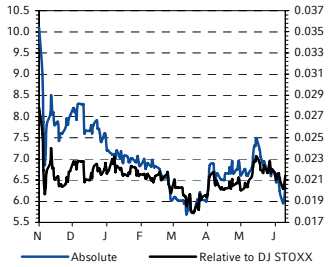
12 month price range	€10.10 - €5.69
Net cash/share YE	-€9.4
NAV/share YE	€10.2
No. shares in issue	9.4m
Free float	43.0%
Market cap	€56m
Next event	Q2 Result
Date	20/08/2008
Reuters code	FVIG.DE
Bloomberg code	FVI GR
DJ STOXX	292.54

Unless otherwise stated, share prices are as of market close on 24 June 2008.

SRI rating N/A

Environment	n/a Stakeholder	n/a
Governance	n/a Controversy	n/a

Absolute & relative performance



Source JCF, WestLB Research (SRI data)

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Executive summary

REIT with high free float

Fair Value REIT-AG is the smaller of two existing REITs in Germany. The company is largely the product of the conversion of shares in closed-end real estate funds into shares in the company itself. With these shares, the former fund owners have gained access to liquidity and the company now has access to a new source of property portfolios. Moreover, the company has acquired further properties. It should be pointed out that at over 40% the company's free float is comparatively high.

Competitive advantage in swapping shares in funds

This is the first company to have successfully transacted such a swap in Germany. Following its listing, the company is likely to have a competitive advantage in terms of acquiring further shares in closed-end real estate funds.

We are moderately positive about the market environment for German commercial property after the market completed a turnaround only in 2006. Given the low level of new construction activity in recent years, we expect lower vacancy rates and rising rents. However, as financing conditions become more difficult, initial yields are likely to rise this year.

High-yield, diversified portfolio

Fair Value REIT-AG has interests in a broadly diversified German property portfolio with an above-average yield. The focus is on retail properties, with the new federal states overweighted. Additional acquisitions are therefore likely to concentrate on office and logistics properties in the western federal states.

NAV of around €10

The market value of the real estate portfolio amounted to €286.4m on a pro rata basis as of 31 March 2008, and the NAV came to €10.10 per share. REIT status is linked to conservative financing, as the REIT Act requires an equity ratio of 45%.

Advantages due to listing and free float

The company is dependent on capital increases in order to be able to grow as a REIT. We view the possibilities in the current capital market environment as extremely limited. Unlike other REIT aspirants, the company is already listed and has a comparatively comfortable free float, allowing its shares to be used as currency for a merger or acquisitions.

Further swaps provide potential

The company’s long-term growth prospects would also benefit in the following scenario: if the value of the stock appreciates, this could make it possible to engineer new swap deals for owners of shares in closed-end funds. Besides the properties, this would also generate further equity. On the basis of the company's estimates and data provided by the fund specialist Loipfinger, the fund pool from which property portfolios could be taken amounts to an initial investment volume of €66bn.

Seeking to double real estate portfolio

In the event of a favourable capital market environment, the company will seek to double its real estate portfolio (including participations) by the end of 2009. The proportion of direct investments is then also expected to be increased from 25% to 50%. The focus is therefore likely to be on office and logistics properties located in various regions of the western federal states.

Collaboration with IC Real Estate

Fair Value REIT-AG is a lean company and concentrates on strategic asset and property management. Operating activities are carried out by companies of the IC Real Estate

Group on market terms. Given the current size and structure of the portfolio, we consider that outsourcing the operating activities also makes sense on cost grounds.

Problems affecting BBV 06

Several leases have expired in its subsidiary BBV 06, resulting in a higher vacancy rate. This also involves liquidity problems. However, the company has recently managed to re-let some of these properties, and it is also optimistic about being able to resolve these problems in the short term.

Dividend envisaged

We expect a slight decline in net earnings due to valuation-related losses compared to 2007. We expect that the operational improvements and the envisaged gains from disposals under HGB (German Commercial Code) should make it possible to pay out the dividend of €0.30 to €0.35 as announced by the company. We expect to see a slightly positive NAV trend in 2008, as a dividend will not be paid out this year. The result under IFRS next year should then exceed the dividend payout for 2009.

Target price of €9

Our target price stands at €9 per share. Fair Value is a real estate company that tends to be on the small side and is not capable of growing any faster with its current portfolio or paying out a higher dividend than any of the other companies we have examined. That is why an above-average discount to its NAV would be appropriate in our opinion. However, Fair Value is one of the only two REITs in Germany with a corresponding conservative financial structure. We view the company's REIT status, together with its comparatively high free float, as a valuable asset in a potential consolidation process among German real estate companies, particularly for those that, as pre-REITs, already acquired real estate and capitalised on the tax privileges that such acquisitions offer.

SWOT analysis

Strengths and opportunities

- Rents are mostly rising in all segments of the German commercial property market
- REIT status and large free float
- The first company in Germany to have successfully carried out an exchange of investments in closed-end real estate funds into shares
- Growth opportunities based on further increase in investments in closed-end funds.
- Closed-end real estate funds that are over ten years old offer properties worth some €66bn investment volume, which offers plenty of scope for further acquisitions.
- Experienced management
- Diversification through three property segments and a large number of locations in Germany
- Certain inflation protection through partial indexation
- Relatively high rental yields owing to focus on regional centres
- Successful renting of the Dusseldorf airport center acquired in construction status

Weaknesses and threats

- As a property holding company, it is dependent on how values change in the German real estate market
- Dependence on the financial strength of tenants
- Real estate assets can lose value
- When leases expire, re-letting problems may arise
- Eastern German locations are quite strongly represented in the property portfolio
- Current rents for some properties are higher than currently achievable market rents
- In the case of some leases with short remaining terms (retail, logistics), the properties have not yet been re-let.
- There are liquidity constraints and re-letting problems in its subsidiary BBV 06 that have yet to be solved.

Valuation

Fair Value's share is trading significantly below its NAV. This company is one of the two German companies to have been conferred REIT status and have sufficient free float. It therefore has a relatively low level of indebtedness. Conversely, with the current portfolio and the constraints of the REIT Act there is only limited growth potential available. For this reason, we consider a certain discount to the NAV to be justified and have set a target price of €9. Since it offers an upside potential of more than 20%, we have assigned this stock a Buy rating.

Orientation to the NAV

Peer group consisting of German property-holding companies

Peer group companies for Fair Value REIT-AG are property holding firms in the German commercial property sector. These include Deutsche EuroShop, DIC Asset and IVG, which we cover, along with Alstria Office and Polis Immobilien.

Basis of valuation

	Reuters code	Closing price on 24.06.2008	2006A	2007A	2008E	2009E
NAV per share (€)						
DIC Asset AG	DAZG.DE	16.99	21.34	23.04	22.5	23.58
Dt. EuroShop	DEQGn.DE	23.39	25.53	26.9	28.5	30.06
IVG Immobilien AG	IVGG.DE	13.09	23.56	29.03	28.21	31.56
Alstria Office REIT	AOXG.DE	10.01	10.40	15.70	15.50	15.90
Polis Immobilien	PQLG.DE	9.20	11.80	14.40	14.70	14.90
Fair Value REIT-AG	FVIG.DE	6.00		10.06	10.22	10.46
Dividend per share (€)						
DIC Asset	DAZG.DE	16.99	0.75	1.65	1.80	2.00
Dt. EuroShop	DEQGn.DE	23.39	1.05	1.05	1.10	1.10
IVG	IVGG.DE	13.09	0.50	0.70	0.70	0.80
Alstria Office REIT	AOXG.DE	10.01	0.00	0.51	0.63	0.65
Polis Immobilien	PQLG.DE	9.20	0.00	0.00	0.40	0.45
Fair Value REIT-AG	FVIG.DE	6.00		0.00	0.30	0.45

Source Company, JCF, WestLB Research estimates

Expected NAV 2008 as valuation basis

We believe that the appropriate basis for valuing property holding companies is the expected NAV; at present, market participants are probably still applying the value expected for 2008E. We believe that premiums and discounts on this amount are determined by the company-specific value generation. This is derived from the NAV growth and the expected dividend payments because these reduce the NAV.

In the case of Polis and Alstria Office, the high values for the expected value generation in 2007 are attributable to the premiums on NAV achieved in the two IPOs in April 2007.

Expected value generation

%	2007A	2008E	2009E	Average 2006-08E	Average 2007-09E
DIC Asset	15.7	5.5	13.7	26.4	11.6
Dt. EuroShop	9.5	10.0	9.3	11.5	9.6
IVG	26.2	-0.4	14.7	19.8	13.5
Alstria Office REIT	55.9	2.7	6.8	n.a.	21.8
Polis Immobilien	22.0	4.9	4.4	n.a.	10.4
Average	**25.9**	**4.5**	**9.8**	**19.2**	**13.4**
Fair Value REIT-AG		**4.5**	**6.8**		

Source Company, JCF, WestLB Research estimates

The market pays a premium for higher value generation

The table below clearly shows that the companies with higher expected value generation also achieve higher valuations relative to NAV.

Current premiums on expected NAV

€	Closing price on 24.06.2008	Reuters	Price/NAV (x) 2008E	Price/NAV (x) 2009E
DIC Asset (DIC)	16.99	DAZG.DE	0.76	0.72
Dt. EuroShop (DES)	23.39	DEQGn.DE	0.82	0.78
IVG	13.09	IVGG.DE	0.46	0.41
Alstria Office	10.01	AOXG.DE	0.65	0.63
Polis Immobilien	9.20	PQLG.DE	0.63	0.62
Average (x)			0.66	0.63
Fair Value REIT-AG	**6.00**		**0.59**	**0.57**

Source Bloomberg, JCF, WestLB Research estimates

Value generation is slightly below average

According to our estimates, Fair Value REIT-AG's expected value generation p.a. for 2008E and 2009E stands at 4.5% and 6.8% respectively, and is therefore somewhat below the average value generation for the peer group. This means that, if anything, higher discounts to the NAV 2008 would be justified.

Fungibility and equity ratio

Since the companies in the peer group have larger market capitalisations, FV AG's share price should also include certain liquidity discounts. At present, a high equity ratio is also important, but the constraints of the REIT Act mean that Fair Value REIT-AG enjoys advantages in this regard.

Discount of 15-25% on expected NAV 2008E (ex funds from capital increase) in line with market

As rents in Germany are certainly not on a downward trend, we consider the large discounts to the NAV to be greatly overdone. Generally speaking, our target prices are therefore considerably above the current share price and our ratings for the property holding companies we cover are positive.

In relation to the target prices for the other property companies we cover in the commercial property sector, we arrive at a target price of €9 for Fair Value REIT-AG. Due to the modest value generation and taking account of the company's size, we consider a discount of about 15% to the NAV to be appropriate. Another negative factor is that only one dividend is included in the target price calculation.

Derivation of target prices

Target prices	IVG	DES	DIC	FVI
NAV 2008E	28.21	28.5	22.5	10.22
Premium	-2%	-3%	-2%	-16%
Premium €	-0.70	-0.84	-0.34	-1.66
Dividends	1.40	2.15	3.45	0.30
Other items	0.00	0.00	0.00	0.00
Tax exemption of dividends	0.00	0.54	0.00	0.00
	28.91	30.35	25.61	8.86
Target price (rounded)	29	30	26	9
Share price (per 24.06.2008)	13.09	23.39	16.99	6.0
Upside potential to target price	120.9	29.7	50.7	47.6

Source WestLB Research estimates

This share's well over 20% upside potential leads us to assign it a Buy rating. The asset REIT status and the comparatively large free float (43%) are also important in this respect. While new REITs are required to have a free float of at least 25%, it is permitted to drop to 15% for REITs that have already been listed. Fair Value will therefore be able to bring a significant asset to bear in any potential consolidation process.

Equity story

Fair Value REIT-AG is one of two German companies that have REIT status. The company has a broadly diversified portfolio stocked with participations in over 80 individual properties with a pro rata market value of more than €285m. The company's portfolio has been expanded as a result of the acquisition of a property still under construction, which will probably be fully let upon its expected completion in July. Thanks to its comfortable free float, the company has a good opportunity to use shares for the expansion of its portfolio or for a merger. The vacancy rate amounts to around 4%. On a stand-alone basis, we expect a slightly positive trend in tems of its NAV and a clear uptrend in its dividend.

First upstream REIT

First swap of fund investments with a nominal value of €242m into shares

The current portfolio worth over €285m (pro rata share in properties) was created largely in August 2007 by the exchange of investments in closed-end real estate funds for shares in Fair Value REIT-AG and to a lesser extent by acquisition of the shares for cash. The company's net asset value at 31 December 2007 was €94.67m.

Such a swap was successfully carried out for the first time and with an exchanged nominal value of the fund shares of €242m was more than double the record turnover reported by "Fondsbörse Germany Beteiligungsmakler AG" in H1 2007 (€100m, of which €90m in real estate funds).

Competitive edge on acquisition of shares in closed-end real estate funds

The successful swap of virtually illiquid shares in closed-end funds for shares of Fair Value REIT-AG was the first of its kind in Germany. This resulted in the company's gaining a competitive edge in acquiring shares in closed-end real estate funds. The key element in the company's growth strategy is to expand the real estate portfolio and equity by applying the successful exchange idea to other closed-end real estate funds and to increase the existing holdings in the current portfolio (between 24.9% and 75.2%).

Plentiful source (initial investments of €66bn)

A listing lends even greater weight to the arguments for such an exchange. After all, it was unlikely to have been easy to persuade shareholders in closed-end real estate funds to swap their stakes for unlisted shares. According to the company's estimates, the real estate pool which the company can dip into – namely commercial real estate funds launched more than 10 years ago – had an initial investment volume of at least €66bn.

An attractive offer for owners of fund shares

For holders of closed-end real estate funds, accepting a cash offer with a 15% discount on the intrinsic value is normally much more attractive than cash offers in the secondary market. Those who accept an offer to exchange their fund shares receive shares that can be traded daily with a more broadly diversified property portfolio and high transparency (external valuation). In addition, shareholders can participate in the company's growth.

The portfolio created by swapping funds consists largely of retail properties. The office segment was considerably strengthened as a result of acquiring a portfolio of bank buildings in the commuter belt of Hamburg. At the beginning of 2008, a new office building at Dusseldorf Airport was acquired, which will be completed by the middle of this year.

Second German REIT

Fair Value REIT-AG was granted REIT status following its IPO in November, and on acquiring the Sparkassen portfolio it carried out a transaction by which the sellers profit from the exit tax under the REIT legislation. In contrast to the numerous transactions with pre-REIT companies, in this case the seller is not beset by uncertainty in terms of the tax benefits as Fair Value has achieved REIT status.

Seeking to double real estate assets by 2009

The company is seeking to roughly double its real estate portfolio by 2009. However, the company is dependent upon an expansion of its equity due to the regulations applying to dividends and the restrictions affecting debt financing under the REIT legislation. A certain improvement in the current capital market environment is necessary for this, even though the company, unlike the vast number of pre-REITs, can also resort to non-cash capital increases in return for equity shares and thus accept a reduction in its free float.

Fair Value is seeking to reduce the share of retail properties by selling some of them and investing the proceeds from these transactions preferrably in office and logistics properties in Western Germany. The targeted size of the individual investments will be between €10m and €50m. In view of the currently large proportion of retail properties, the focus is on office and logistics properties in regional locations, where higher rental yields are attainable.

Competitive dividend

The target is to pay a reasonable and competitive dividend to the shareholders. We expect the company to pay a dividend of €0.30 and €0.45 per share in 2008E and 2009E, respectively.

The concept of the exchange deal

First swap of fund investments with a nominal value of €240m into shares

Fair Value has set a benchmark with the first successful transaction involving the exchange of shares in closed-end real estate funds for property shares. The company first selected suitable funds from the closed-end real estate funds managed by IC Immobilien Group. The most important points to note here are the quality of the properties and tax aspects regarding the shareholders (for example, a minimum holding period of 10 years to avoid so-called speculation tax).

Fair Value offered the fund investors the possibility of exchanging their fund shares for shares in the company or to sell them for cash (at a 15% discount on the intrinsic value as of 31 December 2006). The aim was to achieve a majority interest in the selected funds. As turnout at shareholder meetings is normally low, a holding of less than 50% often suffices.

An offer was made to around 10,300 owners holding shares in a total of 15 funds. Only one fund, which also included a non-REIT-capable property, failed to capture a sufficiently large proportion. In seven funds, it gained shares in excess of 50% and in a further seven between 24.9% and 45.02%. Only 20.5% of the shareholders opted for the cash offer, which yielded the company a gain of €2.8m with regard to the intrinsic value at the end of 2006. Shareholders who did not want to exchange shares remain invested in the funds.

The exchange deal*

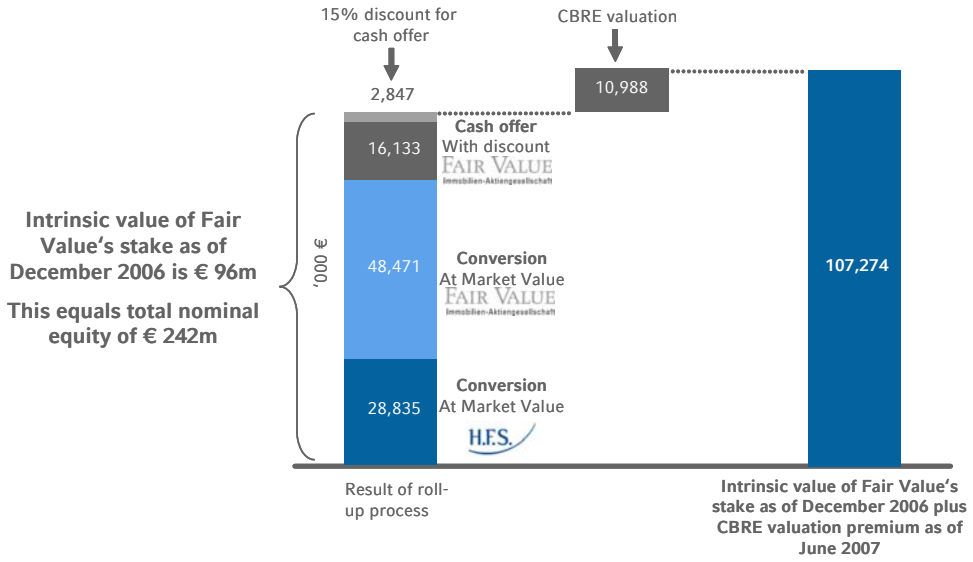
Name	Funds			Exchange (nominal value of equity)			fair value		
	Nominal value of equity (€'000s)	Intrinsic value as % of nominal value	Intrinsic value of the fund (€'000s)	Exchange volume in shares (€'000s)	Cash exchange (€'000s)	Total volume (€'000s)	Share of fair value (%)	Intrinsic value as of 12/2006 (€'000s)	Of which cash discount (€'000s)
IC01	6,442	42.59	2,744	3,569	26	3,594	**55.79**	1,531	2
IC03	9,842	52.03	5,121	6,662	383	7,046	**71.58**	3,666	30
IC07	23,519	54.87	12,905	17,522	174	17,696	**75.24**	9,710	14
IC10	11,990	2.55	306	0	3,134	3,134	26.14	80	12
IC12	21,014	32.42	6,813	6,596	1,774	8,370	39.83	2,714	86
IC13	29,144	18.85	5,494	13,659	1,256	14,914	**51.18**	2,811	36
IC15	37,544	47.53	17,845	12,006	2,366	14,372	38.28	6,831	169
BBV02	5,169	8.75	452	813	1,104	1,917	37.09	168	14
BBV03	15,550	85.36	13,273	6,360	1,975	8,335	**53.60**	7,115	253
BBV06	48,040	32.96	15,834	20,455	5,273	25,728	**53.55**	8,480	261
BBV08	48,255	41.03	19,799	19,062	5,420	24,483	**50.74**	10,045	334
BBV09	101,605	48.96	49,746	18,908	6,423	25,330	24.93	12,402	472
BBV10	94,795	50.07	47,464	25,368	10,763	36,130	38.11	18,090	808
BBV14	113,290	24.79	28,085	41,405	9,600	51,005	45.02	12,644	357
Total/ Average	**566,199**	**39.89**	**225,880**	**192,383**	**49,670**	**242,054**	**42.75**	**96,286**	**2,847**

* Valuation as of 31.12.2006

Source Fair Value REIT-AG

However, it should be noted that Zweitmarktfonds H.F.S 2 made an unconditional exchange offer (without the precondition that certain minimum investment levels must be achieved) and exchanged all the shares acquired for shares in the company. In this way, H.F.S. 2 became the largest shareholder in Fair Value REIT-AG.

Value generated by exchange of fund shares



Source Fair Value REIT-AG

A positive point is that the valuation as per 30 June 2007 carried out on 20 September 2007 by CB Richard Ellis (CBRE) valued the portfolio €11.0m higher than the report (TÜV South/Jagel) that formed the basis for the exchange values.

In its efforts to acquire investments in closed-end real estate funds, Fair Value is competing with secondary market funds and various individual investors. In specific cases, as in Fair Value AG's exchange deal, the interests of secondary market funds and those of the company may well be the same.

A huge investment pool – initial investment volume of about €66bn according to data from Loipfinger, which is unattractive for large investors given the relatively small size of the investments – is available to companies such as Fair Value.

For the owners of closed-end real estate funds, accepting a cash offer with a 15% discount on the intrinsic value is normally much more attractive than cash offers in the secondary market.

Those who have accepted the share offer receive a share that can be traded on a daily basis with a broadly diversified property portfolio and a high degree of transparency. In addition, shareholders can participate in the company's growth.

The process

Phase 1: Research

In future, Fair Value will have to exploit its contacts with all relevant market participants to identify suitable funds. The most probable candidates should be funds that require liquidity, poorly managed property portfolios or those that offer other promising potential.

Phase 2: Due diligence and negotiations

In the second phase, a due diligence review will be conducted. IC Real Estate Group will be available to provide services for this. A valuation has to be made, and technical, legal and tax due diligence reviews will have to be conducted. Negotiations will then have to be conducted with fund investors (institutional or private) and secondary market platforms or investors as well as the fund companies as suppliers of investment properties.

Decision on offer

Based on the results of the due diligence review and the report of an independent appraiser and depending on the size and complexity of the transaction, a decision has to be taken to proceed with an offer or not.

Phase 3: Transaction

A (public or private) offer must be made to the owners of the funds. Fair Value can submit both a cash and exchange offer, which gives it a competitive edge.

Phase 4: Clearing:

The transaction is carried out by a non-cash capital contribution in return for the fund shares. Alternatively, the fund shares are transferred to Fair Value in return for payment.

Distribution-oriented portfolio

Interests in 13 closed-end real estate funds

Fair Value currently has holdings in 13 real estate funds issued by IC Immobilien Group and BBV comprising a total of 49 properties, whose overall market value amounts to €558m. In five funds, a majority holding has been achieved and as a result these funds are fully consolidated and the corresponding minorities are reported in the balance sheet. The investments in the eight other funds are recorded at equity.

The overall market value of the properties in the fund portfolios in terms of ownership percentages amounted to €226m as of 31 December 2007.

Portfolio by segments (including Airport Center*)

	Retail	Office	Logistics	Hotel	Gesamt
Number of properties	29	46	4	2	81
Rental space (sqm)	222,739	159,191	57,392	31,014	470,336
Market value (€'000s)	325.540	228.002	32.700	32.500	618.742
Share held by Fair Value	120.370	131.866	18.737	15.416	286.391
Annual rental income (€'000s)	25.017	18.806	2.334	2.705	48.862
Share held by Fair Value	9.376	10.434	1.306	1.274	22.390
Average yield (%)	7.8	7.9	7.0	8.3	7.8
Vacancy rate (%)	0.8	4.4	25.3	0.0	4.0
Average remaining term of lease (in years)	7.1	7.9	5.2	7.2	7.4

*) includes potential rent and acquisition costs

Source Fair Value REIT-AG

Overview of portfolios of Fair Value REIT-AG

Name of participation	Participation	Total rental space	Market value	Occupancy rate	Remaining term of lease
	%	m²	€'000s	%	(in years)
Direct ownership					
"Sparkassen-Portfolio"	100.00	43,108	49,960	95.3	13.9
Total direct ownership		43,108	49,960	95.3	13.9
Subsidiaries					
IC Fonds & Co. Büropark Teltow KG	75.65	13,382	25,200	100.0	7.3
IC Fonds & Co. Forum Neuss KG	71.58	12,064	8,600	85.7	1.3
IC Fonds & Co. München-Karlsfeld KG	55.81	3,375	4,700	98.4	7.5
BBV Immobilien-Fonds Nr. 6 GmbH& Co. KG	54.64	74,616	57,510	83.6	5.0
BBV Immobilien-Fonds Nr. 3 GmbH& Co. KG	53.64	14,802	9,900	95.8	2.8
Total subsidiaries	60.99	118,239	105,910	90.7	5.5
Associated companies					
IC Fonds & Co. Gewerbeportfolio Deutschland 13. KG	49.68	22,034	25,300	91.2	6.6
BBV Immobilien-Fonds Nr. 14 GmbH & Co. KG	45.02	38,522	87,000	96.3	5.2
IC Fonds & Co. SchmidtBank-Passage KG	40.22	8,315	8,300	96.4	3.1
IC Fonds & Co. Gewerbeportfolio Deutschland 15. KG	38.31	35,412	44,100	98.0	5.2
BBV Immobilien-Fonds Nr. 10 GmbH & Co. KG	38.30	96,567	133,230	96.0	6.1
BBV Immobilien-Fonds Erlangen GbR	38.28	2,770	1,800	100.0	4.3
IC Fonds & Co. Rabensteincenter KG	26.14	9,969	9,800	93.5	2.5
BBV Immobilien-Fonds Nr. 9 GmbH & Co. KG	24.93	90,728	142,900	100.0	9.8
Total associated companies	37.39	304,317	452,430	96.7	6.6
Associated companies' share of market value			161,410		
Properties under construction					
Airport Office II, Dusseldorf	100.00	4,671	10,442	41.7	n/a
Total properties under construction		4,671	10,442	41.7	n/a
Total		**470,335**	**618,742**		

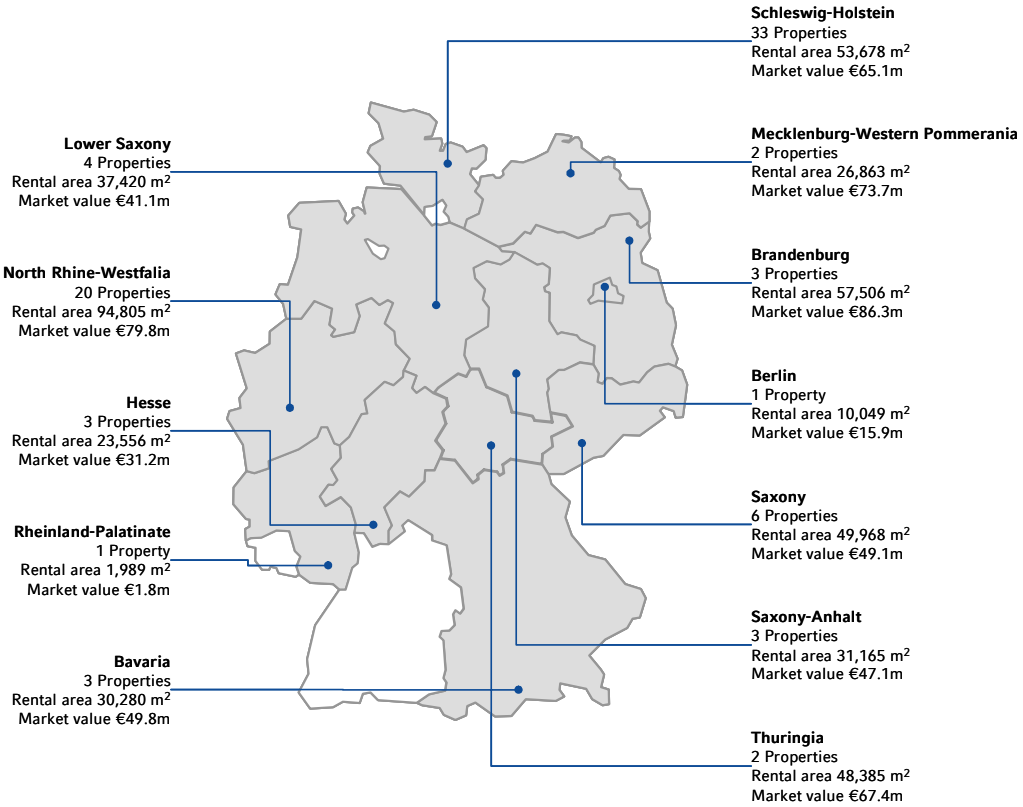
Source Fair Value REIT-AG, WestLB Research

Regional distribution

48% of pro rata market value is in the new federal states

Geographically, the entire portfolio of Fair Value is located in Germany. The portfolio's current focus is in the new federal states, which account for 48% of the pro rata market value. This is attributable to the importance of tax aspects – originally for closed-end funds – in the early 1990s.

Locations of the properties (non pro rata, excluding Airport Center)



Source Fair Value REIT-AG, WestLB Research

Breakdown by segment

Targeted office/retail/logistics mix of about 50:25:25

Based on pro rata rental income, the portfolio consists of office and retail properties, which account for a good 40% each. Logistics properties currently account for 9% of the portfolio, while the rest (5%) is represented by two hotels. Changes are also planned in the medium term to improve diversification. According to management, the proportion of retail properties is to be reduced in favour of logistics properties in particular. In the long term, management is targeting an office/retail/logistics mix of about 50:25:25.

Segment breakdown (pro rata) on basis of rental income (excluding Airport Center)

Retail	44%
Offices	42%
Logistics	9%
Others	5%

Source Fair Value REIT-AG, WestLB Research

The average residual term of the leases in the overall portfolio amounts to around 7.1 years. There are relatively strong differences between the individual segments. While the average remaining term for the retail properties is 5.2 years, it is just 3 for logistics properties. Due to the directly held Sparkassen portfolio (remaining term of more than 13 years) the office segment has a relatively long residual term of 7.9 years.

Better-than-average, low vacancy rate in the portfolio

The property portfolio's vacancy rate was around 4% of its rental space as per 31 December 2007, which is a low vacancy rate for commercial properties. In terms of potential rental income, the vacancy rate was even lower at 2.8%. The highest vacancy rate in the portfolio is in the office segment (3.9%). In retail and logistics, 3.1% and 1.8% of the available space was not let. We would emphasize in particular the two hotels in the "other" category, which are both fully let. Overall, of the 81 properties, 56 are fully let.

However, the expiry of the lease at the beginning of the year increased vacancies in the logistics segment by 22,000 m^2. One-third of this rental space was let again by the end of May. In addition, the company succeeded in letting vacancies in the retail segment in Meschede. The lease on the property in Emmerich has also been extended.

The 10 most important tenants represent 57% of the rental income

Together, Fair Value's 10 most important tenants accounted for 57% of rental income at the end of 2007. Many highly rated well-known companies are among the principal tenants. However, both IDLG Immobiliendienstleistungen, a subsidiary of Landesbank Berlin, and BBV Holding AG are general tenants with the right to sublease. The lease with Toys´R´Us Germany GmbH in the logistics property in Cologne has expired. Toys´R´Us has extended the lease for only a part of the rental space (office) and is therefore unlikely to remain on the Top Ten list in 2008.

The 10 largest tenants (weighted by holding of Fair Value)

Tenant	Segment	Income (as % of total rental income under contract)
Sparkasse Südholstein	Offices	12.4
IDLG Immobiliendienstleistungen	Offices	9.7
Metro AG	Retail	8.2
BBV Holding AG	Offices	5.0
Kaufland Stiftung & Co. KG	Retail	4.6
Schweizerhof Hotel GmbH & Co. KG	Other	4.1
Marktkauf Handelsgesellschaft	Retail	4.0
Toys´R´Us Germany GmbH	Logistics	3.5
HPI Hotelbesitz GmbH	Retail	2.7
ABB Grundbesitz GmbH	Logistics	2.6
Total		**56.7**

Source Fair Value REIT-AG, WestLB Research

Strategy and cooperation with IC Group

Management has a predominantly strategic role

Fair Value REIT-AG's operations are mainly strategic in nature and the company thus profits from the wealth of experience of the two board directors. The operating activities have largely been outsourced to subsidiaries of the IC Real Estate Group.

Fair Value REIT-AG is lean in structure and views itself as an active portfolio manager, weighting adjustments in accordance with the development cycles of the property classes, while defining and monitoring investment criteria. Further functions of the Fair Value management team are risk monitoring as well as selecting and controlling the quality of external service providers.

At the property level, the management of Fair Value REIT-AG takes all the strategic decisions. This starts with the decision about whether to buy a property or not. In addition, the annual budget is fixed and if necessary changed at property level. Decisions

on refurbishments and the tenant structure are taken. The sale of properties is also an explicit part of the business model. Management decides whether renovation work will be carried out and/or the properties are let prior to the planned sale.

The key operating services are rendered by IC Real Estate Group. These include reporting as well as due diligence and monitoring the market environment for potential investment properties. The board takes all the strategic and company-specific decisions on the basis of such work.

Close ties to IC Real Estate Group

Fair Value has close links to the IC Real Estate Group both through its origin as a participation of IC and the past careers of the management team and the fact that it used office space in the premises of IC until the end of October 2007. Particular attention should therefore be paid to the terms of the service contracts with regard to market conformity. We think that in general the conditions and the fee structure are in line with market conditions.

The following service agreements have been entered into with IC Real Estate Group:

A) Agreement on development and conception of a REIT (with IC Fonds GmbH 07/08)

Feasibility studies, business plan

A one-off fee based on the overall market value of all properties (pro rata) as of 31 December 2007 was paid for the work carried out in planning and developing the REIT.

Costs for REIT conception

Calculation basis: market value in €m	Flat fee
For the portion up to 250	1.25%
For the portion 250 – 500	1.00%
For the portion 500 – 750	0.75%
Over 750	0.25%

Source Fair Value REIT-AG

The costs weighed on the HGB result (according to the German Commercial Code) and we believe this is the reason that no dividend was paid for 2007.

B) Asset management and corporate services contract (with IC Fonds GmbH Jul/07-Jul/11)

Asset management and accounting services

This contract covers operational asset management and accounting services for all the properties of Fair Value, controlling and monitoring local property managers, identifying potential investment properties, overseeing due diligence and preparing all quarterly, half-yearly and annual financial statements (on IFRS basis).

The contract for asset management and corporate services provides for two types of fees: annual service charges and non-recurring performance fees.

As a service commission, a one-off payment of €850,000 for 2007 has been agreed. From 2008, the fee is to be calculated on the basis of the dividend payout (90% of income must be distributed according to the REIT Act). A total of 20% of the dividend (iterative calculation after deduction of the fee) will be charged as a service fee for the services provided (reporting, accounting, market analyses). If payments have already been made to IC Real Estate Group at the level of the fund companies for comparable services, these will be credited against the service fee. In other words, there is no duplication of charges.

The performance fee is due both on investments and disposals. The charge is 0.5% of the market value at the time of completion. Expenses for external service providers such as legal advisers and auditors are also payable by Fair Value REIT-AG. This fee is also due in the event of an increase in shares in closed-end real estate funds up to 18 months after the original transaction. If companies in the IC Real Estate Group have been involved in the implementation of the transaction as broker or adviser for a fee, this fee is not charged.

C) Property management contract (with IC Immobilien Service GmbH Jul/07-Jul/11)

Property management, rental plans, budgeting

The property management agreement covers commercial and technical property management (property, tenant and contract management), the development and implementation of rental plans in accordance with the strategic criteria of Fair Value as well as annual budgeting on an individual property basis. In addition, there is an obligation to report income deviations of 5% and expense deviations of 10%.

IC Immobilien Service GmbH receives an annual fee of 3% of the annual rent paid excluding the building service charges to manage the properties. In addition, a commission of 5% of the total rental income over the full period of the lease is payable to IC for the new lettings. If there is a follow-on letting, the agreed commission is 2%. A ceiling of three months' rent applies to the letting commission.

For exceptional projects, building measures and special cases of renovation, additional commissions will be due to IC Immobilien Service GmbH for its commercial services in accordance with the invoiced amount.

Commissions for the commercial support of technical services

Invoice (€)	Commission
> 1,000,000	5%
> 100,000	10%
< 100,000	15%

Source Fair Value REIT-AG

Market environment

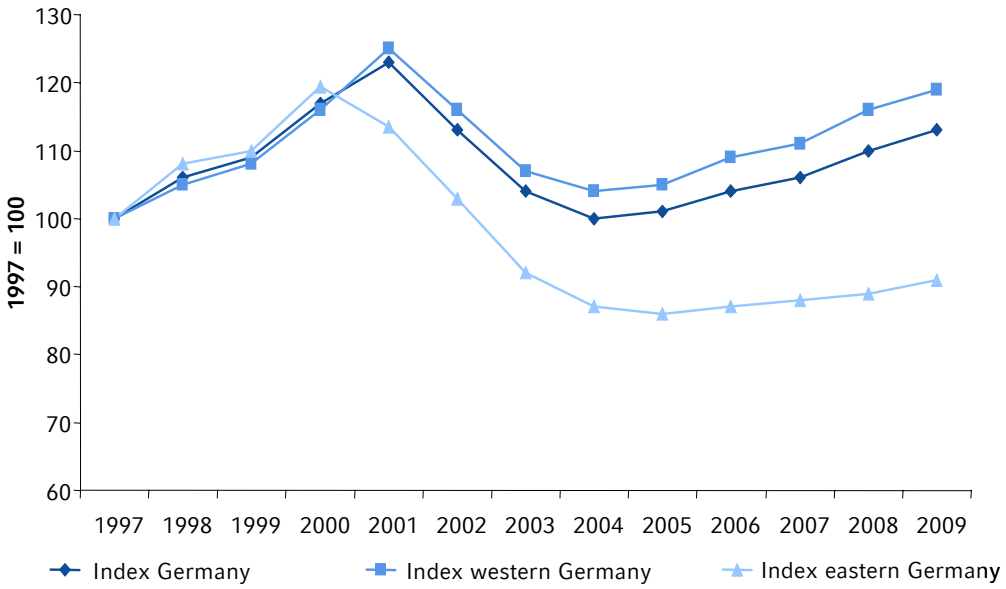
The worst appears to be over for the German commercial real estate market. In the top locations at least, vacancy rates are declining, rents are generally climbing and prices rose in 2006 and 2007 (which was reflected in falling yields). However, currently the impact of the financial market crisis is making itself felt, making real estate financing more difficult and expensive and causing delays. That is why higher initial yields and lower rent multiples can be expected this year. However, we continue to be upbeat about the trend in rents. The still relatively robust domestic economy as well as the low volume of new buildings suggests that rents will continue to rise, while vacancy rates decline. On balance, real estate prices are expected to decline slightly in 2008.

Office rents – the low point has been passed

First signs of stabilisation in 2005, a discernible upward trend since 2006

Prices for German office properties started falling in 2001, and it was not until 2005 that we saw the first signs of stabilisation in some regions. This was followed in 2006 by the start of an upward movement, at least in the five most important locations, which lasted until the middle of 2007. Since then, initial yields have again begun to decline. Rents in key locations, however, are continuing to rise, and vacancies are decreasing further. This decline is much stronger if vacancy rates and sub-lettings are taken into account.

Rents have passed their low point



Index for Berlin, Dresden, Dusseldorf, Frankfurt /Main, Hamburg, Cologne, Leipzig, Munich, Stuttgart
Index-weighting of locations according to median 10-year rental income/space

Source Degi Research

Property market trends in Germany's five most important office locations

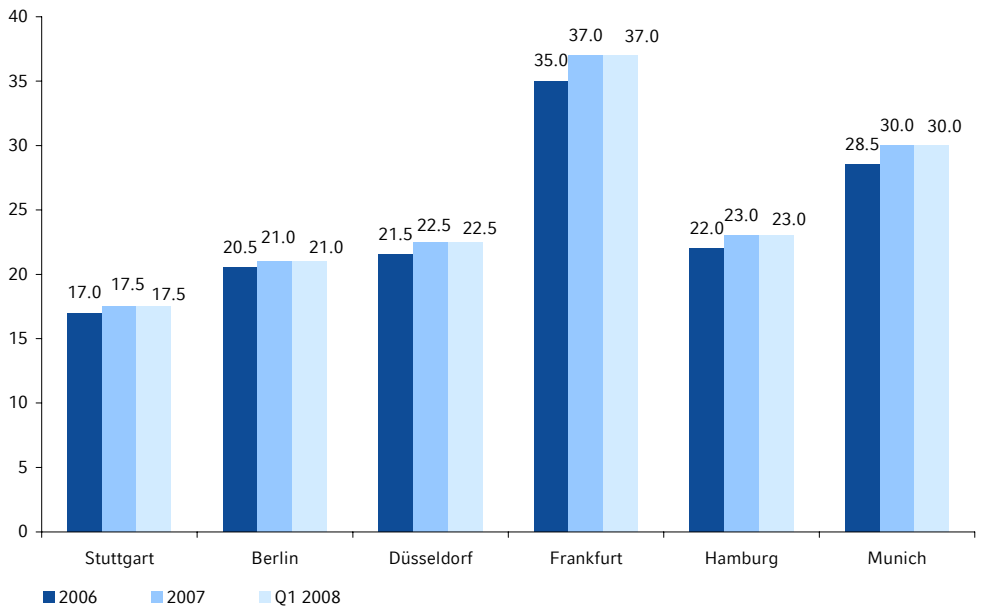
Year	2004	2005	2006	2007	Q1 2008
Aggregate sales (sqm)	1,898,100	2,231,300	2,650,500	2,973,200	638,700
Stock (million sqm)	67.06	67.81	68.29	69.63	69.67
Vacant space ex sub-let space (sqm)	6,508,900	6,947,300	6,743,600	6,318,600	6,198,500
Vacancy rate ex sub-let space (%)	9.7	10.2	9.9	9.1	8.9
Vacant space incl sub-let space (sqm)	7,523,800	7,707,400	7,315,700	6,733,100	6,592,000
Vacancy rate incl sub-let space (%)	11.2	11.4	10.7	9.7	9.5
Weighted average (€/sqm/month)	**12.80**	**12.67**	**13.77**	**13.90**	**14.00**

Source Jones Lang LaSalle

Top locations to move up first: Hamburg and Munich to pave the way

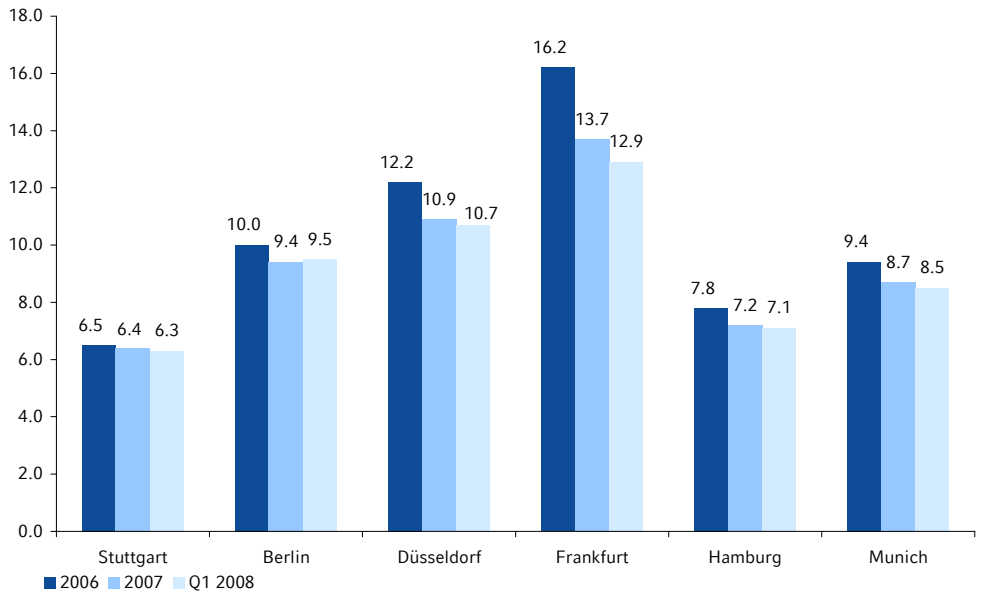
However, a comparison of the five major office locations – Berlin, Dusseldorf, Frankfurt, Hamburg and Munich – reveals differences between them. For example, the highest rents in Munich and Hamburg started rising as early as in 2005 (markets with lower than average vacancy rates). Dusseldorf and Frankfurt followed suit in 2006 despite a continued high level of vacancies. Observers disagree with regard to Berlin. According to Jones Lang LaSelle, rents rose there as well, while IVG Berlin saw only stagnation. But in 2007, the rents in all top locations rose.

Further rise in rents in 2007



Source Jones Lang LaSalle, April 2008

Reduction in vacancy rates



Source Jones Lang LaSalle, April 2008

Only marginal improvement in the overall market to date

The above analysis applies only to the top locations. BulwienGesa takes a more differentiated view on the basis of 125 cities, seeing a marginal increase from €13.10 to €13.20 per sqm in average rents for the whole of Germany. Overall, average rents, unlike top locations, have not yet posted any increases. In 2007, average rents will probably have risen to only slightly higher levels.

Increase in new projects

The trend reversal in the top locations has boosted new construction projects. About 650,000 sqm of office space is likely to be completed in 2007, according to Jones Lang LaSalle, the lowest total for any year since the turn of the century. However, it has identified nearly 900,000 sqm that is due to come on to the market in 2008, but less than half of these completions are considered to be speculative. Nearly 1.2m sqm of space is expected for 2009, with speculative completions accounting for less than 60%; this is 1.7% in relation to the overall portfolio.

Forecast completions (Berlin, Dusseldorf, Frankfurt, Hamburg, Munich)

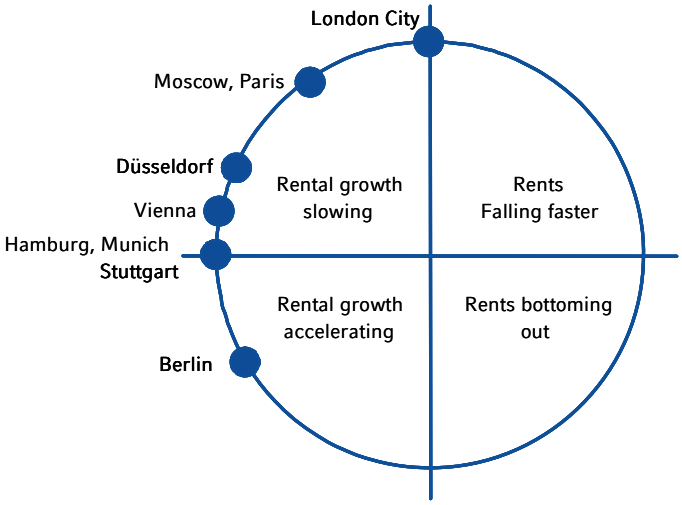
Year	Completions, speculative (m²)	Completions, pre-let (m²)	Completions, own users (m²)	Total	Completions/vacancies ex sub-let space 2007	Completions/vacancies incl sub-let space 2007
2008	378,700	208,600	288,200	875,500	13.86%	13.00%
2009	655,100	401,400	99,400	1,155,900	18.29%	17.17%
2010	575,900	175,400	205,000	956,300	15.13%	14.20%

Source Jones Lang LaSalle, WestLB Research

Germany is in the upward phase of the 'property clock'

In terms of Jones Lang LaSalle's well-known 'property clock' the trend in rents in the German office market is still upward. Berlin has also passed its low point in rents.

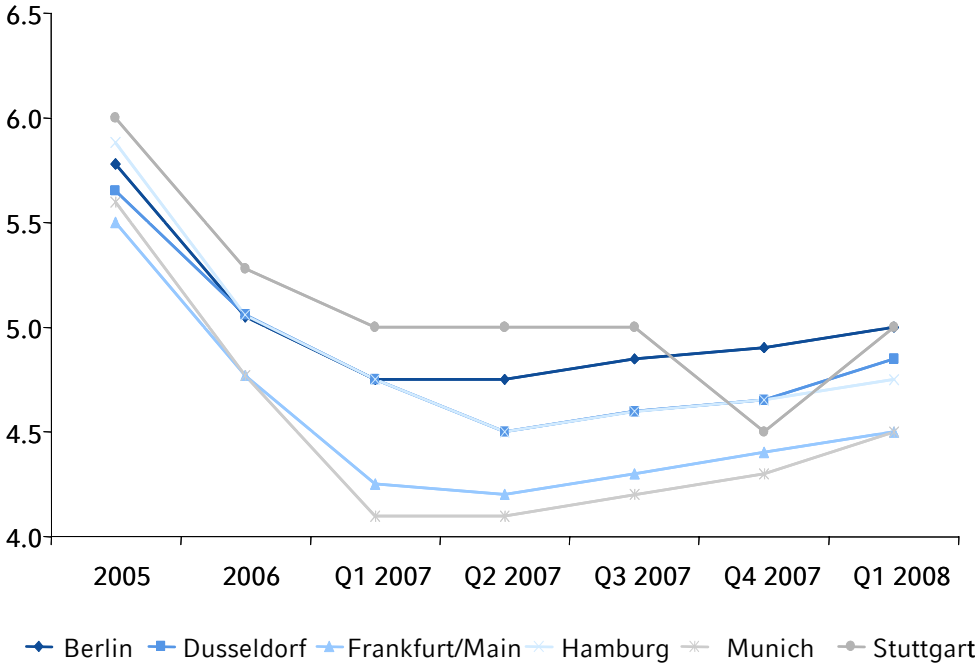
Office rents continue to rise in Germany



Source Jones Lang LaSalle, April 2008

As far as the further trend in initial yields is concerned, our view for the current year is still negative given the persistent financial crisis. However, as we believe that the crisis has passed its peak, a further increase is not expected for 2009.

Latest trend in top yields (%)



Source Jones Lang LaSalle

Uptrend in regional market

The office properties market in the regional locations differs from the main centres in terms of higher initial yields, lower levels of vacancies (particularly striking when looking at the locations in the old federal states alone) and lower vacancy volatility.

Given the even lower level of new building activity compared to existing portfolios there is potential for higher rents in regional centres as well, provided the quality of the properties is good. As the major international investors are focused on the top locations, significantly higher rental yields are likely to be achieved in the regional market.

Market for retail properties divided into two parts

Market divided into two parts

In the retail sector we see a divided market. The market for shopping centres has remained almost untouched by the often lamented drop in sales. By contrast, more often than not the picture for pedestrian zones is not so bright – especially in small and medium-sized towns and in a wide range of city subcentres. This trend is of course heightened in towns and other areas with weak demographics.

Consumer sentiment

Even if consumer sentiment picks up, as is generally expected, we do not expect any fundamental improvement in the position of inner cities. In contrast to widespread fears, the increase in VAT has hardly had any impact on retail sales, apart from a slight dip in H1 2007. The improved economic outlook in Germany is clearly offsetting the VAT increase. The latest increases in the price of energy and food, however, are likely to weigh on consumer sentiment.

Top locations in metropolitan regions offer solid long-term prospects …

Rents in top locations in major cities have been rising since 2004. These locations probably offer solid long-term prospects in the retail segment, as do established out-of-town shopping centres. Specialist retail centres too should generate good returns, depending on their location and the terms of the leases.

… which means that lower rental yields are accepted there

However, good prospects for top locations in major cities are reflected in substantially lower initial yields, while returns in less sought-after locations are higher. Average initial yields in Germany's seven metropolitan regions – Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart – are about 5%, according to Atis Real. In Munich, yields as low as 4.3% are also accepted in some instances. By contrast, yields in Dusseldorf and Cologne are slightly higher than 5%.

The picture is different in Eastern Germany and the Ruhr region

Considerably higher yields are being achieved in other large German cities. Yields of about 6.5% are accepted in the metropolitan regions of Leipzig and Dresden in Eastern Germany. In the centres of problem towns in the Ruhr region, yields are close to 10%.

Top retail yields below 5%

In 2007, top yields for retail properties in Germany remained relatively stable. In the second half of the year, specialist retail centres posted a slight increase of 0.25% for the first time since 2003. The level of return for shopping centres remained at 4.5% in the second half of the year as well. Commercial buildings in first-rate retail locations were trading at yields of 4.7% on average.

In part strong increases in 2007

Top rents rose considerably in most locations in 2007. With increases of 8.3% and 7.9%, respectively, Berlin and Munich led the field, while rents in the other top locations, i.e. Dusseldorf, Hamburg and Frankfurt, grew by "only" between 4.5% and 5.3%.

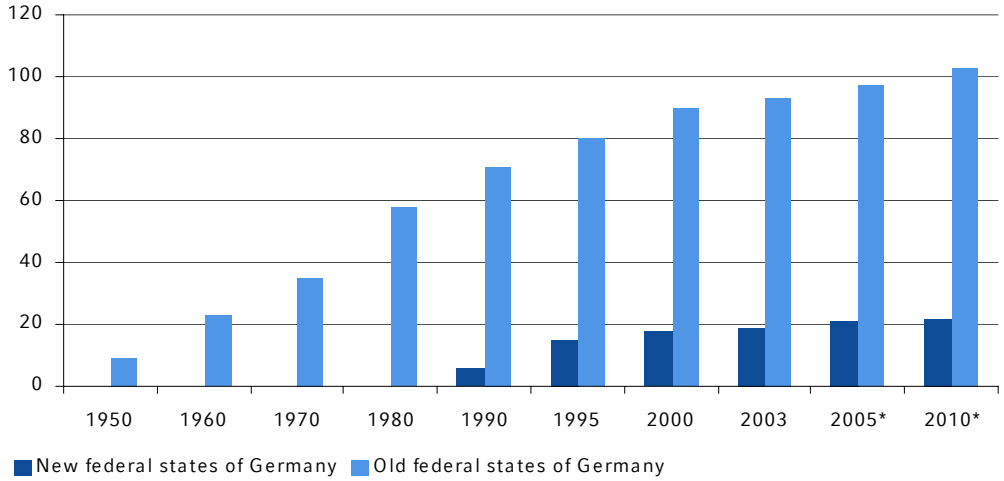
Slightly higher yields expected

For 2008, we expect higher intial yields in the office segment, but we do see rents in the top locations continuing to rise.

German retail selling space is around 118m sqm

Germany has selling space totalling 118m sqm (2005). This corresponds to retail selling space of 1.4 sqm per person, which is above the European average. The old federal states of Germany account for around 97m sqm of the country's total retail selling space and the new federal states of Germany for roughly 21m sqm.

Retail selling space (m sqm)



* estimate

Source BulwienGesa AG

Per capita retail selling space is rising

Retail selling space has increased by around 50% in Germany since 1990. We also expect this trend will continue in the future. Germany's retail trade association, the Hauptverband des Deutschen Einzelhandels (HDE), estimates there will be around 125m sqm of retail selling space by 2010. However, retail selling space per person will only increase slightly to 1.5 sqm, given the forecast population growth. Per capita retail selling space will only increase significantly as of 2010 when the population begins to decline.

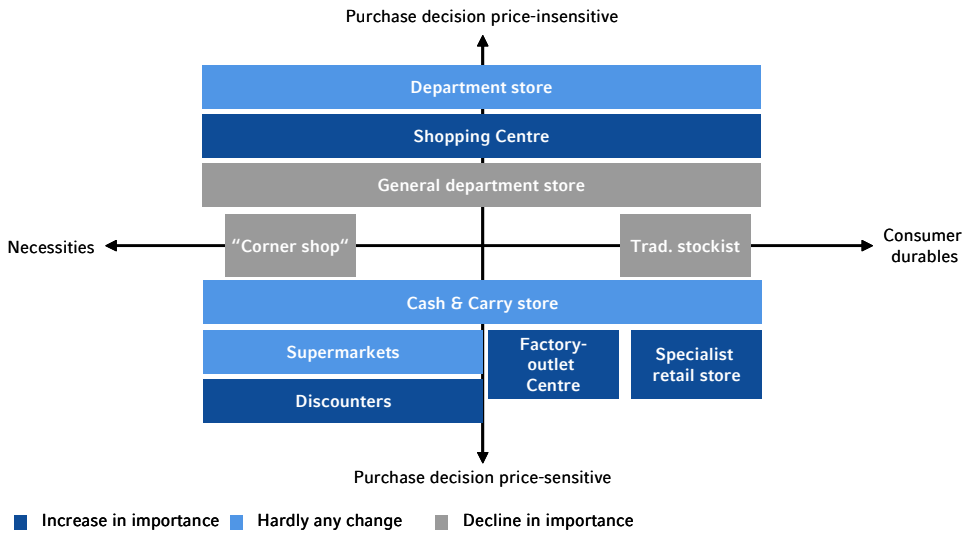
Retail sales are stagnating

Retail sales in the narrower sense (i.e. excluding the motor trade, fuels and chemists' shops) totalled around €393bn in Germany in 2006, which is equivalent to around 29% of total private consumer spending. However, retail sales have been declining as a percentage of consumer spending since the beginning of the nineties. We expect this trend to continue in the medium to long term. According to Jones Lang LaSalle, retail sales are then likely to fall to less than 25% of private consumer spending.

Classical specialist retailers are losing market shares …

Within the German retail trade the overall selling space is shared among very different business models, which in turn need very different forms of retail properties. There has been a significant shift in market shares here in the last few years. The traditional specialist retailers, however, are still the largest group within the retail trade, but they have been losing market share on a massive scale for several years. Their market share contracted from 50% in 1980 to around 25% in 2005. Sector experts Jones Lang LaSalle believe this trend will also continue in the future. The traditional specialty stores are, therefore, the major losers in this structural transformation.

Polarisation in the German retail industry



Source DB Research

… but the discounters are gaining ground

Among the winners, by contrast, are the vertical retailers and food discounters who will dominate and supply the market with basic consumer goods in the future. Today, discounters already account for more than one third of sales in the food retail segment. The winners also include well-run shopping centres, combining different forms of retail outlets under a single roof.

The market for logistics properties

The investment market for logistics properties is a relatively small and specialised segment within the real estate asset class. A volume of roughly €2.62bn (+11% vs. 2006) was turned over in this segment in 2007.

Growth in the logistics market is expected to remain dynamic

According to the Jones Lang Lasalle logistics property report for 2008, the logistics property market in Germany has grown by around 8% annually in the last two years. The costs incurred by the German economy for logistics are likely to have reached an estimated €189bn in 2006, with this sector employing around 2.5 million people in Germany. Driven by the expansion of postal and rail services in the logistics sector, the industry is going through a phase of consolidation in which smaller logistics companies that do not belong to a larger distribution group and do not have any particular specialisation are coming under increasing pressure. However, large-scale providers of logistics services and demand for special logistics properties tailored to the tenants' needs will grow significantly according to Jones Lang LaSalle.

Supply side

Demand for logistics properties has increased considerably

At the end of 2007 logistics space of around 13.2m sqm was available in Germany's six most important conurbations. This was spread over roughly 670 logistics properties. This only includes property specifications which meet current demand with regard to size (>8,000 sqm) and warehouse height (>6.5m) as well as building standards (after 1985). At the end of 2007, space totalling 0.35m sqm was still under construction in the "Big 5" conurbations, whereby roughly 75% of this was being built for use by proprietors or existing tenants. Outside of these regions, there was some 1.2m sqm of space still under construction as the end of 2007.

Locations

Germany moving to the fore due to EU enlargement in Eastern Europe

Due both to the central location it has enjoyed since the EU's enlargement in Eastern Europe and to its relatively low rents, Germany also offers a good investment basis for foreign providers of logistics services. Thus logistics properties are increasingly in demand not only from German, but also international providers of logistics services.

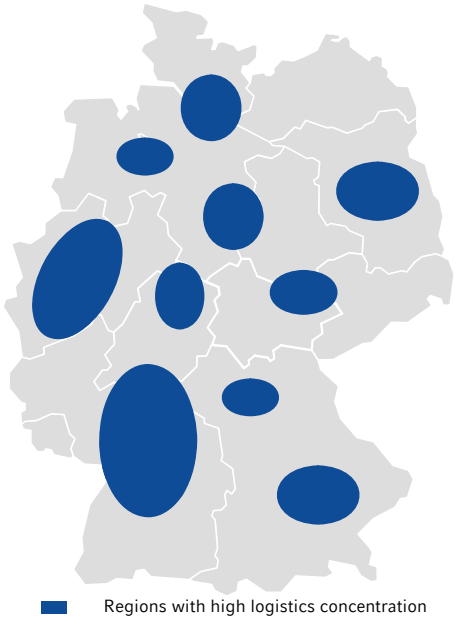
Conurbations …

The main centres for logistics properties are in the densely populated areas around Hamburg, Frankfurt, Berlin, Munich and Dusseldorf (the so-called "Big 5") as well as the Ruhr area. They stand out due to the large areas that can be served in the immediate vicinity, good connections to the road and railway networks as well as access to ports or airports in some cases.

… or specific regions with good characteristics for the logistics sector

In addition, there are specific regions where logistics-intensive companies are located. An example of this is the greater Leipzig area with its automobile industry. Regions that are very centrally located such as Kassel/Bad Hersfeld or areas in close proximity to motorway junctions are attractive for the logistics industry.

Logistics locations in Germany



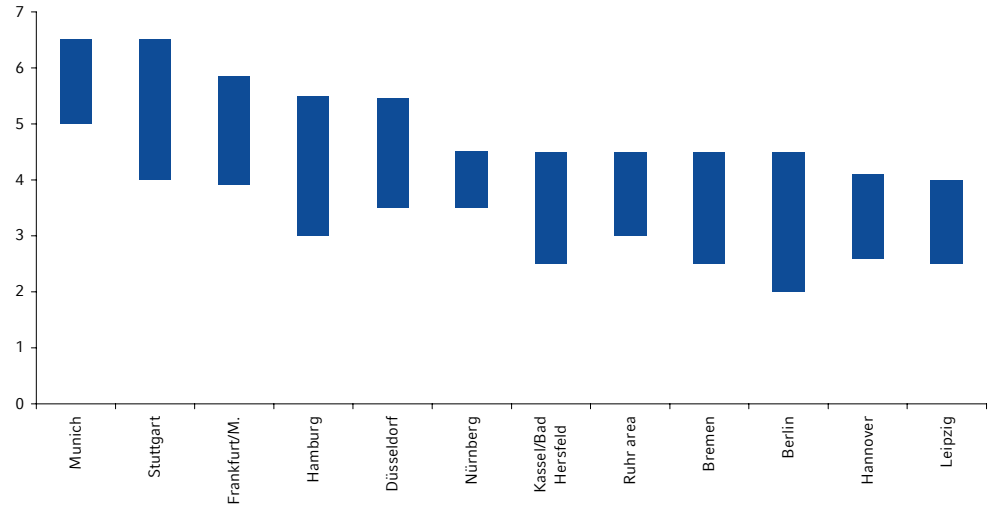
Source Jones Lang LaSalle

Rents

Significant difference in rents at the regional level

Rents for logistics properties have stabilised in the last few years after falling steeply in the years up to 2002 due to the increased competition among investors and project developers. Nevertheless, rents differ significantly from region to region and in the individual conurbations.

Rental price range (€/m2)

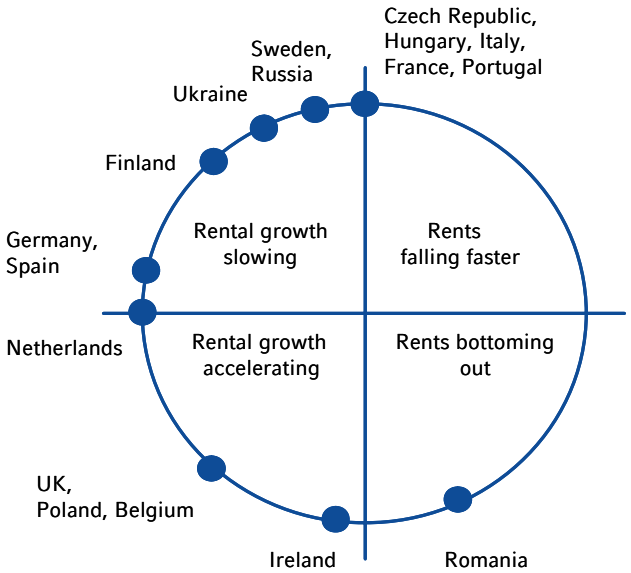


Source Jones Lang LaSalle

Economic growth and supply offer scope for rental increases

According to the Jones Lang LaSalle report for 2008, rental increases are likely due to the better than expected economic trend and the low rate of vacancies. The top yields for logistics properties from 1998 to 2004 in the top 5 regions ranged between 7% and 8%. Prices increased in 2005 and 2006, and yields became moderate, ranging between 6% and 7%. Since autumn 2007, yields have risen slightly as a result of the financial crisis, and top locations generated between 6.15% and 6.75% at the end of 2007.

Jones Lang LaSalle's real estate clock for logistics properties



Source Jones Lang LaSalle

G-REITs

Green light for G-REITs

After much debate, the Bundestag and Bundesrat finally approved the law on the introduction of real estate investment trusts (REITs) in Germany at the end of March 2007. We set out the main points below.

The 'G-REIT' Act

A new asset class in the real estate sector

The introduction of tax-favoured real estate companies in Germany (G-REITs) was approved to take effect retroactively as of 1 January 2007. REITs will form a new asset class in the real estate sector, as they do in many other countries, and they will be subject to a special legal framework.

Potential for companies

Easier for companies to dispose of property

Companies will profit from the introduction of REITs. They can now reduce the share of real estate on their balance sheets thanks to tax relief (exit tax) on the disclosure of hidden reserves in connection with a sale of domestic property to a G-REIT. The possibility of sale-and-leaseback transactions with a G-REIT makes this an interesting option for real estate assets that are required for a business. A critical review of the opportunities provided by G-REITs appears to be particularly appropriate for groups with extensive property holdings on their balance sheets. However, a G-REIT may also be an exit vehicle for other real estate owners.

The way to become a G-REIT

- Structural optimisation in the pre-REIT phase
- Sale, transfer or spin-off of real estate
- Registration of the AG as a pre-REIT entity
- Structuring of assets in accordance with the REIT Act

Pre-REIT phase …

Consequence: exit tax for real estate sellers already applicable

- "Full" G-REIT status obtained after no more than three years
- Listing, free float and maximum holdings
- Entry in commercial register as REIT AG

… and of the REIT AG

Consequence: Full tax transparency of REIT AG

Statutory requirements to be met by G-REITs

Legal form and stock exchange

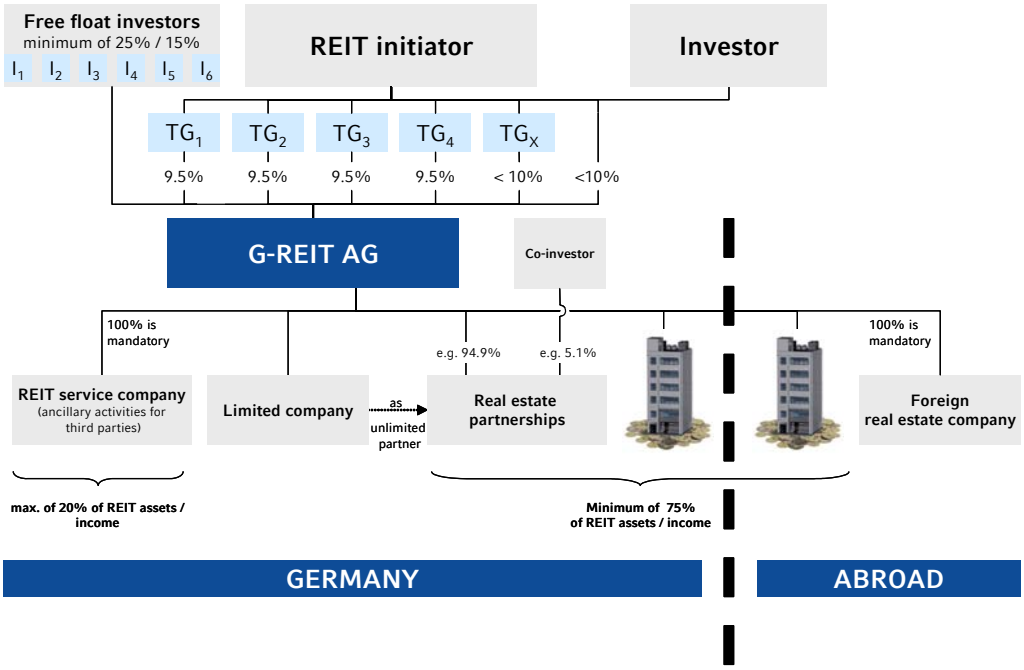
- The REIT must take the legal form of an AG in accordance with the German Joint Stock Corporation Act, and must comply with specific rules (share capital worth at least €15m).
- The company's legal domicile and management must be in Germany.
- * The company name must include the designation REIT, which is protected by law.
- The REIT AG must have internally occupied boards in accordance with the Joint Stock Corporation Act. All operating activities may be carried on by third parties.

- Obligatory listing on an organised EU market, within not more than three years after formation of the pre-REIT AG.
- Private REITs are not recognised.
- Valuation reports on the assets of the issuer must be included in the admission prospectus (according to CESR Directive).
- Only no-par-value shares conferring voting rights of the same class (bearer, registered or registered shares with restricted transferability are permitted).

Free float rules

- At least 15% of a REIT's shares (voting rights) must be permanently held by shareholders (at the date of listing on the exchange at least 25%) that each hold less than 3% of the REIT's shares.
- A REIT is required to notify BaFin of its free float each year, on the basis of shareholder notifications.
- No shareholder may directly hold 10% or more of the voting rights in a REIT. If it does, then, based on double taxation treaties, foreign shareholders will be treated as if they had less than 10% (treaty override).
- An indirect holding of up to 85% is possible through subsidiaries.

Structural prerequisites for G-REITs



Source Westdeutsche ImmobilienBank

Activities

- A REIT AG may only acquire and manage German and foreign properties for the purpose of letting or leasing the same (sale and leaseback). Exception: Domestic portfolio rental residential properties, i.e., those built before 1 January 2007 with predominantly residential use (share of space > 50%), are an exception.
- 75% of assets must be immovable, i.e., direct assets or real estate partnerships.
- 75% of gross income must be derived from letting, leasing or the sale of immovable assets.
- Pre-REITs must meet asset and income requirements at the end of the following year.

Auxiliary activities

- Auxiliary activities are treated as main activities if they support the latter (e.g. management of portfolios and rented properties, brokerage, project management and development). The conservative investment of the other assets is also an auxiliary activity.

Ancillary activities

- Ancillary activities that are provided for third parties (e.g. project development) must be outsourced to service companies (only limited companies and fully owned) and are limited to a maximum of 20% of the assets and of the gross income of the REIT.

REITs are property holding companies

- No more than 50% of the average real estate portfolio of the last five years may be sold.

Taxes and distribution

Tax situation of the seller …

The tax position of the seller is as follows:

- Up to 2009, a half-rate tax on hidden reserves (exit tax) applies if properties belonging to domestic business assets before 1 January 2002 are transferred to a REIT or pre-REIT.
- The exit tax ceases to apply retroactively if within four years the REIT sells these properties or, if sold to a pre-REIT, the pre REIT does not acquire REIT status.
- The exit tax is not granted if the seller has an indirect holding of more than 50% after two years.

… and of the REIT-AG

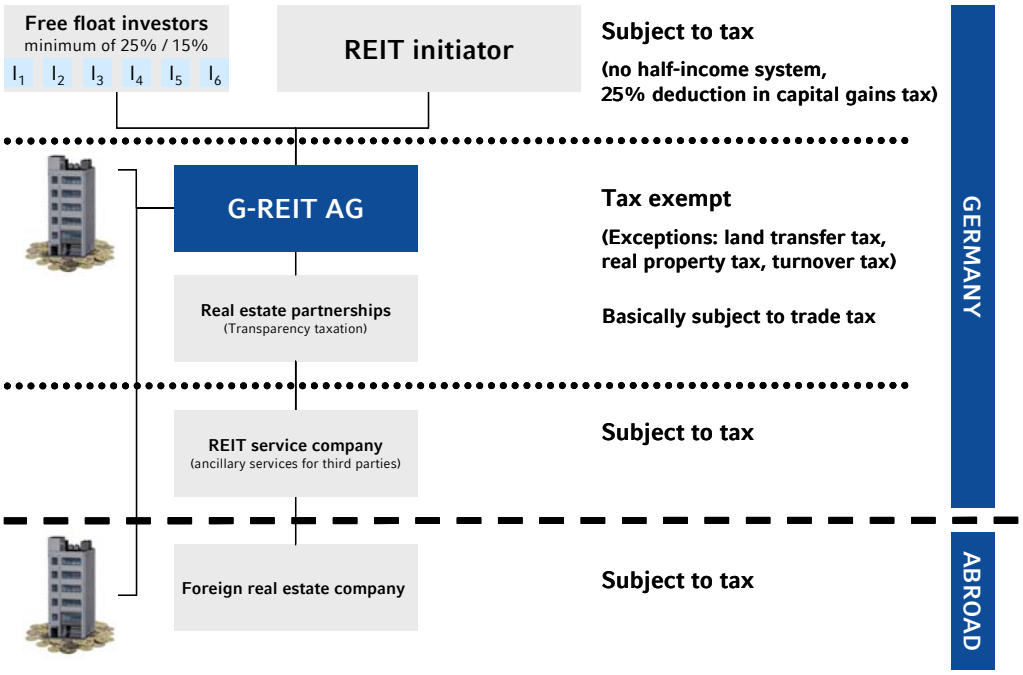
The tax position of the REIT AG is as follows:

- When an existing property company is converted into a REIT-AG, the reported values in the tax balance sheet must be converted to fair value to obtain tax exemption. Write-ups resulting from this changeover are taxable. Properties acquired prior to 1 January 2005 are subject to the exit tax privilege.
- If the exit tax privilege ceases to apply retroactively, the REIT is liable for the seller's tax debt.
- After listing and entry in the commercial register, a REIT AG is exempt from corporation tax and trade tax.
- Distributions represent investment income; they are subject to withholding tax of 25% + 5.5% solidarity surcharge.
- Double taxation treaties may reduce the withholding tax to a maximum 15%. Further restrictions are not possible as a result of the maximum holding limit (treaty override) since (1) the double taxation treaty inter-company privilege does not apply (reduced

taxation on holdings of ≥ 10%) and (2) the EU Parent-Subsidiary Directive (no withholding tax on interests of ≥ 10 %) does not apply.

- At least 90% of net profit as reported in commercial financial statements must be distributed each year (only straight-line depreciation permitted); 0% of capital gains may be transferred to a reinvestment reserve for a maximum of two years.
- The planned corporate tax reform in 2008 will affect the tax situation of sellers and REIT AGs.

Overview of tax treatment for G-REIT AGs



Source Westdeutsche ImmobilienBank

Loss of tax exemption

- Tax exemption ceases to apply immediately if a REIT AG ceases to be listed or to trade in real estate.
- After three years the tax exemption no longer applies in the case of repeated infringements of the free float rules, maximum holdings, debt capital ratio, 75% limit or minimum distribution.

Minimum equity and accounting

- The minimum equity ratio is fixed at 45% the immovable property.

Accounting

- IFRS are the accounting standards for G-REITs. To determine distributable net profit, REITs will also have to prepare individual financial statements according to the German Commercial Code (HGB).
- Prescribed changes in assets have to be reported through the use of IFRS financial statements. Immovable property generally has to be shown at fair value in accordance with IAS 40.
- As of the date of transfer to a G-REIT, the real estate must be valued by independent third parties according to IFRS valuation standards.

- A separate certificate has to be provided each year by the auditor confirming compliance with the free float rules, asset limits, duty of distribution, trading restrictions, credit limits and provisions in the articles of association. This certificate must be published and submitted to the tax office.

Corporate structure

Company history

Originally participation of IC Real Estate Group

The Fair Value REIT-AG was originally founded by IC Real Estate Group under the name of IC Grundbesitz Gesellschaft mbH & Co. Beteiligungs KG in January 2004. From mid-2005, Fair Value operated as a second-market fund company for the IC Real Estate Group.

This was followed by several changes of name until the company changed its legal form to become Fair Value Immobilien-Aktiengesellschaft in May 2007. In addition to the change of legal form, a capital increase of €1m was carried out.

Effective as of 16 July 2007, the company was granted pre-REIT status. In August 2007, Fair Value created major parts of the current portfolio and significant amounts of the equity by exchanging investments in closed-end real estate funds for shares in Fair Value REIT-AG.

Germany's second REIT

Following its listing (16 November 2007), Fair Value became the second company in Germany to be granted REIT status on 6 December 2007, and has since traded under the name Fair Value REIT-AG.

At the end of 2007, Fair Value owned shareholdings in 13 real estate funds. It holds a majority interest in five funds and a blocking minority in a further seven (and in one fund just under 25%). In addition, a portfolio of banking buildings was acquired from Sparkasse Südholstein and a purchase contract was signed for an office building in Dusseldorf (expected to be ready for occupancy in July).

Services provided by IC Real Estate Group

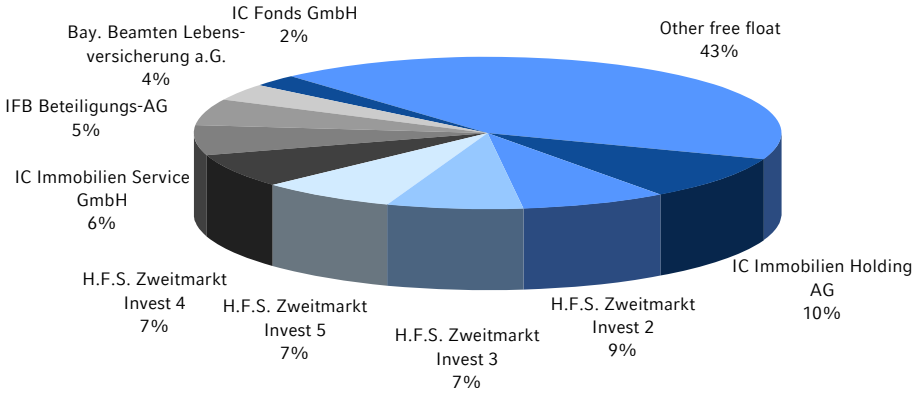
IC Real Estate Group has operated as an initiator and manager of closed-end real estate funds in Germany since 1988. Since 2003, the BBV funds have also been managed by the IC Real Estate Group. In July, a contract was concluded with Fair Value REIT-AG with regard to asset management, corporate services and property management. In addition, once the exchange transaction was completed Frank Schaich moved from his position on the management board at the IC Real Estate Group to be CEO/CFO of Fair Value REIT-AG., as did Janpeter Lassen (33), who took up the position as Head of Portfolio and Asset Management.

Shareholders

Listing in the Prime Standard

Fair Value REIT-AG is listed in the Prime Standard of the Frankfurt Stock Exchange. The company has more than 2,000 shareholders and a free float of 42.28%. In conjunction with the exchange offer, HFS Zweitmarktfonds Deutschland 2 GmbH & Co. KG has become the largest shareholder in the company with a 30.5% stake via 4 companies. The next largest shareholders are companies in the IC Real Estate Group, which own an 18.1% interest.

Current shareholder structure



Source Fair Value REIT-AG, WestLB Research

To guarantee the REIT status the two largest shareholders have divided their shareholdings among separate companies that each have an interest of less than 10%.

Experienced management team

Management board of Fair Value REIT-AG

Frank Schaich (48), CEO/CFO

- Responsible for finance, accounting, risk management, controlling, corporate planning, investor and public relations and marketing
- 25 years of experience in the international real estate business (Germany, Canada, USA, Poland and Netherlands)
- Active in the IC Real Estate Group for 19 years with responsibility for syndication and funding; also managing director of several general partner GmbHs of the BBV real estate funds.
- Member of the management board of IC Immobilien Holding AG from 2002 to 2007
- In various management positions at the IC Real Estate Group from 1988 to 2007, which has been listed on the stock exchange since 2006
- Previously vice-president at New York Consulting Company International Capital Partners
- Assistant to management of BVT (Beratungs-, Verwaltungs- und Treuhandgesellschaft mbH)
- Training at Deutsche Bank AG

Manfred Heiler (63), CIO

- Responsible for strategic asset and portfolio management and for the purchase of properties and investments in closed-end funds
- Fully qualified legal practitioner

- 33 years of experience in international real estate business (Germany, France, Luxembourg, Poland, Austria, Canada and USA)
- CEO of Commerz Immobilien GmbH from 1994 to 2007
- Managing director of Dr. Höcherl GmbH & Co. Gewerbebau KG, 1991 – 1994
- Head of Administration at Thurn and Taxis, 1990 – 1991
- Member of the Central Management Board at Thurn and Taxis, 1987 – 1990
- Head of the real estate department at Thurn and Taxis, 1974 – 1987

Finance

We base our earnings forecast for 2008E on the current portfolio and the Dusseldorf Airport property, which should be completed in July 2008. Due to revaluation losses, we expect the company to report a net profit of €1.4m for 2008E, which is slightly lower than in 2007. For 2009/10E, we expect to see a figure in excess of €5m, even according to IFRS, which should permit dividend payments of more than €0.40 per share.

Abridged fiscal year 2007

Fair Value has existed de facto only since August 2007

De facto, Fair Value REIT-AG has existed only since the acceptance of the exchange offer by the owners of initially 14 closed-end funds. FY 2007 therefore only consists of 4 months and the figures are also distorted by the cost of the exchange deal.

In its 4 months of operation, the company received rents amounting to €4.3m. It is important to note here that rental income from the Sparkassen portfolio was only booked for the last 10 days of December and rental income was also received for a time during the intervening period for the properties belonging to the BBV 08 fund sold on 1 December 2007. The deduction of the real estate-related expenses led to a net rental income figure of €2.5m.

On the cost side, two prominent features of the abridged fiscal year were the cost of the exchange deal and the cost of obtaining the REIT status; they accounted for 40% of the company's administration costs overall. Added to this, the financial result also reflected the costs incurred for the IPO, which amounted to €1.8m.

On balance, the consolidated properties were subject to -€0.7m in valuation adjustments.

The key positive earnings component in 2007 was the €7.2m in net income from associated companies. This can be largely put down to the €14.8m difference booked in the P&L upon the acquisition of participations. However, this valuation gain was cut by €7.6m because fund-specific costs were taken into account that could not be taken into consideration for the specific valuations of the individual properties. The operating income contribution from the investments was positive and amounted to €1.5m. However, this was set against an equally large valuation loss in Q4.

Besides the investment result, the company received further investment income amounting to €0.4m from the deal with the BBV 08 fund and the partial sale of IC 13. This deal was transacted in conjunction with the restrictions of the REIT Act (minority interests included in borrowed capital, non-REITability of a property [care home = residential property!] in the BBV 08 fund).

Net interest expenses amounted to €1.5m and the minority interests totalled close to €0.8m. Altogether, the group reported a net profit of €1.7m.

Start according to plan in 2008

€0.3m in Q1

In Q1 2008, Fair Value generated a group net profit of €348,000. The net rental income amounted to €2.75m and was up on Q4 thanks to the rental income flowing from the Sparkassen portfolio for the whole of the quarter. Nonetheless, this was also associated with higher financing expenses. The valuation adjustments booked in the portfolio pertain to properties with rents that are currently above the market level and correspond on a pro rata basis to the expected reduction in the value of these properties for 2008. The revenues from investments valued "at equity" are lower than the pro rata profits from 2007 because it was not possible to book any valuation gains.

P&L projection

€'000s	2007	Q1 2008	2008E	2009E	2010E
Total income (excluding financial income)	9,090	3,341	13,671	29,958	30,372
Total expenses (excluding financial income)	-10,900	-1,478	-8,133	-19,028	-19,210
Rental income	**4,326**	**2,947**	**12,431**	**14,840**	**14,989**
Ground rents	-57	-57	-231	-235	-240
Revenues from operating and incidental expenses	321	380	1,200	1,280	1,300
Property-related operating expenses	-2,038	-510	-4,380	-3,000	-,3030
Net letting income	2,552	2,760	9,020	12,885	13,019
General administration costs	-3,502	-614	-2,222	-2,333	-2,379
Other operating income	143	14	40	80	80
Other operating expenses	-278	-2	-100	-160	-160
Other operating income and expenses (net)	-135	12	-60	-80	-80
EBITDA	**-1,085**	**2,158**	**6,738**	**10,472**	**10,559**
Net proceeds from sale of financial properties	0	0	0	12,000	12,000
Residual book value of sold financial properties	0	0	0	-12,000	-12,000
Gain from sale of financial properties	0	0	0	0	0
Valuation gains	4,300	0	0	1757,52	2003,01
Valuation losses	-5,025	-295	-1,200	-1,300	-1,400
Valuation result	-725	-295	-1,200	458	603
Operating profit	-1,810	1,863	5,538	10,930	11,162
Income from at-equity investments	**7,225**	**419**	**3,640**	**2,694**	**3,000**
Other income from participations	413	0	0	0	0
Minority interests	-768	-250	-740	-1,620	-1,680
IPO costs	-1,825				
Net interest expense	**-1,491**	**-1,684**	**-6,956**	**-6,830**	**-6,730**
Financial result	3,554	-1,515	-4,056	-5,756	-5,410
Income tax	0	0	0	0	0
Group net profit	**1,744**	**348**	**1,482**	**5,174**	**5,752**
Number of shares at end of period (m)	9.4		9.4	9.4	9.4
Average number of shares outstanding (m)	2.4		9.4	9.4	9.4
EPS average outstanding (€)	0.74		0.16	0.55	0.61
EPS fully diluted (€)	0.19		0.16	0.55	0.61
Dividend per share (€)	0		0.30	0.45	0.5

Source Company, WestLB Research estimates

Estimate for 2008

Based on current portfolio

We base our estimates for 2008E on the current real estate portfolio. In order to guarantee a dividend payment, the company will have to transact some sales, but we assume that the corresponding proceeds will be reinvested in the portfolio.

The company aims to generate a group net profit for 2008E of between €1.3m and €1.5m. This includes pro-rata negative valuation effects amounting to €2.2m that arise due to some properties having rents that are above the market level. Otherwise, the company has not forecast any market value alterations.

We expect the company to receive rental income worth €12.4m for the current year. The increase over the course of the year compared to Q1 comes about as a result of the likely leasing of the property close to Dusseldorf Airport (pre-letting rate already 83% by 19 June 2007) and the renting of unoccupied properties in the meantime (e.g. 1/3 of the logistics space in Cologne). However, we expect to see expenses stemming from the efforts to find tenants for all of the logistics property in Cologne. For this reason, we put the net rental income at just over €9m and therefore less than four times the result for Q1.

Although we do expect valuation gains to come from the initial valuation of the office property located close to Dusseldorf Airport, these may well be offset by valuation losses arising from the slightly increased initial yields for other properties. All in all, this leaves the already envisaged valuation corrections for the properties with rents above the current market level at €2.2m that weigh upon the results. These are incurred in part at the consolidated investments and are otherwise reflected in a reduction of the investment result.

Taking everything into consideration, we expect to see the company report a net profit of €1.5m for 2008E. Fair Value is aiming to pay a dividend of between €0.3 and €0.35 for the current year. The company intends to sell off real estate properties or participations in order to do this. Since the values reported in the German Commercial Code balance sheet of the non-consolidated financial statements are lower, positive earnings contributions would be incurred if the assets were to be sold at a price equivalent to their IFRS book values. We believe that Fair Value will pay a dividend of €0.30 for 2008E.

Expectations for 2009/10

Slight growth in real estate assets

We have assumed that the direct real estate portfolio will grow by €20m in 2009E. In return, we have reduced our estimate for the participations by €15m. This can either come about as a result of the sale of a fund participation or through an increase in the stake in a fund to more than 50%. The increased estimate for the minority interests shows that we expect to see an increase in fund participations, which could lead to a full consolidation of the fund.

This has a correspondingly positive effect upon the rental income. In addition, we expect to see a 1% increase in rents in the portfolio. Partially indexed rents and reductions in vacant properties should permit this to happen. For 2009E, we once again expect a slightly positive revaluation result. The influence of the valuation adjustments already planned for the real estate properties with rents above the market level leads us to expect 1.2% in valuation gains due to higher rents (partial indexing). There should be some cost savings on the financing side because some previous financing arrangements in the funds with relatively high interest rates are coming to maturity and in some cases will bring

savings of more than 20%. In addition, cost savings should arise from the refinancing of the short-term financing granted for the purchasing of shares in funds. We believe there will merely be a mild increase in the interest-bearing liabilities.

In accordance with the restructuring in the fixed assets, we expect there to be reduced revenues from the "at equity" participations and higher earnings contributions for the minority interests.

The would expect the net profit for 2009E to then reach the €5m mark and also exceed the dividend payment anticipated for 2009E.

Assuming the portfolio remains unchanged, we expect 2010E to bring a 1% increase in rents along with slightly higher valuation gains and a further modest reduction in financing costs. Ultimately, we would expect that the net profit attributable to the shareholders should be able to grow at a low double-digit rate. We would then estimate the dividend for 2010E to amount to €0.50 per share.

Balance sheet

Over 90% real estate on asset side

Fair Value REIT-AG's balance sheet on the asset side is dominated by the real estate portfolio and the investments valued at equity (€59.3m). The real estate assets, worth close to €220m, therefore accounted for more than 90% of the assets side as per 31 March 2008. In addition to this would be the long-term assets (worth €5.7m) available for sale. This concerns two retail properties that the shareholders' meetings (IC 01 and BBV 06) have agreed to sell.

The net cash position of around €5m accounted for a good 2% of the total equity and liabilities. In addition, there were long-term receivables worth €2m owed by IC Holding AG.

Equity ratio currently 41%

The two largest items on the liabilities side, besides the shareholders' equity, are the long-term liabilities amounting to €56m, and the short-term financial liabilities amounting to €59m. The shareholders' equity (€95m) accounts for 41% of the total equity and liabilities. Besides this, the minorities (about €18m) are also significant. These minority interests in partnerships count as liabilities under IFRS.

Balance sheet forecasts

€000s	2007A	Q1 2008A	2008E	2009E	2010E
Assets					
Real estate properties held as financial investments	150,070	150,070	146,460	166,918	167,521
Properties under construction	566	10,442	0		
Equity-accounted investments	58,909	59,338	60,949	46,843	48,043
Other long-term assets	5,038	2,180	33	33	33
Total long-term assets	214,583	222,030	207,442	213,794	215,597
Current assets					
Long-term assets available for sale	5,700	5700	0	0	0
Trade receivables	869	437	437	1,437	1,437
Other receivables	3,826	938	938	1,938	1,938
Cash and cash equivalents	5,381	5,167	8,366	9,093	9,509
Total current assets	15,776	12242	9741	12468	12884
Equity and liabilities					
Subscribed capital	47,034	47,034	47,034	47,034	47,034
Share premium	46,167	46,167	46,167	46,167	46,167
Profit reserve	1,462	1,810	2,944	5,296	6,815
Total equity	94,663	95,011	96,145	98,497	100,016
Minority interests	18,487	18,737	19,227	20,427	21,627
Financial liabilities	57,116	56,371	92,116	94,116	92,116
Provisions	0	0	0	0	0
Other liabilities	494	616	616	616	616
Total non-current liabilities	76,097	75,724	111,959	115,159	114,359
Financial liabilities	55,018	59,279	4,498	7,025	7,525
Derivatives financial instruments	0	0	0	0	0
Trade payables	2,617	2,385	2,617	2,617	2,617
Provisions	255	280	255	255	255
Other liabilities	1,709	1,593	1,709	2,709	3,709
Total current liabilities	59,599	63,537	9,079	12,606	14,106
Total equity and liabilities	230,359	234,272	217,183	226,262	228,481
NAV per share (€)	10.06	10.10	10.22	10.47	10.63
Equity ratio (%)	41.0	40.6	44.3	43.5	43.8
REIT equity ratio	44.0	43.2	46.4	46.1	46.4
Value generation as % of NAV		0.3	1.6	5.4	5.8

Source Company, WestLB Research estimates

Need to improve equity ratio according to G-REIT

For the purpose of determining the equity ratio under the G-REIT Act, minorities are not part of the debt capital, which is difficult to understand. However, in the case of the investments held at equity, only the investment book value is taken into account. The REIT equity ratio is calculated as the ratio of reported real estate assets to equity. Fair Value achieved a ratio of 44% at the end of 2007 and has thus not yet met this requirement. However, sanctions would only be imposed in the event of a breach in three consecutive periods. We believe that by taking measures to adjust its portfolio, Fair Value will be able to meet the REIT requirement (of at least 45%) this year.

However, the idea of allocating the minority interests to the equity is also being entertained in some quarters. This would have a very positive effect upon the REIT equity ratio and would permit the company to significantly expand its real estate portfolio with its current equity capitalisation.

Real estate and investments worth over €200m at the end of the year

On balance, we do not expect to see any major changes to the portfolio in the current fiscal year. In the quarters thereafter, the expansion of the portfolio brought about by the Airport Center should compensate for the disposals. Moreover, the expected valuation reductions negatively impact the value shown in the balance sheet. We assume that the company will succeed in selling the two properties in the current assets. There may well be higher carrying amounts for the investments held at equity because some of the earnings contributions will also remain with the participations.

For 2009, we have applied a reduction for the participations. The expansion of stakes could bring about the consolidation of a fund and thereby cause the real estate portfolio to grow.

Cash flow

Cash flow forecasts

€000s	2007A	Q1 2008A	2008E	2009E	2010E
Consolidated net profit	1,744	348	1,482	5,174	5,752
Depreciation and amortisation	3	2	8	8	8
Valuation result	725	295	1200	-458	-603
Income from equity-accounted participations	-7,225	-419	-3,640	-2,694	-3,000
Withdrawal from equity-accounted participations	1,418	0	1,629	1,129	2,681
Loss from sale of subsidiaries	3,080	0			
Net income from other sales	-180	0			
Income from beneficial corporate acquisition	-3,155	0			
Minority interests	768	250	740	1,620	1,680
Change in working capital	69	3,119	14,254	-1,000	1,000
Operating cash flow	**-2,753**	**3,595**	**15,673**	**3,779**	**7,518**
Cash and cash equivalent transfer from acquired subsidiaries	7259	0		801	0
Payments for the purchase of participations	-10,948	2,846	-29	12,541	881
Investments in real estate	-52,331	-10,171	2,976	-16,913	0
Investments in PP&E	-36	0			
Other items	190	0	122	0	
Cash flow from investment activities	**-55,866**	**-7,325**	**3,069**	**-3,571**	**881**
Capital contributions	15,718	0			
Payments for minority interests	-1,371	0	-237	-1,186	-2,250
Dividends	0	0		-2822	-4,233
Change in bank borrowing	49,640	3,516	-15,520	4,527	-1,500
Cash flow from financial activities	**63,987**	**3,516**	**-15,757**	**519**	**-7,983**
Net change in cash and cash equivalents	5,368	-214	2,985	727	416
Cash and cash equivalents at beginning of period	13	5,381	5,381	8,366	9,093
Cash and cash equivalents at end of period	5,381	5,167	8,366	9,093	9,509

Source Company, WestLB Research estimates

The cash flow statement for 2007 bears the hallmark of the company's development and the only modest operating income. This is why the operating cash flow for 2007 was negative (-€2.75m) and the expansion of the portfolio was financed using capital borrowed from banks and equity investors.

But by Q1 2008 the operating cash flow was already in the black. However, this was mainly due to a reduction in the working capital. Nevertheless, the withdrawals from equity-accounted participations are also a major component of the cash flow. We expect to see cash inflows here over the course of the year, which should lead to an operating cash flow before changes to working capital that is roughly equivalent to the net profit for the year.

The reduction in the working capital and a moderate downsizing of the real estate portfolio is likely to be chiefly used to cut back the company's bank borrowings.

For 2009E, we forecast the operating cash flow to roughly match the net profit for the year and thus exceed the dividend payment that we expect for 2008E. We expect the growth in operating cash flow to continue in 2010E.

Overview of properties

Property and fund		Share (%)	Main tenant	Built in	Rental space (sqm)	Market value (€'000)	Letting rate (%)	Rental income (€'000)	Yield (%)	Remaining term of lease (in years)
Direct ownership										
Hauptstraße 56e/56d	Appen	100	Sparkasse Südholstein	1975	212	250	100.00	19	7.6	9.8
Bleeck 1	Bad Bramstedt	100	Sparkasse Südholstein	1973	997	1,300	100.00	77	5.9	16.5
Oldesloer Straße 24	Bad Segeberg	100	Sparkasse Südholstein	1982	9,233	9,700	90.53	588	6.2	14.9
Königstr. 19-21	Barmstedt	100	Sparkasse Südholstein	1911	1,264	1,520	100.00	92	6.0	15.6
Bahnhofstraße 9	Bönnigstedt	100	Sparkasse Südholstein	1992	211	260	100.00	19	7.3	9.8
Bahnhofstraße 14	Boostedt	100	Sparkasse Südholstein	1989	114	140	100.00	10	7.3	9.8
Am Alten Markt 9a	Bornhöved	100	Sparkasse Südholstein	1991	664	710	100.00	51	7.2	8.8
Berliner Damm 6	Ellerau	100	Sparkasse Südholstein	1990	369	430	100.00	31	7.2	9.8
Pinneberger Straße 155	Ellerbek	100	Sparkasse Südholstein	1985	356	390	100.00	28	7.1	6.5
Dorfstraße 29	Geschendorf	100	Sparkasse Südholstein	1985	316	260	100.00	20	7.7	7.4
Haupstraße 33	Halstenbek	100	Sparkasse Südholstein	1969	791	910	100.00	64	7.0	9.8
Seestraße 232	Halstenbek	100	Sparkasse Südholstein	1976	152	100	100.00	8	8.1	9.8
Friesenstraße 59	Helgoland	100	Sparkasse Südholstein	1986	490	620	100.00	38	6.1	13.1
Hamburger Straße 83	Henstedt-Ulzburg	100	Sparkasse Südholstein	1989	1,005	1,160	100.00	71	6.1	17.9
Holstenstraße 32	Kaltenkirchen	100	Sparkasse Südholstein	1978	1,581	2,050	100.00	121	5.9	17.8
Köllner Chaussee 27	Kölln-Reisiek	100	Sparkasse Südholstein	1990	168	200	100.00	15	7.6	9.8
Hamburger Straße 40	Leezen	100	Sparkasse Südholstein	1989	174	200	100.00	16	7.8	9.8
Segeberger Straße 21	Nahe	100	Sparkasse Südholstein	1971	734	750	100.00	59	7.8	9.8
Ehndorfer Straße 153	Neumünster	100	Sparkasse Südholstein	1971	346	270	100.00	22	8.4	7.7
Kuhberg 11-13	Neumünster	100	Sparkasse Südholstein	1956	11,808	16,300	99.14	939	5.8	17.3
Röntgenstraße	Neumünster	100	Sparkasse Südholstein	1972	534	310	100.00	28	9.1	8.8
Ulzburger Straße 363d/e	Norderstedt	100	Sparkasse Südholstein	1994	1,340	1,570	96.78	102	6.6	14.8
Ulzburger Straße 545 / 547	Norderstedt	100	Sparkasse Südholstein	1960	1,076	520	42.64	16	13.6	4.1
Damm 49	Pinneberg	100	Sparkasse Südholstein	1996	1,930	2,500	100.00	174	6.9	4.8
Oetlingsallee 30	Pinneberg	100	Sparkasse Südholstein	1970	624	680	100.00	50	7.4	5.7
Kieler Straße 100	Quickborn	100	Sparkasse Südholstein	1980	1,309	1,560	100.00	98	6.3	17.9
Haupstraße 49	Rellingen	100	Sparkasse Südholstein	1983	524	600	100.00	42	6.9	9.8
Rosenstraße 15	Sparrieshoop	100	Sparkasse Südholstein	1961	237	210	100.00	17	8.2	6.3
Willy-Meyer-Straße 3-5	Tornesch	100	Sparkasse Südholstein	1977	657	620	100.00	55	8.9	5.8
Am Markt 1	Trappenkamp	100	Sparkasse Südholstein	1985	787	690	86.59	47	8.3	8.9
Wassermühlenstraße 5	Uetersen	100	Sparkasse Südholstein	2001	1,759	2,000	100.00	122	6.1	14.8
Markt 1	Wahlstedt	100	Sparkasse Südholstein	1975	1,346	1,180	85.31	70	7.8	8.8
Sparkassenportfolio	Düsseldorf				43,108	49,960	95.50	3,109	6.4	13.9
Airport Center	Düsseldorf	100		2008	4,671	10,442		885		

Source Fair Value REIT-AG

Overview of properties

Property and funds	Share (%)	Main tenant	Built in	Rental space (sqm)	Market value (€'000)	Letting rate (%)	Rental income (€'000)	Yield (%)	Remaining term of lease (in years)
Retail properties									
Ahaus BBV D 10	38.3	Deutscher Supermarkt Handels GmbH	1989	2054	2.6	94.6	0.229	8.8	1.7
Ahaus -Wüllen BBV D 06	54.64	Kaufland Stiftung & Co. KG	1990	6395	6.1	100.0	0.581	9.5	1.9
Altenberge BBV D 06	54.64	K+K Klaas & Kock	1986	1285	1.2	100.0	0.1	8.3	3.3
Alzey ICD 01	55.81	Arcangelo Strablone	1990	2006	1.8	90.2	0.126	7.0	7.8
Bad Salzungen BBV D 09	24.93	Rheika-Delta Warenhandelsgesellschaft mbH	1992	10985	15	100.0	1.262	8.4	4.3
Celle BBV D 10	38.3	Praktiker Baumärkte	1992	10611	13.7	100.0	1.129	8.2	4.7
Chemnitz Rabensteincenter IC D 10	26.14	Plus Warenhandelsgesellschaft mbH	1997	9953	9.8	94.8	0.682	7.0	2.5
Eisenach BBV D 09	24.93	Marktkauf Handelsgesellschaft mbH & Co. OHG	1994	37400	52.4	100.0	3.483	6.6	16.5
Eisenhüttenstadt BBV D 10	38.3	Metro AG	1993	40101	57.8	100.0	4.697	8.1	5.7
Emmerich BBV D 06	54.64	Plus Warenhandelsgesellschaft mbH	1987	1415	1.2	97.8	0.12	10.0	0.6
Erlangen BBV D 02	38.28	Merkur Spielothek GmbH & Co. KG	1984	2721	1.8	100.0	0.231	12.8	4.3
Essen-Heidhausen IC D 01	55.81	REWE Deutscher Supermarkt KGaA	1990	1386	2.9	100.0	0.216	7.4	7.7
Frechen BB D 06	54.64	REWE Zentral AG	1988	1225	1.3	100.0	0.144	11.1	0.6
Genthin BBV D 10 01	38.3	EDEKA-MIHA Immobilien Service GmbH	1998	1275	0.73	79.9	0.065	8.9	1
Hamm BBV D 06	54.64	REWE Deutscher Supermarkt KGaA	1990	1349	1.4	100.0	0.144	10.3	1.8
Krefeld BBV D 06	54.64	OBI Bau- und Heimwerkermärkte	1990	4683	4.8	100.0	0.451	9.4	2.4
Lippetal-Herzfeld BBV D 06	54.64	AWA Handelsgesellschaft	1990	1452	1.7	100.0	0.144	8.5	3,2
Meschede BBV D 06	54.64	-	1989	1095	0.61	0,00	0	0.0	0,0
Münster BBV D 10	38.3	Marktkauf Holding GmbH	1991	7353	9.6	100.0	0.674	7.0	11
Naumburg BBV D 09	24.93	Kaufland Stiftung & Co. KG	1993	15180	21.6	100.0	1.743	8.1	10.5
Osnabrück BBV D 10	38.3	Hammer Fachmärkte für Heim-Ausstattung	1989	4207	3.3	100.0	0.305	9.2	1.6
Passau BBV D 06	54.64	TeVi Markt Handels GmbH	1982	8492	4.9	95.5	0.6	12.2	9.2
Rheda Wiedenbrück BBV D 10	38.3	Deutsche Woolworth GmbH & Co. OHG	1991	2235	2.2	89.4	0.168	7.6	2.3
Rostock BBV D 14	45.02	HPI Hotelbesitz	1995	19301	62.8	96.0	4.279	6.8	7
Seligenstadt BBV D 06	54.64	EDEKA Handelsgesellschaft Südwest	1983	1390	1.9	100.0	0.166	8.7	5.6
Waltrop BBV D 06	54.64	EDEKA Handelsgesellschaft Rhein-Ruhr	1989	2124	2.9	100.0	0.255	8.8	2.1

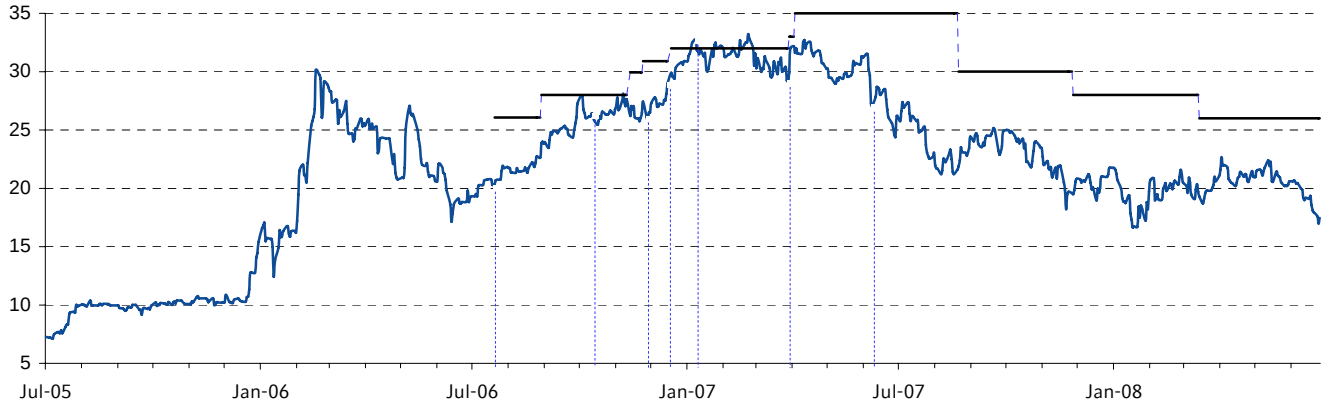
Source Fair Value REIT-AG

Overview of properties

Property and funds	Share (%)	Main tenant	Built in	Rental space (sqm)	Market value (€'000)	Letting rate (%)	Rental income (€'000)	Yield (%)	Remaining term of lease (in years)
Weilburg BBV D 09	24.93	Rheika-Delta Warenhandelsgesellschaft mbH	1994	8145	10.2	100.0	0.785	7.7	5,8
Weyhe BBV D 03	53.64	EDEKA-MIHA Immobilien Service GmbH	1989	3141	2.1	100.0	0.377	18.0	2,0
Wittenberg BBV D 10	38.3	Kaufland Stiftung & Co. KG	1994	14740	24.8	94.1	1.851	7.5	9.8
Office properties									
Aachen BBV D 03	53.64	Lidl Dienstleistung GmbH & Co. KG	1990	2.021	2.3	78.2	0.192	8.3	2.1
Berlin BBV D 14	45.02	IAV GmbH	1995	10.049	15.9	88,84	1.074	6.8	0.9
Chemnitz AA II. BA IC D 15	38.31	Bundesgentur für Arbeit	1998	5.845	4.4	100.0	0.533	12.1	1.2
Chemnitz Schmidtbank Passage IC D12	40.22	Commerzbank AG	1997	8.315	8.3	100.0	0.602	7.3	3.1
Chemnitz SB II. BA IC D 15	36.07	Gordon Verwaltung GmbH	1997	5.118	6	80.5	0.353	5.9	6.7
Dresden BBV D 14	35.59	Bundesgentur für Arbeit	1997	9.167	12.3	100.0	1.069	8.7	7.9
Düsseldorf IC D 15	38.31	Cayenne Werbeagentur	1967	2.352	6.3	100.0	0.402	6.4	10.3
Langen BBV D 10	38.3	Unigraphics Solutions GmbH	1994	14.021	18.5	74.9	1.154	6.2	3
München-Neuperlach BBV D 09	24.93	BBV Holding AG	1986	19.018	43.1	100.0	4.391	10.2	5.8
Neubrandenburg IC D 13	49.68	Deutsche Bank AG	1997	7.557	10.9	100.0	1.111	10.2	5.7
Potsdam IC D 13	49.68	RA Kanzlei Wutzke und Förster	1995	4.024	3	53.0	0.156	5.2	2.5
Quickborn IC D 15	38.31	comdirekt Bank AG	1997	10.57	15.1	100.0	1.264	8.4	4.1
Teltow IC D 07	75.65	IDLG Immobiliendienstleistungen GmbH	1995	13.382	25.2	100.0	2.823	11.2	7.3
Logistics properties									
Köln BBV D 03	53.64	HB Holzwerkstoffe GmbH	1990	9.64	3.7	100.0	0.33	8.9	4.1
Köln BBV D 06	54.64	Toys´R`Us Deutschland GmbH	1972/1989	25.235	9.3	29.3	0.29	3.1	5.8
Langenfeld IC D 13	49.68	ABB Grundbesitz GmbH	1996	10.432	11.1	100.0	1.17	10.5	8
Neuss IC D 03	71.58	HJC Deutschland GmbH	1990	12.064	8.6	86.7	0.544	6.3	1,3
Others									
Dresden IC D 15	35.59	Park Plaza Dresden	1997	11.554	12.3	100.0	1.069	8.7	7.9
Hannover BBV D 06	54.64	Schweizerhof Hotel GmbH & Co. KG	1991	19.46	20.2	100.0	1.636	8.1	6.8

Source Fair Value REIT-AG

DIC Asset AG DAZG.DE



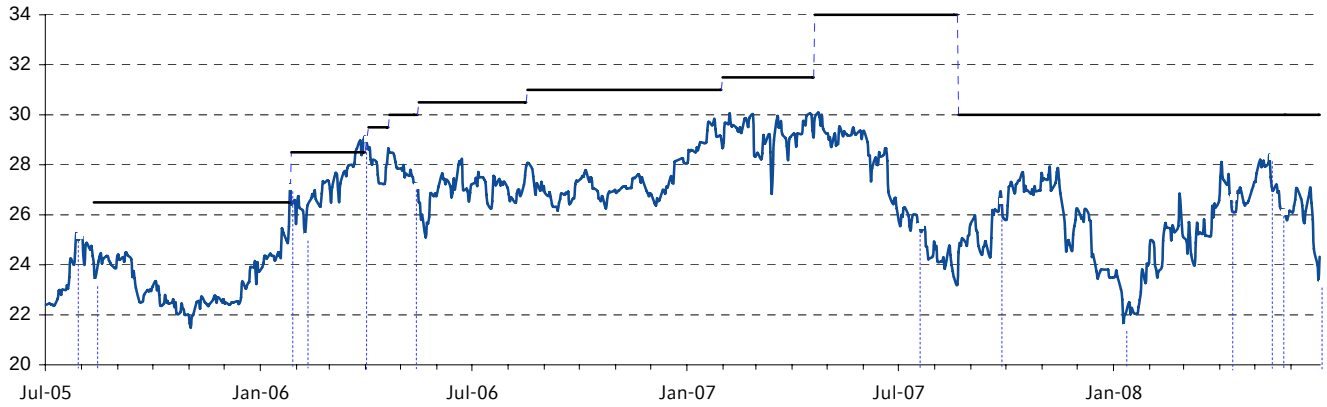
Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
11-Jun-07	27.84	Buy	18-Dec-06	29.90	Add	20-Jul-06	20.33	Buy
29-Mar-07	29.90	Add	28-Nov-06	25.79	Buy			
09-Jan-07	31.85	Hold	13-Oct-06	25.84	Add			

Coverage History No Rating as of 01/07/2005

Initiation of coverage as of 21 July 2006

Source FactSet/JCF, WestLB Research

Deutsche EuroShop DEQGn.DE



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
25-Jun-08	24.32	Buy	26-Sep-07	26.94	Add	27-Jan-06	26.42	Hold
26-May-08	26.19	Add	18-Jul-07	25.60	Buy	15-Aug-05	24.13	Add
14-May-08	27.50	Hold	15-May-06	27.20	Add	28-Jul-05	25.05	Hold
10-Apr-08	26.76	Add	03-Apr-06	28.61	Hold			
10-Jan-08	22.00	Buy	09-Feb-06	26.00	Add			

Coverage History No Rating as of 01/07/2005

Source FactSet/JCF, WestLB Research

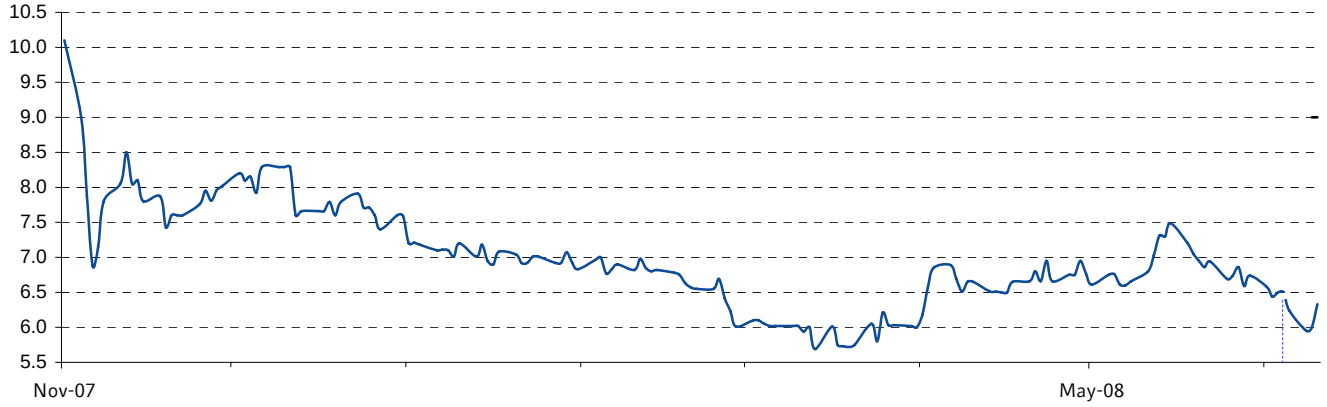
IVG Immobilien IVGG.F

Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
03-Aug-07	25.95	Buy	25-Oct-06	29.20	Hold	28-Apr-06	22.75	Buy
20-Jun-07	28.90	Add	16-Aug-06	26.74	Add	24-Feb-06	21.80	Add
20-Apr-07	35.37	Hold	22-May-06	21.47	Buy	31-Jan-06	23.75	Hold
18-Dec-06	33.10	Reduce	12-May-06	26.62	Add			

Coverage History Rating at 01/07/2005 was Add

Source FactSet/JCF, WestLB Research

Fair Value REIT AG FVIG.DE



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
26-Jun-08	6.50	Buy						

Coverage History No Rating as of 16/11/2007

Initiation of coverage as of 26 June 2008

Source FactSet/JCF, WestLB Research

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Buy/Add	163	70	Buy/Add	39	75
Hold	52	22	Hold	10	19
Sell/Reduce	19	8	Sell/Reduce	3	6

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