

# EUROCASTLE INVESTMENT LIMITED AND SUBSIDIARIES

## Interim Management Statement as at 14 November 2012

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Press Release

14 November 2012

### **Highlights**<sup>(1)</sup>

- Since the half year-end, the Group has signed 28 new commercial leases for approximately 21,200 square metres (sqm).
- At end of the third quarter 2012, the level of physical portfolio occupancy on a same store basis increased by 0.2% to 81.2% from the end of the second quarter 2012.
- The Group sold 5 properties during the third quarter for total sales proceeds of €19.2 million versus a carrying value of €17.9 million.
- The remaining assets of the CDO II portfolio were liquidated resulting in Eurocastle receiving €4.7 million of additional redemption proceeds from its senior note investment.

<sup>(1)</sup> *Unless otherwise stated, the information provided includes 100% of the Mars Floating portfolio, in which the Group has a 50% equity investment.*

### **Financing and Liquidity**

- During the quarter, €4.2 million of Eurocastle's convertible securities were presented for conversion into shares. Since the end of the third quarter a further €4.1 million were also converted. As at 31 October 2012 €161.0 million remained outstanding of which €72.1 million related to deferred and accrued interest. The total number of shares issued since 30 June 2012 relating to these conversions amounted to 27.4 million.
- With the Drive Senior Loan and Junior Loan approaching maturity in January 2013, Eurocastle is engaged in constructive negotiations with its Lenders around an extension. The Group is hopeful that it will be able to secure the relevant consents prior to maturity.

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#### Real Estate

#### Business Review<sup>(1)</sup>

The Group has an interest in 435 investment properties across Germany valued at approximately €2.1 billion<sup>(2)</sup>, equivalent to an NOI yield of 5.6% based on the 2012 third quarter's NOI. The Group's assets are held in 11 separate financing portfolios. They comprise a diversified mix of office and retail properties with the majority situated either in secondary locations within the top 5 German cities or good locations outside of those markets

Third Quarter 2012 Real Estate Portfolio Composition:

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation <sup>(2)</sup> €m	Average lease term	NOI yield on valuation %
Drive	168	291,760	67.2%	41.7	32.2	766.4	3.6	4.2%
Bridge	6	185,140	96.6%	27.3	25.5	422.7	5.7	6.0%
Wave	61	129,817	82.4%	14.8	12.7	185.2	3.4	6.9%
Turret	63	136,443	96.8%	14.9	13.0	170.4	4.2	7.6%
Mars – Floating	13	102,112	60.9%	11.3	7.4	162.5	3.2	4.6%
Truss	41	79,020	97.0%	8.2	7.3	95.9	4.3	7.6%
Mars – Fixed 2	3	33,137	86.5%	6.2	5.0	95.8	3.5	5.2%
Belfry	27	51,504	97.4%	5.2	4.6	60.7	4.3	7.6%
Tannenberg	27	46,808	94.6%	5.0	4.3	60.3	5.9	7.1%
Rapid	18	38,355	100.0%	4.4	4.1	55.8	9.0	7.3%
Zama	8	28,680	94.3%	3.6	3.3	44.1	4.0	7.6%
<b>Total portfolio</b>	<b>435</b>	<b>1,122,776</b>	<b>81.2%</b>	<b>142.6</b>	<b>119.4</b>	<b>2,119.8</b>	<b>4.3</b>	<b>5.6%</b>

- Eurocastle continues to pursue a real estate divestment programme seeking to dispose of assets that are believed to be stable, fully valued, or non-core. In the third quarter of 2012, 5 properties in the DRIVE portfolio have been sold for total sales proceeds of €19.2 million, realising cash of €0.3 million after repayment of asset level financings and costs. For the full year, 28 properties have been sold for total sales proceeds of €67.9 million, realising cash of €2.5 million after repayment of asset level financings and costs, including €1.5 million of cash retained within the Drive portfolio.
- Good progress continues to be made on new leasing and on renewing existing tenants. During the third quarter of 2012, the Group signed 44 leases for approximately 36,100 sqm, including 25 new leases for approximately 20,600 sqm and 19 lease renewals for approximately 15,500 sqm. Since the quarter end, an additional 3 new leases for 644 sqm and 1 renewal for 211 sqm have been signed. The current renewal rate for leases expiring in 2012 is 70.0% which is an increase of 3.4% from the end of the second quarter of 2012. For the year to date, the Group has signed 156 leases for approximately 97,400 sqm, including 92 new leases for approximately 42,100 sqm and 64 lease renewals for approximately 55,300 sqm.
- As at 30 September 2012, the Group had total lettable space of 1.4 million sqm with occupancy at 81.2%,

<sup>(1)</sup> Unless otherwise stated, the information provided includes 100% of the Mars Floating portfolio, in which the Group has a 50% equity investment.

<sup>(2)</sup> Property valuations are based on semi annual third party independent valuations undertaken in June 2012.

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#### Market Review and Outlook<sup>(1)</sup>

- The investment volume in Germany amounted to €14.5 billion in the first three quarters of 2012. This represents a decrease of 18% compared to the same period last year. For full year 2012, the investment volume is expected to be €20.0 billion or approximately 15% below the 2011 figure.
- The five major office markets accounted for 48% (2011: 43%) of the overall investment activity in the first three quarters of 2012, with the highest volume in Frankfurt at €2.2 billion.
- Due to the lack of core product, secondary cities (those outside of the Top 5) have experienced a high demand for investment opportunities from niche investors.
- In contrast to the strong focus on retail investments in 2011, office investments are now dominating German investment markets with €6.7 billion followed by retail investments with €4.8 billion. Foreign property investors accounted for approximately 29% of the turnover in the first three quarters of 2012, down from 41% in the prior year.
- Rental take-up figures decreased in major office markets by 12 % compared to the first three quarters of 2011, with an office turnover of 1.8 million sqm.
- Vacancy rates in the five major markets have decreased from 9.7% in the third quarter of 2011 to 9.5% in the third quarter of 2012. In line with the lower vacancy, prime rents have increased slightly and are expected to continue to improve.

<sup>(1)</sup> *Data and analysis for this section has been extracted from professional market research sources*

#### Debt Investments

- Eurocastle realised its remaining economic interest in the CDO II portfolio that was sold by the Group last year. €4.7 million of redemption proceeds were realised compared to a previous carrying value of €4.1 million. No further cash flows are expected.
- There were 2 upgrades and 19 downgrades in the third quarter of 2012, compared to 1 upgrade and 18 downgrades in the second quarter of 2012.
- Eurocastle's debt investment portfolio had an average rating of B- with total assets of €448.6 million and total liabilities of €392.1 million.
- In addition to the CDO II redemption proceeds, total amortisation principal received in the Group's debt business during the third quarter of 2012 was €10.8 million. €8.4 million of these proceeds were received within the CDO V portfolio which (together with additional available cash) was used to purchase €10.2 million of commercial real estate debt investments at a discount with an average rating of BBB. The remaining €2.4 million of proceeds were used to amortise debt within the CDO IV portfolio.

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#### **Forward-Looking Statements**

This release contains statements that constitute forward-looking statements. Such forward-looking statements may relate to, among other things, future commitments to sell real estate and achievement of disposal targets, availability of investment and divestment opportunities, methods of funding portfolios, timing of completion of acquisitions and disposals, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may”, “will”, “should”, “potential”, “intend”, “expect”, “endeavour”, “seek”, “anticipate”, “estimate”, “overestimate”, “underestimate”, “believe”, “could”, “project”, “predict”, “continue”, “plan”, “forecast” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. The Group’s ability to predict results or the actual effect of future plans or strategies is limited. Although the Group believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, its actual results and performance may differ materially from those set forth in the forward-looking statements. These forward-looking statements are subject to risks, uncertainties and other factors that may cause the Group’s actual results in future periods to differ materially from forecasted results or stated expectations, including the risks regarding Eurocastle’s ability to achieve its targets regarding asset disposals or leasing or that Eurocastle will be able to fund, extend, refinance or repay its liabilities.