Press Release
18 May 2011

Since the year end, Eurocastle Investment Limited ("Eurocastle" or the "Group") continued to make progress toward its main objective of realising value from its real estate holdings, while continuing to invest in the portfolio to enhance its long term value. This interim management statement reports on the status of this objective, as well as other recent developments.

Highlights*

- Eurocastle has completed the restructuring of its Mars Fixed 1 facility with its lenders.
- Since the year end, the Group has signed 93 commercial leases for approximately 84,400 square metres (sqm). Included in this amount is a renewal of 41,300 sqm with Deutsche Bahn – the single largest lease in the portfolio – for another 13 years at market terms.
- At end of the first quarter 2011, the level of physical portfolio occupancy on a like-for-like basis decreased to 83.6% from 86.7% at the end of 2010.
- The Group sold 17 properties during the first quarter for total sales proceeds of €75.1 million.

* *Unless otherwise stated, the information provided excludes the Mars Fixed 1 portfolio, but includes 100% of the Mars Floating portfolio, in which the Group has a 50% equity investment.*

Financing and Liquidity

- The Mars Fixed 1 facility lenders have agreed to modify the terms of the Mars Fixed 1 loan facility, which matures in July 2014, to include annual amortisation targets expected to be met from asset sales, the deferral of a significant part of the facility's current interest margin and new capital from a junior lender for capital expenditure on the Mars Fixed 1 portfolio. In addition, Eurocastle's German asset management platform will continue to provide asset management services to the portfolio for which it will be compensated over an anticipated minimum 3 year term. In consideration of these terms, Eurocastle has agreed to transfer half of its remaining equity investment in the Mars Fixed 1 Portfolio to a junior lender who will control 75% of the equity in the portfolio, leaving Eurocastle with a 25% residual investment in the portfolio. Following the restructuring, the Group no longer expects to consolidate the Mars Fixed 1 Portfolio and is not projecting significant value in its residual investment in the Mars Fixed 1 Portfolio.
- As at 31 March 2010, Eurocastle had a corporate cash balance of €4.6 million
- In respect of the Drive Junior Facility, the Group continues to expect to finalise the second phase of a restructuring of the facility in 2011 which the Group anticipates will allow it to receive limited cashflow from the Drive portfolio sufficient to cover the Group's share of overheads relating to this portfolio. It is expected that excess operating income from the portfolio will continue to be retained within a Group subsidiary to build capital expenditure and debt service reserves whilst the Group remains active in asset managing this portfolio and repositioning major assets following tenant terminations.

Real Estate

Business Review*

- The Group, including the Mars Fixed 1 portfolio, has an interest in 506 investment properties across Germany valued at approximately €3.3 billion based on independent valuations carried out in December 2010, equivalent to an NOI yield of 5.7% based on the 2011 first quarter's NOI. The Group's assets are held in 12 separate financing portfolios. They comprise a diversified mix of office and retail properties concentrated in the five major German markets.

First Quarter 2011 Real Estate Portfolio Composition:

Asset	No. of properties	Occupied space (sqm)	Occupancy %	Passing rent €m	Annualised NOI €m	Property valuation[1] €m	Average lease term	NOI yield on valuation %
Drive	199	373,154	77.3%	54.9	46.1	868	3.7	5.3%
Bridge	6	181,313	94.5%	29.6	27.6	426	7.0	6.5%
Mars – Floating	17	116,474	60.1%	13.1	8.9	226	3.0	3.9%
Wave	69	143,556	81.8%	16.5	13.9	214	3.8	6.5%
Turret	63	137,525	97.8%	15.1	13.8	175	4.8	7.9%
Truss	41	80,377	98.9%	8.4	7.6	98	5.6	7.8%
Mars – Fixed 2	3	33,674	87.9%	6.3	5.2	98	3.7	5.3%
Belfry	27	52,374	98.8%	5.3	4.8	62	4.8	7.7%
Tannenberg	27	47,344	95.6%	5.1	4.5	61	6.4	7.3%
Rapid	18	38,355	100.0%	4.4	4.2	56	10.5	7.4%
Zama	8	28,779	94.5%	3.6	3.3	45	5.0	7.3%
Total excluding Mars Fixed 1	**478**	**1,232,925**	**83.6%**	**162.3**	**139.9**	**2,329**	**4.8**	**6.0%**
Mars – Fixed 1	28	381,513	82.5%	59.4	50.0	984	6.5	5.1%
Grand Total	**506**	**1,614,438**	**83.3%**	**221.7**	**189.9**	**3,313**	**5.2**	**5.7%**

[1] *Property valuations are based on semi annual third party independent valuations undertaken in December 2010.*

- The Group has continued to generate cash at the holding company level that is available for corporate purposes. However, excess cashflow from the Mars and Drive portfolios is being retained within those portfolios, and is therefore not distributable to Eurocastle.

- 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 first quarter of 2011, 17 properties have been sold for total sales proceeds of €75.1 million, realising cash of €4.4 million after repayment of asset level financings and costs, including €0.1 million of cash retained within the Drive portfolio.

- Good progress continues to be made on new leasing and on renewing existing tenants. During the first quarter of 2011, the Group signed 75 leases for approximately 37,400 sqm, including 47 new leases for approximately 14,900 sqm and 28 lease renewals for approximately 22,500 sqm. Since the quarter end, an additional 3,400 sqm of new leases and 43,600 sqm of renewals have been signed. The current renewal rate for leases expiring in 2011 is at 65.6%.

- The Group continues to seek to moderate capital expenditure committed on new leasing, focusing it on those leases and portfolios achieving the greatest economic benefit for the Group and thus maximising cashflow available to Eurocastle.

- As at 31 March 2011, the Group had total lettable space of 1.5 million sqm with occupancy at 83.6%, down from 86.7% at the end of 2010 on a like-for-like basis, mainly due to 46,100 sqm of scheduled expiries in the Drive portfolio that resulted in a decline in occupancy of 3.1%.

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Market Outlook*

- The positive trend seen in the investment markets in 2010 has continued in the first quarter of 2011. Investment volume remained at the high level of the last quarter of 2010 with approximately €5.8 billion invested. Foreign property investors returned to investing in Germany, accounting for approximately €2.9 billion or 50% of the turnover in the first quarter of 2011.

- The major five office markets accounted for 29% of the overall investment activity, with the highest volume in Berlin with €450 million in the first quarter of 2011. Investment in office assets accounted for 18% of the overall volume, or €1.0 billion, in the first quarter of 2011. The trend towards larger volumes that started in the middle of 2010 has continued with 11 recorded transactions larger than €100 million in the first quarter of 2011.

- Rental take-up figures increased slightly in major office markets by 3% compared to the first quarter of 2010, with an office turnover of 572,800 sqm. The ongoing high demand for office space follows the favourable development in the job market and the improved economic situation of German companies. The continued recovery of the German economy is expected to lead to further positive take-up volumes in office letting markets in the rest of 2011.

- Despite the positive trend, prime office vacancy rates in the five major markets have increased from 10.5% in the first quarter of 2010 to 11.1% in the first quarter of 2011. However, prime rents remained unchanged and are forecast to slightly increase for the rest of 2011.

* *Data and analysis for this section has been extracted from professional market research sources*

Debt Investments

- There were four upgrades and 18 downgrades in the first quarter of 2011, compared to four upgrades and 12 downgrades in the fourth quarter of 2010.

- While the Group's debt investment business continues to generate cash, non-compliance with various coverage and other tests within its CDO or other financings means that excess cash generated either stays within the portfolios or is used to amortise senior debt. The Group expects this to continue for the foreseeable future such that it expects any returns from its debt investment business to be likely to be driven from the return of capital once debt has been repaid.

- As the quarter end, CDO II remained in default. The Group does not anticipate this to have any material effect on the Group's cashflows or return expectations from CDO II

- Total amortisation principal received in the Group's debt business during the first quarter of 2011 was €21.5 million. Using these proceeds, the CDOs purchased €24 million of investments at a discount with an average rating of BBB; €10 million was reinvested in AAA RMBS and €14 million was reinvested in BBB CMBS at current market spreads.

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 reduction in capital expenditure or that Eurocastle will be able to fund or repay its liabilities.