

Franconofurt^{1,2,3,5,6}

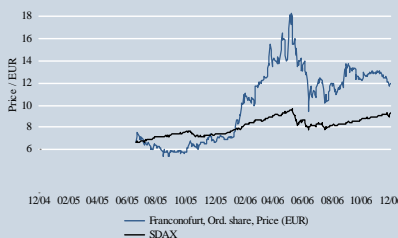
Real Estate

08 December 2006

Buy

Price EUR12.0 / Fair ValueEUR15.4

Performance



66

| | |
|---------------------|----------------------------|
| 12 month high/low € | 18.29/6.78 |
| Rel. % | 1m -10.6 3m -19.2 12m 41.8 |
| Abs. % | 1m -7.6 3m -11.8 12m 78.1 |

Market Data

| | |
|-----------------------|---------|
| Reuters | FFMG.DE |
| Bloomberg | FFM GR |
| Market cap. €bn | 0.1 |
| Number of shares m | 6.6 |
| Free float % | 58% |
| Daily turnover shares | 2,000 |

Next Events

Rel. Sector

+

Key Changes

EPS %
Rating

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THE PORTFOLIO GENERATOR

FRANCONOFURT (FFM) has shown a strong growth and a successful strategic step towards being an integrated company within a remarkable short period of time. The company's origins lie in the sale of high-quality apartments in Frankfurt only after having acquired the complete building. The company has floated its subsidiary FranconoRheinMain (FRM) building up a standing portfolio in the catchment area of Frankfurt at a remarkable speed and is now in the process of founding FranconoWest as a standing portfolio in the Western part of Germany.

EXPANSION BASED ON MARKET KNOWLEDGE

FFM has outstanding knowledge of the residential property market in the Frankfurt area. That is the reason why the company has been profitable from the very beginning, as it knows which property delivers higher returns when selling the apartments unit by unit.

STANDING PORTFOLIO TAKEN PUBLIC...

To leverage its expertise and stabilize the income stream, FFM has built up its subsidiary FRM remarkably quickly: up to €100m is expected to be invested by the end of 2006 with the intention to double this by 2007. Despite of difficult markets, FFM was able to list 27.5%.

...EXPANSION CONTINUES

FranconoWest will be the subsidiary of FFM active in Western Germany to build up a standing portfolio in the Cologne/Bonn/Dusseldorf area that shows attractive economic growth rates. The strategy is to take FranconoWest public in 2007.

UPSIDE POTENTIAL FROM THE VALUATION VIEW

We value FFM via a DCF model on a stand-alone basis that comes out at €16.6 fair value. Adjusted by a discount for small size and an expected guidance for 2007, we leave our fair value of €15.40 unchanged for the time being but strongly reiterating our **buy** rating.

Key Data

| EUR | 2004 | 2005 | 2006e | 2007e | 2008e |
|---------------------|------|------|----------------------|-------|-----------------|
| Revenues | 5 | 7 | 25 | 36 | 44 |
| EBIT | 1 | 1 | 8 | 11 | 16 |
| Net profit | 0 | 0 | 4 | 6 | 9 |
| adj. EPS | 0.44 | 0.11 | 0.60 | 0.96 | 1.36 |
| Dividend | 0.50 | 0.17 | 0.43 | 0.68 | 0.96 |
| PER | 0.0 | 56.5 | 20.0 | 12.5 | 8.8 |
| Div. yield % | | 2.7 | 3.6 | 5.7 | 8.0 |
| EV/EBITDA | 9.3 | 33.4 | 12.8 | 11.0 | 8.9 |
| EV/Revenues | 1.6 | 5.1 | 4.0 | 3.5 | 3.5 |
| Price to book | 0.0 | 2.6 | 2.4 | 1.6 | 1.1 |
| EBIT margin % | 16.7 | 15.1 | 31.0 | 31.7 | 36.7 |
| ROE % | 12.8 | 4.4 | 10.9 | 11.8 | 11.4 |
| ROCE % | 6.9 | 5.1 | 13.7 | 11.4 | 10.5 |
| EPS CAGR 04-08: 33% | | | Equity ratio 06: 58% | | Gearing 06: 57% |

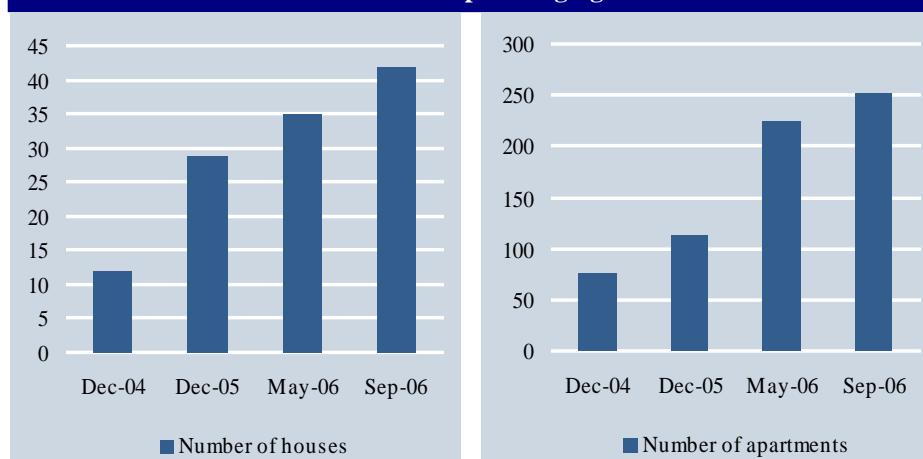
GROWTH IN SEVERAL ASPECTS

Attention increased,
delivered as promised

2006 was a decisive year for FFM with the successful move from an attractive but small regional company towards an integrated company monitored by international investors. Consequently the company has increased its capacities to cope with the demand from the operating side but also from the capital markets side. Until now the company has delivered its forecasts and is well on track to do so further.

The traditional asset conversion business, the acquisition of high-quality residential buildings with the disposal of the apartments afterwards in Frankfurt only, continues at a high speed. The numbers of houses increased from 29 to 42 until September 2006, containing 252 apartments. In our model we calculate with €1,600/m² as acquisition price and a gross margin of 35% when selling the apartment to new owners. The company indicated it will keep the margin at least stable while the price level in total has increased with the positive economic development. Given the fact that FFM is market leader in this business field in Frankfurt, we expect a continuous growth.

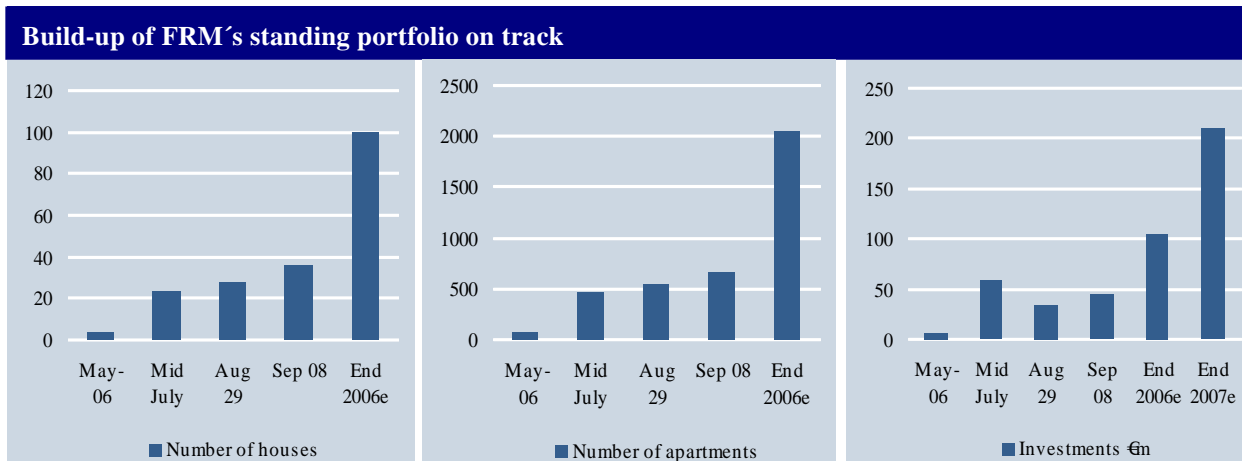
Asset conversion business of FFM keeps its high growth level



Source: Company data

Successful IPO of
subsidiary in difficult
market situation – but
quality convinces

We regard the successful IPO of the subsidiary FRM as the confirmation of the capital markets that also smaller but highly focused residential property stocks offer interesting upside potential. While for FFM our valuation was not based on a successful IPO, the newly listed FRM offers shareholders the opportunity to participate on a long-term base from the upturn of the residential property markets in the Frankfurt area. As this area shows stable growth rates, FRM should be able to show this in continuously rising rental income and capital gains from selective disposals. Again, the company delivers its forecast in the remarkably fast build-up of the portfolio. Therewith we regard the outlook to increase the portfolio to €200m in 2007 and up to €500m in 2009 as likely.



Source: Company data

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Even more importantly, we feel that the company will stick to its strict investment criteria reflected in a rental yield of at least 8%. Based on this we have adjusted our assumptions on FRM, where we focus on operational growth, and have not taken the revaluation gains into account, as FRM defines itself as “better than a REIT” esp. reflected in a high payout ratio.

Build-up of FRM's standing portfolio continues (excl. revaluation gains)

| €m | 2006e | 2007e | 2008e | 2009e |
|--------------------------------|-------|-------|-------|-------|
| Value of portfolio | 90 | 180 | 220 | 250 |
| Rental income | 7.2 | 14.4 | 17.6 | 20 |
| Income from disposals | 1.1 | 2.5 | 3.1 | 3.9 |
| Maintenance, material expenses | 0.9 | 1.8 | 2.2 | 2.5 |
| EBITDA | 7.4 | 15.1 | 18.5 | 21.4 |
| Depreciation | 0.45 | 0.9 | 1.1 | 1.3 |
| EBIT | 6.95 | 14.2 | 17.4 | 20.2 |
| Interest expense | 3.6 | 7.2 | 8.8 | 10.0 |
| EBT | 3.35 | 7.0 | 8.6 | 10.2 |
| Tax | 1.3 | 2.7 | 3.3 | 3.9 |
| Net profit | 2.1 | 4.3 | 5.3 | 6.3 |

Source: Oppenheim Research

FRM accepted by investors

On Dec 06, 2006 the company announced the successful placement of 2.4 m shares of FRM at a price of 3.2 % that FFM's stake reduced consequently to 64.1 %. While this, of course, has also a positive on FFM we see in this successful transaction that FRM is regarded by investors at an attractive vehicle to participate in the expected upturn of the German residential markets in selected growth regions.

Ambitious but realistic targets

We appreciate that FFM does not try to transfer its asset conversion business from Frankfurt into other German cities, as we think that the local knowledge is decisive. The company has established a strong market position and a stable network to local agents and thus normally gets the “first call” as the agents know the company is a reliable partner. However, to build up a standing portfolio, the success criteria are comparably reflected in the location of properties, tenant structure, maintenance required, etc. And again, as FRM acquires several properties, it is contacted frequently by local agents. Given the widespread ownership structure of single residential properties in Germany and FRM and FFM's future subsidiaries

only focus on a market share of 2-4 % each, we regard the company's strategy as realistic. FFM has already founded the subsidiary FranconoWest for the Bonn/Cologne/Düsseldorf area in Western Germany that is expected to invest up to €100m in 2007 and should also be listed. We therewith expect FFM to continue its strong growth momentum and appreciate that the company wants to expand into further German growth areas with an intended portfolio of €1.2bn by 2008 as, again, it can benefit from the expected increase in rents.

"The portfolio generator": broadening the business model

| 2000-2006 | 2006 | 2007 - 2008 |
|---|----------------------------|-----------------------------|
| Frankfurt City portfolio (asset conversion) | IPO of FranconoRheinMain | Initiation of FranconoSouth |
| | Initiation of FranconoWest | Initiation of FranconoNorth |
| | | Initiation of FranconoEast |

Source: Company data

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VALUATION

At the beginning of May, the FFM share reached its all-time high of €19.90 and has come down since then despite some good news and strong interim figures. Ironically, the listed subsidiary FRM now has a higher market cap of almost €100m compared to FFM's €78m.

Upside potential

The current share price of FFM does not adequately reflect in our view the strong earnings momentum and positive outlook for the company. For valuation purposes, we focus on a DCF model for a stand-alone valuation that we have adjusted after the 9M figures. To reflect the higher stability of the income stream based on stable rents generated by the standing portfolio of FFM's portfolios, we have lowered the beta from 1.4 to 1.3. Based on this adjustment and a slight increase for 2006 earnings, the DCF value comes out at €16.60. For the time being, we leave the fair value of €15.40 unchanged as we await the company's guidance regarding 1) portfolio size of FRM end of 2006 and 2) guidance regarding earnings for 2007. However, we strongly reiterate our buy rating and also in comparison for FFM's peers.

Peer group valuation

| Company | Price (€) | Market cap (€m) | PE06e | PE07e | EV/EBITDA06e | EV/EBITDA07e |
|---------------------|-----------|-----------------|-------|-------|--------------|--------------|
| PATRIZIA | 19.9 | 951 | 28.4 | 18.7 | 16.7 | 14.2 |
| DEUTSCHE WOHNEN | 48 | 954 | 56.3 | 40.6 | 23.5 | 20.9 |
| COLONIA REAL ESTATE | 34.22 | 552 | 15.8 | 10.0 | 35.7 | 24.3 |
| VIVACON | 22.16 | 444 | 10.6 | 9.1 | 7.2 | 6.7 |
| GAGFAH | 25 | 5625 | 17.9 | 16.3 | -- | -- |
| Average | | | 25.8 | 18.9 | 20.8 | 16.5 |
| Median | | | 17.9 | 16.3 | 20.1 | 17.5 |
| FRANCONOFURT | 12.18 | 78 | 19.7 | 12.3 | 12.6 | 10.9 |

Source: Thomson Financial Datastream, Oppenheim Research

Franconofurt – P&L (Total cost)

| EURm | 2004 | 2005 | 2006e | 2007e | 2008e |
|--|-------------|-------------|--------------|--------------|--------------|
| Revenues | 4.6 | 6.9 | 25.2 | 35.7 | 43.7 |
| Invent. changes & intern. prod. assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total output | 4.6 | 6.9 | 25.2 | 35.7 | 43.7 |
| Cost of materials | 2.8 | 3.7 | 12.0 | 15.0 | 17.2 |
| Personnel costs | 0.5 | 0.5 | 1.0 | 1.0 | 1.1 |
| Other depreciation/amortization | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| Other operating income/expenses | -0.5 | -1.7 | -4.4 | -8.3 | -8.2 |
| EBITDA | 0.8 | 1.1 | 7.8 | 11.3 | 17.2 |
| EBIT pre exceptionals | 0.8 | 1.0 | 7.8 | 11.3 | 16.0 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 0.8 | 1.0 | 7.8 | 11.3 | 16.0 |
| Participation result & other fin. result | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest result | -0.2 | -0.2 | -0.6 | -1.1 | -1.5 |
| Financial result | -0.2 | -0.2 | -0.6 | -1.1 | -1.5 |
| Other income/expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings before tax | 0.6 | 0.8 | 7.3 | 10.2 | 14.5 |
| Taxes | 0.2 | 0.3 | 3.3 | 3.9 | 5.5 |
| Tax rate % | 27 | 43 | 46 | 38 | 38 |
| Profit/loss for the year | 0.4 | 0.5 | 4.0 | 6.3 | 9.0 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 0.4 | 0.5 | 4.0 | 6.3 | 9.0 |
| Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted net profit | 0.4 | 0.5 | 4.0 | 6.3 | 9.0 |

Key ratios and numbers

| | | | | | |
|----------------------------------|-------|-------|-------|------|-------|
| Data per share | | | | | |
| Number of total shares (m) | 1.0 | 4.0 | 6.6 | 6.6 | 6.6 |
| EPS (reported) | 0.44 | 0.11 | 0.60 | 0.96 | 1.36 |
| adj. EPS | 0.44 | 0.11 | 0.60 | 0.96 | 1.36 |
| Dividend per share | 0.50 | 0.17 | 0.43 | 0.68 | 0.96 |
| Sustainable FCFPS | | | 0.00 | 0.00 | 0.06 |
| FCFPS | 0.46 | 2.57 | 6.18 | 7.30 | 9.63 |
| Book value per share | 2.93 | 2.43 | 5.06 | 7.42 | 10.96 |
| Growth rates % | | | | | |
| Revenues change | | 51.3 | 264.9 | 41.7 | 22.43 |
| EBIT change | | 36.7 | 649.7 | 44.6 | 41.9 |
| Earnings before tax change | | 32.7 | 813.6 | 40.3 | 42.5 |
| Net profit change | | 3.2 | 771.4 | 59.7 | 42.5 |
| adj. EPS change | | -74.2 | 428.1 | 59.7 | 42.5 |
| Margins % | | | | | |
| Gross margin | 38.4 | 46.5 | 52.4 | 58.0 | 60.6 |
| EBITDA margin | 17.2 | 15.4 | 31.1 | 31.7 | 39.3 |
| EBIT margin | 16.7 | 15.1 | 31.0 | 31.7 | 36.7 |
| Net profit margin | 9.6 | 6.6 | 15.7 | 17.7 | 20.6 |
| ROE | 12.8 | 4.4 | 10.9 | 11.8 | 11.4 |
| ROCE | 6.9 | 5.1 | 13.7 | 11.4 | 10.5 |
| Expense ratios % | | | | | |
| Personnel Costs to Revenues | 10.6 | 6.9 | 3.8 | 2.9 | 2.4 |
| Material Costs to Revenues | 61.6 | 53.5 | 47.6 | 42.0 | 39.4 |
| R&D to Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation to Revenues | 0.5 | 0.2 | 0.1 | 0.1 | 2.6 |
| Other ratios | | | | | |
| Interest cover | 4.7 | 4.2 | 14.1 | 10.2 | 10.6 |
| Equity ratio % | 30.5 | 47.3 | 57.8 | 50.4 | 47.1 |
| Gearing % | 213.1 | 94.4 | 57.3 | 84.9 | 93.4 |
| Net financial liabilities/EBITDA | 9.5 | 10.5 | 3.2 | 4.4 | 4.9 |

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Franconofurt - Statement of Cash Flows

| EURm | 2004 | 2005 | 2006e | 2007e | 2008e |
|---|-------------|-------------|-------------|-------------|-------------|
| Cash flow from operating activities | | | | | |
| EBIT | 0.8 | 1.0 | 7.8 | 11.3 | 16.0 |
| Depreciation / amortization | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| Change in other provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non Cash Items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxes / tax refunds | 0.2 | 0.3 | 3.3 | 3.9 | 5.5 |
| Change in other assets & liabilities | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 |
| Change in Working Capital | 0.0 | -9.5 | -27.8 | -35.8 | -45.4 |
| Extraordinary result | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operating activities | 0.6 | 10.5 | 32.3 | 43.3 | 57.0 |
| Cash flow from investing activities | | | | | |
| Investments in tangible assets | 0.0 | 0.0 | 8.5 | 6.0 | 8.0 |
| Investments in financial assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments in intangible assets | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 |
| Disinvestments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in other L.T. assets / acquisitions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing activities | 0.0 | 0.0 | 9.0 | 6.0 | 8.0 |
| Cash flow from financing activities | | | | | |
| Financial result | -0.2 | -0.2 | -0.6 | -1.1 | -1.5 |
| Change in financial liabilities | 0.0 | 4.1 | 14.3 | 24.7 | 33.2 |
| Change in shareholder's Equity | 0.0 | 8.5 | 24.6 | 15.3 | 22.5 |
| Change in pensions and similar provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payments in previous year | 0.0 | -0.7 | -2.8 | -4.5 | -6.4 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flows from financing activities | -0.2 | 13.0 | 41.2 | 43.4 | 60.6 |

Ratios and key figures

| | | | | | |
|---|------|------|------|------|------|
| Free cash flow to entity | 0.6 | 10.5 | 41.3 | 49.3 | 65.0 |
| Free cash flow to shareholder | 0.5 | 10.3 | 40.8 | 48.2 | 63.5 |
| FCFPS | 0.46 | 2.57 | 6.18 | 7.30 | 9.63 |
| Free cash flow yield | | 40.1 | 51.5 | 60.9 | 80.2 |
| Sustainable free cash flow to entity | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| Sustainable free cash flow to shareholder | 0.0 | 0.0 | -0.5 | -1.1 | -1.1 |
| Sustainable FCFPS | | | 0.0 | 0.0 | 0.1 |
| Sustainable FCF yield | | | 0.0 | 0.0 | 0.5 |
| Operating cash flow/Capex | | | -3.8 | -7.2 | -7.1 |
| Operating cash flow/avg. net financial pos. | | 1.2 | 2.1 | 1.3 | 1.0 |
| Maintenance capex/revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation/capex | | | 0.0 | 0.0 | -0.1 |
| Net working capital/revenues | 2.4 | 2.9 | 1.9 | 2.3 | 3.0 |

| Franconofurt - Balance Sheet | | | | | |
|---|-------------|-------------|--------------|--------------|--------------|
| EURm | 2004 | 2005 | 2006e | 2007e | 2008e |
| Assets | 11.2 | 21.9 | 62.7 | 106.1 | 167.1 |
| Fixed assets | 0.3 | 0.2 | 9.3 | 15.3 | 23.3 |
| Intangible assets | 0.0 | 0.0 | 0.5 | 0.5 | 0.5 |
| thereof goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| thereof act. development expenditure | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property, plant + equipment (PPE) | 0.0 | 0.0 | 8.5 | 14.5 | 22.5 |
| Financial assets | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Other items in fixed assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Items btw fixed and current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current assets | 11.0 | 21.6 | 53.4 | 90.8 | 143.7 |
| Inventories | 7.9 | 17.9 | 43.1 | 75.1 | 117.5 |
| Accounts receivable | 2.9 | 2.4 | 5.6 | 11.0 | 16.3 |
| thereof trade receivables | 2.5 | 2.1 | 5.3 | 10.7 | 16.0 |
| Marketable securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash and cash equivalents | 0.2 | 1.3 | 4.7 | 4.8 | 9.9 |
| Other current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred income + prepaid expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Deferred tax assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total assets | 11.2 | 21.9 | 62.7 | 106.1 | 167.1 |
| Liabilities & Shareholders' equity | 11.2 | 21.9 | 62.7 | 106.1 | 167.1 |
| Shareholders' equity | 3.4 | 10.4 | 36.2 | 53.5 | 78.7 |
| Capital subscribed | 1.0 | 4.0 | 6.6 | 6.6 | 6.6 |
| Reserves | 0.0 | 5.5 | 27.5 | 42.8 | 65.3 |
| thereof additional paid-in reserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| thereof retained earnings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity capital | 2.4 | 0.9 | 2.1 | 4.1 | 6.8 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Items btw shareholders' equity + debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt | 7.8 | 11.5 | 26.5 | 52.7 | 88.4 |
| Provisions | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Pension provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other provisions | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Liabilities | 7.5 | 11.3 | 26.1 | 52.3 | 88.0 |
| Financial liabilities | 7.5 | 11.1 | 25.4 | 50.1 | 83.4 |
| thereof short-term financial liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 0.0 | 0.1 | 0.7 | 2.2 | 4.6 |
| thereof trade liabilities | 0.0 | 0.1 | 0.7 | 2.2 | 4.6 |
| Deferred income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred tax liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total liabilities | 11.2 | 21.9 | 62.7 | 106.1 | 167.1 |
| Ratios and key figures | | | | | |
| Current assets % | 97.6 | 98.7 | 85.1 | 85.5 | 86.0 |
| Long-term assets % | 2.4 | 1.1 | 14.8 | 14.4 | 14.0 |
| Equity ratio % | 30.5 | 47.3 | 57.8 | 50.4 | 47.1 |
| Book value per share | 2.93 | 2.43 | 5.06 | 7.42 | 10.96 |
| Gearing % | 213.1 | 94.4 | 57.3 | 84.9 | 93.4 |
| Interest cover | 4.7 | 4.2 | 14.1 | 10.2 | 10.6 |
| Net working capital | 10.8 | 20.2 | 48.0 | 83.8 | 129.2 |
| Net financial position | -7.3 | -9.8 | -20.8 | -45.4 | -73.5 |
| Net financial liabilities/EBITDA | 9.5 | 10.5 | 3.2 | 4.4 | 4.9 |
| Enterprise value | 7.3 | 35.4 | 100.0 | 124.6 | 152.7 |