

News and opinions from one of the leading real estate management companies in Europe ++ This monthly information service is available free of charge to all interested parties at IVG ++

Editorial:

To IVG's friends and interested persons

Starting today, we will inform you once a month about IVG's most important developments through this information service. We have chosen this course because communication can be very helpful in building trust. If you do not inform other people properly about your concerns, you cannot expect them to understand necessary decisions, and you will certainly not be able to build up trust in the leadership skills of a company's managers. Communication is a leadership challenge; its purpose is to provide guidance and to lead the way out of the crisis. During turbulent periods of time such as the period we are currently in when a country's entire economy is confronted with challenges, it is necessary to inform employees, customers and shareholders as well as future business partners about the latest developments. In this first issue of our information service, we want to give you an overview of the most important events in the past year – a year which led to severe turbulences, not only in the real estate sector, but also in the entire economy and in the financial markets.

Moving on to IVG: IVG is one of the leading real estate management companies in Europe, with a total of € 22.6 billion in real estate assets under management. Real estate funds account for € 15.6 billion of the assets under management. IVG's funds include not only specialised funds

for institutional investors such as insurance companies, pension funds, professional pension schemes and foundations but also closed-end real estate funds (EuroSelect) for nearly 60,000 private investors. In addition, IVG contributes to the country's security of energy supply by operating underground storage facilities for oil and gas (caverns) in the salt domes of Etzel near Wilhelmshaven in northern Germany. A large part of the German government's oil stockpiles is stored in these caverns.

On 1 November 2008 – in the middle of the international economic and financial crisis – I joined IVG as spokesman of the Board of Management. Since then, a lot has happened – also at IVG. In this review of last year's events and in future information letters about IVG, we would like to report on these events.



Dr Gerhard Niesslein,
Spokesman of IVG's Board of
Management

Ways out of the crisis:

CFO Schäfers on IVG's new strategic direction

At the beginning of this New Year, there is a great deal of evidence suggesting that a general recovery of the German economy cannot be expected in the near future. 2010 will probably be another difficult year for the German real estate sector, mainly because it cannot be ruled out that the labour market will come under pressure. Nevertheless, there is good reason for IVG to be optimistic. The Company has initiated three phases of a restructuring process which is expected to lead IVG toward a successful future.

The **first phase** has already been completed. It was designed to safeguard the Company. During this phase, IVG's efforts were focused on two types of measures: measures aimed at restructuring the Company's debt and measures implemented to safeguard its liquidity. As a first

step, IVG extended a syndicated loan of € 1.3 billion in spring 2009 with eleven German banks on nearly the same terms until the end of 2012. As a second step, IVG decided to sell properties worth one billion euros by the end of 2010. This step was also successfully completed last year; in this process, half of the assets were sold to real estate funds managed by IVG. The other half was placed in the market, including the sale of an office centre developed by IVG in Milan, which was sold for approx. € 300 million. As a result, IVG's financing requirements are largely covered until the end of 2012, apart from a large number of smaller loan agreements.

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Highlights 2009

Capital market:

Silver lining on the horizon: The company's financial restructuring is having an impact and is preparing the ground for a first stock market test in October: a minor capital increase
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Funds:

IVG Funds consolidates market leadership in the institutional funds business. Growth despite crisis. There has been such great demand for the IVG Protect Fund that several interested parties could not be served.

IVG Funds successfully places EuroSelect 17 (KPMG headquarters in Amsterdam) in six months. Building is completed ahead of schedule.

Turning point in funds market: IVG Board member Reul sees deep-rooted changes and new concepts in the market for real estate investments.
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Caverns:

Underground vaults: Security of supply for the Federal Republic of Germany
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Research:

The investment market is recovering, the letting market is still dozing at the bottom of the trough.
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Project developments:

The Frankfurt Airrail Center: A service center of superlatives
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Award for IVG press relations

After receiving awards in 2006 and 2007, IVG was awarded the top position in 2009 in the category "transparent and active press relations" by the "Scientific Association for the Promotion of Real Estate Journalism" (WVFI). The WVFI regularly conducts surveys among trade journalists working for national media.

Ways out of the crisis: Three restructuring phases

The **second phase** was initiated in summer 2009 under the heading of "Operational Excellence and Efficiency". The purpose of this phase is to change IVG's direction, with the objective of achieving sustainable and value-adding results through the quality of our services and consistent customer orientation. Essentially, the aim is to provide more precise information by means of standardisation in order to accelerate decision-making processes and eliminate any scope for interpretation. This includes a significant improvement of the IT landscape (Reboot Project), the establishment of a system of indicators to measure success (Argus Project), a re-orientation of Asset Management (Future Project: see page 3), a change in the valuation method (Value Project) and the integration of an integrated risk and process management (Risk Project). In addition, IVG has implemented internal projects designed to clearly allocate responsibility (compliance) within the Group and introduced processes designed to achieve set earnings and cost targets (Target Costing Project).

In this second phase, we have also developed a Medium-Term Plan for 2010 to 2012 in order to manage the Group's liquidity and financing requirements without losing sight of IVG's quality and customer orientation.

The **third phase**, which will now begin, is focused on growth and is designed to provide attractive future prospects for the Group despite the difficult economic environment. This will make it necessary to redefine IVG's corporate culture and its fundamental principles. Expressed in simplified terms, this phase is designed to promote IVG's develop-

ment from a portfolio holder and asset manager to an investment platform. This concept will enable business partners and investors to cooperate more closely and to strive for an alignment of interests. The Caverns Fund, which was issued at the end of 2008 (and which is one of the largest funds in the European market, with € 1.7 billion) and the "Protect Fund" are already an indication of the general direction: Both are shared investment products where IVG stays in the boat by holding a stake in the equity and at the same provides its combined expertise as a fund designer, fund manager and asset manager.

Such co-investment strategies will provide completely new perspectives for IVG and its customers. IVG is already preparing the first co-investment products, including a London Office Fund, which is expected to benefit from the recovery of the London real estate market, and a "Premium Green Fund", one of the first "green building funds" in Germany.



Dr Wolfgang Schäfers,
CFO of IVG

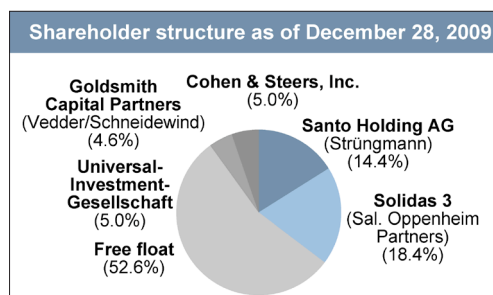
Finance & stock market:

First achievements and a minor capital increase

In autumn 2008, the severe economic and financial crisis also began affecting real estate companies. As a result, IVG had to write down nearly € 900 million of its real estate assets. At the beginning of 2009, the German Chancellor had called on Germany's business enterprises to make use of the second stimulus package if they had problems, and to apply for governmental guarantees, which would be quickly processed. In March 2009, IVG did just that and applied for a guarantee of € 300 million. No answer had been received by the beginning of 2010. Since then, however, IVG has managed, through its own efforts, to improve its consolidated net loss. After the successful completion of its direct financial restructuring program, IVG continued to be operationally stable in the third quarter of 2009 and has since focused on its further strategic and operational development. The consolidated net loss, for instance, was reduced from - € 54.4 million in the second quarter to only - € 2.2 million in the third quarter. The Net Asset Value per share was nearly unchanged at € 10.25 per share as of

30 September 2009.

The capital market rewarded IVG's recovery trend with trust. On 21 October, IVG placed 10 million new bearer shares among institutional investors by means of an accelerated procedure, which increased its share capital from € 116 million to € 126 million, for which part of the Authorized Capital was used while excluding the shareholders' subscription right. The gross proceeds of € 72 million will be used to finance the Company's future growth.



1 February: Dr Wolfgang Schäfers (43) joins IVG as Chief Financial Officer. Schäfers was previously Managing Director at Sal. Oppenheim in charge of "Real Estate Investment Banking" and since 2004 has been a professor of real estate management at the IREBS, the International Real Estate Business School of the University of Regensburg.

1 April: Martin Praum (33) joins IVG as the Director of "Investor Relations and Capital Markets". He was previously a senior analyst and director at Deutsche Bank.

1 June: After three decades of working for Frankfurter Allgemeine Zeitung as an editor in the business section of this national German newspaper, Jens Friedemann (65) joins IVG as "Head of Communications, Marketing & Research".

1 July: Peter Forster (49) joins IVG Asset Management GmbH as Managing Director. Trained as a civil engineer, he was previously in charge of the Asset Management of Deka Immobilien GmbH (domestic).

1 August: Lars H. Flechsig (42) is the new manager of the Hamburg branch office of IVG Asset Management GmbH. He had previously built up and managed the Hamburg office of Tishman Speyer.

1 October: Gerhard Hilke (56), known as the project manager of the "Opera Tower" in Frankfurt (Tishman Speyer Properties), joins the management of IVG Asset Management GmbH and of the Airrail Center Frankfurt Verwaltungsgesellschaft mbH & Vermietungs KG.

1 December: Michael Woltschon (46) takes over as manager of the IVG branch office in Düsseldorf. He had previously (Kupsch/DB Real Estate/RREEF) already had business relations with IVG, among other things, in connection with the marketing of the Berlin Spreespeicher.

31 December: Andreas Barth (47) leaves IVG's Board of Management, but will continue to be available to IVG as a consultant until the end of 2010. As a result of the severe financial and economic crisis, IVG has focused its business activities on the investment and funds business. After the completion of the currently ongoing development projects, the independent Development Division will be abandoned and continued via the Asset Management function for IVG's own property portfolio with certain restrictions.

Real estate funds:

Achievements in a difficult year

2009 was a year in which real estate funds had to demonstrate their reliability. The severe economic and financial crisis has deeply scarred demand. The successful performance of IVG Institutional Funds is all the more remarkable. Last year, the assets under management increased from € 10.3 billion to € 11.9 billion. With a market share of over 30 percent, IVG Institutional Funds is the market leader among the specialized open-ended real estate funds.



In this context, the “IVG Protect Fund” – a specialized open-ended fund for institutional investors with an investment volume of € 300 million – has gained particular importance. Within a few months, it was fully placed.

*Dr Georg Reul, member of the IVG Board of Management
Responsible for investments and funds*

IVG transferred to the fund eight high-yield office properties located in Brussels, London, Paris, Berlin, Hamburg and Munich. There was so much demand that several interested parties could not be served.

Protect Fund successful

When IVG designed this fund, it adopted a new approach: The fund is based on an alignment of the interests of investors and of IVG as the seller. IVG has retained a share of 20 per cent in the fund's equity and uses this share as a risk cushion. The investors (five institutional investors) will be protected against any write-downs for a period of five years due to this value protection mechanism. Any decrease in value will first of all be offset against IVG's share, while the fund will fully benefit from any increase in value; in this case, IVG will participate through a performance fee. IVG's Protect Fund is a specialised fund (“Spezialfonds”) under the German Investment Act and therefore has a fund structure that is efficient from a tax and regulatory perspective. The fund's target yield amounts to 6 per cent p.a., based on a sound borrowing ratio of 47 per cent. In agreement with the investors, the fund may be liquidated at any time.

EuroSelect 17 has been placed

The fact that conservatively designed funds are in demand has also been demonstrated by the EuroSelect 17 fund, which will invest nearly € 180 million in the “Amstelveen Office Center”. In only six months, the investors raised € 95 million in equity. The office centre will be used by the internationally operating auditing and management consulting firm KPMG which has planned the building to suit its own needs. The building

was completed earlier than planned and will provide a yield of six per cent p.a. to unit holders.

EuroSelect 18 has been launched

In line with its co-investor model, IVG started marketing the closed-end real estate fund EuroSelect 18 in 2009. This fund will invest nearly € 92 million in five properties in Hamburg, Nuremberg and Munich. IVG holds a share of 15 per cent in the limited liability capital of € 52.4 million and will remain in the boat with the co-investors. IVG guarantees the completion of the buildings under construction (Rödingsmarkt Hamburg, Medienbrücke Munich) and will compensate for shortfalls of income from the properties. Since IVG is present in the European markets with highly qualified teams of its own at 18 locations, it will manage the properties (Asset Management), which will avoid interfaces with conflicting interests. The IVG team guarantees professional management and is also responsible for the sale (transaction management). The investors will receive a yield of six per cent.



Medienbrücke development project, Munich

A strong team

Nearly 60,000 private investors have invested approx. € 3.3 billion in the various product lines of IVG Private Funds to date. Their benefit is that they are embedded within the stable context of a large, international real estate management group during the entire value-adding process: including the acquisition, the management and the resale of the property. In order to guarantee maximum transparency, IVG asks well-known rating agencies like Feri, Fondsmedia and Scope to value its funds at the beginning of the placement. Almost all of the funds (EuroSelect) issued to date have received a very good rating.



Rödingsmarkt development project, Hamburg

Caverns in the interest of security of supply

IVG has been active in the caverns business since the 1970s. Caverns are cavities of 300 to 400 metres in height and approx. 60 meters in diameter in the salt dome of the northern German plains near Etzel (Wilhelmshaven). The caverns are leached in an environmentally sound manner by means of brine at a depth of 1,500 to 1,800 metres. This area is connected to the European oil and gas network via pipelines. Caverns provide significant ecological and safety benefits compared with above-ground tank farms because oil and gas are stored at a depth of more than one kilometre. Approx. one-third of the German government's crude oil stockpile is also stored in these caverns. Etzel therefore plays an important role in securing energy supply in Germany.

IVG is one of the largest owners and operators of cavern systems. In autumn 2008, IVG contributed 40 operational caverns with long-term lease agreements as well as 30 caverns which were under construction to an infrastructure real estate fund. It is the first fund of its kind and – with an investment volume of € 1.7 billion – one of the largest real estate fund placements in the German capital market. Because of the volatility of oil and gas prices, the demand for caverns has been growing.

Stringent governmental regulation also adds to cavern safety. In addition, caverns have been classified by the German regulator “Bafin” as rights equivalent to real property; this must be seen in combination with the tax optimisation achieved by issuing a specialised real estate fund. Furthermore, there is a low correlation between the caverns business and other asset classes, so that caverns have excellent properties for risk-averse investors. The low-risk structure becomes even more obvious if one considers that lease agreements have been concluded for periods of up to thirty years with strong companies like E.ON and Statoil. The 30 caverns currently under construction will be completed successively and handed over to their tenants between now and 2014.

Large development projects: Airrail Center about to be completed

As you approach Frankfurt Airport from the A3 motorway, it looks as if a space ship with a silvery gleam had landed on the roof of the ICE railway station. Resting on 240 pillars, the Airrail Center with its length of 660 metres and its width of up to 65 metres is in fact one of the most spectacular construction projects in Europe.

On 1 March 2007, the cornerstone ceremony was held for the building to be erected on the reinforced concrete slab with the ellipsoidal glass roof of the railway station, which will be preserved and embraced by the nine floors of the Airrail Center. The property developers are IVG Immobilien AG and Fraport AG. The architect is JSK Siat International, Frankfurt, and the contractor for the construction of the shell is Züblin. With a usable floor space of approx. 140,000 square metres, the Airrail Center is the core of the new Airport City Frankfurt. It is the only world-class office and service centre worldwide that is directly connected to the departure lounges of an airport.

The importance of the Airrail Center is further enhanced by the promise made by policy-makers that a multi-storey car park will be built for the Airrail Center with up to 2,500 parking spaces and a direct connection (Skylink) to the Airrail Center. In the Center itself, there are parking spaces for 600 cars.

IVG Board Spokesman Dr Gerhard Niesslein referred to the Airrail Center as an "irreplaceable location" whose attractiveness will be reflected in the value added for the companies that will settle in the Center and in the value growth of this Center. In just a few minutes, you can reach the check-in counters of the airline companies from your desk or your hotel room, and you can get to the Frankfurt motorway intersection, the busiest motorway hub in Europe, just as quickly by car. On the ground floor, there are nearly 200 train services per day, and in the lower regional railway station, suburban trains take their passenger right to the banking district in 15 minutes – 350 times a day.

When the topping-out ceremony was held in June 2009, approx. 60 percent of the usable

floor space of the Airrail Center had already been let, and contracts had been signed for nearly all of the 30 retail stores and restaurants. On a floor space of approx. 30,000 square metres, KPMG – the internationally operating auditing and management consulting firm – will open its European headquarters. For KPMG, the location is unbeatable for employees and clients from all over the world. Another 34,500 square metres of floor space will be occupied by the Hilton Group, which will be represented with two different hotels under one roof. Another large tenant will be the Metropolitan Medical Center, a diagnostic and therapeutic centre of medical excellence. Negotiations are currently being conducted with several well-known companies with regard to the remaining 50,000 square metres of service floor space.

Of course, there have also been problems at the construction site. Steel supplied from China was defective. Weld seams did not comply with German standards and led to delays and consider-

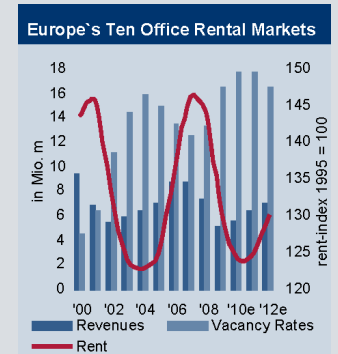


Airrail Center development project, Frankfurt

able additional cost; and lifts and escalators were not installed in time. However, despite these delays, the Airrail Center will be opened this year as an arena for communication and for an exchange of information and experience. With its light-flooded atriums, the Airrail Center has everything it takes to develop into a conference venue of international dimensions. After the opening of the Center in the course of this year, up to 10,000 people per day are expected in the Center's offices, coffee shops, retail stores, restaurants and hotels. The Airrail Center will become even more important once the new runway of the airport has been completed.

Investments in demand - letting market is difficult

2009 was a year in which IVG had to demonstrate its reliability. The latest forecasts suggest that, in the current year, economic growth will amount to roughly one per cent in the euro zone and to approx. 1.5 per cent in Germany. Even if the economy picks up, conditions will continue to be tight in most office rental markets in the current year. This is due to the fact that the



Source: IVG Research

situation in the labour market continues to be difficult. When employment figures decrease, there is no need for additional office space. However, compared with the previous year, the rent adjustments will be moderate in many markets.

Since spring 2009, there has also been a certain recovery in the investment markets for commercial properties, in particular in Central London. This trend will probably grow stronger in 2010. According to the real estate broker and management consulting firm Jones Lang LaSalle, the transaction volume in Europe will increase by 20 per cent relative to 2009 to reach approx. € 85 billion. However, investment activities will be limited by the banks' lending policy, which continues to be restrictive. The market for real estate investments will be dominated by well-funded investors.

IVG Financial Calendar: The most important events and dates of IVG Immobilien AG

4 February 2010	Fourth Real Estate Conference of IVG Institutional Funds, Wiesbaden / Nassauer Hof
25 February 2010	Petersberg Colloquium 2010, IVG Private Funds
16-19 March 2010	MIPIIM, Cannes / booth partnerships with London, Frankfurt and Nuremberg
25 March 2010	Publication of Annual Report 2009
12 May 2010	Publication of Interim Report – Q1 / 2010
20 May 2010	Annual General Meeting of IVG Immobilien AG, Bonn
13 August 2010	Publication of Interim Report – Q2 / 2010
4-6 October 2010	EXPO Real, Munich
12 November 2010	Publication of Interim Report – Q3 / 2010

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The magazine article of the month



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