

PRESS INFORMATION

DIFA paves the way for growth with open-ended real estate funds

Improved performance by all funds / Continued expansion into international markets / New company name reflects growing integration of property and capital market activities

The “classic” funds offered by Hamburg-based DIFA Deutsche Immobilien Fonds AG have benefited from the recovering German office property markets and delivered a correspondingly strong performance. As at 30 September 2006 (i.e. after the first six months of the fiscal year), DIFA-Fonds Nr. 1 posted a twelve-month return of 2.4%, compared to 1.7% at the end of the previous fiscal year. “This encouraging performance reflects the stabilisation of the German office property markets,” says DIFA Management Board member Reinhard Kutscher. DIFA-GRUND, which focuses on the European markets, also showed an improvement over the previous year, closing its fiscal year on 30 September with gains of 2.7% (previous year: 2.1%). The international DIFA-Global fund achieved a twelve-month return of 4.2% as at 30 September 2006 (after the first half of the fiscal year), compared to 4.0% at the end of the previous fiscal year.

Thanks to the easing of the liquidity situation, the majority of shares in DIFA-Fonds Nr. 1 bought by the Union Investment Group at the start of 2006 were returned in mid-November. Union Invest-

ment had temporarily supported the fund by acquiring shares when the industry was hit by a major crisis, in order to keep it open to all retail investors. The crisis was mainly triggered by competitors closing their funds. Although returning the shares will push up the outflow in November, DIFA anticipates that the growing demand for the funds will result in a return to a positive net inflow in December.

DIFA has fully exploited the opportunities offered by the robust demand from foreign investors for German office property. The net sales volume amounted to EUR 1.5 billion in 2006, involving 19 properties in Germany and 3 in foreign markets. The sales price obtained were on average 3.8% higher than the most recent expert valuation figures. Alongside its successful sales performance in 2006, DIFA invested EUR 875 million in its four retail funds, a sum that was used to acquire 15 properties, development projects and affiliated companies. In 2005/6, DIFA entered 11 new foreign markets, including Norway, the Czech Republic, Hungary, Canada, Mexico and South Korea, and now has holdings in 17 countries outside Germany. In the first three quarters of 2006, DIFA moved into the Dutch, Luxembourg and South Korean markets, with China set to follow.

New name underlines DIFA's strategic development

DIFA's ongoing strategic repositioning as a global investment manager will soon be reflected in its external identity. In 2007 – probably in January – DIFA AG will be changing its name to “Union Investment Real Estate AG”. The company will remain headquartered in Hamburg.

“Our new name reflects the growing integration of our capital and property market-related activities,” says Kutscher. “DIFA has taken advantage of the new investment opportunities offered by the 2002 Fourth Financial Markets Promotion Act to access new markets via indirect investments and joint ventures. With the rise in cross-border investment, financial engineering has also become a key component of DIFA’s portfolio management activities.

Property fund manager DIFA has been part of the Union Investment Group since 2001, but the new name is intended to make the link more visible. The Union Investment Group is the asset management specialist within Germany’s cooperative *FinanzVerbund* banking alliance and a major player in the investment market. With more than 2,000 employees and assets under management currently in excess of EUR 144 billion, Union Investment is one of Germany’s largest asset managers for retail and institutional investors. “The new name also emphasises our commitment to growth within the context of a strong group. Open-ended real estate funds are a successful asset class with excellent prospects in Germany as well as throughout Europe,” adds Kutscher.

Product evolution in Europe

The Union Investment Group regards real estate as a key asset class that is set to play an increasingly important part within its overall activities. “Indirect property investment will become more attractive to retail and institutional investors. Open-ended real estate funds are well positioned in this respect, and will continue to play a leading role in the future,” says Wolfgang Mansfeld, the Executive Board member at Union Asset Management Holding with responsibility for the real estate segment. The Union Investment Group estimates the market potential for fund inflows across the

industry at around EUR 15 billion p.a. and believes that the recent crisis has been largely overcome. Assuming the necessary steps are taken, open-ended real estate funds are expected to emerge strengthened by the experience.

In Mansfeld's view, the measures put in place by the industry at the start of 2006 have paved the way for better liquidity management instruments and greater transparency. The forthcoming amendment to Germany's Investment Act should enshrine this program in law, where necessary, and investment policy instruments need to be further enhanced. Mansfeld is upbeat about the outlook for Europe. "It is encouraging that the White Paper issued recently by the European Commission on development of the EU investment fund market has specifically recognised the potential of open-ended real estate funds."

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