BERENBERG EQUITY RESEARCH

Grand City Properties SA

Buy

Realising potential in German residential real estate

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7 November 2013

Real Estate

BERENBERG
PARTNERSHIP SINCE 1590

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Grand City Properties SA
Small/Mid-Cap: Real Estate

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Realising potential in German residential real estate

- **Special focus:** Grand City Properties (GCP) creates value by upgrading undermanaged and distressed German residential properties. The company has been in the market for nine years and has demonstrated a strong track record in deal sourcing, with a current portfolio of c22,000 units (up from 12,000 units in 2012). The assets are primarily located in North Rhine-Westphalia and Berlin. While competition for portfolios will presumably rise in the longer term, we expect GCP to grow its portfolio to around 40,000 units by 2017.
- **The right leverage:** GCP's operating leverage is high, coming from successfully increasing occupancy and rental levels, which translates into an uptick in funds from operations (FFO; as the adjusted net profit) to €84m, on our estimates, in 2017, from €30m in 2013. This growth is supported by strong balance sheet ratios and low financial leverage, with a loan-to-value of 45% currently – below the sector's average.
- **Clear growth:** We expect current vacancy rates of 13% to decrease to 6% like-for-like and in-place rents of €5.12/sqm to rise to €5.73/sqm by 2017. With an annual acquisition volume of 5,000 units, net rental income should grow substantially to €143m and the adjusted EBITDA (as the key earnings figure) should almost double to €144m by 2017. The EPRA NAV should grow by 32% to €9.61/share over the same period.
- **"On the move":** We regard GCP's business model – with a more opportunistic and "hands-on" approach towards acquisitions and asset management, combined with strong financial discipline – as attractive, and view the earnings potential as significant. We initiate coverage with a Buy rating and a price target of €7.50 based on return on net asset value and EVA, offering upside of 23%. We have incorporated higher risk premiums due to GCP's small size and low free float, but regard the stock as currently undervalued.

Y/E 31.12., EURm	2011	2012	2013E	2014E	2015E	2016E	2017E
Total revenues	21	39	76	114	125	144	163
Net rents	16	24	58	96	107	125	143
EBIT (inc revaluation net)	84	122	145	134	138	162	179
EBIT (excl revaluation)	13	29	57	89	103	123	144
Net profit (reported)	56	82	87	63	70	85	96
Funds From Operations (FFO)	4	13	30	43	53	69	84
EPS reported	11.12	1.98	1.18	0.72	0.79	0.96	1.09
FFO per share	0.89	0.32	0.41	0.48	0.60	0.78	0.96
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NAV per share	16.77	4.44	5.06	6.50	7.17	7.87	8.47
NNAV per share	21.11	7.29	6.87	7.28	8.05	8.87	9.61
EV/EBITDA	11.4	11.7	19.4	13.5	12.6	11.4	8.4
FFO yield	-	9.3%	6.8%	8.1%	9.9%	13.0%	15.9%
P/FFO	0.0	10.8	14.7	12.4	10.1	7.7	6.3
Dividend yield	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/NAV per share	-	-	4%	-17%	-25%	-32%	-37%
P/NNAV per share	-	-	-13%	-17%	-25%	-32%	-37%
Net gearing	181%	105%	127%	116%	122%	126%	131%
Loan-to-value (LTV)	57%	45%	50%	49%	50%	51%	51%
Implied yield	10.7%	7.1%	5.3%	8.0%	8.2%	8.9%	9.5%

Source: Company data, Berenberg

Buy (initiation)

Current price	Price target
EUR 6.01	EUR 7.50

06/11/2013 Luxembourg Stock Exchange Close

Market cap	EUR 531 m
Reuters	GYC.DE
Bloomberg	GYC GY

Share data

Shares outstanding (m)	88
Enterprise value (EURm)	1,098
Daily trading volume	45,000

Performance data

High 52 weeks (EUR)		6
Low 52 weeks (EUR)		4
Relative performance to	SXXP	MDAX
1 month	-1.6 %	-3.9 %
3 months	10.0 %	5.9 %
12 months	32.5 %	12.9 %

Business activities:
Grand City is focused on German residential properties and currently owns around 22,000 apartments. Its strategy is focused on upgrading undermanaged or distressed properties by raising occupancy and rental levels.

Non-institutional shareholders:
Edolaxia Ltd* 44%
Valuemonth Holdings* 4%
Zanelo Trading Ltd* 2%
(*=investment vehicles owned by the company's founder)

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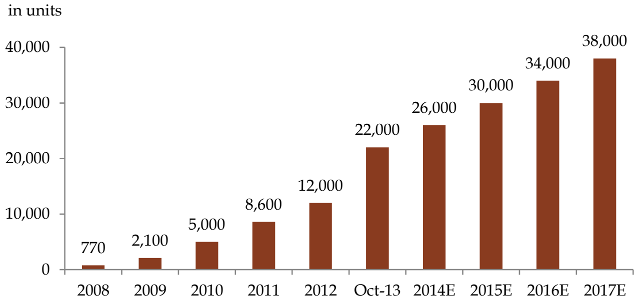
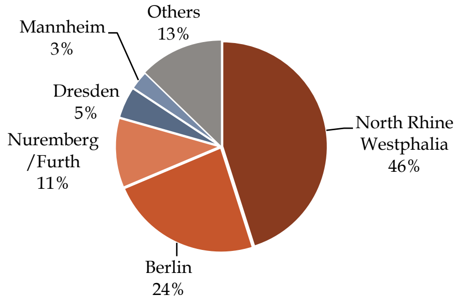
Grand City Properties – strong organic and external growth

Portfolio to grow further



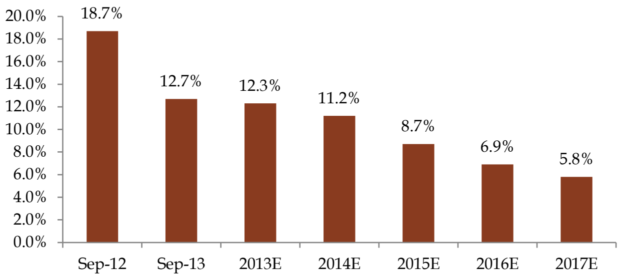
Source: Berenberg estimates

Current portfolio structure



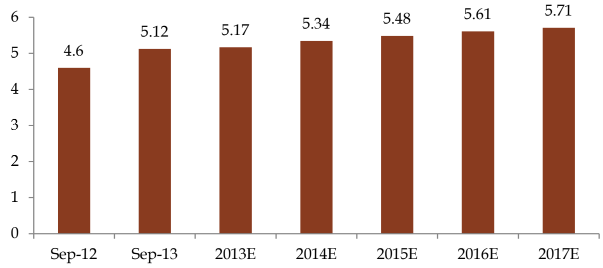
Source: Berenberg estimates

Vacancy rate to fall significantly …



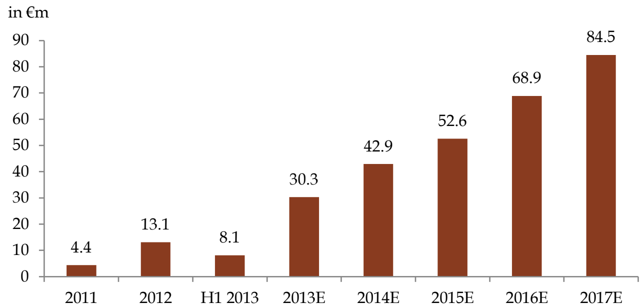
Source: Berenberg estimates

…and rents to rise continuously (€/sqm/month)



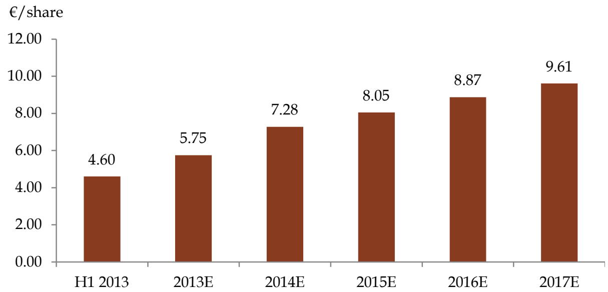
Source: Berenberg estimates

Strong momentum in funds from operations



Source: Berenberg estimates

EPRA net asset value with upwards momentum



Source: Berenberg estimates

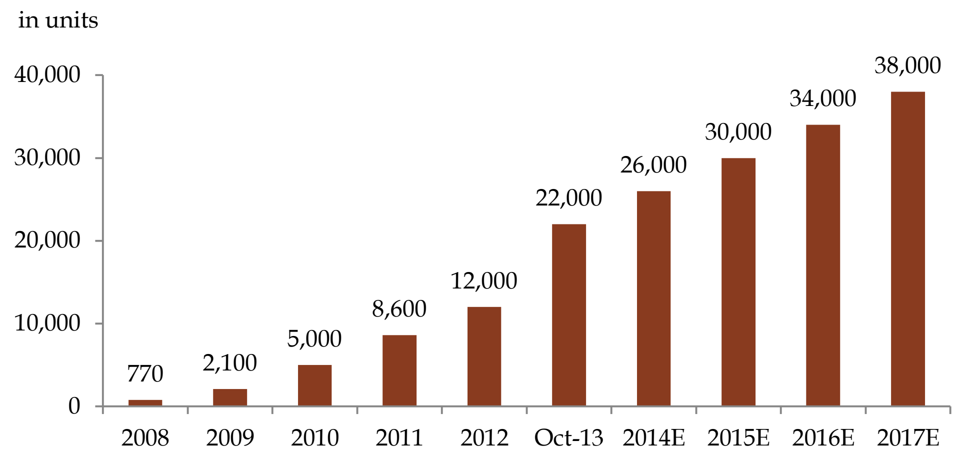
Business model and strategy

Grand City Properties (GCP) has already been active in the German residential property markets for almost 10 years, with its first portfolio acquisition in 2004. Thereafter, the company expanded its portfolio only selectively as prices were at high levels, driven by the easy access to debt financing at the time. Only since the Lehman Brothers crisis of 2008 has GCP resumed its growth momentum: it has now become a major player in the markets for smaller/mid-sized distressed portfolios and non-performing loans (NPL). In turn, as a listed company since 2012, GCP has also undergone a transformation process and has built up all the key functions for asset and portfolio management in-house. We expect the organisational structure to follow, while disclosure and transparency have already started to improve. Headquartered in Berlin, GCP currently has around 150 employees and runs six local offices.

The company's primary sources of acquisitions are distressed and/or undermanaged portfolios ranging from €5m-50m; GCP has built up a strong network in this niche. Typically, GCP acts as a cash buyer and can therefore offer the seller or administrator high deal security. Selectively, GCP also buys loans in order to gain access to the underlying assets at a deeply discounted price. Initially, the company also bought stakes in asset-holding special purpose vehicles (SPVs), but has always been in the driver's seat when it comes to working with the properties. We regard this as crucial, as one of GCP's core competences is to reposition the properties, reflected in a significant reduction in vacancy rates thereafter.

Looking at the company's investment history, it is apparent that GCP initially acted counter-cyclically, starting mainly in 2009/10 when real estate transactions worldwide saw a dip in the wake of the Lehman Brothers crisis. Because at the time – and subsequently – several highly-leveraged portfolios had issues with the underlying debt, the supply of distressed properties rose and GCP was able to accelerate its portfolio growth significantly, particularly in 2013.

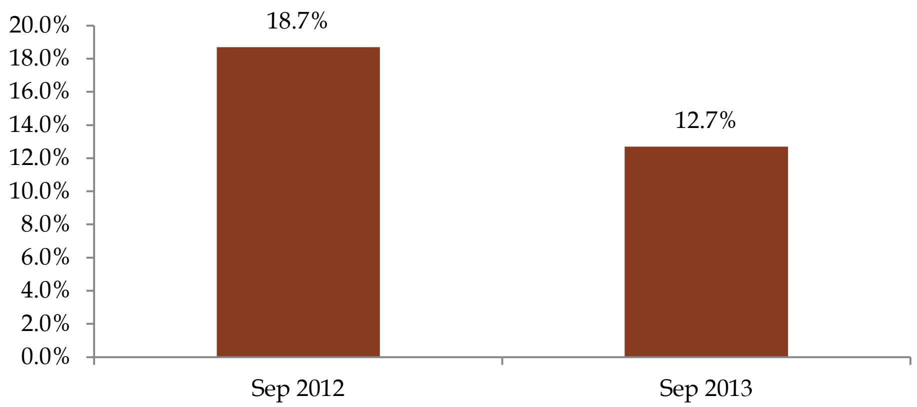
Portfolio growth to continue



Source: Company data, Berenberg estimates

Typically, most of the previous owners have been unable – or unwilling – to manage the portfolios properly, which is why GCP could often buy them at depressed multiples of 9.5-10.5x on in-place rents, or yields of 10.0-11.0%. On the flipside, the assets are normally affected by higher vacancy rates and low rental levels, and are in need of an upgrade. However, looking at the successful reduction in vacancy rates, we would conclude that the apartments are obviously marketable and suitable for re-letting once they are in the hands of a professional and experienced new owner like GCP. The company has internalised the whole value chain for asset management, from the technical due diligence and refurbishment up to the letting process, which is monitored by a state-of-the-art CRM tool. Overall, we would regard the portfolio quality more or less as average and would describe GCP's properties as a typical "mass-market product" which corresponds well with local tenants' demand. The average unit size, at 65sqm, and the age of the buildings which house GCP's assets are comparable with the sector average.

Vacancy reduction as a key competence



Source: Company data

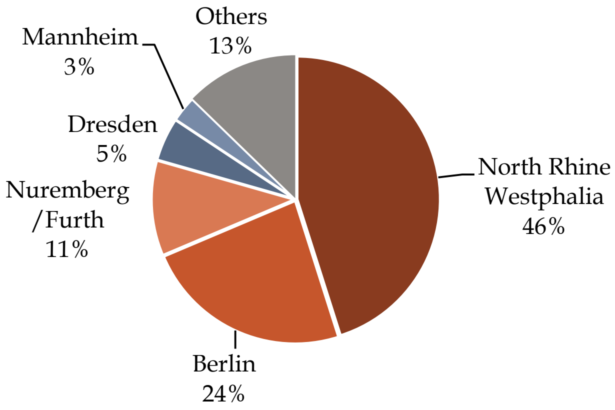
The photographs below show how selected GCP assets look after being refurbished. Though only an illustration, it nevertheless reflects the company's ability to work with the properties.

GCP properties before and after refurbishment

Source: Company data

Due to the company's opportunistic investment approach, GCP's portfolio structure is widely diversified with almost half the assets located in North Rhine-Westphalia (NRW). We understand that GCP would be open to increasing the diversification further, but also aims to withdraw from locations if the critical mass of around 1,000 units cannot be reached – or if it sees less potential for the location from a market fundamentals perspective.

Grand City's portfolio structure by regions



Source: Company data

We would not be critical per se of the fact that almost half of GCP's current portfolio is exposed to NRW. Firstly, this is not a big surprise, as before the Lehman Brothers crisis many portfolios (including those that were previously under public ownership) were acquired by financial investors in this federal state. The economic fundamentals of NRW are typically described as average, with a number of cities showing strong underlying momentum (like Dusseldorf, Bonn, Munster and Cologne), but other cities showing challenging fundamentals (such as in the former coal-producing regions, including Dortmund, Bochum and Oberhausen). As GCP's initial aim is to improve occupancy levels, we would assume that the region's high population density is typically supportive. However, in the longer run the upside might be limited. The company's top five locations are mainly in larger cities, with Berlin in first place.

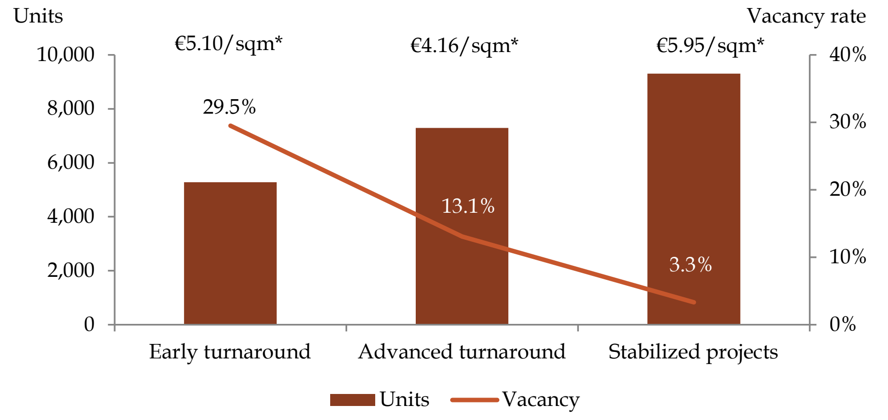
GCP's top five locations

City	Units	Rent/sqm	Vacancy
Berlin	5,076	5.69	9.50%
Nuremberg / Furth	1,916	5.94	4.16%
Dortmund	1,303	4.54	7.85%
Dresden	1,232	5.80	5.69%
Cologne	780	5.10	3.33%

Source: Company data

The portfolio is internally structured into three categories: "early turnaround", "advanced turnaround" and "stabilized". The third of these is currently the largest given the recent rise in the total number of apartments and completed refurbishments. The key criteria is the portfolio vacancy rate, which then leads to different asset management activities. Once vacancy rates have decreased, the apartments are re-classified internally and also qualify for disposal. Typically, GCP targets a reduction in vacancy rates for the "early turnaround" portfolio of more than 3% per annum with rents/sqm to rise by up to 5% on average.

Grand City's portfolio structure by segment



(*) monthly rent

Source: Company data

GCP has built up a track record not only in sourcing distressed properties, but particularly also in turning such properties around, which we regard as crucial. This includes reducing the capex backlog and increasing maintenance spending, but also initiatives to improve tenants' satisfaction. (So, for example, GCP would typically build children's playgrounds or rent out some commercial space to a day-care centre.) The company's asset management team now consists of 150 employees, all of whom have been in the industry for several years. We regard the quality of asset management as high, including the IT tool developed in-house, which summarises all activities from tenant retention, collection monitoring, repairs and maintenance up to re-letting potential. Obviously, managing a real estate portfolio is not a closed book, but spending wisely on investments is key, and capturing the highest rent potential also often makes the difference, particularly for this kind of residential asset. Finally, GCP receives a thorough update on the cost structure in order to improve profitability continuously.

In principle, GCP's strategy is not overly sophisticated, but it is very straightforward – and the "buy-improve-hold" strategy has already proven to be successful if we look at the significant enhancement in profitability and FFO. It goes without saying that the company is no portfolio trader, although the realised gains from disposals are nevertheless remarkable. About 10% of the portfolio annually is considered for sale.

Grand City's track record in disposals

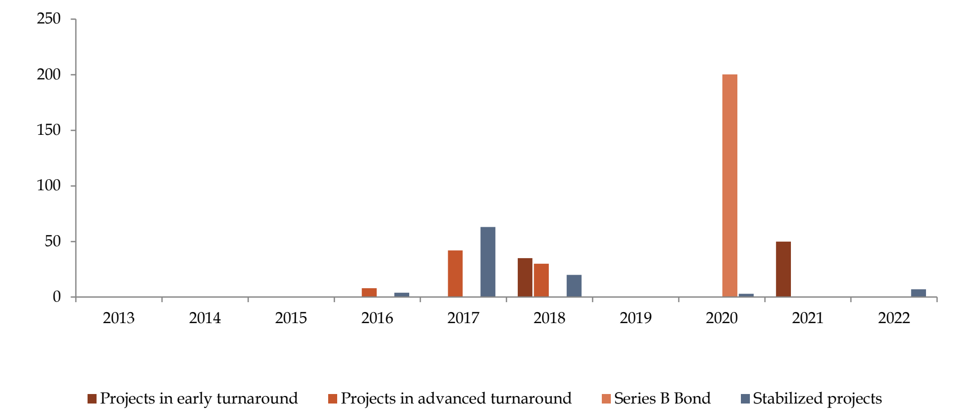
Portfolio	Acquisition	Units	Rent multiple at purchase	Rent multiple at disposal	Acquisition costs in €m	Exit date	Exit price in €m
Berlin 1	2010	280	10.9x	14.1x	9.8	2011	13.0
Berlin 2	2010	350	10.5x	13.5x	12.1	2011	16.2
Berlin 3	2010	635	10.3x	14.3x	17.5	2011	25.1
NRW 1	2011	123	8.7x	10.8x	3.9	2012	5.4
Berlin 4	2008	41	7.5x	11.2x	1.5	2011	3.1
NRW 2	2011	426	8.1x	15.0x	14.5	2012	30.0

Source: Company data

GCP does not undertake residential privatisations and all disposals have been made opportunistically. We strongly welcome that this approach will be maintained in future as well, and would regard disposals primarily as an illustration that the externally-appraised portfolio value is reasonable and can be realised in the markets. Obviously, the above-mentioned gains are not exemplary for the entire portfolio at this stage, but the realised capital gains are a nice add-on.

While being opportunistic in buying and selling, and following a rather "hands-on" approach in managing the portfolio, GCP is more disciplined when it comes to financing. In February 2013, GCP was rated BB- by Standard & Poor's (S&P) with a stable outlook, which was also assigned when GCP issued a corporate bond of €200m with a coupon of 6.25% expiring in 2020. Besides GCP, only Deutsche Annington has recently been rated BBB by S&P. Accordingly, GCP will keep leverage low in future as well, reflected in the loan-to-value (LTV), which stood at 44% as of June. The BB- rating includes an LTV covenant of 65%, but we understand that GCP does not want to exceed 55%, even with a further increase in portfolio size. Being externally rated has also helped GCP widen its lending partners, which now include 11 well-known mortgage banks like Berlin Hyp and DG Hyp, as well as local savings banks. With an average debt maturity of six years, and 95% fixed at an average cost of debt of 3.3%, we would regard GCP's debt ratios as strong and its debt expiry profile as favourable.

Grand City's debt expiry profile (€m)



Source: Company data

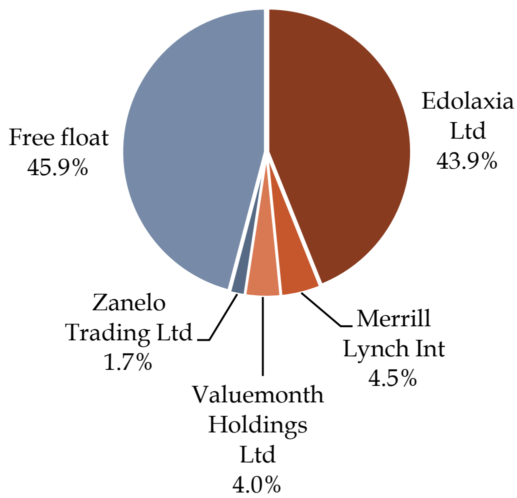
Management and shareholder structure

Grand City Property Ltd was founded in 2006, having previously been known as the investment vehicle Adminond Trading & Investments Ltd. The first portfolio in NRW was acquired one year later, but the company then paused for more than two years, as portfolio prices had reached quite high levels at that time due to the easy availability of debt financing, often via securitisations. With the company focusing primarily on distressed assets, momentum increased again in 2009 with the acquisition of 1,330 units, mainly in Berlin. This was followed by 2,900 units in NRW and Berlin one year later and of 5,100 units in 2011. The strongest increase in portfolio size has taken place in 2013, reaching more than 22,000 units as of October after c12,000 units at the beginning of the year.

After being incorporated as Grand City Properties SA in Luxembourg in 2011, the company paved the way to the equity markets with a listing in May 2012. A 10% capital increase of €15m followed in July 2012, and another in February 2013 with the issuance of 8m shares for €35m. Furthermore, a €100m convertible bond was issued in October 2012, which in the meantime has been entirely converted into equity, leading to outstanding shares numbering 88.45m currently. For the issuance of the €200m corporate bond in June and July 2013, GCP was externally rated by S&P as BB-.

With a total market capitalisation of €540m, GCP is currently listed on the Open Market on the Frankfurt Stock Exchange. During 2014, the company is targeting becoming a member of the Prime Standard and will also publish interim results on a quarterly basis. We would regard this as an important step, as it will help to increase awareness among more general equity investors, who typically request a high level of disclosure and transparency. Looking at the shareholder structure, the current free float is still fairly small.

Shareholder structure



Source: Company data

The largest holders in GCP – Edolaxia, Valuemonth and Zanelo – are private investment vehicles of Yakir Gabay, the founder of GCP, who is still the largest shareholder. Having previously been CEO of the investment banking unit of the Israeli bank Leumi, he set up his own company investing its own and third-party money. The investments were in two separate vehicles: Grand City Properties (for residential investments) and Grand City Hotels (for hotel investments). All activities in residential real estate are in GCP. As GCP expects to continue growing, we anticipate that the free-float proportion will increase. However, we would not see the current share overhang as a concern; nevertheless, a larger free float and greater liquidity in the share would clearly be helpful.

All of GCP's operational activities are internalised, which we regard as a strong competitive advantage in this segment. The executive team consists of the three directors Simone Runge-Brandner, Refael Zamir and Daniel Malkin, who have all been in the real estate industry (including real estate financing) for many years. Christian Windfuhr currently holds the position of chairman of the supervisory board alongside Claudio Jarczyuk; both also had long-standing industry experience prior to joining GCP.

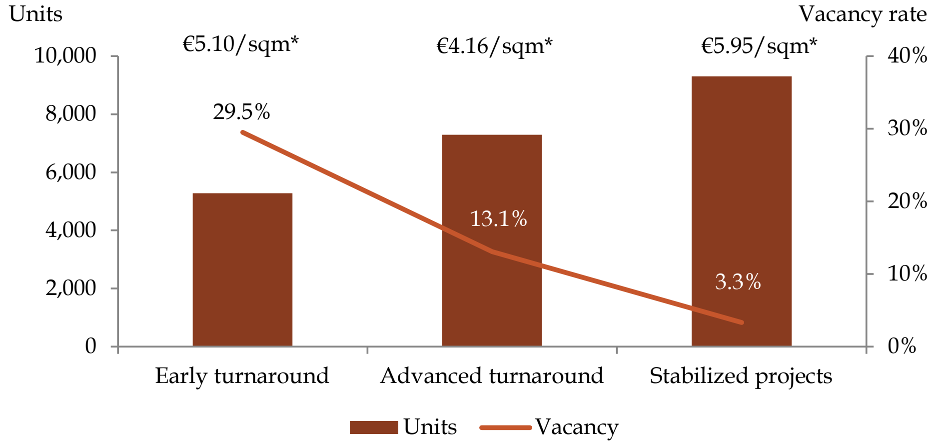
While there has already been an improvement in disclosure and transparency regarding GCP's financials, we welcome that the company is now also aiming to advance its organisational structure. We understand that the remuneration scheme for the management team will be renewed, with the key parameters to be based on "per share" numbers – such as, for example, funds from operations per share. We would regard this as positive, as it will be aligned with shareholders' interests. The variable portion of remuneration, including that of the second- and third-tier management teams, is already quite high, with up to 50% based on individual targets. However, communicating the new compensation scheme for top management should help improve investors' awareness of GCP. We also understand that the supervisory board may be complemented by at least one new member.

Portfolio and earnings forecasts

In the prospectus for the €200m corporate bond issued in summer 2013, GCP included the external portfolio valuation conducted by JLL. At this time the portfolio consisted of around 11,000 units, although it has grown substantially since then. Nevertheless, we appreciate that, despite its small initial size, the company was orientated towards the sector's standards from the very beginning. JLL derived an average value/sqm of €708/sqm as of June. With current gross rental income of €43.8m, the multiplier was 13.5x, or a yield of 7.4%. We would regard this as reasonable, and the assumed maintenance costs of €8.42/sqm also suggest that the assets overall are of average quality.

Currently, GCP owns around 22,000 units split into three sub-portfolios.

Portfolio structure according to segments



(*) monthly rent

Source: Company data

The company has set up specific strategies to improve occupancy and rental levels for each sub-portfolio depending on the location and the amount of maintenance/capex required. Once the assets are re-classified as part of the "stabilized" portfolio, a disposal is considered as an exit – although this is not crucial or key for GCP's business model. The key criteria is vacancy reduction, which has been quite impressive so far. The company is aiming for vacancy rates of around 3%, also for the "advanced" and "early turnaround" portfolios, after up to four years. As this goes hand in hand with rising rents/sqm, the operational leverage is therefore very high. We have applied a slightly more conservative approach in our model, which is calculated individually for each sub-portfolio.

GCP – portfolio forecasts for 2013

2013E					
Stabilized Portfolio		**Advanced turnaround portfolio**		**Early turnaround portfolio**	
Floor area	633,012	Floor area	474,240	Floor area	327,608
Number of units	9309	Number of units	7296	Number of units	5284
Average size/unit/sqm	68	Average size/unit/sqm	65	Average size/unit/sqm	62
In-place rent/€/month	5.95	In-place rent/€/month	4.19	In-place rent/€/month	5.15
Annualised rent/€m fully occupied	45.2	Annualised rent/€m	23.8	Annualised rent/€m	20.2
Vacancy	3.00%	Vacancy	12.50%	Vacancy	28.50%
Annual rent €m including vacancy	43.8	Annual rent €m including vacancy	20.9	Annual rent €m including vacancy	14.5
Parking spaces	850	Parking spaces	1050	Parking spaces	925
Market value portfolio €T	655,030	Market value portfolio €T	309,673	Market value portfolio €T	217,701
Market value/flat/€T	70.4	Market value/flat/€T	42.4	Market value/flat/€T	41.2
Stake in total portfolio	43%	Stake in total portfolio	33%	Stake in total portfolio	24%
Yield on annualised rent full occupancy rate	6.9%	Yield on annualised rent full occupancy rate	7.7%	Yield on annualised rent full occupancy rate	9.3%
Total portfolio					
Total units	21,889				
Total market value/€m	1,182				
Value/unit/€T	54.0				
Value/sqm/€	824				
Annualised rent/€m fully occupied	89.3				
Annualised rent €m including vacancy	79.2				
Portfolio rent/sqm/€/adjusted	5.17				
Portfolio vacancy rate	12.3%				
Yield on annualised rent full occupancy rate	7.55%				

Source: Berenberg

GCP – portfolio forecasts for 2014

2014E					
Stabilized Portfolio		**Advanced turnaround portfolio**		**Early turnaround portfolio**	
Floor area	633,012	Floor area	474,240	Floor area	327,608
Number of units	9309	Number of units	7296	Number of units	5284
Average size/unit/sqm	68	Average size/unit/sqm	65	Average size/unit/sqm	62
In-place rent/€/month	5.95	In-place rent/€/month	4.16	In-place rent/€/month	5.10
Change in in-place rent	3.0%	Change in in-place rent	4.0%	Change in in-place rent	5.0%
New in-place rent/€/sqm	6.13	New in-place rent/€/sqm	4.33	New in-place rent/€/sqm	5.36
Annualised rent/€m fully occupied	46.6	Annualised rent/€m	24.6	Annualised rent/€m	21.1
Vacancy	3.3%	Vacancy	13.1%	Vacancy	29.5%
Change in vacancy rate	-0.30%	Change in vacancy rate	-3.00%	Change in vacancy rate	-2.50%
New vacancy rate	3.03%	New vacancy rate	10.05%	New vacancy rate	26.98%
Annual rent €m including vacancy	45.1	Annual rent €m including vacancy	22.1	Annual rent €m including vacancy	15.4
Parking spaces	850	Parking spaces	1050	Parking spaces	925
Market value portfolio €T	679,605	Market value portfolio €T	321,843	Market value portfolio €T	226,367
Market value/flat/€T	73.0	Market value/flat/€T	44.1	Market value/flat/€T	42.8
Stake in total portfolio	43%	Stake in total portfolio	33%	Stake in total portfolio	24%
Yield on annualised rent full occupancy rate	6.9%	Yield on annualised rent full occupancy rate	7.7%	Yield on annualised rent full occupancy rate	9.3%
Change in yield	-0.05%	Change in yield	-0.05%	Change in yield	0.00%
New yield	6.85%	New yield	7.65%	New yield	9.30%
Yield on annualised rent current occupancy rate	6.6%	Yield on annualised rent current occupancy rate	6.9%	Yield on annualised rent current occupancy rate	6.8%
Total portfolio					
Total units	21,889				
Total market value/€m	1,228				
Change in value/€m	45				
Value/unit/€T	56.1				
Value/sqm/€	855.7				
Annualised rent/€m fully occupied	92.2				
Annualised rent €m including vacancy	82.7				
Portfolio rent/sqm/€/adjusted	5.34				
Portfolio vacancy rate	11.2%				
Yield on annualised rent full occupancy rate	7.51%				

Source: Berenberg

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GCP – portfolio forecasts for 2015

2015E					
Stabilized Portfolio		**Advanced turnaround portfolio**		**Early turnaround portfolio**	
Floor area	633,012	Floor area	474,240	Floor area	327,608
Number of units	9309	Number of units	7296	Number of units	5284
Average size/unit/sqm	68	Average size/unit/sqm	65	Average size/unit/sqm	62
In-place rent/€/month	6.13	In-place rent/€/month	4.33	In-place rent/€/month	5.355
Change in in-place rent	2.00%	Change in in-place rent	3.00%	Change in in-place rent	3.00%
New in-place rent/€/sqm	6.25	New in-place rent/€/sqm	4.46	New in-place rent/€/sqm	5.52
Annualised rent/€m fully occupied	47.5	Annualised rent/€m	25.4	Annualised rent/€m	21.7
Vacancy	3.03%	Vacancy	10.05%	Vacancy	26.98%
Change in vacancy rate	-0.10%	Change in vacancy rate	-3.00%	Change in vacancy rate	-6.00%
New vacancy rate	2.93%	New vacancy rate	7.05%	New vacancy rate	20.98%
Annual rent €m including vacancy	46.1	Annual rent €m including vacancy	23.6	Annual rent €m including vacancy	17.1
Parking spaces	850	Parking spaces	1050.0	Parking spaces	925
Market value portfolio €T	693,197	Market value portfolio €T	333,680	Market value portfolio €T	235,692
Market value/flat/€T	74.5	Market value/flat/€T	45.7	Market value/flat/€T	44.6
Stake in total portfolio	43%	Stake in total portfolio	33%	Stake in total portfolio	24%
Yield on annualised rent full occupancy rate	6.85%	Yield on annualised rent full occupancy rate	7.65%	Yield on annualised rent full occupancy rate	9.30%
Change in yield	0.00%	Change in yield	-0.05%	Change in yield	-0.10%
New yield	6.85%	New yield	7.60%	New yield	9.20%
Yield on annualised rent current occupancy rate	6.6%	Yield on annualised rent current occupancy rate	7.1%	Yield on annualised rent current occupancy rate	7.3%
Total portfolio					
Total units	21,889				
Total market value/€m	1,262.6				
Change in value/€m	35				
Value/unit/€T	57.7				
Value/sqm/€	879.9				
Annualised rent/€m fully occupied	94.5				
Annualised rent €m including vacancy	86.8				
Portfolio rent/sqm/€/adjusted	5.48				
Portfolio vacancy rate	8.7%				
Yield on annualised rent full occupancy rate	7.49%				

Source: Berenberg

GCP – portfolio forecasts for 2016

2016E					
Stabilized Portfolio		**Advanced turnaround portfolio**		**Early turnaround portfolio**	
Floor area	633,012	Floor area	474,240	Floor area	327,608
Number of units	9309	Number of units	7296	Number of units	5284
Average size/unit/sqm	68	Average size/unit/sqm	65	Average size/unit/sqm	62
In-place rent/€/month	6.25	In-place rent/€/month	4.46	In-place rent/€/month	5.52
Change in in-place rent	2.00%	Change in in-place rent	3.00%	Change in in-place rent	3.00%
New in-place rent/€/sqm	6.38	New in-place rent/€/sqm	4.59	New in-place rent/€/sqm	5.68
Annualised rent/€m fully occupied	48.4	Annualised rent/€m	26.1	Annualised rent/€m	22.3
Vacancy	2.93%	Vacancy	7.05%	Vacancy	20.98%
Change in vacancy rate	-0.10%	Change in vacancy rate	-1.50%	Change in vacancy rate	-5.00%
New vacancy rate	2.83%	New vacancy rate	5.55%	New vacancy rate	15.98%
Annual rent €m including vacancy	47.1	Annual rent €m including vacancy	24.7	Annual rent €m including vacancy	18.8
Parking spaces	850	Parking spaces	1050	Parking spaces	925
Market value portfolio €T	707,061	Market value portfolio €T	348,273	Market value portfolio €T	245,430
Market value/flat/€T	76.0	Market value/flat/€T	47.7	Market value/flat/€T	46.4
Stake in total portfolio	43%	Stake in total portfolio	33%	Stake in total portfolio	24%
Yield on annualised rent full occupancy rate	6.85%	Yield on annualised rent full occupancy rate	7.60%	Yield on annualised rent full occupancy rate	9.20%
Change in yield	0.00%	Change in yield	-0.10%	Change in yield	-0.10%
New yield	6.85%	New yield	7.50%	New yield	9.10%
Yield on annualised rent current occupancy rate	6.7%	Yield on annualised rent current occupancy rate	7.1%	Yield on annualised rent current occupancy rate	7.6%
Total portfolio					
Total units	21,889				
Total market value/€m	1,301				
Change in value/€m	38				
Value/unit/€T	59.4				
Value/sqm/€	907				
Annualised rent/€m fully occupied	96.9				
Annualised rent €m including vacancy	90.5				
Portfolio rent/sqm/€/adjusted	5.61				
Portfolio vacancy rate	6.9%				
Yield on annualised rent full occupancy rate	7.45%				

Source: Berenberg

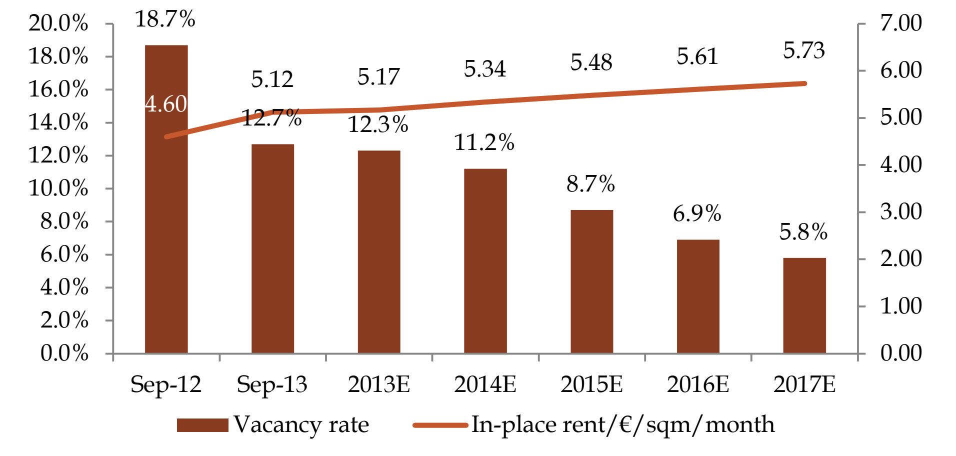
GCP – portfolio forecasts for 2017

2017E					
Stabilized Portfolio		**Advanced turnaround portfolio**		**Early turnaround portfolio**	
Floor area	633,012	Floor area	474,240	Floor area	327,608
Number of units	9309	Number of units	7296	Number of units	5284
Average size/unit/sqm	68	Average size/unit/sqm	65	Average size/unit/sqm	62
In-place rent/€/month	6.38	In-place rent/€/month	4.59	In-place rent/€/month	5.68
Change in in-place rent	2.00%	Change in in-place rent	2.00%	Change in in-place rent	2.50%
New in-place rent/€/sqm	6.50	New in-place rent/€/sqm	4.68	New in-place rent/€/sqm	5.82
Annualised rent/€m fully occupied	49.4	Annualised rent/€m	26.6	Annualised rent/€m	22.9
Vacancy	2.8%	Vacancy	5.6%	Vacancy	16.0%
Change in vacancy rate	0.00%	Change in vacancy rate	-0.50%	Change in vacancy rate	-4.00%
New vacancy rate	2.83%	New vacancy rate	5.05%	New vacancy rate	11.98%
Annual rent €m including vacancy	48.0	Annual rent €m including vacancy	25.3	Annual rent €m including vacancy	20.1
Parking spaces	850	Parking spaces	1050	Parking spaces	925
Market value portfolio €T	721,203	Market value portfolio €T	360,039	Market value portfolio €T	254,361
Market value/flat/€T	77.5	Market value/flat/€T	49.3	Market value/flat/€T	48.1
Stake in total portfolio	43%	Stake in total portfolio	33%	Stake in total portfolio	24%
Yield on annualised rent full occupancy rate	6.9%	Yield on annualised rent full occupancy rate	7.5%	Yield on annualised rent full occupancy rate	9.1%
Change in yield	0.00%	Change in yield	-0.10%	Change in yield	-0.10%
New yield	6.85%	New yield	7.40%	New yield	9.00%
Total portfolio					
Total units	21,889				
Total market value/€m	1,336				
Change in value/€m	35				
Value/unit/€T	61.0				
Value/sqm/€	931				
Annualised rent/€m fully occupied	98.9				
Annualised rent €m including vacancy	93.5				
Portfolio rent/sqm/€/adjusted	5.73				
Portfolio vacancy rate	5.8%				
Yield on annualised rent full occupancy rate	7.41%				

Source: Berenberg

To summarise, we forecast that vacancy rates will fall on a like-for-like basis to 5.8% in 2017, after 12.7% as of June 2013. The average rent/sqm should reach €5.73/sqm compared to €5.12/sqm as of September 2013.

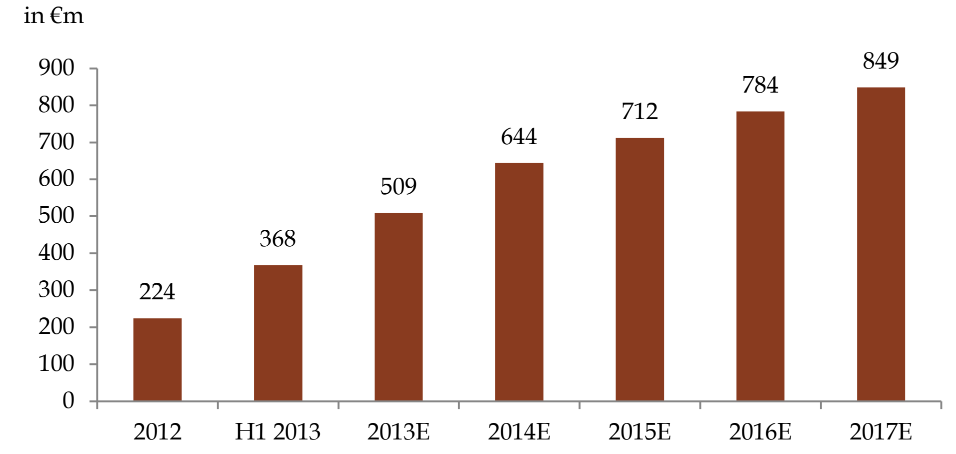
Vacancy reduction as the main value driver



Source: Company data, Berenberg forecasts

In our model, we have run a separate valuation for each of the three sub-portfolios and expect yields to compress very modestly, by only 17bp over four years to 7.41% in 2017, compared with our forecast of 7.58% for year-end 2013. The EPRA net asset value should grow significantly to €849m in 2017; the uptick in the first half of this year was because of the conversion of the convertible bonds. In our model, we have not undertaken a revaluation for new acquisitions. Overall, we would regard these assumptions as conservative.

EPRA net asset value (NAV) to rise continuously



Source: Company data, Berenberg forecasts

In addition to creating value by upgrading the current portfolio, we expect GCP to remain active in sourcing new portfolios. We understand that the current deal pipeline looks promising for properties located in existing – but also new – regions. However, we would not expect the company to relax its strict investment criteria regarding not only price, but also local market fundamentals. Typically, GCP tries to own at least 1,000 units in an area in order to achieve critical mass.

Our earnings forecasts include a rather conservative acquisition scenario and envisage that GCP buys 5,000 units annually. Having assumed an acquisition multiple of 10.5x or a yield of 9.5%, this would translate into an annual investment volume of around €200m.

Grand City Properties – acquisition scenario

	2014E	2015E	2016E	2017E
Average price/m²	600	625	650	660
Average size	64	64	64	64
Rent/sqm/€	4.75	4.90	4.90	4.90
Assumed annual rent per unit	3,648	3,763	3,763	3,763
Acquisition multiple	10.5	10.5	10.5	10.5
Acquisition yield	9.5%	9.5%	9.5%	9.5%
Acqusition price/unit	38,304	39,514	39,514	39,514
Acquisition in units	5,000	5,000	5,000	5,000
Acquisition in sqm	320,000	320,000	320,000	320,000
Investment volume/€m	192	198	198	198
Total annual rent €m	18.2	18.8	18.8	18.8
Average vacancy rate	15%	12%	12%	12%
Annual rent vacancy adjusted	15.5	16.6	16.6	16.6
Maintenance €m/p.a.	2.6	2.6	2.6	2.6

Source: Berenberg

While opportunistic disposals are not necessary for GCP from a business model perspective, they are nevertheless an integral part of active portfolio management in real estate. We expect the company to realise a disposal margin of 10% on average and have pencilled in a disposal volume of 1,000 units a year.

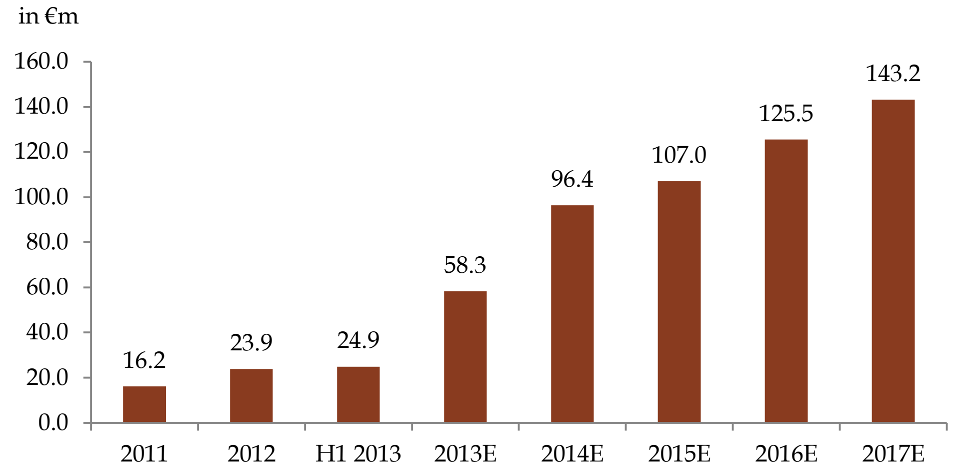
Grand City Properties – disposal scenario

	2013E	2014E	2015E	2016E	2017E
Disposal units	1,000	1,000	1,000	1,000	1,000
Size	64	64	64	64	64
Disposal volume per m²	64,000	64,000	64,000	64,000	64,000
Average book value €/m²	824	856	880	907	931
Average disposal price €/m²	950	979	1,008	1,038	1,069
Sales costs €/m²	25	26	26	27	28
Gain €/m²	101	97	102	104	110
Net profit on disposals € m	6.5	6.2	6.5	6.7	7.1
Disposal margin	*11%*	*10%*	*10%*	*10%*	*10%*
Total realised disposal volume € m	60.8	62.6	64.5	66.4	68.4
Book value of disposed units € m	52.7	54.8	56.3	58.0	59.6
Gross profit from disposals m	8.1	7.9	8.2	8.4	8.9
Total disposal costs € m	1.6	1.6	1.7	1.7	1.8
Total net profit from disposals m	**6.5**	**6.2**	**6.5**	**6.7**	**7.1**

Source: Berenberg forecasts

Based on the above-described portfolio forecasts and our assumptions for acquisitions and disposals, we expect rents to grow at a CAGR of 14% to 2017.

Grand City Properties – forecasts for net rents (€m)



Source: Company data, Berenberg forecasts

GCP's previous income statement included a fairly large amount of non-cash items from property revaluations. The company also raised its stakes in portfolios held as joint ventures or bought assets via share deals, which is reflected in the item "profit arising from business combination".

Grand City Properties – income statement according to IFRS (€m)

€m	2011	2012	2013E	2014E	2015E	2016E	2017E
Net rents	16.2	23.9	58.3	96.4	107.0	125.5	143.2
Other operating income	8.7	16.0	28.0	48.2	54.6	64.0	73.0
Rental income	**24.9**	**39.9**	**86.3**	**144.6**	**161.6**	**189.5**	**216.2**
Revenue from sales of residential buildings	0.0	20.0	60.8	62.6	64.5	66.4	68.4
Other operating income	1.5	0.5	1.5	1.5	1.5	1.5	1.5
Total revenues	**26.4**	**60.4**	**148.6**	**208.7**	**227.6**	**257.4**	**286.1**
Capital gains	1.7	4.2	8.1	7.9	8.2	8.4	8.9
Change in fair value in investment properties	71.2	78.3	72.7	45.4	34.8	38.2	34.8
Profit arising from business combination	0.0	15.5	16.0	0.0	0.0	0.0	0.0
Total capital gains, property revaluations and other income	**72.8**	**98.0**	**96.8**	**53.3**	**42.9**	**46.6**	**43.7**
Share of profit from investments in equity accounted investees	1.5	8.4	0.5	0.5	0.5	0.5	0.5
Refurbishment and maintenance	-1.9	-2.2	-6.8	-13.8	-15.2	-17.6	-19.9
Personnel expenses related to rental income	-1.2	-1.0	-1.1	-1.2	-1.4	-1.5	-1.7
Property operating expenses	-10.9	-18.4	-34.6	-53.0	-54.6	-60.2	-64.4
Total property operating expenses	**-12.0**	**-19.4**	**-35.7**	**-54.2**	**-56.0**	**-61.8**	**-66.1**
Other expenses	-2.4	-4.5	-5.2	-5.3	-5.4	-5.6	-5.7
Cost of buildings sold	0.0	-18.3	-52.7	-54.8	-56.3	-58.0	-59.6
Operating profit / EBIT	**84.4**	**122.4**	**145.4**	**134.3**	**138.1**	**161.6**	**179.1**
Adjusted EBIT net of valuation gains / net of disposal gains	**11.6**	**24.3**	**48.6**	**81.1**	**95.2**	**115.0**	**135.4**
Total other finance results (derivatives)	-8.1	-4.3	3.4	3.4	3.4	3.4	3.4
Finance income / expenses	-5.8	-9.0	-14.6	-29.8	-33.2	-35.2	-38.4
Total financial result	-13.9	-13.3	-11.3	-26.5	-29.8	-31.8	-35.0
EBT	**70.5**	**109.1**	**134.1**	**107.9**	**108.3**	**129.8**	**144.1**
Total taxes	-11.9	-16.2	-25.5	-23.4	-20.9	-23.7	-24.1
Net profit before minorities	**58.7**	**92.9**	**108.6**	**84.4**	**87.4**	**106.2**	**120.0**
Minorities	3.1	11.1	35.8	21.1	17.5	21.2	24.0
Net profit attributable to the owners or the company	**55.6**	**81.8**	**72.7**	**63.3**	**69.9**	**84.9**	**96.0**

Source: Company data, Berenberg forecasts

Obviously, these are IFRS-related items, but we focus in particular on cash-realised results. The key operational number is the adjusted EBIT, which we forecast almost to double in 2014 due to the strong growth of the portfolio in 2013. This uptick illustrates well the synergy potential in residential real estate, as operational costs are rising disproportionately as the underlying portfolio size increases.

Funds from operations I (FFO) have become the key earnings figure for property stocks as this does not include disposal gains, non-cash results from the portfolio valuations or one-offs. Similarly to the operational result, we also forecast a strong uptick in FFO I. For 2013, GCP expects capitalised maintenance of around €3m. GCP has also indicated that it would already consider paying dividends for FY 2014. In principle, we would regard this as positive, although it should be seen in the context of the deal pipeline and the refurbishment required to upgrade the portfolio. If GCP has to decide between paying dividends and raising capex/maintenance in order to improve occupancy and rental levels more rapidly, we would currently see the latter as the preferred option.

Grand City Properties – calculation of funds from operations (FFO)

€m	2011	2012	2013E	2014E	2015E	2016E	2017E
Operating profit / reported EBIT	84.4	122.4	145.4	134.3	138.1	161.6	179.1
Depreciation	0.0	0.1	0.1	0.1	0.1	0.1	0.1
EBITDA	**84.4**	**122.5**	**145.4**	**134.4**	**138.2**	**161.7**	**179.2**
Property revaluations	71.2	93.9	88.7	45.4	34.8	38.2	34.8
Adjusted EBITDA	**13.3**	**28.6**	**56.7**	**89.0**	**103.5**	**123.5**	**144.4**
Net cash finance expenses	-5.8	-9.0	-14.6	-29.8	-33.2	-35.2	-38.4
Cash and property taxes	-1.4	-2.3	-3.7	-8.4	-9.4	-11.1	-12.6
Disposal gains (net of disposal costs)	1.7	4.2	-8.1	-7.9	-8.2	-8.4	-8.9
Other adjustments							
Funds From Operations (FFO I)	**4.4**	**13.1**	**30.3**	**42.9**	**52.6**	**68.9**	**84.5**
FFO I / share / €	**0.89**	**0.32**	**0.41**	**0.48**	**0.60**	**0.78**	**0.96**
Disposal results	1.7	4.2	8.1	7.9	8.2	8.4	8.9
Funds From Operations II (including disposal gains)	**6.1**	**17.3**	**38.4**	**50.7**	**60.8**	**77.3**	**93.4**
FFO II / share / €	**1.22**	**0.42**	**0.52**	**0.57**	**0.69**	**0.87**	**1.06**

Source: Company data, Berenberg forecasts

GCP's balance sheet looks typical of the balance sheets of most buy-to-let property companies, in our view. We regard one of the key characteristics of GCP as being the combination of above-average operational leverage with below-average financial leverage. As of June 2013, the company's loan-to-value (LTV) was 44%, down from a likewise acceptable level of 50% in 2011. The covenants of the BB-rating from S&P allow an LTV of up to 65%, but we understand that GCP will not go above 55% looking ahead. We expect total gearing over adjusted EBITDA to fall from 7.5x in 2014 to 6.8x by 2017. The interest cover ratio (ICR) is also set to increase to above 3.0x in the coming years, according to our model.

Grand City Properties – balance sheet (€m)

€m	2011	2012	2013E	2014E	2015E	2016E	2017E
Investment properties	258.1	407.1	1,121.6	1,364.6	1,540.6	1,718.3	1,891.2
Equity-accounted investees	2.4	20.2	7.1	7.1	7.1	7.1	7.1
Deferred tax assets	1.4	1.8	3.0	3.0	3.1	3.2	3.2
Equipment and intagible assets	0.1	0.1	3.5	3.5	3.5	3.5	3.5
Other long-term assets	1.9	7.9	7.7	7.9	8.1	8.3	8.5
Advanced payment for investment property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	**264.0**	**437.0**	**1,142.8**	**1,386.0**	**1,562.3**	**1,740.3**	**1,913.4**
Financial asset at fair value through profit and loss	0.0	4.9	5.5	5.5	5.5	5.5	5.5
Trade and other receivables	11.8	21.1	43.0	43.8	44.5	45.2	45.8
Cash and cash equivalents	8.2	81.0	35.5	30.2	22.6	17.0	12.7
Assets held for sale	5.4	10.7	0.0	0.0	0.0	0.0	0.0
Inventories - trading properties	0.0	0.0	3.0	3.0	3.0	3.0	3.0
Current assets	**25.4**	**117.7**	**87.0**	**82.5**	**75.6**	**70.6**	**67.1**
Total assets	**289.3**	**554.7**	**1,229.8**	**1,468.5**	**1,637.9**	**1,810.9**	**1,980.5**
Share capital	0.5	5.6	8.9	8.9	8.9	8.9	8.9
Other reserves	14.2	14.3	14.3	14.3	14.3	14.3	14.3
Share premium	0.0	13.4	154.2	154.2	154.2	154.2	154.2
Retained earnings	69.1	151.0	270.3	397.7	456.5	518.2	571.2
Equity attributable to owners of the company	**83.9**	**184.3**	**447.6**	**575.0**	**633.8**	**695.5**	**748.5**
Non-controlling interests	5.4	18.7	51.0	52.5	53.3	54.1	54.9
Total equity	**89.2**	**202.9**	**498.6**	**627.5**	**687.1**	**749.6**	**803.4**
Loans and borrowings	138.1	171.8	406.7	503.8	600.2	695.6	794.2
Convertible bond	0.0	95.9	0.0	0.0	0.0	0.0	0.0
Loan from shareholders	18.8	0.0	0.0	0.0	0.0	0.0	0.0
Corporate Bond	0.0	0.0	195.5	195.5	195.5	195.5	195.5
Derivative financial instruments	8.8	12.6	10.9	10.9	10.9	10.9	10.9
Deferred tax liabilities	14.3	29.3	53.3	61.3	70.5	81.0	93.2
Other long-term liabilities	1.9	7.0	19.8	20.2	20.6	21.0	21.5
Non-current liabilities	**182.0**	**316.6**	**686.2**	**791.7**	**897.6**	**1,004.1**	**1,115.3**
Short-term portion of long-term loans	2.6	4.2	0.0	0.0	0.0	0.0	0.0
Trade and other payables	13.6	21.8	42.9	47.2	50.9	55.0	59.4
Accrued interest related to convertible bond	0.0	1.8	0.0	0.0	0.0	0.0	0.0
Provisions for other liabilities and charges	1.9	2.3	2.1	2.2	2.2	2.3	2.4
Liabilities classified as held for sale	0.0	5.0	0.0	0.0	0.0	0.0	0.0
Other bank loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	**18.1**	**35.1**	**45.0**	**49.3**	**53.1**	**57.3**	**61.8**
Total equity and liabilities	**289.3**	**554.7**	**1,229.8**	**1,468.5**	**1,637.9**	**1,810.9**	**1,980.5**
Total financial debt including corporate bonds	159.541	180.983	602.26	699.36	795.67	891.13	989.76
Cash	8.158	80.977	35.50	30.18	22.63	16.97	12.73
Net debt	151.383	100.006	566.76	669.19	773.04	874.16	977.03
Investment properties including assets held for sale and investments in equity accounted investees	265.913	437.969	1128.66	1371.63	1547.64	1725.38	1898.21
Net loan-to-value including convertible / corporate bond	**56.9%**	**44.7%**	**50.2%**	**48.8%**	**49.9%**	**50.7%**	**51.5%**
ICR	2.00	2.70	3.32	2.72	2.87	3.27	3.52
Net debt including convertible bond / adjusted EBITDA	11.4	6.8	10.0	7.5	7.5	7.1	6.8

Source: Company data, Berenberg forecasts

In addition to FFO, the net asset value (NAV) is still among the relevant figures for property companies. As it has become standard in the industry, we also refer to the so-called EPRA NAV, for which the calculation method has been specified (www.epra.com) and which has been adopted by most of the companies in the sector. In principle, the NAV is similar to shareholders' equity, while the EPRA NAV is adjusted by the net deferred tax liabilities. Taking the above-mentioned portfolio forecasts into account, we expect GCP's EPRA NAV/share to rise at a CAGR of 10% to 2017. Again, the rise in shareholders' funds in 2013 was because of the conversion of the convertible bonds.

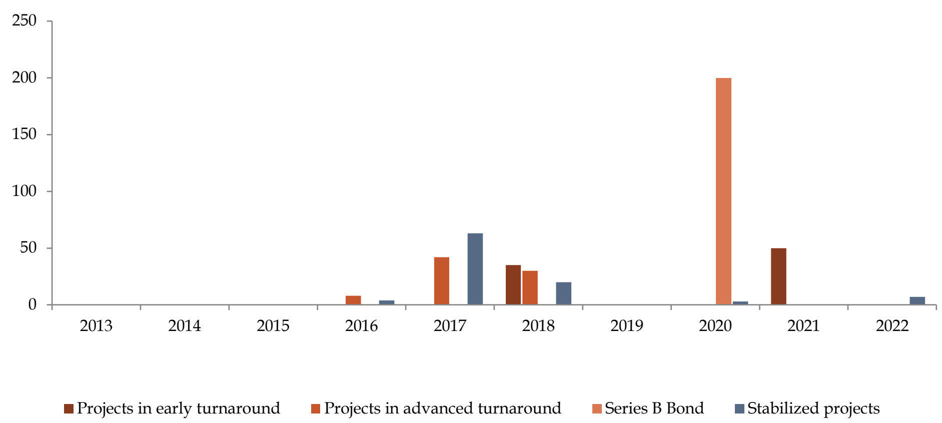
Grand City Properties – EPRA net asset value (NAV; €m)

€m	2011	2012	2013E	2014E	2015E	2016E	2017E
Shareholders' funds	83.9	184.3	447.6	575.0	633.8	695.5	748.5
NAV per share	16.8	4.4	5.1	6.5	7.2	7.9	8.5
Financial derivatives	8.8	12.6	10.9	10.9	10.9	10.9	10.9
Net deferred taxes	12.9	27.5	50.3	58.2	67.3	77.9	89.9
EPRA NAV	**105.6**	**224.4**	**508.8**	**644.1**	**712.1**	**784.2**	**849.4**
EPRA NAV per share / €		5.41	5.75	7.28	8.05	8.87	9.61
Convertible bond	0.0	95.9	0.0	0.0	0.0	0.0	0.0
Adjusted EPRA NAV	**105.6**	**320.3**	**508.8**	**644.1**	**712.1**	**784.2**	**849.4**
Adjusted EPRA NAV per share / €		7.29	5.75	7.28	8.05	8.87	9.61

Source: Company data, Berenberg forecasts

During June and July 2013, GCP issued a corporate bond due in 2020 with a total volume of €200m and a coupon of 6.25%. Obviously, this is a fairly high cost of debt; however, it enables the company to act quickly when it comes to acquisitions and quite often to pay in cash. The acquired portfolio is subsequently refinanced, with the company able to broaden the number of lending banks, including well-known mortgage banks like DG Hyp and Berlin Hyp, as well as local savings banks. More than 95% of the total debt is currently hedged at an average cost of debt of 3.3%. GCP's debt expiry schedule looks defensive, in our view. We expect that the continuously improving portfolio structure together with the rising overall portfolio size could also lead to an upgrade in the issuer rating in the medium term.

Grand City Properties – debt expiry profile (€m)



Source: Company data, Berenberg forecasts

Valuation

1) Stand-alone valuation leads to a price target of €7.50

For the valuation of property stocks, we follow a standardised approach, which is based on return on net asset value (NAV) and EVA (as value-based methods), combined with a three-stage Gordon growth/dividend discount model (which for GCP has obviously not been applied). Via this method, we try to determine which companies generate or destroy value and should therefore trade at a premium or discount to net asset value. The total return is split into the economic return, which is the sustainable operating profit defined as funds from operations, and the indirect profit, which is the result of the valuation changes of the investment property portfolio. The total return is typically forecast for three years.

The return on net asset value is then compared with the cost of equity, or the weighted average cost of capital (WACC) in the case of the EVA method. By adding company-specific risk premiums such as those to reflect financial leverage, portfolio quality, transparency or potential share overhangs, we derive the cost of equity. By incorporating financial and non-financial items, we try to find a correctly-priced, company-specific cost of equity.

Finally, the spread between total return and cost of equity in relation to the company's economic profit leads us to the economic value which is generated or destroyed by the company. By adding the NPVs of the economic value to the net asset value, we reach the "fair value" of the company. In general, we think that a stand-alone valuation is more reasonable than a peer group-based approach.

For the "base" cost of equity – calculated via the CAPM – we start with a risk-free rate of 3.15%, a risk premium of 4.0% and a beta of 1.4. For GCP, we derive company-specific risk spreads of 65bp according to the following criteria, which leads to a total cost of equity of 9.00%. The relatively high risk premiums are also because of the company's current (still small) size, low free float and the low liquidity of GCP shares.

GCP – calculation of cost of equity

GCP - calculation of cost of equity	
Portfolio	
Asset type	0.10%
Focussed / Multi-focussed	0.10%
Location (national/Pan-European)	0.00%
Quality of assets / tenant structure	0.10%
Development exposure	0.00%
Management	
In-/external management	0.00%
Experience/track record	-0.10%
Financing structure	
LTV	-0.10%
Structure of debt	-0.10%
Shareholder structure	0.20%
Liquidity / Indices	0.20%
Transparency	0.15%
Corporate Governance	0.10%
Total risk premiums	0.65%
Normalised risk free rate	3.15%
Risk spread	4.00%
Beta	1.40
Total Cost of Equity	**9.40%**

Source: Berenberg forecasts

Based on return on NAV, we derive a fair value of €8.36 for GCP, with 2014 as the first year in which the current portfolio generates rents on an annualised basis.

Grand City Properties – return on NAV valuation

Grand City Properties - Return on NAV valuation	2014E	2015E	2016E	2017E
Operating results / FFO	42.9	52.6	68.9	84.5
Revaluation results	45.4	34.8	38.2	34.8
New equity	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0
Total return	88.3	87.4	107.1	119.3
EPRA Net Asset Value	644.1	712.1	784.2	849.4
Adjustments	0.0	0.0	0.0	0.0
Adjusted NAV	644.1	712.1	784.2	849.4
Return on NAV	13.7%	12.3%	13.7%	14.0%
Cost of equity	9.4%	9.4%	9.4%	9.4%
Spread	4.3%	2.9%	4.3%	4.6%
Value creation	**27.7**	**20.4**	**33.3**	**39.5**
Year	1.0	2.0	3.0	4.0
NPV	25.3	17.1	25.5	27.6
Total value creation	95.5			
Net Asset Value	644.1			
Adjustments	0.0			
Equity value	**739.5**			
Dividend	**0.0**			
Fair Value 12M	**739.5**			
Number of shares	88.4			
Fair Value per share	**8.36**			

Source: Berenberg forecasts

Assuming a long-term target equity ratio of 40% and a 35% tax rate, we have applied a weighted average cost of capital of 5.50% for GCP, which leads to a fair value of €6.63 based on an EVA valuation.

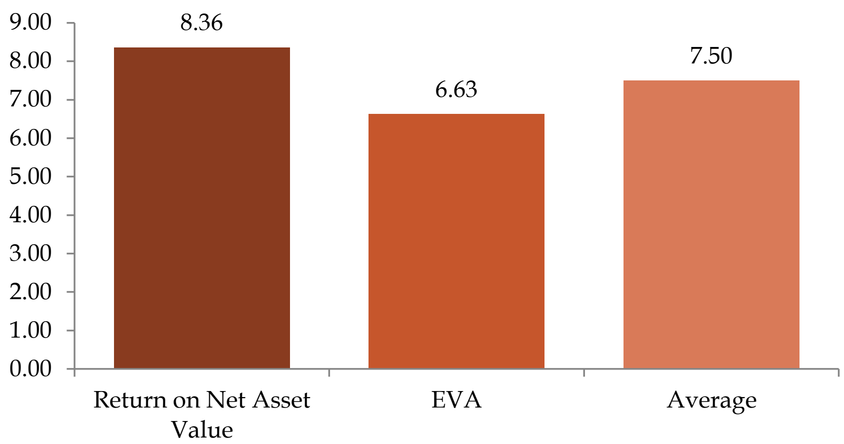
Grand City – EVA-based valuation

Grand City - EVA-based valuation				
(€m)	2014E	2015E	2016E	2017E
Invested capital				
Long-term financial debt	565.1	670.6	776.6	887.4
+ Short-term financial debt	0.0	0.0	0.0	0.0
- Cash	30.2	22.6	17.0	12.7
= Net Debt	534.9	648.0	759.7	874.7
+ Provisions	2.2	2.2	2.3	2.4
+ Equity/NAV	575.0	633.8	695.5	748.5
= Capital employed	**1,112.1**	**1,284.0**	**1,457.4**	**1,625.6**
Total return	63.3	69.9	84.9	96.0
Capital employed	1,112.1	1,284.0	1,457.4	1,625.6
Capital charge	61.1	70.6	80.1	89.3
ROIC	5.70%	5.44%	5.83%	5.90%
WACC	5.50%	5.50%	5.50%	5.50%
Spread	0.20%	-0.05%	0.33%	0.41%
EVA	2.2	-0.7	4.8	6.6
Years	1	2	3	4
NPV EVA	2.1	-0.6	4.1	5.4
Terminal Value				
Total NPV	11.0			
+ NAV	575.0			
Equity Value	**586.0**			
NOSH	88.4			
Fair value/share in €	**6.63**			

Source: Berenberg forecasts

Based on an equal weighting for the return on net asset value and the EVA valuation, we derive a price target of €7.50, implying upside of 23% to current share price levels.

Grand City Properties – price target, stand-alone basis (€)



Source: Berenberg

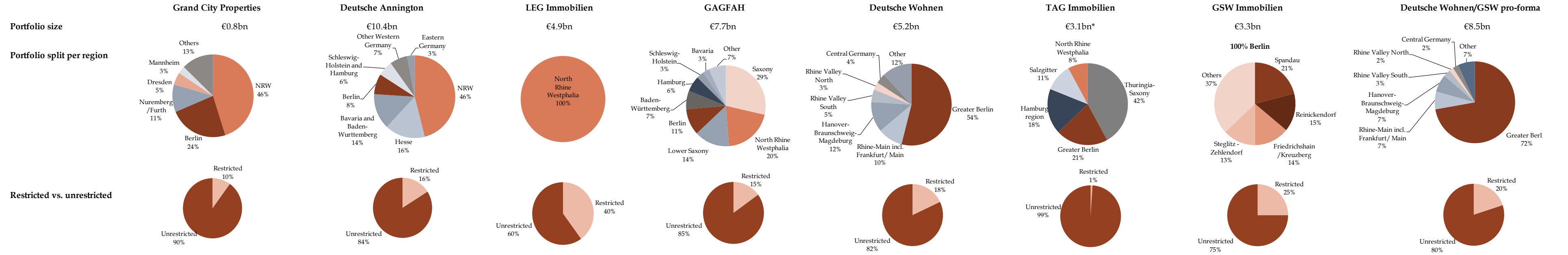
Based on our forecasts, the stock is currently trading at an FFO yield of 8.1% for FY 2014E and 9.9% for FY 2015E.

Referring to our price target of €7.50, we derive an implied FFO yield of 6.5% and an implied premium to NAV of 2.9% for FY 2014E. This translates to 7.9% and -6.9%, respectively, for FY 2015E.

2) Peer-group valuation leads to a price target of €6.80

We have included the six leading German residential property companies in our peer group: Deutsche Annington, Deutsche Wohnen, GAGFAH, GSW Immobilien, LEG Immobilien and TAG Immobilien. Arguably, these companies are not completely comparable with GCP given the latter's smaller size and the currently different portfolio characteristics. However, as the asset class is the same and the location and KPIs of the portfolios do not differ substantially, a comparison is clearly reasonable. In terms of portfolio size, Deutsche Annington is currently the largest player with almost 180,000 units. Following the merger with GSW (closing is targeted for December 2013), Deutsche Wohnen will be next with around 150,000 units, followed by GAGFAH with around 144,000 units as of June 2013. From a regional perspective, GCP has the most diversified portfolio, together with Deutsche Annington, which also has a fairly low number of rent-restricted units.

Portfolio details of GCP's peer group



* only residential

Source: Company data

Looking in detail at the peers' portfolio parameters, rents/sqm are fairly similar across the group. Unsurprisingly, GCP has the highest vacancy rates, followed by TAG. A loan-to-value (LTV) of around 55% has become market standard among peers; GCP's LTV is currently below this. The company also looks well positioned within the sector in terms of its average debt maturity.

Portfolio and debt details of GCP's peer group

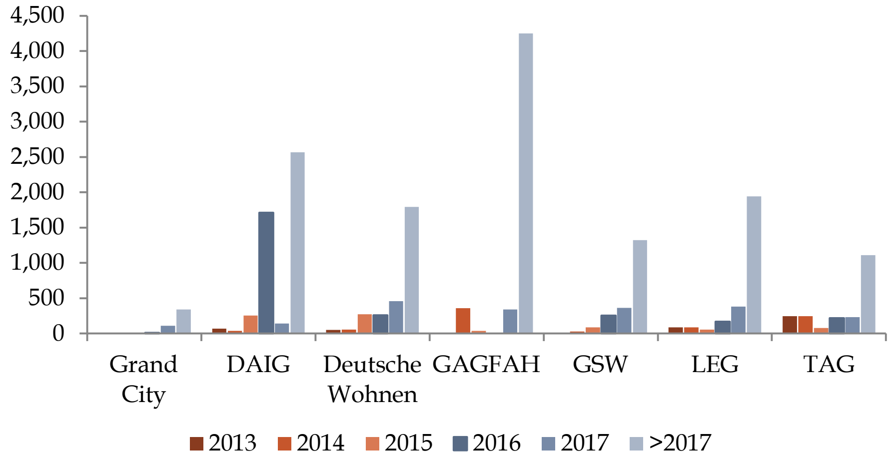
	Grand City Properties	Deutsche Annington	LEG Immobilien	GAGFAH	Deutsche Wohnen	TAG Immobilien *	GSW Immobilien	Deutsche Wohnen/GSW pro-forma
Number of units	22,000	179,358	90,894	144,046	89,441	67,166	57,988	147,429
Average rent/sqm	€ 5.12	€ 5.35	€ 4.92	€ 5.17	€ 5.51	€ 4.99	€ 5.31	€ 5.43
Vacancy rate	12.7%	3.9%	3.0%	5.1%	3.0%	9.3%	2.7%	2.9%
Yield as last reported	7.8%	7.0%	7.2%	7.5%	7.1%	7.2%	6.8%	7.0%
LTV	45%	51%	48%	62%	56%	63%	54%	55%
Average debt maturity	6 years	5.5 years	11.5 years	6.2 years	~7.5 years	8.7 years	~10 years	8.5 years
Average cost of debt	3.2%	3.3%	3.3%	3.1%	~3.5%	4.1%	3.6%	3.5%
% fixed rate (after hedging)	95.0%	~90%	97%	~100%	~85%	~90%	~100%	~90%

** only residential*

Source: Company data, Berenberg

Again, GCP's peers are in a different league in terms of size and markets' awareness. However, we think that in terms of its debt expiry schedule, GCP compares well.

Debt expiry schedule of GCP and peers



Source: Company data, Berenberg

Deutsche Wohnen (on a stand-alone basis) currently offers the highest free float market cap, which also gives it the highest weighting in indices. At present, GCP is not a member of any relevant index.

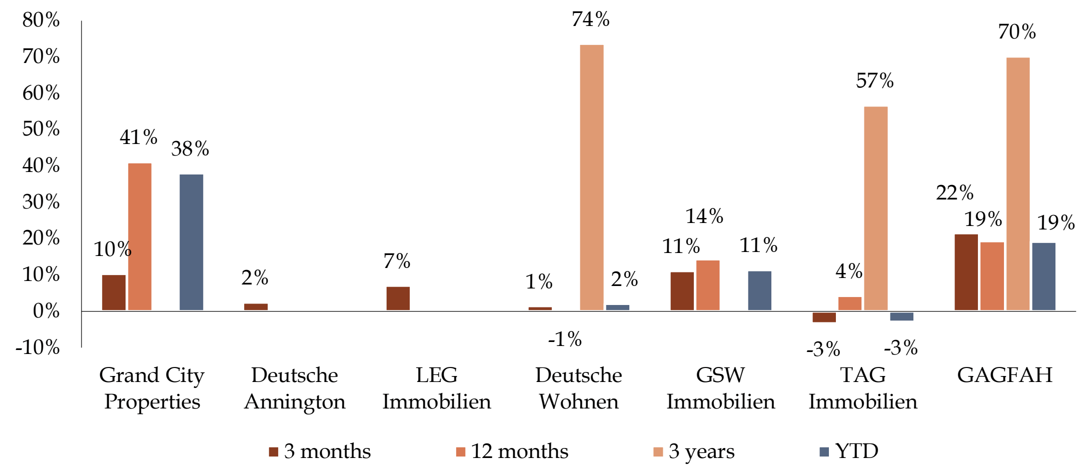
Stock market details of GCP's peer group

	Grand City Properties	Deutsche Annington	LEG	GAGFAH	Deutsche Wohnen	TAG Immobilien	GSW Immobilien
Share price (€)	6.010	18.950	42.200	10.555	14.090	8.950	34.550
Market cap (€mn)	530	4,250	2,240	2,280	2,370	1,170	1,750
Free float	45%	10%	50%	40%	90%	47%	69%
Largest holder (%)	51%	85%	41%	48%	5%	15%	10%
52W low (€)	4.37	17.07	37.67	7.90	12.36	8.05	27.88
52W high (€)	6.09	20.30	46.19	10.72	15.80	9.70	36.00
Average daily turnover (shares, 1y)	45,000	93,000	153,000	247,000	375,000	364,000	140,000
Weighting in EPRA Europe	n/a	0.60%	0.93%	0.90%	1.97%	1.02%	1.42%
Weighting in EPRA Eurozone (1)	n/a	1.33%	2.14%	1.48%	4.16%	2.20%	2.98%
Weighting in EPRA Global	n/a	0.08%	0.13%	0.12%	0.27%	0.14%	0.19%
Weighting in MDAX	n/a	n/a	0.97%	1.02%	2.06%	1.01%	0.20%

Source: Company data, EPRA, Bloomberg as of 7 November 2013

The performance of German residential property stocks ytd has varied across the sector. LEG and Deutsche Annington only went public this year, while GAGFAH recently issued new shares. GCP has performed well; however, one should also note that the stock has not been on everyone's radar screen so far because of its small size and low liquidity.

Performance of GCP's peer group (total return)



Source: Bloomberg as of 6 November 2013

For FY 2014, the sector is currently trading at a median FFO yield of 6.8%, or an FFO multiple of 14.7x, and at a discount of 12% to EPRA NAV.

Valuation multiples of GCP's peer group

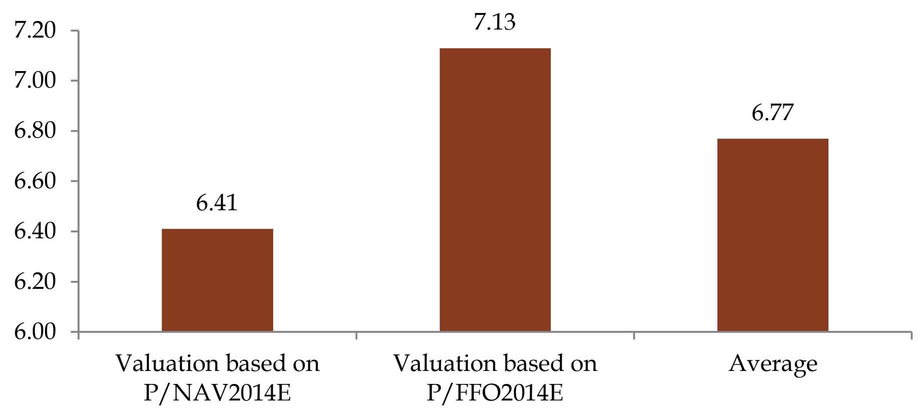
German residential	Rating	Crcy	Price	TP	Upside (%)	Dividend Yield					FFO yield					EV/EBITDA					Premium/(discount) NAV				
						11a	12a	13e	14e	15e	11a	12a	13e	14e	15e	11a	12a	13e	14e	15e	11a	12a	13e	14e	15e
Grand City Properties	Buy	EUR	6.01	7.50	25%	-	-	0.0%	0.0%	0.0%	-	-	6.8%	8.1%	9.9%	-	-	19.4	13.5	12.6	-	-	4%	-17%	-25%
Deutsche Annington	Buy	EUR	18.95	22.50	19%	-	-	3.6%	4.6%	4.8%	-	-	5.1%	6.5%	6.8%	-	-	20.9	20.7	20.2	-	-	-11%	-13%	-16%
Deutsche Wohnen	Buy	EUR	14.09	16.00	14%	2.2%	1.5%	2.4%	2.6%	2.8%	5.2%	3.9%	4.7%	5.3%	5.7%	19.6	24.5	19.7	18.8	18.7	-13%	12%	6%	-1%	-3%
GAGFAH	Buy	EUR	10.56	11.80	12%	0.0%	0.0%	0.0%	1.9%	4.7%	13.1%	6.3%	5.8%	7.0%	7.4%	17.3	19.8	21.8	21.3	20.9	-68%	-33%	-17%	-20%	-23%
GSW Immobilien	Buy	EUR	34.55	34.00	-2%	4.0%	2.8%	2.9%	3.0%	3.2%	6.4%	4.2%	4.4%	4.6%	4.8%	18.2	20.1	20.1	19.9	19.2	-25%	6%	0%	-2%	-5%
LEG Immobilien	Buy	EUR	42.20	48.00	14%	-	-	4.2%	4.7%	4.8%	-	-	6.4%	7.2%	7.5%	-	-	23.3	20.4	20.7	-	-	-8%	-11%	-12%
TAG Immobilien	Buy	EUR	8.95	10.50	17%	3.2%	2.6%	4.5%	5.6%	6.1%	-	3.2%	6.1%	7.7%	8.3%	14.6	13.1	23.4	21.7	21.3	-29%	-5%	-9%	-15%	-17%
average peers					***11%***	***2.4%***	***1.7%***	***2.9%***	***3.7%***	***4.4%***	***8.2%***	***4.4%***	***5.4%***	***6.4%***	***6.8%***	***17.4***	***19.4***	***21.6***	***20.5***	***20.2***	***-34%***	***-5%***	***-7%***	***-10%***	***-13%***
median peers					***14%***	***2.7%***	***2.1%***	***3.2%***	***3.8%***	***4.8%***	***6.4%***	***4.0%***	***5.5%***	***6.8%***	***7.1%***	***17.8***	***20.0***	***21.4***	***20.6***	***20.4***	***-27%***	***1%***	***-9%***	***-12%***	***-14%***

Source: Berenberg estimates, Bloomberg as of 6 November 2013. For disclosures, historical price targets and rating changes pertaining to the companies included in this table, please visit our disclosure listing page on our website at: https://www.berenberg.de/cgi-bin/compliance.cgi?rm=comp_start&lang=englisch

Taking the peer group's valuation multiples into account, the average price target for GCP emerges at €6.80. This would imply (for FY 2014E) an FFO yield of 7.1%, or an FFO multiple of 14.1x, and a discount to NAV of -7%. For FY 2015E, this would translate to an implied FFO yield of 8.8% (or an 11.4x FFO multiple) and an implied discount to NAV of 16%. It is worth noting that, as with other companies, for GCP we generally also refer to a stand-alone based valuation.

Again, we would not expect GCP to be mentioned in the same breath as the large German residential property companies we have described; however, the company is not a micro-cap or start-up either – which is why we see no reason GCP should not benefit from greater investor awareness looking ahead.

Valuation of GCP based on peer group (€)



Source: Berenberg estimates, Bloomberg as of 6 November 2013

Key risks

The key operational risks, in our view, are on the acquisitions side and in the upgrading of the portfolio. Demand for German residential real estate is still high, while the number of investors is also widening. For the vast majority of buyers, including the listed peers, the focus is primarily on average/better-quality assets, typically with only a moderate need for refurbishment. However, we would not rule out that peers could also start to look at distressed properties – GCP's current market niche – at some point, in order to extend the value chain of their portfolios, and in light of greater competition. The supply of distressed properties may also dry up at some point, when NPL investors or banks have cleaned up their books, or intend to keep the assets on the books for longer and undertake a refurbishment in order to sell them later at a higher price. However, this is presumably less likely as the current owners lack the in-house expertise for asset management.

Having almost doubled its portfolio within 2013, GCP has already reached critical mass and can utilise its capacities reasonably well. However, as the deal pipeline looks promising, our acquisition scenario of 5,000 new units annually even seems very conservative. We see limited risk that "deal fever" will take hold. GCP has demonstrated that it has a disciplined approach, as it was very passive until 2007, as prices for residential portfolios had reached high levels due to debt-driven demand. Acting counter-cyclically has proven to be successful, and it is now paying off.

Disposals are not a key part of the strategy, as mentioned before. However, GCP could find it difficult to dispose of properties even at higher occupancy levels, if buyers regard the location and/or the tenant quality as less favourable. Obviously, this should then be reflected in the initial acquisition price; however, it can also transpire that the need for refurbishment is greater than expected and tenants' demand remains lacklustre. Here we think GCP has a good understanding of managing properties wisely with all key functions in-house.

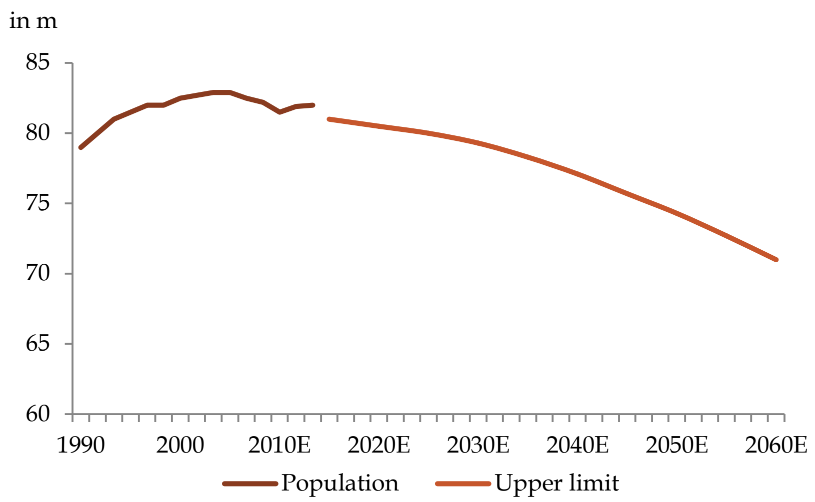
When considering potentially tighter rent regulation, we would regard GCP as the least affected among its peers. However, if Germany's new government were to stipulate that landlords must refurbish their portfolios in order to reduce CO_2 emissions, the sector as a whole would be affected, including GCP. It is not that investments in new heating systems or insulation are unaffordable, but they may become very costly, potentially leading to asking rents that are too high, as well as persistently higher vacancies.

So far, GCP has had limited following among the broader investment community due to its small size. However, we regard the company's capabilities and its integrated business model as remarkable, which is why the operational and financial risk is manageable, in our view. Equity investors may currently be somewhat hesitant, primarily given the small free float and low liquidity in the shares (which are not yet included in any of the relevant stock indices). In order to give markets more confidence, we welcome that GCP is aiming to become listed on the Prime Standard of the Deutsche Börse during 2014; and quarterly reporting will also help to improve awareness further. While disclosure and transparency have some remaining potential, the upcoming appointment of reputable, key senior managers should also be welcomed.

Residential property markets – a snapshot

After our recent initiation of coverage on Deutsche Annington (*Think big in German residential real estate*), which included a detailed analysis of the fundamentals of the German residential markets, we provide a brief snapshot here with a particular focus on the investment markets, as these are more relevant for GCP in the short term. Obviously, the general trend of a decline in the overall population in the long term is unchanged. In common with most Western European countries, Germany has an ageing population, which was already evident over the period 2002-10 when there were fewer births than deaths. The population decline even accelerated in 2008 and 2009 due to an outflow of people leaving Germany. This trend has at least been halted, and due to the favourable economic situation in Germany net migration turned positive from 2010 onwards. Since then, the balance has increased further and, at around 340,000 people in 2012, reached the highest level since 1995. The trend has obviously been supported by the free, unrestricted movement of workers in the EU, which was introduced in 2011. Future net migration is therefore also the most influential factor when forecasting population development in the longer term.

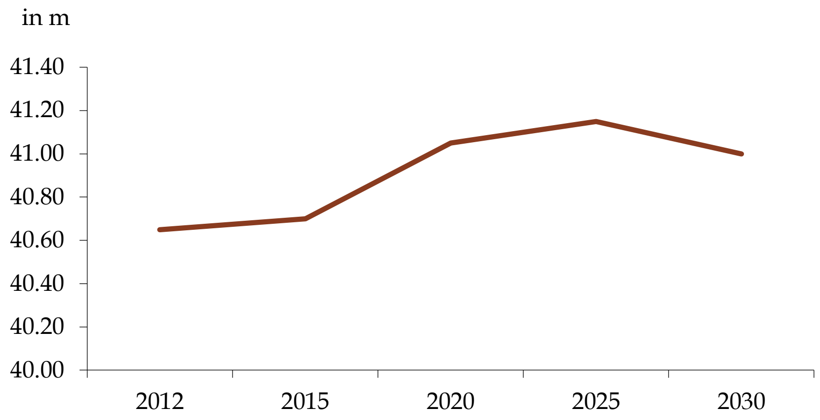
Development and forecasts of Germany's population (inhabitants)



Source: Federal Statistical Office

The demand for housing has always been driven by the development of the number of households. Here we have seen quite high stability in previous years, although the number of households is set to increase, at least for the next 10-15 years. The Federal Statistical Office expects a peak of 41.4m households in 2025 (+1.2% compared to year-end 2012) followed by a moderate fall to 41.0m by 2030. Accordingly, there should be a 0.9% rise in the number of households in 2030 compared to a 5.5% decline in population.

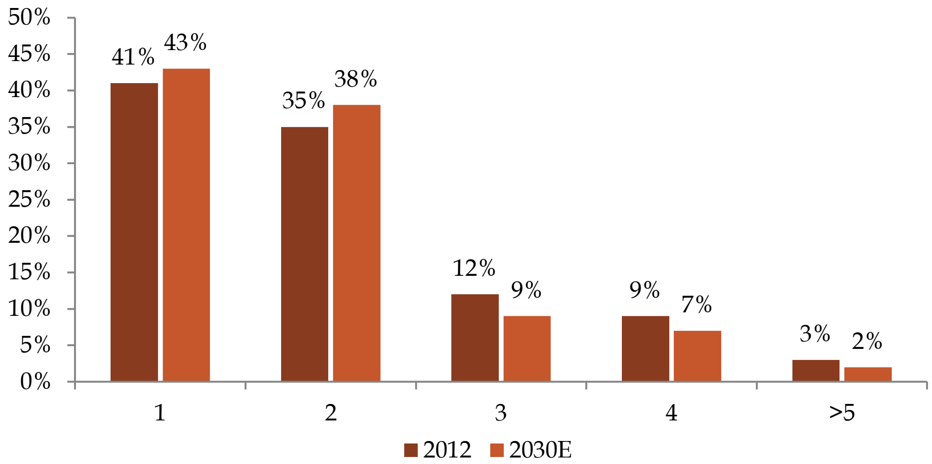
Development and forecasts of households in Germany (# of households)



Source: Federal Statistical Office

This rising trend seems to be a paradox at first glance, when compared to the chart on the previous page which shows a decrease in the population overall. However, it becomes understandable when looking at the change in the structure of the households. One-person households are already the largest single group in Germany, followed by two-person households. The trend towards fewer people per household is expected to continue, leading to an average household size of 1.88 people in 2030 compared to 2.01 people now.

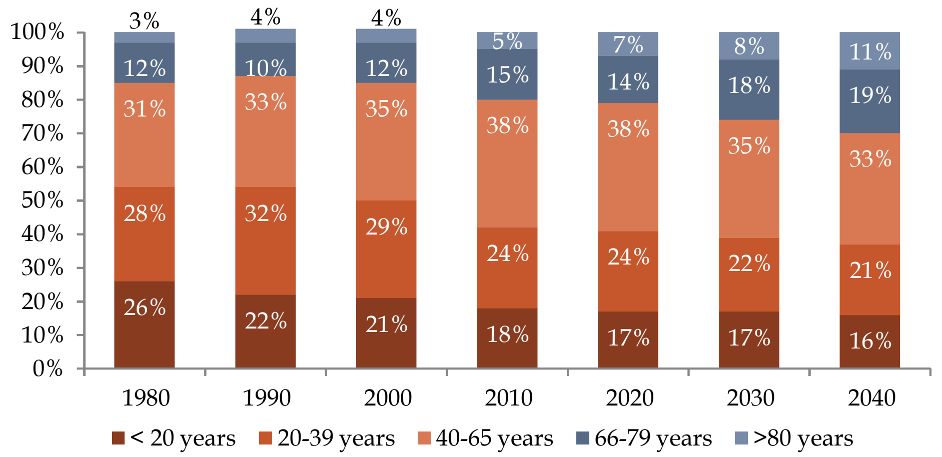
Change in private households (persons per household)



Source: Federal Statistical Office

This trend is not only a result of younger single households: there are also a rising number of elderly people living alone in their apartments. As the group of tenants aged over 66 years will have more relevance in the future, as the population ages, several property companies have already started to refurbish their apartments in favour of senior-focused homes.

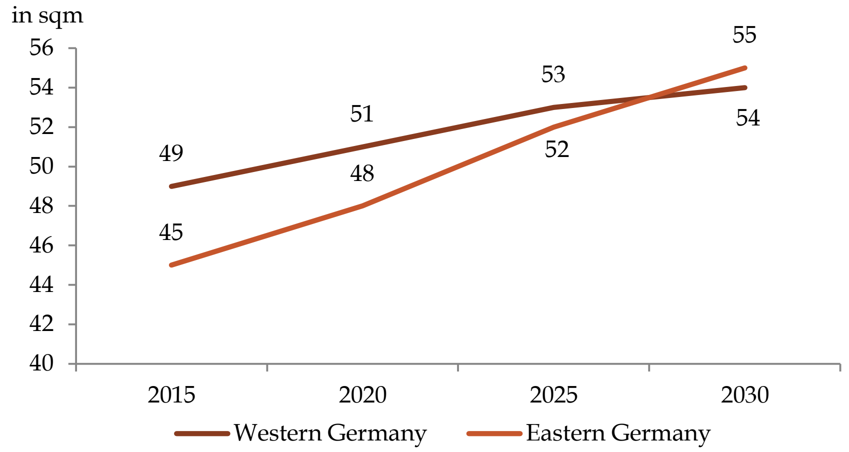
Age structure of population to see a significant change



Source: Federal Statistical Office

The amount of residential space/household has risen continuously, from 34.9sqm in 1991 to 43.0sqm 2011. Residential space/capita stands at 94.4sqm in western Germany and 77.2sqm in eastern Germany, with the difference primarily for historical reasons given the greater shortage of space in the former GDR. Overall, the trend towards more residential space/household will continue, also in line with rising wealth, whereas the rise in eastern Germany is primarily due to a decrease in the number of households leading to a rise in vacancy risks.

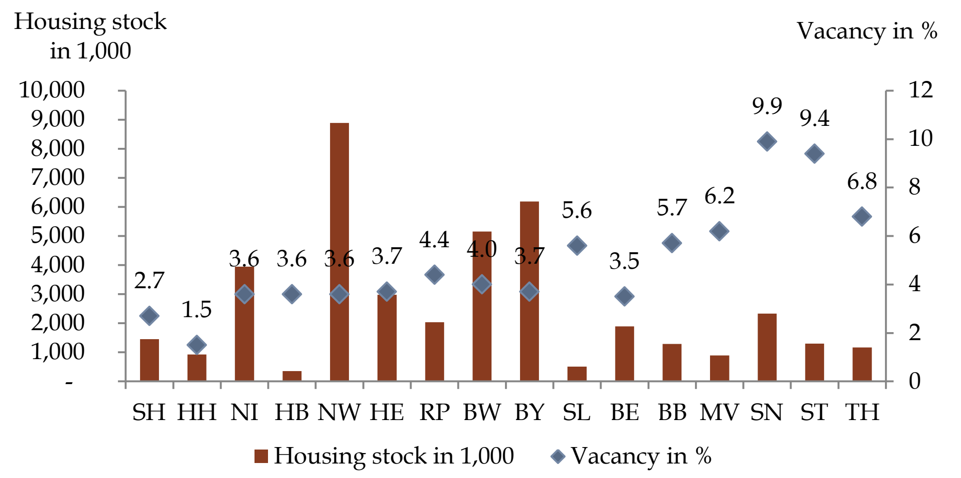
Living space per household continues to rise



Source: Federal Statistical Office

Obviously, these trends are only evident on a highly aggregated level, whereas Germany is made up of federal states. The differences even within a single federal state are notable, and we are already seeing a wide spread in vacancy rates.

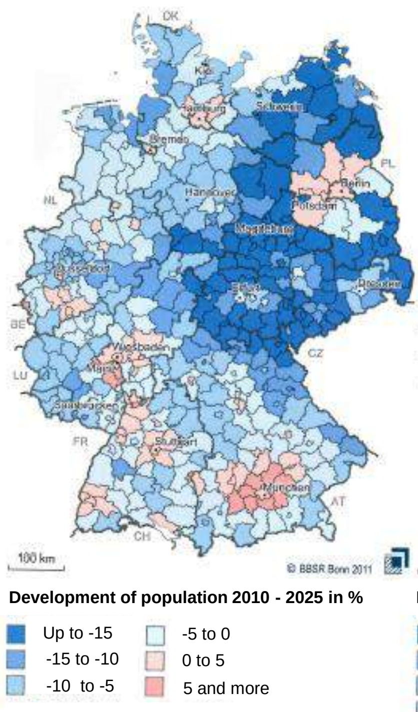
Vacancy per housing stock for each federal state



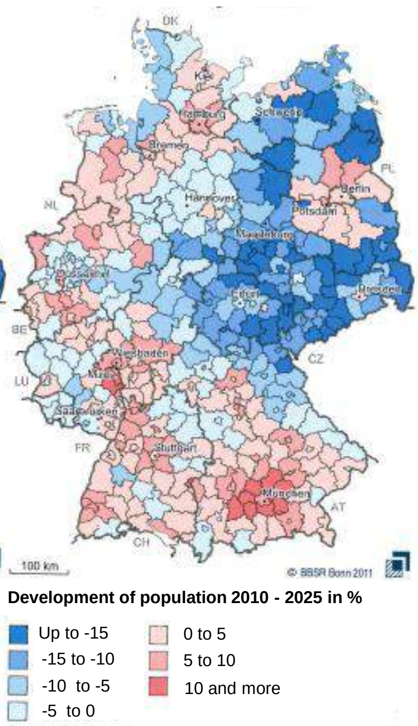
Source: Federal Statistical Office

Looking ahead, the strong divergence in population trends is therefore expected to widen further.

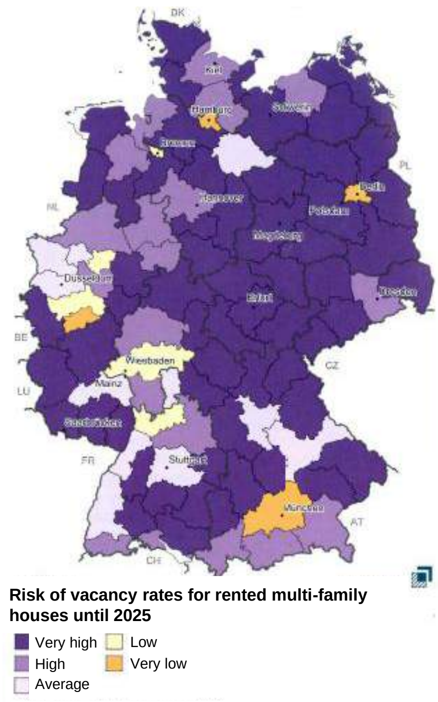
Overall population development to 2025



Development of households to 2025



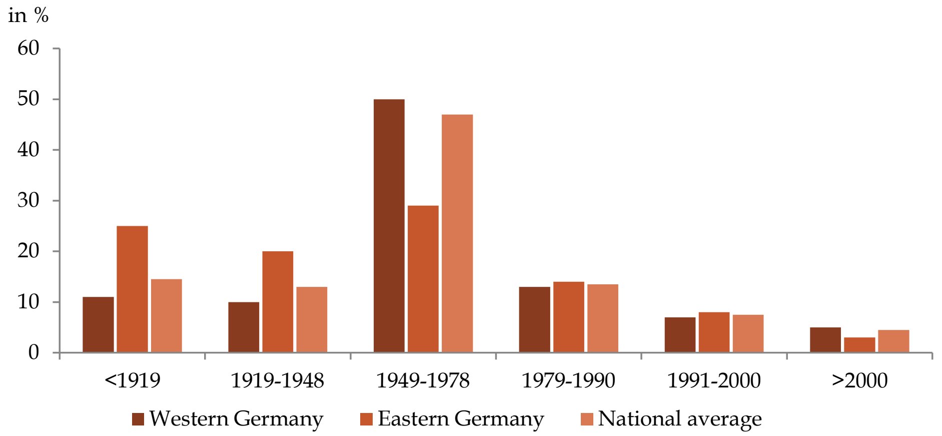
Vacancy risk in rented apartments



Source: BBSR

Questions sometimes arise as to why the average in-place rent of the listed property companies does not vary more given the different portfolio structures. Obviously, this then affects the portfolio values/sqm, which are also relatively close. Presumably the main reason is that the majority of the housing stock consists of post-war properties. Accordingly, they have similar features in terms of size and number of rooms. Additionally, rental levels have been affected by a historically higher number of rent-restricted units. This so-called low-income housing stock only amounts to around 1m units after several million previously. This is because of the expiry of rent restrictions, or because subsidised loans have been repaid. Looking ahead, we would therefore assume rents and valuation levels will show greater differentiation.

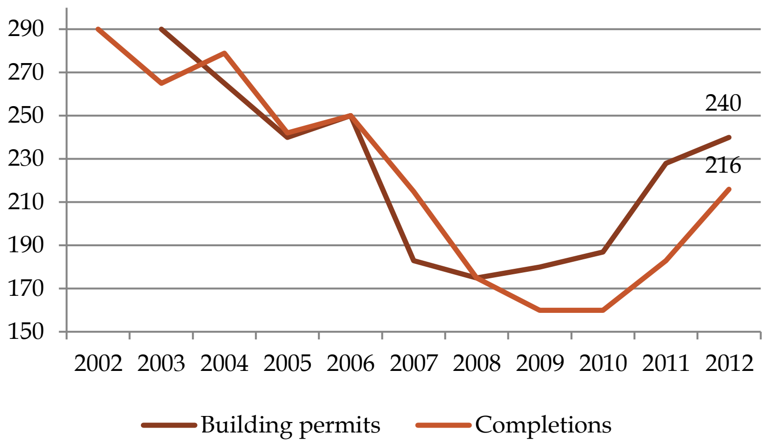
Building age and building periods of residential properties in Germany



Source: Federal Statistical Office

That the housing stock looks more or less the same in western and eastern Germany is also due to a continuous decline in newly-constructed apartments since 1995. This trend commenced following a construction boom at the beginning of 1990s, partly because of a change in tax laws and a general worsening of the economic climate. This trend reversed in 2010, with building permits and completions starting to rise again. For 2013, we would also expect around 240,000 building permits (in line with 2012).

Building permits and new construction for residential properties (000)



Source: Federal Statistical Office

Again, not all regions really need more new construction, taking into account local market fundamentals. Interestingly, the latest census also indicated that the real population growth differed substantially in some cities from the estimated population growth, as pointed out recently in a paper by PATRIZIA Research.

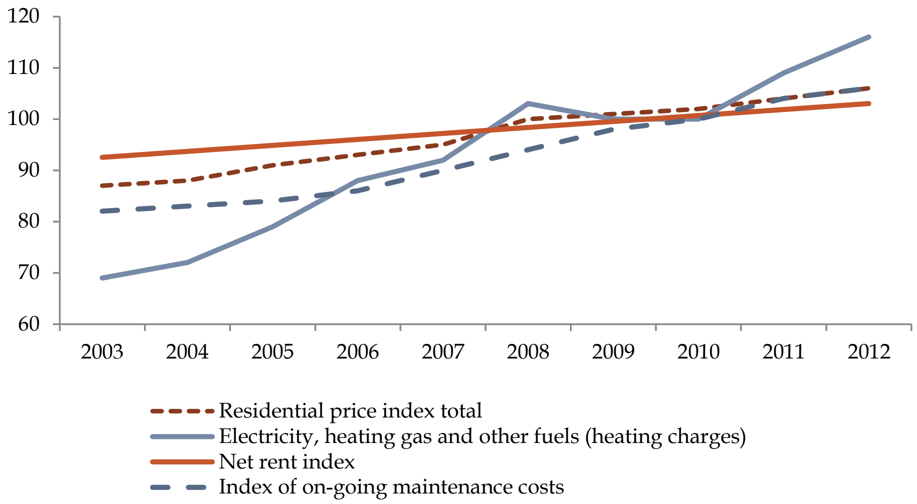
Revision of forecasts based on census

District	Estimated population growth 2003-2011	Real population growth 2003-2011
Stuttgart	3.30%	-0.55%
Munich	8.92%	8.05%
Frankfurt am Main	6.10%	3.80%
Hamburg	3.20%	-1.58%
Cologne	4.50%	4.13%
Berlin	2.46%	-2.84%
Dusseldorf	2.93%	2.41%

Source: PATRIZIA Immobilien Research

The call for more new construction also comes in light of a perceived hike in residential rents. Obviously, a closer look is required before drawing conclusions about rising rental levels. The Federal Statistical Office calculated that the increase in net rents for residential properties in Germany has been, at +4.7% between 2008 and 2012, below the rise in consumer prices of +5.5% over the same period. This is often overlooked, but is simply a matter of fact. What have indeed risen are the heating charges, which are up 13.5% over the same period. This is also due to the German government's target of a higher share of "green energy", which leads to a rise in energy bills. Though heating expenses are paid separately by the tenants, it obviously has an indirect effect on the affordability of rents. Maintenance expenses have risen substantially, at +11.7%. Therefore the all-in rental costs have risen, but what landlords receive as net rents have increased only moderately. Obviously, in the current political climate this is not adequately differentiated.

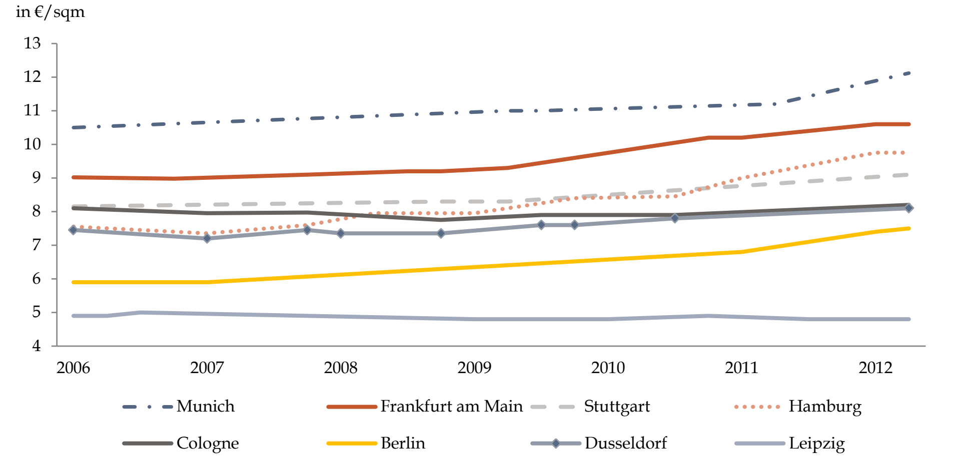
Heating and maintenance charges growing more strongly than net rents



Source: Federal Statistical Office

The situation in the housing markets has now also been monitored closely by the Deutsche Bundesbank, which has referred to there being a rather poor database. Nevertheless, it seems to be generally accepted that only rents in larger cities and a number of middle-sized cities with strong infrastructure (such universities etc) have accelerated recently. JLL has followed the advertised rents, which seem to be relatively reliable.

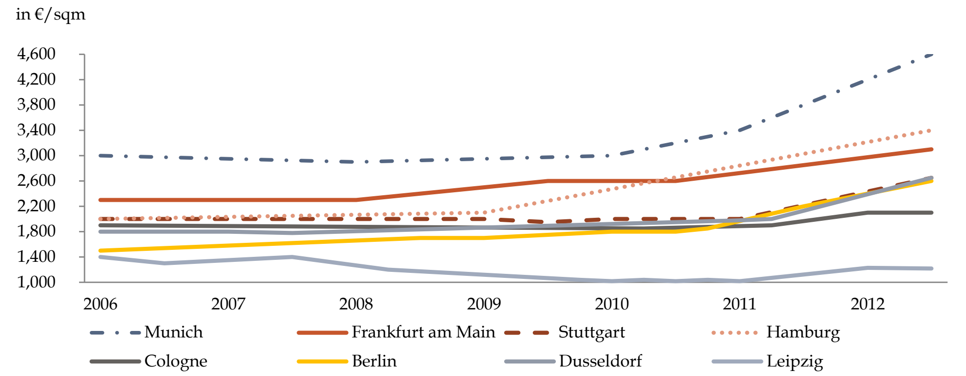
Development of advertised rents in selected cities



Source: JLL

The same development can also be seen in the prices for single apartments, where Munich remains #1 (in the rental markets as well), followed by Hamburg and Frankfurt. Again, the Deutsche Bundesbank recently mentioned that prices for single apartments in the seven largest German cities may have jumped over and above the long-term average increase by 15-20%. However, the Bundesbank sees "no signs of substantial exaggerations in the housing markets as a whole". This is partly due to the still-restrictive financing structure for home ownership.

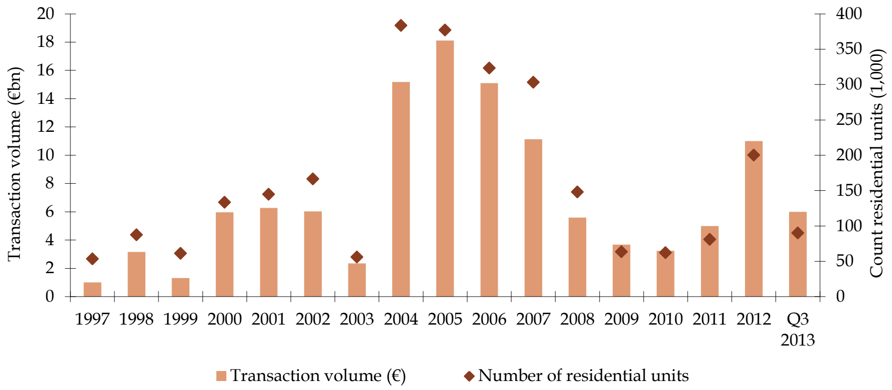
Development of asking prices for condominiums in selected cities



Source: JLL

Volumes on the institutional investment markets, at €6.1bn in the first half according to CBRE, almost reach the same level as the prior-year period. About 91,000 units were traded in 85 residential transactions of more than 100 apartments.

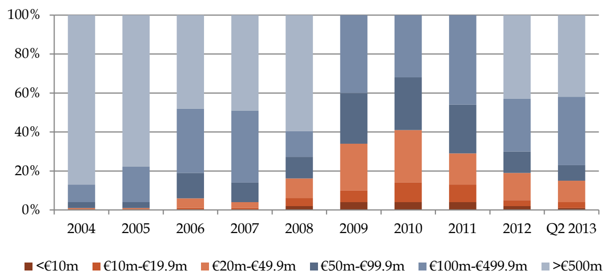
Transaction volumes in residential portfolios

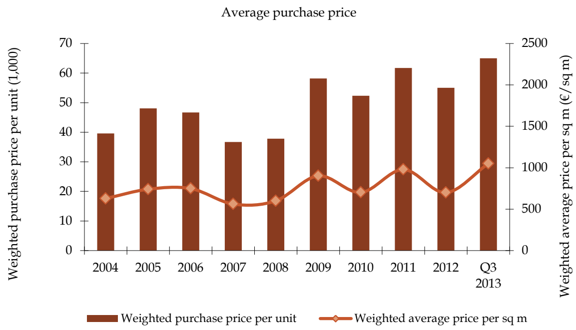


Source: CBRE (portfolio deal with more than 100 residential units)

The purchase price/unit was around €67,000, or €1,035/sqm, which is a rise compared to around €800/sqm in 2011. However, it has to be taken into account that this year the €2.5bn acquisition of the GBW portfolio in Bavaria is also included, with a price of almost €80,000/unit or €1,200/sqm. This deal alone accounts for almost 40% of the total investment volume. Nevertheless, an increase in transaction volumes took place alongside higher purchase prices, whereas the average deal size has decreased. In return, more newly-developed apartments, or those where the construction process had just started, were also acquired.

Transactions by investment lot size and average purchase price

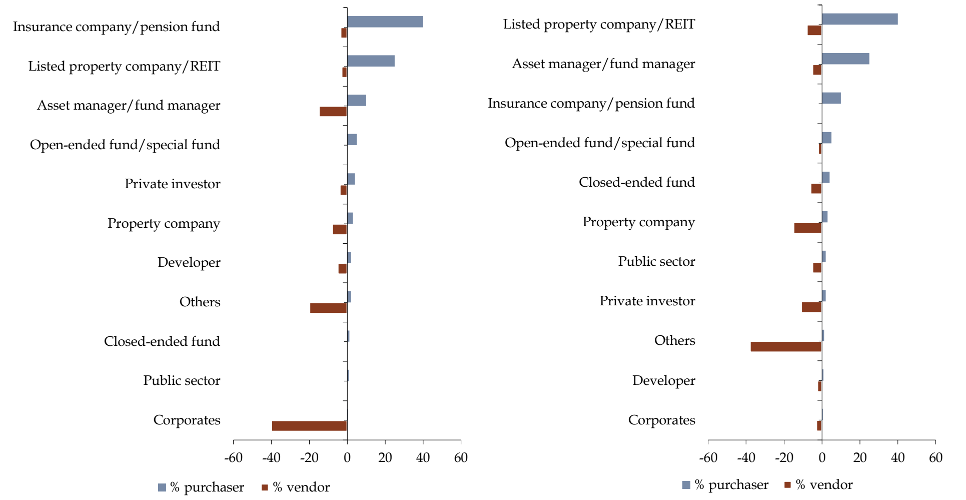




Source: CBRE

The structure of the buyers has changed somewhat, with insurance companies and pension funds now the largest group, followed by listed property companies. Interestingly, only 10% were bought by foreign investors. With strong demand for apartments combined with long-term oriented and equity-rich investors, the net initial yields for portfolios have compressed to 4.20-5.00% for existing properties, according to CBRE. Newly-built homes in the seven largest cities are traded with a net initial yield of around 4%.

Transaction volume by type of investor; comparison (cumulative)



Source: CBRE

Looking at market fundamentals, we would regard GCP as reasonably well positioned and would not see a strategic disadvantage compared to peers from a portfolio perspective. Once refurbishment is complete and with a repositioning on the way, the company should be able to sell the assets at a reasonable price given the sustainably high demand for portfolios. In turn, we would assume that the bottleneck is more in the sourcing of new portfolios, as GCP has regularly lost out in bidding competitions for "normal" portfolios, and we would not expect the company suddenly to start to look at this segment. The situation on the NPL market is generally less transparent, but there have been several indications that investors' demand is on the rise. Ernst & Young published a report in May (*Flocking to Europe*) which suggested a consensus among global NPL investors that "the markets with the most opportunity are the UK, Ireland, Germany and Spain". Though Europe is seen as being in the early stages, the potential market volume of €1trn-1.5trn seems to be significant. Obviously, this refers to all NPLs across several asset classes, but properties – at around €3.8trn – account for almost one-third of total loans among European banks. According to Ernst & Young, NPLs increased in 2012 to 6.8% of banks' total loans and there seemed to be greater willingness to clean up the balance sheets, not least because of stricter regulatory requirements. Obviously, GCP's main targets are smaller/mid-sized portfolios, which have not yet been targeted by the large global private equity/NPL investors. However, with residential real estate set to remain attractive as an asset class, and with supply being rather scarce, we would expect the NPL markets to become more competitive in the longer term.

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Financials

Profit and loss account

Year-end December (EUR m)	2011	2012	2013E	2014E	2015E	2016E	2017E
Net rents	**16**	**24**	**58**	**96**	**107**	**125**	**143**
Direct property expenses	4	5	13	19	15	14	11
Net operating income	12	19	45	78	92	112	132
Earnings from property disposals	2	6	16	16	16	17	18
Earnings from project developments	0	0	0	0	0	0	0
Earnings from other property activities	0	0	0	0	0	0	0
Other operating income	3	9	2	2	2	2	2
Total revenues	**21**	**39**	**76**	**114**	**125**	**144**	**163**
Revaluation result from investment properties (net)	71	94	89	45	35	38	35
Total income	**92**	**133**	**165**	**160**	**160**	**183**	**198**
Administrative expenses	2	5	5	5	5	6	6
Personnel expenses	1	1	1	1	1	2	2
Other operating expenses	0	0	0	0	0	0	0
Total operating expenses	**4**	**6**	**6**	**7**	**7**	**7**	**7**
EBITDA	**84**	**122**	**145**	**134**	**138**	**162**	**179**
EBITDA excl revaluation result (net)	**13**	**29**	**57**	**89**	**103**	**123**	**144**
Depreciation	0	0	0	0	0	0	0
EBITA	**84**	**122**	**145**	**134**	**138**	**162**	**179**
EBITA excl revaluation result (net)	**13**	**29**	**57**	**89**	**103**	**123**	**144**
Amortisation of goodwill	0	0	0	0	0	0	0
Amortisation of intangible assets	0	0	0	0	0	0	0
Impairment charges	0	0	0	0	0	0	0
EBIT (incl revaluation result net)	**84**	**122**	**145**	**134**	**138**	**162**	**179**
EBIT excl revaluation result	**13**	**29**	**57**	**89**	**103**	**123**	**144**
Interest income	0	1	0	1	1	1	1
Interest expenses	6	8	0	30	34	36	39
Depreciation of financial investment	8	6	-3	-3	-3	-3	-3
Investment income	0	0	0	0	0	0	0
Financial result	**-14**	**-13**	**3**	**-26**	**-30**	**-32**	**-35**
Earnings before taxes (incl revaluation result)	**71**	**109**	**149**	**108**	**108**	**130**	**144**
Total taxes	12	16	26	23	21	24	24
Net income from continuing operations (incl revaluation result)	**59**	**93**	**123**	**84**	**87**	**106**	**120**
Income from discontinued operations (net of tax)	0	0	0	0	0	0	0
Extraordinary items (net of tax)	0	0	0	0	0	0	0
Cumulative effect of accounting changes (net of tax)	0	0	0	0	0	0	0
Net income (incl revaluation result net)	**59**	**93**	**123**	**84**	**87**	**106**	**120**
Minority interest	3	11	36	21	17	21	24
Net income (net of minority interest, incl revaluation result)	**56**	**82**	**87**	**63**	**70**	**85**	**96**
Funds from operations (FFO)	4	13	30	43	53	69	84

Source: Company data, Berenberg estimates

Balance sheet

Year-end December (EUR m)	2011	2012	2013E	2014E	2015E	2016E	2017E
Intangible assets	0	0	0	0	0	0	0
Investment properties	258	407	1,122	1,365	1,541	1,718	1,891
Development assets	0	0	0	0	0	0	0
Property, plant and equipment	0	0	3	3	3	3	3
Financial assets	2	8	8	8	8	8	8
Other non-current assets	2	20	7	7	7	7	7
Deferred tax assets	1	2	3	3	3	3	3
FIXED ASSETS	**264**	**437**	**1,143**	**1,386**	**1,562**	**1,740**	**1,913**
Properties held for sale	5	11	3	3	3	3	3
Inventories	0	5	6	6	6	6	6
Accounts receivable	12	21	43	44	45	45	46
Accounts receivable and other assets	12	21	43	44	45	45	46
Liquid assets	8	81	36	30	23	17	13
CURRENT ASSETS	**25**	**118**	**87**	**83**	**76**	**71**	**67**
TOTAL ASSETS	**289**	**555**	**1,230**	**1,469**	**1,638**	**1,811**	**1,980**
Subscribed capital	1	6	9	9	9	9	9
Surplus capital	14	14	14	14	14	14	14
Additional paid-in capital	0	13	154	154	154	154	154
Net profit/loss	69	151	270	398	457	518	571
SHAREHOLDERS' EQUITY	**84**	**184**	**448**	**575**	**634**	**695**	**749**
MINORITY INTEREST	**5**	**19**	**51**	**53**	**53**	**54**	**55**
PROVISIONS AND ACCRUED LIABILITIES	**2**	**7**	**20**	**20**	**21**	**21**	**21**
short-term liabilities to banks	3	6	0	0	0	0	0
Bonds (long-term)	0	96	196	196	196	196	196
long-term liabilities to banks	138	172	407	504	600	696	794
other interest-bearing liabilities	19	0	0	0	0	0	0
Interest-bearing liabilities	**160**	**274**	**602**	**699**	**796**	**891**	**990**
Accounts payable	14	22	43	47	51	55	59
Current liabilities	**24**	**42**	**56**	**60**	**64**	**68**	**73**
Deferred income	0	0	0	0	0	0	0
Deferred taxes	14	29	53	61	70	81	93
LIABILITIES	**198**	**345**	**711**	**821**	**930**	**1,040**	**1,156**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**289**	**555**	**1,230**	**1,469**	**1,638**	**1,811**	**1,980**

Source: Company data, Berenberg estimates

Cash flow statement

EUR m	2011	2012	2013E	2014E	2015E	2016E	2017E
Funds from operations	**4**	**13**	**30**	**43**	**53**	**69**	**84**
Other recurrent / non-recurrent items	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increase/decrease in working capital	-2	-20	-2	3	3	3	4
Cash flow from operating activities	**7**	**33**	**32**	**39**	**49**	**65**	**81**
Capex	3	4	11	14	15	17	19
Payments for acquisitions	66	52	158	192	198	198	198
Financial investments	0	0	0	0	0	0	0
Income from asset disposals	56	13	61	63	65	66	68
Cash flow from investing activities	**-13**	**-43**	**-108**	**-143**	**-148**	**-148**	**-148**
Increase/decrease in debt position	19	80	163	128	126	113	102
Dividends paid	11	0	0	0	0	0	0
Purchase of own shares	0	0	0	0	0	0	0
Capital measures	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
Cash flow from financing activities	**8**	**80**	**163**	**128**	**126**	**113**	**102**
Cash flow from operating activities	**7**	**33**	**32**	**39**	**49**	**65**	**81**
Cash flow after maintenance capex	**4**	**13**	**30**	**43**	**53**	**69**	**84**
Cash flow before financing	**-17**	**-9**	**-76**	**-103**	**-99**	**-83**	**-67**
Increase/decrease in liquid assets	**2**	**71**	**86**	**25**	**27**	**30**	**35**

Source: Company data, Berenberg estimates

Ratios

Ratios	2011	2012	2013E	2014E	2015E	2016E	2017E
Return on equity							
Recurring net profit / Y/E equity	5.3%	7.1%	6.8%	7.5%	8.3%	9.9%	11.3%
Recurring net profit / avg. equity	5.3%	7.1%	6.8%	7.5%	8.3%	9.9%	11.3%
Security							
Net debt	151	193	567	669	773	874	977
Debt / equity	190%	149%	135%	122%	126%	128%	132%
Net gearing	181%	105%	127%	116%	122%	126%	131%
Interest cover	2.0	2.7	3.3	2.7	2.9	3.3	3.5
EBITDA / interest paid	2.0	2.7	3.3	2.7	2.9	3.3	3.5
Dividend payout ratio	0%	0%	0%	0%	0%	0%	0%
Dividend cover	-	-	-	-	-	-	-
Loan-to-value (LTV)	57%	45%	50%	49%	50%	51%	51%
Return on net asset value	5.3%	7.1%	6.8%	7.5%	8.3%	9.9%	11.3%
Liquidity							
Current ratio	0.4	1.5	0.8	0.7	0.6	0.5	0.4
Acid test ratio	0.4	1.5	0.7	0.6	0.5	0.4	0.4

Source: Company data, Berenberg estimates

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Date	Price target - EUR	Rating	Initiation of coverage
07 November 13	7.50	Buy	07 November 13

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Buy	40.60 %	55.17 %
Sell	17.32 %	10.34 %
Hold	42.09 %	34.48 %

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