

Grand City Properties

A unique play on German residential property -
Initiating at Overweight and €9.75 PT

We initiate coverage of Grand City Properties with an OW rating and 20% potential upside to our €9.75 price target. Grand City focuses on the acquisition and turning around of distressed portfolios with high vacancy (c30%) and poor cost control. The resulting rental income created drives FFO ps 4-yr CAGR of 12.8% and NAV ps 4-yr CAGR of 14.6%, while the stock currently trades on a 2015e P/FFO of 13x and P/NAV of 0.87x. Valuation looks compelling on these metrics and we see five reasons to buy.

- **1) Potential 20% upside to our April 2015 EVM-based €9.75 PT**, vs the sector at 5.0%. We estimate a positive EVA spread of 5.0%.
- **2) Getting acquisitions for free**, we estimate 11.2% upside to our *standalone valuation* of €9.03 (93% of total). YTD Grand City has acquired a further c€300m of units against our 2014e forecast €300m volume.
- **3) Bang for (capex) buck**, we estimate a rental yield on capex of 15% with a conservative forecast of €12 psm pa capex spend driving 4-yr CAGR in NAV of 14.6%. *We note that in our view, our estimates not only on capex but also cost margins, acquisition volume and rental growth are all conservative.*
- **4) 37% upside to our Bull Case scenario, and is currently trading nearly at our Bear Case valuation of €7.91.** With 37% upside to our €11.14 Bull Case scenario and GYC shares trading 2.5% above our €7.91 Bear case valuation, *we see the balance of risks to the upside for share price direction.*
- **5) Higher beta play for German residential:** We use a Beta of 1.25 vs the German resi sector average 0.95 to reflect the more asset management intensive business model and see GYC as a strong complement to the income focus of its peers.
- **But not without risks**, we identify the following key risks with GYC: 1) Execution risk, as close to €1bn of acquisitions since Dec 2012 are turned around. 2) Capex forecasts, GYC has a successful but brief track record and more capex than expected could be required to fill vacant units. 3) Social and political and 4) Disclosure risk - we would like to see greater disclosure on acquisitions.

Initiation Overweight

GYC.F, GYC GY

Price: €8.12

Price Target: €9.75

European Property

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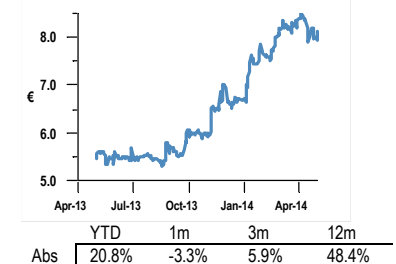
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Price Performance



Source: Bloomberg

Grand City Properties (GYC.F;GYC GY)

| FYE Dec | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|------------------------|-------|-------|-------|-------|-------|-------|
| Adj. EPS FY (€) | 0.23 | 0.42 | 0.41 | 0.52 | 0.61 | 0.67 |
| Adj P/E FY | 35.3 | 19.2 | 19.9 | 15.7 | 13.4 | 12.1 |
| Adjusted NAV ps FY (€) | 5.8 | 6.9 | 8.2 | 9.3 | 10.6 | 11.9 |
| Revenue FY (€ mn) | 60 | 170 | 213 | 258 | 282 | 296 |
| LTV FY | - | 32.4% | 38.4% | 38.0% | 32.9% | 28.1% |
| Net Profit FY (€ mn) | 82 | 226 | 101 | 138 | 156 | 157 |
| EBITDA FY (€ mn) | 34 | 124 | 92 | 114 | 128 | 136 |
| P/BV (x) FY | 2.2 | 1.2 | 1.1 | 0.9 | 0.8 | 0.7 |

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

| | |
|-----------------------|-----------|
| Price (€) | 8.12 |
| Date Of Price | 30 Apr 14 |
| Price Target (€) | 9.75 |
| Price Target End Date | 30-Apr-15 |
| 52-week Range (€) | 8.66-5.15 |
| Market Cap (€ bn) | 0.94 |
| Shares O/S (mn) | 115 |

See page 36 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table of Contents

| | |
|--|-----------|
| Drivers, risks and valuation – Grand City | 3 |
| A unique play on German residential | 4 |
| But not without risks | 8 |
| Summary Financial Statements | 10 |
| Grand City Business Description..... | 12 |
| The Standing Portfolio | 16 |
| Valuation standing portfolio €9.03 | 22 |
| Acquisitions - €300m signed for 2014. | 24 |
| Valuation acquisition pipeline €0.69 | 28 |
| Capital structure and debt breakdown | 29 |
| Portfolio..... | 31 |
| History | 32 |
| Board of Directors | 33 |
| Investment Thesis, Valuation and Risks | 34 |

Drivers, risks and valuation – Grand City

Grand City is a fast growing German residential turnaround specialist with c30,000 units (as at April 2014) and 2.4m sq m of rentable area, concentrated in North Rhine Westphalia and Berlin. Grand City focuses on the acquisition of distressed portfolios in good locations with vacancy of c30% and poor cost control, suitable for more capex led active management and stabilization. The group has grown rapidly over recent years, with nearly €1bn in acquisitions of 18,000 units or +150% since December 2012.

Risks to Rating & Price Target

The key risk to Grand City is in execution of the turnaround strategy. This can be compounded by acquisition risk, in which portfolios acquired may have a structural vacancy that can not be addressed by capex or asset management activity. Given the rapid growth in recent years, we identify execution risk in bringing vacancy down more slowly than we assume in our forecasts. Furthermore more capex than we forecast may be required to turnaround portfolios and German residential as an asset class faces political and social risk such as rent restrictions or sale restrictions. Finally we would like to see disclosure of acquisitions improved, with location, vacancy, NCR (Net Cold Rent) multiples or yields and net initial yields disclosed.

Valuation metrics

We consider the key valuation metrics for European real estate companies are: 1) discount to NAV, 2) dividend yield (GYC does not pay a dividend) and 3) Funds From Operations (FFO). We use an EVM based model, which we introduced in a November 2005 sector report, to determine whether we expect a company under our coverage to create or destroy value (ROIC vs. WACC) in the next four years. We argue that companies with a positive spread between return and weighted average cost of capital (WACC, 7.36% for GYC) should trade at a premium to NNAV, whereas the ones with a negative spread should be priced below NNAV. Our forecasts for GYC suggest management will create value with a positive EVA spread of c5.0%, which results in a price target of €9.75 per share, indicating 20% potential share price upside.

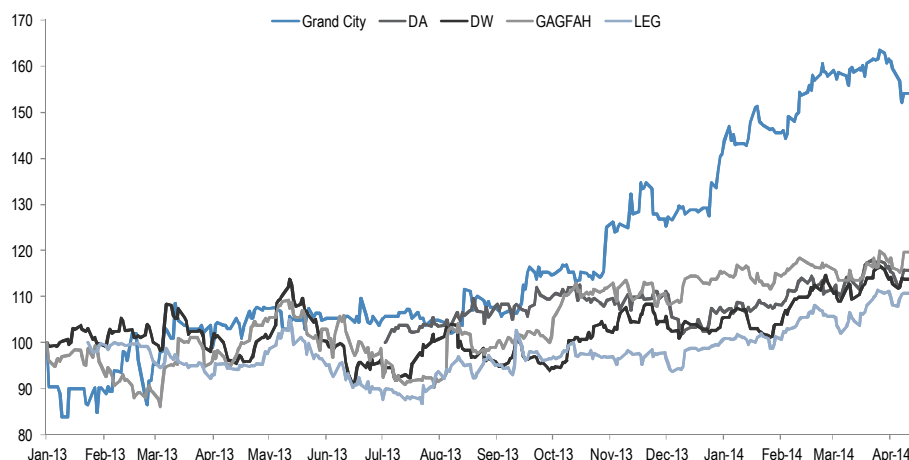
A unique play on German residential

We initiate with an Overweight rating; 20% upside to our €9.75 price target and highlight 5 reasons to buy: **(1) 20% upside** to our April 2015 EVM-based PT of €9.75, more than the sector at 5%. **(2) Getting acquisitions for free**, 93% of our valuation is in the *current portfolio* excluding acquisitions and we see 11.2% upside to our standalone portfolio valuation. **(3) Bang for capex buck**: Grand City's model of filling vacancy and lowering costs on under managed portfolios creates rental income for minimal capex. We estimate a rental yield income on capex of 15% and a revaluation gain to capex ratio of 5x. **(4) 37% upside to our Bull Case** valuation of €11.14 and **(5) A higher beta play on German residential**, GYC offers a different business model from the large cap players, which focus on improving stabilized, well let portfolios.

85% total return since listing

Since listing in January 2013, Grand City shares have delivered an annualised total return of 85% versus 18% for Deutsche Wohnen and 23% for GAGFAH over the same time period. Since listing in July 2013, Deutsche Annington has delivered annualised total returns of 12.9% and LEG's annualised total return since listing is 13.8%.

Figure 1: Grand City Total Return vs Peers since listing



Source: Bloomberg. Updated COB 24/04/2014

(1) 20% upside to €9.75 PT

Based on our EVA-derived European Valuation Model, we initiate coverage with a April 2015 price target €9.75 for Grand City, offering 20% upside vs an average sector upside of 5% (weighted average). We therefore initiate coverage with an Overweight recommendation.

Table 1: Output European Valuation Model

| Company | Price | NNAV t+1 | Premium | Operating return | Capital return | Total return | WACC | Spread | Assigned value t+1 | Target price | Upside to TP |
|------------|-------|----------|---------|------------------|----------------|--------------|-------|--------|--------------------|--------------|--------------|
| Grand City | 8.12 | 7.48 | 8.7% | 7.2% | 4.5% | 11.7% | 6.63% | 5.0% | 9.72 | €9.75 | 20% |

Source: J.P. Morgan estimates, Company data. Priced COB 01/05/14

In our view, Grand City looks cheap vs its peers, trading at 13.0x 2015E FFO vs an average of 18.6x for German residential. The discount can be partially explained by Grand City's rapid portfolio growth over the last two years, more active business model, lower portfolio quality (pre asset management) and lower liquidity. However at 12.7% FFO 4-year CAGR vs a peer average of 12%, a 23% discount to 15E multiple looks cheap in our view.

We continue to see Deutsche Annington as our top German residential pick and key OW on the continent. However we view Grand City as complementary to a holding of DA, as the higher growth FFO and NAV from filling vacancy and more opportunistic business model allows investors to add Beta to their German residential portfolio.

Table 2: Grand City FFO Peer comparison

| | 13E/A | 14E | 15E | 16E | FFO CAGR |
|--------------------|-------|-------|-------|-------|----------|
| Grand City | 19.6x | 17.9x | 14.2x | 12.2x | 21% |
| Deutsche Annington | 21.8x | 16.9x | 15.9x | 15.6x | 13% |
| Deutsche Wohnen | 23.6x | 22.4x | 19.6x | 17.0x | 14% |
| GAGFAH | 34.3x | 24.5x | 23.5x | 22.6x | 13% |
| LEG | 18.3x | 16.1x | 14.9x | 13.9x | 8% |
| Peer Average | 24.7x | 20.1x | 18.6x | 17.4x | 12% |
| Prem/Disc | -20% | -11% | -23% | -30% | |

Source: Company reports and J.P. Morgan estimates.

Grand City trades at 15% discount to 2015E NAV, vs an average of 2% premium for peers. Grand City does not pay a dividend.

Table 3: Grand City NAV Discount Peer analysis

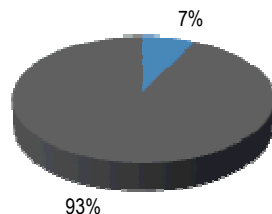
| | 13E/A | 14E | 15E | 16E | NAV CAGR |
|--------------------|-------|------|------|------|----------|
| Grand City | 13% | -2% | -15% | -25% | 16% |
| Deutsche Annington | -4% | -11% | -16% | -21% | 6% |
| Deutsche Wohnen | 10% | 0% | -8% | -16% | 10% |
| GAGFAH | 56% | 43% | 36% | 29% | 4% |
| LEG | 3% | -2% | -5% | -9% | 4% |
| Peer Average | 17% | 8% | 2% | -3% | 6% |
| Prem/Disc | -3% | -10% | -16% | -21% | |

Source: Company reports and J.P. Morgan estimates.

(2) Getting acquisitions for free

We estimate that 93% of our Grand City valuation comes from the standing portfolio, driven by an active 2013 when 14,000 units were acquired for c€760m. Our standalone portfolio valuation of €9.03 on its own gives upside of 11.2%, *implying 2014 YTD acquisition activity of c€300m and future acquisitions can be acquired for zero implied value today.*

Figure 2: Grand City Valuation contribution of standing portfolio and acquisitions



■ Valuation acquisitions ■ Valuation standing

Source: J.P. Morgan estimates, Company data.

(3) Bang for capex buck

Grand City's business model of acquiring under managed and distressed residential blocks in otherwise good locations is relatively capex light. GYC targets NCR multiples of at least 10x and NIYs c7.5%. Improvements to the facade and public areas, and utility collection infrastructure are inexpensive, with capex spend of €6.9 psm in 2012 and €8.2 psm in 2013 vs an average portfolio capital value of c€650 psm. Going forward, we assume maintenance capex of €5 psm and improvement capex of €12 psm pa.

Table 4: Group capex and return forecasts

| | 2014E | 2015E | 2016E | 2017E |
|------------------------------|-------|-------|-------|-------|
| Improvement capex (€m) | 23.6 | 19.5 | 13.7 | 9.3 |
| Rent increase generated (€m) | 11.0 | 12.4 | 13.5 | 12.2 |
| Revaluation gain (€m) | 59.5 | 89.0 | 96.7 | 87.3 |
| Income yield on capex | 18% | 14% | 14% | 14% |
| Revaluation gain / capex | 2.5x | 4.6x | 7.1x | 9.4x |

Source: J.P. Morgan estimates, Company data.

(4) 37% upside to our Bull Case valuation

As detailed below, we identify a bull case valuation of €11.14 per share. Should acquisition volumes increase from our current assumption of €300m in 2014 and €150m in 2015 to €300m pa, our valuation would increase €0.67 per share or 6.9% to €10.39.

Furthermore, in the standing portfolio should vacancy and/or cost reduction be achieved faster than expected, or rental growth be greater than expected, our valuation would increase by a further €0.75 or 7.2% to €11.14 representing 37% upside.

'Just' 2.5% downside to Bear Case valuation of €7.91

Again as detailed below, we identify a bear case valuation of €7.91 per share. Should no future acquisitions be made, vacancy and cost reduction take longer than assumed in our base case, and rental growth be lower than expected (as detailed in table 19 below), our valuation would decrease by 18.6% to €7.91 for 2.5% downside.

(5) A higher beta play on German Residential

We believe Grand City is complementary to our German Residential coverage of Deutsche Annington, Deutsche Wohnen, GAGFAH and LEG, all of whom focus on 1) relatively higher quality assets with 2) higher occupancy and 3) more stable cash flows with resulting lower growth in FFO but also lower risk. Grand City's focus on turning around distressed portfolios allows investors to add beta to their German residential exposure.

WACC – Beta of 1.25

On one hand, the more asset management intensive business model, higher vacancy portfolio and therefore lower percentage of in place income versus German residential peers indicates that GYC's risk profile is higher than German peers. However on the other hand, 20% reversion to Mietspiegel, the opportunity to grow income during a slow (or negative) market rental growth environment and conservative balance sheet (LTV 38% 2014e vs 55% average for peers) should lower risks relative to peers. We conservatively use a Beta of 1.25 in our WACC calculation vs a peer average of 0.95. Full WACC estimates are laid out below.

Table 5: WACC of Grand City vs Peers

| | Grand City | Deutsche Annington | Deutsche Wohnen | GAGFAH | LEG |
|-----------------------------------|--------------|-----------------------|--------------------|--------------|--------------|
| Benchmark 10yr gvt yield | 2.40% | 2.40% | 2.40% | 2.40% | 2.40% |
| Beta | 1.25 | 0.90 | 0.80 | 1.10 | 1.00 |
| Equity risk premium | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Cost of equity | 8.7% | 6.9% | 6.3% | 7.9% | 7.3% |
| Credit spread | 2.5% | 2.0% | 2.5% | 1.8% | 2.5% |
| Tax Shield | 15.0% | 5.0% | 20.0% | 1.6% | 20.0% |
| Cost of debt | 4.17% | 4.18% | 3.80% | 4.08% | 3.80% |
| Target capital structure equity % | 55.0% | 50.0% | 70.0% | 50.0% | 70.0% |
| Target capital structure debt % | 45.0% | 50.0% | 30.0% | 50.0% | 30.0% |
| WACC | 6.63% | 5.54% | 5.52% | 5.99% | 6.22% |

Source: J.P. Morgan estimates.

But not without risks

We identify four main areas of risk for Grand City and our forecast value: **(1)** We identify execution risk concerning the business plan and increasing rental income through lowering vacancy. **(2)** The brief (but successful) track record of Grand City and moderate apparent levels of capex required to turn around portfolios creates risk that more capex than we forecast may be required. **(3)** We identify social and political risks in the German residential market. **(4)** Disclosure.

(1) Execution risk

Grand City has carried out nearly €1,000m in acquisition activity since January 2013, increasing their portfolio size by 18,000 units since December 2012 to 30,000 units as at April 2014. This rapid growth in portfolio size represents significant opportunities to reduce vacancy, but also execution risk. Should vacancy in acquired portfolios be structural, or asset management efforts fail to turn around distressed portfolios or it takes longer than expected to transition portfolios, our forecasts would see downside risk. We note that the company has been operating in German residential markets for 10 years, through two cycles and has extensive experience.

(2) Capex

Grand City has a successful, but brief track-record in turning around distressed portfolios. With the recent increase in portfolio size, we see risk that higher than forecast capex will be required to reduce vacancy and grow income. To a degree this is reflected in our forecast €12 psm capex forecast vs €6.9 psm in 2012 and €8.2 psm in 2013, however should capex required to turnaround portfolios be above our assumed levels, our valuation would see downside risk.

(3) Social & political

Grand City deliberately seeks to avoid portfolios with restrictions beyond the impositions of the Mietspiegel, such as social chapters or rent restrictions, minimum spends or sales restrictions. However in the event that such conditions are breached, penalties can be considerable.

Figure 3: LEG - Social Charter Implications of Breach

In the event of a breach...bad news!

If LEG breaches the Social Charter and fails to remedy it within 6 months, the consequences can be very material. Penalties vary from €100,000 for the termination of a traineeship agreement up to €50m for the disposal of more than 2.5% of the acquired portfolio to non-tenants in any one year. The company notes that any penalty will amount to *'at least the proceeds resulting from the violation or a multiple of up to 25x the proceeds depending on the violation'*. Repeat infringements could see the penalty double (to €100m).

We note that LEG has annual reviews on its compliance with the Social Charter, which is audited by the Federal Government. The group received no complaints between 2008 and 2011 and hence management believes they are not at risk from a historical legal challenge.

Source: J.P. Morgan

Furthermore housing is a political issue in Germany, and the risk of legislative intervention in the market could have a negative impact on rental growth prospects. *In our view*, despite recent (and continued) political debate on further rental caps, we feel comfortable that Grand City is less exposed than other German peers given the average portfolio rent of €4.5/sq m is 20% below Mietspiegel and the portfolio is not majorly located in "hot" markets (except 25% in Berlin) where we see a higher risk of further rental regulation.

(4) Disclosure

We acknowledge that as a company experiencing rapid growth, investor relations can take a while to catch up. Grand City is clearly aiming to provide transparent communications with investors and analysts, via its unique monthly presentation on the portfolio and business available on its website, which features current run rates for FFO and Gross Rents. We would like more details on acquisition activity such as Net Cold Rent multiples, Net Initial Yields, vacancy, reversion to indexation etc but realize that on a deal by deal basis this is not ideal or even possible. However on a quarterly basis, investors will find this information useful for forecasting and tracking business progress against forecasts.

Summary Financial Statements

We present our forecast Income Statement, Balance Sheet and FFO reconciliation below. Starting with our Income Statement...

Table 6: GYC Actual and Forecast Income Statement €m

| | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|---|-------------|--------------|--------------|--------------|--------------|--------------|
| Gross rents | 39.9 | 99.6 | 212.8 | 258.1 | 282.3 | 295.5 |
| Sale of buildings | 20.0 | 70.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Revenue | 60.4 | 169.6 | 212.8 | 258.1 | 282.3 | 295.5 |
| Property operating expenses | -19.4 | -37.2 | -103.1 | -124.2 | -132.2 | -137.0 |
| Refurbishment & Maintenance | -2.2 | -5.5 | -12.4 | -14.5 | -15.5 | -15.9 |
| NOI | 38.8 | 126.9 | 97.3 | 119.4 | 134.5 | 142.6 |
| Admin expense and other | -4.5 | -3.3 | -5.5 | -5.8 | -6.2 | -6.5 |
| EBITDA | 34.2 | 123.6 | 91.8 | 113.5 | 128.4 | 136.2 |
| Recurring EBITDA | 22.7 | 53.5 | 91.8 | 113.5 | 128.4 | 136.2 |
| Revaluation | 78.3 | 189.2 | 59.5 | 89.0 | 96.7 | 87.3 |
| Gains on business combination | 15.5 | 47.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital gains | 4.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Cost of buildings sold | -18.3 | -54.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Recurring EBIT | 22.7 | 53.5 | 91.8 | 113.5 | 128.4 | 136.2 |
| Total operating earnings | 93.5 | 305.5 | 151.7 | 202.9 | 225.4 | 223.8 |
| Recurring Interest Expense | -9.0 | -11.3 | -29.3 | -35.1 | -36.8 | -35.2 |
| Non recurring financial expense | -4.3 | 7.8 | - | - | - | - |
| Profit before tax | 88.6 | 302.4 | 122.8 | 168.3 | 189.1 | 189.1 |
| Recurring profit before tax | 13.1 | 42.7 | 63.0 | 78.9 | 92.1 | 101.5 |
| Tax | -16.2 | -36.4 | -15.0 | -21.0 | -23.1 | -22.3 |
| Adjusted Net Profit Attributable to equity | 9.2 | 32.2 | 54.0 | 67.7 | 79.2 | 87.4 |
| Total Net Profit Attributable to equity | 52.2 | 194.0 | 47.4 | 70.8 | 76.8 | 69.4 |
| Total Net Profit Attributable to equity | 61.3 | 226.3 | 101.4 | 138.5 | 156.1 | 156.8 |

Source: J.P. Morgan estimates, Company data.

...Balance Sheet and NAV...

Table 7: Grand City Balance Sheet and NAV (€m)

| | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|----------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Investment property | 407.1 | 1368.3 | 1751.4 | 2009.9 | 2120.3 | 2216.9 |
| Non-current assets | 437.0 | 1402.5 | 1785.6 | 2044.1 | 2154.5 | 2251.1 |
| Cash | 81.0 | 132.5 | 158.1 | 189.1 | 230.7 | 280.8 |
| Current assets | 117.7 | 248.6 | 274.1 | 305.2 | 346.7 | 396.9 |
| Total Assets | 554.7 | 1651.1 | 2059.8 | 2349.3 | 2501.3 | 2648.0 |
| Loans and borrowings | 171.8 | 461.8 | 604.2 | 734.4 | 707.8 | 677.3 |
| Convertible | 95.9 | 0.0 | 150.0 | 150.0 | 150.0 | 150.0 |
| Bond Series B | 0.0 | 194.7 | 194.7 | 194.7 | 194.7 | 194.7 |
| Derivative financial instruments | 12.6 | 13.8 | 13.8 | 13.8 | 13.8 | 13.8 |
| Deferred tax liabilities | 29.3 | 80.2 | 89.6 | 98.5 | 108.1 | 117.5 |
| Non current liabilities | 316.6 | 771.9 | 1073.7 | 1212.8 | 1195.9 | 1174.8 |
| Current liabilities | 35.1 | 111.3 | 111.3 | 111.3 | 111.3 | 111.3 |
| Total Liabilities | 351.8 | 883.2 | 1185.0 | 1324.1 | 1307.2 | 1286.1 |
| Equity | 202.9 | 767.9 | 874.8 | 1025.2 | 1194.1 | 1362.0 |
| Attributable Equity | 184.3 | 704.9 | 822.3 | 963.7 | 1122.5 | 1280.2 |
| Equity (post minorities) | 184.3 | 704.9 | 822.3 | 963.7 | 1122.5 | 1280.2 |
| Convertible | 95.9 | 0.0 | 150.0 | 150.0 | 150.0 | 150.0 |
| FV derivatives | 12.6 | 13.8 | 13.8 | 13.8 | 13.8 | 13.8 |
| Net Deferred tax | 27.5 | 77.7 | 87.8 | 96.7 | 106.3 | 115.7 |
| EPRA NAV | 320.3 | 796.4 | 1073.9 | 1224.2 | 1392.6 | 1559.8 |
| NAV per share | 3.32 | 6.11 | 7.12 | 8.35 | 9.72 | 11.09 |
| Adj NAV per share | 6.11 | 6.90 | 9.30 | 10.61 | 12.06 | 13.51 |
| Diluted NAV per share | 3.66 | 6.11 | 6.28 | 7.37 | 8.58 | 9.78 |
| Diluted Adj NAV per share | 5.77 | 6.90 | 8.21 | 9.36 | 10.64 | 11.92 |

Source: J.P. Morgan estimates, Company data.

... and FFO reconciliation. In its latest Monthly Update (April), Grand City discloses an in place portfolio run rate of €56m for 2014e FFO vs our current forecast of €57.7m.

Table 8: Grand City FFO forecasts (€m)

| | 2013A | 2014E | 2015E | 2016E | 2017E |
|---|-------------|-------------|-------------|-------------|-------------|
| EBITDA | 306.0 | 152.1 | 203.4 | 225.9 | 224.3 |
| Capital gains, revaluation and other income | -251.6 | -59.5 | -89.0 | -96.7 | -87.3 |
| Adjusted EBITDA | 54.4 | 92.6 | 114.3 | 129.2 | 137.0 |
| Finance expense | -11.3 | -29.3 | -35.1 | -36.8 | -35.2 |
| Tax | -4.8 | -5.6 | -6.9 | -7.8 | -8.4 |
| FFO I | 38.3 | 57.7 | 72.4 | 84.6 | 93.3 |
| FFO per share | 0.50 | 0.50 | 0.63 | 0.73 | 0.81 |

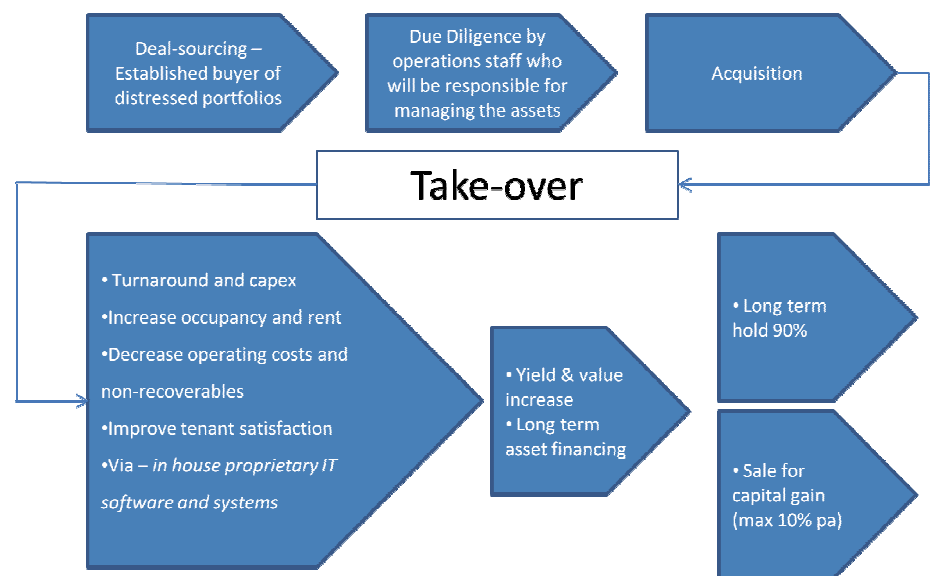
Source: J.P. Morgan estimates, Company data.

Grand City Business Description

Grand City’s business model is based on a turnaround strategy, acquiring distressed residential assets in otherwise demographically strong cities and towns in Germany. GYC owns c30,000 units (as at April 2014) focused on NRW (42%), Berlin (25%), Bavaria (9%) with 2.4m sq m of lettable space. As at February 2014, average rents were €4.95 psm (20% below Mietspiegel), with 15% vacancy.

Grand City targets high cash flow generating assets, with significant vacancy reduction potential where rent psm is below market level. GYC’s strategy is concentrated on growing rental income, with sales of mature assets recycling capital back into early stage turn around opportunities.

Figure 4: Grand City Business Model



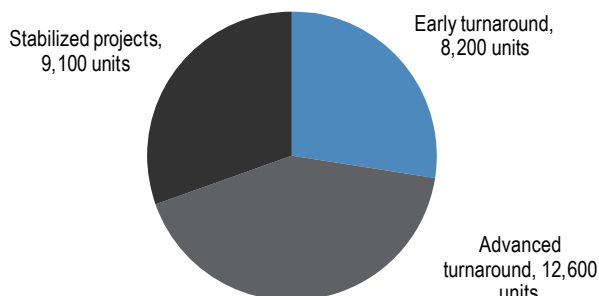
Source: Company

Portfolio defined by stage

Grand City defines its portfolio by turnaround stage – with recently acquired portfolio’s with vacancy >15% classed as 'Early Turnaround.' Portfolios where asset management actions have begun to bring vacancy down (5%-15%) are classed as 'Advanced Turnaround' and finally portfolios with <5% vacancy are 'Stabilized Projects.'

The 30,000 units in the portfolio are split 28% Early Turnaround, 42% Advanced Turnaround and 38% Stabilized.

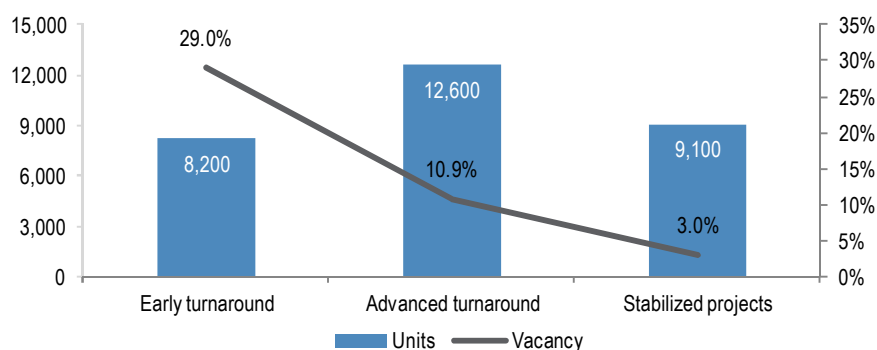
Figure 5: Portfolio breakdown by stage



Source: Grand City – April 2014

...with vacancies of c29%, 11.2% and 3% respectively as shown below.

Figure 6: Grand City 2013 Portfolio structure and vacancy



Source: Grand City – April 2014

Stage 1: Early Turnaround – 28%

Grand City targets acquisitions in the Early Turnaround phase, these are ‘distressed’ portfolios with vacancy of greater than 15% but located in strong demographic areas and usually undermanaged by the previous owner. These portfolios are sourced from banks, or from larger operators who do not want to invest the time in turning around these relatively smaller parts of portfolios the big players have acquired and are happy to sell on.

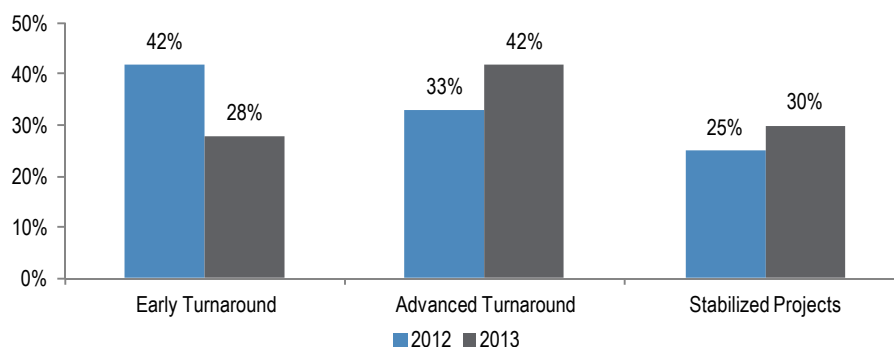
Stage 2: Advanced Turnaround – 42%

Advanced turnaround portfolios are those in which asset management activity is bringing down vacancy below 15% but is still improving towards the stabilized 5% target.

Stage 3: Stabilised projects – 30%

Stabilized projects are those that have vacancy below 5%, and are kept for rental uplift opportunity. Once portfolios are mature, they are either held for income, or sold for capital recycling into higher growth opportunities.

Figure 7: Grand City 2012-2013 Portfolio structure dynamics

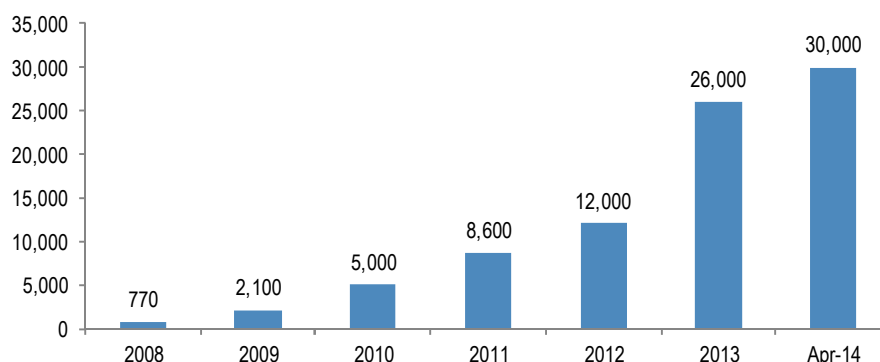


Source: Grand City – April 2014

Execution track record impressive

Grand City has been operating since 2004, when it was formed to turnaround residential buildings in Berlin. The Global Financial Crisis in 2007 to 2010 resulted in little acquisition activity, which has picked up from 2011 (6,400 units acquired) and 2012 (3,200 units) with 14,000 units acquired in 2013 setting the stage for further growth in rental income over the coming years.

Figure 8: Grand City Portfolio development in Units



Source: Company

Vacancy reduction, cost control and rental growth drives income

The table below demonstrates Grand City's ability to 1) identify portfolios with growth potential 2) execute on acquisitions 3) lower vacancy and 4) drive rent psm increases. We point to the 2008-2013 NRW transaction which saw vacancy reduced from above 40% to 6%, rents lifted from €3.8 psm average to letting at €4.5 psm and annualized rental growth of 76%.

Table 9: Grand City Portfolio Turnaround track record

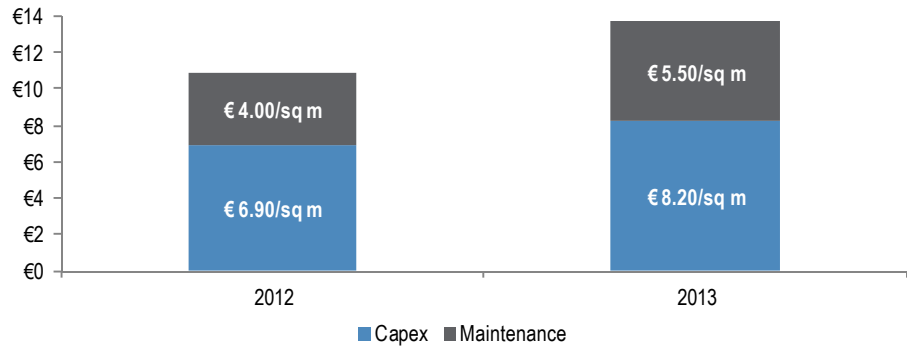
| Portfolio | Year acquired | Units | sq m | Start vacancy | Current Vacancy | Rent | Average lettings | Annualised Net Rent increase |
|-----------|---------------|-------|---------|---------------|-----------------|----------|------------------|------------------------------|
| Berlin | 2012 | 256 | 10,076 | 14% | 1.0% | €5.2sq m | €10.0sq m | 40% |
| NRW 1 | 2011 | 524 | 41,718 | 40% | 20.0% | €3.9sq m | €4.8sq m | 45% |
| NRW 2 | 2011 | 427 | 30,478 | 1% | 0.0% | €4.6sq m | €7.4sq m | 25% |
| NRW 3 | 2008 | 519 | 35,249 | 41% | 64.0% | €3.8sq m | €4.5sq m | 76% |
| NRW 4 | 2011 | 161 | 10,436 | 12% | 1.0% | €4.3sq m | €5.5sq m | 21% |
| NRW 5 | 2012 | 2122 | 127,785 | 24% | 13.0% | €4.5sq m | €5.7sq m | 19% |

Source: Company

2012 - 2013 acquisitions led to increased capex

The acquisition activity over 2012-2013 has led to an increase in capex requirements both maintenance and capex. We expect these to stabilize and then reduce gradually as the acquired portfolios transition from Early Turnaround to Advanced Turnaround and Stabilized.

Figure 9: Average Maintenance and Capex spend per sqm



Source: Company

The Standing Portfolio

We build our forecasts for Grand City based on the existing standing portfolio (as at December 2013) consisting of 26,000 units (as at Dec 2013), 23% in Early Turnaround, 44% in Advanced Turnaround and 33% Stabilized. In place Gross Rents (including heating) as at April 2014 were €180m and we make the following assumptions regarding transition from portfolio stages.

Table 10: Standing Portfolio stage change assumptions

| | 2013A | 2014E | 2015E | 2016E | 2017E |
|---------------------|-------|-------|-------|-------|-------|
| Early Turnaround | 23% | 18% | 11% | 3% | 0% |
| Advanced Turnaround | 44% | 44% | 47% | 49% | 47% |
| Stabilized | 33% | 38% | 43% | 48% | 53% |

Source: J.P. Morgan estimates, Company data.

In 2014 we assume 5% of the portfolio moves from Early Turnaround to Advanced Turnaround and 5% of Advanced turnaround become Stabilized. In 2015 7.5% moves from Early to Advanced, and 5% of Advanced becomes Stabilized.

The transition from each stage drives rental growth through lower vacancy and rental growth. Our assumptions of vacancy and the impact of portfolio stage transitioning are laid out below.

Table 10: Impact of Portfolio transitioning on vacancy

| Portfolio | Assumed Vacancy |
|---------------------|-----------------|
| Early Turnaround | 20% |
| Advanced Turnaround | 10% |
| Stabilized | 5% |

| Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------|------|------|------|------|------|
| Blended | 14% | 10% | 9% | 8% | 7% |

Source: J.P. Morgan estimates, Company data.

The decreasing vacancy drives rental income growth. As at April 2014 vacancy of 15% and in place rent of €180m implies a vacancy opportunity of €28.6m (to 100%). As our forecast blended vacancy rate reduces due to portfolio stage transition, rents increase.

Table 11: Portfolio rental growth assumptions and Gross Rent development

| Rental growth | 2014E | 2015E | 2016E | 2017E | 2018E |
|---------------------|-------|-------|-------|-------|-------|
| Early Turnaround | 0% | 0% | 0% | 0% | 0% |
| Advanced Turnaround | 3% | 3% | 3% | 3% | 3% |
| Stabilized | 2% | 3% | 3% | 3% | 3% |
| Blended | 2.0% | 2.6% | 2.8% | 3.0% | 3.0% |

| Gross Rents created from Asset m'ment | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Starting rents | 180.0 | 188.0 | 195.6 | 203.8 | 211.9 |
| Increase from vacancy | 6.0 | 2.7 | 2.7 | 2.0 | 0.8 |
| Increase from rental growth | 2.0 | 4.8 | 5.5 | 6.0 | 6.4 |
| End rent | 188.0 | 195.6 | 203.8 | 211.9 | 219.0 |

Source: J.P. Morgan estimates, Company data.

Cost Margins

Grand City reports Gross Rents, which includes heating costs that much be passed on to utility providers. Grand City historically has realized property operating expenses as a percentage of Gross Rents of 48% in 2011, 49% in 2012 before expenses fell to 37% in 2013 due to portfolio structure. We expect the cost ratio to increase in 2014 as the acquisitions in 2013 enter the management cycle before falling by c1% in 2015 and 2016.

In our view, our forecasts are conservative, with operating costs expected by Grand City to be 45% in 2014e (JPMe 48%) before declining 1% pa to 40% longer term.

Table 12: Gross to Net rents (€m)

| | 2011A | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| Gross Rents | 24.9 | 39.9 | 99.6 | 188.0 | 195.6 | 203.8 | 211.9 |
| Property operating expenses | -12.0 | -19.4 | -37.2 | -90.3 | -91.9 | -93.8 | -97.5 |
| As a % of gross rents | 48% | 49% | 37% | 48% | 47% | 46% | 46% |
| Refurbishment & Maintenance | -1.9 | -2.2 | -5.5 | -11.2 | -11.6 | -11.9 | -12.2 |
| As % of Assets | | 0.66% | 0.82% | 0.78% | 0.75% | 0.72% | 0.69% |
| Maintenance € psm | | | | 5.3 | 5.5 | 5.7 | 5.8 |

Source: J.P. Morgan estimates, Company data.

Maintenance and refurbishment capex

Maintenance and refurbishment capex as a percentage of assets was 66 bps in 2012 and 82bps in 2013. We reduce this by 3bps pa going forward to recognize efficiencies and cost savings. This equates to €5.3 psm maintenance spend in 2014.

Administration expenses

Administration costs of €3.34m in 2013 are expected to increase to €5.5m due to the enlarged portfolio. We increase admin expense in line with asset values, however since this is the *standing* portfolio (excluding acquisitions), Administration Expenses as a percentage of assets is more likely to decline over time.

Table 13: Administration Expense development (€m)

| | 2011A | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Admin expense (€m) | -2.4 | -4.5 | -3.3 | -5.5 | -5.8 | -6.2 | -6.5 |
| As % of assets | | | 0.38% | 0.39% | 0.39% | 0.39% | 0.39% |

Source: J.P. Morgan estimates, Company data.

EBITDA Margin to average 44% - conservative

EBITDA Margin peer comparison is difficult as Grand City's reported margins will fluctuate with acquisition activity, with less efficient portfolios acquired and improved. However a rule of thumb is 30% of Gross Warm to Net Cold Rents, and another 25% from Net Cold Rent to EBITDA which equates to over 50% EBITDA margins. Our forecasts are therefore again conservative. Furthermore we analyze the Standing Portfolio separately from future acquisitions, and for the standing portfolio we forecast EBITDA margins averaging 44% (again upside risk to 50%) over the next four years.

Table 14: Grand City EBITDA margin (€m)

| EBITDA Comps | Average | Grand City | | Deutsche Annington | LEG | Deutsche Wohnen | GAGFAH |
|-----------------|---------|------------|-------|--------------------|-------|-----------------|--------|
| | | 2012A | 2013A | 2013A | 2013A | 2013A | 2013A |
| Total Rents | | 39.9 | 99.6 | 1048.3 | 527.9 | 532.7 | 829.8 |
| EBITDA | | 22.7 | 54.4 | 442.7 | 207.0 | 264.0 | 317.1 |
| Margin of Gross | 42.3% | 57.0% | 54.7% | 42.2% | 39.2% | 49.6% | 38.2% |

Source: Company Reports, J.P. Morgan Estimates. 2012 includes €8.4m from equity share

In 2013 Grand City realized EBITDA margins of 54.7% and sees 50% as an achievable long term margin dependent on acquisition activity (higher acquisition volume will lead to lower initial margin until portfolios are improved). Our forecast average of 44% over our forecast period, *is again conservative* and a source of upside risk to our forecasts.

Table 15: Recurring EBITDA and Margin (€m)

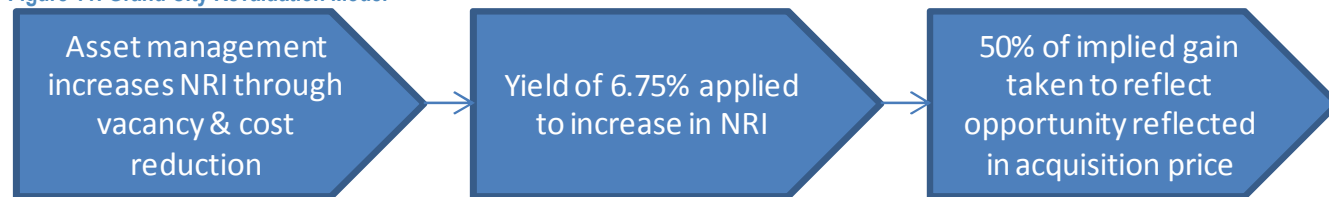
| | 2011A | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| Recurring EBITDA (€m) | 8.6 | 22.7 | 54.4 | 81.1 | 86.3 | 92.0 | 95.8 |
| Recurring EBITDA margin (%) | 34% | 57% | 54% | 43% | 44% | 45% | 45% |

Source: Company reports and J.P. Morgan estimates.

Revaluation driven by income improvement

We assume that portfolio revaluation is driven by income improvement, as asset management efforts fill vacancy and lower costs. According to GYC, the discount rate used to determine the fair value of property ranges from 6.25% to 7.5% with a weighted average of 6.75%. We cap created income at 6.75% (to reflect improving portfolio structure through asset management) and take 50% of capital value to reflect implied upside in acquisition prices of portfolios bought. No yield compression is assumed.

Figure 11: Grand City Revaluation Model



Source: J.P. Morgan estimates.

As per the above figure, the driver of revaluation is income growth. We drive rental income growth in the standing portfolio from 1) increasing occupancy and 2) rental growth. Additional growth not in our forecasts is reduction of Gross to Net Cold Rent through more efficiency charging of utilities.

Table 16: Grand City Rental development (€m)

| Rents created from AM | 2013A | 2014E | 2015E | 2016E | 2017E |
|--------------------------------------|-------|-------|-------|-------|-------|
| Starting rents | | 180.0 | 188.0 | 195.6 | 203.8 |
| Increase from vacancy fill | | 6.0 | 2.7 | 2.7 | 2.0 |
| Increase from rental growth | | 2.0 | 4.8 | 5.5 | 6.0 |
| End rent | | 188.0 | 195.6 | 203.8 | 211.9 |
| Total Rental growth | | | 4.0% | 4.2% | 4.0% |
| LfL Rental growth | | | 2.6% | 2.8% | 3.0% |
| Rent Created | | 8.0 | 7.6 | 8.2 | 8.1 |
| Value created | 189.2 | 119.0 | 112.2 | 121.6 | 119.4 |
| 50% not implied in acquisition price | | 59.5 | 56.1 | 60.8 | 59.7 |
| % of assets | | 4.3% | 3.9% | 4.0% | 3.7% |

Source: J.P. Morgan estimates, Company data.

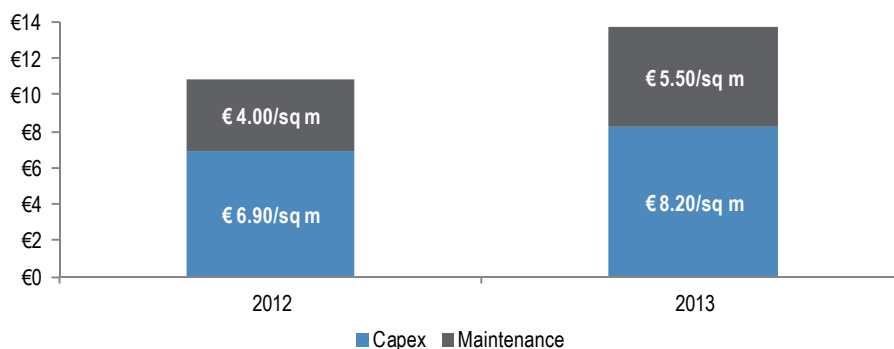
Gains on sale of buildings – we factor in no future sales

Grand City aims for 90% of cash income from rents and 10% from the sale of properties. In 2013A, GYC sold properties for €70m, against a book value of €54.9m for a gain of €15.1m. Going forward we forecast no property sales, any gains on sale constitute additional upside risk to our numbers.

Capex on existing portfolio, doing more with less.

A potential source of investor query is Grand City’s capex spend to achieve such turnarounds in vacancy and costs. In 2013 GYC spent a total of €13.7 per average square metre in capex. This was split €5.5 psm for maintenance (expensed through the P&L) and €8.2 psm for improvement (capitalized). While the maintenance spend is clear through the P&L accounts, the total capex spend is not disclosed separately in the accounts.

Figure 12: Grand City historical maintenance and capex spend



Source: Company reports, Grand City Revaluation Estimates

The €13.7 psm of capex was up 25.6% on 2012, due to increased acquisition levels and intensive efforts to reduce vacancy and decrease tenant churn. Given the extensive acquisition activity over 2013, we forecast capex to increase to €12 psm in 2014 and 2015, before declining as portfolios move from Early to Advanced Turnaround and finally to stable.

Again our model inputs are conservative, with Grand City expecting an average spend across the portfolio of €8 psm for capex going forward.

Table 17: Grand City capex forecasts (ex maintenance)

| Capex | 2014E | 2015E | 2016E | 2017E |
|-----------------------|-------|-------|-------|-------|
| Capex spend €psm | 12 | 12 | 10 | 8 |
| Sq m in portfolio (m) | 2.2 | 2.2 | 2.2 | 2.2 |
| capex spend €m pa | 26.4 | 26.4 | 22 | 17.6 |

Source: Company reports and J.P. Morgan estimates.

We estimate an NCR yield on the capex spend of 15% in total or 10.5% on Net Operating Income at a 30% operating margin. However the real gains come through valuation uplifts as portfolios are managed out of 'distressed' levels of vacancy and stabilized.

Again our modeling is conservative, with Grand City targeting up to 25% yields on capex.

Table 18: Grand City Capex forecasts and rental income gain

| | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|---|-------|------------|-------|-------|-------|-------|
| Vacancy | 18% | 14% | 11% | 10% | 8% | 7% |
| €m rent increase from vacancy reduction | | | 6.0 | 2.7 | 2.7 | 2.0 |
| Yield on capex spend | | | 22.8% | 10.4% | 12.4% | 11.6% |
| Cumulative spend | | 92.4 | | | | |
| Cumulative rent created | | 13.5 | | | | |
| Yield | | 15% | | | | |

Source: J.P. Morgan estimates, Company data.

Interest expense – diversified capital structure

As at December 2013, Grand City had a €194.7m corporate bond (€200m before costs) and €461.8m of bank debt outstanding along with €10.6m of short term debt. In February 2014 GYC issued a convertible for €150m paying a coupon of 1.5% with a conversion price of €9.72 per share (just 15.5% above current levels) which would represent 15.43m new shares or 13.3% of the current shares on issue.

Table 19: Grand City Debt Structure as at Feb 2014E

| Debt | €m | CPN/Cost | Maturity |
|---------------------------------------|--------------|--------------|----------|
| Bank Debt | 472.3 | 3.07% | |
| Bond Series B | 195.68 | 6.25% | 2020 |
| Convertible | 150 | 1.50% | 2019 |
| Total Debt as at Feb 2014E | 817.9 | | |
| Weighted Average Interest rate | | 3.54% | |

Source: J.P. Morgan estimates, Company data.

We estimate a current average cost of debt for Grand City of 3.54%. In our forecasts we use an average cost of debt of 4.0%, equivalent to the average cost of debt excluding the convertible and again reflecting conservative assumptions. Net Interest Expense increases markedly in 2014 over 2013 due to the €761m of acquisitions made over 2013.

Refinancing opportunity

Again our model inputs are conservative. Grand City's current cost of debt is 3.6% with an incremental cost of 3%. Furthermore the bonds have a call date in two years and are currently trading at 3.7% vs a 6.25% coupon giving a further driver to cash flow and earnings as these bonds are reissued at a lower coupon.

Table 20: Grand City Interest Expense from standing portfolio

| | 2011A | 2012A | 2013A | 2014E | 2015E | 2016E | 2017E |
|------------------|-------|-------|-------|-------|-------|-------|-------|
| Interest Expense | 5.8 | 9.0 | 11.3 | 24.8 | 24.5 | 24.2 | 23.7 |

Source: J.P. Morgan estimates, Company data.

Taxation

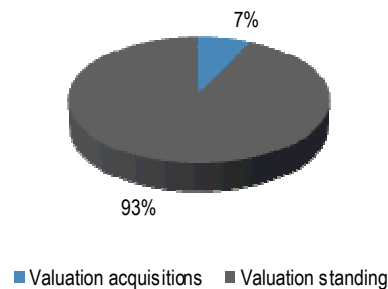
Grand City pays three tax lines, Corporation tax on earnings, Deferred taxes on revaluations and Property taxes. Realised capital gains are taxed at a range of 1% to 15.825%. *Grand City uses a conservative tax approach on revaluations, accumulating deferred tax liabilities at the full rate of 15.825% but on disposal the corporate vehicle is sold, which incurs a CGT of only 1%. Recurring PBT is effectively taxed at 30% of this 15.825% rate due to prior tax losses and depreciation. We use a Corporate tax rate of 5% (30% of the 15.825%), deferred tax rate of 15.825% and carry forward property taxes at last reported.*

Valuation standing portfolio €9.03

Based on the above forecasts, we estimate a valuation for the existing portfolio of €9.03 per share, based on a EVA spread of 4.7% driven by letting up of vacant space, cost reduction and like for like rental growth.

The in place portfolio underpins our valuation, and we view our assumptions around portfolio stage transitioning, like for like rental growth and cost reductions as conservative. The standing portfolio contributes 93% of our €9.72 total valuation.

Figure 13: Split of Standing Portfolio vs Future Acquisitions in GYC valuation



Source: J.P. Morgan estimates, Company data.

Sensitivity analysis

We identify three drivers of the standing portfolio.

1. Portfolio stage transitioning which reduces vacancy
2. Cost reduction.
3. Like for like rental growth

We estimate a bull case valuation for the standing portfolio of €9.87 per share vs a bear case of €7.91. Our bull, bear and base case estimates are set out in the table below. A faster transition between Early and Advanced Turnaround and Stabilized, higher rental growth and higher cost reduction all increase our standing portfolio valuation. If Grand City takes longer to transition portfolios, achieves lower than expected rental growth or is less successful at reducing costs, our valuation would fall.

Table 21: GYC Base, Bull and Bear Case Standalone Portfolios

| Portfolio increases pa | | 2014 | 2015 | 2016 | 2017 |
|------------------------|---------------------------|-------|--------|--------|--------|
| Base Case | Advanced Turnaround shift | 5.00% | 7.50% | 7.50% | 3.00% |
| | Stabilized shift | 7.50% | 10.00% | 10.00% | 10.00% |
| Bull Case | Advanced Turnaround shift | 10.0% | 10.0% | 3.0% | 0.0% |
| | Stabilized shift | 10.0% | 15.0% | 15.0% | 15.0% |
| Bear Case | Advanced Turnaround shift | 2.5% | 2.5% | 2.5% | 2.5% |
| | Stabilized shift | 5.0% | 5.0% | 5.0% | 5.0% |
| Rental Growth | | 2014 | 2015 | 2016 | 2017 |
| Base Case | Early Turnaround | 0.0% | 0.0% | 0.0% | 0.0% |
| | Advanced Turnaround | 3.0% | 3.0% | 3.0% | 3.0% |
| | Stabilized | 2.0% | 3.0% | 3.0% | 3.0% |
| Bull Case | Early Turnaround | 1.0% | 1.0% | 1.0% | 1.0% |
| | Advanced Turnaround | 4.0% | 4.0% | 4.0% | 4.0% |
| | Stabilized | 4.0% | 4.0% | 4.0% | 4.0% |
| Bear Case | Early Turnaround | 0.0% | 0.0% | 0.0% | 0.0% |
| | Advanced Turnaround | 1.0% | 1.0% | 1.0% | 1.0% |
| | Stabilized | 1.0% | 1.0% | 1.0% | 1.0% |
| Margin improvement | | 2014 | 2015 | 2016 | 2017 |
| Base Case | | 1% | 1% | 1% | 1% |
| Bull Case | | 2% | 2% | 2% | 2% |
| Bear Case | | 0% | 0% | 0% | 0% |

Source: Company reports and J.P. Morgan estimates.

The impact of the above sets of assumptions creates a valuation range for the standing portfolio of €7.91 to €9.87 per share versus our base case of €9.03, a FY13A EPRA NAV of €6.90 and a share price of €8.12.

Again we point out that our forecasts are conservative, even in our bull case scenarios, with Grand City seeing 2-5% as the rental growth range for the Early Turnaround portfolio vs our 0-1% range.

Table 22: Grand City Valuation Output Bull, Base and Bear case for standing portfolio (€)

| Company | Price | NNAV t+1 | Premium | Operating return | Capital return | Total return | WACC | Spread | Assigned value t+1 |
|-----------|-------|----------|---------|------------------|----------------|--------------|-------|--------|--------------------|
| Bull Case | 8.12 | 7.62 | 6.8% | 7.6% | 5.6% | 13.2% | 6.63% | 6.4% | 9.87 |
| Base Case | 8.12 | 7.44 | 9.3% | 7.1% | 4.2% | 11.4% | 6.63% | 4.7% | 9.03 |
| Bear Case | 8.12 | 7.30 | 11.4% | 6.7% | 1.9% | 8.6% | 6.63% | 1.8% | 7.91 |

Source: J.P. Morgan estimates, Company data. Price COB 01/05/2014

Acquisitions - €300m signed for 2014

As at December 2013, Grand City's portfolio consisted of 26,000 residential units. As per the April 2014 presentation, this has increased to 30,000 units and €300m of acquisitions are already signed in 2014. One area of improvement for Grand City is in disclosure of portfolio acquisitions. We would like to see price paid, in place Net Cold rents, net initial yield, vacancy etc disclosed going forward on a quarterly basis and acknowledge that the monthly updates on acquisition volumes and current FFO and rental income run rates are an innovative and positive measure to provide transparency on activity.

We are confident in our €300m annual target

Using the average unit value as at December 2013 of €52,626 per unit, this increase of 4,000 (30,000 units as at April vs 26,000 at Dec 14) units equates to purchase value of c€210m. In the April 2014 presentation, Grand City stated "takeover and signed deals in 2014 for approx. Euro 300 million" have been made. Again we would like to see greater disclosure of these acquisitions. Either way we are confident in our base case assumption for €300m of acquisitions in 2014 followed by €150m in 2015. We do not forecast any acquisitions from 2016 onwards, *another source of upside risk to our forecasts.*

Acquisition metrics and assumptions

Grand City targets Net Cold rent multiples of at least 10x, with a net initial yield of c7.5% (we assume 6%). Vacancy is often 'distressed' ie 30% to 40% and cost control on the portfolio is poor. After acquisition, Grand City aims to increase the net initial yield to at least 10% after three or four years of asset management effort.

Table 23: Acquisition assumptions for Grand City (€m)

| Acquisitions | 2014 | 2015 | 2016 | 2017 |
|------------------------------------|------|------|------|------|
| Future acquisition level (€m) | 300 | 150 | 0 | 0 |
| Rolling acquisition total (€m) | 300 | 450 | 450 | 450 |
| Gross to NCR | 33% | 33% | 33% | 33% |
| Initial yield | 6% | 6% | 6% | 6% |
| NCR multiple (x) | 10 | 10 | 10 | 10 |
| margin from NCR to NIY reduces to: | 30% | 30% | 30% | 30% |
| over x years | 3 | 3 | 3 | 3 |
| Assumed starting occupancy | 70% | 70% | 70% | 70% |
| End occupancy | 95% | 95% | 95% | 95% |
| over x years | 4 | 4 | 4 | 4 |

Source: Company reports and J.P. Morgan estimates.

The acquisitions drive financial performance via reducing vacancy, reducing costs and increasing rental growth. Valuation is driven by the 'created' income from filling vacancy and lowering costs and we take 50% of the capitalised value into our capital growth forecasts, assuming the acquisition price 'pays up' for a portion of the opportunity. We assume acquisitions are temporarily spread evenly across the year.

Filling vacancy

Vacancy on acquired portfolios is assumed at 30%, which reduces to 5% over four years. Buildings acquired often have uncompleted or inappropriate work on common areas such as lobby or façade, poorly maintained gardens and communal facilities (children's play areas etc). Grand City addresses these issues, increasing desirability and demand for units, while improving services and engaging with the community.

Lowering costs

As Grand City buys portfolios that are unwanted by big institutions or banks, asset management is often lacking and cost control is poor. We assume a Net Cold Rent to Net Operating Income cost margin of 40% on acquisition which reduces to 30% over 3 years. Our numbers are conservative, with Grand City viewing 25% cost margins achievable.

Table 24: Rental Creation Opportunity from acquired portfolio €m

| Opportunity in acquisitions | 2014E | 2015E | 2016E | 2017E |
|--|-------|-------|-------|-------|
| Acquisition volume | 300 | 150 | 0 | 0 |
| Vacancy opportunity (€m) | 6.43 | 3.21 | 0.00 | 0.00 |
| Cost opportunity on starting income (€m) | 4.07 | 2.04 | 0.00 | 0.00 |
| Total opportunity (€m) | 10.50 | 5.25 | 0.00 | 0.00 |

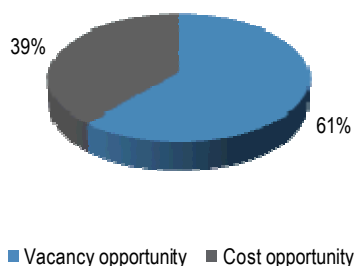
Source: J.P. Morgan estimates, Company data.

€450m of acquisitions imply €15.75m of growth opportunity

Our €450m of forecast acquisition volume over 2014-2015 implies €15.75m of rental 'opportunity' base on our above assumptions. €9.64m of this comes from filling vacancy from 30% to our assumed 5%. €6.11m comes from cost reduction, as NOI/NCR margin increases from 60% to 70%. We assume it takes four years to capture the vacancy opportunity and three years to increase margins.

Again our forecasts are conservative, with 75% NOI/NCR margins viewed by Grand City as achievable.

Figure 14: Vacancy vs Cost rent opportunity from acquisitions



Source: J.P. Morgan estimates, Company data.

We estimate 61% of the opportunity in acquired portfolios is from filling vacancy, with 39% from cost reduction.

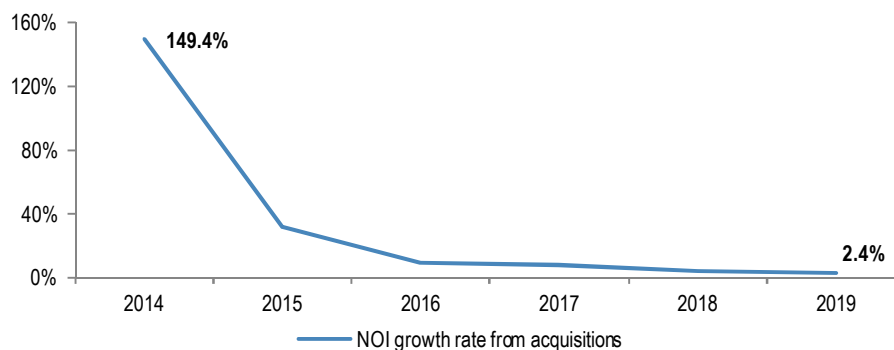
Table 25: Acquisition portfolio NOI forecasts €m

| Opportunity in acquisitions (€m) | 2014E | 2015E | 2016E | 2017E |
|--|--------------|---------------|---------------|---------------|
| Acquisition volume | 300 | 150 | | |
| Starting | - | 16.6 | 41.9 | 52.6 |
| Increase from acquisitions | 15.0 | 22.5 | 7.5 | 0.0 |
| Increase from vacancy reduction | 1.6 | 2.4 | 2.4 | 2.4 |
| Increase from rental growth | - | 0.3 | 0.8 | 1.1 |
| Net cold Rent | 16.6 | 41.9 | 52.6 | 56.1 |
| Property operating expenses | | | | |
| Starting | - | -4.64 | -11.61 | -12.57 |
| Increase from acquisitions | -6.0 | -9.0 | -3.0 | -0.0 |
| Decrease from cost reduction | 1.36 | 2.04 | 2.04 | 0.68 |
| | -4.64 | -11.61 | -12.57 | -11.89 |
| Refurbishment & Maintenance | -1.2 | -3.3 | -4.8 | -5.6 |
| NOI | 10.8 | 26.9 | 35.2 | 38.6 |

Source: J.P. Morgan estimates, Company data.

We note that initial NOI growth from acquisitions falls to our assumed rental growth rate of 2%. We view this figure as conservative, as portfolios acquired are rented below indexation.

Figure 15: NOI Growth rate from assumed acquisitions



Source: J.P. Morgan estimates, Company data.

Capex and revaluation

Our revaluation assumptions are driven by growth in rental income through reducing vacancy and costs. We capitalize rental uplift by our estimated turnaround NIY on the portfolio of 6.75%. This compares to a current discount rate on the portfolio of 6.25-7.5% and average of 6.75%.

We forecast capex based on 2013 portfolio metrics of; €1,368m of investment property, 26,000 units and 2.1m square meters. This implies an average unit size of 81 sq m and an average value per unit of €51,415.

Table 26: Grand City Acquisition portfolio capex assumptions

| | 2014E | 2015E | 2016E | 2017E |
|------------------------|------------|------------|------------|------------|
| Portfolio value | 300 | 450 | 450 | 450 |
| Average unit value | 52,615 | 52,615 | 52,615 | 52,615 |
| Units | 5,702 | 8,553 | 8,553 | 8,553 |
| Average size sq m | 81 | 81 | 81 | 81 |
| sq m | 461,842 | 692,763 | 692,763 | 692,763 |
| Capex € psm | 12 | 12 | 12 | 12 |
| Capex €/m | 2.8 | 6.9 | 8.3 | 8.3 |

Source: J.P. Morgan estimates, Company data.

In our view, these assumptions are conservative as in 2012 and 2013, Grand City spent an average of €6.9 psm and €8.2 psm respectively. Our assumption of €12 psm is more than 50% above the average over the last two years. We expense maintenance capex at an average rate of €5.4 psm pa over our forecast period.

Revaluation – bang for buck

The key driver of Grand City's business model is the revaluation upside from filling vacant space. As with the standing portfolio, we capitalise rental income from reducing vacancy and costs by 6.75% and then book half the gain to reflect some of the upside is reflected in the acquisition price. We also assume rental growth of 2% per annum that flows into the revaluation

Table 27: Grand City Acquisition portfolio revaluation assumptions €/m

| | 2014E | 2015E | 2016E | 2017E |
|--|-------------|-------------|-------------|-------------|
| Starting running cost opportunity | 4.07 | 2.04 | 0.00 | 0.00 |
| Annual capture | 1.36 | 2.04 | 2.04 | 0.68 |
| Starting vacancy opportunity from acquisitions | 6.43 | 3.21 | 0.00 | 0.00 |
| Annual capture | 1.61 | 2.41 | 2.41 | 2.41 |
| Revaluation | - | 32.9 | 35.9 | 27.6 |

Source: J.P. Morgan estimates, Company data.

Interest Expense

We assume an incremental cost of debt of 4% for funding acquisitions against a weighted average cost of debt of 3.54%. However, this average rate includes the convertible bond issued at 1.5% in February 2014. Removing this gives an average cost of debt at 4%.

Table 28: Grand City Acquisition portfolio interest expense €/m

| | 2014E | 2015E | 2016E | 2017E |
|--|---------------|----------------|----------------|----------------|
| Interest Expense - credit institutions | - 2.63 | - 8.30 | - 10.37 | - 9.23 |
| Interest Expense -convertible bond | -1.875 | -2.25 | -2.25 | -2.25 |
| Recurring Interest Expense | - 4.51 | - 10.55 | - 12.62 | - 11.48 |

Source: J.P. Morgan estimates, Company data.

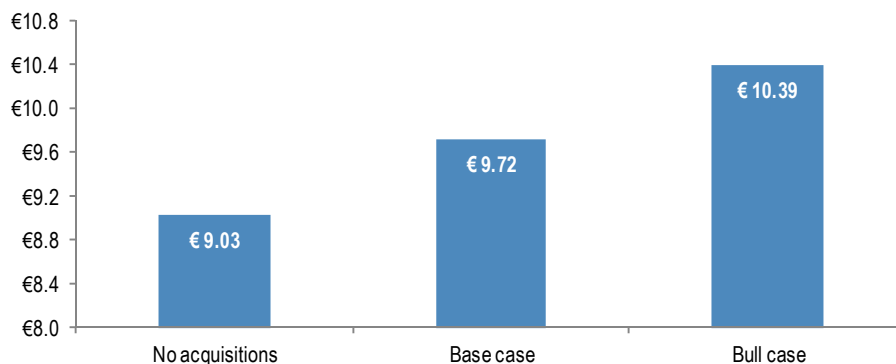
Valuation acquisition pipeline €0.69

Our forecast of €300m in acquisitions for 2014 looks conservative in our view, as does our 2015 forecast of €150m. In the latest Grand City presentation of April 2014, the portfolio had increased from 26,000 units to 30,000 units and from 2.1m sq ft to 2.4m sq ft. In addition, €300m of acquisition volume *has already been signed*.

We would like to see improved disclosure on these acquisitions including individual portfolio values, vacancy, multiples, net initial yields and location. The monthly updates on the total portfolio figures and activity are useful in gauging business activity and a nice innovation by Grand City to increase transparency, however even on a quarterly basis, a summary of acquisition activity with key metrics would be useful to investors and analysts in our view.

Given our forecast of €300m of acquisitions has already been met, we see upside risk to our 2014 estimates.

Figure 16: Grand City Acquisition Scenarios, no acquisitions, base case and bull case



Source: J.P. Morgan estimates.

Our base case valuation of €9.72 assumes €300m of acquisitions in 2014 and €150m in 2015. If we increase this to €300m in perpetuity our valuation increases to €10.39 (+6.9%). The model is not that sensitive to changes in acquisition volume as it takes four years to realise full value from vacancy and cost reduction against our 5-year forward valuation period.

Capital structure and debt breakdown

As at December 2013, Grand City had outstanding debt of €667m against assets of €1,651m including €132m cash for LTV of 32.4%. Year to date, GYC has issued a €150m convertible bond, extended its Series B bond by €150m and acquired c4,000 units for approximately €200m. GYC has a target LTV structure of 50% against bond covenants of 65% LTV.

Table 29: Grand City debt and LTV evolution €m

| | 2013A | 2014E | 2015E | 2016E | 2017E |
|----------------------------|--------------|--------------|---------------|---------------|---------------|
| Starting Debt | | 656.4 | 798.8 | 929.1 | 902.5 |
| <i>funding requirement</i> | | 142.4 | 130.2 | -26.6 | -30.5 |
| Convertible Bond | | 150.0 | 150.0 | 150.0 | 150.0 |
| Closing Debt | 667.0 | 948.8 | 1079.1 | 1052.5 | 1022.0 |
| LTV % | 32.4% | 38.4% | 37.9% | 32.9% | 28.0% |

Source: J.P. Morgan estimates, Company data.

Capital structure

Grand City has one class of share, with 115.5m shares outstanding and a free float of 71.5m shares. Edolaxia Ltd, Valuemonth Ltd and Zenelo Ltd are all controlled by Chairman and founder Mr Yakir Gabay and collectively hold 43.9m shares which accounts for the majority of shares not in free circulation. Grand City's liquidity is increasing, trading just below 100,000 shares per day on average or <€1m, according to Bloomberg data.

Table 30: Grand City shareholder structure - ordinary shares

| | |
|--------------------------------|--------------------|
| EDOLAXIA LTD | 38,852,056 |
| MERRILL LYNCH INTERNATIONA | 3,947,535 |
| VALUEMONTH LTD | 3,532,005 |
| FIDELITY INTERNATIONAL | 3,328,826 |
| SEB FONDFORVALTNING AB | 2,187,695 |
| ZANELO LTD | 1,500,525 |
| FIDELITY MANAGEMENT & RESEARCH | 1,107,373 |
| YELIN LAPIDOT | 1,091,202 |
| SEB ASSET MANAGEMENT SA | 1,089,979 |
| SEBINVEST A/S | 948,810 |
| Other | 57,913,994 |
| Total | 115,500,000 |

Source: Bloomberg.

Grand City has a €150m convertible on issue, with a coupon of 1.50%, conversion price of €9.72 and 2019 maturity. The company has €200m of 'Series B' bonds outstanding with a coupon of 6.25%. In April 2014 the company announced a tap issue of a further €150m of the Series B bonds. The company also has bank debt of c€472m and as at December 2013 had cash of €132.5m.

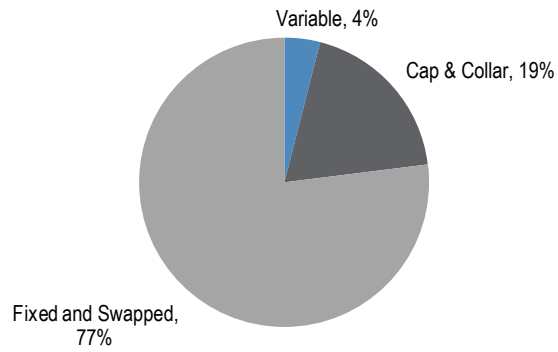
Table 31: Grand City debt breakdown as at Feb 2014

| Debt | €m | CPN/Cost | Maturity |
|----------------------------|--------|----------|----------|
| Bank Debt | 472.27 | 3.07% | |
| Bond Series B | 195.68 | 6.25% | 2020 |
| Convertible | 150 | 1.50% | 2019 |
| Total Debt as at Feb 2014E | 817.95 | | |

Source: Company reports.

96% of Grand City’s debt is either fixed or subject to a cap and collar arrangement with only 4% floating. As at March 2014, c€575m of assets or 36% of properties were unencumbered.

Figure 17: Grand City Hedging Structure

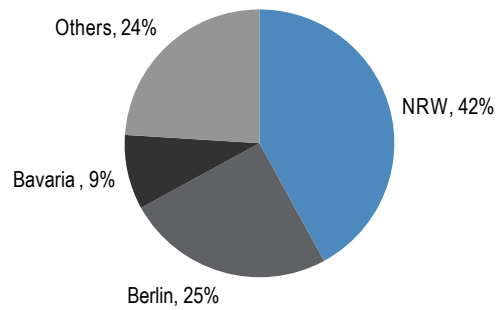


Source: Company reports.

Portfolio

As at April 2014, Grand City's portfolio consists of 30,000 units of 2.4m sqm across Berlin and North Rhine Westphalia (NRW). In place rent is €4.95 psm (20% below Mietspiegel) and vacancy is at 15% (14% as at Dec 13). Annualised in place rent as at April 2014 was €180m.

Figure 18: Grand City Portfolio location breakdown



Source: Company reports.

Whereas for German residential peers demographics, lease structures and other macro variables drive rental growth forecasts, the main driver of Grand City's business model, in our view, is the pace of portfolio transitioning and vacancy reduction, covered elsewhere in the report.

History

Grand City was founded in 2004 to buy and turnaround residential buildings in Berlin. In 2007 770 units were acquired in North Rhine-Westphalia (NRW), then due to the global financial crisis no acquisitions were made until 2009, when 1,330 units were acquired in Berlin. Activity increased steadily with 2,900 units acquired in 2010 and 6,500 units in 2011. In 2012, Grand City was formed in its current structure and listed on the Frankfurt Stock Exchange which led to a capital increase of €15m representing 10% of the existing share capital. The company's first convertible bond was issued in 2012 for €100m (subsequently converted in October 2013). In 2013, a 15% equity raising was completed for €35.7m, S&P rated the company at BB and bonds were issued for €200m due in 2020. Over 2013, Grand City sold €70m worth of properties, issued a further 27m shares raising €175.5m and acquired c14,000 units in Berlin, NRW, Mannheim, Nuremberg and Dresden.

In 2014, YTD c4,000 units have been acquired, a new convertible bond for €150m has been launched and additional corporate bonds have also been issued. S&P up-rated the company to BB+ in 1Q14.

Board of Directors

Grand City has a dual board structure consisting of the Advisory Board and the executive Management Board. The Advisory Board consists of Chairman Yakir Gabay and Mr Claudio Jarczyk. The Management Board consists of three executives Simone Runge-Brandner, Daniel Malkin and Refael Zamir.

Advisory Board

Grand City's Advisory Board consists of two executives.

Yakir Gabay – Chairman and founder

Mr Gabay founded Grand City properties and is now Chairman. Prior to Grand City, Mr Gabay was CEO of investment banking at Bank Leumi. He also set up hotel operator Grand City Hotels.

Claudio Jarczyk - Independent

Prior to Grand City, Mr Jarczyk was an Executive Director at BerlinHyp Bank specializing in real estate financing with a focus on international clients. Furthermore he was Chief International Executive at Landesbank Berlin and worked at Bayerische Vereinsbank Munich.

Management Board

Grand City's Management Board consists of four executives.

Christian Windfuhr - CEO

Prior to joining Grand City, CEO Christian Windfuhr was CEO of Maritim Hotels which had over 12,000 rooms in over 40 hotels primarily in Germany. Prior to this Mr Winduhr was CEO of Movenpick and has served as a Director of travel group TUI.

Simone Runge-Brandner

Ms Runge-Brandner is an advisor in Real Estate Private Equity for investors and project developers in European property markets. Prior to joining Grand City Ms Runge-Brandner has held positions at UBS Deutschland AG, Dekabank Frankfurt and Haleba Frankfurt in various real estate finance positions.

Daniel Malkin

Mr Malkin is a cofounder of SIMRES Real Estate, with experience in private equity, advisory and M&A. At Grand City he is responsible for the group's real estate, M&A and financing.

Rafael Zamir

Mr Zamir joined Grand City at the beginning of 2013, prior to which he was with E&Y in the real estate and financial institutions sectors. Mr Zamir is Certified Public Accountant (CPA) and holds a BA and MBA in finance and business administration.

Investment Thesis, Valuation and Risks

Grand City Properties *(Overweight; Price Target: €9.75)*

Investment Thesis

Grand City is a fast growing German residential turnaround specialist with c30,000 units (as at April 2014) and 2.4m sq m of rentable area, concentrated in North Rhine Westphalia and Berlin. Grand City focuses on the acquisition of distressed portfolios in good locations with vacancy of c30% and poor cost control, suitable for more capex led active management and stabilization. The group has grown rapidly over recent years, with nearly €1bn in acquisitions of 18,000 units or +150% since December 2012.

We initiate coverage of Grand City Properties with an OW rating and 20% potential upside to our €9.75 price target. Grand City focuses on the acquisition and turning around of distressed portfolios with high vacancy (c30%) and poor cost control. The resulting rental income created drives FFO ps 4-yr CAGR of 12.8% and NAV ps 4-yr CAGR of 14.6%, while the stock currently trades on a 2015e P/FFO of 13x and P/NAV of 0.87x. Valuation looks compelling on these metrics and we see five reasons to buy.

Valuation

We consider the key valuation metrics for European real estate companies are: 1) discount to NAV, 2) dividend yield (GYC does not pay a dividend) and 3) Funds From Operations (FFO). We use an EVM based model, which we introduced in a November 2005 sector report, to determine whether we expect a company under our coverage to create or destroy value (ROIC vs. WACC) in the next four years. We argue that companies with a positive spread between return and weighted average cost of capital (WACC, 7.36% for GYC) should trade at a premium to NNAV, whereas the ones with a negative spread should be priced below NNAV. Our forecasts for GYC suggest management will create value with a positive EVA spread of c5.0%, which results in a price target of €9.75 per share, indicating 20% potential share price upside.

Risks to Rating and Price Target

The key downside risk to Grand City is in execution of the turnaround strategy. This can be compounded by acquisition risk, in which portfolios acquired may have a structural vacancy that can not be addressed by capex or asset management activity. Given the rapid growth in recent years, we identify execution risk in bringing vacancy down more slowly than we assume in our forecasts. Furthermore more capex than we forecast may be required to turnaround portfolios and German residential as an asset class faces political and social risk such as rent restrictions or sale restrictions. Finally we would like to see disclosure of acquisitions improved, with location, vacancy, NCR (Net Cold Rent) multiples or yields and net initial yields disclosed.

Grand City Properties: Summary of Financials

| Profit and Loss Statement | | | | | Per share data | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|------------------------------------|-----------|--------------|--------------|-----------|
| € in millions, year end Dec | FY13 | FY14E | FY15E | FY16E | € in millions, year end Dec | FY13 | FY14E | FY15E | FY16E |
| Property income | 170 | 213 | 258 | 282 | Adjusted EPS | 0.42 | 0.41 | 0.52 | 0.61 |
| % Change Y/Y | 181.0% | 25.5% | 21.3% | 9.4% | % change Y/Y | 84.0% | (3.7%) | 26.8% | 17.4% |
| Rental income | 100 | 213 | 258 | 282 | Indirect result | 2.55 | 0.41 | 0.61 | 0.67 |
| Other income | - | - | - | - | % change Y/Y | 94.9% | (83.9%) | 49.4% | 8.6% |
| EBITDA | 54 | 93 | 114 | 129 | EPS (IFRS) | 2.97 | 0.77 | 1.06 | 1.19 |
| % Change Y/Y | 295.7% | 70.4% | 23.4% | 13.0% | % change Y/Y | 44.9% | (74.1%) | 37.4% | 12.9% |
| Net interest | (4) | (29) | (35) | (37) | DPS | 0.00 | 0.00 | 0.00 | 0.00 |
| Earnings before tax | 43 | 63 | 79 | 92 | % change Y/Y | - | - | - | - |
| % change Y/Y | 225.6% | 47.6% | 25.3% | 16.7% | Gross cash flow | 0.42 | 0.46 | 0.58 | 0.68 |
| Tax | (36) | (16) | (21) | (23) | % change Y/Y | - | 9.8% | 27.0% | 17.6% |
| as % of EBT | 85.3% | 24.8% | 26.7% | 24.9% | NNNAV (IFRS) | 6.1 | 6.3 | 7.4 | 8.6 |
| Minorities | (40) | (6) | (9) | (10) | % change Y/Y | 67.0% | 2.8% | 17.2% | 16.5% |
| Adjusted net income | 32 | 53 | 68 | 79 | Adjusted NAV | 6.9 | 8.2 | 9.3 | 10.6 |
| % change Y/Y | 251.2% | 65.6% | 26.8% | 17.4% | % change Y/Y | 19.6% | 18.9% | 14.0% | 13.8% |
| Revaluation | 189 | 59 | 89 | 97 | Cash flow statement | | | | |
| Capital gain tax | (32) | (9) | (14) | (15) | - EBITDA | 54 | 93 | 114 | 129 |
| Other | - | - | - | - | - Gross cash flow | 32 | 53 | 67 | 79 |
| Minorities | - | - | - | - | Total cash flow requirement | 26 | (283) | (117) | 50 |
| Indirect profit | 194 | 47 | 71 | 77 | | | | | |
| Total profit (IFRS) | 226 | 101 | 138 | 156 | | | | | |
| Balance sheet | | | | | Ratio Analysis | | | | |
| € in millions, year end Dec | FY13 | FY14E | FY15E | FY16E | € in millions, year end Dec | FY13 | FY14E | FY15E | FY16E |
| Cash and cash equivalents | 133 | 157 | 187 | 226 | Operating return | 6.9% | 6.7% | 7.1% | 7.3% |
| Accounts receivable | 62 | 62 | 62 | 62 | Capital return | 39.0% | 4.0% | 5.0% | 4.9% |
| Others | 20 | 20 | 20 | 20 | ROIC | 45.9% | 10.7% | 12.1% | 12.2% |
| Current assets | 249 | 273 | 303 | 342 | EVA spread | 39.3% | 4.1% | 5.5% | 5.6% |
| Property investments | 1,368 | 1,751 | 2,010 | 2,120 | ROE (recurring) | 6.6% | 6.5% | 7.1% | 7.2% |
| Property not in operation | - | - | - | - | - ROE (total) | 29.5% | 11.5% | 13.5% | 13.1% |
| Total assets | 1,651 | 2,059 | 2,347 | 2,497 | Net debt / total assets | 32.4% | 39.0% | 38.4% | 33.4% |
| Short term debt | 11 | 11 | 11 | 11 | Net debt / equity | 69.6% | 91.8% | 88.0% | 69.8% |
| Others | 8 | 8 | 8 | 8 | Equity / assets | 46.5% | 42.5% | 43.6% | 47.8% |
| Total current liabilities | 111 | 111 | 111 | 111 | Property income / assets | 6.4% | 0.0% | 0.0% | 0.0% |
| Long term debt | 656 | 948 | 1,077 | 1,049 | Rental income / assets | 9.0% | 11.5% | 11.7% | 11.7% |
| Other liabilities | 115 | 125 | 134 | 143 | EBITDA / assets | 3.3% | 4.5% | 4.9% | 5.2% |
| Shareholders' equity | | | | | % change Y/Y | 33.0% | 36.6% | 8.3% | 6.2% |
| Group equity | 768 | 874 | 1,024 | 1,193 | WACC | 6.6% | | | |
| Total liabilities and equity | 1,651 | 2,059 | 2,347 | 2,497 | | | | | |

Source: Company reports and J.P. Morgan estimates.

Other Companies Discussed in This Report (all prices in this report as of market close on 30 April 2014)
Deutsche Annington (ANN.Gn.DE/€20.74/Overweight)

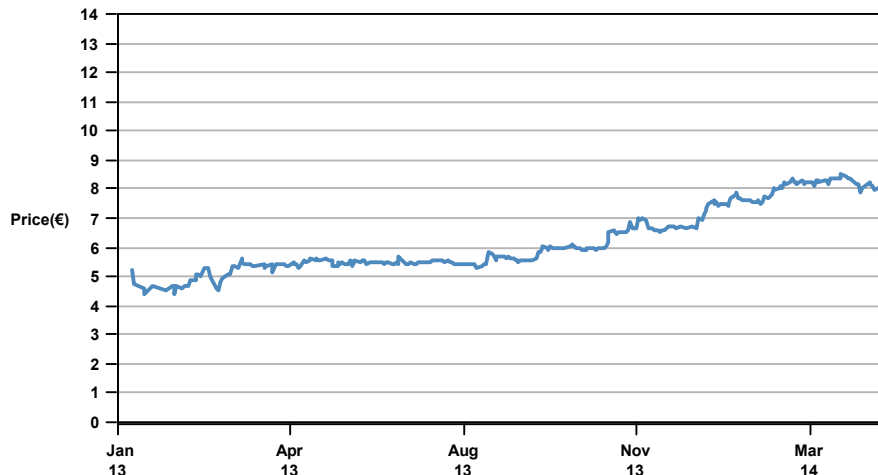
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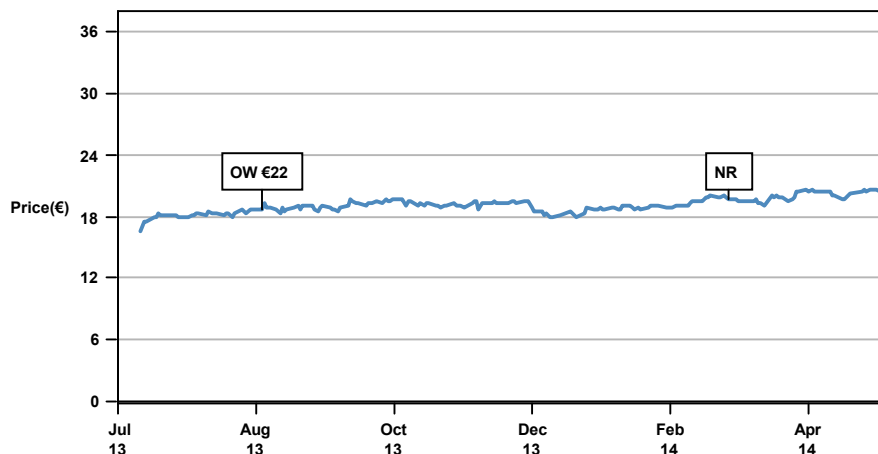
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Grand City Properties (GYC.F, GYC GY) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

Deutsche Annington (ANNGn.DE, ANN GR) Price Chart



| Date | Rating | Share Price (€) | Price Target (€) |
|-----------|--------|-----------------|------------------|
| 27-Aug-13 | OW | 18.64 | 22.00 |
| 28-Feb-14 | NR | 19.74 | -- |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Aug 27, 2013.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.jpmorganmarkets.com.

Coverage Universe: Leckie, Timothy: Alstria Office AG (AOXG.DE), Big Yellow Group Plc (BYG.L), Capital & Regional (CAL.L), Derwent London PLC (DLN.L), GAGFAH (GFJG.F), Grainger (GRI.L), Great Portland Estates (GPOR.L), Hammerson (HMSO.L), Helical Bar (HLCL.L), IVG Immobilien (IVGG.DE), Klepierre (LOIM.PA), Land Securities (LAND.L), LondonMetric (LMP.L), PSP Swiss Property (PSPN.S), Quintain Estates & Development (QED.L), Shaftesbury (SHB.L), Songbird Estates (SBD.L), Unite Group (UTG.L), conwert AG (CONW.VI)

J.P. Morgan Equity Research Ratings Distribution, as of March 31, 2014

| | Overweight (buy) | Neutral (hold) | Underweight (sell) |
|---|---------------------|-------------------|-----------------------|
| J.P. Morgan Global Equity Research Coverage | 44% | 44% | 11% |
| IB clients* | 58% | 49% | 40% |
| JPMS Equity Research Coverage | 45% | 48% | 7% |
| IB clients* | 78% | 67% | 60% |

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

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