GRAND CITY Properties S.A.

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (Initiating Coverage)	HIGH (-)	EUR 9.80 (-)

22 April 2013

GRAND CITY operating below radar

Residential pure play on distressed portfolios

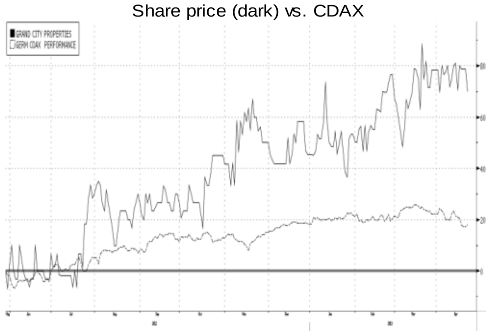
- GRAND CITY Properties S.A. (GCP) is a residential pure play on turning around distressed real estate portfolios focusing clearly on NRW and Berlin. The Berlin based company, incorporated in Luxemburg, acquires distressed portfolios with high vacancy and value add potential in Germany, redevelops them and afterwards either holds it for long term rent generation or exits it in order to convert revaluation gains into cash. GCP just recently received a corporate and convertible bond BB- rating from S&P.
- GCP operates distressed real estate since 2004 and established a strong expertise in the niche that is becoming further important for the real estate sector as we are facing a housing shortage in Germany. GCP follows a two pillar strategy: "buy, redevelop and hold" or "buy, redevelop and exit" and has already shown its ability to find the appropriate properties as well as to sell the redeveloped properties. Currently GCP runs a portfolio comprising ~12,000 units and has additional signed pipeline acquisitions of 3,000 units.
- 2012 was an important year for GCP as the company successfully went public in May 2012. After that GCP conducted three capital measures in order to finance and accelerate growth. Gross proceeds through capital increase in Jul 2012 and Feb 2013 amounted to EUR 15m and EUR 35.7m. Additionally GCP issued convertible bonds in Oct 2012, receiving gross proceeds of EUR 100m. Thus cash stands at EUR 81m as at 31 Dec. 2012.
- Currently the market for residential real estate in Germany finds itself in a promising spot still supported by historical low interest rates as well as through demographical fundamentals. We have seen increasing trend in building permissions and in housing completions and we believe that the transaction volume will remain on a high level also during 2013.
- Backed by the growth of units, sales are expected to stand at EUR 74.2m, EUR 96.6m and EUR 119.6m in 2013E, 2014E and 2015E. We expect an ongoing strong contribution of revaluation effects due to development progress and first time consolidation. Expressed in figures, we assume valuation effects at around EUR 80.6m, EUR 76.0m and EUR 87.7m. EPS is expected at EUR 1.29, EUR 1.33 and EUR 1.59.
- Based on a peer group model, DCF model and NAV market model we derive a fair value of EUR 9.79 per share. We initiate our coverage with a **BUY recommendation, price target of EUR 9.80.**

Key data

FY 12/31, EUR m	2011	2012	2013E	2014E	2015E
Sales	26.4	60.4	74.2	96.6	119.6
EBIT	84.4	122.4	119.4	127.9	153.8
Net result	58.7	92.9	86.3	88.9	106.2
EPS	11.11	1.97	1.29	1.33	1.59
DPS	0.00	0.00	0.00	0.00	0.00
EBIT margin	319.7%	202.7%	160.9%	132.3%	128.6%
ROE	83.8%	56.0%	31.1%	22.9%	21.6%
ROA	34.5%	29.0%	16.8%	12.7%	12.2%
LTV net cash	58.1%	44.7%	53.2%	54.7%	53.2%
EPRA NAV	n.m.	5.55	5.78	7.43	9.41
NAV	n.m.	4.89	5.10	6.50	8.17
EV/EBIT	7.4	5.1	5.3	4.9	4.1
P/E	0.5	2.7	4.2	4.0	3.4

Source: GRAND CITY Properties S.A., CBS Research AG

Share price (dark) vs. CDAX



Source: CBS Research AG, Bloomberg, Grand City Properties

Change	2013E		2014E		2015E	
	new	old	new	old	new	old
Sales	74.2	-	96.6	-	119.6	-
EBIT	119.4	-	127.9	-	153.8	-
EPS	1.29	-	1.33	-	1.59	-

www.grandcityproperties.de	Sector: Real Estate
WKN: A1JXCV	ISIN: LU0775917882
Reuters: GYCG.DE	Bloomberg: GYC GY

Short company profile:

GRAND CITY is a Berlin-based residential real estate company that is focusing on the management and redevelopment of distressed residential real estate portfolios. The company operates mostly in NRW and Berlin.

Share data:

Share price (EUR, latest closing price):	**5.36**
Shares outstanding (m):	63.5
Market capitalisation (EUR m):	340.4
Enterprise value (EUR m):	627.2
Ø daily trading volume (30 d., no. of shares):	45,550

Performance data:

High 52 weeks (EUR):	5.90
Low 52 weeks (EUR):	2.68
Absolute performance (12 months):	n.a.
Relative performance vs. CDAX:	
1 month	-3.3%
3 months	10.6%
6 months	16.7%
12 months	n.a.

Shareholders:

Edolaxia Ltd.	45.0%
Valuemonth Ltd.	12.9%
Ramzico Ltd.	4.9%
Zanelo Ltd.	2.4%
Free float & others	34.8%

Financial calendar:

1H 2013 report	25 September 2013

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Investment thesis

Grand City Properties S.A. (GCP) is a residential pure play on turning around distressed real estate portfolios focusing clearly on NRW and Berlin. The Berlin headquartered company, incorporated in Luxemburg and listed in Germany since 2012, acquires distressed portfolios with high vacancy and value add potential in Germany, redevelops them and afterwards either holds it for long term rent generation or exits it in order to convert revaluation gains into cash.

Residential pure play on distressed portfolios in Germany

GCP operates distressed real estate since 2004 and established a strong expertise in the niche that is becoming further important for the real estate sector as we are facing a housing shortage in Germany. GCP follows a simple two pillar strategy: “buy, redevelop and hold” or “buy, redevelop and exit” and has already shown its strong ability to find the appropriate properties as well as to sell the redeveloped properties. Currently GCP runs a portfolio comprising ~12,000 units and has additionally signed pipeline acquisitions of ~3,000 units. Furthermore, we are convinced by company´s network and relation to various players in the sector, GCP has a far reaching pipeline for potential acquisitions.

Simple strategy: “buy – redevelop – hold/exit”

2012 was an important year for GCP as the company successfully went public in May 2012. After that GCP conducted three capital measures in order to finance and accelerate growth. Gross proceeds through capital increase in July 2012 and February 2013 amounted to EUR 15m and EUR 35.7m. Additionally, GCP issued convertible bonds in October 2012, receiving gross proceeds of EUR 100m. This led to a cash position of around EUR 81m as at 31 Dec. 2012.GCP showed a strong ability to raise cash in the recent past.

Successful capital measures in order to finance growth

Strong ability to raise cash

Recently GCP reported figures for FY2012 showing remarkable growth. A strong component of GCP´s results is the contribution of revaluation gains on redevelopment progress as well as capital gains through low prices of acquisitions. In detail for 2012 GCP reported sales of EUR 60.4m (PY: EUR 26.4m) thereof EUR 40m were generated through rental income and EUR 20m by sale of properties. Revaluation and capital gains amounted to EUR 98m after EUR 72.8m last year. Net profit attributable to shareholders stood at EUR 81.8m (PY: EUR 55.6m).

Historical figures

Currently the market for residential real estate in Germany finds itself in a promising spot still supported by historical low interest rates as well as the demographic fundamentals triggered building activity. Due to the housing shortage especially in metropolitan areas, building permissions and housing completions increased notably in 2011/12, recovering from the crisis in 2009/10. In our view growth will remain on that level. The investment volume in 2012 was only outperformed by the years 2005-2007, doubling its value from prior year. The investments will be further supported in the future by a strong participation of international investors. However, we believe in the long run we will face turning interest rates, which could give the markets a “final push”, but also could burden the sector at the same time.

Market environment remains promising

Potential risk involved through turning interest rates

Distressed real estate accounts for a niche market and in our view the importance of dealing with this type of real estate will further increase in the future also due to a housing shortage. A distressed portfolio is calling for action on an object- or financing level and bears a level of operational risk. Thus competition doesn’t really exist yet as the turnaround of a portfolio comprises many different parameters and has to be always considered individually. Banks are cautious and not excited financing distressed properties. Banks have strict requirements on setting up new financing on problem properties. GCP possesses an outstanding expertise in that field by successfully turning around many portfolios and by meeting all criteria.

Distressed residential real estate…

Each project must be considered individually

The acquisition criteria of GCP always depends on the case. The company has positioned itself as a medium size deal maker, focusing mainly on EUR 5m to EUR50m deals. Acquisition prices vary significantly in the range around 10/11x (of net cold rent) and even below. The same applies for the occupancy, financing structure and the current state of management. The disposal price also depends on the project. In general, every property of GCP can be sold depending solely on the attractiveness of the offer.

Large amount of value add

GCP focuses to buy portfolios with a large amount of value add potential. One important trigger for the generation of value add potential is the optimisation of rents by fluctuations of tenants, optimised management (lower operational costs), design and modernisation measures as well as there is in some regions a major gap between the annualized rents and the potential rents, calling for upward adjustment. We assume around 20-50% upside on the average rent of portfolio. 75% of GCP's units have no rental restrictions. 9% of the units are expiring in 2014 and 16% after 2014. As at 31December 2012, ~94% of the portfolio is currently running below market rents.

Strong debt profile and a healthy balance sheet

S&P rating received

GCP runs a healthy balance sheet accompanied by strong debt profile. No major maturities due until 2017. The maturities range from 5 to 10 years and comprise 16 separate loans. The long maturities allow GCP to focus on the core activity without any refinance issues. Furthermore GCP has low average financing costs of ~4% and 90% of the loans are hedged. Additionally, GCP received a corporate and convertible bond BB- rating from S&P in February 2013. GCP were the first real estate company in Germany to get a rating from S&P. In our view the rating exhibits the financial stability and strength of the company.

Financial forecast:

We assume that GCP will accelerate growth in the forecast period adding 8,000 units in 2013E, 5,000 units in 2014E and 4,000 units in 2015E. This is accompanied by a small extent of disposals of EUR 5m, EUR 7m and EUR 10m. Backed by the growth of units, sales are expected to stand at EUR 74.2m, EUR 96.6m and EUR 119.6m in 2013E, 2014E and 2015E. We expect an ongoing strong contribution of revaluation effects due to development progress and first time consolidation through low prices of acquisitions. Expressed in figures, we assume valuation effects at around EUR 80.6m, EUR 76.0m and EUR 87.7m. On bottom line, we forecast net profit to stand at EUR 81.8m, EUR 84.2m and EUR 100.7m, translating into EPS of EUR 1.29, EUR 1.33 and EUR 1.59 for 2013E, 2014E and 2015E.

Clear business focus

BUY, target price EUR 9.80 per share

Bottom line, we believe GCP follows a straight setup and a clear business focus. The company has a strong ability to raise cash that is needed for a fast growth. The segment in which GCP operates is very attractive offering high returns but also bearing operational risks as GCP has to deal with high vacancies and the acquisition of non-performing loans. GCP runs a healthy balance sheet with a cash position of EUR 81m as at 31 December 2012 and is ready to accelerate expansion. Consequently, based on a peer group model, DCF model and NAV market model we derive a fair value of EUR 9.79 per share. **We initiate our coverage with a BUY and a price target of EUR 9.80.**

SWOT Analysis

Strengths

- Clear focus on distressed residential portfolios in Germany; pure play on distressed real estate in Germany
- Well experienced player in the field of distressed portfolios with around nine years track record and special competence acquired in that field
- Ability to raise cash
- Strong debt profile with no maturities before 2017
- Ability to convert revaluation gains into cash through disposals
- In-house developed software for optimising property and asset management
- Less competition in the bidding and acquisition process as there is not a lot competition that focuses distressed real estate
- Service idea is very important for GCP`s asset &property management, GCP provides service in any case to the tenants in order to optimise tenant satisfaction
- Healthy balance sheet with a large cash position of EUR 81m as at 12/31/2012
- Received BB- rating from Standard & Poor´s in February 2013

Weaknesses

- Distressed portfolios implement a higher operational risk profile as cash flow positive portfolios
- High vacancies of mismanaged portfolios (also a potential due to GCP´s business model)
- Some part of GCP´s result is positively impacted by non-cash revaluation results
- Banks are not always excited to finance distressed portfolios, tight requirements granting loans

Opportunities

- Large figure for revaluation effects expected to continue in the future; revaluation effects could stem from: 1) through increase in value through developing progress, 2) rent increases, or 3) increase of occupancy
- Promising market environment triggered by the historical low interest rate in Germany, increasing trend in building permissions and building completions, thus we expect this trend to continue
- Germany is seen as safe haven for investors, we see especially a stronger participation of foreign investors in the future
- Potential higher rents due to ongoing housing shortage
- Annualised rent of portfolio is way below potential rent; according to GCP ~94% of the portfolio is currently running below market rents
- Fluctuation of tenants in order to implement rent increases
- Potential economies of scale by further expanding business in NRW and Berlin
- Far reaching network in the real estate sector and good relations to certain player on the residential market

Threats

- Some projects could use more CAPEX as expected in order to reduce vacancy and optimise management
- Redevelopment of some properties could last longer than expected and could result into project delays
- Turning interest rate could make the new financing more expensive

Valuation

Valuation on the basis of peer group, NAV market model and DCF model

We estimate the fair value of GCP on the basis of three different valuation methods comprising the peer group valuation, the NAV model and the DCF model. The peer group model gives us a valuation that is derived from a comparison with similar companies and is therefore close to the market, the NAV valuation allows for an assessment of the asset value of the company and the DCF calculates an intrinsic value based on projected future cash flows.

Consolidation of valuation methods results in fair value of EUR 9.79 per share

We weighted the peer group model, the NAV market model and the DCF model equally with 33.3%. The peer group model represents the upper part of the valuation range with EUR 13.58 per share while the NAV market model result is at the lower part of the range with a fair value of EUR 4.75 per share. The combination of the three models results in a fair value of EUR 9.79 per share for GCP.

Consolidation of valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group model	33.3%	13.58
NAV market model	33.3%	4.75
DCF model	33.3%	11.04
Fair value per share (EUR)		**9.79**

Source: CBS Research AG

Multiples based on fair value and on current market price

On the basis of our derived fair enterprise value (EV) we calculated an EV/EBIT multiple of 7.6 for 2013E, 7.1 for 2014E and 5.9 for 2015E. The P/Es for 2013E until 2015E are 7.6, 7.4 and 6.2. Furthermore, we calculated the multiples based on the current stock market price, which are stated in the last row of the table below.

Multiples of GRAND CITY Properties S.A. on basis of our fair value per share

EURm, except EPS (EUR)			EBIT 2013E	EBIT 2014E	EBIT 2015E	EPS 2013E	EPS 2014E	EPS 2015E
Financial estimates for GYC by CBS Research AG:			119.4	127.9	153.8	1.29	1.33	1.59
	Fair value	**Market price**	**EV / EBIT 2013E**	**EV / EBIT 2014E**	**EV / EBIT 2015E**	**P / E 2013E**	**P / E 2014E**	**P / E 2015E**
Value per share (EUR)	9.79	5.36						
Market capitalization (EURm)	621.6	340.4						
Enterprise value EV (EURm)	908.5	627.2						
Implied multiples of GYC								
- on basis of our fair value			7.6	7.1	5.9	7.6	7.4	6.2
- on basis of the current market price			5.3	4.9	4.1	4.2	4.0	3.4

Source: CBS Research AG; Bloomberg

Peer group analysis

Our peer group consists of:

Grand City is a residential company in Germany focusing solely on distressed residential portfolios mainly located in NRW and Berlin. An exactly comparable listed peer company in Germany does not exist as the focus on massively undermanaged portfolios is rare. We have chosen for our peer group companies with a similar or partially similar business model. We have split the peer group in two different groups, one comprising the larger residential companies like GAGFAH, Deutsche Wohnen, TAG or GSW, and the other comprising smaller companies in terms of units and market cap like KWG, Estavis, Westgrund or ADLER.

Largest residential players in Germany by units

Company	Units	Major stake holder
Deutsche Annington	187,000	Terra Firma
GAGFAH	**149,000**	Listed (majority Fortress)
Vivawest/THS	130,000	Evonik Industries
SAGA GWG	130,000	Government
LEG Immobilien	**90,000**	Listed (Whitehall Funds/Perry Capital)
Deutsche Wohnen	**73,000**	Listed
TAG Immobilien	**70,000**	Listed
Degewo	70,000	Government
Gewobag	63,000	Government
Nassauische Heimstätten /Wohnstadt	62,000	Government
GSW Immobilien	**60,000**	Listed

Source: Grand City, CBS Research AG

Our peer group comprises companies that operate on the German residential real estate market. With GAGFAH, LEG, Dt. Wohnen and TAG we also considered the largest listed players that address the residential market. In order to gain a better understanding of current valuation level, we also added smaller players such as Westgrund, Estavis and ADLER to our peer group.

Peer group: Company data in EURm

Company name	Market cap.	EV	EBIT 2013E	EBIT 2014E	EBIT 2015E	EPS (EUR) 2013E	EPS (EUR) 2014E	EPS (EUR) 2015E
DEUTSCHE WOHNEN AG-BR	2,140	4,821	268.3	282.3	280.0	0.74	0.81	0.80
GAGFAH SA	1,860	6,946	333.0	331.7	349.0	0.44	0.44	0.53
GSW IMMOBILIEN AG	1,447	3,247	179.2	181.1	176.3	1.65	1.77	1.77
LEG IMMOBILIEN AG	2,198	4,798	256.8	265.8	305.4	1.99	2.65	3.09
TAG IMMOBILIEN AG	1,144	3,273	237.5	219.7	193.5	0.58	0.62	0.67
Average	**1,758**	**4,617**	**255.0**	**256.1**	**260.8**	**1.08**	**1.26**	**1.37**
Median	**1,860**	**4,798**	**256.8**	**265.8**	**280.0**	**0.74**	**0.81**	**0.80**
KWG KOMMUNALE WOHNEN AG	101	251	25.6	26.3	n.m.	0.83	0.84	n.m.
ADLER REAL ESTATE AG	24	25	1.5	7.1	13.8	0.07	0.28	0.56
ESTAVIS AG	36	96	6.1	7.1	n.m.	0.15	0.16	0.21
WESTGRUND AG	66	121	4.3	10.1	10.7	0.09	0.21	0.15
Average	**57**	**123**	**9.4**	**12.7**	**12.2**	**0.29**	**0.37**	**0.31**
Median	**51**	**108**	**5.2**	**8.6**	**12.2**	**0.12**	**0.24**	**0.21**
Average of both peer groups	**907**	**2,370**	**145.8**	**147.9**	**189.8**	**0.73**	**0.86**	**0.97**
Median of both peer groups	**955**	**2,453**	**179.2**	**181.1**	**193.5**	**0.58**	**0.62**	**0.61**
GRAND CITY PROPERTIES	340	627	119.4	127.9	153.8	1.29	1.33	1.59

Source: CBS Research AG; Bloomberg

ADLER Real Estate AG

ADLER Real Estate AG is a Hamburg based real estate company that was rooted in the project development business and is now aiming at the realignment of its business strategy towards sustainably extending its residential portfolio in order to generate recurring rental revenues. ADLER will finalise its ongoing development projects and furthermore holds in its existing portfolio several properties that bear opportunities for the future. The portfolio focus is set on metropolitan areas and its periphery.

Deutsche Wohnen AG

Deutsche Wohnen AG is an active manager of residential properties in Germany in the medium and upper price segment. At the end of 3Q 2012 the company was managing a portfolio of 73,164 residential and 4,474 commercial units. The company´s core portfolio is located primarily in Berlin, the Rhine-Main area and Rhineland.

ESTAVIS AG

ESTAVIS AG currently primarily focuses on sales of residential properties and the offer of solutions for institutional and private investors. It does that in its Retail Trading Segment, in which ESTAVIS purchases, renovates and distributes a several hundreds of apartments per annum. Last year in spring-time, the new management introduced a new strategy which reduces the weight of the project development business and puts more emphasis on the existing privatization business and on actively managing a portfolio of attractively yielding properties. Currently, there is a certain regional focus on Saxony but a considerable part of the portfolio is regionally quite dispersed. However this is set to change to major focus on Berlin in the near term.

GAGFAH S.A.

GAGFAH S.A. is a Luxembourg-based company active within the real estate sector. The company is engaged in the ownership, management and acquisition of a geographically diversified real estate portfolio throughout Germany. With nationwide more than 145,000 apartments and 13,000 other apartments managed for third parties, GAGFAH is the leading stock-listed housing company in Germany. The portfolio is divided into more than 350 cities and locations throughout Germany. Largest sites are Dresden (37,658 units), Berlin (16,905 units) and Hamburg (9,307 units)

GSW Immobilien AG

GSW Immobilien AG is a Berlin based real estate company that owns, leases, and manages a residential portfolio that is located exclusively in Berlin. The company provides residential properties for owner occupancy and investors as well as apartments to tenants and buyers. GSW currently manages a portfolio worth approx. EUR 3.2bn and approx. 59,000 units exclusively in Berlin.

KWG Kommunale Wohnen AG

KWG Kommunale Wohnen AG's core business comprises the acquisition, long-term holding and shareholding in real estate companies, particularly in non-profit, municipal and cooperative housing companies. KWG is involved along the entire value chain, from purchasing to construction management through to in-house property management. The portfolio comprises approx. 9,700 apartments which are located mainly in North Rhine-Westphalia.

LEG Immobilien AG

LEG Immobilien AG with 89,907 apartments, 980 commercial objects and 250,000 tenants (as of 31 Dec. 2011) represents one of the leading housing companies in Germany. Business activities are focused on the residential segment in NRW with a well-diversified property portfolio. On the way to the capital markets in 2013 LEG achieved some major milestones in the last years. Since 2009, LEG Group pursued a funding strategy with the goal of greater transparency in the financing structures, optimising the lending options as well as a reduction of interest rates.

TAG Immobilien AG

TAG Immobilien AG holds a portfolio of residential properties mainly located in Thuringia, Saxony, the greater Berlin area, the region of Hamburg, and North Rhine-Westphalia. TAG is focused on the management and development of residential properties and on increasing the value of its portfolio through acquisitions. TAG also owns a diversified portfolio of commercial properties. It buys up residential holdings in selected locations where TAG already has investments thereby creating economies of scale and which promise good yield as well as potential for value increases.

Westgrund AG

Westgrund AG is an opportunistic investor in residential real estate. The company purchases, modernises, rents and selectively sells residential real estate in small to medium sized cities and aims to extend its activities to metropolitan areas, especially in West Germany and Berlin. Its main focus is on multifamily dwellings that offer an attractive rental yield. Westgrund follows an ambitious growth strategy and changed its business model towards an aggressive portfolio extension at the end of 2010. The portfolio currently comprises ~3,500 units.

Though it is not listed, we have briefly outlined Deutsche Annington below due to the fact that it is the largest player in the residential market in Germany, aims for IPO in 2H 2013 and is a direct competitor of some of the listed residential real estate players above (TAG, Dt. Wohnen, GSW).

Deutsche Annington SE

Deutsche Annington SE with approx. 210,000 units (approx. 186,500 units owned and approx. 23,500 managed for third parties) and more than 450,000 customers, is Germany's largest housing company, when it comes to size. All over Germany at around 600 locations the group offers apartments for rent and for sale, supplemented by customer-oriented services. The company geographically concentrates on the Ruhr (~53%), Berlin (~7%) and the Rhine-Main region (Hesse ~12%) as well as the Southwest of Germany. DAIG, headquartered in Bochum, is owned by the British private equity firm Terra Firma Capital Partners. DAIG plans to go public in 2013 becoming the largest listed property company in Germany.

Peer group: Sales growth and margins

Company name	EBIT margin			Net margin		
	2013E	2014E	2015E	2013E	2014E	2015E
DEUTSCHE WOHNEN AG-BR	73.7%	73.4%	79.1%	34.0%	34.1%	35.9%
GAGFAH SA	45.2%	48.6%	42.4%	12.4%	13.5%	12.0%
GSW IMMOBILIEN AG	74.7%	76.9%	74.3%	36.6%	39.3%	33.8%
LEG IMMOBILIEN AG	54.8%	55.6%	61.4%	21.9%	29.1%	32.8%
TAG IMMOBILIEN AG	89.7%	83.8%	69.9%	30.5%	30.8%	32.9%
Average	**67.6%**	**67.7%**	**65.4%**	**27.1%**	**29.3%**	**29.5%**
Median	**73.7%**	**73.4%**	**69.9%**	**30.5%**	**30.8%**	**32.9%**
KWG KOMMUNALE WOHNEN AG	63.5%	62.2%	n.m.	33.0%	31.8%	n.m.
ADLER REAL ESTATE AG	21.4%	38.3%	75.0%	15.0%	22.6%	46.0%
ESTAVIS AG	9.5%	12.2%	n.m.	3.8%	5.6%	15.1%
WESTGRUND AG	35.2%	53.9%	43.1%	12.3%	20.5%	11.5%
Average	**32.4%**	**41.6%**	**59.1%**	**16.0%**	**20.1%**	**24.2%**
Median	**28.3%**	**46.1%**	**59.1%**	**13.6%**	**21.6%**	**15.1%**
Average of both peer groups	**52.0%**	**56.1%**	**63.6%**	**22.2%**	**25.2%**	**27.5%**
Median of both peer groups	**54.8%**	**55.6%**	**69.9%**	**21.9%**	**29.1%**	**32.8%**
GRAND CITY PROPERTIES	160.9%	132.3%	128.6%	161.0%	132.4%	128.7%

Source: CBS Research AG; Bloomberg

Peer Group: Multiples

Company name	EV / EBIT 2013E	EV / EBIT 2014E	EV / EBIT 2015E	P / E 2013E	P / E 2014E	P / E 2015E
DEUTSCHE WOHNEN AG-BR	18.0	17.1	17.2	17.9	16.5	16.6
GAGFAH SA	20.9	20.9	19.9	20.4	20.3	17.1
GSW IMMOBILIEN AG	18.1	17.9	18.4	17.4	16.1	16.1
LEG IMMOBILIEN AG	18.7	18.1	15.7	20.8	15.7	13.4
TAG IMMOBILIEN AG	13.8	14.9	16.9	15.1	14.1	13.1
Average	**17.9**	**17.8**	**17.6**	**18.3**	**16.5**	**15.3**
Median	**18.1**	**17.9**	**17.2**	**19.2**	**16.1**	**16.1**
KWG KOMMUNALE WOHNEN AG	9.8	9.6	n.m.	7.6	7.5	n.m.
ADLER REAL ESTATE AG	16.4	3.5	1.8	22.7	5.7	2.8
ESTAVIS AG	15.7	13.4	n.m.	13.2	12.3	9.4
WESTGRUND AG	28.2	12.0	11.4	35.6	15.6	22.1
Average	**17.5**	**9.6**	**6.6**	**19.8**	**10.3**	**11.4**
Median	**16.1**	**10.8**	**6.6**	**17.9**	**9.9**	**9.4**
Average of both peer groups	**17.7**	**14.2**	**14.5**	**19.0**	**13.8**	**13.8**
Median of both peer groups	**18.0**	**14.9**	**16.9**	**17.9**	**15.6**	**14.8**
GRAND CITY PROPERTIES	5.3	4.9	4.1	4.2	4.0	3.4

EURm, except EPS (EUR)		EBIT 2013E	EBIT 2014E	EBIT 2015E	EPS 2013E	EPS 2014E	EPS 2015E
GRAND CITY Properties S.A.: Financial estimates CBS Research		119.4	127.9	153.8	1.29	1.33	1.59
Applied multiples: Peer group median		18.0	14.9	16.9	17.9	15.6	14.8
Enterprise value (derived)		**2,143.6**	**1,905.0**	**2,600.9**	**-**	**-**	**-**
+ Excess cash and marketable securities	81.0						
- Financial debt incl. Convertible bond	-367.8						
Market capitalisation (derived)		**1,856.7**	**1,618.1**	**2,314.0**	**1,466.3**	**1,314.9**	**1,489.4**
Average	**1,437.1**						
Premium (discount) vs. Peer Group	-40%						
Fair market capitalisation (after discount)	**862.2**						
Number of shares (m)	63.5						
Fair value per share (EUR)	**13.58**						

Source: CBS Research AG; Bloomberg

Fair value per share of EUR 13.58

The peer group model results in a market cap of EUR 1,437.1m. After applying a 40% discount to consider the small market cap of GCP compared to the larger peers (TAG, GSW Dt. Wohnen) as well as taking into account that GCP runs a significant high revaluation component compared to the other peers, **the peer group model results in a fair market cap of EUR 862.2m or EUR 13.58 per share.**

NAV market model

We use IFRS book value as proxy for NAV

In our NAV calculation we use the equity book value as a realistic proxy for NAV aiming for a straight forward valuation. Of course this can differ in some cases from reported NAVs where specific management assumptions are included.

Consequently, the NAV´s in the table below are balance sheet NAVs. We use the most recently published balance sheet NAVs to calculate the current average and median discount to NAV of our peers, which will serve as guidance in our NAV market model.

GCP balance sheet NAV per share EUR 4.89 with an estimated EPRA NAV of EUR 5.55 per share

The balance sheet NAV per share of GCP as at 31 December 2012 amounted to EUR 4.89 showing a premium of 9.6% which is comparable with the premium of 9.0% of GSW. We also estimate that the EPRA NAV of GCP amounted to EUR 5.55 per share as at 31 December 2012. The average premium of the peer group is 9.2% and the median discount is 9.0%. This significant number is attributable to the larger peers as real estate companies like Deutsche Wohnen, GAGFAH, GSW and TAG are looking back to a successful year 2012 regarding stock price development.

Peer Group: NAV Premium / Discount

Company name	NAV per share (EUR)	Share price (EUR)	Premium / Discount to NAV (in %)
DEUTSCHE WOHNEN AG-BR	10.41	13.32	28.0%
GAGFAH SA	9.95	9.01	-9.4%
GSW IMMOBILIEN AG	26.27	28.63	9.0%
TAG IMMOBILIEN AG	8.12	8.75	7.7%
KWG KOMMUNALE WOHNEN AG	8.76	6.35	-27.6%
ESTAVIS AG	4.27	1.97	-53.8%
Average			**9.2%**
Median			**9.0%**
GRAND CITY PROPERTIES	4.89	5.36	9.6%

Source: CBS Research AG, Bloomberg, company data

We estimate a NAV of EUR 339.2m in 2013E before market discount or EUR 5.34 per share. This would mean that GCP currently trades at a moderate premium on the basis of a current share price of EUR 5.36.

NAV 2013E before market discount: EUR 5.34 per share

NAV market model

EURm, except NAV per share (EUR)		2013E	NAV 2014E	2015E
GRAND CITY Properties S.A.: Financial estimates CBSR				
Investment properties		775.7	1,031.7	1,263.4
Inventories		0.0	0.0	0.0
Cash and cash equivalents		13.0	12.6	4.9
Assets classified as held for sale		10.7	10.7	10.7
Other assets		70.1	83.7	95.4
Financial debt		-438.6	-593.4	-695.7
Other liabilities		-91.6	-120.8	-150.9
NAV before market discount		339.2	424.6	527.8
NAV per share before market discount (EUR)		**5.34**	**6.69**	**8.31**
Market discount		-30%	-30%	-30%
NAV after market discount		237.5	297.2	369.5
NAV per share after market discount (EUR)		**3.74**	**4.68**	**5.82**
ø NAV before market discount	**430.6**			
Shares outstanding (in millions)	63.5			
ø NAV per share before mkt discount (EUR)	**6.78**			
Market discount	-30%			
Fair value per share (EUR)	**4.75**			

Source: CBS Research AG

We apply a discount of 30% on the average NAV per share before market discount from 2013E to 2015E as we think that KWG, with a discount of 27.6% (the stock recently moved upwards backed by the takeover from convert), could be the most reasonable proxy considering market cap, balance sheet structure and valuation. Furthermore, Dt. Wohnen, GSW and TAG are large residential player that hold significantly more than 50,000 units and run a completely different business model than GCP. The calculation gives us a fair value of EUR 4.75 per share for GCP.

NAV market model results in fair value of EUR 4.75 per share

DCF model

Assumptions:

We applied a three stage Discounted Cash Flow (DCF) model to calculate the fair value of GCP by discounting the company´s future free cash flows. Our DCF model is based on the following assumptions:

WACC: 7.88%

Weighted average cost of capital (WACC): On the basis of current long-term yields of German federal bonds, we set the risk-free rate at 3.5%. We assumed an equity risk premium of 6.0%, and a debt risk premium of 3.5%. We applied a fundamentally derived beta of 1.5 to our DCF valuation. We furthermore assumed a long-term target equity ratio of 38%. These premises led to a WACC of 7.88%.

Phase 1: Detailed financial forecast

Phase 1 (2013E-2015E): We estimated the free cash flows (FCF) of phase 1 according to our detailed financial forecasts for this period described in the financials section of this document.

Phase 2: Lower growth rates

Phase 2 (2016E-2022E): For Phase 2, we made more general assumptions, considering the significant portfolio growth to continue but in slower pace coupled with further disposal of redeveloped plots in order to convert revaluation gains into cash. This development is accompanied by gradually growing rental revenues.

Phase 3: 0.5% growth for terminal value

Phase 3: We applied a long-term FCF growth rate of 0.5% for the calculation of the terminal value which we believe is reasonable considering the growth prospects in company´s underlying business.

Resulting in a fair value per share of EUR 11.04

Based on our assumptions the DCF model calculates a fair value of EUR 11.04 per share.

Discounted Cash Flow Model

	PHASE 1			PHASE 2							PHASE 3
EURm	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	∞
Sales	74.2	96.6	119.6	141.1	162.3	178.5	196.3	216.0	233.2	251.9	
YoY growth	128.7%	30.2%	23.7%	18.0%	15.0%	10.0%	10.0%	10.0%	8.0%	8.0%	
EBIT exkl. IAS 40	56.8	71.8	96.1	98.8	105.5	110.7	117.8	118.8	121.3	126.0	
EBIT margin exkl. IAS 40	76.5%	74.3%	80.4%	70.0%	65.0%	62.0%	60.0%	55.0%	52.0%	50.0%	
Income tax on EBIT (cash tax rate)	-17.0	-21.6	-28.8	-29.6	-31.6	-33.2	-35.3	-35.6	-36.4	-37.8	
Depreciation and amortisation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	5.5	3.7	3.9	6.5	6.3	4.9	5.4	5.9	5.2	5.6	
Net capital expenditure	-125.5	-30.7	-48.3	-40.0	-38.0	-35.0	-35.0	-35.0	-32.0	-32.0	
Free cash flow	**-80.2**	**23.4**	**22.9**	**35.7**	**42.3**	**47.4**	**52.9**	**54.1**	**58.2**	**61.9**	
Present values	**-76.0**	**20.5**	**18.5**	**26.7**	**29.2**	**30.3**	**31.2**	**29.5**	**29.3**	**28.8**	**392.6**

Present value Phase 1	-36.9
Present value Phase 2	205.1
Present value Phase 3	392.6
Total present value	560.7
+ Excess cash/Non-operating assets	81.0
+ Investment properties	427.2
- Financial debt incl. Convertible bond	-367.8
Fair value of equity	701.1
Number of shares (m)	63.5
Fair value per share (EUR)	11.04

Risk free rate	3.50%	Target equity ratio	38.0%
Equity risk premium	6.00%	Beta (fundamental)	1.5
Debt risk premium	3.50%	**WACC**	**7.88%**
Tax shield	30.0%	**Terminal growth**	**0.5%**

Sensitivity analysis

		Terminal growth (Phase 3)				
		-0.5%	**0.0%**	**0.5%**	**1.0%**	**1.5%**
	6.9%	11.83	12.36	12.97	13.68	14.53
	7.4%	10.99	11.43	11.93	12.52	13.20
WACC	**7.9%**	10.25	10.62	**11.04**	11.52	12.08
	8.4%	9.60	9.91	10.27	10.67	11.13
	8.9%	9.02	9.28	9.59	9.93	10.31

Source: CBS Research AG

The company

Short profile

Housing pure play on turnaround portfolios

The Berlin-based and incorporated in Luxemburg Grand City Properties S.A. (GCP) is a residential real estate developer focusing on the turnaround of distressed residential portfolios in Germany. GCP is experienced in distressed portfolios for more than nine years and puts a strong regional focus on NRW and Berlin. Bottom line GCP is a housing pure play on turnaround portfolios.

Focusing turnaround portfolios with high vacancy

GCP has targets mainly small to medium-sized portfolios that have a significant high vacancy rate (~15-30% depending on project) and are under rented and thus a value add potential. The company has position itself as a medium size deal maker, focusing mainly on EUR 5m to EUR50m deals and therefore targeting deals which are too large for small market players and too small for large market players. After appropriate redevelopment measures which could last up to four years, depending on the initial state of the asset, and a significantly improved occupancy and rent structure, the property will be either held or sold. GCP successfully showed in the past its ability to convert revaluation gains into cash through disposals. GCP targets in the future to hold around 90/95% and sell approx. 5/10% of its portfolios, depending on the market conditions. Additionally GCP developed a highly sophisticated proprietary in house IT system in order to optimise the management on every level.

Initial listing FSE in May 2012

Strong ability to collect cash

GCP went public in May 2012 and already conducted three capital measures successfully: 1) May 2012, issue of 10% of its shares for EUR 15m (placement price EUR 2.75), 2) in October 2012 issuing EUR 100m convertible bond, and 3) on 19 February 2013 GCP issued 8m new shares for the amount of EUR 35.7m (excl. costs, placement price EUR 4.46). The bond has a maturity of five years and the initial conversion price is EUR 4.00 bearing a coupon at 8.00% p.a. The company intends to use the proceeds for new acquisitions as part of company´s growth strategy.

Corporate structure as at 31 December 2012

GRAND CITY Properties S.A.

94.8%

Grand City Property Ltd.
(formerly Adminond Trading & Investments Limited)

Own held properties
balance sheet value EUR ~407m, fully consolidated

100% held by Grand City
- Nimessa Investments Limited
- Mindoza Investments Limited
- Mansanu Investments Limited
- Sedoy Investments Limited
- Brencere Investments Limited
- Pahlia Limited
- Romelianco Investments Limited
- Deprimus Limited
- Trovemco Limited
- Mavelianco Limited
- Residential Bielefeld I Grundstücks GmbH
- Residential Bielefeld II Grundstücks GmbH
- Residential Braunschweig II Grundstücks GmbH
- Residential Braunschweig III Grundstücks GmbH
- Residential Erkrath I Grundstücks GmbH
- Residential Erkrath II Grundstücks GmbH
- Residential Dormund II Grundstücks GmbH
- Residential Solingen II Grundstücks GmbH
- Residential Wuppertal Grundstücks GmbH
- Residential Velbert Grundstücks GmbH
- Residential Lunen Grundstücks GmbH
- RGG Rohrdamm Grundstücks GmbH
- Residential Bremen Grundstücks GmbH

94% holdings
- Matlisius Limited
- Loseranco Limited
- Awdess 1.Grundstücks GmbH
- Residential Project M'gladbach Grundstücks GmbH

85% holdings
- Hartit Berlin Grundstücks GmbH

Joint Ventures
50% holdings, total value of EUR ~143m
- Terra Heimbau Zwei Ltd & Co KG
- Terra Heimbau 407 Ltd & Co KG
- Residential Essen I Grundstücks GmbH
- Residential Duisburg Grundstücks GmbH
- Residential Project Mönchengladbach II GmbH
- Residential Köln Grundstücks GmbH

Source: Grand City, CBS Research AG

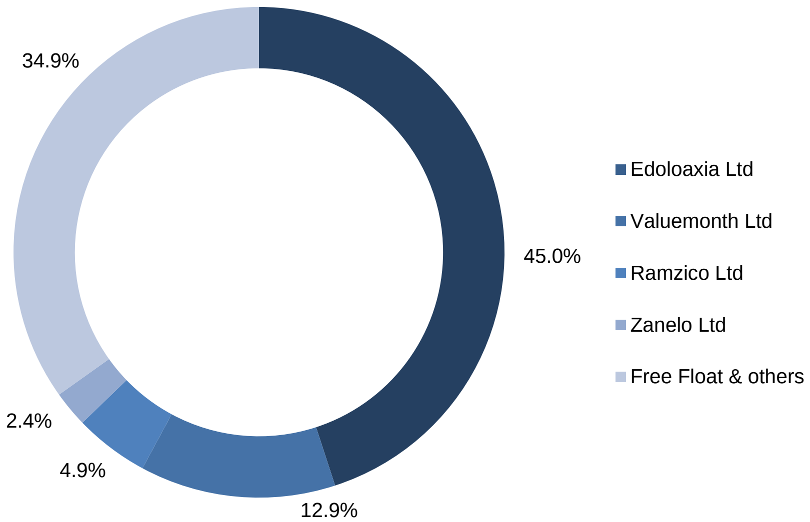
GRAND CITY Properties S.A. is a holding company on top that holds 94.8% on Grand City Property Ltd. which is incorporated in Cyprus. Most of the assets held have full control of the company aside to several joint ventures (50%). The principle activity of entities is investing in real estate properties.

Shareholder structure

The largest shareholder of GRAND CITY Properties S.A. as of February 2013 is the private company Edolaxia Ltd, which holds 44.97% of the group, followed by Valuemonth Ltd, which decreased its stake from former 49.92% to current 12.9%. Ramzico Ltd has a 4.9% stake and Zanelo Ltd a 2.4% stake in GCP. The remaining 34.9% are free float & others.

Major shareholder is Edolaxia with 45% stake and free float amounts to 34.9%

Shareholder structure as of February 2013



Source: Grand City, CBS Research AG

Management Board

Yakir Gabay

Yakir Gabay (Founder and Managing Director) is the founder and Managing Director of Grand City Group since 2004. Before joining the Grand City Group, Mr Gabay was Chairman and Managing Partner of an investment company which managed over USD 30bn of assets, and before that he was CEO investment banking of Bank Leumi. He has a BA in Accounting/Economics, MBA, CPA.

Shmuel Mayo

Shmuel Mayo (COO) joined the Grand City Group in 2006. Before that, Mr. Mayo has held the position of the CEO of the Dankner Group, a leading Israeli international investment conglomerate with over USD 8bn of assets under management, incl. diversified holdings in various sectors; communications, infrastructure and real estate. He holds a BA in economy and accounting, law and CPA.

Rafi Zamir

Rafi Zamir (CFO) worked prior to Grand City Group as a Manager at Ernst & Young in the real-estate and financial institutions sectors. He is a Certified Public Accountant (CPA) and holds an MBA.

Eyal Ben David

Eyal Ben David (Finance Director) has been with the Grand City Group since 2008. Prior to GCP, Mr. Ben David held a Private Practice of Certified Public Accountant focused on infrastructure and real estate industries. He is a Certified Public Accountant (CPA) and holds an MBA.

Michael Schill

Michael Schill (Head of Operation) has extensive experience in the fields of asset and property management. Prior joining the Grand City Group, Mr. Schill worked for the Habarent Group, where he oversaw residential and commercial portfolio of 350,000 m² as part of a nationwide real estate portfolio. Mr. Schill holds a Diploma in economics and real estate from the TU Berlin.

Ran Laufer

Ran Laufer's (Head of Marketing) prior experience includes working as a senior consultant at the Reuven Schilo Financial Consultancy, Marketing & Sales Manager at the U.Dori Group as well as Deputy and Marketing Manager at Industrial Buildings Corp. Mr. Laufer has B.A. in Business Management/Real Estate and MBA.

Keinan Walenstein

Keinan Walenstein (Head of Sales) has vast experience in sales and marketing. Prior to Grand City Group, Mr. Walenstein served as General Manager at IBS Enterprise Finland and as Managing Director at Midport Scandinavia. He holds a B.Sc and MBA.

Or Zohar

Or Zohar (Head of Business Development) worked prior to Grand City Group as Head of Business Development at Mark Hotels GmbH and as a Managing Director at Bluebay Gmbh. He holds a BSc and a MA in real estate and finance.

David Netzer

David Netzer (Head of Accounting) worked prior to Grand City Group for KPMG in the real-estate and financial institutions sectors. He is a Certified Public Accountant (CPA) and holds an MBA.

Board of Directors

The board of directors GCP consists of following five members:

Claudio Jarczyk

Claudio Jarczyk served before joining the Grand City Group as Executive Director at Berlin Hyp Bank, as Chief International Executive at Landesbank Berlin and as an International Division-Department Manager at Bayerische Vereinsbank, Munich. Mr. Jarczyk holds a Dipl. Kfm. / M.B.A at Munich University. Mr. Jarczyk is nomination process for the supervisory board of Grand City Group.

Christian G. Windfuhr

Before joining the Grand City Group **Christian Windfuhr** served as CEO of Maritim Hotels, with 12.000 rooms in over 40 hotels, primarily in Germany. Served as CEO of Mövenpick Hotels. He achieved the financial turnaround of Mövenpick, drove international expansion, publicly listed the company, and worked out a strategic partnership with Kingdom Holding (HRH Prince Alwaleed) and JP Morgan. Served as Director of TUI, the largest European tour operator, heading up their hotel activities. He served in high positions in Holiday Inn International, Kempinski, and Southern Sun Hotels. He graduated at Cornell University.

Simone Runge

Simone Runge is currently Advisor in Real Estate Private Equity for investors and project developers in European property markets. Mrs.Runge's past positions include Deal Manager (Director) at UBS Deutschland AG, Vice President Real Estate Finance/Investment Funds and Credit Manager at Dekabank Frankfurt, Credit Manager Real Estate Finance at Helaba Frankfurt. Mrs.Runge holds a diploma in International Business Administration.

Daniel Malkin

Daniel Malkin is co-founder of SIMRES Real Estate Sarl and member of the Supervisory Board of Falcon Fund Management, Luxembourg. He has a BA in Business Administration.

Cleo Koushos-Cros

Cleo Koushos-Cros is member since August 2002 and partner since January 2008 of the Cyprus Bar Association. Since January 2012, she serves as Head of the Corporate Department of Koushos&Korfiots LLC.

Company milestones

Focus on a niche

The founders of GCP firstly worked within the field of distressed residential portfolios in Germany in 2004. **The company today still is active and focuses this particular niche of the residential market.**

Foundation in 2006

In 2006, Grand City Property Ltd. (formerly known as Adminond Trading & Investments Ltd.) and acquired its first portfolio (in NRW) comprising 770 units.

Acquisition and ...

In 2009, GCP further expanded its portfolio by purchasing 2,105 units, including 637 residential units in Berlin and the acquisition process continued: Purchase of 2,907 units in NRW and Berlin in 2010, purchase of 5,100 units mainly in NRW in 2011 and further purchased and signed deals for 6,000 units in 2012.

... exit of several portfolios

On the other side, GCP also sold units of its residential portfolio in 2011/2012: Sale of 1,267 residential units in Berlin during 2011. In 2012, GCP sold 123 units in Solingen as well as 50% of its Cologne portfolio comprising 429 residential units.

Listing of GCP in May 2012...

Furthermore, GCP became incorporated in Luxemburg in 2011 and in May 2012, the company was listed on the open market of Frankfurt Stock Exchange.

...followed by capital increase and bond emission

The first steps of financing already commenced: 1) In July 2012, GCP issued 10% of its shares for EUR 15m (capital increase), 2) in Oct 2012 GCP issued EUR 100m convertible bonds (conversion price EUR 4.00), and 3) on 19 Feb 2013 GCP issued 8m new shares collecting EUR 35.7m (placement price EUR 4.46).

Received BB- rating from S&P

In 2013, GCP conducted another capital increase by issuing 8m shares for around EUR 36m. Additionally, the company received a corporate and convertible bond BB- rating from S&P.

Grand City milestones

2006	• Foundation of Adminond Trading & Investments Ltd.
2007	• Purchase of 770 residential units in NRW
2009	• Purchase of 2,105 units, including 637 residenital units in Berlin
2010	• Purchase of 2,907 residential units in Berlin and the western parts of Germany (mainly NRW) Bielefeld, Brunswick, Dortmund, Erkrath, Hürth and Cologne
2011	• Purchase of 5,100 residential units in Western parts of Germany (mainly NRW), Solingen, Wuppertal, Dortmund, Hamm, Lünen & others • Sale of 1,267 residential units in Berlin to a FSE public company
2011	• Grand City Properties S.A. is incorporated in Luxemburg
2012	• Purchase of residential buildings in Berlin and the western parts of Germany (NRW). Duisburg, Essen, Mönchnegladbach, Bonn, Velbert – additional 6,000 units • GCP sold 123 residential units in Solingen (NRW) to a residential fund as well as 50% of its Cologne portfolio (429 units) to a strategic partner • **In May 2012, the company was listed on the open market of Frankfurt Stock Exchange (FSE)** • In July 2012, GCP issued 10% of its shares for EUR 15m • In Oct. 2012, GCP issued EUR 100m convertible bonds
2013	• GCP issued 8m shares for EUR 36m • GCP received a corporate and convertible bond BB- rating and iLA rating from S&P

Source: Grand City, CBS Research AG

Business strategy

GCP focuses on the German Residential market, mainly in NRW and Berlin, as it believes the underlying fundamentals of this market will remain favourable for the foreseeable future. GCP has invested in the company's platform and infrastructure in order to further expand and enjoy from future economy of scale.

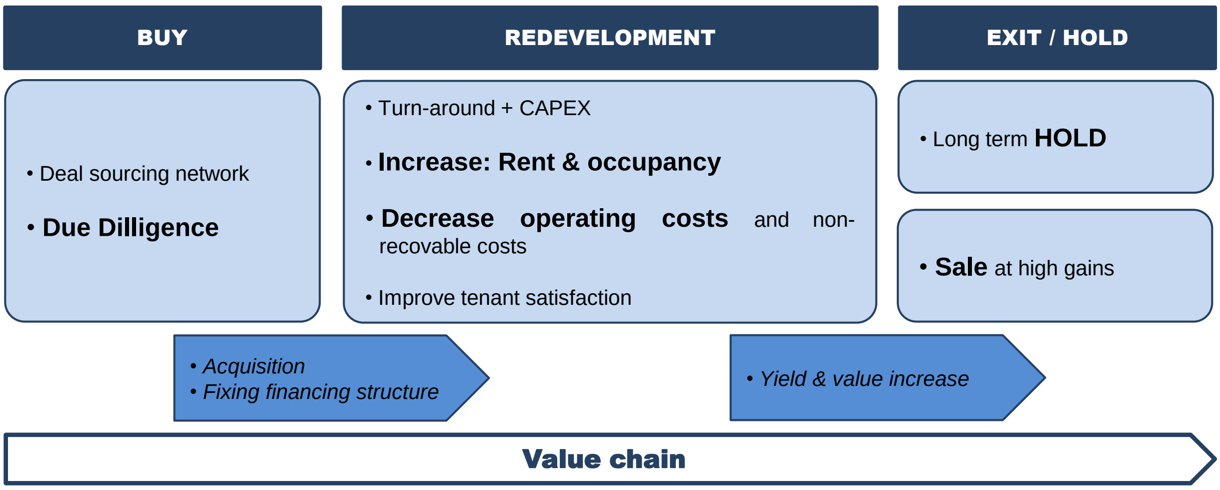
GCP follows a simple BUY-Redevelop-HOLD or EXIT strategy

The business model of GCP is based on two pillars strategy. GCP either holds or sells properties after redevelopment. The real estate company focuses mainly on acquisition at under market prices, redevelopment and management of mismanaged and distressed portfolios in Germany. GCP generates a positive cash flow from the acquisition stage but generates additional upside potential from its ability to turnaround assets. GCP creates additional value to the acquired assets through increasing rental income by changing the tenant structure, property development and by reducing the vacancy rates. GCP optimises the current management, maintains a strict cost discipline and structures optimal financing for the portfolio. After the redevelopment measures GCP decides to either hold the portfolio for long term rent generation or to sell the portfolio to convert the significant gained value into cash. Currently GCP runs a portfolio comprising ~12,000 units.

Three different project stages in value chain

The graphic below traces the two pillar strategy. Obviously GCP faces three different project stages in the development of a portfolio or say in the value chain: 1) the acquisition process including the scanning for an appropriate property, due diligence and fixing the financing structure, 2) the redevelopment phase in which the portfolio is repositioned from the early turnaround stage to the stabilized stage and which turnaround is targeted through specific and individual CAPEX and development measures, and 3) the final stage in which GCP decides to either hold or exit the portfolio. In the future GCP aims to hold ~90/95% of developed properties and 5/10% are to be disposed.

Business model 'BUY-Redevelop-HOLD' or 'BUY-Redevelop-EXIT'

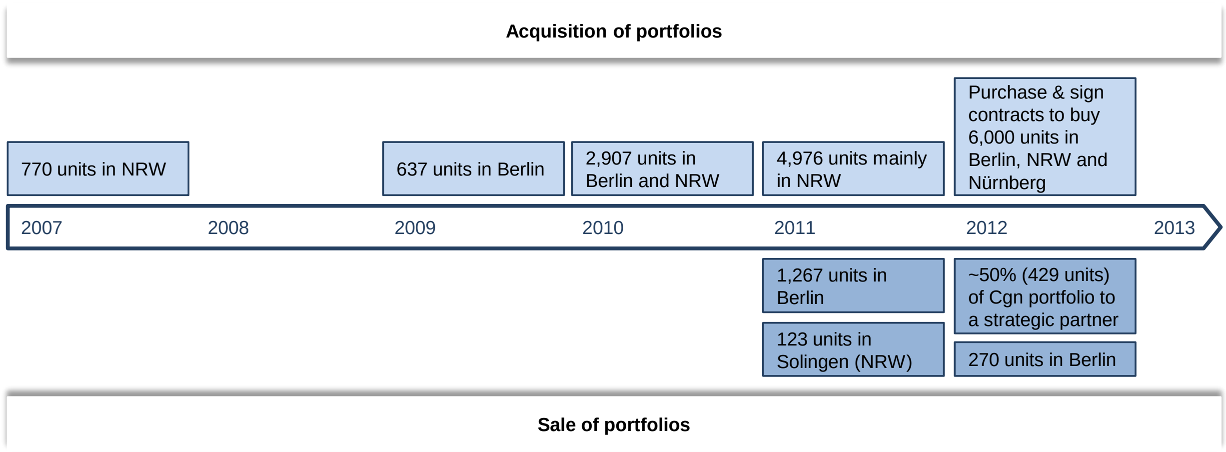


Source: Grand City, CBS Research AG

Strong track record on distressed portfolios

GCP is characterised by a long reaching expertise and track record on turning distressed portfolios since 2004. The company knows how to optimise and restructure distressed portfolios in order to reduce vacancy rates, increase rents and furthermore understands how to scale down property operating costs. This impacts the value and yield of an investment property and frees additional value add potential.

Track record of acquisitions and sales of portfolios since 2007



Source: Grand City, CBS Research AG

Unique characteristics

GCP presents itself as a strong and extraordinary player with unique sourcing capabilities. We have outlined some essential points and unique characteristics of GCP success below:

- Strong and growing cash flows with high return potential. GCP's assets generate a positive cash flow from the acquisition stage, covering all financial obligations, but also imbed a high upside potential from the turnover process
- GCP is a preferred buyer for many of leading German banks due to its proven turnaround capabilities, quick decision making, and high certainty of execution. Sustainable pipeline of deals is expected in future years due to deleveraging and liquidity needs of German banks
- Unique real estate business model, holding an attractive portfolio with defensive characteristics and significant repositioning potential
- Successful track record of value creation from renovation and repositioning assets
- Adherence to strict investment criteria such as convincing macro- and micro-location, under-managed assets (with high vacancy levels or under-rented, but having visible operational upside potential), and distressed acquisition prices

New acquisitions

GCP intends to continue the growth rates exhibited in the recent years and is currently exploring additional value creation opportunities. The company believes GCP that its platform and the latest systems erected, together with the vast experience and know-how of the management team will allow it to integrate additional units with marginal increases in management cost. Currently the company is in advanced stage to purchase over 3,500 units in several acquisitions mainly in Berlin, NRW, Nuremberg, Bremen and Mannheim.

Asset management team

Asset management team with far reaching experience

GCP employs an extensive asset management team. The team comprises around 30 employees with long reaching experience and network in the real estate sector especially in property and asset management. Furthermore meaning a real value add for the company, is the strong expertise in turning around mismanaged residential portfolios in which the team is also widely experienced. GCP proved over the last years its strong deal sourcing ability, its management and redevelopment qualities as well as the capability to exit redeveloped portfolios at high capital gains.

Service idea very important for GCP

The property management is completely executed in house by GCP. The company runs several offices in close proximity to the properties. Important points according to GCP in order to implement and optimise property management is the proximity to the location, a familiarity with the area and a close communication with the tenants. For GCP the service idea is very important and an essential pillar of a good portfolio management, it furthermore increases tenant satisfaction. **One crucial component of GCP´s asset and property management idea is the in house developed real estate management software.**

Value add developed in-house through...

...IT software for asset and property management

A general lack of appropriate IT tools in the real estate sector

Generally we are facing a lack of appropriate IT tools in the real estate industry, supporting the overarching management of a building on every level. Therefore GCP developed a sophisticated proprietary IT system in-house supporting and monitoring the asset and property management through to the maintenance and construction management process as well as it supports every other step in the active management involved. The access is possible through different devices (i.e. compatible with Apple iPhone) and it provides a wide range of management or operational reports. According to GCP it also allows the immediate control of new portfolios.

Another important feature of the software is the benefit on the controlling and accounting level as well as it supports the sales & marketing activity on various levels.

Benefit on various levels

The software gave GCP clearly benefit on several levels. First GCP is able to monitor and overview the complete portfolio and identifies fluctuations of tenants and possible reasons for it. It also helps to identify service and management steps that could be optimised in the future in order to improve effectiveness of the entire management.

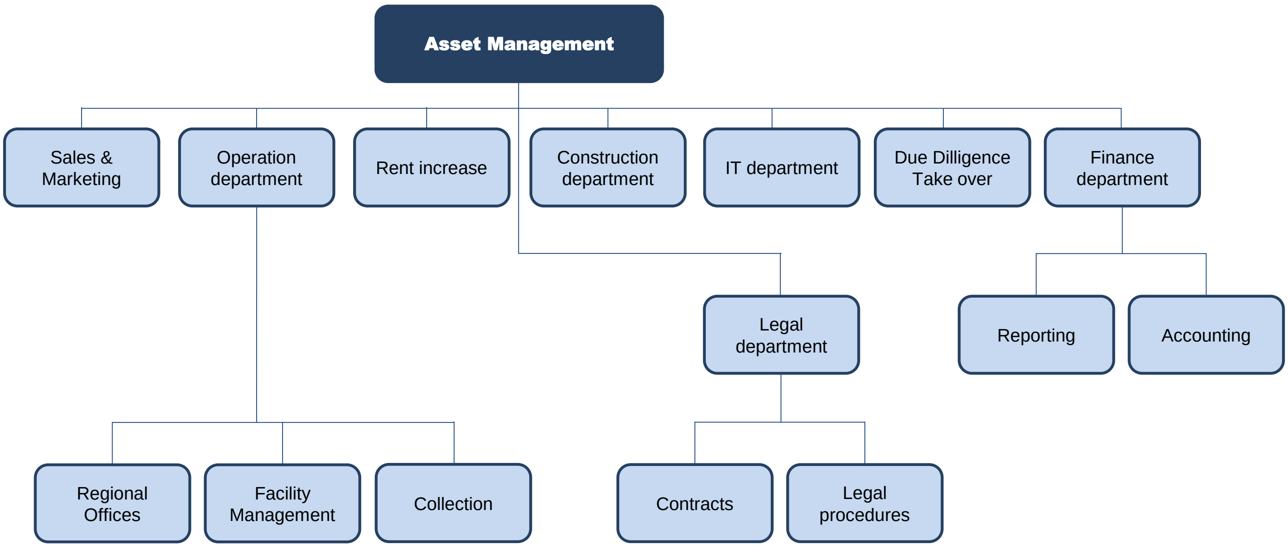
Database storing all important parameters

Furthermore, the software works as a database storing all important information about fluctuation, annualised and potential rent, rent increases, vacancy, etc. The software helps to create a demographical overview of single portfolios or properties. By doing that GCP manages the technical side as well as the tenant/customer related side. A further crucial benefit is an improved communication to tenants and a rapid response time towards inquiries of tenants in order to enhance tenant satisfaction.

Helps to outline strengths and weaknesses

On the following chart one can see the full spectrum of the software (plus sub-categories of each field). This detailed overview enables the management to analyse and outline strengths and weaknesses of a portfolio as well as future opportunities of each asset and location. The software produces various reports and key figures of a portfolio.

Structure and full spectrum of service and sub-categories



Source: Grand City, CBS Research

We really think this software means a value-add in order to monitor and optimise asset and property management of the existing portfolio of GCP. The company intends to further develop the software in order to both keep the competitive advantage and deepen the ability to control of the asset management.

Property portfolio

GCP runs a straight forward and sizable portfolio in Germany. The portfolio appears very mixed as it comprises properties in three different operational stages: stabilized properties which have lower vacancy rates than 5%; advanced turnaround properties with vacancy rates between 5% and 15% and early turnaround properties, which generally, when acquired, provide vacancy rates between 15 % and 25 %. As of 31 December 2012, GCP's portfolio, including 3,577 units in joint venture properties, included 2,939 units in the stabilized stage (36% of the total portfolio market value), 3,892 units in the advanced turnaround stage (33% of the total portfolio market value) and 4,849 units in the early turnaround stage (31% of the total portfolio market value). The properties have been specifically selected due to their potential for value creation.

A sizable portfolio divided into three different operational stages: stabilized properties, advanced turnaround and early turnaround properties

According to the annual report 2012 GCP operates 11,680 units (incl. joint ventures) and has additional signed pipeline acquisitions of approx. 3,500 units. Therefore the property portfolio of the company comprises approx. 15,000 units (incl. pipeline acquisitions and joint ventures) with a rentable area of over 1,000,000 m². As at 31 December 2012, GCP's properties were valued at EUR 560m, thereof EUR 143m related to joint venture with the company holding 50%. GCP clearly focusses on residential real estate nevertheless its portfolio also comprises a small share of commercial comprising more than 120,000 m².

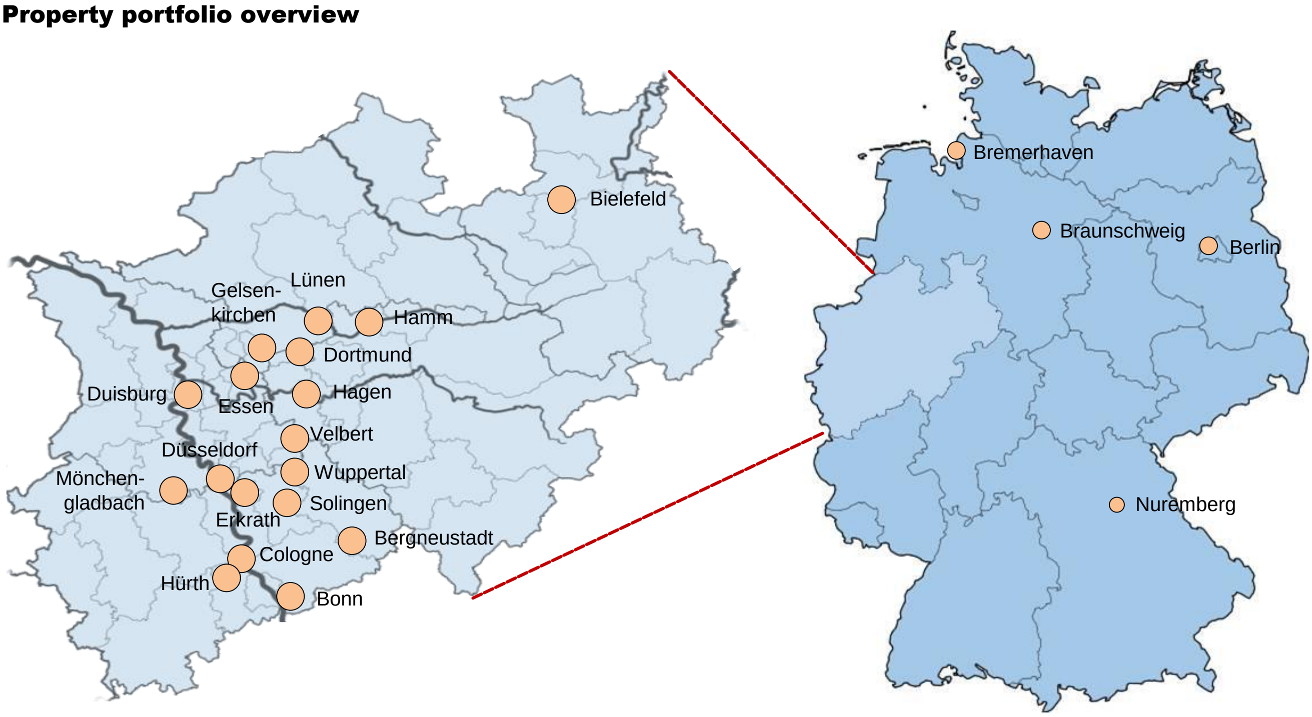
The property portfolio of the company comprises 15,000 units with a rentable area of over 1,000,000m²

The portfolio focus is clearly concentrated in North Rhine Westphalia (77% of GCP's portfolio, approx. 800,000 m²) as seen in the following picture. Beyond that, GCP manages residential properties in Berlin (8%), Nuremberg, Braunschweig and Bremerhaven.

Portfolio focus is set on North Rhine Westphalia (77%)

GCP targets healthy micro and macro locations that show an increasing population trend as well as densely populated areas in Germany. The company´s main focus supposed to retain on Berlin and NRW.

Property portfolio overview

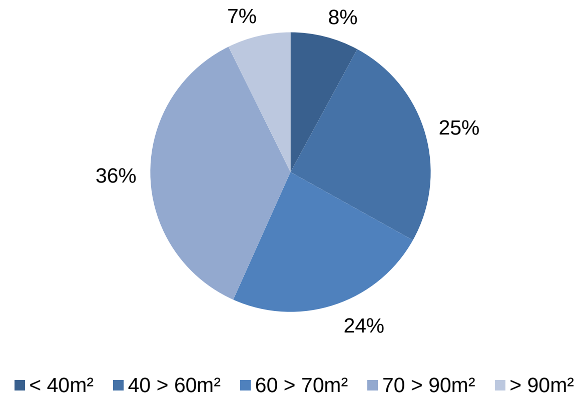


Source: Grand City, CBS Research AG

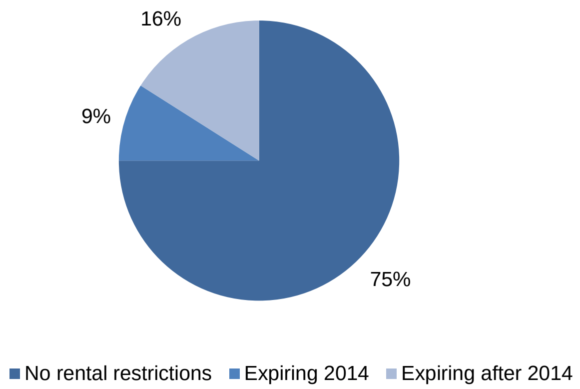
In order to match the desires of its tenants, GCP owns a residential portfolio with diversified unit sizes and additionally converts the sizes of its apartments according to the demand (i.e. combining two 3 room apartment in to one 6 room).The average unit size of the portfolio amounts to approx. 65m². Thereby units with sizes between 70 and 90m² accounted for the greatest share with 36.0%, as seen in the following chart.

Average unit size of the portfolio amounts to approx. 65 m²

Residential units breakdown by m²



Rental restrictions – by units



Source: Grand City; CBS Research AG

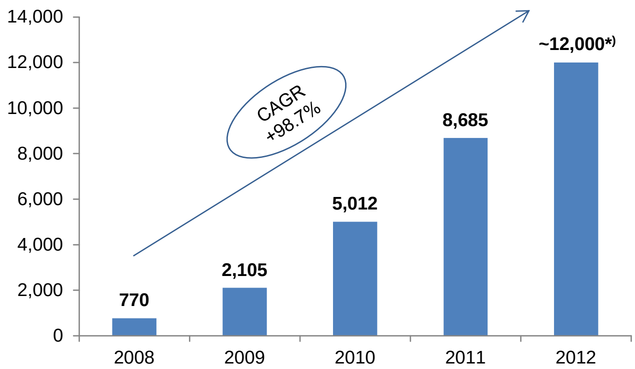
Unrestricted rents allow rent increases in accordance with statutory regulations, the realization of modernization and ensure flexibility concerning the re-letting of vacated units. Rent increases of units with rental restrictions are also possible, but only to a certain limit. 75% of GCP's units have no rental restrictions. 9% of the units are expiring in 2014 and 16% after 2014. As at 31 December 2012, 94% of the portfolio is currently running below market rents.

75% of GCP's units have no rental restrictions

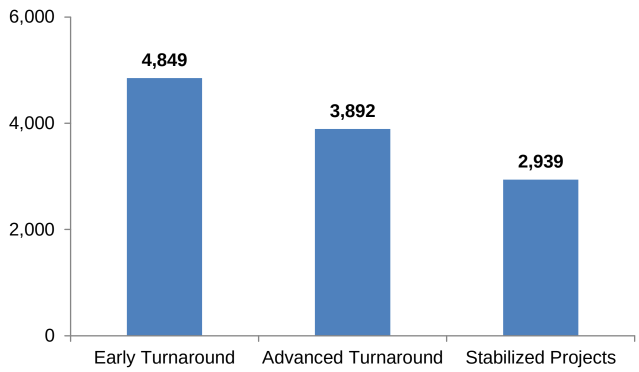
The portfolio of GCP has been constantly growing over the past years. The number of units grew with an annual growth rate of 81.1% from 2008 (770 units) to 2012 (approx. 12,000 units), according to GCP.

81.1% CAGR unit growth from 2008-2012

Development and growth of units



Turnaround stages (in number of units)



*) excluding 3,000 units signed pipeline acquisitions

Source: Grand City, CBS Research AG

Summary

Straight forward and homogeneous portfolio

In our view the portfolio of GCP is straight forward and homogeneous. Furthermore it underlines company´s portfolio focus as it is not widely dispersed in Germany. It concentrates on NRW (~77%) and the Berlin region (~8%). Through further expanding its portfolio in these regions, GCP could free economies of scaleas there won`t be much effort on building up additional property management and offices in these locations.

Most properties located in dense and populated areas

Regarding the property portfolio we believe that the single properties of GCP perfectly match the company´s business orientation. All properties are mostly located in highly populated and dense locations in Germany and thus perfectly fit to company´s communicated strategy. Almost all of the single properties show mainly the same criteria referring to type of architecture, building and construction quality, state of management and tenant structure. Furthermore, as communicated with the management, there is a significant gap between annualised rents and potential rents in some property locations. We stress an upside potential for rent increases at around 20-50%, which would mean potential revaluation gains and capital gains.

We see upside on rents

Gains in revaluation

Furthermore, GCP may see chances arising which could result in gains regarding revaluation effects. Through the experience in the field of mismanaged real estate and an individual approach to the specific cases and projects, we believe that GCP will be able to efficiently structure itself an attractive portfolio in terms of positive cash flows and will always have the chance to dispose several single portfolio components in order to gain cash.

Well-structured and well financed portfolio

Consequently, we believe that GCP´s portfolio is structured very well as we are facing a homogenous portfolio split. Additionally, GCP´s portfolio shows a conservative financing structure which is characterised by a low cost of debt and a diversified balance sheet structure. The average interest rate on the GCP's bank loans is 3.60% p.a. and approx. 90% of these are hedged. Furthermore, it is a positive sign as GCP received a corporate and convertible bond BB- rating from Standard and Poor´s.

Market environment

General situation in the real estate market

German real estate in the focus of investors after financial and EURO debt crisis

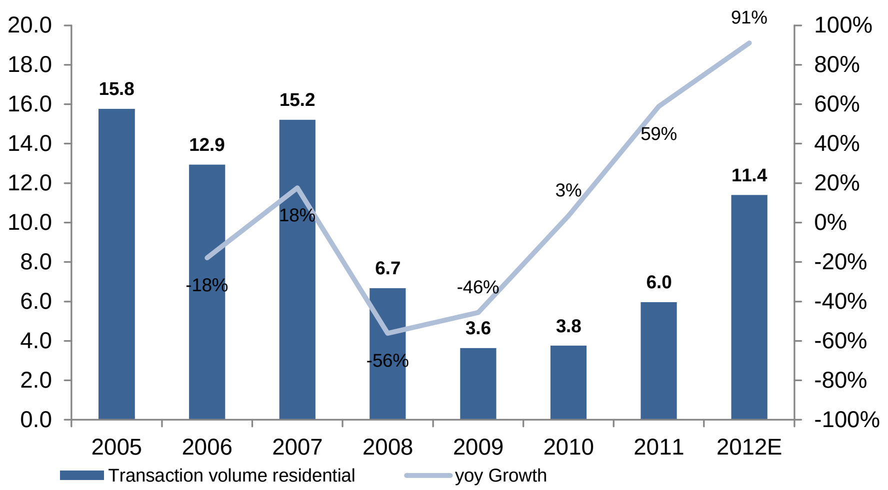
Driven by the financial crisis and the euro zone debt crisis, especially the German real estate market was in the focus of both, investors from inland as well as investors from abroad. In order to find safe "havens", they were attracted by the relatively stable performance of the German economy. The residential real estate market survived the financial crisis 2008/2009 better than commercial did. Prices, rents and transactions in the commercial sector collapsed stronger due to the high dependency on the economy. Banks were significantly more reluctant to give credits in the commercial sector than for the home financing. However, since 2010 we see an improving commercial sector, but which slowed down in 2012 due to the lack of high quality commercial properties.

Investment in German residential real estate market

Investment in residential real estate market increased 91% in 2012

The German residential real estate market continued its strong performance in 2012 and impressively confirmed its attractiveness as investment vehicle by growing steadily since 2010. The transaction volume in the German residential market in full year 2012 amounted to EUR 11.4bn and therefore almost doubled (+91.0%) its volume compared to the same period in the prior year. The volume of full year 2011 (EUR 5.97bn) was already exceeded in the first half of 2012 and was only outperformed by the boom years in 2005 (EUR 15.77bn), 2006 (EUR 12.94bn) and 2007 (EUR 15.21bn). The share of foreign investors amounted to 27.4% in 2012.

Transaction volume residential RE (EURbn) and yoy growth (%)



Source: BNP Paribas Real Estate, CBS Research AG

Positive outlook for 2013

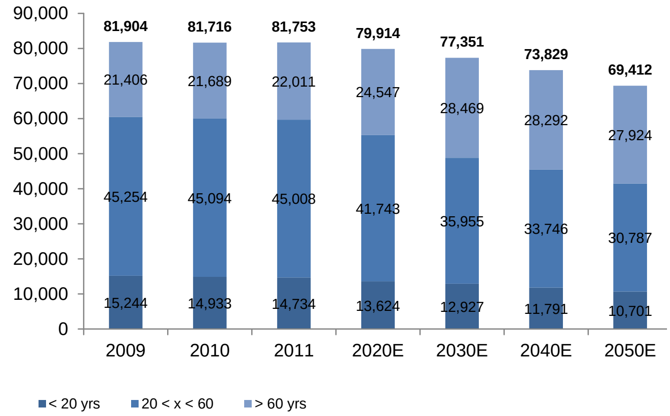
The outlook for 2013 is also positive. Most of the surveyed experts believe that the attractiveness of the German real estate market will remain unbroken and Ernst & Young Real Estate expects that the transaction volume in the German real estate market as a whole will be stable in 2013.

Demographical and household development in Germany

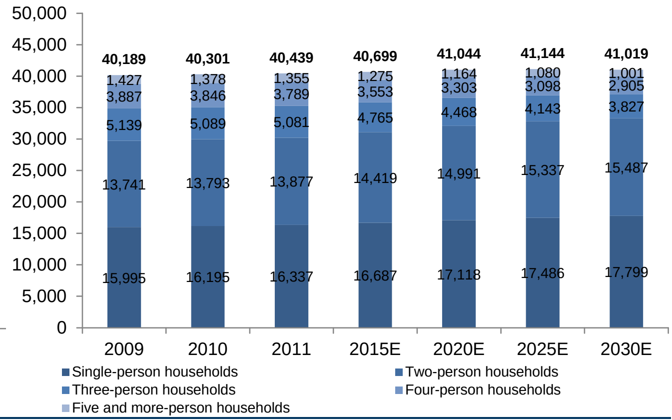
Decreasing trend of inhabitants but increase in households due to rise of singe-person households

With currently 81.8m inhabitants, Germany is considered the strongest country in Europe in terms of inhabitants. The number of population slightly increased in 2011 again, after it had been slowly but constantly decreasing since 2002. Despite of this development, the number of households has been continuously rising since 1997 to 40.44m in 2011 and is founded especially in the strong rise of one-person households. The number of one-person households increased from 1997 (13.26m) to 2011 (16.34m) by 11.2%. According to DESTATIS, the downward trend of the population will continue and decrease from now on by 0.5% until 2015E, by 1.6% until 2020E and by 14.5% until 2050E, while the number of households will slightly increase to 41.0m and remain stable from there on until 2030E.

German demographical development (in ´000)



German household development (in ´000)



Source: DESTATIS, CBS Research AG

Building activity in the German residential real estate sector

Due to cuts in subsidies, the building permissions drastically decreased in 2007and the uncertainty in the financial market in 2008 lead to a further reduction. After a slight increase in 2009 and 2010, the building permissions for dwellings recorded in 2011 a growth of 21.3% yoy and came in at 228,000. In 2012 the permissions increased another 4.9% amounting to 239,500, according to DESTATIS.

Building permission increased in 2012 by 7.5%

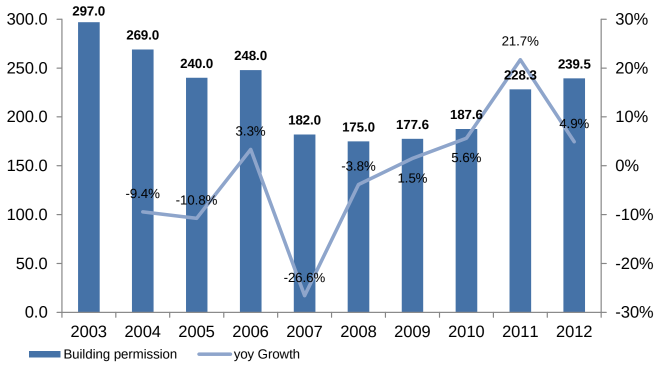
Along with the permissions, the completion of dwelling construction increased significantly in 2011, since the completions follow the permissions with a certain time lag. The total completion amounted to 183,100 in 2011, which represents a rise of 14.6% yoy. Thereby 164,200 (+14.9% yoy) new dwellings were constructed and 18,900 (+11.8% yoy) comprise other measurements. But the number of dwelling completions decreased by 43.2% compared to 2001 (322,400), which is one of the reasons why the supply is currently not able to match the great demand especially in the metropolitan areas.

Dwelling completions decreased by 43.2% since 2001 which is one of the reasons why the supply is currently not able to match the great demand

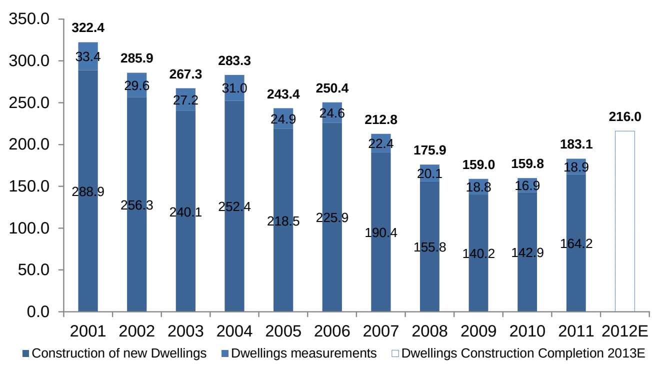
According to estimates by the industry, the construction completion of dwellings amounted to 216,000 in 2012, representing a yoy increase of 18% and therefore recovering from the crisis in 2009 and 2010.

18% yoy increase in 2012 estimated

Dwellings building permissions (in ´000)



Dwellings construction completion (in ´000)



Source: DESTATIS, FAZ, CBS Research AG

The desire of the German population to own a home was animated through the encouraging situation on the labor market, increasing income and low mortgage interest rates, and had therefore a positive effect on the construction market. Furthermore the investment backlog of the last years is now being processed and leads to higher activity.

Investment backlog of the last years leads to higher activity

Housing shortage in Germany

According to DESTATIS, in 2010 approx. 3.5m of total 40.5m residential units were unoccupied, corresponding to a vacancy rate of 8.6%. In 2006 the vacancy rate amounted to 8.1%. With 11.5%, the highest vacancy rates were overall recorded in eastern Germany. Thereby Saxony-Anhalt showed the highest rate with 15.0% and Bremen the lowest value with 4.7% in 2010.

Vacancy rate in German residential real estate market increases

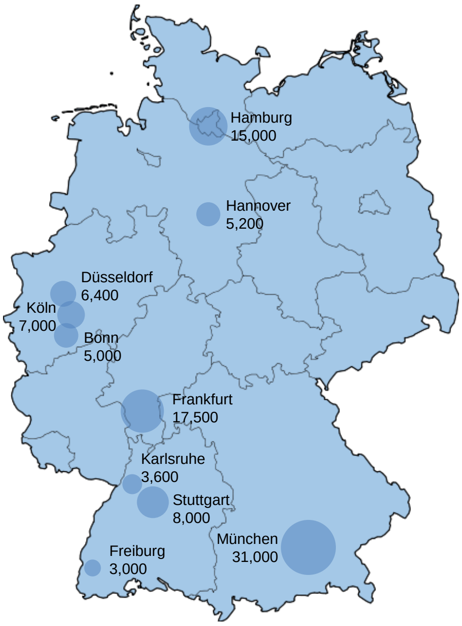
Due to this development, the housing shortage in metropolitan areas increased drastically in the last years. The biggest gap between supply and demand was recorded in Munich, where the housing shortage amounted to 31,000 units. Frankfurt had a shortage of 17,500 residential units and Hamburg of 15,000 units.

Housing shortage in metropolitan areas increased drastically

Vacancy rates of residential units in Germany (in %)

Country	2010	2006	2002
Saxony-Anhalt	15.0	16.6	16.9
Saxony	13.9	14.6	17.5
Mecklenburg-Western Pomerania	10.9	11.3	11.8
Thuringia	10.8	10.5	10.1
Brandenburg	10.5	11.5	13.1
Saarland	10.1	8.4	7.4
North Rhine-Westphalia	9.1	7.9	7.5
Rhineland-Palatinate	8.7	8.0	7.8
Germany (average Ø)	**8.6**	**8.1**	**8.2**
Baden-Württemberg	8.1	7.0	6.4
Bavaria	7.7	6.7	6.3
Berlin	7.5	8.8	10.0
Hesse	6.8	6.0	4.9
Lower Saxony	6.3	5.5	6.5
Schleswig-Holstein	5.5	5.3	5.1
Hamburg	5.3	4.5	5.8
Bremen	4.7	4.2	5.5

Housing shortage in units (Top 10)



Source: DESTATIS, Deutscher Mieterbund, CBS Research AG

Conclusively, it can be said that the increase of residential real estate prices is focused mainly in metropolitan areas due to the lack of sufficient supply in these regions facing an above average demand. However, in overall Germany the vacancy rates of residential properties increased from 2006 to 2010 by 6.2%, which again proves that there is sufficient supply beyond metropolitan areas, especially in eastern Germany.

Housing shortage in metropolitan areas…

…but sufficient supply in overall Germany

Development of interest rates/refinancing

Currently we are facing an interest rate environment that is on a historical low. Since the financial crisis in 2008/2009 overcame global markets, we have seen a clear downtrend of the interest rates, and not only meaning the interest rates for constructions also the ECB interest rate had to be lowered to not trigger the crisis.

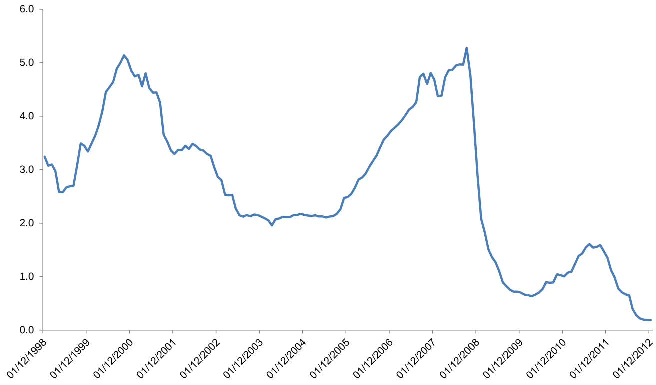
Interest rate environment on a historical low

Interest rates continuously decreased from 2008 onwards

With the continuation of the crisis through the uncertainties about some euro zone countries` debt situation, interest rates for construction activity continued to decline. Interest rates continuously decreased from 2008 onwards. Conversely, this means that the debt crisis was one of the triggers of the construction boom in Germany.

Homebuilding interest rate 5/10 year loan (in %)

EURIBOR 3months (in %)



Source: CBS Research AG, Bloomberg, German Pfandbrief 5/10 year loan

Current low interest rate level offers opportunities for real estate investments

Conclusively, the currently extremely low interest rate level offers attractive opportunities for real estate investments for private and institutional investors. An increase in interest rate would probably trigger additional impulses towards purchasing a property as people would use the last opportunity to buy.

Property bubble in Germany

German real estate market prices have increased sharply

German residential prices have increased sharply over the last two years as investors look for solid returns and safe havens in the midst of the euro crisis. That has worried some people about the formation of a bubble that could collapse if the German economy falters.Factors that support the idea of a potential bubble are the enormous volume of liquidity circulating in the market as well as the current interest rate environment. These points could be responsible for possible exaggerations in the real estate market like it appeared in some European markets prior to the crisis.

Credit growth in 2011 amounted to only 1.2%

A property bubble regularly coincides with a massive increasing credit growth. But according to Deutsche Bundesbank, the growth in 2011 amounted to only 1.2%. The granting of loans in Germany is accompanied by tighter regulations to the debitor and thus secures the loan. The current situation in Germany does not completely match the situation seen in the Spanish property market. The Deutsche Bundesbank monitors the current criteria obtaining loans and also pursues to prevent a loosening of the credit requirements.

Some metropolitan areas face exagge-rations of prices but the development of German residential real estate market is sustainable

Even though it seems in certain regions in Germany that prices have developed beyond fundamental justification, we believe Germany is not heading into a property bubble comparable with the one´s in USA, Spain or UK. It appears that some metropolitan areas in Germany are facing certain exaggerations of prices and it came to relative steep increases. But the quality of Germany´s residential market in terms of stable price and rent development before, during and after the financial crisis is sustainable. The risk of a tremendous decline in prices or better say a complete collapse like we have seen in Spain and Ireland is not given as the German residential market is structured completely different. Even in the high times of Subprime prices in Germany were not boosted that heavily. On the other side, rents did not yet rise as much as prices did, due to regulations on rent increases in Germany. However, they might broadly pick up in the following years following the growing demand with the continuation of the housing shortage.

Rents did not yet rise as much as prices did, due to regulations on rent increases

Financials

Historical financials

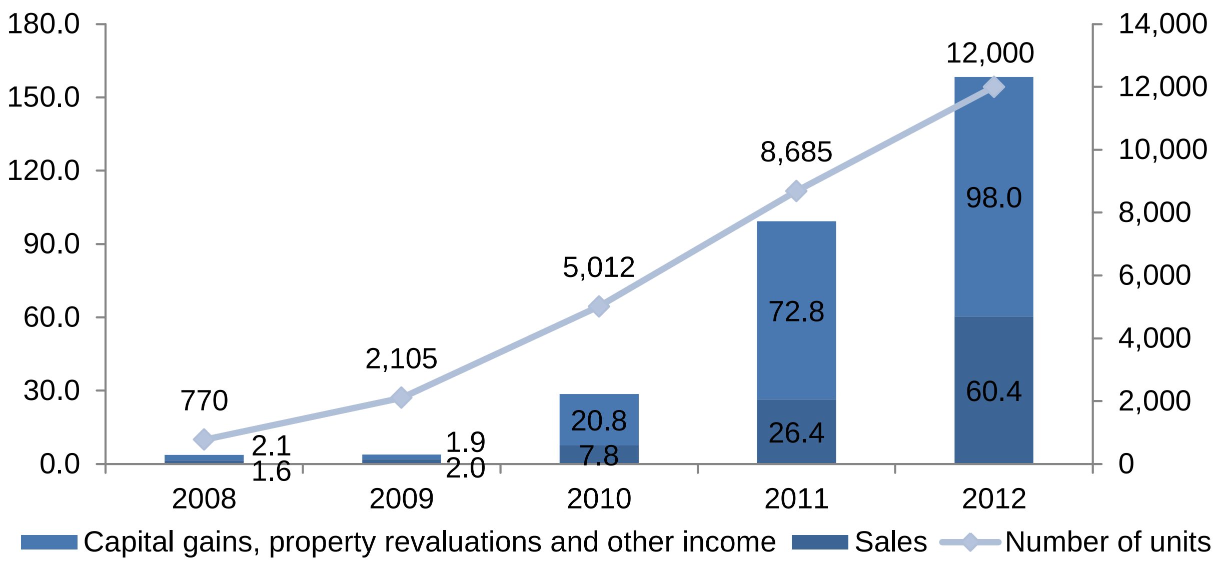
Continuation of growth in total revenue and number of units

Since the foundation of the company in 2006, GCP was able to increase its results on top and bottom line constantly. After recording an impressive growth in FY2011, GCP was once again able to increase its revenues as well as its property portfolio in FY2012. Revenues from rental income and sales of properties amounted to EUR 60.4m, representing an yoy increase of 128.7%. The number of units in GCP's property portfolio amounted to ~12,000 in FY2012 (2011: 8,685 units).

Major gains from valuation effects

Gains from property revaluation increased in FY2012 by 34.6% to EUR 98.0m (including capital gains and other income) after EUR 72.8m in previous years period, and therefore impacting the results partly on a non cash basis.

Development of total revenues and number of units



Source: Grand City; CBS Research AG

Costs rise homogeneously

During FY 2012, COGS rose yoy 69.5% to EUR 21.6m mainly attributable to the increase in property operating expenses (+61.6% yoy). Operating income (EBIT) in FY2012 amounted to EUR 122.4m, demonstrating a rise of 44.9% yoy.

Net income at EUR 81.8m vs EUR 55.6 the year before

Net income attributable to shareholders came in at EUR 81.8m, gaining around 47% compared to last years figure of EUR 55.6. This led to an earnings per share of EUR 1.97 for the FY 2011. The decrease of earnings per share compared to 2011 is founded in the weighted number shares, which incrased in 2012 in the course of the IPO and a capital increase to 41.5m (2011: 5.0m shares). Thus the EPS of 2012 is not comparable to the 2011 number, as the company went public in May 2012.

GRAND CITY Properties S.A.

Profit and loss account

IFRS EURm	2011	2012	Change	Change in %
Sales	**26.40**	**60.37**	*34.0*	*128.7%*
Net rent & property operating income	*24.9*	*39.9*	*15.0*	*60.1%*
Other operating income	*1.5*	*0.5*	*-1.0*	*-66.0%*
Revenue from sales of residential buildings	*0.0*	*20.0*	*20.0*	*n.m.*
Capital gains, property revaluations & others	72.84	98.04	*25.2*	*34.6%*
in % of sales	275.9%	162.4%		
Capital gains	*1.7*	*4.2*	*2.5*	*149.5%*
Change in fair value in investment property	*71.2*	*78.3*	*7.2*	*10.1%*
Profit arising from business combination	*0.0*	*15.5*	*15.5*	*n.m.*
Results from at-equity	1.50	8.38	*6.9*	*460.1%*
in % of sales	5.7%	13.9%		
Refurbishment and maintenance	-1.89	-2.20	*-0.3*	*16.4%*
in % of sales	-7.1%	-3.6%		
Property operating expenses	-12.02	-19.42	*-7.4*	*61.6%*
in % of sales	-45.5%	-32.2%		
Cost of buildings sold	0.00	-18.30	*-18.3*	*n.m.*
in % of sales	0.0%	-30.3%		
EBIT	**84.42**	**122.37**	*37.9*	*44.9%*
in % of sales	319.7%	202.7%		
EBIT excl. IAS 40 valuation	**29.58**	**44.32**	*14.7*	*49.9%*
in % of sales	112.0%	73.4%		
Financial result	-13.90	-13.28	*0.6*	*-4.5%*
in % of sales	-52.7%	-22.0%		
EBT	**70.52**	**109.08**	*38.6*	*54.7%*
in % of sales	267.1%	180.7%		
Taxes	-11.86	-16.17	*-4.3*	*36.3%*
as % of EBT	-16.8%	-14.8%		
Net income including minorities	**58.66**	**92.92**	*34.3*	*58.4%*
Minority interests	-3.07	-11.09		*261.0%*
Net income attributable to shareholders	**55.59**	**81.83**	*26.2*	*47.2%*
as % of EBT	210.5%	135.5%		
Weighted average number shares outstanding (in m)	5.0	41.5		
Basic earnings per share (EUR)	**11.11**	**1.97**	*n.m.*	*n.m.*
Diluted number of shares (in millions)	5.0	44.0		
Diluted earnings per share in EUR	**11.11**	**1.86**	*n.m.*	*n.m.*
EBITDA	**84.43**	**122.46**	*38.0*	*45.0%*
in % of sales	319.8%	202.8%		

Source: CBS Research AG, GRAND CITY Properties S.A.

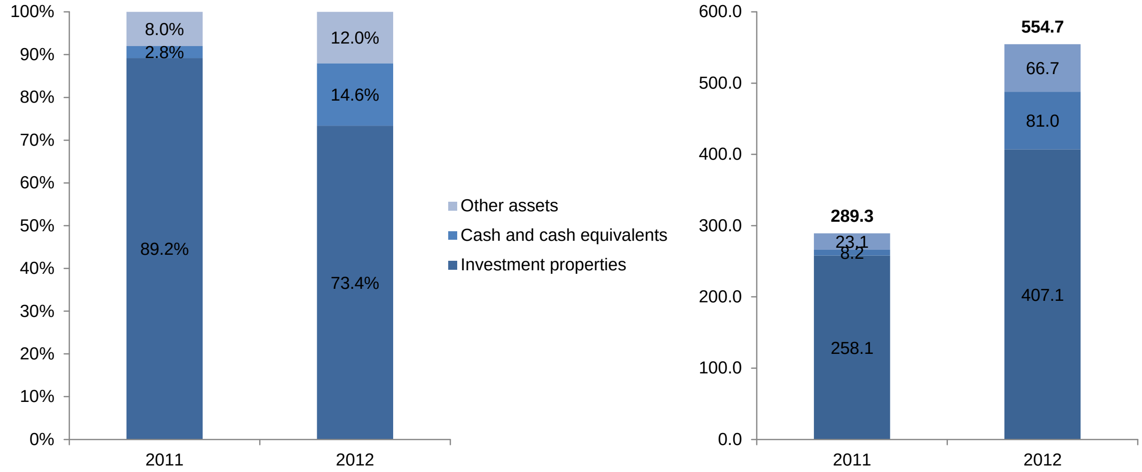
Balance sheet

The total balance sheet sum increased in FY2012 yoy by 91.2% to EUR 554.7m. On the asset side, although investment properties rose notably by 57.7% to EUR 407.1m, its share of total assets decreased from 89.0% to 73.4%, mainly due to the significant increase in GCP's cash position. Already in 2012 GCP invested its cash into the expansion of its portfolio. As at 31 December 2012, cash and cash equivalents amounted to EUR 81.0m (2011: EUR 8.2m), representing a share of total assets of 14.6% (2011: 2.8%) and including net procceds of EUR 96.1m from the issue of its convertible bond.

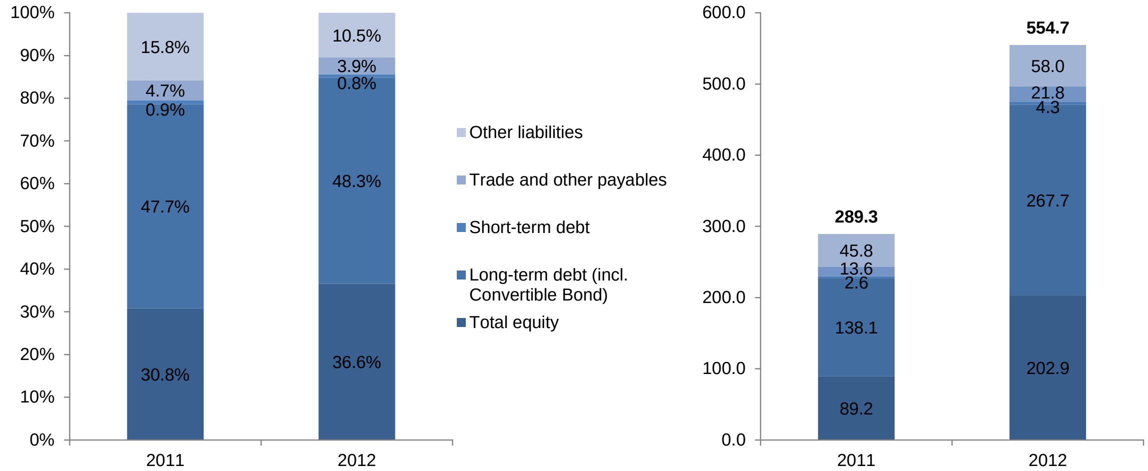
Investment properties increases as a result of acquisitions

Cash increases due to convertible bond

Total assets (in % and in EURm)



Total equity and liabilities (in % and in EURm)



Source: Grand City; CBS Research AG

On the equity and liabilities side, as at 31 December 2012 total equity amounted to EUR 202.9m (2011: EUR 89.2m) and the equity ratio increased yoy to 36.6% (2011: 30.8%). During the financial year 2012, GCP extended its financial debt towards banks. Long term loans thereby increased to EUR 267.7m (including the convertible bond of EUR 95.9m issued in October 2012) from EUR 138.1m reported in FY 2011 and short term financial debt amounted to EUR 4.3m after EUR 2.6m in previous years period. Thus reported LTV decreased from 50.3% in 2011 to 46.6% in FY2012.

Equity ratio increases to 36.6%

LTV at 46.6%

Financial forecast

Acceleration of growth anticipated

Turnaround of distressed real estate bears significant value add potential

The business year 2012 was an important year for GCP as the company went public in May 2012 and afterwards conducted three capital measures collecting cash in order to accelerate portfolio growth. A clear focus is set on mismanaged real estate. The strategy comprises the acquisition of further portfolios and their redevelopment. GCP plans to hold approx. 95% of developed portfolios and around 5% are to be disposed. But if there is an attractive offer for a portfolio, GCP will always consider the disposal of the portfolio. Bottom line, the turnaround of distressed real estate bears siginificant value add potential that is generated through valuation gains.

Main trigger will be revaluation effects

One main trigger for the development of GCP will be the contribution of revaluation effects on the results. In FY 2011 GCP reported EUR 78m. The revaluation effect is generated by the progress of redevelopment or by low prices of acquisitions(lucky buy).

Assumed growth scenario

Even though we considered GCP´s ability to raise cash as strong, we have not included further capital measures in our assumed scenario.

Cash for new acquisitions is available

After GCP collected cash through a capital increase in July 2012 (proceeds of EUR 15m), convertible bonds in October 2012 (proceeds of EUR 100m) and another capital increase in February 2013 (proceeds of EUR 35.7m), the cash position as at 31 December 2012 amounted to EUR 81m. The firepower for new acquisitions (around EUR 400m) is available and according to GCP it has around 4,000 – 5,000units in advanced purchase status as well as even 3,000 units signed pipeline deals.

FY 2013E

Disposals are expected for 2013

We expect 8,000 new units to be acquired in 2013E...

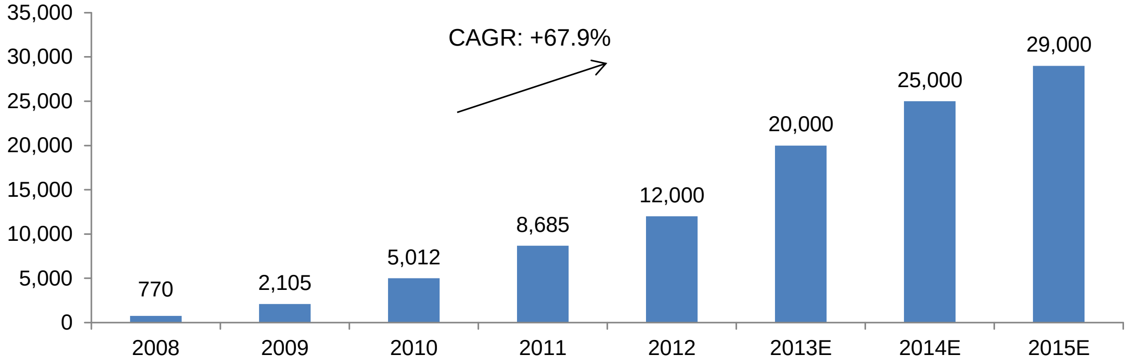
As the company announced that it will dispose around 5% of its properties, we assumed a moderate disposal activity in our forecasting period. For FY 2013E we expect GCP will dispose properties in the amount of around EUR 5m, applying a disposal margin of around 10%, expecting a disposal above book value. But the major activity in FY 2013E will be the focus on the extension of the portfolio as well as on the ongoing redevelopment activity of several portfolios leading to a strong contribution of revaluation gains. According to GCP, the company aims to double the existing portolio. We believe that GCP will grow slightly slower, adding 8,000 units to the existing portfolio. That would add up to ~20,000 (excluding signed pipeline acquisitions) units that are generating long term rental cash flows. GCP will exploit the historical low interest rates in order to fix financial loans for the long run.

FY 2014E/FY 2015E

...and further 5,000 and 4,000 units in 2014E and 2015E

In FY 2014E and FY 2015E we expect the disposal activity to accelerate and that GCP will successfully dispose portfolios and herewith converting revalutation gains into cash. The cash proceeds of the portfolio disposal also support the targeted portfolio extension as we are not planning any further capital increases in the forecast period. We assume disposal proceeds in the amount of EUR 7m and EUR 10m for FY 2014E and FY 2015E. For FY 2014E and FY 2015E we assume that GCP will add around 5,000 and 4,000 units to the existing portfolio, respectively.

Growth of units from 2008 – 2015E (not including signed pipeline deals)



Source: Grand City, CBS Research AG

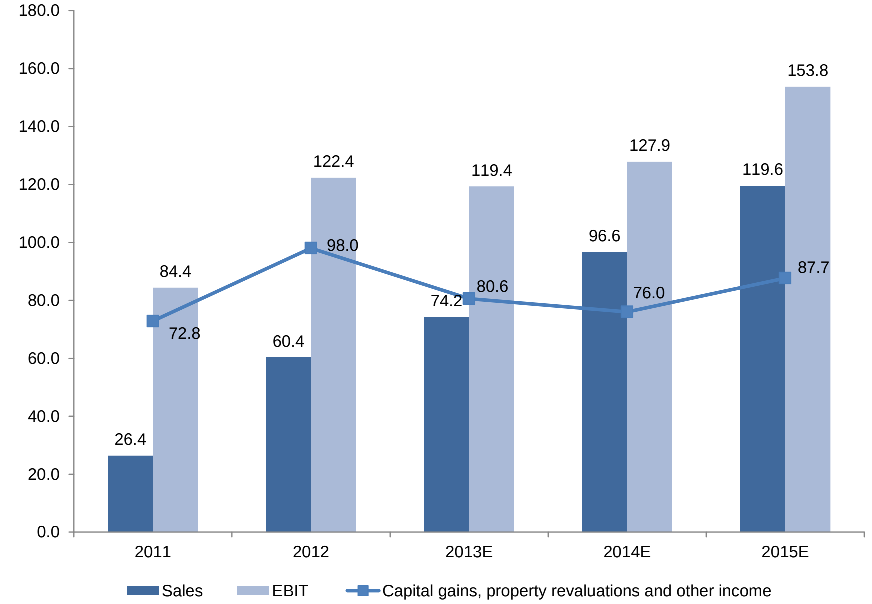
We expect that GCP will acquire portfolios with a high vacancy and a purchase price multiple ataround 10x (always depending on the project)of net cold rent.

Earnings for 2013E, 2014E and 2015E

Sales of forecast period

The purchased portfolios will further push sales significantly. Additional sales contribution will arise through the disposal of several portfolio components. In FY 2013E, FY 2014E and FY 2015E, we expect sales to move to EUR 74.2m, EUR 96.6m and EUR 119.6m, respectively. Thereof EUR 69.2m, EUR 89.6m and EUR 109.6m are attributable to rental income.

Sales, revaluation gains and EBIT



Source: Grand City, CBS Research AG

Contribution through revaluation effects

For the forecast period until FY 2015E we expect a strong contribution of revaluation gains to the results. The non-cash item influenced the result the years before. As a high contribution of revaluation effects underlines GCP business model and also the success of the business activity on distressed residential real estate, we expect revaluation effects for the forecast period to amount to EUR 80.6m, EUR 76.0m and EUR 87.7m, respectively. Especially further progress of the development process and reduction of vacancies and thereby occurring rent increases are main triggers for the amount of revaluation effects. Furthermore, first time consolidation effects can occur.

EBIT forecast

As we assume an increasing unit number thereby increasing rental revenues (rental yield on average investment properties at around 8.8-9.0% in the forecast period) and valuation effects in the forecast period 2013E to 2015E, EBIT is expected to escalate in the same pace. Amid the strong portfolio expansion and the scaling down of property operational costs, we forecast EBIT to range at EUR 119.4m, EUR 127.9m, and EUR 153.8m for FY 2013E, FY 2014E and FY 2015E.

Economies of scale

Another trigger that we see for GCP´s business development is the *"location factor",* as GCP operates a portfolio almost exclusively located in NRW and Berlin. If the company widens its portfolio and business activity in these specific areas, GCP will benefit from economies of scale as there won`t be much effort on building up additional property management and offices. GCP clearly communicated and named the NRW and Berlin region as preferred locations for property acquisitions.

Net profit and EPS

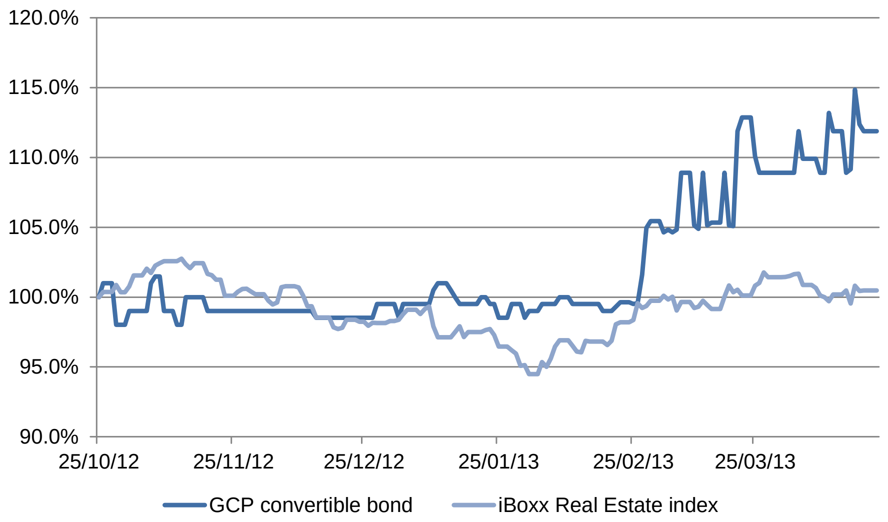
Bottom line, according to our estimates, net income attributable to shareholders stands at EUR 81.8m, EUR 84.2m and EUR 100.7m in the years 2013E, 2014E and 2015E, respectively. This translates into basic EPS of EUR 1.29, EUR 1.33 and EUR 1.59 for the years 2013E, 2014E and 2015E.

Convertible bond

In October 2012 GCP issued a convertible bond in the total amount of EUR 100m. The maturity is 5 years and the conversion price stands at EUR 4.00. This would translate into a maximum dilution of 25.0m new shares. Currently the bond is in-the-money as the conversion price of EUR 4.00 is already exceeded sustainably. Consequently, the possibility is high that a large number will be converted into GCP shares. On the one hand, this would mean that GCP won´t become any refinancing issues of the EUR 100m convertible bond as it will see a cash inflow on the equity side. But on the other side, we are having a dilution effect through a possible large conversion into GCP shares.

On the chart below, we have highlighted the performance of GCP´s convertible bond versus the iBoxx Real Estate Index.

GCP convertible bond vs. iBoxx Real Estate Index (10/2012=100)



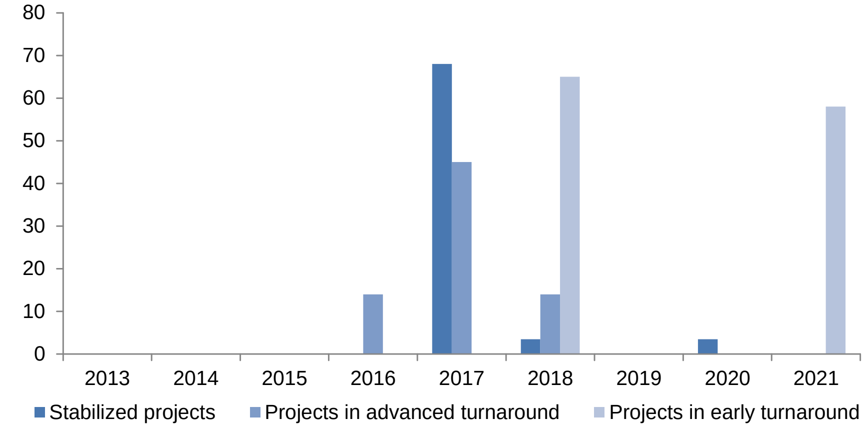
Source: Bloomberg, CBS Research AG

Senior debt schedule

The senior debt schedule (not including the convertible bond) of GCP has maturities ranging from 5 to 10 years with no material maturities until 2017 and an average maturity of over 6 years. GCP's debt maturity structure allows the company to focus on core business without the pressure to refinance and exit from projects pre-maturely. GCP has over 15 separate loans, that are non recourse, non cross-collateral and non cross-default.

No material maturities until 2017; average maturity of over 6 years

Debt maturity schedule (in EURm)



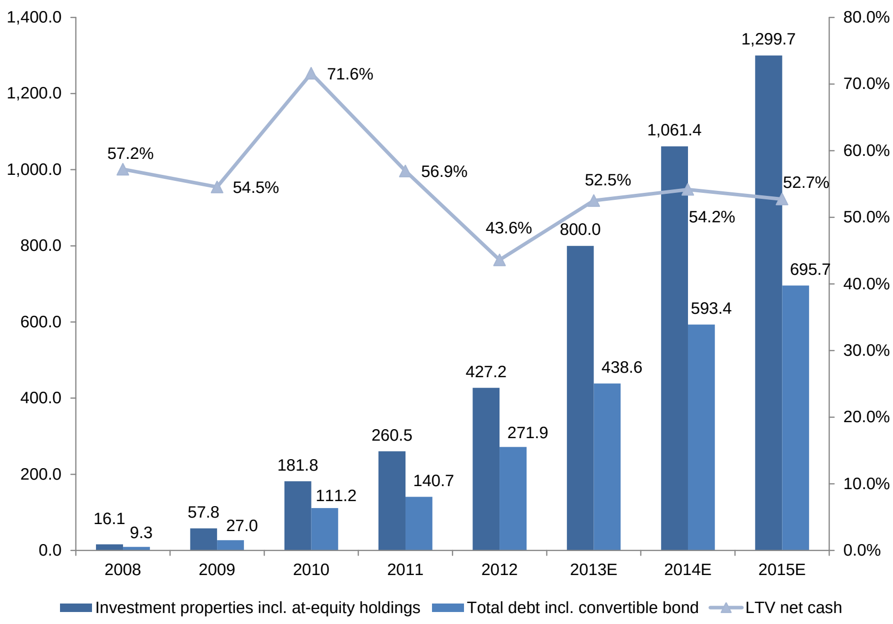
Source: Grand City, CBS Research AG

Development of rent generating assets

The following chart depicts our scenario of a significant portfolio growth in the forecast period as well as it shows the development since 2008. The growth of investment properties is accompanied by a comparable increase of financial liabilities. Noncurrent rent generating assets are expected to stand at EUR 800.0m, EUR 1,061.4m and EUR 1,299.7m as at end of FY 2013E, FY 2014E and FY 2015E. Thus LTV (on net cash basis) for the forecast period will step slightly above 50%, at 52.5%, 54.2% and 52.7%, respectively.

Development of investment properties

Investment properties vs financial debt, LTV (2008 – 2015E)



Source: Grand City, CBS Research AG

Appendix

GRAND CITY Properties S.A.

Profit and loss account

IFRS EURm	2011	2012	2013E	2014E	2015E
Sales	**26.40**	**60.37**	**74.20**	**96.65**	**119.57**
YoY growth	240.7%	128.7%	22.9%	30.2%	23.7%
Net rent & property operating income	*24.90*	*39.87*	*69.20*	*89.65*	*109.57*
Other operating income	*1.50*	*0.51*	*0.00*	*0.00*	*0.00*
Revenue from sales of residential buildings	*0.00*	*19.99*	*5.00*	*7.00*	*10.00*
Capital gains, property revaluations & others	72.84	98.04	80.60	76.02	87.70
in % of sales	275.9%	162.4%	108.6%	78.7%	73.3%
Results from at-equity	1.50	8.38	4.15	5.38	6.57
in % of sales	5.7%	13.9%	5.6%	5.6%	5.5%
Refurbishment and maintenance	-1.89	-2.20	-2.87	-3.54	-4.08
in % of sales	-7.1%	-3.6%	-3.9%	-3.7%	-3.4%
Property operating expenses	-12.02	-19.42	-25.83	-31.90	-36.69
in % of sales	-45.5%	-32.2%	-34.8%	-33.0%	-30.7%
Cost of buildings sold	0.00	-18.30	-4.50	-6.30	-9.00
in % of sales	0.0%	-30.3%	-6.1%	-6.5%	-7.5%
EBIT	**84.42**	**122.37**	**119.36**	**127.86**	**153.78**
in % of sales	319.7%	202.7%	160.9%	132.3%	128.6%
EBIT excl. IAS 40 valuation	**29.58**	**44.32**	**56.76**	**71.85**	**96.08**
in % of sales	118.8%	111.2%	82.0%	80.1%	87.7%
Financial result	-13.90	-13.28	-14.21	-19.09	-23.98
in % of sales	-52.7%	-22.0%	-19.2%	-19.8%	-20.1%
EBT	**70.52**	**109.08**	**105.15**	**108.77**	**129.80**
in % of sales	267.1%	180.7%	141.7%	112.5%	108.6%
Taxes	-11.86	-16.17	-18.87	-19.92	-23.57
as % of EBT	-16.8%	-14.8%	-17.9%	-18.3%	-18.2%
Net income including minorities	**58.66**	**92.92**	**86.28**	**88.86**	**106.23**
Minority interests	-3.07	-11.09	-4.49	-4.62	-5.52
Net income attributable to shareholders	**55.59**	**81.83**	**81.79**	**84.23**	**100.71**
as % of EBT	210.5%	135.5%	110.2%	87.2%	84.2%
Weighted average number shares outstanding (in m)	5.0	41.5	63.5	63.5	63.5
Basic earnings per share (EUR)	**11.11**	**1.97**	**1.29**	**1.33**	**1.59**
Diluted number of shares (in millions)	5.0	44.0	88.5	88.5	88.5
Diluted earnings per share in EUR	**11.11**	**1.86**	**0.92**	**0.95**	**1.14**
EBITDA	**84.43**	**122.46**	**119.46**	**127.96**	**153.88**
in % of sales	319.8%	202.8%	161.0%	132.4%	128.7%
EPRA NAV*	**n.m.**	**5.55**	**5.78**	**7.43**	**9.41**

Source: CBS Research AG, GRAND CITY Properties S.A.;* Est. EPRA NAV including deferred tax assets & deferred tax liabilities

GRAND CITY Properties S.A.

Balance Sheet

IFRS EURm	2011	2012	2013E	2014E	2015E
Assets					
Noncurrent assets	**263.97**	**437.04**	**809.88**	**1,071.38**	**1,309.75**
as % of total assets	91.2%	78.8%	93.1%	94.1%	95.3%
Equipment and intangible assets	0.13	0.06	0.06	0.06	0.06
Investment properties	258.12	407.09	775.69	1,031.71	1,263.40
Investment in equity-accounted investees	2.40	20.16	24.31	29.69	36.27
Deferred tax assets	1.40	1.81	1.90	2.00	2.10
Other noncurrent assets	1.93	7.92	7.92	7.92	7.92
Current assets	**25.36**	**117.68**	**59.60**	**67.45**	**64.72**
as % of total assets	8.8%	21.2%	6.9%	5.9%	4.7%
Trade and other receivables	11.80	21.11	31.03	39.20	44.22
Cash and cash equivalents	8.16	80.98	12.97	12.64	4.90
Assets classified as held for sale	5.40	10.72	10.72	10.72	10.72
Financial assets at fair value through profit and loss	0.00	4.88	4.88	4.88	4.88
Total Assets	**289.33**	**554.72**	**869.48**	**1,138.82**	**1,374.46**
Total equity and liabilities					
Total equity	**89.23**	**202.94**	**323.83**	**412.69**	**518.92**
as % of total equity and liabilities	30.8%	36.6%	37.2%	36.2%	37.8%
Share capital	0.50	5.55	6.35	6.35	6.35
Other reserves	14.21	14.35	14.35	14.35	14.35
Share premium	0.00	13.39	47.20	47.20	47.20
Retained earnings	69.14	150.97	232.77	317.00	417.71
Minorities	5.38	18.69	23.17	27.79	33.32
Noncurrent liabilities	**181.96**	**316.63**	**495.11**	**663.69**	**784.18**
as % of total equity and liabilities	62.9%	57.1%	56.9%	58.3%	57.1%
Loans and borrowings	138.15	171.75	333.94	485.60	585.89
Loans from shareholders	18.79	0.00	0.00	0.00	0.00
Convertible bond	0.00	95.92	95.92	95.92	95.92
Other long term liabilities	1.91	7.03	7.54	8.16	8.89
Derivative financial instruments	8.82	12.60	12.60	12.60	12.60
Deferred tax liabilities	14.29	29.33	45.10	61.42	80.89
Current liabilities	**18.13**	**35.15**	**50.54**	**62.45**	**71.36**
as % of total equity and liabilities	6.3%	6.3%	5.8%	5.5%	5.2%
Short term portion of long-term loans	2.60	4.25	8.77	11.87	13.91
Trade and other payables	13.59	21.82	32.58	41.27	48.01
Accrued interest related to convertible bond	0.00	1.80	1.80	1.80	1.80
Provisions for other liabilities and charges	1.95	2.29	2.40	2.52	2.65
Liabilities classified as held for sale	0.00	4.98	4.98	4.98	4.98
Total equity and liabilities	**289.33**	**554.72**	**869.48**	**1,138.82**	**1,374.46**

Source: CBS Research AG, GRAND CITY Properties S.A.

GRAND CITY Properties S.A.

Cash flow statement

IFRS EURm	2011	2012	2013E	2014E	2015E
Profit for the period	58.66	92.92	86.28	88.86	106.23
Depreciation and amortisation	0.01	0.09	0.10	0.10	0.10
Share of profit from investments in at-equity investees	-1.50	-8.38	-4.15	-5.38	-6.57
Change in business combination & sale of investments	-1.68	-19.68	0.00	0.00	0.00
Capital gains, property revaluations and other income	-71.17	-78.34	-80.60	-76.02	-87.70
Interest income / expense and other financial result	13.87	12.03	14.21	19.09	23.98
Income tax expense	11.86	16.17	18.87	19.92	23.57
Change in inventories and other assets	0.12	18.63	-0.09	-0.10	-0.10
Change in trade and other receivables	-5.77	-6.76	-9.92	-8.18	-5.01
Change in trade and other payables	1.62	7.96	10.76	8.69	6.74
Change in financial assets at fair value	0.27	-2.93	0.00	0.00	0.00
Change in derivative financial instruments	8.43	5.73	0.00	0.00	0.00
Change in provisions	1.58	0.43	0.11	0.12	0.13
Taxes paid	-1.37	-2.36	-3.10	-3.60	-4.10
Cash flow from operating activities	**14.93**	**35.51**	**32.47**	**43.50**	**57.26**
Payment for acquisition of PPA and intangible assets	-0.08	-0.02	-0.10	-0.10	-0.10
Change in investment property	-8.86	-34.99	-288.00	-180.00	-144.00
Change in investments in equity-accounted investees	-0.91	-3.43	0.00	0.00	0.00
Loans granted	-0.11	0.00	0.00	0.00	0.00
Acquisition of subsidiaries, net cash acquired	0.00	-10.70	0.00	0.00	0.00
Acquisition of financial asset and financial instruments	0.00	-2.59	0.00	0.00	0.00
Cash flow from investing activities	**-9.96**	**-51.74**	**-288.10**	**-180.10**	**-144.10**
Proceeds from issuance of share capital	0.00	18.44	0.00	0.00	0.00
Repayment of loans from shareholders	-10.78	-19.36	0.00	0.00	0.00
Repayment of loans from financial institutions	0.00	-27.40	0.00	0.00	0.00
Proceeds from borrowings	29.59	30.99	166.71	154.75	102.34
Proceeds from convertible bond, net	0.00	96.05	0.00	0.00	0.00
Dividends paid to owners of the company	-11.13	0.00	0.00	0.00	0.00
Interest paid	-5.75	-9.66	-14.21	-19.09	-23.98
Other financial results	-8.13	0.00	0.51	0.61	0.73
Cash inflow from capital increase	0.00	0.00	34.61	0.00	0.00
Cash flow from financing activities	**-6.19**	**89.06**	**187.63**	**136.27**	**79.10**
Assets held for sale - cash	*0.00*	*-0.01*	*0.00*	*0.00*	*0.00*
Total change in cash and cash equivalents	**-1.23**	**72.82**	**-68.00**	**-0.33**	**-7.74**
Cash and cash equivalents at the start of the period	9.39	8.16	80.98	12.97	12.64
Cash and cash equivalents at the end of the period	**8.16**	**80.98**	**12.97**	**12.64**	**4.90**

Source: CBS Research AG, GRAND CITY Properties S.A.

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BUY: The expected performance of the share price is above +10%.
HOLD: The expected performance of the share price is between 0% and +10%.
SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
22 April 2013	BUY (Initial Coverage)	EUR 5.36	EUR 9.80

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