Gramercy Property Trust (GPT)

Summary

- Low expectations of growth create asymmetric investment opportunity with limited downside.
- Widespread REIT pullback has re-rated the entire industrial sector and offers good entry point for long-term industrial REIT exposure.
- Gramercy's modern industrial portfolio is similar to Duke Realty's (DRE) in geographic location, demographics, size, and quality.
- NAV and fundamental valuation both show a discount to fair value.
- The catalyst for repricing isn't growth, it's achieving an optimal capital structure by reducing debt.

Summary Conclusion

We believe Gramercy Property Trust (GPT) is undervalued from an intrinsic value perspective based on cash flows and is priced below NAV (net asset value). **Our fundamental analysis indicates an asymmetrical return profile. Gramercy is currently priced at our worst-case scenario price and sits at the low end of our estimated valuation range. Potential upside is about 25% to the average value ($28) and 52% to the top end ($34) of the valuation range.** Gramercy's stock is also priced well below the analyst estimated NAV range indicating a potential discount to fair value of the assets between 11% and 26%.

Intrinsic Value:

1. Using a three-stage cash flow model with best and worst-case scenarios, we derive a valuation range of $22-$34 per share. We believe that intrinsic value lies within that range. The equally weighted average of the eight valuation scenarios is $28 per share.

2. We also used a two-stage dividend discount model and performed a sensitivity analysis on the terminal growth rate. The valuation range is similar to the three-stage model range at $23-$31 per share.

The stock is currently priced at $22.31 (close 2/26/2018), at the low end of our estimated valuation range, and by our estimate has almost no fundamental downside based on current market conditions. The potential upside is about 25% to the average and 52% to the top end of the range.

Net Asset Value: We place less emphasis here, but consider NAV as an important valuation reference. Current Analyst consensus NAV is $26.22. The NAV range from low to high is $24.84 - $28.00. The current price of $22.31 is approximately 18% below the analyst consensus NAV*. Additionally, the current price is 11% and 26% below the low end and high end of the NAV range, respectively. We estimated NAV in house and arrived at a value of $25.89 per share, within the analyst range. Note that we calculated this NAV using information from Gramercy's Q3 10-Q and November Investor Presentation, which are now dated (Q4 earnings release scheduled 2/28/18).

(*Source: S&P Capital IQ)

The Potential Opportunity

There are several reasons why Gramercy Property Trust may be priced wrong:

1. The company is classified and priced as a Diversified REIT rather than an Industrial REIT given the quick pace of asset repositioning
2. A normalized run-rate has not yet shown up in financial results due to the level of acquisitions, dispositions, and the timing during quarters
3. Historic financial statements prior to 2016 reflect a different business and are of no use analyzing the firm
4. Gramercy is a net-lease REIT with a longer weighted average lease term compared to peers, and is considered sensitive to interest rates

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Beware Relative Valuations

We caution the reader to ignore relative valuation metrics, such as P/FFO and P/AFFO comparing Gramercy to other Industrial REITs. The company shouldn't be compared to other Industrial REITs using these metrics for several reasons:

- With a newer portfolio, Gramercy does not have the embedded rent growth from below market leases that competitors do. The majority of recent peer earnings calls have mentioned 15-20% below market rents on established portfolios
- Gramercy has longer leases that will roll less frequently
- Gramercy has more debt than most Industrial REITs
- Gramercy has a higher payout ratio than most Industrial REITs

Unless these differences are explicitly controlled for the price multiples are irrelevant. We do not believe the catalyst for multiple expansion will be based on peer multiples.

Quick Note on Interest Rates and Valuation

Interest rates affect the values of securities through their influence on the discount rate. However, projecting interest rates is a *market call*. Market calls are either right or wrong but offer no margin of safety. Our goal is to perform a fundamental valuation of Gramercy Property Trust from a bottom-up perspective without making market calls, such as interest rate forecasts. In our opinion, the best estimate of the risk-free rate should be the yield to maturity (YTM) on the 10-year treasury, after all, it is a visible market input that reflects the wisdom of the crowd. So, what is the issue? We aren't sure if the 10 YR YTM can be taken at face value, given the Fed's activity in the market. In fact, the Fed recently published a white paper (linked here)estimating that at the end of 2017 their buying has depressed the 10 YR YTM by 85 bps. As such we have used a normalized risk-free rate of 3.5% in our valuation rather than the 2.88% visible in the market at the time we are writing. We are accounting for the possibility of the 10 YR going to 3.5% in our discount rate. This is all we will say about interest rates and the remainder of the article will focus on fundamental valuation.

What's Priced In - The DDM (Dividend Discount Model) Approach?

The single stage dividend discount model is most appropriate for a stable growth firm with a high payout ratio. Consensus analyst estimates for 2018 are for Gramercy to pay out about 77% of Adjusted Funds From Operations (AFFO), a cash flow proxy. We find the model useful for estimating a market implied dividend growth rate. We rearrange the formula to solve for the growth rate. The derivation of the cost of equity (discount rate) is disclosed below in the valuation section. The model states that today's price is equal to next year's dividend, divided by the discount rate minus growth (long term):

$$P_0=D1/(r-g)$$

Solving for g:

$$g=(P_0*r-D_1)/P_0$$

Inputs:

1. P = $22.52 (closing price on 2/16/2018)
2. r = 8.8% (cost of equity estimate for GPT)
3. D_1 = $1.54 (analyst consensus estimate for 2018)

We can now solve for g = ($22.52*8.8%-$1.54)/$22.52 = 1.96%

If our cost of equity estimate is reasonable, then at the price of $22.52 **the market expects Gramercy to grow the dividend about 1.96%.**

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The weighted average lease escalator of Gramercy's portfolio is about 1.9%. Our takeaway is that at today's price the market is valuing the stock assuming stable vacancy and dividend growth at the rate of the lease escalator, but no credit for future growth from reinvested cash, the 23% of AFFO retained, and future acquisition opportunities. This creates an interesting situation for a patient investor that doesn't want to pay ahead for growth.

Next, we estimate what we are paying for growth based on "potential dividends". This removes the payout ratio. We use consensus analyst estimates for AFFO as the potential dividend.

What's Priced In - The Present Value of Growth Opportunities (PVGO)

The value of a firm can be broken down into the value of the firm with no growth + the value of growth:

Value of stock = value with no growth + PVGO

We can rearrange to solve for the PVGO:

PVGO = Value of stock - value of stock with no growth

The formula for the value of a stock with no growth is the same formula from above with g set to 0%, or the value of a perpetuity. We use AFFO as the potential dividend.

Value of stock with no growth = $AFFO_1/r$ = \$1.99/8.8% = \$22.61

Now we can see that there is no value assigned to growth:

PVGO = \$22.52 - \$22.61 = -.09.

We ignore the negative 9 cents as immaterial and close enough to zero. **The takeaway is clear, based on our cost of equity estimate there is no growth priced in.**

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Re-rating of the Sector - NAV

The Industrial REIT sector has been a strong performer, driven by the demand for space from the e-commerce boom. Just a few months ago every industrial REIT was selling at a premium to NAV (Net Asset Value) based on high expectations for the sector. NAV is a way of estimating the value of the stock by estimating the fair value of net assets. The biggest adjustment is usually taking real estate assets from historical accounting (book value) to estimated market value. It's not perfect but it is worth looking at. The following table shows the estimated premium (discount) to NAV from an in-house screen we ran on 11/30/2017, and from a screen we ran with closing prices on 02/16/2018:

	11/30/2017	2/16/2018	2/16/2018
Ticker	Premium (discount) to NAV	Premium (discount) to NAV	Difference
PLD	7.8%	(2.1%)	(9.9%)
DRE	4.2%	(5.7%)	(9.9%)
LPT	4.6%	(10.9%)	(15.5%)
GPT	6.3%	(15.0%)	(21.3%)
DCT	18.5%	1.2%	(17.2%)
FR	3.2%	(9.9%)	(13.1%)
EGP	27.7%	4.7%	(22.9%)
STAG	3.7%	(13.7%)	(17.4%)
REXR	10.4%	(6.0%)	(16.4%)
TRNO	18.7%	2.5%	(16.2%)
MNR	10.3%	(13.7%)	(24.0%)

(Source: Analyst Consensus S&P Capital IQ)

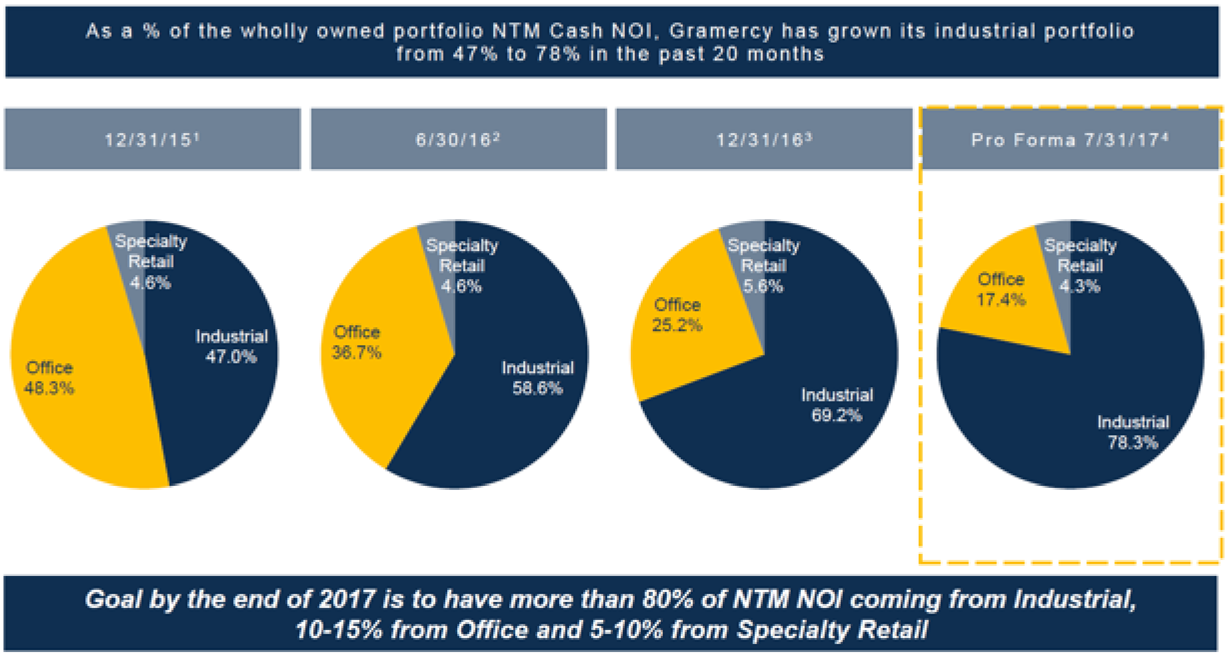
The majority of firms now sell at a discount to NAV, and Gramercy Property Trust has swung from a modest premium of 6.3% to a 15% discount.

Gramercy Property Trust

Gramercy Property Trust is a REIT in transition. As of Q3 2017 the firm derives revenues from the following sectors:

	Office	Industrial	Retail
Segment Revenue	20.1%	75.6%	4%

In July of 2017 the company published an Investor Presentation with the following slide highlighting the transition to Industrial, 78.3% of net operating income (NOI) from Industrial up from 47% of NOI Industrial in 19 months:



The company has been focused on assembling a large, high quality, modern Industrial product portfolio. The company has not announced any further transition goals, but we would not be surprised if they keep selling down office exposure with the goal of getting pretty close to 100% industrial. Gramercy's financial statements prior to 2016 should be ignored, it is a different company today.

Geographically and quality wise the industrial portfolio is quite similar to Duke's portfolio, a BBB+ rated blue chip REIT, and about half the size. A key difference is that Duke is a developer and Gramercy is not, however, Gramercy does "build-to-suit", i.e., no speculative building.

Gramercy and Duke Portfolio Similarities

Geographical Exposure

The following is the geographical exposure that we pulled from company filings. We compare Duke's (DRE) market exposure sorted from high to low, to Gramercy's exposure in those same markets. Two important details that prevent a perfect comparison:

1. For GPT retail and office is mixed in so it's not a perfect Industrial to Industrial comparison
2. Gramercy reports revenue and Duke reports NOI.

Nevertheless, we think the exercise still has value, and we will refine as we move along:

Market Name	DRE NOI %	GPT Revenue %	Difference %
Chicago	10.00	10.40	(0.40)
Indianapolis	9.00	4.00	5.00
Atlanta	8.00	5.70	2.30
Dallas	7.00	6.90	0.10
California	7.00	8.80	(1.80)

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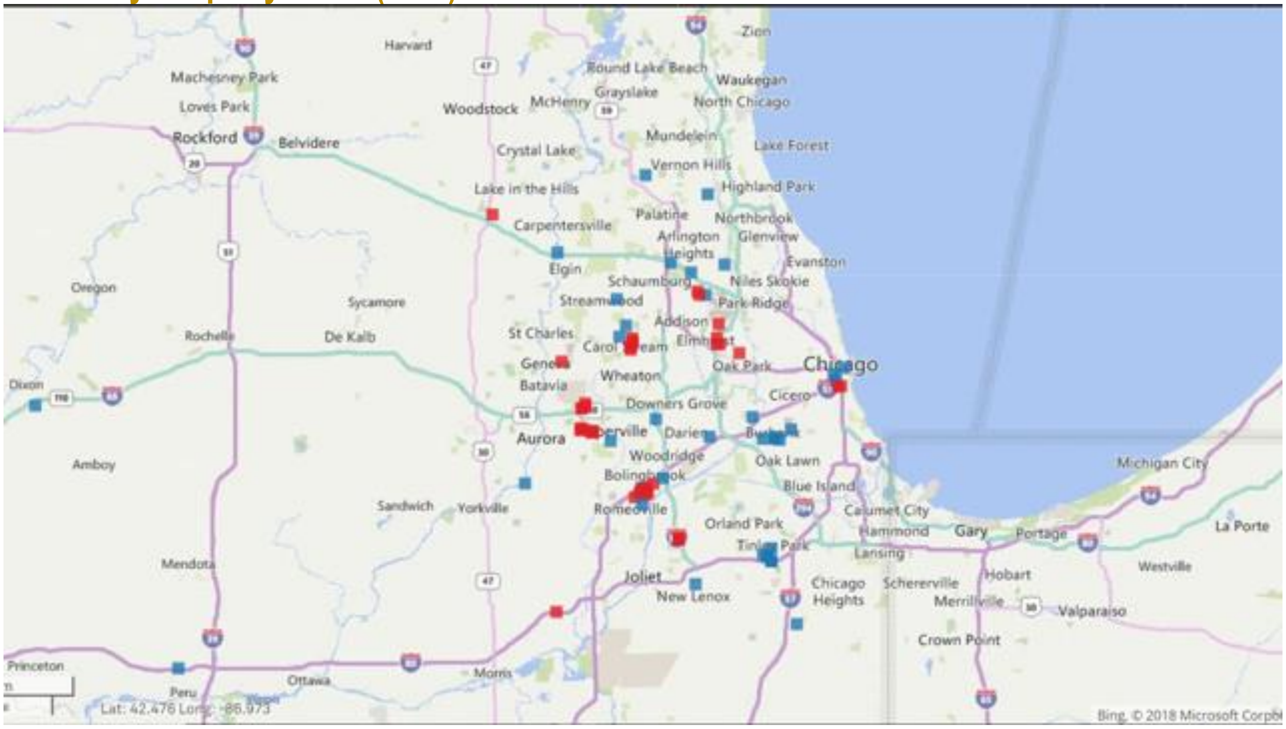
Market Name	DRE NOI %	GPT Revenue %	Difference %
South Florida	7.00	5.30	1.70
Cincinnati	6.00	1.80	4.20
Columbus	6.00	3.70	2.30
Houston	5.00	3.20	1.80
Minneapolis-St. Paul	4.00	2.50	1.50
Nashville	4.00	0.50	3.50
New Jersey	5.00	4.30	0.70
Pennsylvania	3.00	5.70	(2.70)
Savannah	5.00	1.20	3.80
Baltimore/Washington DC	3.00	4.80	(1.80)
Central Florida	2.00	4.30	(2.30)
Raleigh	3.00	1.50	1.50
Saint Louis	3.00		3.00
Seattle	1.00	0.60	0.40

(Source: S&P Capital IQ, Company Filings)

Across the top 6 markets, 48% of Duke's NOI, you can see similar exposures in Chicago, Dallas, California, and South Florida, a slight difference in Atlanta, and a large difference in Indianapolis. It's not a perfect proxy, but similar in market exposures - Tier 1 markets focused on modern bulk distribution.

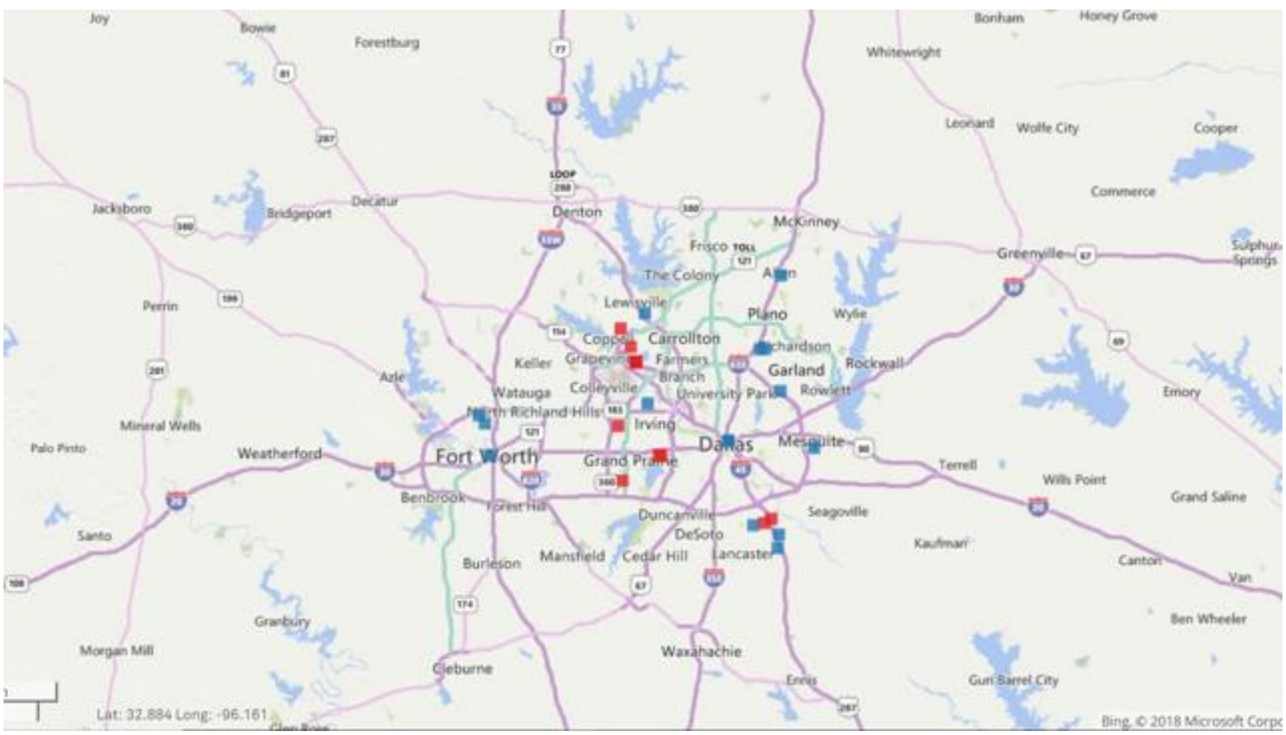
Map View of Industrial Properties

We screened out any properties that are not classified as Industrial. The following is a map view of both companies' largest market, Chicago. You can see that the locations of the properties are very similar. Duke properties are indicated by red squares, and Gramercy properties are indicated by blue squares in all map views:



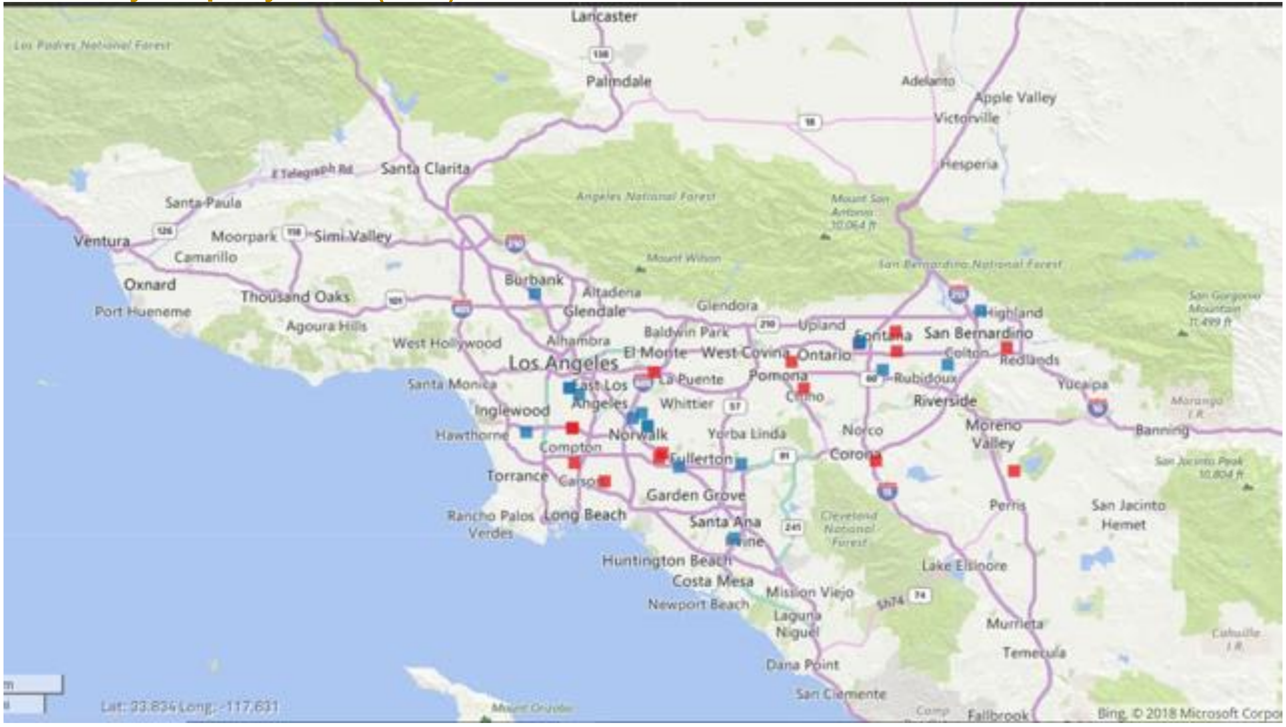
(Source: S&P Capital IQ, Microsoft Bing)

A similar result can be seen in Dallas:



(Source: S&P Capital IQ, Microsoft Bing)

and Los Angeles:



(Source: S&P Capital IQ, Microsoft Bing)

Demographic Analysis

Next, we compared the demographics in a 20 and 30-mile range surrounding the properties looking for similarities. The analysis pulls data for Industrial properties with US addresses. We include Duke, Gramercy, Prologis (NYSE:PLD), and STAG (NYSE:STAG). Again, the Gramercy and Duke property portfolios look quite similar in terms of population density and median household income for both 20 and 30-mile distances, with Duke having slightly better demographics. Prologis has the superior demographics, which makes sense given that they have more exposure to last mile properties in densely populated areas, and the opposite is true for STAG:

Count of properties analyzed in the report*	427	196	374	140
Median of Demographic Metrics	**DRE-US**	**GPT-US**	**PLD-US**	**STAG-US**
(20 Miles) Population Density 2018	4,819	4,019	7,037	3,562
(20 Miles) Per Capita Income 2018	36,662	32,598	36,663	31,165
(20 Miles) Median Household Income 2018	65,197	63,000	73,656	59,926
(30 Miles) Population Density 2018	4,386	3,599	6,614	3,316
(30 Miles) Per Capita Income 2018	34,034	33,323	35,383	31,018
(30 Miles) Median Household Income 2018	67,746	63,886	74,588	58,916

Criteria:
Property type(s) included: Industrial

MSAs: Report includes more than 10 MSA/CBSA selections, please refer to the template to view the included areas.

(Source: S&P Capital IQ)

Property Comparison

In July of 2017 Duke published an Investor Presentation that highlighted its building size, age, and clear heights, as the best in the sector. Duke is a first mile warehouse/distribution REIT. In fact, Duke's largest tenant by Sq. FT. and rental revenue is Amazon, 5.3% and 6.0%, respectively. Essentially, Duke was highlighting the fact that modern distribution requires newer buildings more space, and higher clear heights. Some older buildings don't fit the profile. Gramercy was left out of the comparison. Why? Because Gramercy is still classified as diversified REIT, not an Industrial REIT.

In an effort to attract investor attention, Gramercy published its own Investor Presentation in November, recreating Duke's property analysis. The results follow showing that Gramercy has the second largest average building size, and the second youngest properties, behind Duke:

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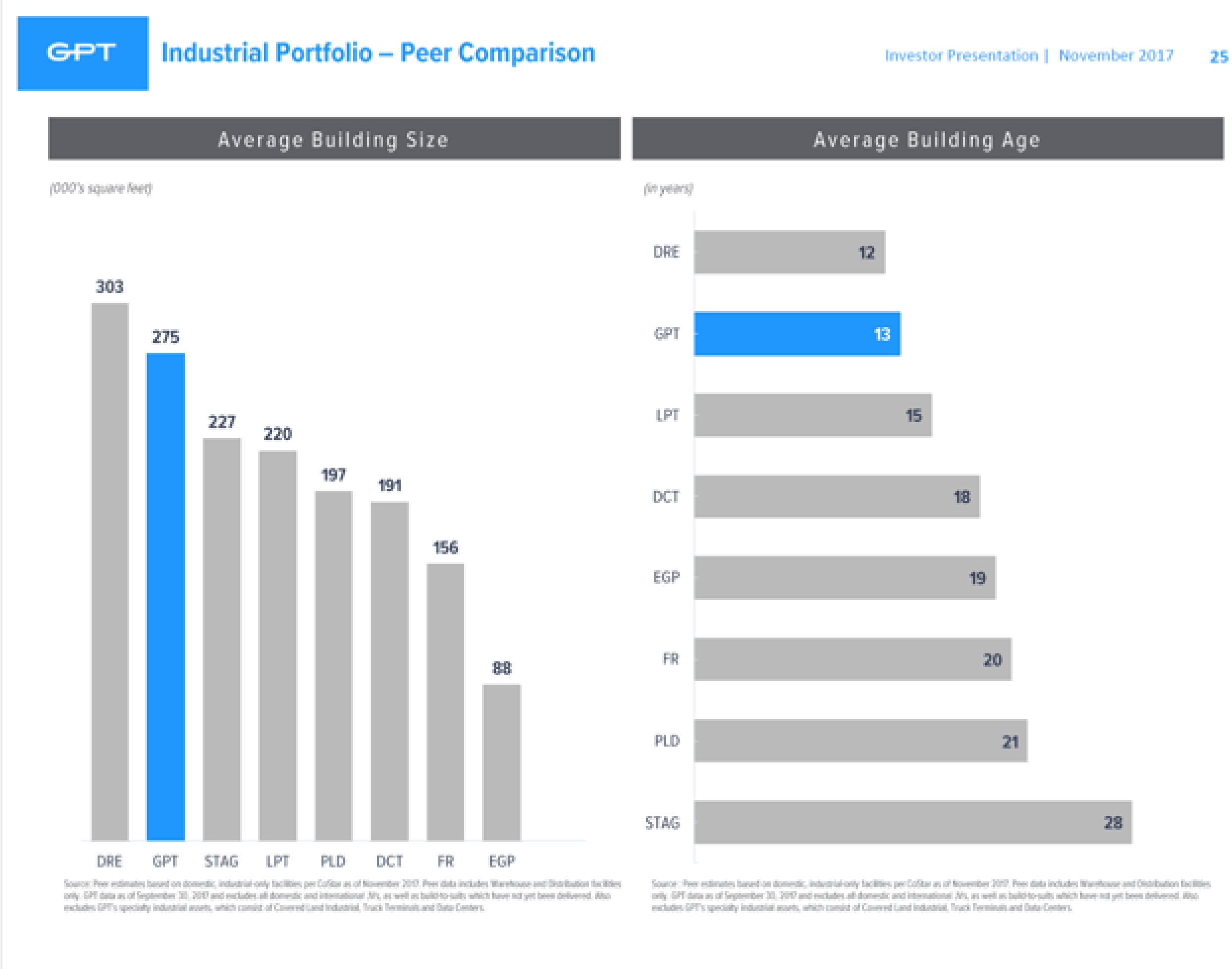
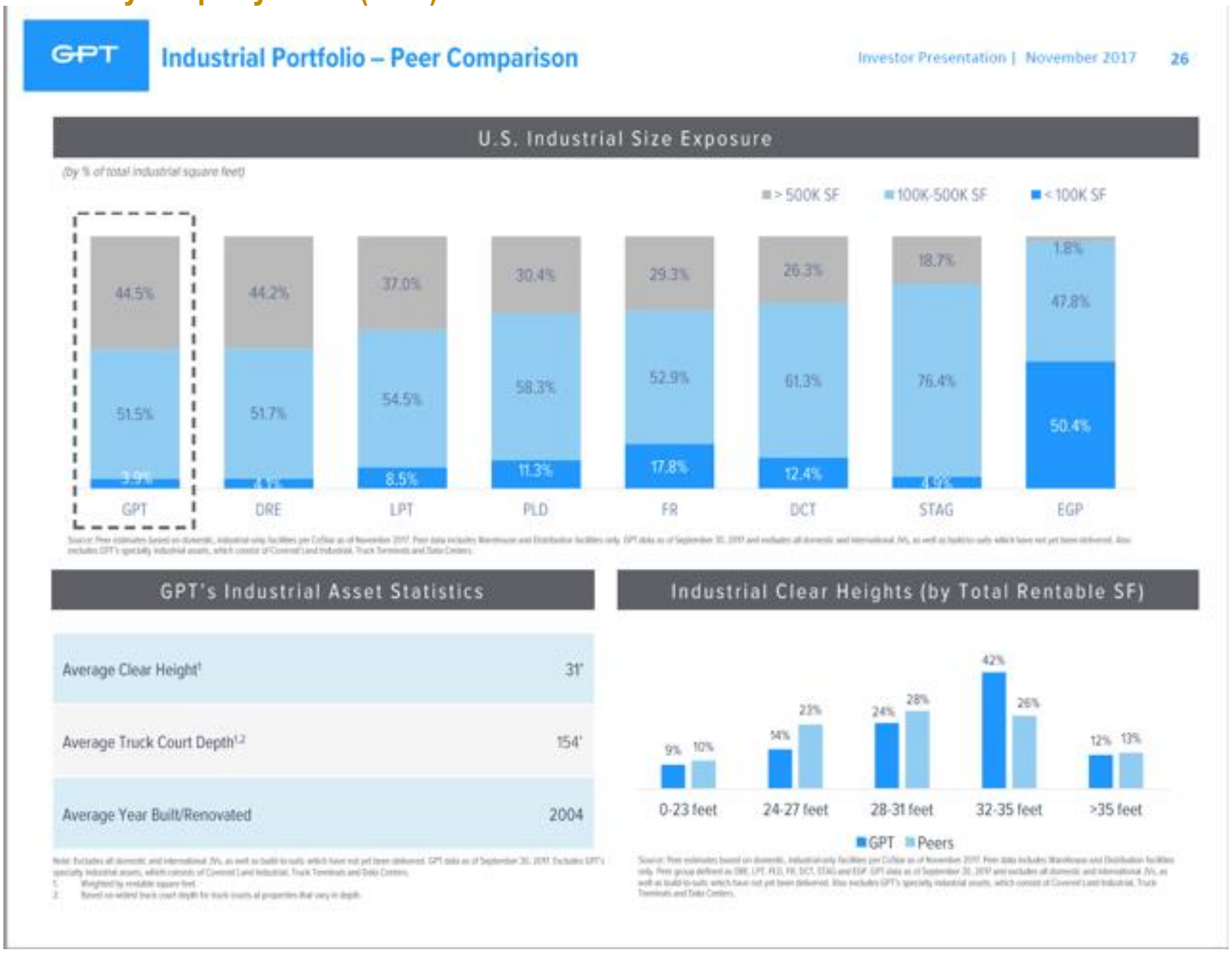


(Source: Gramercy Investor Presentation November 2017)

In addition, both REITs have 52% of buildings between 100k-500k SF, and 45% of buildings greater than 500k SF. Gramercy's average clear height is 31 feet, but more importantly, over 54% of the portfolio has clear heights 32 feet and higher:

Gramercy Property Trust (GPT)



(Source: Gramercy Investor Presentation November 2017)

Clear height is important to modern distribution, and CoStar estimates that 70% of total absorption since 2016 has been 32' and above. 61% of Duke's properties have clear heights that are 32'+, about 7% higher than Gramercy's 54% noted above. We borrow a slide from Duke's Investor Presentation:

(Source: Duke Investor Presentation July 2017)

Valuation Section

Our approach here is not an exercise in false precision attempting to identify a single price point to the second decimal point. Rather, we want to create a range using reasonable estimates given that we cannot perfectly forecast variables. However, if we can buy below the range or at the low end of the range, we think the probabilities of success are high. We use a simple two stage DDM that only forecasts dividend growth. We use revenue growth as a proxy of dividend growth, this assumes constant margins. Next, we use a complex three stage DDM that allows us to forecast revenue, margins, and cash flows. By including margin estimates we create a larger range of potential cash flows to owners. Of the two methods we prefer the three-stage model. We provide both valuation methods here for the reader to interpret. The results of the two stage DDM lie within the range we establish in the three stage DCF model.

Revenue

We start with an analysis of Gramercy's contracted rent. Gramercy's portfolio wide escalator is about 1.9%. We look at 10 years of contracted rent and analyze internal growth from the escalator and projected renewals. Inherent in this analysis is an assumption of consistent occupancy. This analysis shows stable rents with limited internal growth potential, which should be expected. We estimate that Gramercy may be able to grow revenue per share about 2-4% over this time frame from the escalator and releasing. Additionally, Gramercy retains about 20% of free cash flow that is not paid out in dividends. We believe that it is reasonable that Gramercy can grow rents another 1-1.5% from reinvested cash. In total we believe a reasonable internal growth estimate to be in the range of 2-5%, with the low end allowing for some slippage.

- best-case scenario- we estimate 5% annual rent growth for the next 5 years as demand continues to outpace supply. This is followed by 3.5% rent growth, tied to the normalized risk-free rate estimate, for the following 5 years as supply catches up with demand.

- Worst case - we estimate 3.5% annual rent growth, tied to the normalized risk-free rate estimate, for the next 5 years. This is followed by 2.1% rent growth for the following 5 years as the firm is only able to capture rent growth equal to inflation.

Normalized Risk Free Ra	3.50%
5YR/5 Inflation Breakeve	2.14%
Current Escalator	1.90%
Current ABR	457,301,884
Market Rent Increases	
High	5.00%
Low	2.14%

Market Rent Increase		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.5%	3.5%	3.5%	3.5%	3.5%
Escalator		1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Rent Inflation Index High		1.05	1.10	1.16	1.22	1.28	1.34	1.39	1.44	1.49	1.54	1.59
Rent Escalator Index		1.02	1.04	1.06	1.08	1.10	1.12	1.14	1.16	1.18	1.21	1.23
Rent Growth Multiplier		1.03	1.06	1.10	1.14	1.18	1.22	1.25	1.27	1.30	1.33	1.36
Releasing Spread		3.1%	6.4%	10.0%	13.7%	17.8%	22.1%	24.6%	27.3%	30.1%	33.1%	36.2%
Best Case:		2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
ABR		5,046,245	26,112,795	40,904,258	31,345,414	59,264,653	37,714,480	43,650,789	29,340,495	26,446,883	22,696,564	19,482,027
% of Total		1.1%	5.7%	8.9%	6.9%	13.0%	8.2%	9.5%	6.4%	5.8%	5.0%	4.3%
New Rent High		5,202,679	27,787,644	44,975,669	35,649,537	69,790,193	46,032,088	54,396,448	37,351,700	34,412,660	30,202,193	26,526,384
Old Rent Escalated		460,848,496	448,297,209	443,449,026	465,763,787	450,549,496	491,795,088	503,565,738	538,665,503	560,012,156	582,591,089	604,584,168
Total Rent	457,301,884	466,051,175	476,084,853	488,424,695	501,413,324	520,339,689	537,827,175	557,962,186	576,017,203	594,424,816	612,793,281	631,110,552
Revenue Growth		**1.9%**	**2.2%**	**2.6%**	**2.7%**	**3.77%**	**3.36%**	**3.7%**	**3.2%**	**3.2%**	**3.1%**	**3.0%**
	Release Contribution		0.36%	0.86%	0.88%	2.10%	1.6%	2.00%	1.44%	1.38%	1.26%	1.15%
	Escalated Rent Contribution		1.8%	1.7%	1.8%	1.7%	1.8%	1.7%	1.8%	1.8%	1.8%	1.8%
	Calculation check		2.2%	2.6%	2.7%	3.77%	3.36%	3.7%	3.2%	3.2%	3.1%	3.0%
	Difference		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Market Rent Increase		5.0%	3.5%	3.5%	3.5%	3.5%	3.5%	2.1%	2.1%	2.1%	2.1%	2.1%
Escalator		1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Rent Inflation Index Low		1.05	1.09	1.12	1.16	1.20	1.25	1.27	1.30	1.33	1.36	1.39
Rent Escalator Index		1.02	1.04	1.06	1.08	1.10	1.12	1.14	1.16	1.18	1.21	1.23
Rent Growth Multiplier		1.03	1.05	1.07	1.09	1.11	1.13	1.13	1.14	1.14	1.15	1.16
Releasing Spread		3.1%	4.8%	6.7%	8.6%	10.6%	12.8%	13.3%	13.9%	14.4%	15.0%	15.6%
Worst Case:		2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
ABR		5,046,245	26,112,795	40,904,258	31,345,414	59,264,653	37,714,480	43,650,789	29,340,495	26,446,883	22,696,564	19,482,027
% of Total		1.1%	5.7%	8.9%	6.9%	13.0%	8.2%	9.5%	6.4%	5.8%	5.0%	4.3%
New Rent Low		5,202,679	27,376,367	43,632,424	34,039,872	65,559,739	42,523,697	49,453,387	33,404,593	30,262,354	26,105,578	22,527,280
Old Rent Escalated		460,848,496	448,297,209	443,029,935	463,967,967	447,079,307	483,948,133	491,994,641	521,837,576	538,842,396	556,789,942	574,118,350
Total Rent	457,301,884	466,051,175	475,673,576	486,662,359	498,007,840	512,639,046	526,471,830	541,448,028	555,242,169	569,104,750	582,895,520	596,645,630
Revenue Growth		**1.9%**	**2.1%**	**2.3%**	**2.3%**	**2.9%**	**2.7%**	**2.8%**	**2.5%**	**2.5%**	**2.4%**	**2.4%**
	Release Contribution		0.3%	0.6%	0.6%	1.3%	0.9%	1.1%	0.8%	0.7%	0.6%	0.5%
	Escalated Rent Contribution		1.8%	1.7%	1.8%	1.7%	1.8%	1.7%	1.8%	1.8%	1.8%	1.8%
	Calculation check		2.1%	2.3%	2.3%	2.9%	2.7%	2.8%	2.5%	2.5%	2.4%	2.4%
	Difference		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

(Source: Brave Eagle Wealth Management Estimates)

The Discount Rate (Cost of Equity)

We use the CAPM model to estimate a cost of equity of 8.8%. The model inputs are as follows:

1. Normalized risk-free rate of 3.5%
2. Implied equity risk premium estimate of 5.22%*
3. Bottom up beta estimate of 1.02

(*Source: Damodaran online)

Resulting in a cost of equity = 3.5% + 1.02*5.22% = 8.8%

Gramercy has a preferred issue outstanding with a yield of approximately 6.8%. A rule of thumb is to add 2.0% to a preferred to estimate a cost of equity. In this case you'd end up with 8.8% as well.

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The normalized risk-free rate is as mentioned above.

Bottom up beta - We use a bottom up beta rather than a historical regression beta. We used the median regression beta for each sector that Gramercy has exposure to. Then, we unlever the beta and remove the effect of cash. Next, rather than weighting the betas by revenue, we value weight them by the median EV/Sales multiple the market is paying for companies in each sector. The unlevered beta is then multiplied by the portion of value derived from each sector to arrive at a weighted average unlevered beta. The beta is then relevered using Gramercy's D/E ratio:

Gramercy Property Trust				
Sector	Office	Industrial	Single Tenant Retail	
Sector Unlevered Beta	0.49	0.60	0.40	
Segment Revenue	20.1%	75.6%	4%	100.00%
EV/Sales Multiple	9.40	15.40	12.40	
Weighted Multiple	1.89	11.64	0.53	14.07
Portion of Value	13.4%	82.8%	3.8%	100.0%
Weighted Unlevered Beta	0.58			
Tax Rate	0%			
D/E Ratio	75%			
GPT Relevered Beta	1.02			

Two-Stage Dividend Discount Model

First, we use a two-stage dividend discount model to create a valuation range for the stock. Our base case estimate results in a valuation range of approximately $27-$31 per share. The first stage is 5 years, and the second stage is the terminal growth phase. We created base, worst, and best-case scenarios using the current annualized dividend of $1.50 and growth rate estimates based on our revenue analysis above. In the terminal stage the estimated growth rate matches our normalized risk-free rate estimate of 3.5%:

Gramercy Property Trust (GPT)

Two Stage DDM:	
Worst Case Growth	2.00%
Base Case Growth	3.50%
Best Case Growth	5.00%
Terminal Stage Growth	3.50%

Worst Case:							
Estimated yield on cost		*6.9%*	*7.0%*	*7.1%*	*7.3%*	*7.4%*	*7.7%*
Years		*1*	*2*	*3*	*4*	*5*	*6*
Projected Dividend		1.53	1.56	1.59	1.62	1.66	1.71
PV of Dividends	6.21	1.41	1.32	1.24	1.16	1.09	
PV of Terminal	21.20				TV	32.3	
Estimated Value	$ 27.41						
Closing Price 2/28/18	$ 22.31						
Estimated discount to FV	*23%*						

Base Case:							
Estimated yield on cost		*7.0%*	*7.2%*	*7.5%*	*7.7%*	*8.0%*	*8.3%*
Years		*1*	*2*	*3*	*4*	*5*	*6*
Projected Dividend		1.55	1.61	1.66	1.72	1.78	1.84
PV of Dividends	6.47	1.43	1.36	1.29	1.23	1.17	
PV of Terminal	22.81				TV	34.8	
Estimated Value	$ 29.28						
Closing Price 2/28/18	$ 22.31						
Estimated discount to FV	*31%*						

Best Case:							
Estimated yield on cost		*7.1%*	*7.4%*	*7.8%*	*8.2%*	*8.6%*	*8.9%*
Years		*1*	*2*	*3*	*4*	*5*	*6*
Projected Dividend		1.58	1.65	1.74	1.82	1.91	1.98
PV of Dividends	6.75	1.45	1.40	1.35	1.30	1.26	
PV of Terminal	24.51				TV	37.4	
Estimated Value	$ 31.26						
Closing Price 2/28/18	$ 22.31						
Estimated discount to FV	*40%*						

(Source: Brave Eagle Wealth Management Estimates)

We ran the valuation a second time changing only one estimate, the terminal growth rate, to provide the reader with a sensitivity analysis on the terminal stage growth rate. In the second scenario we used the 5YR/5YR inflation breakeven rate of 2.14% as the terminal growth rate. This lowers the valuation range to approximately $23-$26 per share. Our interpretation here is that at the worst the security is fairly valued, with upside of 17%:

Gramercy Property Trust (GPT)

Two Stage DDM:	
Worst Case Growth	2.00%
Base Case Growth	3.50%
Best Case Growth	5.00%
Terminal Stage Growth	2.14%

Worst Case:							
Estimated yield on cost		*6.9%*	*7.0%*	*7.1%*	*7.3%*	*7.4%*	*7.6%*
Years		1	2	3	4	5	6
Projected Dividend		1.53	1.56	1.59	1.62	1.66	1.69
PV of Dividends	6.21	1.41	1.32	1.24	1.16	1.09	
PV of Terminal	16.65				TV	25.4	
Estimated Value	$ 22.86						
Closing Price 2/28/18	$ 22.31						
Estimated discount to FV	2%						

Base Case:							
Estimated yield on cost		*7.0%*	*7.2%*	*7.5%*	*7.7%*	*8.0%*	*8.2%*
Years		1	2	3	4	5	6
Projected Dividend		1.55	1.61	1.66	1.72	1.78	1.82
PV of Dividends	6.47	1.43	1.36	1.29	1.23	1.17	
PV of Terminal	17.91				TV	27.3	
Estimated Value	$ 24.39						
Closing Price 2/28/18	$ 22.31						
Estimated discount to FV	9%						

Best Case:							
Estimated yield on cost		*7.1%*	*7.4%*	*7.8%*	*8.2%*	*8.6%*	*8.8%*
Years		1	2	3	4	5	6
Projected Dividend		1.58	1.65	1.74	1.82	1.91	1.96
PV of Dividends	6.75	1.45	1.40	1.35	1.30	1.26	
PV of Terminal	19.25				TV	29.4	
Estimated Value	$ 26.00						
Closing Price 2/28/18	$ 22.31						
Estimated discount to FV	17%						

(Source: Brave Eagle Wealth Management Estimates)

Three-Stage DCF (Discounted Cash Flow Model)

We also valued Gramercy using a three-stage DCF, with best and worst-case scenarios. Our estimated valuation range using the three-stage model is $22-$34 per share, and the average of the values is $28 per share. The "explicit period forecast" is stage 1, years 1-5 (2018-2022), and the day count is adjusted using today's date. The "investment period forecast" is stage 2, years 6-10 and contains dividend growth rate estimates. The "structural period forecast" is the terminal growth phase. The estimate here of 3.5% is the terminal dividend growth rate and matches our estimate of the normalized risk-free rate.

Stage 1 and stage 2 are five-year periods followed by a terminal phase. This model has more inputs allowing for a complex valuation range. In the first stage we estimate the following:

1. Revenue growth
2. Owners cash profit margins (OCP), operating cash flow less a maintenance capex estimate
3. Expansionary cash flow (reinvested cash)

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In the second stage we estimate dividend growth, or FCFO (free cash flow to owners).

And finally, in the third stage we estimate terminal dividend growth

Given two revenue estimates, two margin estimates, and two dividend growth rate estimates, we derive 8 valuations (2^3)

The best and worst-case estimates are as follows:

	Best Case	Worst Case
Revenue growth average	4%	2%
OCP margin	53%	42%
Expansionary cash flow	20%	20%
Stage 2 dividend growth	3%	5%
Terminal growth rate	3.5%	3.5%

(Source: Brave Eagle Wealth Management)

The eight valuations that we derive are highlighted in yellow and are presented as follows:

Ave Rev Growth| Avg OCP Margin| Avg FCFO Growth.

For example, the 2%|53%|3% scenario represents 2% avg. revenue growth, 53% OCP margins, and 3% dividend growth indicating a $29 FVE (fair value estimate)

Referential Information			
Gramercy Property Trust	GPT	Last Stock Price	22.31
Last Fiscal Year End	12/31/2017	Last FY Revenue	3.80
Discount Rate	8.80%	Shares Outstanding	1

Explicit Period Forecast						
	Projection Year	1	2	3	4	5
Revenue Growth Rate	Best	4%	4%	4%	5%	5%
	Worst	2%	2%	2%	3%	3%
Owners Cash Profit (OCP) Margin	Best	53%	53%	53%	53%	53%
	Worst	42%	42%	42%	42%	42%
Expansionary Cash Flow (ECF) % OCP		20%	20%	20%	20%	20%
Balance Sheet (B/S) Effect (+ / -)	-					

Investment Period Forecast		
Duration		5 years
FCFO Growth Rate	Best	5%
	Worst	3%

Structural Period Forecast	
Terminal Growth Rate	3.5%

Valuation	Stage 1	Stage 2	Stage 3	B/S Effect	Total
Value in Currency	6.72	5.04	17.29	-	29.04
Percentage	23%	17%	60%	0%	100%

Scenario	FVE	Likely?
2% | 42% | 3%	22	Yes
2% | 42% | 5%	24	Yes
2% | 53% | 3%	29	Yes
2% | 53% | 5%	31	Yes
4% | 42% | 3%	24	Yes
4% | 42% | 5%	26	Yes
4% | 53% | 3%	31	Yes
4% | 53% | 5%	34	Yes

Gramercy Property Trust (GPT) $29 Scenario	
Revenue Case	Worst
Profitability Case	Best
Medium-Term Growth Case	Worst
5-Year Revenue CAGR	2%
Average FCFO Margin	42%
Implied Stock Price Return	30%

(Source: Brave Eagle Wealth Management Estimates)

We estimated OCP margins based on an analysis of industrial sector cash flow from operations margins, less preferred interest, less an estimate for maintenance capex:

Gramercy Property Trust (GPT)

CFO Margin (adjusted for preferred)							
	2013	2014	2015	2016	2017 YTD	Company Average	Standard Deviation
Sector Avg	**39.7%**	**43.2%**	**46.0%**	**47.6%**	**50.1%**	45.3%	**5.5%**
FR	35%	39%	44%	46%	50%	42.7%	
DCT	52%	49%	55%	56%	57%	53.8%	
DRE	41%	38%	39%	49%	53%	43.9%	
PLD	25%	46%	47%	51%	59%	45.7%	
EGP	54%	53%	55%	55%	57%	54.8%	
LPT	49%	42%	48%	45%	36%	44.0%	
STAG	54%	49%	51%	48%	51%	50.8%	
MNR	35%	41%	38%	45%	50%	41.6%	
REXR	30%	37%	43%	43%	47%	40.0%	
TRNO	22%	37%	40%	42%	48%	37.9%	
GPT				44%	44%	44.2%	
Median	38%	42%	46%	46%	49.8%		6.4%

(Source: Brave Eagle Wealth Management)

The Catalyst for Repricing

We again reference the single-stage dividend discount model:

$$P_0=D1/(r-g)$$

From the formula, the reader can see that there are two ways to increase value, both in the denominator. The most commonly referenced way is to increase growth. However, we believe Gramercy's revaluation will come from the other term in the denominator, risk. Gramercy has too much debt in the capital structure. The debt load increases the firm's beta and drives the cost of equity higher. Hence, our cost of equity estimate of 8.8% for Gramercy is too high for a REIT with stable cash flows from long-term leases. A reduction in debt will reduce the firm's beta, reducing the cost of equity, and should result in a higher stock price.

Gramercy has a temporarily inflated level of debt due to the large amount of acquisitions done in 2017. The company has stated that they plan on getting back to a debt/EBITDA ratio of 6. Benjamin Harris reiterated the commitment to get back to a debt/EBITDA ratio of 6 during the 2017 Q3 earnings call:

upon what we know today. We will lean on some of our higher ROE initiatives that I just talked about for incremental growth to counteract some of that pressure on lower cap rates and lower investment spreads. Two more things before I turn it over to Ben quickly, leverage, our plan is to get back to target leverage in an organized fashion and we have a plan in place to do that to get back to 6x, debt-to-EBITDA from a leverage standpoint. And then the last thing I would say from an occupancy standpoint, we start with very high occupancy based upon our investment strategies I mentioned, so less potential for uplift, but for the remainder of this year and into next year, we expect occupancy to bump between 97% and 98%, somewhere in that range. Obviously we reserve the right to revisit that statement, but given everything we know today we expect occupancy to stay very steady for the remainder of this year and as we go into next year.

With that, I'll turn it over to Ben.

Benjamin P. Harris
President

Thank you, Gordon. Let me touch quickly on the balance sheet. We ended the quarter with debt-to-EBITDA of 6.6x or 6.4x adjusted to exclude the one-time promote payment we received from the sale of the European venture and including the full impact of acquisitions and dispositions completed during the quarter, as well as the 2 build-to-suit transactions that were largely funded prior to quarter-end that came online following the end of the quarter. We are calculating these ratios using the new NAREIT definition of EBITDA, which we adopted this quarter. We provide further detail on the calculation in our supplemental and I encourage all investors to take a look at our reconciliation and also the NAREIT working paper on this. We ended the quarter with leverage above our target due to the large acquisitions completed during the quarter, but we remain committed to maintaining leverage of 6x debt-to-EBITDA and expect to reduce leverage in the coming months through additional asset sales and other capital raising activities. We also expect modest acquisition activity for the balance of the year as we work to finish closing the announced pipeline of deals and focus on further repositioning the portfolio.

During the quarter, we entered into an interest rate hedge for a planned bond offering in the coming months, that could be a public or private bond sales, but it allowed us to lock in favorable low 10-year rates. Following the end of the quarter, we also refinanced $175 million, 7-year term loan with a new $400 million, 5-year term loan with an all-in swap costs under the new instrument of 34 basis points inside of where the prior term loan was and the additional proceeds were used to reduce borrowing under the revolving credit facility. Subsequent to quarter-end, we repaid $19 million in secured mortgage debt and plan to pay off another [$90 million] of additional mortgage debt during the fourth quarter as we work to continue to reduce our secured borrowings and shift to appear unsecured model.

Just quickly on leasing stats, I want to highlight some new leasing statistics that we've included in our disclosure and we plan to provide on a going-forward basis. The first on Slide 30 of our supplemental is our year-over-year same-store NOI numbers broken into stabilized portfolio and a vacancy and leasing portfolio. The goal is to give investors a clear picture into the moving parts within the same-store NOI number. The stabilized portfolio, which accounts for 96.7% of the building in our same-store cohort, where they've been no change in the status of the lease, generated a positive 0.8% same-store sales growth. So that would be the impact of contractual rent increases and changes in operating expenses. The vacant and leasing portfolio, which accounts for 3.3% of the portfolio, generated a negative 40.8% same-store sales decline, primarily driven by the previously mentioned vacancies in Chicago and Charleston, as well as the impact of free rent under new leases in Houston and California. Overall, the portfolio generated a same-store sales decline of minus 1.5%, which is an improvement over last quarter, but we are still working to continue to improve that. As mentioned in last quarter's call, the year-over-year same-store sales portfolio used to calculate these metrics only accounts for roughly 64% of our total assets.

On Slide 31, we also included a sequential quarter-over-quarter same-store NOI for our industrial portfolio that captures our newer acquisitions, addressing this issue and give a better real-time measure of overall portfolio activity. For the quarter, the industrial portfolio generated a 0.6% quarter-over-quarter same-store sales growth, which equates to a 2.4% annualized figure. Another new metric on Slide 31 that I want to point investors to, is the yield on basis calculation, which is the total NOI generated in the quarter

Gramercy Property Trust (GPT)

This is a good start, but we'd like to see them closer to 5. Why? We don't think the market rewards firms for carrying more debt, even if that debt is cheap. We believe the market applies a higher discount rate to the stock driven by the debt increasing the beta. The result is a lower multiple. We pulled some relevant data from SNL to illustrate. We pulled two measures of leverage, debt/recurring EBITDA, and total debt/gross properties. Using gross properties adds back depreciation and provides a better indication of funds used to acquire properties. Highlighted in blue are companies that have:

1. Debt/Recurring EBITDA below 6
2. Total Debt/Gross Properties below 40%

Companies that exceed these levels are in orange. The average P/FFO for blue companies is 21.4, and the average P/FFO of orange companies is 15.2:

Institution Name	Debt/ Recurring EBITDA (x)	Total Debt/ Gross Properties (%)	Price/ FFO (x)
	132784	133105	131517
	LTM	LTM	Current
Terreno Realty Corporation	5.38	28.20	29.3
Rexford Industrial Realty, Inc.	5.97	31.45	26.62
Duke Realty Corporation	5.14	36.75	19.3
STAG Industrial, Inc.	5.50	37.93	12.85
DCT Industrial Trust Inc.	5.62	38.16	23.0
First Industrial Realty Trust, Inc.	5.23	38.30	17.6
Prologis, Inc.	5.88	40.76	NA
EastGroup Properties, Inc.	6.06	47.45	18.0
Monmouth Real Estate Investment Corporation	6.21	48.69	16.5
Gramercy Property Trust	6.23	50.32	11.6
Liberty Property Trust	6.34	51.99	14.8
		Average P/FFO	**15.2**
		Average P/FFO	**21.4**

(Source: S&P Capital IQ, Brave Eagle Wealth Management)

Given the current discount to estimated NAV we are hopeful that Gramercy will continue to sell down some of the office or retail portfolio and reduce debt, rather than raise equity at these depressed prices. This should be the catalyst to a repricing closer to intrinsic value.

Conclusion

We believe the intrinsic value of Gramercy's stock is between $22 and $34 per share. The stock is currently priced at the very low end of this range, and about 15% below estimated NAV, offering an attractive entry point for patient investors. Potential upside is about 25% to the average value and 52% to the top end of our estimated valuation range. We see very little downside from a fundamental perspective, but caution that market pricing can ignore fundamentals. Using a PVGO framework we show that there is no growth priced in. Gramercy has a modern, high quality Industrial REIT portfolio similar to Duke Realty, a sector blue chip. Gramercy's cost of equity is temporarily too high due to elevated levels of debt. Gramercy should reduce the debt load over the next few quarters, reducing the beta and the cost of equity, hopefully resulting in a repricing of the stock. Investors can collect close to a 7% forward dividend yield while they wait.