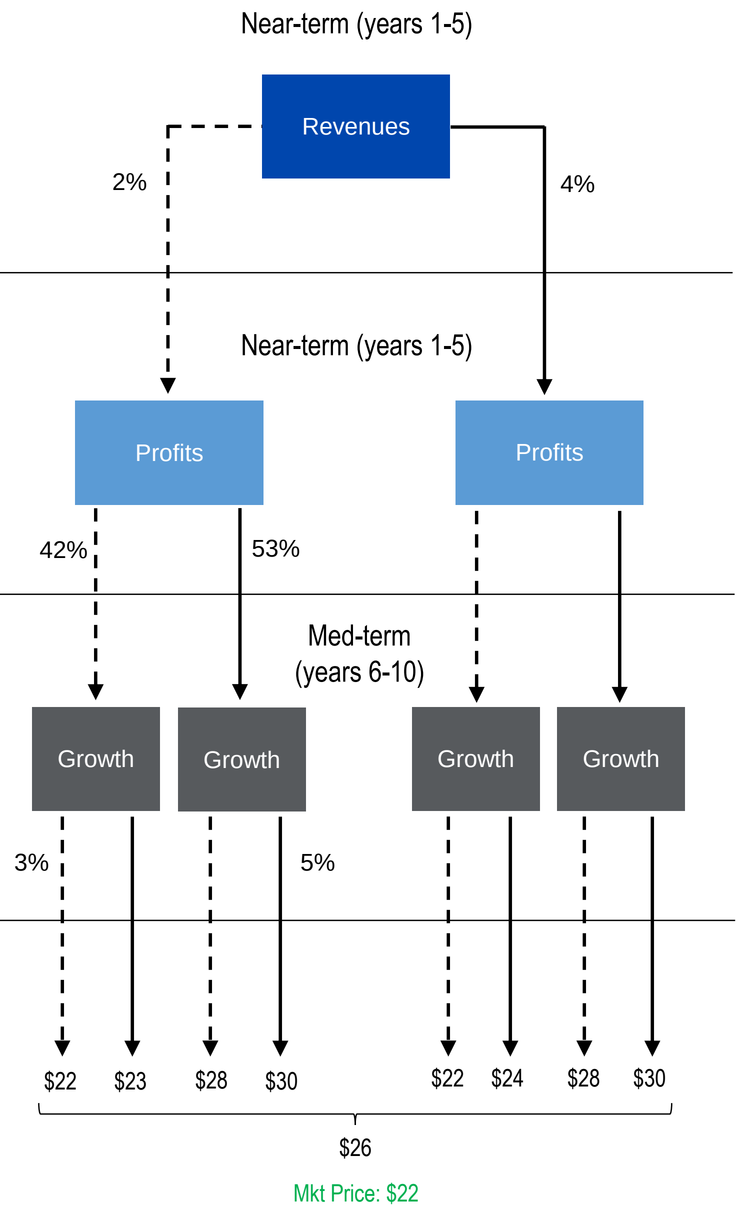
GPT

Valuation Waterfall



Revenue Growth

Gramercy (GPT) is in the midst of a huge business transformation (from an office REIT to an Industrial REIT) so we do not have a long history of per-share operating numbers. That said, the firm's warehouse price escalators average just under 2% per year, so this seems a sensible lower boundary. Four percent growth reflects a strong demand for the large warehouse spaces that Gramercy provides eCommerce clients.

Profitability

Again, due to a short operational history in its present niche, we do not have good historical numbers for GPT. That said, GPT's present profitability is close to our worst-case projection and looks to be well-positioned to continue to increase profitability. The range we are using is that of a group of industrial REITs. GPT is building out modern, efficient, high-ceilinged warehouses in demand from clients, so best-case, GPT will generate good profits.

Medium-Term Cash Flow Growth

A strong tailwind exists for Industrial REITs in the form of the continued growth and ubiquity of eCommerce solutions. GPT is investing in high-quality hub warehouses for large eCommerce retailers. We believe that price escalators and increased prices for new contracts, combined with operational efficiencies will allow the firm to grow its medium-term cash flows in the mid-single digit range.

Fair Value Range

Our fair value range extends from $22 to $30 / share with an average value of $26 / share using a **discount rate of 8.8%**. The stock price is supported at this level by a 7% dividend yield which we believe is supportable by the firm's cash flows. "Replacement value" of GPT's portfolio is around $26 / share. GPT is misunderstood, listed as (unloved) diversified REIT but 80% of NOI is from warehouses, making it mostly a (loved) Industrial REIT.

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Methodology

Framework Investing analyses focus on three main valuation drivers: revenue growth, profitability, and medium-term cash flow growth. We estimate a best- and worst-case scenario for each of these drivers resulting in a total of 2^3 = 8 fair value scenarios based on discounted cash flow methodology. Profitability is measured by Owners' Cash Profit (OCP) margin and our measure of free cash flow is termed Free Cash Flow to Owners (FCFO). We use a discount rate of 10% for large capitalization stocks. A wide spread of lowest and highest fair values indicates a firm whose value is uncertain. Risk depends on the stock price's relationship to the valuation range. Best-case scenarios are represented with a solid line; worst-case scenarios, with a dotted one.