Gramercy Property Trust Inc. (GPT)

SunTrust Robinson Humphrey

Favorable execution on capital recycling plans

Hold

Price Target: $10.00
Prior: $10.00

Price (Oct. 7, 2016)	$8.78
52-Wk Range	$9.99-$6.80
Market Cap ($M)	$3,753
ADTV	2,866,540
Shares Out (M)	427.5
Short Interest Ratio/% Of Float	5.1%
Dividend/Yield	$0.44/5.0%
TR to Target	18.9%

NAV/Share	$8.37

	2015A	2016E		2017E	
		Curr.	Prior	Curr.	Prior
FFO					
1Q	$0.13	$0.18A	$0.18	$0.17	$0.17
2Q	$0.14	$0.21A	$0.21	$0.18	$0.18
3Q	$0.17	$0.18	$0.18	$0.19	$0.19
4Q	$0.16	$0.17	$0.17	$0.19	$0.19
CY	$0.61	$0.74	$0.74	$0.73	$0.73
P/FFO	14.4x	11.9x		12.0x	
Revenue ($M)					
CY	$237	$513	$513	$530	$530
P/Sales	15.8x	7.3x		7.1x	
Consensus					
FY	--	$0.72		$0.76	
FYE Dec					

What's Incremental To Our View

We recently hosted a non-deal road show with GPT's CEO, Gordon DuGan, President, Benjamin Harris, and Head of Investor Relations, Brittany Sanders. As a reminder, we originally covered CSG before the merger with GPT. Frankly, our opinions of GPT's mgmt team had not yet been solidified through years of coverage, so we found our extended time with mgmt very useful and timely. **Overall, our initial positive inclination regarding the mgmt team is confirmed. We consider Gordon (and the GPT team) as a smart steward of shareholder capital, straight forward, and has a mindset focused on the long-term**.

Key Takeaways:

- **Smart steward of shareholder capital:** 1) As a reminder, we were very vocal critics of the way CSG was sold to Gramercy, and we surmised that GPT was buying CSG at a discounted valuation (note: We expected a deal, just not this one*)*, **but Gordon clearly delivered for GPT shareholders**. 2) In addition, **GPT has executed on the capital recycling plan ahead of schedule and on budget**. GPT has disposed of $1.4bn of assets at a 6.8% cap rate thus far compared to the original guidance of $1.145-$1.225bn at a cap rate range of 6.7%-7.2%. The company has already sold nearly two thirds of the entire CSG portfolio. Remember, **GPT acquired the entire CSG portfolio at approximately 7.5% cap, and the company has been able to sell, the arguably, higher cap rate suburban office assets at a 6.8% cap rate**. 3) Gordon DuGan has a notable track record of building companies (running WPC and building Gramercy from infancy stage).
- **Focused on the longer term**: The company assumes lease-up risk prior to selling largest office assets to obtain better long term returns and continues to do so with the newly formed TPG JV. In our opinion, many management teams take the 'rip the band-aid off' approach to portfolio repositioning, but sometimes that is not always the best choice, due to less optimal asset pricing (though the stock may get a short term benefit). **We respect mgmt. for choosing a more balanced approach to asset sales and taking on lease-up risk**. According to mgmt, as tenant lease term nears expiration on suburban office assets, market pricing can significantly deteriorate (unlike other asset classes) and pricing can fall as much as 25%-30% due to the risk of the unknown. **This is why GPT formed the suburban office JV with TPG, to hold office assets with near term tenant roll, attempt to release assets, and then potentially sell at better prices**.

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- **Straight forward:** Obviously subjective, but overall, Gordon never shied away from some of our tougher questions and provided us straight forward answers throughout.

Other notes:

- **Sold 2 Amazon buildings in Phoenix. We think this was a smart move; the large box market in Phoenix is not deep and we see risk that as Amazon's distribution strategy evolves, there may be reduced demand for the first generation locations that were largely driven by tax reasons.**
- GPT goal is to become 75%-80% industrial as this is management team's preferred asset class (ours as well) vs. suburban office, which can have significant leasing challenges and CapEx requirements.
- Lifetime Fitness is performing well, 4-wall coverage is appx. 3x.
- 3Q16 should be a trough quarter for earnings as GPT will become a net acquirer in 2017 (seeking to purchase $1bn of industrial assets (6.5%-7.0% cap rate) and sell another $200-$400m of sub. office assets).
- No noticeable impact on industrial demand or asset pricing from Brexit, thus far.

While we have a Hold rating on GPT, we have a favorable view on management and portfolio strategy; we are simply seeking a more relatively attractive entry point. And generally, we have growing concerns about lofty REIT valuation levels, that in large part have been driven by elements such as: Brexit, investors' search for yield, and easy monetary stimulus (globally) that has grown the fed's balance sheet from $890bn in 2008 to ~$4.5trillion in Aug-2016.

Company Description
Gramercy Property Trust (GPT) is a self-administered real estate investment trust (REIT) that owns, acquires and manages net leased industrial and office properties. The Company focuses on income producing properties leased to high quality tenants in major markets in the United States and Europe.

Investment Thesis
We expect GPT to perform in line with the benchmark; thus our Hold rating. Reasons why we are cautious are: 1) rising rates - triple net REITs have historically underperformed the REIT index during Fed tightening cycles, 2) uncertainty regarding the pricing of the suburban asset sales, and 3) we prefer other industrial REITs such as FR more due to better growth profile and balance sheet.

Valuation and Risks
GPT Based on: $10.04 DCF, 8% disc. rate. Target Price $10.00. Hold rating. Company specific upside risks include: market rent may increase better than expected, GPT is able to access cheap sources of capital, and GPT is able to source accretive acquisitions. Downside risks include: more than expected lease terminations occur, more than expected capital expenditures required for lease renewals, GPT issues equity at a discount to NAV, and GPT makes non-accretive acquisitions. There are risks to our thesis such as: 1) the company could acquire more assets, at accretive levels, than we expect, as Gordon DuGan, CEO and the GPT management team have a proven track record of closing deals in the past, 2) a flight-to-safety trade, 3) Fed continues to be dovish and may not tighten monetary policy, and 4) new Department of Labor 's Fiduciary rule can proved to be a tailwind for the triple net industry, as non-traded REITs may be less favored and investment yields may expand.

The analyst has elected to benchmark the performance for the ratings of the stock that is the subject of this report to the RMZ.

Companies Mentioned in This Note
W.P. Carey (WPC, $61.51, NR)
Lifetime Fitness (Private)

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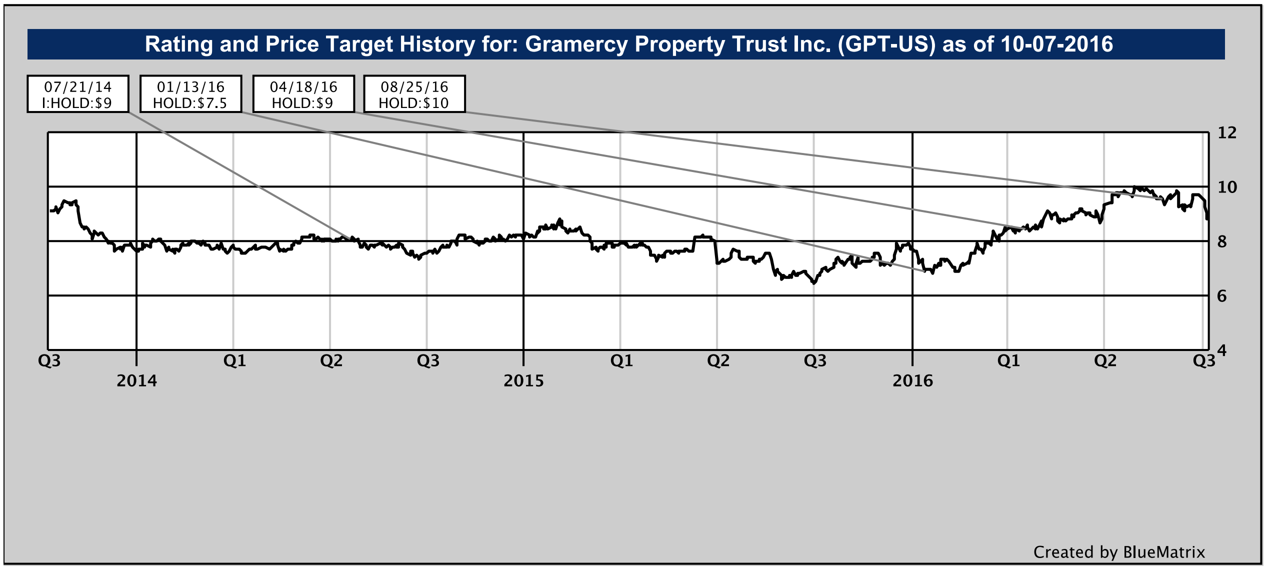

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