

Disposition Volume Exceeds Initial Targets & Ahead Of Schedule

- Capital Recycling Plan At GPT.** Last summer, Gramercy Property Trust's management put together and presented a capital recycling plan to reshape the company's portfolio post the closing of the merger with CSG. The merger closed in mid-December and GPT has executed on that plan over the last eight months. With the recent sale of four assets, GPT has exceeded its original plan to sell \$1.15-\$1.23 billion over a 24-month period. We believe, once all of the sale proceeds are redeployed, the company should have a high-quality portfolio with predictable and growing cash flows and a strong balance sheet that should result in a higher multiple.
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- Triple-Net Sector Has Lagged MTD.** The triple-net sector has been lagging MTD -6.5% vs. the RMS -3.8%. The sector has underperformed due to the possibility of the Fed raising rates at the upcoming meeting in September
 - GPT Has Lagged Triple-Net Sector YTD.** YTD, GPT is up 27.8% vs. the triple-net sector +31.5% and RMS +13.9%.
 - Presented Plan At Investor Day Last September To Reposition Portfolio.** Last September, management presented a plan to reposition the combined CSG/GPT portfolio by selling assets in two phases. The first phase was to take place throughout 2016 and was intended to reduce the company's exposure to non-strategic multi-tenant and single tenant suburban office assets by selling \$725-\$775 million at a 6.2%-6.7% cash cap rate. The second phase was to take place over the longer-term, by year-end 2017 and hoped to sell \$420-\$450 million of office assets with shorter lease terms at a 7.3%-7.9% cap rate. In total, GPT hoped to sell \$1.145-\$1.225 billion of assets at an average cap rate of 6.7%-7.2%.
 - Sells Four More Assets.** Yesterday, the company announced that it has sold three more single-tenant office buildings in Princeton, New Jersey, Burlington, Massachusetts, and Bloomington, Minnesota as well as a single-tenant industrial property in Phoenix, Arizona for \$206.7 million or a 7.4% forward cash cap rate. The properties had a weighted average lease term of 10.1 years.
 - Has Exceeded Expectations With Over \$1.26 Billion Sold.** YTD, GPT has sold \$1.26 billion of primarily single and multi-tenant office assets at a weighted average 6.6% cap rate.
 - More Assets Under Contract & Being Marketed.** The company has \$158.6 million of assets under contract with an additional \$117.8 million being marketed. If those sales close, total dispositions would be \$1.5 billion at a 6.8% cap rate, over 12 months ahead of the anticipated schedule.
 - Use Of Proceeds.** Management intends to use the proceeds from asset sales and balance sheet capacity to reach a target asset allocation of 75% industrial and 25% office/specialty.

Changes	Previous	Current
Rating	—	Buy
Target Price	—	\$10.50
FY16E FFO	—	\$0.75
FY17E FFO	—	\$0.79
FY16E AFFO	—	\$0.70
FY17E AFFO	—	\$0.76

Price (08/30/16):	\$9.62
52-Week Range:	\$10 – \$6
Market Cap.(mm):	4,069.3
Shr.O/S-Diluted (mm):	423.0
Enterprise Val. (mm):	\$6,128.0
Avg Daily Vol (3 Mo):	2,536,829
NAV (US\$):	8.25
Premium/Discount:	16.6 %
Dividend(\$ / %)	\$0.44 / 4.6%
S&P Index	2,176.10

FFO	2015A	2016E	2017E
Q1	\$0.13	\$0.18A	\$NE
Q2	0.14	0.21A	NE
Q3	0.17	0.18	NE
Q4	0.16	0.19	NE
FY Dec	\$0.61A	\$0.75	\$0.79
P/FFO	15.8x	12.8x	12.2x

AFFO	2015A	2016E	2017E
Q1	\$0.11	\$0.17A	\$NE
Q2	0.13	0.18A	NE
Q3	0.14	0.17	NE
Q4	0.15	0.18	NE
FY Dec	\$0.54A	\$0.70	\$0.76
P/AFFO	17.8x	13.7x	12.7x

Simon Yarmak, CFA
Stifel Equity Trading Desk

yarmaks@stifel.com

(443) 224-1345
(800) 424-8870



- **Acquisition Update.** In 2Q, GPT purchased \$354.9 million of assets at a 7.3% cap rate with a weighted average lease term of 12.0 years. QTD, an additional \$155.2 million have closed at a 6.6% cap rate with a weighted average lease term of 12.1 years. An additional \$342.6 million of assets are under contract/LOI at a 6.75% cap rate with a weighted average lease term of 12.2 years. Total acquisitions are \$905.5 million at a 7.0% cap rate with a 12.4 year weighted average lease term
- **U.S. Portfolio As Of 12/31.** As of 12/31, U.S. portfolio NOI consisted of 47.0% office, 45.0% industrial, and 8.0% specialty retail.
- **Pro Forma For The Current Sales.** Pro forma U.S. portfolio NOI consists of 60.7% industrial, 34.7% office, and 4.6% specialty retail. Office exposure will continue to come down as sale proceeds are recycled into industrial assets. Management hopes to reduce office exposure to 25.0% by year-end.
- **Reduced Joint Venture Exposures.** With the dissolution of the Duke joint venture and the sale of a large portion of the Goodman joint venture in 2Q, equity investments has been reduced from \$580 million to \$105 million. Unwinding most of the joint ventures, should provide a cleaner story.
- **Merger Fully Integrated, Synergies Ahead Of Initial Estimates.** The integration with CSG was completed earlier this year. Original synergy estimates were \$15 million. Realized synergies are \$16-\$20 million.
- **GPTE Gaining Scale, Taking Longer To IPO.** Gramercy Europe is a joint venture between GPT, EJP Capital LLC, Fir Tree Partners, and Senator Investment Group LP. The venture owns over 30 assets with almost 10 million sf of that 100% occupied with a weighted average lease term of 8.6 years for a total purchase price of €623.0 million. Over 50.0% of the assets are located in Germany, 25.0% in the Netherlands, and the remainder in France, Poland, and the UK. The pace of capital deployment has been slower than expected.
- **Wide 2016 Guidance Range To Be Narrowed With 3Q Release, Could Provide 2017 Guidance.** With its 2Q release, GPT maintained its 2016 core FFO and AFFO guidance of \$0.66-\$0.75/share. The guidance midpoint implies 15.6% FFO growth this year. The wide range was maintained as management was waiting to have a better handle on the timing of new acquisitions. Guidance will be addressed with its 3Q release. Management could also release 2017 guidance with its 3Q release. The Street is projecting high-single digit AFFO growth next, some of the highest in the sector.
- **Maintaining Estimates.** We are maintaining our 2016, 2017, and 2018 core FFO estimates of \$0.75, \$0.79, and \$0.84. We are maintaining our 2016 GPT-defined AFFO estimate of \$0.70, \$0.76, and \$0.82. GPT strips out capex below AFFO. If we strip out \$24 million of capex in 2016 and \$16 million in 2017 to calculate AFFO, our 2016 and 2017 AFFO estimates are \$0.64 and \$0.73, respectively.
- **Expected to Address Quarterly Dividend Rate Later This Year.** GPT's annual dividend payout is \$0.44/share or a 4.6% dividend yield. The dividend will likely be raised later this year.
- **Balance Sheet.** GPT has \$2.24 billion of debt, \$223 million of cash, and \$757 million of undrawn line capacity. Gramercy's balance sheet has net-debt+preferred to EV at 33.6% vs. the industry average of 32.7%. Net-debt+preferred/EBITDA is 4.7x, one of the lowest in the industry.
- **Valuation.** Our 2Q NAV per share estimate of \$8.25 reflects a 6.75% cap rate. Our value range of \$9.25-\$7.25 reflects cap rates of 6.25%-7.25%. Shares trade at an implied 6.1% cap rate.

Target Price Methodology/Risks

Our \$10.50 target price reflects 12.8x our 2018 AFFO estimate of \$0.82.

Risks to our target price include a prolonged economic downturn or recession, interest rate movements, and general market risk, including continued weakness in the mortgage-backed securities market and commercial real estate fundamentals.

Company Description

Gramercy Property Trust Inc. is a leading global investor and asset manager of commercial real estate. Gramercy specializes in acquiring and managing single-tenant, net-leased industrial and office properties purchased through sale-leaseback transactions or directly from property developers and owners.

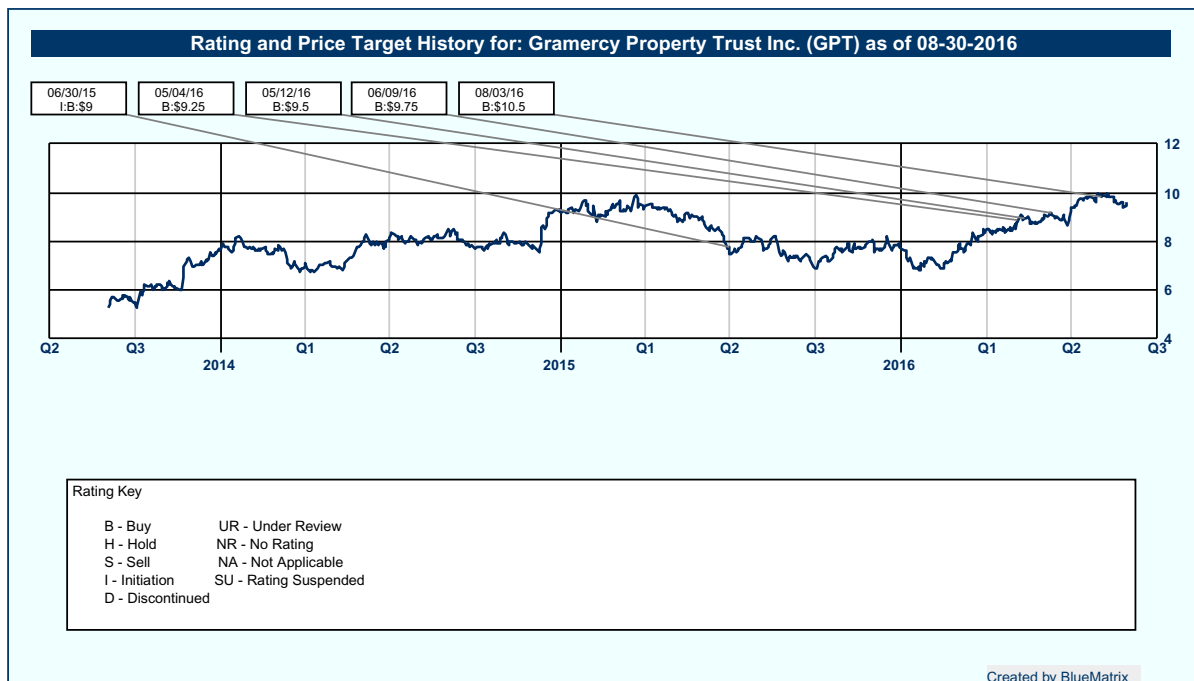
Gramercy Property Trust
Net Asset Value Analysis
08/30/16Simon Yarmak
STIFEL
(443) 224-1345

Current Price	\$9.62							Implied Cap Rate
Assumed cap. rate	6.00%	6.25%	6.50%	6.75%	7.00%	7.25%	7.50%	6.07%
NAV per common share	\$9.78	\$9.20	\$8.67	\$8.17	\$7.71	\$7.29	\$6.89	\$9.62
Currently Over(Under)-Valued	(1.6%)	4.6%	11.0%	17.7%	24.7%	32.0%	39.6%	.0%
Wholly Owned Properties <i>(in thousands, except per share data)</i>	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016	Pro-Forma 3 mos ending 6/30/2016
Annual NOI	388,956	388,956	388,956	388,956	388,956	388,956	388,956	388,956
Less Straight Line Rents & other cash adjustments	(22,456)	(22,456)	(22,456)	(22,456)	(22,456)	(22,456)	(22,456)	(22,456)
Adjusted Cash NOI	366,500	366,500	366,500	366,500	366,500	366,500	366,500	366,500
Mkt. value of owned properties	6,108,333	5,864,000	5,638,462	5,429,630	5,235,714	5,055,172	4,886,667	6,041,340
Cash & cash equiv.	185,100	185,100	185,100	185,100	185,100	185,100	185,100	185,100
Restricted Cash	65,700	65,700	65,700	65,700	65,700	65,700	65,700	65,700
Management Fee Income	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Servicing Advances Receivables	-	-	-	-	-	-	-	-
Retained CDO Bonds	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300
Tenant and Other Receivables	57,600	57,600	57,600	57,600	57,600	57,600	57,600	57,600
Other assets	95,800	95,800	95,800	95,800	95,800	95,800	95,800	95,800
Total Assets	6,536,833	6,292,500	6,066,962	5,858,130	5,664,214	5,483,672	5,315,167	6,469,840
Line of Credit	(93,000)	(93,000)	(93,000)	(93,000)	(93,000)	(93,000)	(93,000)	(93,000)
Senior Convertible Notes	(115,000)	(115,000)	(115,000)	(115,000)	(115,000)	(115,000)	(115,000)	(115,000)
Senior Notes	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)
Senior Unsecured Term Loan	(1,225,000)	(1,225,000)	(1,225,000)	(1,225,000)	(1,225,000)	(1,225,000)	(1,225,000)	(1,225,000)
Mortgage Notes Payable	(573,800)	(573,800)	(573,800)	(573,800)	(573,800)	(573,800)	(573,800)	(573,800)
Accounts Payable and Accrued Expenses	(35,300)	(35,300)	(35,300)	(35,300)	(35,300)	(35,300)	(35,300)	(35,300)
Dividends Payable	(46,900)	(46,900)	(46,900)	(46,900)	(46,900)	(46,900)	(46,900)	(46,900)
Accrued Interest Payable	-	-	-	-	-	-	-	-
Other liabilities	(75,600)	(75,600)	(75,600)	(75,600)	(75,600)	(75,600)	(75,600)	(75,600)
Preferred (at liquidation value)	(87,500)	(87,500)	(87,500)	(87,500)	(87,500)	(87,500)	(87,500)	(87,500)
Total Liabilities	(2,402,100)	(2,402,100)	(2,402,100)	(2,402,100)	(2,402,100)	(2,402,100)	(2,402,100)	(2,402,100)
Net mkt. asset value	4,134,733	3,890,400	3,664,862	3,456,030	3,262,114	3,081,572	2,913,067	4,067,740
Diluted wtg. avg. com. shs. ots.	422,842	422,842	422,842	422,842	422,842	422,842	422,842	422,842
Debt+Preferred to EV	36.7%	38.2%	39.6%	41.0%	42.4%	43.8%	45.2%	

Source: Stifel estimates and company data

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The recommendation contained in this report was produced at 31 August 2016 07:17EDT and disseminated at 31 August 2016 07:17EDT

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