Aroundtown Property Holdings Plc.

Cyprus / Real Estate
Euronext Paris
Bloomberg: MLATP FP
ISIN: CY0105562116

Initiation of Coverage

RATING	**BUY**
PRICE TARGET	**€5.70**
Return Potential	69.1%
Risk Rating	Medium

BUILDING UPON A DECADE OF GROWTH

Aroundtown Property Holdings (AT) is a real estate investment company focused on identifying and procuring value-add, income generating properties located primarily in Germany. The company covers the main segments of the real estate markets: commercial, residential, and hotels. AT leverages a proven turnaround strategy, access to capital, an extensive network, and a robust infrastructure to drive value growth in its portfolio. We see strong growth prospects ahead and commence coverage with a Buy rating and EUR5.70 price target.

Diversified portfolio and a wealth of experience AT's primary focus is on major German cities and locations that demonstrate strong fundamentals to drive growth. Residential investments are orchestrated by Grand City Properties (GCP), hotel investments by Primecity Investment (PCI), and commercial properties are held through Aroundtown's privately owned subsidiary, Camelbay (CB). This diverse portfolio has been built on experience dating back over decade.

Intensive property turnaround strategy drives operational growth AT targets turnaround opportunities in mismanaged properties that harbour upside for rent and/or tenant structure. Proven operational and repositioning activities allow the company to boost cash flows best illustrated through monthly annualised run rates. AT reported adjusted EBITDA and Funds from Operations (FFO) run rates of €167m and €97m respectively in July.

Access to capital supports portfolio expansion AT and its major subsidiaries boast an impressive capital market track record having raised some €3.5bn over the last two years through equity, bonds, convertible bonds, and hybrid notes. Moreover, AT can lean on a network of 20 commercial banks and its experience in securing debt at favourable conditions. This financial flexibility gives us confidence in the company's ability to finance further growth, and we also expect AT's solid and improving balance sheet metrics to translate into investment grade ratings by Moody's and S&P.

FINANCIAL HISTORY & PROJECTIONS

	2013A*	2014A*	2015E	2016E	2017E	2018E
Revenue (€m)[1]	181.00	257.00	116.42	231.34	345.27	450.32
Y-o-y growth	n.a.	42.0%	-54.7%	98.7%	49.2%	30.4%
Adj. EBITDA (€m)	29.00	60.00	141.53	246.44	355.74	462.89
Net income (€m)	283.0	898.0	600.0	638.4	722.5	914.3
EPS (diluted) (€)	n.a.	n.a.	0.76	0.81	0.92	1.16
EPRA NAV (€m)	442.00	1274.00	2713.90	3483.04	4288.07	5221.38
DPS (€)	n.a.	n.a.	0.00	0.07	0.10	0.13
FFO (€m)	19.00	39.00	82.01	152.21	225.73	298.95
Net gearing	146.4%	23.2%	38.3%	63.3%	63.9%	63.1%
Liquid assets (€m)	184.00	176.00	352.36	268.48	212.71	164.02

* Note that GCP was deconsolidated at the end of 2014; adj. EBITDA excludes GCP minorities in 2013-14. [1]Revenue includes sale of buildings in 2013-14. Revenue forecasts include only rental & operating income.

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

Aroundtown Property Holdings Plc is a specialist real estate company focused on investing in and managing value-add properties primarily located in the German real estate market. The company covers all main segments: commerical, residential, and hotel properties.

MARKET DATA

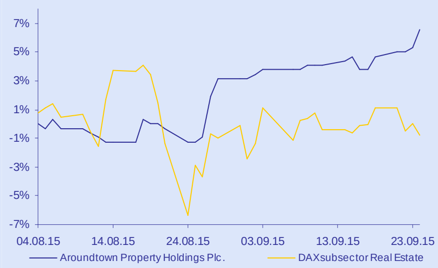
As of 9/25/2015

Closing Price	€ 3.37
Shares outstanding	600.10m
Market Capitalisation	€ 2022.34m
52-week Range	€ 3.15 / 4.00
Avg. Volume (3 Months)	251,042

Multiples	2014A	2015E	2016E
P/E	n.a.	4.4	4.1
EV/Sales	11.8	26.1	13.1
EV/EBITDA[2]	50.6	21.4	12.3
Div. Yield	0.0%	0.0%	2.1%

[2] adjusted for capital gains, property revaluations and other income

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 225.00m
Current Assets	€ 255.80m
EPRA NAV	€ 1,853.00m
Total Assets	€ 3,094.90m
Current Liabilities	€ 147.50m
Total Equity	€ 1743.40m

SHAREHOLDERS

Mangement & Founder Holdings	76.0%
Free Float	24.0%

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INVESTMENT CASE

Specialist in value-add real estate turnarounds

We regard Aroundtown as a well positioned property company with its diversified exposure to the key segments of the German real estate landscape. The core business is the acquisition and turnaround of mismanaged real estate in major German cities. AT holds 66% of Primecity Investment (hotels), 34% of Grand City Properties (residential), and its fully owned subsidiary, Camelbay, holds AT's commercial property assets. The turnaround strategy has been honed over 11 years and quickly yields valuation uplift and strong operating cash flows in the form of Funds from Operations (FFO). Aside from its seasoned management, AT combines excellent deal sourcing, flexible financing, and a robust operational structure that is highly scalable

Success starts with a strong deal sourcing network to grow assets

A large part of the successful growth stems from the group's reputation in the market that has earned a "preferred buyer" status. The company is known for its reliability and high deal execution rate. Thanks to management's credentials, banks, investment funds, brokers and other real estate companies looking to dispose of underperforming assets often push deal flow to AT allowing the company to cherry pick deals from a broad sourcing pipeline. We also argue that a lean management structure enables the company to act swiftly when attractive deals present themselves, whereas rivals often have longer approval processes.

Prodigious portfolio offers potential for strong revenues and cash flows

Aroundtown's real estate portfolio currently includes some €1bn in commercial properties, over €800m in hotel assets (before minorities) through PCI, and €3.5bn (before minorities) in residential properties and liquid assets through GCP. Owing to the proven turnaround strategy, all property segments are generating strong rental income and FFO. AT recently reported rental income and FFO run rates (monthly annualised) for its commercial portfolio of €92m and €53m respectively. PCI updated its monthly annualized leasing run rate to €44m with an FFO run rate (monthly annualised) of €24m in July. The monthly annualised run rate figures for GCP are likewise stout at €355m for rental income and €130m for FFO.

Top-line driven by portfolio growth and successful turnaround measures

The group has demonstrated its ability to reposition underperforming assets and generate high rental income. On a pro-forma basis (ex: GCP), Aroundtown's H1/15 top-line increased 340% Y/Y basis spurred by acquisitions, strong operational performance, reduced vacancy rates, and increasing rents. The company's track record in boosting these metrics supports our view that this strong performance will continue. We expect these factors to translate to a rental income CAGR of 105% for 2015-18 on a deconsolidated basis. We look for AT's top-line to reach some €116m in 2015.

Robust capital structure designed to shoulder growth

The company completed a €320m capital increase in July on the heels of a pre-IPO €450m convertible bond issued in April. AT is also building critical mass that should allow the company to compress its weighted average cost of debt (WACD) going forward. By the end Q2/15, the balance sheet (GCP was deconsolidated at the end of 2014) had already grown 80% since YE 2014 to €3.1bn, and we expect it to approach €3.6bn by the end of the year. Aroundtown reported a Loan-to-Value (LTV) of 33%─or 20% including the impact of the aforementioned capital increase─at the six month stage underlining it conservative capital structure. On our numbers, we expect this figure to climb to 27% at the end of 2015 and trend below 40% over the mid-term. This allows ample headroom for the company to increase debt financing for asset acquisition. We also contend that AT's conservative capital structure and improving balance sheet metrics will be viewed positively by the credit rating agencies Standard & Poor's and Moody's and lead to investment grade ratings.

Compelling upside to fair value

We contend that AT is only beginning to reap the benefits of its diverse portfolio, underlying expertise, network, and capital structure. In our view, the current valuation fails to reflect AT's strengths partly due to its presently low capital market visibility and share liquidity. AT floated its shares in June on the Marché Libre. We expect the company to uplist to the Alternext and thus pave the way for institutional investors that own the €450m convertible bond issued in April to also buy into the stock when liquidity improves. AT management also recently announced a dividend policy of 30% of FFO I starting in 2016. We commence coverage with a Buy rating and a €5.70 PT.

SWOT ANALYSIS

STRENGTHS

- **Access to financing** The company has a proven track record in either raising capital or securing inexpensive debt financing with various instruments including convertible bonds, corporate bonds, and hybrid notes.
- **Strong cash flow** The real estate portfolio generates steady and abundant cash flow on a Funds From Operations (FFO) basis.
- **Seasoned management** The team can be considered veterans in their field of expertise with an 11 year track record in deal sourcing and their ability to takeover large properties swiftly and successfully.
- **Economies of scale** Intra-group synergies and infrastructure, including staff and IT, along with a common business model can support significant portfolio growth.

WEAKNESSES

- **Turnaround risks** The portfolio deals with value-add assets that require a high level of management input to stabilise. There may be cases when turnarounds take longer than anticipated.
- **Share liquidity** Trading volumes are low due to liquidity on the Marché Libre.
- **Capital intensity** The business model requires a constant injection of capital to fuel growth.

OPPORTUNITIES

- **Improved financial flexibility** The company will likely receive ratings from Standard & Poor's and Moody's, which could give AT greater access to less expensive financing.
- **Diversified growth** Each portfolio has a strong pipeline for growth across three attractive real estate sectors.
- **Ongoing repositioning of assets** AT constantly upgrades its real estate assets; not only after acquisition, thus providing upward scope for valuation.
- **Improved share liquidity** We believe the company will uplist to the Alternext exchange, which should boost share liquidity.

THREATS

- **Deal pipeline** While the current market environment provides ample opportunities, the market could tighten and constrict deal flow.
- **Shift in interest rates** Interest rates are presently at rock bottom levels and will eventually head north again increasing financing costs and possibly cooling a hot market environment.
- **Shareholder dilution** Although AT has ample headroom on its balance sheet to raise debt, shareholder dilution may occur if AT needs to tap the equity markets.

VALUATION

Our valuation of Aroundtown is based on a discounted EPRA NAV approach driven by detailed forecasts through FY 2018. Since the group is optimising real estate projects, we believe forecasts beyond a four year horizon are subject to a high degree of uncertainty and thus limit our model accordingly. Net asset value ranks among the most commonly used metrics for property companies, while the EPRA NAV methodology has become the industry standard for the sector. In simple terms, the NAV is similar to shareholder's equity whereas EPRA NAV adjusts for deferred tax liabilities and convertible debt.

In €'000	2015	2016	2017	2018
Shareholder's Equity	2,086,957	2,772,073	3,544,553	4,546,499
Total equity	2,236,954	2,966,758	3,789,811	4,855,759
NAV per share	3.58	4.67	5.81	7.18
Net deferred taxes	129,212	202,431	273,112	359,540
Derivative financial instruments	5,250	5,513	5,788	6,078
Convertible bond	342,482	308,341	219,360	-
EPRA NAV	2,713,898	3,483,042	4,288,072	5,221,377
EPRA NAV per share	**4.34**	**5.48**	**6.58**	**7.72**
FFO	82,005	152,212	225,727	298,952
Revaluation results	548,081	488,124	471,211	576,185
New Equity	-	-	-	-
Total return	**630,086**	**640,335**	**696,938**	**875,137**

EPRA NAV	2,713,898	3,483,042	4,288,072	5,221,377
Return on NAV	49%	24%	20%	20%
Cost of equity	6.6%	6.6%	6.6%	6.6%
Spread	**43%**	**17%**	**13%**	**14%**

	2015	2016	2017	2018
WACC	5.0%	5.0%	5.0%	5.0%
Value creation	1,164,054	593,150	576,508	722,828
NPV	1,149,251	557,865	516,595	617,107
Dividends paid	-	-	45,663	67,718
Present value of dividends paid	-	-	40,918	57,814

Fair value calculation	
PV of total value created	2,840,818
NAV (2014)	1,222,000
Adjustments	-
Equity value	4,062,818
PV of dividends	98,731
Fair value	4,161,550
Number of shares (000's,fully diluted)	730,829
Fair value per share €	**5.70**

Based on our portfolio forecasts, we derive a 2015-18 CAGR of 42% for AT's EPRA NAV with EPRA NAV/share reaching €7.72 in 2018. We use a Weighted Average Cost of Capital of 5.0% based on the assumptions shown below, which corresponds to a medium risk rating. We assume a long-term capital structure comprised of 40% debt and 60% equity. Our model calculates a fair value for the company of €4.2bn corresponding to €5.70/share on a fully diluted basis using a 6.6% cost of equity and a 3.0% pre-tax cost of debt.

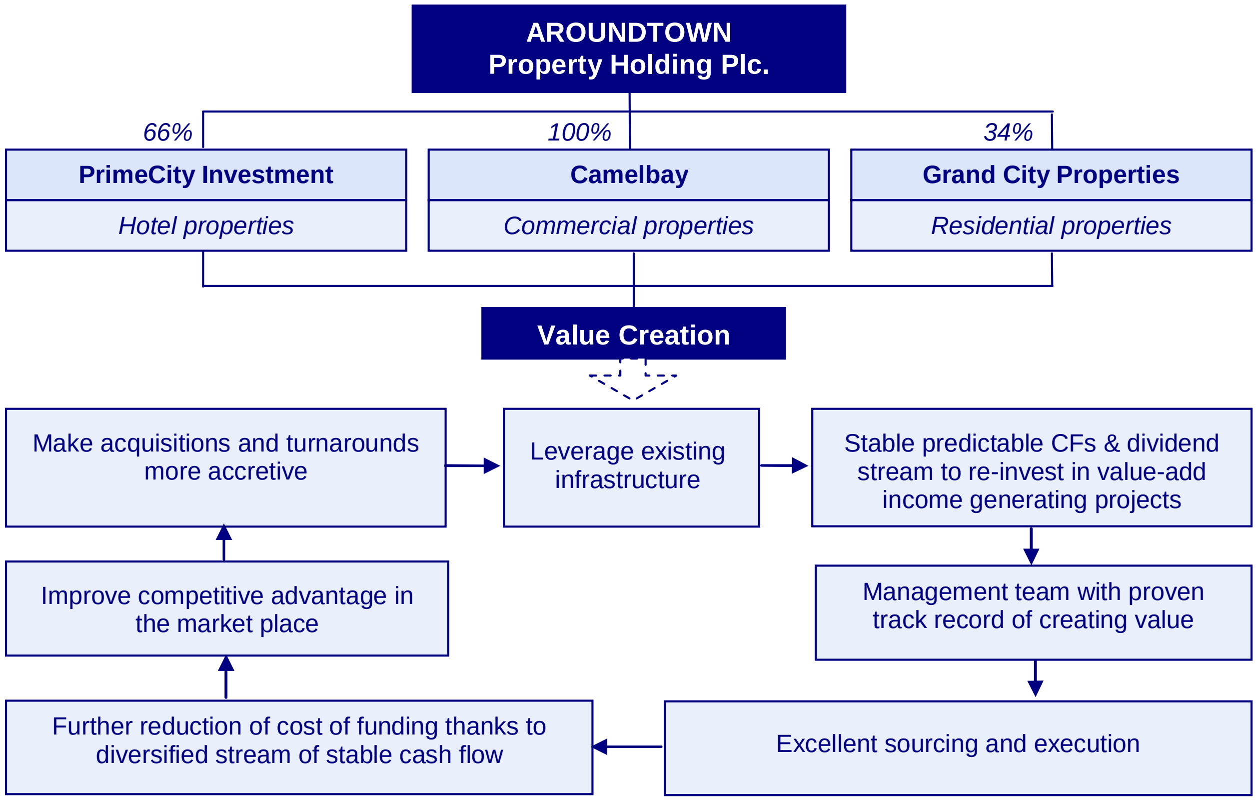
Inputs	
Risk free rate	1.0%
Country risk premium (CRP)	5.3%
Tax rate	15%
Cost of debt	3.0%
Terminal growth rate	2.0%

Calculations	
After tax cost of debt	2.6%
Cost of Equity	6.6%
Debt (H1 2015) (€ '000)	1,034,489
Equity (H1 2015) (€ '000)	1,540,913
Total debt & equity (€ '000)	2,575,402
Share of debt	40.0%
Share of equity	60.0%
WACC	**5.0%**

COMPANY PROFILE–THE FOUNDATION OF A DECADE OF GROWTH

Aroundtown Property Holdings is a real estate investment group focused on the primary segments of the German property markets: commercial, residential, and hotels. The group specialises in identifying and procuring distressed properties then continually boosting their cash generation. We note that in most cases these assets are already generating cash from day one. AT and its portfolio companies are driven by a common structure and value drivers.

Figure 1: Portfolio structure and value drivers



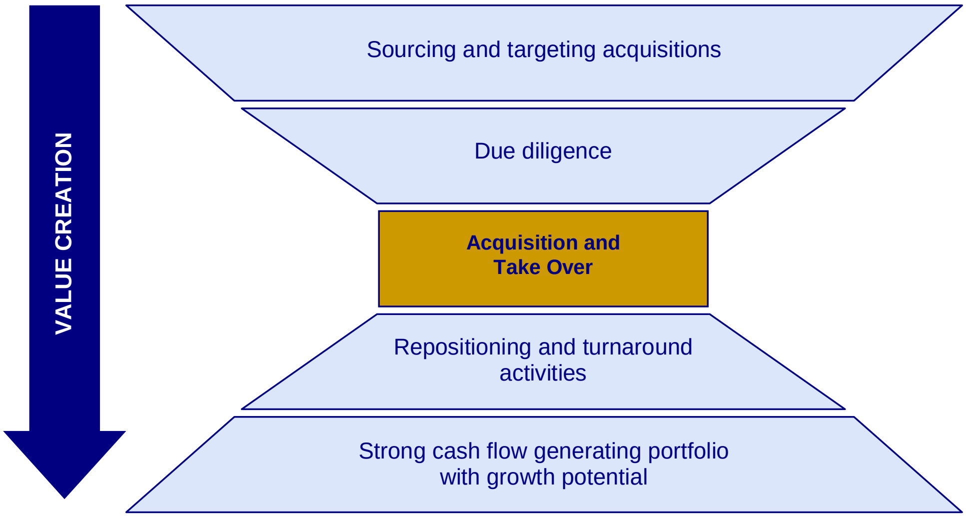
Source: First Berlin Equity Research; company

FINDING THE RIGHT DEALS

The group's formula for unlocking value in underperforming real estate starts with sourcing the right deals. AT targets turnaround situations embedded in mismanaged properties with the goal of picking cash generating real estate suffering from low occupancy and rents below market level. The company follows strict criteria in assessing potential acquisitions to ensure the properties fit AT's portfolio and business model. These include:

- Ample upside potential through operational improvements
- Assets generating cash flows
- Vacancy reduction potential to meet strong market demand
- Rent prices (€/m²) below market levels
- Located in densely populated areas and commercially attractive cities
- Purchase price below replacement costs and below market values
- Ability to decrease cost (€/m²) significantly with operational improvements

Figure 2: Value creation starts long before acquisition



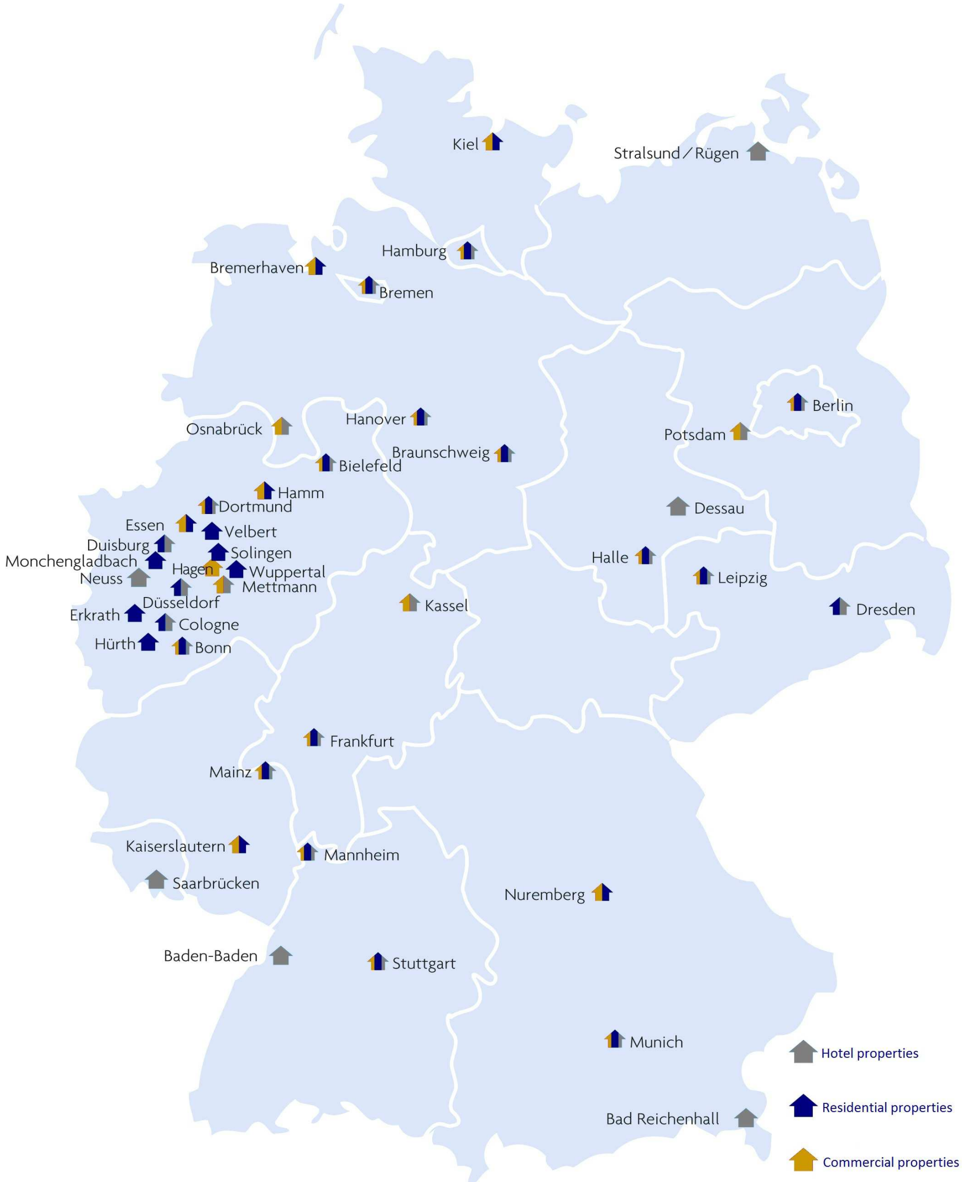
Source: First Berlin Equity Research; company

Each candidate is assessed individually during the due diligence phase. This results in a detailed business plan outlining strengths and weaknesses that can be implemented upon acquisition thus speeding up the turnaround process.

Strength in deal sourcing has been built upon a track record spanning over a decade. This has earned the company preferred buyer status, due to its ability to react quickly to opportunities with a high degree of reliability. It also gives the company access to a strong pipeline of mismanaged assets that can be converted into stabilized properties.

AT has forged a portfolio spanning across the three primary RE sectors. The company and its public entities target value-add opportunities in highly populated German cities and metropolitan areas that benefit from attractive fundamentals able to drive increasing growth and profitability.

Figure 3: Diversified geographical footprint



Source: First Berlin Equity Research; company

UNLOCKING HIDDEN VALUE IN UNDERPERFORMING REAL ESTATE

Operational improvements play a major role in the rapid gains in profitability. This is not only driven by rent increases and tenant restructuring; AT also aims to boost demand by improving both the standard of residential properties and business environment of commercial assets. This makes for happier existing tenants and attracts new ones. Because AT employs an integrated management approach encompassing acquisition, letting, maintenance, and refurbishment, the company is able to better service its tenants in all segments.

Operations are supported by AT's in-house IT solutions. These are highly scalable and serve as the backbone connecting all property units and departments. The staff uses these systems to track the progress of improvements and to monitor the vacancy and rent metrics for potential optimisation.

Investment needs (CapEx) are determined by demand of existing and prospective tenants and also by an evaluation of a property's market in terms of comparable amenities and services. This goes hand in hand with the emphasis AT places on building strong personal relationships with its tenants to reduce churn rates. It also allows the company to predict and manage its tenant structure, which positively affects cash flows. The commercial properties and GCP follow this principle by providing a high level of personal assistance, while also striving to make properties more attractive.

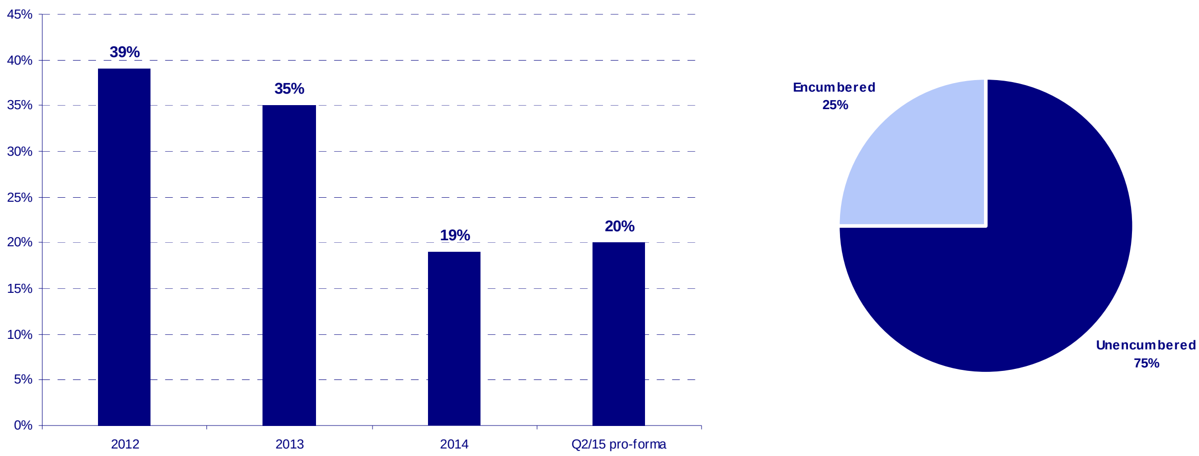
AT management benefit from years of experience in navigating the German real estate landscape. Knowledge and experience is cross communicated throughout the portfolio supported by regular meetings between the business units. We regard the ability to draw upon the experience gained across the real estate sectors as a significant advantage. This pool of knowledge provides benefits at all levels from screening to operational activities.

The net result of the value creation principles can be seen in stable and secure cash flows stemming directly from the repositioning measures. The group pursues a "buy and hold" strategy across all sectors allowing it to capture attractive and growing cash flows over the long term. We also note that this allows the company to grow organically even without further acquisitions.

FINANCIAL FIREPOWER TO FACILITATE GROWTH

Aside from the aforementioned strengths, Aroundtown, GCP and PCI have an impressive history in raising capital as highlighted overleaf. Over the past three years the group has raised over €3.5bn in capital through issuances of equity, hybrid notes, convertible bonds, and straight bonds. This has not only financed growth but has also allowed the company to improve balance sheet metrics paving the way for coverage by independent credit agencies. The LTV metric underlines the group's conservative capital structure and stood at 20% on a pro-forma basis after the €320m equity increase in July. This leaves plenty of headroom below the 50% policy set by the Board of Directors.

Figure 4: Aroundtown LTV development and unencumbered asset profile (Q2/15)



Source: First Berlin Equity Research; company

Figure 5: History in sourcing debt and tapping the capital markets

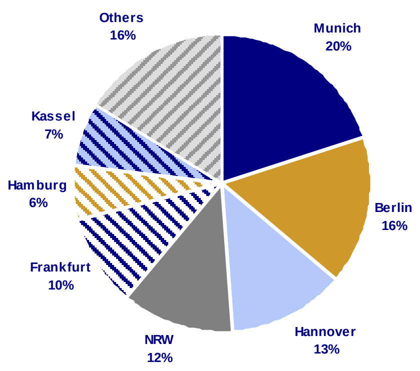
Date	Entity	Type of financing
Sep-15	GCP	Capital increase by €151m
Jul-15	GCP	Tap issuance of perpetual notes of additional €100m
Jul-15	AT	Capital increase by €320m.
Apr-15	AT	Issuance of 5 year convertible bond of €450m with 3% p.a. coupon (issued at 95.68%).
Apr-15	GCP	Issuance of 10 year straight bond of €400m with 1.5% p.a. coupon rate (issued at 96.76%).
Mar-15	GCP	Issuance of tapped and perpetual hybrid notes for additional €250m (issued at 97.04%).
Feb-15	GCP	Issuance of perpetual hybrid notes of €150m with a 3.75% p.a. coupon (issued at 96.3%).
Feb-15	PCI	Tap issuance of €50m on existing convertible bonds
Jan-15	AT	Tap issuance of €39m of series A bond on total aggregate amount of €200m
Dec-14	AT	Issuance of A series straight bonds with nominal value of €161m and 3% p.a. coupon
Nov-14	PCI	Issuance of convertible bonds at principal amount of €100m
Oct-14	GCP	Redemption of straight bonds with nominal amount of €350m. Issuance of 7 year straight bond of €500m with 2% p.a. coupon rate (issued at 95.6%).
Jun-14	GCP	Tap issuance of convertible bonds with gross proceeds of €140m at 111.25% reflecting an effective yield of 0.5%.
Apr-14	GCP	Tap issuance of existing straight bonds with gross proceeds of €160m at 107.25% with a yield-to-call of 3.85%.
Feb-14	GCP	Issuance of 5 year convertible bonds of €150m and a coupon of 1.5% p.a.
Dec-13	GCP	Capital increase of €175m.
Oct-13	GCP	Full conversion of convertible bond into equity
Jul-13	GCP	Issuance of 5 year straight bond of €200m with a coupon 6.25% p.a.
Feb-13	GCP	Capital increase of €36m
Oct-12	GCP	Issuance of 5 year convertible bond of €100m and a coupon 8% p.a.
Jul-12	GCP	Capital increase by €15m

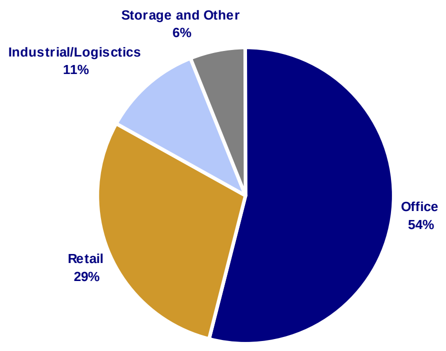
Source: First Berlin Equity Research; company

CAMELBAY–COMMERCIAL PROPERTY PORTFOLIO

The commercial property business is conducted by Camelbay (CB), the wholly owned subsidiary of AT. The privately held company currently has a portfolio of around €1bn including signed deals. Assets are well diversified across the four major commercial real estate segments as depicted in the figure below. Commercial properties are located in sizable urban cities with attractive demographics and economic environments.

Figure 6: Commercial asset value distribution by region and type



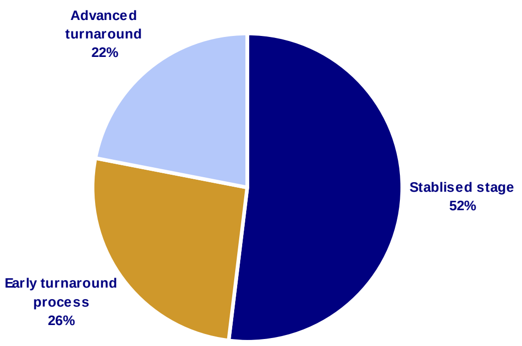


Source: First Berlin Equity Research; company

The commercial property tenant base comprises some 1,000 tenants varied across the major market sectors offering low cluster risk, while the five year weighted average lease term (WALT) provides solid cash flow security. The tenant base includes blue chip names such as Hewlett-Packard, Daimler, Cinemaxx, Real, and Edeka among others.

The company divides its commercial assets into three stages according to vacancy rates providing good transparency into the overall progress of the portfolio. Properties with vacancy rates above 20% are classified as early turnaround, properties with 10–20% vacancy as advanced turnaround and assets with a vacancy rate below 10% are classified as stabilized.

Figure 7: Turnaround stages of commercial portfolio by fair value and vacancy rates



Source: First Berlin Equity Research; company

The commercial portfolio is distinguished by a high level of service and has a solid history in quickly boosting occupancy rates as highlighted in Figure 8. We believe this can be largely traced to the emphasis the company places on fostering strong relationships with its tenants. In our view, few things break a deal or send tenants packing faster than shaky relations with property management. For commercial properties, relationship management starts with open communication lines around the clock, while assigning a single contact person to a tenant to address all needs. The long-term relationship is built upon pro-active and regular meetings with tenants and reacting quickly when technical issues with a space arise to prevent lost business. Management are likewise pro-active in extending leases that expire soon to get an optimized new long term agreement in place.

Figure 8: Track record in commercial property turnarounds

Portfolio	Year of acquisition	Total sqm	Vacancy reduction		Net rental increase since acquisition
			At acquisition	Current/at exit	
Berlin 1	2008	4,000	58%	**2%**	101%
Berlin 2	2009	1,700	80%	**0%**	466%
Berlin 3	2012	6,900	50%	**2%**	110%
Leipzig	2008	17,300	57%	**9%**	80%
Weimar	2008	8,900	51%	**7%**	55%
NRW	2013	10,900	36%	**13%**	47%
Mannheim	2012	26,200	100%	**0%**	

Source: First Berlin Equity Research; company

Smart CapEx to reduce tenant churn Investments are designed to not only draw new tenants into acquired properties but also keep them there. Tenants often want more than just a roof over their heads these day; they want comfort and convenience, given that many spend at least 40 hours per week at the workplace. Repositioning a property can entail improvements such as converting low value space into a cafeteria or fitness centre, or providing nearby parking, all of which are aimed at increasing tenant retention.

While many of these principles may not be unique, we believe the commercial property management team have a proven blueprint in place that will be difficult for competitors to match. In particular, new entrants may struggle to climb the learning curve involved in building such a portfolio. AT's seasoned management team has over 11 years experience and was able to learn in a higher margin environment that mitigated miscalculations. We suspect today's environment is less forgiving for players with less experience.

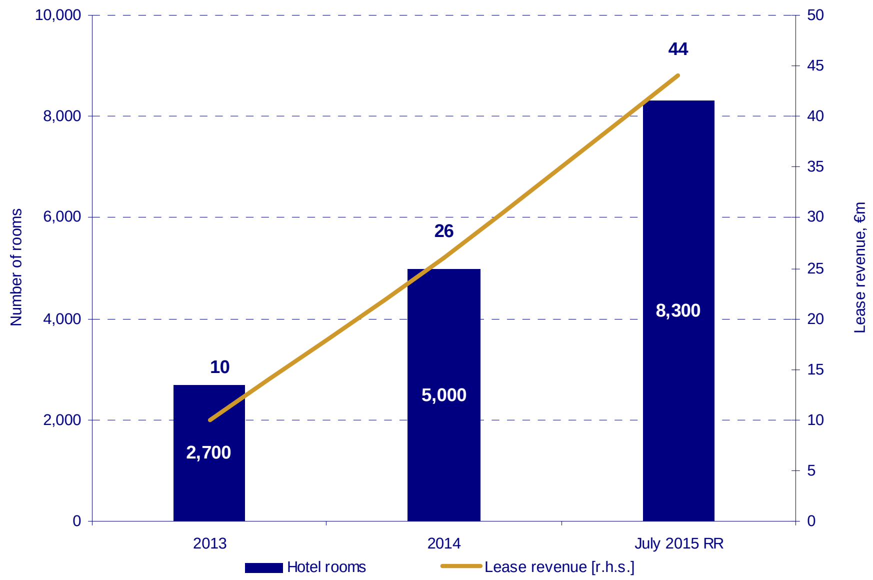
Financial highlights In July, CB reported a rental income run rate of €92m (monthly annualised) for the commercial portfolio corresponding to an in-place rent of €6.50/m² alongside a vacancy rate of 15% leaving plenty of upward scope for further growth. CB also highlighted a monthly annualised FFO run rate of €53m.

PRIMECITY–PURE PLAY IN THE HOTEL SEGMENT

Primecity Investment Plc (PCI) is a specialist in the acquisition and turnaround of distressed hotel assets in the German market. The company floated its shares on the Euronext stock exchange in October 2014 and is the only publically traded hotel investment company in Europe of its kind. Through its extensive network, PCI is able to cherry pick hotels and reposition them for turnaround. Management have an 11 year track record in sourcing the right deals to enable quick turnarounds and generate attractive cash flows through long term contracts with operating partners. This performance history includes over 100 turnaround cases.

The current portfolio is diversified over several key German regions and is generally exposed to strong levels of tourism, business travel and is able to cater to exhibition traffic. These regions and markets offer attractive fundamentals that can drive increasing growth and profitability. As of July 2015, PCI owned 52 hotels comprising some 8,300 hotel rooms with a total value of some €800m.

Figure 9: Portfolio development



Source: First Berlin Equity Research; company

Repositioning and unlocking hidden value Another core competence of PCI is its ability to turn around acquired assets as part of its “Buy and Hold” strategy. PCI can draw upon vast experience of successful turnarounds to quickly identify areas needing refurbishment at newly acquired hotel properties. While each hotel requires its own unique business plan, common repositioning measures often include:

1. Branding plays a key role in the transformation of a hotel into a cash generating asset. PCI has long standing relationships with many of the leading international brands such as Wyndham Hotel Group, Accor, Carlson Rezidor Hotel Group, Best Western, Holiday Inn, or Sheraton to name a few. Access to a wide variety of brands allows PCI to correctly reposition the hotel by optimising its star ranking, tailor a brand best suited for the location and the type of travellers the hotel will cater to. In our view, branding can have a major impact on the hotel’s performance given the low ratio of German hotels that are actually branded as discussed in the market section.

2. Other hotels might benefit from a conversion of existing amenities and services. Perhaps a redundant restaurant or bar might be converted into a fitness studio, spa, conference room, or activity centre for children depending on the clientele targeted for the location of the hotel asset. Improved use of existing space and structures can lead to a significant boost in rental income. Larger CapEx items may include the construction of a conference centre, new wing, or a parking garage. For such big ticket items, PCI looks for a yield of at least 20%, whereas less capital intensive improvements require a 10% yield.

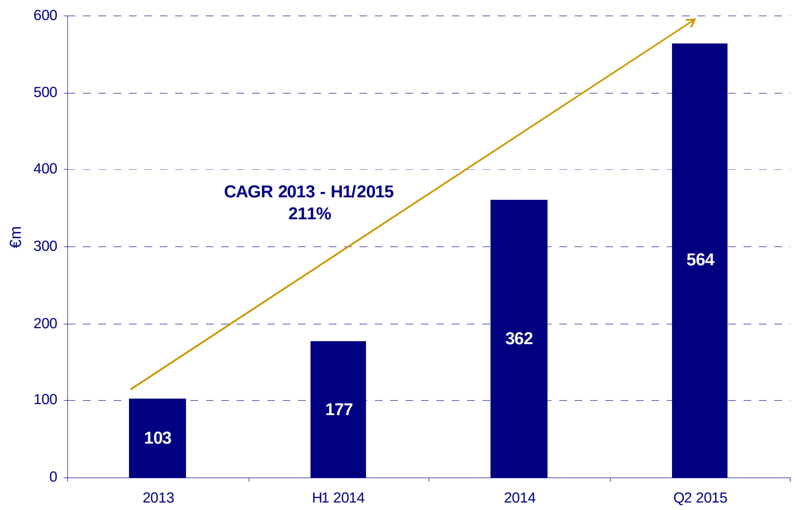
3. Reconfiguring floor plans. Many hotels were designed with excessively large rooms, which add little value for business travellers or tourists, who merely require a comfortable place to sleep. In such cases, PCI can boost room inventory by splitting large rooms into smaller rooms that still provide the comforts sought by guests. CapEx intensity associated with this measure is also kept in check by the fact that the infrastructure (plumbing and electrical) within the building is already in place.

The turnaround process takes normally 6–24 months to implement for a freshly acquired hotel. Moreover, the repositioning goal is now geared towards a long term view. Prior to its listing, PCI had to recycle capital on occasion, due to financing limitations. Now the company has improved financial flexibility, which allows it to hold its refurbished assets to drive growth and stable cash flows through fixed 20 year lease agreements with operating partners.

Following the re-positioning phase, PCI leases out hotel assets to external partners selected for their track records. These operating partners enter into fixed 20 year rental contracts providing good cash flow visibility to the company. PCI also supports the operator by passing on cost saving measures that the company enjoys thanks to its economies of scale.

Key performance indicators Primecity updated its leasing and FFO run rates (monthly annualised) to €44m and €24m respectively in July. PCI has also issued convertible bonds with a volume of €150m since November 2014 and reported an LTV of 40% at the end of June (21% assuming full conversion of the convertible bond), thus underscoring the group's conservative capital structure. Moreover, strong strategic and operational execution has allowed the company to grow its EPRA NAV significantly as highlighted in the figure below.

Figure 10: Primecity EPRA NAV development



Source: First Berlin Equity Research; company

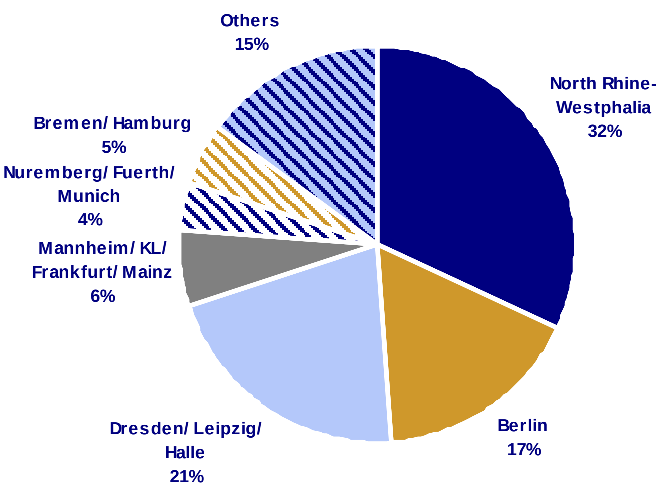
GRAND CITY PROPERTIES–RESIDENTIAL PROPERTY PORTFOLIO

Grand City Properties (GCP) is a residential real estate specialist focused on the acquisition and turnaround of distressed residential rental properties in Germany. GCP primarily targets small to medium-sized portfolios that suffer from high vacancy rates ranging from 15%–25% and harbour hidden value to be unlocked with improved management. The company pursues a “buy and hold” strategy in this regard retaining some 90% of its assets, while opportunistically disposing of up to 10% for high capital gains.

The turnaround strategy has been highly successful in transforming distressed properties into assets that generate recurring cash flows as evidenced by a long track record dating back to 2004. The cornerstone of this success is the ability to identify properties that can be acquired at a deep discount to fair value based on GCP’s strict investment criteria that includes macro and micro location.

Management target densely populated metropolitan areas in Germany characterized by robust fundamentals to drive stable and steady growth. The portfolio is primarily located in North Rhine-Westphalia, Berlin and other major cities.

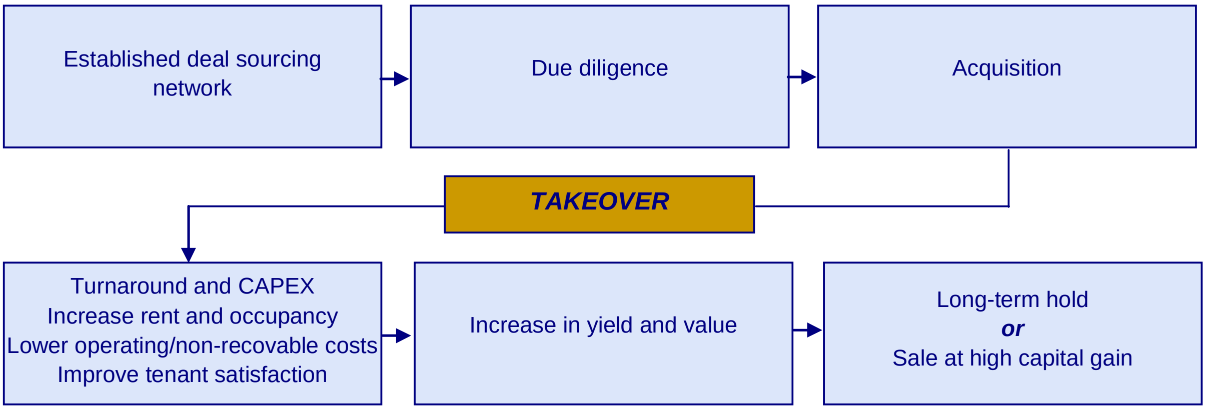
Figure 11: Regional distribution of residential assets



Source: First Berlin Equity Research, company

These mismanaged assets are often burdened with not only low occupancy rates but are also saddled with rentals below market rates. These scenarios allow GCP to optimize its assets through targeted modernization measures and improved tenant management, while maintaining cost discipline. The measures lead to higher tenant satisfaction, higher occupancy, and ultimately rising rental income. These optimized assets are then held to capture the cash flows that improve incrementally as vacancy rates decline and rents head north towards normal market levels. The graphic below outlines the key stages of the company’s acquisition strategy.

Figure 12: Business model and property life cycle



Source: First Berlin Equity Research, company

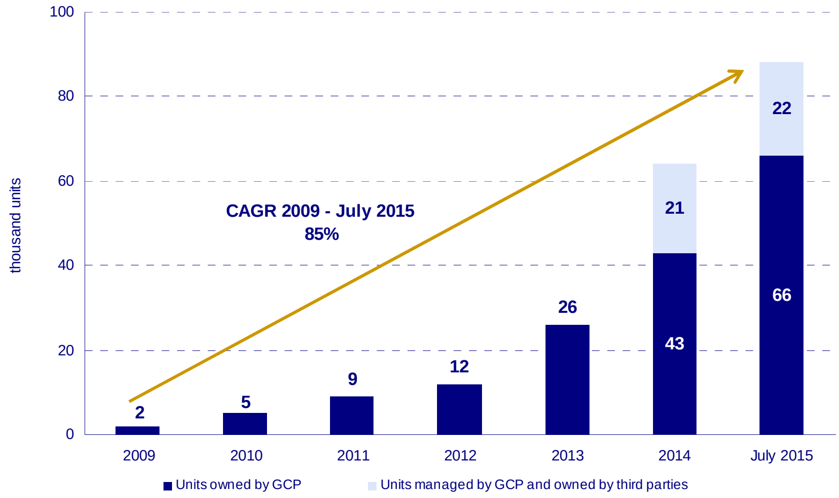
Proven strategy translates into growing cash flows After initial refurbishment measures, GCP continually assesses the value of on-going improvements to its acquired properties. These improvements further enhance the yield on its portfolio by increasing the quality and appearance of the properties and their amenities, raising rents, and boosting occupancy.

Similar to managing commercial properties, tenant satisfaction is a focus so as to reduce churn. Integrated systems allow the staff to regularly measure tenant satisfaction, respond to tenants' needs in a timely fashion and gauge the value of modernization measures such as beautifying the grounds and buildings, or adding playgrounds or even sport facilities.

The aforementioned IT system plays a central role in enabling GCP to achieve its objectives in increasing rents and occupancy. In addition to aiding operational management, the company's proprietary software allows GCP staff to track and respond to market rent trends, and to zero in on opportunities to increase rents in line with the local market.

The success the company's strategy is clear. GCP exited 2013 with 26k units in its portfolio; a figure that swelled to 66k as of July. We expect this figure to grow, driven by a deal sourcing pipeline that often gives GCP a first look before properties hit the marketplace.

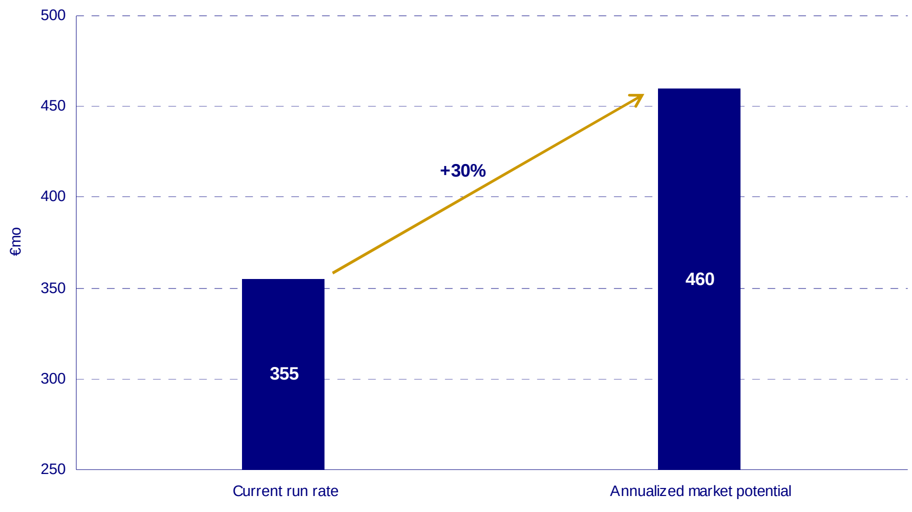
Figure 13: GCP portfolio development in units



Source: First Berlin Equity Research; company

Growth of the portfolio has translated into strong cash flows highlighted by FFO I that reached €76m (excluding disposal gains) in 2014 compared to €4m in 2011 equal to a 167% CAGR for the period. FFO II (including disposal gains) grew from €22m to €129m over the same time frame. GCP reported a monthly annualized rental and operating income run rate of €355m in July alongside an FFO I run rate (monthly annualized) of €130m. The portfolio presently has in-place rent of €5.30/m² and vacancy rate of 12% leaving scope for further gains.

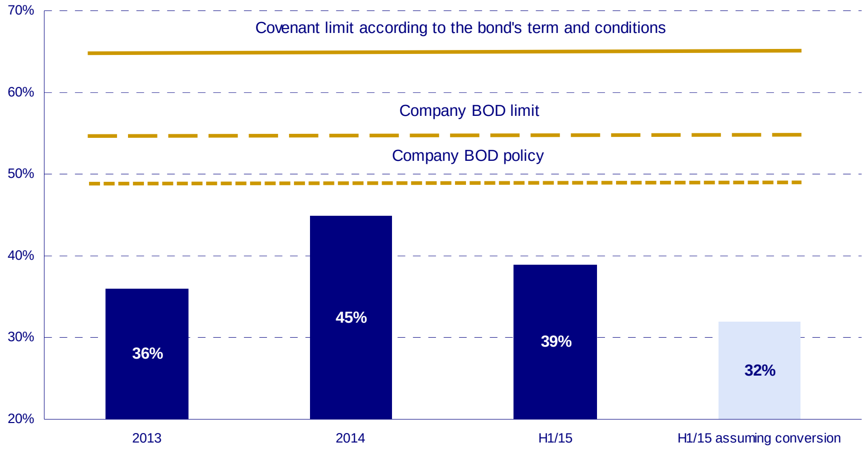
Figure 14: GCP's current annualized rental income vs market potential including vacancy reduction at market rent



Source: First Berlin Equity Research; company

Financing has also been a strength so far thanks to a conservative capital structure. Since the start of 2014, the company has successfully issued perpetual hybrid notes and convertible bonds with a volume of €2.0bn. This includes the capital increase the company placed at €15.90/share for gross proceeds of €151m to fund growth. Grand City has sourced debt from 20 different credit lines spread across 15 financial institutions. Aside from the convertible bond, which we expect to be converted before 2017, there are no significant amounts due until the end of 2020. The debt structure featured a Loan-to-Value (LTV) of 39% at the end of Q2 2015, or 32% assuming full conversion of the convertible bond that has been in the money since August 2014. GCP's internal LTV target is 50% with a 55% limit—a figure that looks very achievable over the near term despite the growth we expect. This has helped GCP become the first German real estate company to be rated by an international rating agency. Moody's rates the company a Baa2 and Standard & Poor's rates Grand City a BBB.

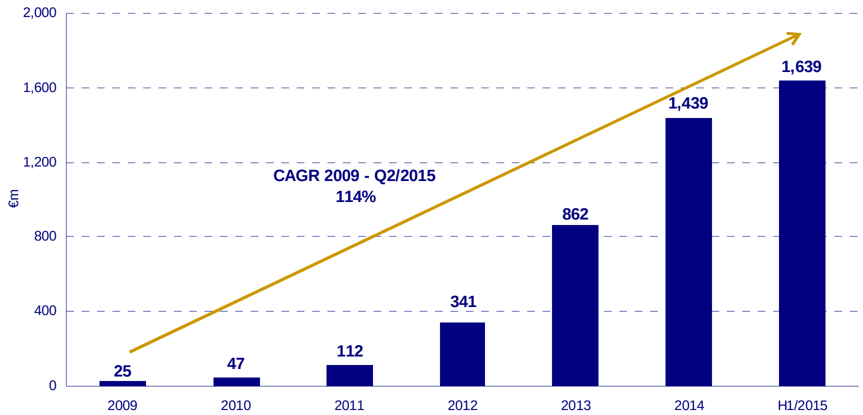
Figure 15: Grand City LTV development



Source: First Berlin Equity Research; company

Grand City floated its shares on the Entry Standard segment of the Frankfurt stock exchange in Q2 2012 and recently traded with a market cap of €2.0bn. As of July 2015, the residential portfolio included 66k units—plus an additional 22k third party units under management—with over €3.5bn in investment property and liquid assets. With some €1.9bn in unencumbered assets, equal to 55% or the portfolio, and a 39% LTV, GCP boasts one of the strongest financial profiles in the German public real estate sector.

Figure 16: Grand City EPRA NAV development as of H1 2015



Source: First Berlin Equity Research; company

Q2 2015 RESULTS CONFIRM GROWTH TRENDS

Top-line and earnings sharply higher On a pro-forma basis (ex: GCP), second quarter revenues increased nearly fourfold Y/Y to €26.1m (€5.3m), thanks primarily to additions to the portfolio and the impact of turnaround measures. Rental and operating income also climbed some 30% Q/Q. The company also noted that most of the acquisitions made in Q2/15 did not impact the three month period.

Figure 17: Highlights from the H1 2015 results

All figures in EUR '000	H1/15A	H1/14A
Adjusted EBITDA	**61,089**	**25,652**
Finance expence	-5,969	-15,007
Tax	-2,448	-4,825
Net income (NI)	**505,381**	**161,571**
FFO I*	40,185	16,057
FFO I per share (€)	**8.04**	**3.21**

* In 2014 GCP was consolidated and FFO I was adjusted to reflect the company's share in GCP. Starting in 2015 GCP is not consolidated.

Source: First Berlin Equity Research; company

Capital gains, property revaluations and other income amounted to €188m in Q2/15 compared to €45m in the prior year period. On a six month basis, this KPI equalled €439m in H1/15 (H1/14: €124m). These revaluations stem from the strong accumulation of commercial assets the past 12 months and the ongoing turnaround gains of the hotel portfolio. The latter reflects the group’s ability to unlock value over time. The share in profit from investment in equity accounted investees (GCP) totalled €33m in Q2 and €62m at the six month mark. AT had no material investments in equity accounted investees in H1/14, given that GCP was then fully consolidated.

Property expenses totalled €5.9m (Q2/14: €21.8m). The difference is chiefly related to the deconsolidation of GCP at the end of 2014. These expenses capture standard operating costs, such as insurance and energy expenses, as well as maintenance and personnel costs associated with properties that are recoverable from the tenants. We note that PCI is only responsible for the maintenance of buildings under the terms of “Dach und Fach,” whereas the operator bears the other expenditures as part of the lease agreement.

Administrative & other expenses totalled €1.3m in Q2/15 vs €2.1m in the same 2014 period. The decrease can again be traced to the deconsolidation of GCP. Administration expense mainly contain the expenses from commercial properties and PCI but also administration expenses from the AT management level. We expect this line item to remain marginal given the scalability of the platform for the group.

The net financial result of €5.3m in H1/15 (H1/14: €-6.8m) benefited from non-recurring income of €11.3m traced to financial derivatives and traded securities. This gain was offset by a finance expense of €-6.0m (H1/14: €-15.0m) with the difference related to the GCP deconsolidation. The H1/15 tax result totalled €-36m (H1/14: €-14m) and comprises a current tax expense of €2.5m and a deferred tax expense of €34m. The group pursues a conservative tax policy that includes a deferred tax figure to account for theoretical property disposals through asset deals at the full German real estate tax rate of 15.825%. Current taxes were lower Y/Y and deferred taxes higher Y/Y after the GCP deconsolidation. Net income (NI) for the period totalled €505m (H1/14: €162m) corresponding to a basic EPS of €0.83 (diluted: €0.73). NI thus climbed over 211% Y/Y.

Funds From Operations (FFO I) totalled €40m in H1/15 equal to a 150% Y/Y increase. The result reflects the profitable growth in rental and other income as well as adjusted EBITDA. AT calculates FFO to reflect the actual holdings of GCP and PCI for added transparency in operational profits. Thus, 34% of PCI's FFO is deducted, while 34% of GCP's FFO is added back according to AT's stake.

Cash flow and balance sheet Net cash from operations totalled to €51m in H1/15 compared to €69m in the prior year period with the difference related to the deconsolidation of GCP. Adjusted for the GCP contribution, the 2014 result amounted to €8.3m. The strong growth on an adjusted basis stems from the expansion of the commercial and hotel portfolios, plus the operational improvements of the existing assets. Cash flow from investing activities reflects Aroundtown's external growth, whereas cash flow from financing encompasses the tap up issues of the straight bond in January 2015 and the convertible bond issued by PCI in February 2015 plus the convertible bond issued by Aroundtown in April 2015.

Figure 18: Financial position highlights

All figures in EUR '000	H1/15A	YE 2014
Cash and liquid assets	224,910	175,750
Investment property *	1,480,155	451,486
Investment in equity-acctounted investees	969,378	908,435
Total assets	3,094,934	1,722,569
Total equity	1,743,391	1,221,661
Pro-forma EPRA NAV*	**2,173,020**	**1,273,270**
Loan-to-Value (LTV)	33%	19%
Pro-forma LTV*	**20%**	**19%**

*including advanced payments for investment properties
** including €320m capital increase in July 2015

Source: First Berlin Equity Research; company

Total assets increased 38% Q/Q to €3.1bn, mainly due to the strong increase in investment properties. These grew some 66% Q/Q to €1.5m reflecting the external growth of the commercial and hotel portfolios in Q2/15 as well as value growth. Aroundtown's EPRA NAV climbed another 19% Q/Q to €1.9bn (€1.6bn) owing mainly to positive earnings booked in Q2/15. The pro-forma EPRA NAV totalled €2.2bn including the effect of the €320m capital increase in July. Total liabilities rose 79% Q/Q to €1.4bn primarily due to the April. Total bank debt also moved some 31% higher Q/Q, as the company continues to take advantage of the favourable interest environment to finance its growth. Thus, net debt including the convertible bond totalled €818m at the end of Q2/15─a 126% Q/Q increase.

Figure 19: Net debt overview H1/15

All figures in EUR '000	H1/15A	YE 2014
Total bank debt	292,609	188,209
Straight bonds	187,036	150,522
Cash and liquid assets	224,910	175,750
Total net debt excluding convertible bonds	**254,735**	**162,981**
Convertible bonds	562,771	96,728
Total net debt with convertible bonds	**817,506**	**259,709**

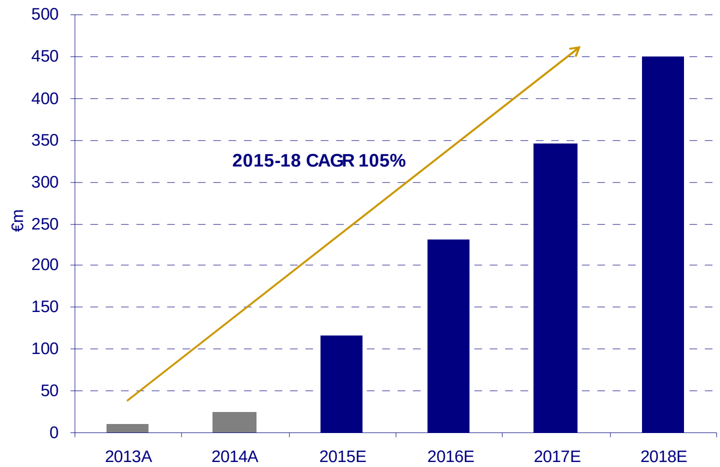
Source: First Berlin Equity Research; company

FORECASTS—LOOK FOR POSITIVE TRENDS TO CONTINUE

Aroundtown fully consolidates the financials of Primecity and Camelbay. For the commercial property business, we expect Aroundtown to grow its portfolio substantially in 2015 to some €1.2bn, driven by the acquisition of some €620m in new properties. This is supported by an abundance of opportunities in the commercial property space along with available financing, thanks to the recent capital increase. We look for the commercial assets to grow at a 458% CAGR for the period 2015–18. This is driven heavily by the Y/Y growth underway in the running fiscal year.

For PCI, the key driver in our model is the rate of acquisition. We have modelled 85% growth in PCI's hotel assets for 2015—a target supported by the strong growth reported in July (18 new hotels equal to 53% Y/Y growth). We expect the hotel assets to increase at a 59% CAGR for the period 2015-18 with growth slowing down below 30% in 2019. As discussed in the market overview section of this report, we believe there will be adequate deal flow for PCI to boost its portfolio. The combined growth of the commercial and hotel portfolios corresponds to an asset CAGR of 99% for AT for the period 2015-18.

Figure 20: AT rental and operating income (ex: GCP)



Source: First Berlin Equity Research; company

We expect Aroundtown revenues from rental and operating income to increase at a CAGR of 105% for the period 2015-18 on an adjusted basis (ex: GCP) to €450m in 2018. For 2015, we target revenues of €116m. This estimate is supported by the latest monthly annualised run rates of €92m and €44m reported respectively for Camelbay and PCI. We forecast adjusted EBITDA of €141m for Aroundtown in 2015 and NI of €600m before minorities.

Grand City stake and figures The 34% stake in GCP is now accounted for in the P&L under the equity method after having been deconsolidated at the end of 2014. For Grand City, we have modelled rental and operating income of €296m for 2015 with a 2015-18 CAGR of 32%. The company exited 2014 with 43,000 units in its portfolio and reported that another 23,000 units were acquired as of July. We expect similar growth of the near- and mid-term with the portfolio reaching 134,000 units in 2018.

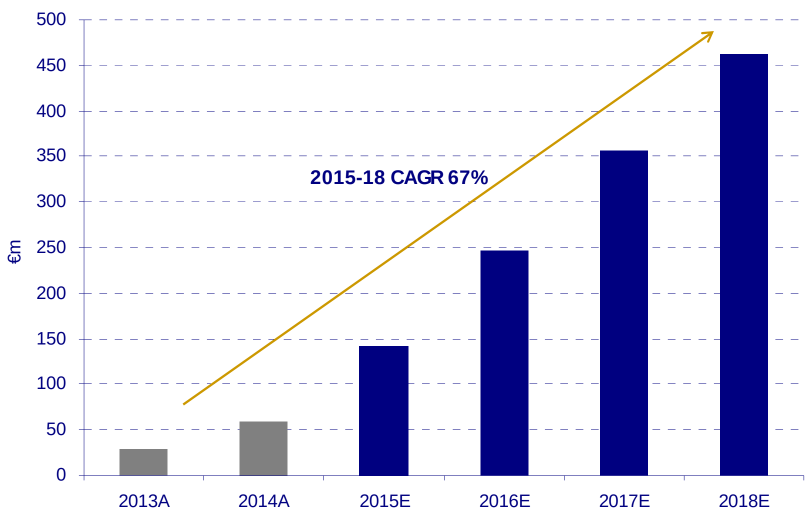
Growth in residential rentals has proven to be quite stable in Germany as witnessed during the financial crises during 2008-2012 when rents continued to climb steadily. This indicates the market is not overly sensitive to macro economic dips. With more and more Germans migrating to the city and limited housing in metropolitan locations, we believe prices will continue to rise. While the company will dispose of properties in special situations when attractive opportunities present themselves, we do not regard this as a core component of the business model and have therefore not included this into our forecasts.

Our adjusted EBITDA figure for GCP is €151m. We model a 2015-18 CAGR of 32% with adj. EBITDA topping €335m in 2018. We expect the company to generate FFO of €104m this year, and management paid a cash dividend of €0.20 per share for 2014 consistent with the dividend policy to distribute 30% of FFO.

Capital gains, property revaluations, and other income forecasts Aroundtown derives a large portion of NI from capital gains, property revaluations and other income stemming from the business combinations and reflecting the increase in fair value of the assets. Property valuations are determined by independent external market valuators, such as Jones Lang LaSalle GmbH, and are driven by two key factors in the value-add strategy. Firstly, improved revenues generated from the rental income and long term lease contracts of the repositioned assets in all three portfolios can trigger valuation upside. Secondly, the three companies often acquire properties at prices below the relevant market level, thus auditors asses the impact of the turnaround measures and make valuation adjustments accordingly vs. the market environment.

We expect this line item for AT to top €548m in 2015, driven by the high acquisition volume we forecast for commercial properties, and to reach €576m in 2018. In addition to the direct impact of turnaround programs perused by the three portfolios, we also believe valuations have benefited from the overall buoyancy of property markets in the past years, fuelled by rock bottom interest rates. In our view, future valuations could be less dynamic, when interest rates begin to edge higher. We model for a 67% adjusted EBITDA CAGR for the period 2015-18.

Figure 21: Aroundtown adjusted EBITDA development



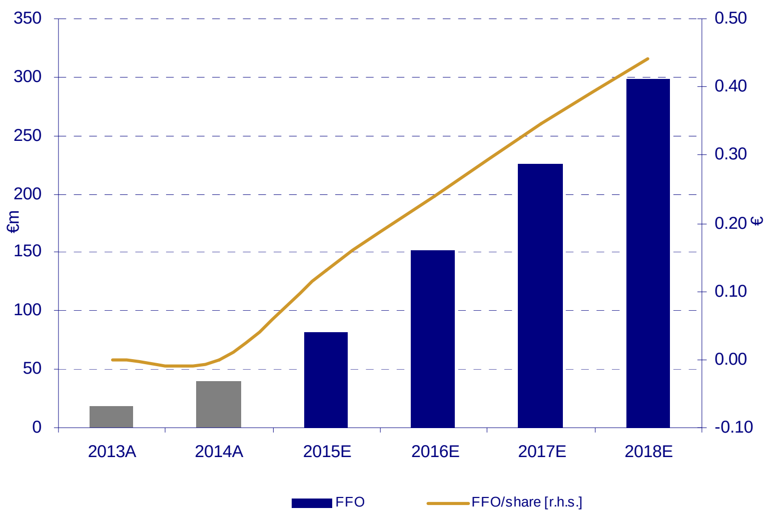
Source: First Berlin Equity Research; company

Property operating expenses This contains mainly purchased services, ancillary costs, such as energy expenses, as well maintenance and refurbishment costs that are all recoverable from the tenants. We expect these to climb with portfolio growth alongside the rise in purchased services. However, these expenditures are kept low, due to the significant investments already included in the initial acquisition price. Moreover, a large portion of ongoing maintenance costs are paid directly by the tenant as part of the lease agreement with the operator. We model property OpEx at 7.3% and 22.0% of revenues respectively for PCI and CB going forward equating to a ratio of some 18.0% at the AT level depending on the future contributions of the consolidated holdings.

Administration & other expenses These are less coupled to portfolio growth than property OpEx and thus offer greater operating leverage as the portfolio expands. In our view, the current management platform has the ability to facilitate portfolio growth with only nominal additional costs. For AT, we calculate indirect OpEx at 5.3% of revenues for 2015 with the ratio compressing to 4.7% in 2018, driven by scale effects.

The growth of the company will likewise impact the financing costs as AT and PCI draw on new credit lines to finance acquisitions. Our estimate of future tax expense includes both current corporate and property taxes and non-cash deferred taxes. FFO is also set to increase significantly with solid contributions from all three portfolios. On our numbers including the adjustments for Grand City, FFO should more than double in 2015 to €82m (2014: €39m). We look for this figure to climb steadily over the mid-term and breach the €299m level in 2018 equal to FFO/share of €0.44.

Figure 22: Aroundtown FFO development

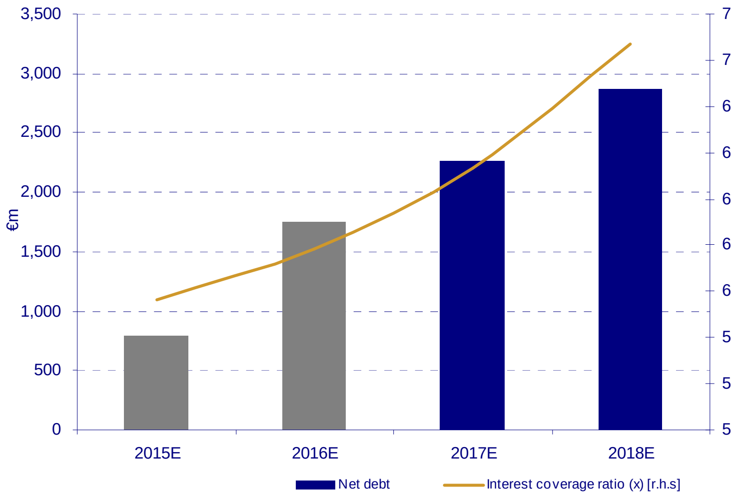


Source: First Berlin Equity Research; company

Capital required to finance growth Aroundtown pursues a conservative capital structure and uses Loan-to-Value (LTV) as a KPI. The company reported a LTV of 20% in Q2/15. On our calculations, the company will need ~€2.0bn in fresh capital to finance our portfolio growth targets through 2018. For now, we have only included debt financing in our forecast. We expect Aroundtown to also leverage its solid financial structure to finance its commercial property operations. We have assumed PCI will rely on its good standing with financial institutions and source debt, although we expect the company to also tap the capital markets opportunistically now that PCI is publically traded.

On this basis and assuming full conversion of the outstanding convertible bonds by the end of 2018, the LTV would remain below the 40% level throughout our forecasts. But the LTV would track much lower if equity is raised. The company reported total liquid assets of €225m at the end of H1/15 with net debt of ~€817m. We target net debt of €799m with cash and equivalents (including trade securities) of €204m in 2015.

Figure 23: Interest coverage ratio (Adjusted EBITDA/interest), net debt



Source: First Berlin Equity Research; company

GERMAN REAL ESTATE MARKET DATA POINTS

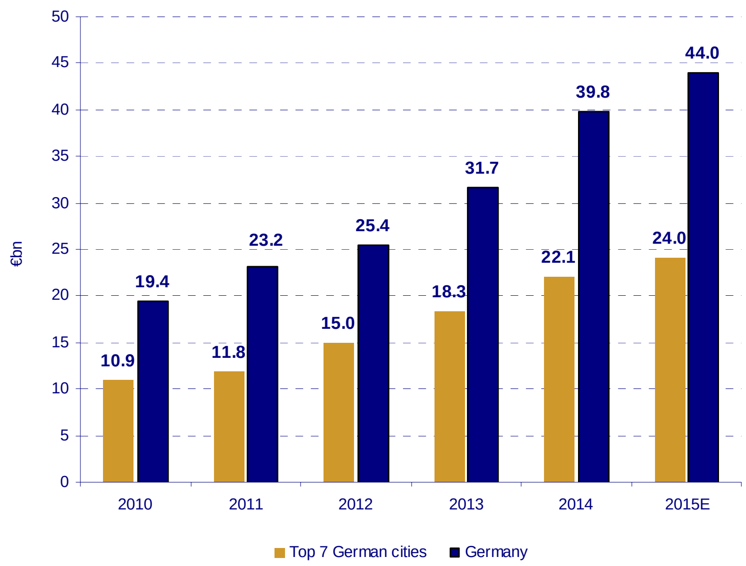
The Eurozone is benefiting from cheap oil and a weaker Euro, and improving macroeconomics have provided positive impulses to the real estate sector with Germany ranking among the most attractive in Western Europe. All three major segments targeted by AT and its entities continue to exhibit strong fundamentals. Commercial property transactions (Camelbay) climbed another 26% Y/Y growth in 2014 to €39.8bn on the back of a strong German economy. Meanwhile, the hotel segment (Primecity) flourished last year with transactions topping the €3bn threshold equal to 82% Y/Y growth. In the residential sector (Grand City), the number of units changing hands in 2014 increased to 225,800 units (2013: 223,500 units), although a 16% decline in residential unit pricing lead to a 14% Y/Y volume decline to €12.1bn for the period.

In this section, we highlight a few KPIs for each sector supporting our view that Aroundtown and its holdings are positioned in a market that appears set to support continued growth over the mid-term. While these data points are not all encompassing, they do underscore the quality of the German residential market as well as the competitiveness. Importantly, Germany does not appear to be headed towards a property bubble on the scale suffered in other western markets such as the UK and America. While rents have soared in some German cities the past few years, they have remained affordable relative other major cities in Western Europe.

GERMAN COMMERCIAL SECTOR

During the last five years, the German commercial real estate market has exhibited steady growth. As depicted below, in 2010 - 2014 the investment volume increased by a CAGR of 19.7% and is estimated to grow a further 10% in 2015. In 2014, some €39.8bn was invested in German commercial property, corresponding to a 26% Y/Y increase. According to the latest data some €24.2bn has already been invested thus far in 2015.

Figure 24: Investment volume in commercial real estate in Germany in 2010 - 2015



Source: First Berlin Equity Research, Colliers International

The top 7 major cities for commercial real estate in Germany are Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, and Stuttgart. These accounted for 60% of the overall investment volume in the same time frame.

The positive development trend can be traced to a favourable economic environment fuelled by low interest rates helping spark investments in real estate. This has boosted leverage for investors, meaning they do not have to tie up as much of their own capital. Another reason for the steady growth in investment volume is the rising share of portfolio transactions, which totalled around 31% of the overall transaction volume in 2014 and grew 57% Y/Y to €12.4bn. In our view, both market drivers favour AT. Firstly, the company is able to take advantage of current debt financing terms and increase its asset base. We believe Aroundtown's sheer size puts the company in a good position to fully exploit the present rock bottom interest rate environment. Moreover, as the number of portfolio transactions increases, AT will have further opportunities to scoop up distressed assets, which have to be sold to adjust purchased portfolios.

Moreover, international investors in the German commercial real estate market continue to be active. In 2014, foreign entities invested a total of €17bn and increased their investment volume by 86% on Y/Y basis. Currently, international investors own 43% of German commercial properties.

The figure below summarises transaction data for commercial real estate in Germany and highlights five major cities overlapping with AT's portfolio. The data show the wide range of growth exhibited last year spearheaded by Frankfurt am Main at 46%. However, in 2014 the Y/Y transaction volume growth in Stuttgart (7%), Munich (8%), and Berlin (14%) all lagged behind the national average (30%). We also note that some €200–500m was invested in hubs like Bremen, Dresden, Essen, Hanover and Leipzig.

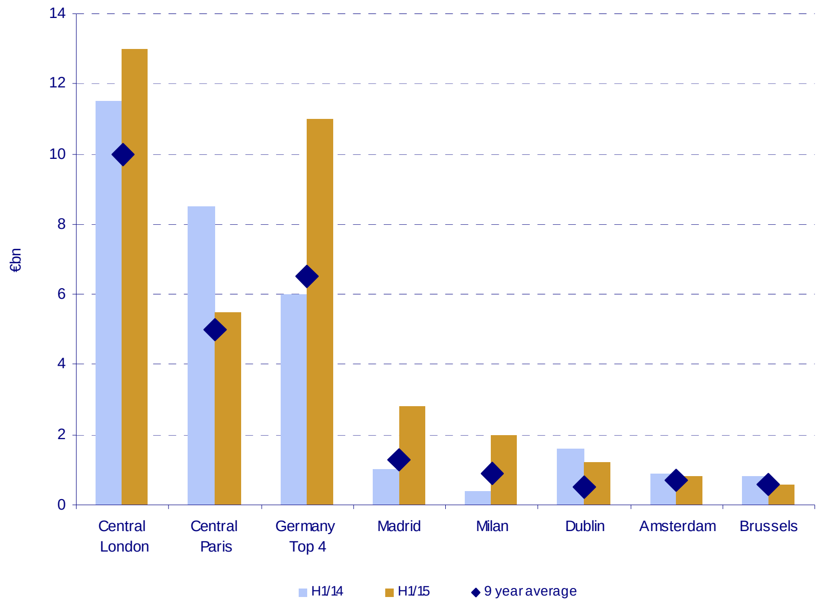
Figure 25: Transaction volumes for commercial real estate in Germany

	Germany	Munich	Berlin	Frankfurt	Hamburg	Stuttgart
Transaction volume in 2014, €m	39,797.9	5,153.7	4,000.0	5,011.3	3,650.0	1,001.7
Transaction volume in 2013, €m	30,699.6	4,765.0	3,508.0	3,421.8	2,800.0	934.1
Transaction volume 10y average, €m	30,146.7	3,551.1	3,328.2	3,414.6	2,601.0	834.6
Largest group of investors (share)	Open-ended REFs/Special funds (23%)	Open-ended REFs/Special funds (26%)	Asset/Fund managers (31%)	Open-ended REFs/Special funds (33%)	Open-ended REFs/Special funds (35%)	Open-ended REFs/Special funds (48%)
Largest group of sellers (share)	Property developers (31%)	Private investors (18%)	Asset/Fund managers (23%)	Open-ended REFs/Special funds (33%)	Property developers (35%)	Property developers (27%)
Most important type of real estate (share)	Office (50%)	Office (61%)	Office (59%)	Office (75%)	Office (74%)	Office (73%)
Prime yield, offices	4.58%	4.00%	4.75%	4.75%	4.50%	5.10%
Prime yield, retail	4.16%	3.50%	4.50%	4.20%	4.60%	4.20%
Prime yield, industrial/logistics	6.40%	6.30%	6.55%	6.25%	6.50%	6.50%

Source: First Berlin Equity Research, Colliers International

The size of the commercial real estate market in Germany's top 4 metropolises ranks favourably with central London and central Paris and leaves other western European hubs far behind as depicted in the figure below. In H1/2014, the German top 4 showed the highest increase in transaction volume on a Y/Y basis compared to London and Paris. Madrid and Milan likewise experienced exceptional growth, which could be a harbinger of a shift in taste regarding location.

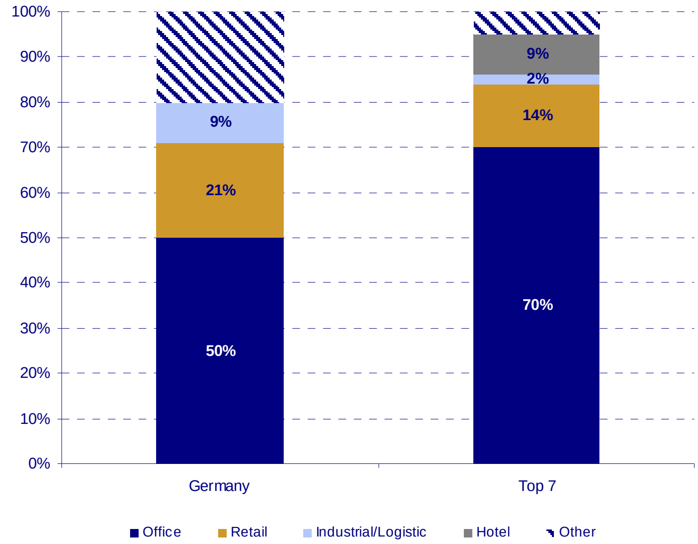
Figure 26: Commercial real estate investment volume in Western Europe (selected cities)



Source: First Berlin Equity Research, PNB Paribas Real Estate

Figure 27 shows the make up of 2014 transaction volume in German commercial real estate both on a national basis and for the top 7 cities. The major investment target was office real estate, followed by retail properties. In 2014, transaction volume of retail properties amounted to €8.4bn equal to 9.5% Y/Y growth. Logistics and industrial properties attracted €3.6bn investments in 2014–a jump of 57.2% on the 2013 level.

Figure 27: Investment volume by asset class in 2014



Source: First Berlin Equity Research, Colliers International, German Property Partners

In 2014, office take-up (total floor space let) in the top 7 German cities increased by 3% Y/Y and amounted to 3,003,500 m^2. Berlin led with a 26.6% Y/Y increase, while Munich and Frankfurt performed below their trailing ten year averages. In 2014, the average monthly prime rent in the top 7 amounted to €35/m^2 matching the 2013 level. This was also 10% higher than 2011 and 2012, when the prime rent rate sank to €31.82/m^2 from €34.76/m^2 in 2010. The average monthly rent for the top 7 cities increased to €14.99/m^2 in 2014 just edging the 2013 level (€14.89/m^2) after having dipped down to €14.52/m^2 and €14.54/m^2 in 2011 and 2012 respectively. The vacancy rate for the top 7 cities bottomed at 6.7% in 2014 having trended below 10% the last five years. The figure below summarises 2014 office property lease data for the top 7 and AT's target cities.

Figure 28: Office property lease data

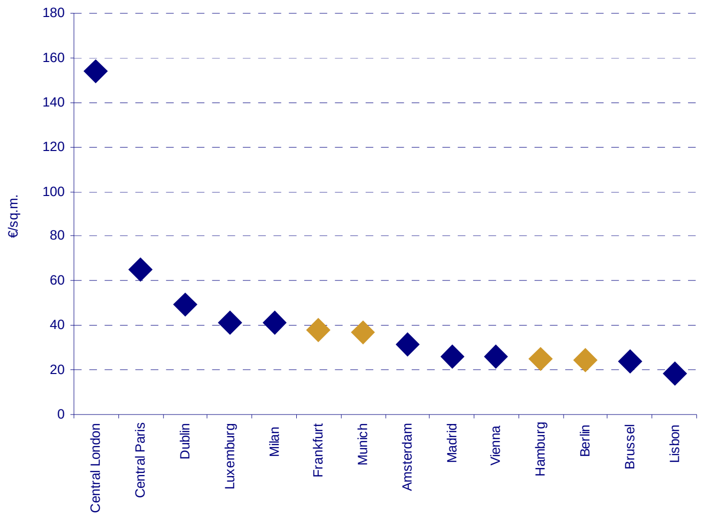
	Top 7*	Munich	Berlin	Frankfurt	Hamburg	Stuttgart
Share on AT's portfolio	57%	19%	14%	13%	7%	4%
Stock of office space, million sq.m.	88.79	22.77	18.50	11.61	13.35	7.54
Office space take-up in 2014, sq.m.	3,003,500	620,900	701,300	367,500	525,000	278,900
Office space take-up in 2013, sq.m.	2,914,400	594,700	553,900	449,500	440,000	258,300
Office space take-up 10y average, sq.m.	3,005,900	696,000	583,400	473,700	486,300	201,100
Prime rent, €/sq.m.	35.00	34.50	23.00	38.00	24.50	21.50
Average rent, €/sq.m.	14.99	14.90	13.70	19.50	14.50	12.60
Vacant office space, sq.m.	5,989,000	1,156,500	925,000	1,454,500	798,400	314,200
Vacancy rate	6.7%	5.1%	5.0%	12.5%	6.0%	4.2%

*Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, München, Stuttgart

Source: First Berlin Equity Research, Colliers International

The figure below charts prime rent in the top 4 German cities with west European capitals in Q2/2015. Office space in Germany continues to rank towards the middle and lower end of the scale of west European cities led by central London and central Paris.

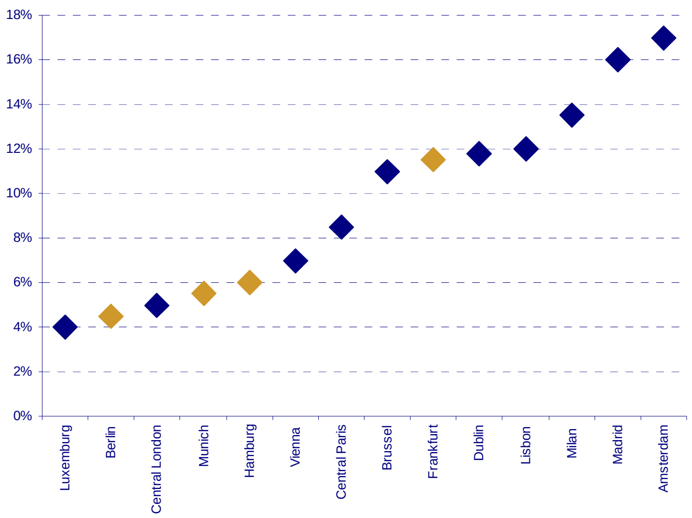
Figure 29: Monthly prime rent rates for office real estate in Western Europe (selected cities) in Q2/2015.



Source: First Berlin Equity Research, PNB Paribas Real Estate

Looking at vacancy rates for office real estate in Western Europe, we conclude the German market offers a good combination of property occupancy and rent, which makes investments in German commercial real estate increasingly attractive for domestic and foreign investors.

Figure 30: Vacancy rates for office real estate in Western Europe (selected cities) in Q2/15



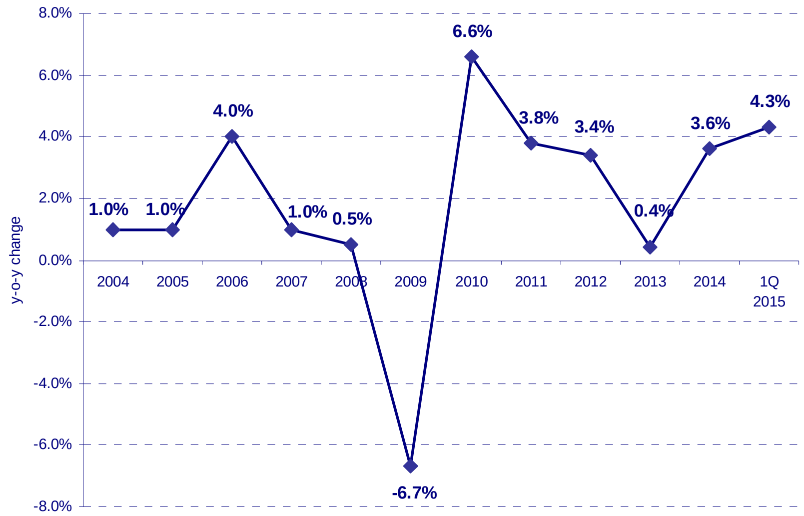
Source: First Berlin Equity Research, PNB Paribas Real Estate

Overall, urbanization trends in Germany have fostered an environment for further development of commercial real estate. We believe more office, retail, and industrial properties will be required to meet the demands of expanding urban population. However, for 2015 growth could slow if companies postpone their plans, due to current uncertainties in the Eurozone and more reserved outlooks on German economic growth.

GERMAN HOTEL LANDSCAPE

PCI focuses on opportunistic acquisitions of hotel properties in major German cities. This marketplace demonstrates positive metrics with particularly strong growth over the past five years since the dip in 2009. Occupancy rates in the 3 to 5 star category have also been on the rise and approached 70% in 2014 according to the German Federal Statistical Office. Revenue per available room (RevPAR) showed a 4.1% Y/Y increase to €65.34 in 2014, whereas the overall hotel accommodation sector notched a 3.6% increase.

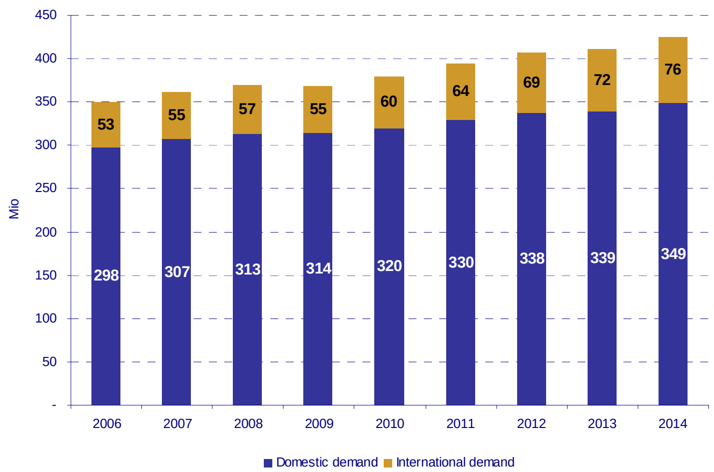
Figure 31: Revenue development in the hotel accommodation sector (2004–Q1/15)



Source: First Berlin Equity Research; German Federal Statistical Office

Recent data likewise confirm Germany's status as an attractive travel destination for both recreational and business travellers. In 2013, total tourism related expenditures reached €278bn, while some 87% of this volume was traced to domestic travellers making Germany the biggest market for domestic tourism within Europe. Numbers remained strong in Q1/15 with some 77m overnight stays booked led by domestic tourism, which accounted for nearly 82% of this figure.

Figure 32: German overnight demand development



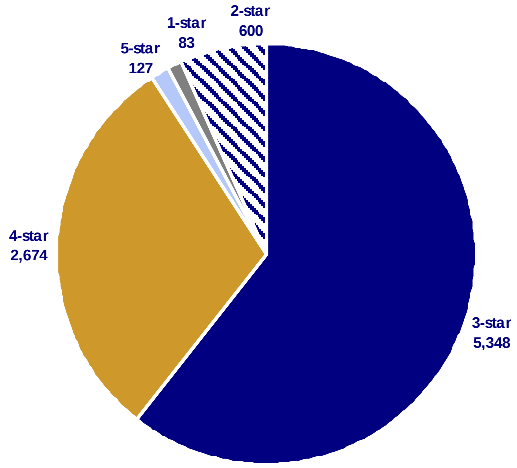
Source: First Berlin Equity Research; German International Hotel Association, Hospitality Market of Germany 2014

According to the Global Business Travel Association, Germany ranks as the top business travel market in Europe, while the International Congress and Convention Association (ICCA) reports that Germany is the premiere ranked conference location in Europe placing second worldwide only behind the US. In 2013, business travellers spent €37bn corresponding to 13% of overall travel expenditures. Of this figure, some 91% of all business overnight stays were booked in mid- to upper midscale hotels. This metric gives us confidence that PCI is well positioned with its focus on the 3 to 4 star hotel category. Travellers were mainly drawn to major German cities. Berlin, Munich, Frankfurt am Main, Hamburg, and Cologne were the top German destinations for travellers in 2013. The map below overlays the number of overnight stays by target city and region with the key locations of PCI's hotel properties.

Figure 33: Overnight numbers for major German cities and regions in 2013

Source: First Berlin Equity Research, Primecity Investment PLC, German National Tourist Board, Incoming-Tourism Germany, 2014

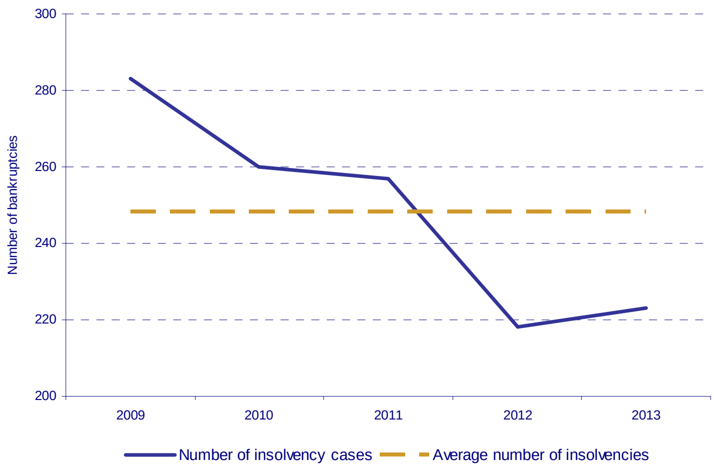
Figure 34: Breakdown of German hotels by category (Q1/15)



Source: First Berlin Equity Research, German International Hotel Association, Hospitality Market of Germany 2014

PCI's growth is determined by its ability to acquire mismanaged or underperforming hotel assets in the German market. According to the latest market data, the number of German insolvency cases has averaged around 250 per annum (Figure 35), although this is merely the reported number with actual insolvency cases tracking much higher. Plus, we believe many of the deals PCI looks at are shown to the company before they actually reach the market. Figure 17 above shows that the 3 to 4 star category constitutes some 91% of the total hotel properties. Assuming this ratio is applicable to insolvency cases, this implies that there are approximately 225 reported hotel insolvencies per year in the 3 to 4 star group that could be assessed by PCI for acquisition. However, we note that PCI also upgrades lower stared hotels with refurbishments that may be as simple as converting a restaurant into a fitness facility. Thus, the number of candidates is far greater than the above metrics.

Figure 35: Insolvencies in the German accommodation services sector

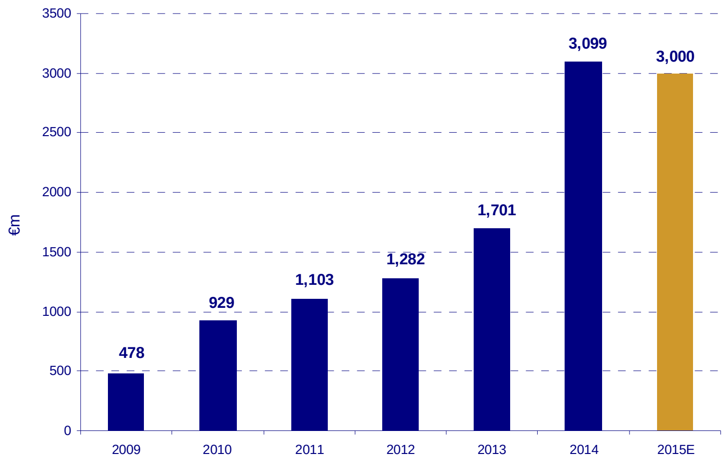


Source: First Berlin Equity Research, German International Hotel Association, Hospitality Market of Germany 2014

The German hotel market is highly fragmented made up predominantly of smaller hotel asset owners. Moreover, the relatively low penetration rate of branded chain hotels also differentiates Germany from other leading hotel markets. Presently, only 11% of German hotels, or 39% of available rooms, are branded. In our view, this provides upward scope for brands to increase their coverage on PCI's home turf. The company's sizeable German portfolio makes it an attractive partner for brands and distinguishes PCI from smaller asset owners that lack access to branding partners.

German hotel investment market Not only are tourism and business travel metrics on the rise, investments in the German hotel market have also been steadily climbing (45% CAGR for 2009-2014) and produced a bumper year in 2014 with a €3bn investment volume equal to an 82% Y/Y increase. A recent report projects a similar volume in 2015 with investments expected to be north of €3bn.

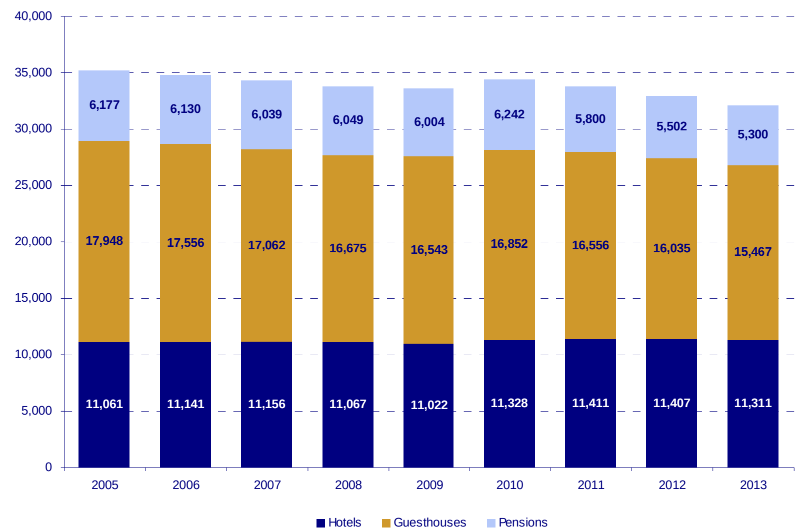
Figure 36: Transaction volume trend for German hotel properties



Source: Colliers International, Germany Hotel Market Report 2014/2015

The lion's share of these funds flowed into the 3 and 4 star hotel segments, which captured €1.6bn, or 53%, of aggregate transaction volume. The second most attractive category was the luxury hotel segment with nearly €1bn (31%) in transactions. Matching the top destinations of travellers, investors preferred to fund hotel projects in Berlin, Frankfurt am Main, Düsseldorf, Cologne, Hamburg, Munich, and Stuttgart accounting for 71% of the overall volume. The figure below breaks down the main groups of investors in real estate assets.

Figure 37: Accommodation supply 2005-2013

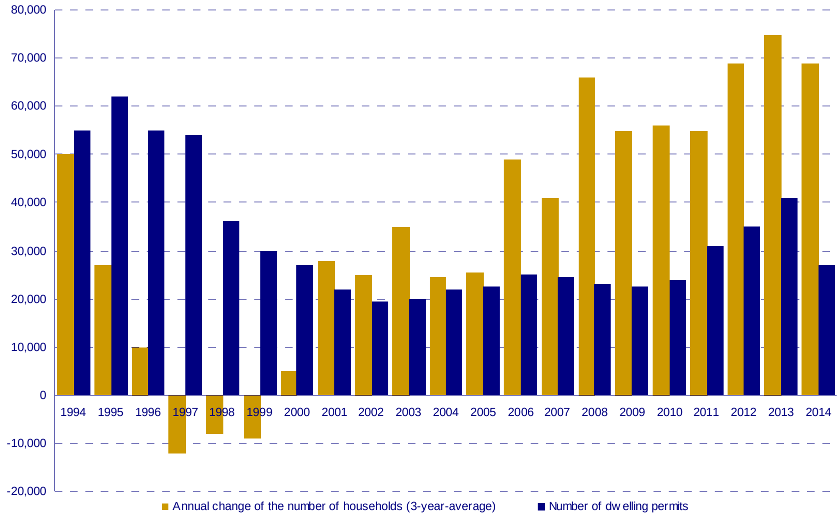


Source: Deutscher Hotel- und Gaststättenverband, Zahlenspiegel Q1 2015

GERMAN RESIDENTIAL MARKET

The German residential real estate market can be characterised by a large demand/supply gap. Although the number of dwelling permits and house construction volumes have been constantly increasing since 2000, the rate has been sharply outpaced by the growth of households, due to current demographic trends. The most acute shortages can be found in the top 7 German cities: Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, and Stuttgart. The over-demand trend in these cities is shown below, which compares changes in household numbers paired with potential additions of residential properties.

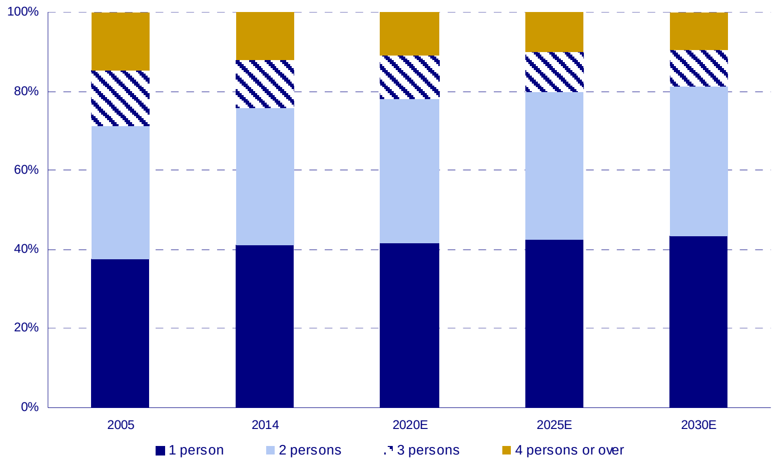
Figure 38: Demand and supply analysis of residential real estate in top 7 cities



Source: First Berlin Equity Research, DG HYP

The total number of building permits in Germany has been steadily rising since the end of 2009. In 2013, the number of building permits for dwellings reached a ten-year high of 272,400, and the positive trend continued in the first half of 2014. However, due to the shortage of land in major cities the housing shortage is unlikely to ease and is already expanding from large city centres to surrounding areas. The main driver of this exploding demand is the change in household structures with the strongest growth in the 1-2 person household categories. This helps explain the disproportional demand expansion relative to the overall population growth in Germany.

Figure 39: Projected household structure by family size

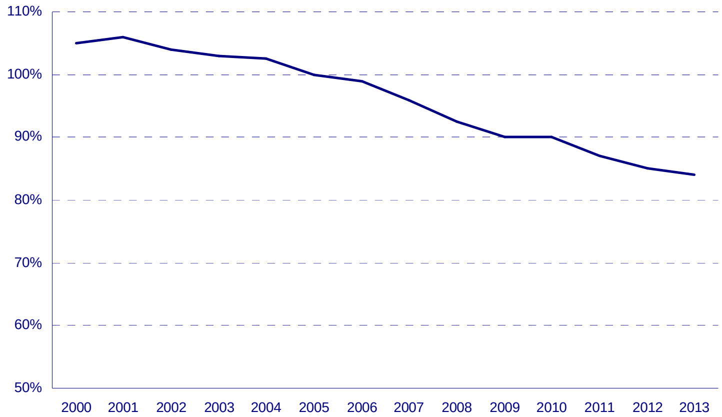


Source: First Berlin Equity Research, Statistisches Bundesamt

Fuelled by this burgeoning demand, occupancy rents are climbing steadily. In the period from 2003 to 2013, the average first occupancy rent in the top 7 cities has increased by 36% with the highest growth recorded in Hamburg (48%), Berlin (46%), and Düsseldorf (45%). Rents are projected to climb even further as the demand widens. According to DG Hyp, the average first occupancy rent for the top 7 cities will increase €0.60 to €12.5/m^2 in 2015. Prime rent looks set to increase from €16.9/m^2 to €17.4/m^2 with the rent contagion effect now spreading from big cities to the surrounding areas.

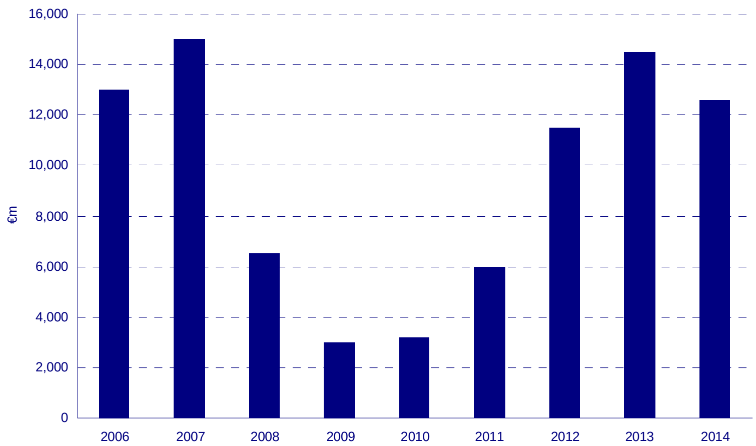
Rising prices and currently low interest rates are key indicators of an overheated real estate market. However, the German Bundesbank recently reported that the total volume of mortgages to retail borrowers has increased a mere 2% since 2010, while lending standards have been tightened. Analysis of the development of household debt to the disposable income implies that the overall debt sustainability in Germany has actually improved since 2001. This is a positive trend for the residential real estate market suggesting that price increases are supported by strengthening purchasing power. As the result of growing demand and upward price trends in residential real estate market, the transaction volume in 2013 nearly quadrupled the level recorded in 2010.

Figure 40: Household debt as percentage of disposable income



Source: First Berlin Equity Research, Deutsche Bundesbank

Figure 41: German residential real estate transaction volume



Source: First Berlin Equity Research, BNP Paribas Real Estate

In 2014 the major investment trend was the shift from big cities to the regions on the periphery of the top markets. Thus, for example, Berlin’s portion of the total number of units transacted slid from 44% in 2013 to just 14% in 2014. Finally, the German residential real estate market continues to be clearly dominated by domestic investors accounting for an 86% share of the total transaction volume in 2014. In terms of investor type, listed real estate companies rank first with 80% of the total amount followed by private investors at 5.5%, and property firms with 4.4% of the total.

MANAGEMENT TEAM AND ADVISORY BOARD

Shmuel Mayo, Chief Executive Officer
Mr Mayo has been a part of management of Aroundtown and its subsidiaries for eight years. He previously served as the CEO of the Dankner Group. Under his management, the Group became a leading international investment conglomerate with over $8bn of assets. Mr Mayo holds a BA in Economics and Accounting, Law and CPA.

Eyal Ben David, Chief Financial Officer
Mr Ben David has been on the Aroundtown Management Board for seven years. Previously, he ran a Private Practice of Certified Public Accountants focused on infrastructure and real estate industries. Mr. Ben David is a certified public accountant (CPA) and holds an MBA.

Reshef Ish-Gur, Director
His previous posts included controller and business development manager in the environmental engineering industry as well as a member of the audit department at KPMG. Mr Ish-Gur is a CPA and has a BA in audit and finance.

Elena Koushos, Director
Partner at Koushos & Korfiotis Advocates & Legal Consultants LLC. Ms Koushos holds a LLM from the Queen Mary University of London and a LLB from the University of Leicester.

Jelena Afxentiou, Director
Ms Afxentiou joined Aroundtown in 2011 and has 20 year experience in real estate and hotel business, specializing in finance and accounting.

Yakir Gabay, Advisory Board Chairman
Prior to joining the Aroundtown Advisory Board, Mr Gabay served as Chairman and Managing Partner of an investment company with over $30bn in assets under management. He also previously served as the CEO of Bank Leumi. He holds a BA and MBA in accounting and economics and is also a CPA.

Andrew Wallis, Advisory Board Vice Chairman
Prior to joining the Aroundtown Advisory Board, Mr Wallis was previously owner and CEO of a large German property company. He also spent 10 years working as an investment banker in London for Merrill Lynch and JP Morgan. Mr Wallis holds an MBA and CFA.

Dr Axel Froese, Advisory Board Member
Dr Froese is founder and managing partner at Froese Asset Management GmbH. Previously, he was Head of Asset Management at Cordea Savills GmbH, founder and managing partner at IPAM GmbH, and former Head of European Real Estate Group of the Bank of Scotland.

INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Revenue*	**181,000**	**257,000**	**116,417**	**231,337**	**345,269**	**450,324**
Capital gains, property revaluations & other	247,000	878,000	548,081	488,124	471,211	576,185
Result from equity-accounted investees	0	0	80,508	107,518	142,025	181,934
Property OpEx	-44,000	-102,000	-19,954	-41,645	-62,467	-80,197
Cost of buildings sold	-55,000	-14,000	0	0	0	0
Administration & other OpEx	-5,000	-8,000	-6,134	-11,380	-16,430	-21,067
Operating income (EBIT)	**324,000**	**1,011,000**	**718,917**	**773,954**	**879,609**	**1,107,179**
Net financial result	-13,000	-27,000	-25,429	-42,617	-57,991	-69,414
Other financial expenses	8,000	-33,000	0	0	0	0
Pre-tax income (EBT)	**319,000**	**951,000**	**693,488**	**731,338**	**821,618**	**1,037,765**
Tax expense	-6,000	-17,000	-11,322	-19,715	-28,459	-37,031
Deferred tax	-30,000	-36,000	-82,212	-73,219	-70,682	-86,428
Tax result	**-36,000**	**-53,000**	**-93,534**	**-92,934**	**-99,141**	**-123,459**
Minority interests	142,000	183,000	41,997	44,688	50,573	64,001
Net income / loss	**283,000**	**898,000**	**599,954**	**638,404**	**722,477**	**914,306**
Basic EPS (in €)	**n.a.**	**n.a.**	**0.89**	**0.93**	**1.03**	**1.26**
Diluted EPS (in €)	**n.a.**	**n.a.**	**0.76**	**0.81**	**0.92**	**1.16**
Adjusted EBITDA	**29,000**	**60,000**	**141,528**	**246,438**	**355,742**	**462,890**
Ratios						
Adjusted EBITDA margin on revenues	16.0%	23.3%	121.6%	106.5%	103.0%	102.8%
Tax rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Expenses as % of revenues						
Property OpEx	24.3%	39.7%	17.1%	18.0%	18.1%	17.8%
Administration & other OpEx	2.8%	3.1%	5.3%	4.9%	4.8%	4.7%
Y-Y Growth						
Revenues	n.a.	42.0%	-54.7%	98.7%	49.2%	30.4%
Operating income	n.a.	212.0%	-28.9%	7.7%	13.7%	25.9%
Adjusted EBITDA	n.a.	106.9%	135.9%	74.1%	44.4%	30.1%
Net income/ loss	n.a.	217.3%	-33.2%	6.4%	13.2%	26.6%
Funds from Operations (FFO)						
Revenue*	**181,000**	**257,000**	**116,417**	**231,337**	**345,269**	**450,324**
Property OpEx	n.a.	n.a.	-19,954	-41,645	-62,467	-80,197
Administration & other OpEx	n.a.	n.a.	-6,134	-11,380	-16,430	-21,067
Adjusted EBITDA	**29,000**	**60,000**	**90,328**	**178,313**	**266,372**	**349,060**
Adj. EBITDA GCP stake	n.a.	n.a.	51,200	68,126	89,370	113,829
Adj. EBITDA inc. GCP	**n.a.**	**n.a.**	**141,528**	**246,438**	**355,742**	**462,890**
Finance expense	n.a.	n.a.	-25,429	-42,617	-57,991	-69,414
Tax expense	n.a.	n.a.	-11,322	-19,715	-28,459	-37,031
PCI minority adjustement	n.a.	n.a.	-6,995	-11,928	-17,916	-24,977
Tax expense GCP stake	n.a.	n.a.	-8,609	-10,429	-13,137	-16,580
Finance expense GCP stake	n.a.	n.a.	-7,168	-9,538	-12,512	-15,936
FFO I[1]	**19,000**	**39,000**	**82,005**	**152,212**	**225,727**	**298,952**

* Revenue in 2013-2014 include revenue from sale of buildings. Forecasted revenue includes only rental and operting income

[1] FFO I calculation for 2013-2014 reflects GCP consolidation and excludes minorites

BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Assets						
Current assets, total	**267,000**	**178,000**	**360,338**	**284,323**	**236,362**	**194,866**
Cash and cash equivalents	134,000	28,000	204,304	120,356	125,848	123,665
Short-term investments	48,000	146,000	146,000	146,000	84,680	38,106
Receivables	63,000	2,000	7,974	15,845	23,649	30,844
Other current assets	22,000	2,000	2,060	2,122	2,185	2,251
Non-current assets, total	**1,616,000**	**1,544,000**	**3,191,313**	**4,968,530**	**6,389,905**	**8,161,344**
Property, plant & equipment	5,000	5,000	5,100	5,202	5,306	5,412
Investment properties	1,545,000	426,000	2,010,516	3,672,632	4,944,097	6,525,401
Equity accounted investees	33,000	909,000	989,508	1,097,026	1,239,051	1,420,985
Other LT assets	33,000	204,000	186,190	193,670	201,451	209,546
Total assets	**1,883,000**	**1,722,000**	**3,551,651**	**5,252,853**	**6,626,266**	**8,356,210**
Shareholders' equity & debt						
Current liabilities, total	**143,000**	**61,000**	**58,962**	**110,565**	**164,621**	**220,239**
Short-term debt	36,000	49,000	31,787	57,118	85,943	120,054
Accounts payable	98,000	9,000	24,055	50,202	75,303	96,675
Provisions & current liabilities	9,000	3,000	3,120	3,245	3,375	3,510
Long-term liabilities, total	**868,000**	**439,000**	**1,255,736**	**2,175,530**	**2,671,835**	**3,280,212**
Long-term debt	719,000	385,000	1,119,234	1,965,506	2,390,812	2,912,429
Deferred tax liabilities	98,000	47,000	129,212	202,431	273,112	359,540
Other LT liabilities	51,000	7,000	7,290	7,593	7,911	8,242
Minority interests	482,000	108,000	149,997	194,685	245,258	309,260
Shareholders' equity	**390,000**	**1,114,000**	**2,086,957**	**2,772,073**	**3,544,553**	**4,546,499**
Total consolidated equity and debt	**1,883,000**	**1,722,000**	**3,551,651**	**5,252,853**	**6,626,266**	**8,356,210**
Ratios						
Current ratio (x)	1.87	2.92	6.11	2.57	1.44	0.88
Equity ratio	46.3%	71.0%	63.0%	56.5%	57.2%	58.1%
Financial leverage	146.4%	23.2%	38.3%	63.3%	63.9%	63.1%
EPRA NAV	442,000	1,274,000	2,713,898	3,483,042	4,288,072	5,221,377
Book value per share (€)	n.a.	n.a.	2.86	3.79	4.85	6.22
Net debt	571,000	258,000	798,657	1,754,146	2,264,042	2,868,461
Return on equity (ROE)	72.6%	80.6%	28.7%	23.0%	20.4%	20.1%
Loan-to-value (LTV)	35.9%	19.0%	26.6%	36.8%	36.6%	36.1%
LTV without convertible bond	35.9%	11.8%	11.4%	29.1%	33.1%	36.1%

CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015E	2016E	2017E	2018E
Net income	**283,000**	**898,000**	**599,954**	**638,404**	**722,477**	**914,306**
Depreciation & amortisation	0	1,000	0	0	0	0
Capital gains, property revaluations & other	-247,000	-878,000	-548,081	-488,124	-471,211	-576,185
Net finance expenses	5,000	60,000	25,429	42,617	57,991	69,414
Tax result	37,000	53,000	11,322	19,715	28,459	37,031
Operating cash flow	**78,000**	**134,000**	**88,624**	**212,612**	**337,716**	**444,566**
Changes in working capital	-8,000	6,000	34,021	18,215	17,233	14,112
Provisions for other liabilities	4,000	8,000	82,302	73,309	70,773	86,519
Tax paid	-6,000	-13,000	-11,322	-19,715	-28,459	-37,031
Net operating cash flow	**68,000**	**135,000**	**193,625**	**284,421**	**397,262**	**508,166**
CapEx/ intangibles	-1,000	-2,000	-100	-102	-104	-106
Disposal/ investment in investment properties, net	-313,000	-322,000	-1,036,435	-1,173,993	-800,253	-1,005,120
Acquisition/disposals of subsidiaries	-78,000	-83,000	-80,508	-107,518	-142,025	-181,934
Proceeds from investments in financial assets	-40,000	-222,000	-6,870	-7,142	53,895	38,854
Cash flow from investing	**-432,000**	**-629,000**	**-1,123,912**	**-1,288,755**	**-888,488**	**-1,148,305**
Debt financing, net	227,000	621,000	807,021	963,003	600,371	775,088
Equity financing, net	0	0	325,000	0	0	0
Other financing activities	199,000	74,000	0	0	-45,663	-67,718
Net paid financing expenses	-12,000	-37,000	-25,429	-42,617	-57,991	-69,414
Cash flow from financing	**414,000**	**658,000**	**1,106,592**	**920,386**	**496,717**	**637,956**
Net cash flows	**50,000**	**164,000**	**176,304**	**-83,948**	**5,491**	**-2,183**
Cash in subsidiaries on which company lost ist control	0	-270000	0	0	0	0
Cash, start of the year	84,000	134,000	28,000	204,304	120,356	125,848
Cash, end of the year	**134,000**	**28,000**	**204,304**	**120,356**	**125,848**	**123,665**
Adjusted EBITDA/share (in €)	**n.m.**	**n.m.**	**0.19**	**0.34**	**0.49**	**0.63**
FFO	**19,000**	**39,000**	**82,005**	**152,212**	**225,727**	**298,952**
FFO/share	**n.m.**	**n.m.**	**0.13**	**0.24**	**0.35**	**0.44**

Y-Y Growth						
Operating cash flow	n.m.	98.5%	43.4%	46.9%	39.7%	27.9%
FFO	n.m.	105.3%	110.3%	85.6%	48.3%	32.4%
EBITDA/share	n.m.	n.m.	n.m.	74.1%	44.4%	30.1%

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	CY0105562116
WKN	A14QGA
Bloomberg ticker	MLATP FP
No. of issued shares	600,141,641
Country	Germany
Sector	Real Estate
Subsector	Financial Services

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
Mangement & Founder Holdings	76.0%
Free Float	24.0%

Source: Company

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	28 September 2015	€3.37	Buy	€5.70

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance
BUY: Expected return greater than 25%
ADD: Expected return between 0% and 25%
REDUCE: Expected negative return between 0% and -15%
SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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