Godewind Immobilien AG

Germany / Real Estate
Frankfurt Stock Exchange
Bloomberg: GWD GR
ISIN: DE000A2G8XX3

Initiation of coverage

RATING	**BUY**
PRICE TARGET	**€ 5.50**
Return Potential	57.6%
Risk Rating	Medium

AN EMERGING FORCE IN GERMAN COMMERCIAL PROPERTY

Godewind (GWD) is a German commercial property landlord led by a veteran team with deep expertise and a successful track record. The company floated its shares on the Frankfurt Stock Exchange in April 2018 and raised €375m to build a commercial property portfolio. Godewind boasts a full pipeline, a clean balance sheet, and excellent organic growth prospects as it aims to build a + €3bn portfolio over the mid term. Office assets totalling €708m are primed to deliver attractive rental income and earnings in 2019. We start coverage with a Buy rating and €5.5 price target.

Attractive German commercial property play We like Godewind for its mixed portfolio approach, which includes value-add properties, its external growth potential, and operational upside. The company has joined the current workspace buying frenzy across Germany and is presently focused on office complexes. But management have the option to diversify asset types as market conditions change. Operations are orchestrated by CEO Stavros Efremidis, an industry veteran with a successful track record in sourcing accretive deals and creating stockholder value. Other factors underpinning our positive view are seasoned in-house acquisition and property management teams, and the +70% reversionary upside of value-add portfolio. We expect these factors to translate into €0.06 FFOPS 1 in 2019 and target a 45% CAGR for 2019 – 2021.

Trading more on poor sentiment than fundamentals GWD shares have performed well of late (+21% YTD), but the stock still trades below its €4 IPO price. We blame the lacklustre performance last year on poor sentiment after a slow start undershot expectations. After a strong investment cycle of >€708m the last five months, portfolio KPIs now feature a WALT (weighted average lease term) of 5 years, a 28% vacancy rate, and a 5.0% yield to compliment good asset location quality. We believe the good operational momentum will continue its current trajectory and spur NAV and FFO growth over the mid term. Moreover, the portfolio harbours good reversionary potential (including vacancies) to drive LFL (like-for-like) rental income growth. Investors will also surely welcome the planned initial dividend equal to 60% of 2019 FFO 1. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018E	2019E	2020E	2021E
Net rent (€m)	0.00	1.22	25.30	35.33	37.94
Adj. EBITDA (€m)	-0.3	-5.50	14.2	26.2	30.2
Net income (€m)	-0.31	-8.86	53.53	66.85	54.35
EPS (diluted) (€)	0.00	-0.10	0.49	0.61	0.50
EPRA NAV (€m)	18.56	378.38	440.18	511.85	561.88
NAVPS (€m)	0.00	3.48	4.05	4.71	5.17
DPS (€)	0.00	0.00	0.04	0.09	0.12
FFO 1 (€m)	-0.34	-5.66	6.66	16.95	21.19
FFOPS 1 (€)	0.00	-0.07	0.06	0.16	0.19
Liquid assets (€m)	19.17	194.39	44.93	12.45	17.02

RISKS

Risks include, but are not limited to, geopolitical uncertainties, weaker than expected trends for German office markets, failure to capture expected reversionary potential, or weaker than forecasted acquisitions.

COMPANY PROFILE

Godewind is a real estate landlord specialised in the acquisition and management of commercial properties throughout Germany. The company focuses on building a diverse portfolio of Core(+) and value-add assets and presently concentrates on office buildings.

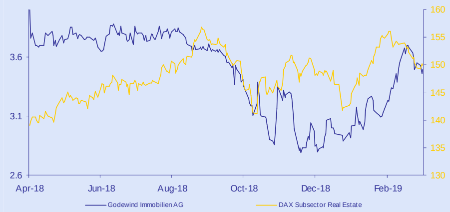
MARKET DATA

As of 3/6/2019

Closing Price	€ 3.49
Shares outstanding	108.75m
Market Capitalisation	€ 379.54m
52-week Range	€ 2.79 / 4.00
Avg. Volume (12 Months)	108,680

Multiples	2017	2018E	2019E
P/FFO 1	n.a.	n.a.	57.0
P/EPRA NAV	0.0	1.0	0.9
FFO 1 Yield	n.a.	n.a.	1.8%
Div. Yield	0.0%	0.0%	1.1%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 373.40m
Current Assets	€ 380.80m
EPRA NAV	€ 380.80m
Total Assets	€ 381.50m
Current Liabilities	€ 0.50m
Total Equity	€ 380.60m

SHAREHOLDERS

K.P.Ehlerding	8.3%
Stavros Efremidis *	12.0%
K. Ehlerding	13.5%
J.F. Ehlerding	3.3%
Free Float	62.9%

** including financial instruments*

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INVESTMENT CASE

Stock market newcomer houses wealth of RE expertise

Godewind is a commercial property player with a focus on office assets in primary locations throughout Germany including initial clusters around Munich, Düsseldorf, Hamburg and Frankfurt am Main. The company is spearheaded by a veteran executive team with strong CRE (commercial real estate) credentials plus a long track record of building commercial portfolios and creating shareholder value—most recently at WCM Beteiligungs- und Grundbesitz AG. This was acquired by TLG Immobilien AG in 2017 at an 18% share price premium. After handing over the WCM keys, management forged Godewind in Q1/18 and raised €375m in a so-called "blind-pool" offering last March in order to capitalise on strong CRE dynamics.

Market-tailored strategic blueprint

Godewind predominantly follows a buy and hold strategy to drive value creation and sustainable rental income (RI). But the company also wants to include an asset rotation component (~20% of holdings) to capture attractive disposal returns for fully optimised properties. A blend of Core(+) and value-add (manage-to-core) properties will also diversify cash flows and risk profiles, while future disposals will recycle cash and replenish the financial coffers. We believe this "buy, hold, optimise, then sell" approach is best suited to today's environment, where an active asset management strategy promises much greater rewards over a classic and more static buy and hold strategy.

Office space is still booming

Godewind has a flexible mandate to acquire a mixture of commercial assets from office, retail, and logistics centres, to hotels and other commercial. But the office segment is booming at present thanks to: (1) frothy occupier demand and uptake; (2) an acute shortage of existing stock; (3) a paucity of new supply coming online; (4) rising rents across Germany's metropolitan hubs; and (5) shifting dynamics in the workforce. Godewind consequently has a 100% office exposure and sees this trend continuing over the near term.

Strong investment momentum in Q4 and early 2019

Investments in 2018 approached some €272m thanks to a flurry of deals in Q4. Following the latest deal in Düsseldorf, 2019 is shaping up to be another strong investment year. We model €436m, which includes the €230m signed in December 2018 that is slated to close in April 2019. Godewind recently secured €82m in debt financing for three office properties, and we expect the company to raise further debt within its targeted < 55% LTV range. The company also wants to develop its Sunsquare property to unlock further rental income streams. We thus forecast a total of €742m investments through 2021, which should push GAV (gross asset value) north of €950m including revaluation gains.

Framing near term earnings and investment prospects

Godewind has a stable of nine office assets with an annualised rental income run rate of €35m. The latest deals inked in December and January are expected to close in April. We expect the company to generate net rental income (NRI) of €25m this year and €6.7m in FFO 1 (funds from operations). On our numbers, GWD should have under €15m available to acquire new properties once debt is secured on the remaining assets in Q1. The company could accelerate investments further by raising additional equity if good market conditions persist. But we have not factored in new equity at this stage until the share price is at a more favourable level. Based on this steady state, or organic growth scenario, we forecast an FFOPS 1 CAGR of 45% and an NAVPS CAGR of 8% for 2019 to 2021.

Trading more on poor sentiment than fundamentals

We arrive at a €5.5 target price based on economic profit and discounted dividend models, which demonstrate the ability of GWD to spur growth and reward investors or not. The main drivers for potential value generation are a €708m office portfolio with embedded revisionary upside, further investment potential to spur rental income and FFO 1 run rates, and future asset disposals. The Godewind share price was under pressure for much of last year and shed some 28% of its value by the end of 2018. We attribute this drubbing to poor sentiment rather than fundamentals after the lack of headlines heralding a blockbuster deal to launch the portfolio undershot market expectations. We believe the current discount to NAV is unwarranted and expect positive operational news flow to recalibrate the sceptical sentiment. In our view, this as an excellent opportunity to pick up Godewind shares at an attractive level. We rate the stock a Buy.

SWOT ANALYSIS

STRENGTHS

- **Strategic diversification** The targeted portfolio blend, which will include up to 40% 'Core(+)' assets, helps insulate the company against the eventual downswing in the cycle. Exposure to 'Manage-2-Core(+)' properties likewise provides operational upside.
- **Proven experience and know-how** The Godewind team has an extensive track record having previously built a commercial portfolio from scratch with WCM. This provides instant credibility, while long rooted contacts often lead to ample deal flow including a high number of off-market deals.
- **Process agility** Management is able to react swiftly to opportunities. In today's fast-paced RE market, this often allows Godewind to scoop up properties quicker than rivals saddled with a multi-layered decision making process.
- **A clean slate** There are no underperforming legacy assets or poorly structured debt loads to weigh down performance. Management can load up the balance sheet with hand picked commercial properties and debt that reflect the current favourable environment.

WEAKNESSES

- **High capital requirements** Management aim to build a commercial portfolio with a GAV north of €3bn over the medium term while maintaining a <55% LTV. The equity component to finance the envisioned growth will dilute investors and the company could look to raise equity later this year depending on the markets.
- **Late to Berlin** Godewind has no exposure to the German capital. Berlin is thriving and attracting investors, corporates, and talent from across the world. The city is quickly becoming the European hub for technology companies with tech titans such as Apple, Google and Facebook having set up shop. Consequently, office leasing in Berlin has been soaring.
- **Relatively modest portfolio with no performance track record** Compared to many of the listed landlords on the German stock exchanges, GWD has a relatively modest portfolio (pro-forma GAV: €708m). While initial indications on like-for-like rent and vacancy developments look good, there is no track record to refer to.

Opportunities

- **Reversionary potential** The company wants to populate its portfolio with 40% Manage-2-Core(+) assets. These are often defined by higher vacancy rates and harbour good reversionary upside to drive LFL growth metrics.
- **Sweet spot of the property market** Business is focused on the German commercial sector—primarily the office segments. The commercial sector is much earlier in the cycle than the residential market providing better growth and value extraction opportunities.
- **Tax holiday for investors** Godewind will be able to reward shareholders with dividend payouts free of withholding tax, once operations generate sufficient profitability. The company estimates it has some €91m of cumulative gross tax benefits including €35m to boost shareholder dividends.

Threats

- **Plenty of competition** Office assets are highly coveted by large, well financed and networked commercial landlords, who are racing to buy portfolios to satisfy large yield appetites. Godewind may not be able to match the firepower of these operators to drive the envisioned growth.
- **Execution going off track** Weaker than expected execution on deal flow, having to pay up, due to market conditions, or the slower corralling of revisionary upside could all lead to slower rental income and FFO growth than we forecast.
- **The next financial crisis** Banking meltdowns are an unfortunate part of human history—there were 124 of them between 1970 and 2007. The precise shape of the next one is unclear; otherwise it would be avoided. But one way or another, the next financial crisis is likely to involve property.
- **Geopolitical uncertainty** The collaborative spirit following the last financial crisis has eroded. Political egos are clashing and countries are distancing themselves from one another as the UK continues to wrangle over Brexit. A “crashing out” scenario would certainly dampen economic outlooks even further.

COMPANY VALUATION

We use an economic profit model combined with a discounted dividend approach to value Godewind. In general, we believe these methods best illustrate the company's ability to add value through its rental income streams and reward its investors. We have only assumed full deployment of the current equity and financial firepower and do not think the company will conduct another cap hike until the share price is comfortably north of the €4 IPO.

ECONOMIC PROFIT MODEL

We assign a WACC of 4.3% based on our multifactor risk model which takes into account company specific risks such as (1) strength of management; (2) earnings quality; (3) portfolio structure; (4) financial risk; (5) competitive position; (6) as well as company size and free float. The primary gating factor from our perspective is capital required to spur future external growth once the current financial resources have been fully depleted. In our view, the WACC suitably reflects the risk associated with the nascent operations and the relatively small stable of office properties compared to larger CRE peers.

ROCE is north of the WACC for the forecast period. We have assumed a 1.5% growth rate for terminal value (TV) and a theoretical 15% tax rate common for property operators. Our model discounts economic profits through 2022 plus terminal value to derive a total return of €283m. We add pro-forma NAV (€379m) and adjust for the estimated 2019 dividend for an equity value of €662m. Based on fully diluted shares outstanding of 109m, which also reflects a fully resolved recent share buyback, our fair value corresponds to a price target of €6.1 / share.

Table 1: Economic profit model

in €'000	2018E	2019E	2020E	2021E	2022E	TV
EBITDA	-5,549	14,196	26,190	30,154	33,311	33,810
(+) Revaluations	0	55,175	58,749	39,067	33,411	21,383
(-) Tax Expense	0	-1,921	-2,362	-1,890	-1,815	-5,012
NOPAT	**-5,549**	**67,450**	**82,577**	**67,331**	**64,906**	**50,181**
Total assets	**467,343**	**853,795**	**926,440**	**977,506**	**1,023,611**	**1,023,611**
(-) Current liabilities	600	1,147	1,390	1,473	1,561	1,561
(+) Current financial debt	0	0	0	0	0	0
(-) Cash	194,393	44,934	12,452	17,024	29,243	29,243
(+) Deferred taxes	0	8,276	17,089	22,948	27,960	27,960
Capital employed (CE)	**272,350**	**815,990**	**929,686**	**981,957**	**1,020,767**	**1,020,767**
Average CE	604,205	544,170	872,838	955,821	1,001,362	1,020,767
ROCE	-0.9%	12.4%	9.5%	7.0%	6.5%	4.9%
WACC	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
ROCE-WACC	-5.2%	8.1%	5.1%	2.7%	2.2%	0.6%
Economic Profit	-31,602	43,986	44,941	26,116	21,728	6,166
NPV	**-31,602**	**42,491**	**41,619**	**23,186**	**18,493**	**189,432**

Fair value calculation	
Total return	**283,618**
(+) NAV (pro-forma)	378,376
(-) Dividend to be paid	0
Equity value	**661,994**
Diluted SO ('000)	108,750
Fair value per share (€)	**6.10**

Source: First Berlin Equity Research estimates

DISCOUNTED DIVIDEND MODEL

		2019E	2020E	2021E	2022E	TV
FFOPS 1 (€)		**0.06**	**0.16**	**0.19**	**0.22**	**0.23**
Payout ratio		60%	60%	60%	60%	60%
Dividend (DPS) (€)		0.04	0.09	0.12	0.13	0.14
Y/Y		*n.a.*	*154%*	*25%*	*14%*	*1.5%*
NPV (€)		**0.04**	**0.09**	**0.10**	**0.11**	**4.17**
Terminal growth rate	1.5%					
Discount factor	4.3%					
NPV of dividends (€)	**0.34**					
NPV of TV (€)	**4.17**					
Fair value per share (€)	**4.50**					

Source: First Berlin Equity Research estimates

We derive our €5.5 price target from the economic profit and discounted dividend models. The higher value (€6.1) is achieved by the economic profit model, which also captures the revaluation upside of the portfolio. We give this approach a slightly higher weighting (60%) to better reflect the early stages of the business, which drives NAV growth more strongly than FFO 1, while the company captures the reversionary upside of its value-add properties.

PRICE TARGET OVERVIEW

	Weighting	Values
Economic profit model	60%	6.10
Discounted dividend model	40%	4.50
Target price (€)		**5.50**
Share price (€)		3.49
Return potential		57.6%
Dividend yield		1.1%
Total return potential		**58.6%**

Source: First Berlin Equity Research estimates

STACKING UP THE GERMAN COMMERCIAL LANDLORDS

Table 2: German CRE comparables

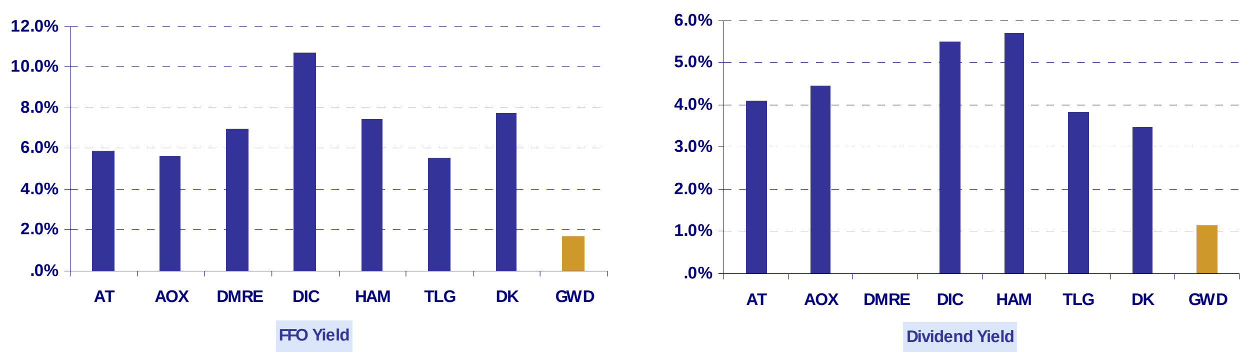
	Price (€)	Market cap (€m)	SO (m)	FFO yield 2018E	FFO yield 2019E	FFO yield 2020E	Dividend yield 2018E	Dividend yield 2019E	Dividend yield 2020E
Aroundtown	7.33	8,232	1,123	4.9%	5.9%	6.7%	3.4%	4.1%	4.6%
Alstria Office REIT AG	13.35	2,368	177	4.9%	5.1%	5.2%	4.0%	4.0%	4.2%
Demire Real Estate AG	4.94	534	108	4.0%	5.9%	7.7%	0.0%	0.0%	0.0%
DIC Asset AG	9.83	698	71	9.7%	9.9%	10.8%	4.9%	5.1%	5.3%
Hamborner REIT AG	9.03	720	80	6.6%	7.1%	7.5%	5.2%	5.4%	5.5%
TLG Immobilien AG	25.10	2,595	103	5.1%	5.5%	5.8%	3.6%	3.8%	4.0%
Deutsche Konsum REIT	11.50	345	30	1.2%	7.0%	8.3%	0.0%	3.1%	4.3%
Mean				**5.9%**	**6.6%**	**7.3%**	**3.5%**	**3.7%**	**3.9%**
Godewind	**3.49**	**380**	**109**	**-1.7%**	**1.7%**	**4.3%**	**0.0%**	**1.1%**	**2.6%**

	NAV premium / discount 2018E	NAV premium / discount 2019E	NAV premium / discount 2020E	NAVPS growth 2019E	NAVPS growth 2020E	FFOPS 1 Growth 2019E	FFOPS 1 Growth 2020E	DPS Growth 2019E	DPS Growth 2020E
Aroundtown	-7.0%	-19.0%	-27.8%	14.8%	12.2%	19.4%	14.0%	20.0%	13.3%
Alstria Office REIT AG	0.4%	-9.7%	-14.5%	11.1%	5.6%	4.6%	2.9%	1.9%	3.7%
Demire Real Estate AG	4.2%	-31.2%	-39.9%	51.6%	14.4%	45.0%	31.0%	n.a.	n.a.
DIC Asset AG	-27.0%	-27.5%	-28.2%	0.7%	0.9%	2.1%	9.3%	4.2%	4.0%
Hamborner REIT AG	-27.2%	-29.6%	-41.0%	3.3%	19.4%	6.7%	6.3%	4.3%	2.0%
TLG Immobilien AG	6.4%	-9.9%	-18.9%	18.0%	11.1%	7.8%	5.0%	6.7%	5.2%
Deutsche Konsum REIT	0.0%	-21.6%	-33.0%	27.5%	17.0%	471.4%	18.8%	n.a.	38.9%
Mean	**-7.2%**	**-21.2%**	**-29.1%**	**18.2%**	**11.5%**	**79.6%**	**12.5%**	**7.4%**	**11.2%**
Godewind	**0.2%**	**-14.0%**	**-25.6%**	**16.6%**	**15.6%**	**n.m.**	**150.0%**	**n.m.**	**125.0%**

Source: First Berlin Equity Research; Bloomberg

Investors often gauge the reward for holding property stocks vs risk-free bonds with their expected FFO 1 and dividend yields. Although Godewind will be unable to match the respective yields of its peers in 2019 and 2020, FFOPS and DPS will grow strongly in 2020 to go alongside NAVPS growth that ranks in line with the group mean.

Figure 1: 2019 FFO 1 and dividend yield comparison



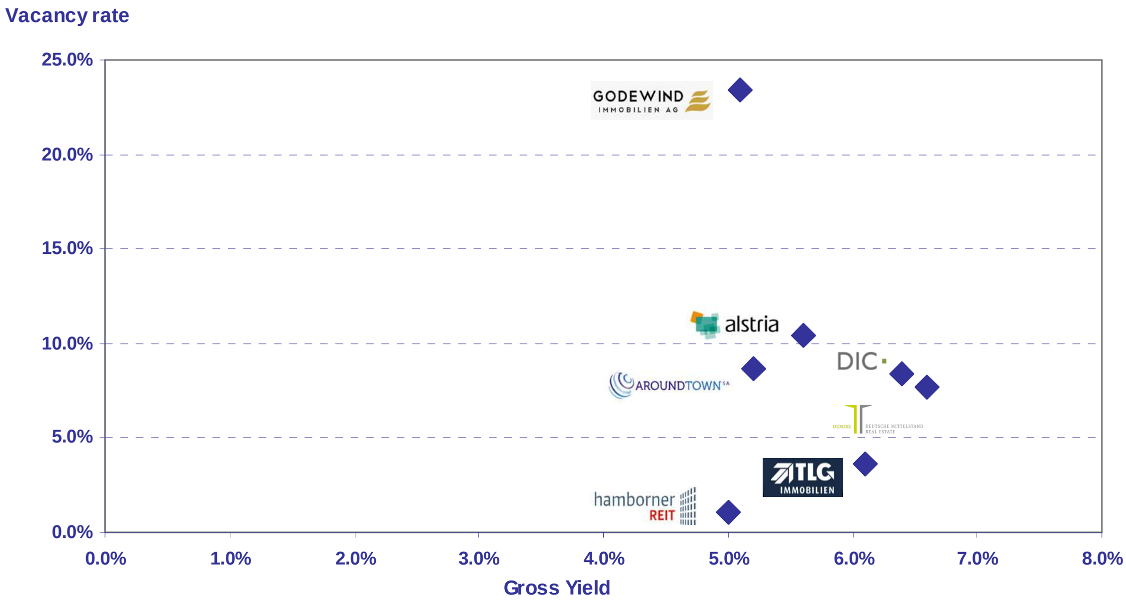
Source: First Berlin Equity Research; Bloomberg

Table 3: German commercial landlord KPI's as of 9M/18

		Aroundtown	Alstria	Demire	DIC	Hamborner	TLG	Godewind
Gross asset value (GAV)	€m	13,157	3,509	1,105	1,576	1,454	3,722	708
Gross rental yield (GRI)	%	5.2	5.6	6.6	6.4	5.0	6.1	5.0
Vacancy rate	%	8.7	10.4	7.7	8.4	1.1	3.6	28
WALT	Years	7.5	4.9	4.6	5.1	6.2	5.9	5.0
Total assets	Number	n.a.	117	85	103	78	414	9
Lettable space	000 m²	5,888	1,611	957	906	n.a.	1,916	270
GAV / m²	€	2,093	2,179	1,155	1,739	n.a.	1,943	2,626
Avg rent per m²	€ / month	10	12.1	7.2	9.6	n.a.	10.3	14.4
Portfolio split	Basis	GAV	GAV	GRI	GRI	GRI	GAV	GAV
Office	%	53	100	67	66	30	51	100
Retail	%	7	0	24	20	70	40	0
Hotel	%	25	0	0	0	0	8	0
Logistics	%	9	0	6	0	0	0	0
Other	%	6	0	3	14	0	1	0

Source: First Berlin Equity Research; Alstria; DIC; Aroundtown; TLG; Hamborner; Demire; Godewind

Figure 2: German CRE yield and portfolio vacancy comparison as of 9M/18

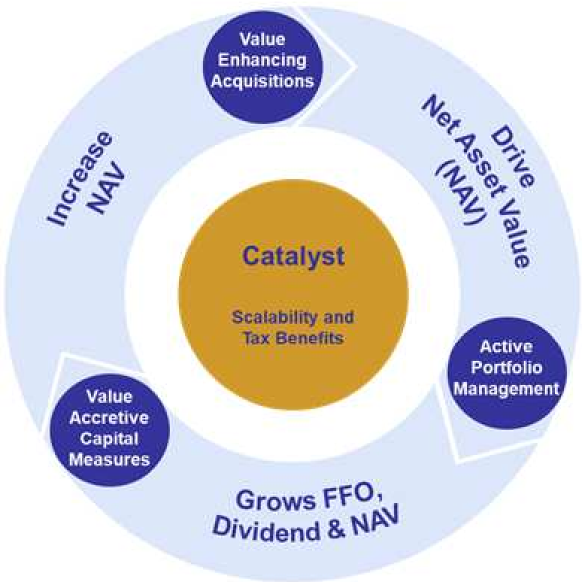


Source: First Berlin Equity Research; Alstria; DIC; Aroundtown; TLG; Hamborner; Demire; Godewind

COMPANY PROFILE

Godewind specialises in the acquisition and optimisation of income generating properties in the German commercial real estate market with the aim of building a high yield portfolio of value-add and core properties.

Figure 3: Circular value creation



Source: First Berlin Equity Research; Godewind Immobilien AG

GWD targets properties chiefly in Germany's metropolitan hubs (A-cities), where yields are spurred by strong fundamentals and market dynamics. Although a number of commercial landlords pursue a similar strategy, we believe Godewind distinguishes with its ability to get its hands on coveted assets through off-market deals thanks to management's well established network.

The company is currently focused on capitalising on favourable dynamics for office assets. However, over the long term, the ideal portfolio mix could comprise up to 40% retail, logistics and other commercial space. After a flurry of investment activity the past five months, the GWD portfolio is now valued at €708m and includes eight geographically diversified office properties with 269,510 m² of lettable area.

Godewind is headquartered in Frankfurt, Germany and floated its shares on the Frankfurt Stock Exchange on 3 April 2018 following a capital increase carried out at €4 per share on 28 March for gross proceeds of €375m. The company is part of the Prime Standard segment of the Frankfurt Stock Exchange.

Growth targets include: (1) a medium-term target of €3bn in investment properties; (2) a capital structure anchored by a 45%—55% LTV; (3) upside traced to disposals, and (4) a dividend payout ratio of 60% of FFO 1. Based on our assumptions, the company will dole out a €4m dividend on 2019 earnings equal to €0.04 per share on the current share count.

BUSINESS MODEL

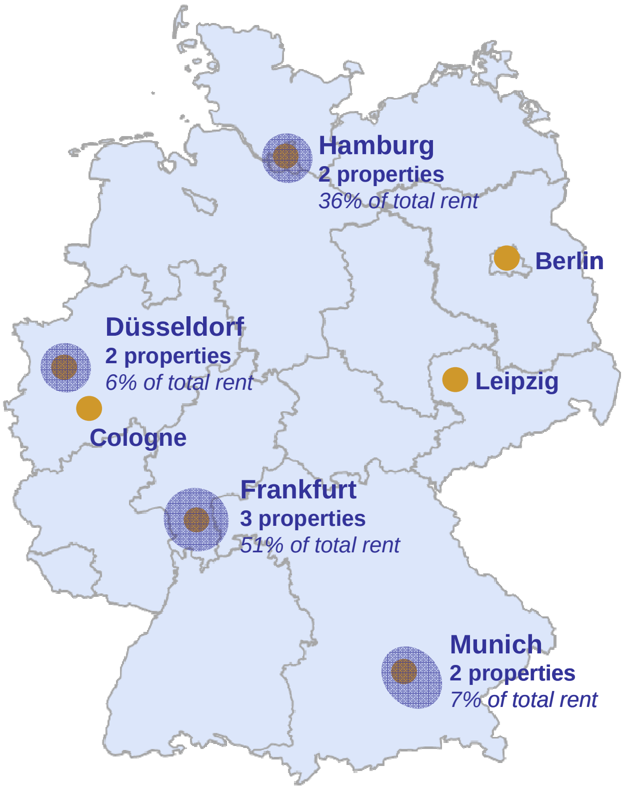
Godewind predominantly follows a buy and hold strategy to drive value creation and sustainable rental income with a mixed stable of Core(+) and value-add assets. The company applies a flexible acquisition approach that includes single assets, portfolios, or participations in other listed or privately held property companies.

Not just a classic buy and hold approach Opportunistic asset rotation will also be a hallmark of the overall GWD strategy once a property has been fully optimised. Management believe this strategy is best suited to today's environment that requires a more active management approach. We reckon that some 20% of the assets will eventually be sold to lock in profits and help replenish the financial war chest.

Sizing up Germany's Big 7… The strategy is anchored by Godewind's concentration on Germany's Big 7 metropolises (Berlin, Cologne, Düsseldorf, Frankfurt am Main, Hamburg, Munich, and Stuttgart), which offer a broader selection of opportunities that meet GWD's acquisition / risk parameters. This contrasts to some GAV and yield starved CRE newcomers, who are combing the secondary markets (B-cities), where yields have remained relatively higher, and competition from the major landlords, who require large portfolios to move the performance needle, is lower.

Godewind will look at opportunities in so-called B cities, when well positioned properties fit the investment parameters and offer attractive yields and upside. However, thanks to its full pipeline and network, Godewind presently sees ample opportunity in the primary markets to achieve its overarching goals and avoid the risks associated with tertiary markets, which are often more susceptible to market cycles and fluctuations in demand.

Figure 4: Geographic footprint of current properties



Source: First Berlin Equity Research; Godewind Immobilien AG

… with a bountiful deal pipeline The acquisition team has a full pipeline containing some €2.0bn - €2.5bn in office assets with over €100m in annualised RI potential. Deal size ranges from €25m to €300m. Management can also leverage good access to off-market deal flow to capture targeted yields and create value. In our view, this "first-look" deal flow helps differentiate Godewind from CRE pack. The company supplements off-market cherry picking with more traditional broker driven deal flow ("top-down") to provide a 360° view of the commercial landscape.

Table 4: Ample deal flow to drive growth

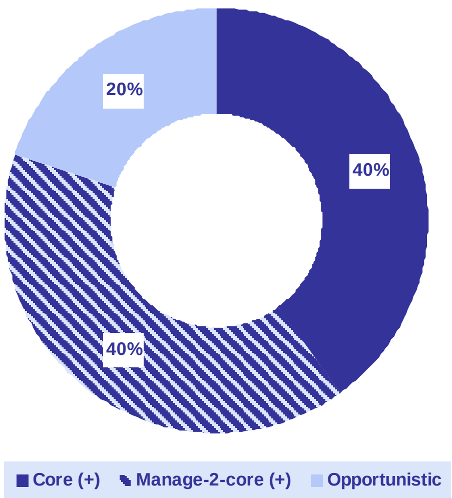
	Estimated value (€bn)	WALT (years)	Annualised RI (€m)	Vacancy	Yield
Office	2.0 - 2.5	~6.4	100 - 125	~10%	~5%

Source: First Berlin Equity Research; Godewind Immobilien AG

MIXED PORTFOLIO APPROACH

Godewind follows the common blueprint among landlords of looking for properties that feature good economic demographics, solid structural shape, i.e. low CapEx needs, and in select cases attractive revisionary potential. The company wants to diversify cash flows by building a mixed portfolio containing office, retail, logistics and other commercial assets segmented into the categories defined below.

Figure 5: Targeted asset class profile



Source: First Berlin Equity Research; Godewind

Core properties are regarded as the least risky because they are often stabilised, fully leased, secure, and located in big dynamic markets. Core properties feature long-term leases with high credit tenants. Buildings are of A-quality and situated in highly desirable central locations. Buyers are conservative and want to generate stable income with low risk. Core properties provide steady income streams with alongside their low risk profiles.

Core + properties carry a slightly higher risk profile than Core assets. Owners typically have the ability to increase cash flows through light property optimisation. Similar to core properties, these properties tend to be of high-quality and are well-occupied providing investors a balance of steady income and upside.

Value-add properties**,** or "manage-2-Core(+)" in the GWD lexicon, typically generate in-place cash flow, but offer attractive cash flow upside over time through active asset management and / or repositioning to reduce high vacancies, and secure quality tenants. Physical improvements can also allow landlords to command higher rents. Once the owner has fully optimised the property, the asset is often sold to lock in the resulting value appreciation. These properties carry higher execution risk to go along with the upside.

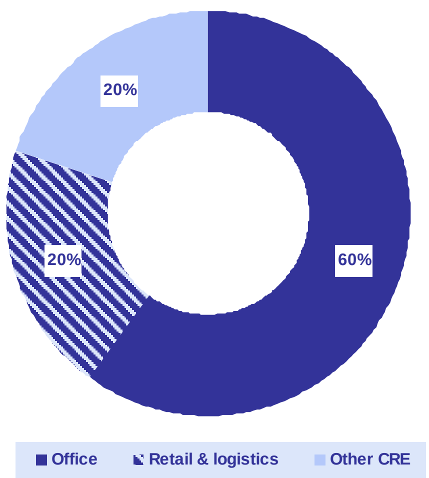
Sale-and-opportunity properties are assets Godewind considers fully optimised. The company targets a 20% portfolio ratio for future disposals. This will help infuse the balance sheet greater cash flexibility and thus boost the company's ability to react quickly to opportunistic deal flow or increase dividend payout potential.

PLAYING THE OFFICE ENDGAME, FOR NOW. . .

Godewind targets commercial properties chiefly in the office segment that can deliver steady cash flows—Core(+) assets—or that harbour clear upside for value creation through active asset management—Manage-to-core(+) properties.

The team looks for Class B office assets (older than prime or Class A) that are: (1) in good shape; (2) offer a multi letting structure; (3) anchored by credit worthy tenants; and (4) centrally located in metropolitan hubs. The company uses a rental income yield of 5%—7% and a <20% vacancy rate as hurdles to filter deal flow.

Figure 6: Targeted portfolio mix by asset type



Source: First Berlin Equity Research; Godewind

Although the business is presently focused on office properties, the acquisition strategy is not restricted to only workspace. This flexibility allows Godewind to consider portfolio opportunities comprising mixed asset classes or strategic profiles. Management contend this also helps in negotiations and can lead to better terms on certain deals. The approach will also allow the company to adapt to changing market conditions in the event that the commercial pendulum swings away from the office assets. The following filters are used for opportunities beyond offices:

Retail & logistics Retail targets chiefly comprise supermarkets or food anchored retail parks, which are less vulnerable to the growth of digital retailing, whereas logistic centres aim to participate in the rising e-commerce trends. Targets should demonstrate a rental income yield of 6% - 8% coupled with a <15% vacancy rate.

Other commercial This gives GWD flexibility to scoop up other assets (hotels, industrial parks) in German hubs that feature high credit tenants. The company considers opportunities with a rental income yield of 6% - 8% and a <10% vacancy rate on deal sizes of >€25m / €50m for single assets or portfolios respectively.

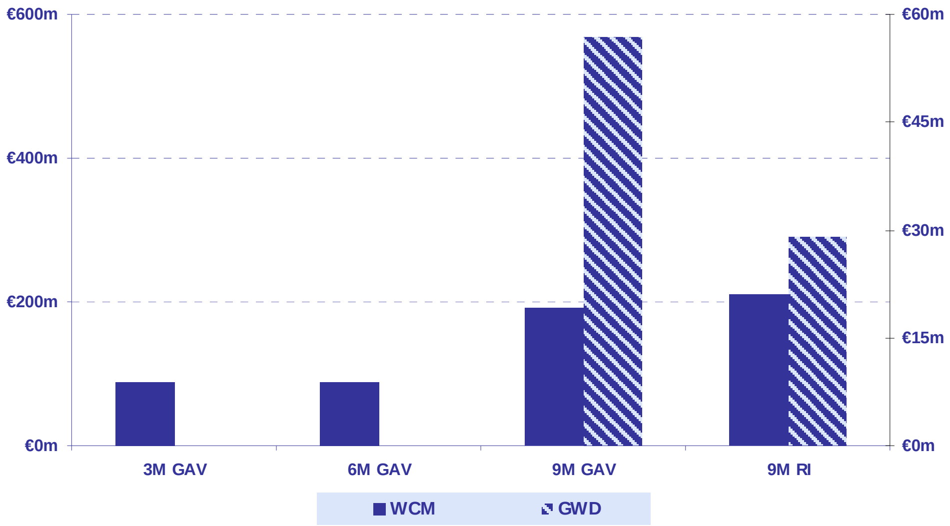
PORTFOLIO DEVELOPMENTS AND HIGHLIGHTS

Investors grew restless when Godewind failed to announce a blockbuster deal in the months after the IPO. Shareholders had been looking for management to announce a deal in the €1bn range, and sentiment eroded even further when the first deal announced amounted to a mere €74m. In our view, the poor share price performance is attributable more to the bad optics of a slow start and undershooting market expectations rather any operational shortcomings. We believe the sentiment meter will recalibrate once the closed deals begin to translate into rental income streams in H1/19 and the portfolio takes further shape.

Initial growth occurred faster than you think In the meantime, a strong finish to 2018 spurred by a series of deals ranging from €30m - €168m, plus the Herzog-Terrassen deal consummated late January, gives the company a portfolio with good potential to generate attractive rental income (RI) and cash flows in 2019. A five month acquisition sprint secured over €708m in office properties in quality locations.

Below we highlight the track record of the Godewind team that was previously responsible for the success of WCM Beteiligungs- und Grundbesitz AG. Although GWD was slow out of the gate, it topped the performance of WCM during the first nine months of operation both in terms of investments and annualised rental income run rate. We note, the GWD portfolio contains nine assets vs 36 for WCM at the same juncture highlighting the increased deal size.

Figure 7: Comparative investment KPIs vs WCM for first nine months of operations



Source: First Berlin Equity Research; WCM; Godewind

Deals thus far have entailed office properties with yields ranging from 2.6%—6.1%. The low end comprises assets with higher vacancy rates where management identified strong revisionary upside. Management is confident that it will fill up the vacant space in 12—24 months. As of the latest acquisition, the portfolio now comprises 59% value-add office asset over 41% Core + properties on a GAV basis across four of Germany's major metropolitan hubs.

Table 5: Portfolio KPIs

	Type	Lettable area (m^2)	Vacancy	GAV (€'000)	GAV (€/m^2)	RI (€'000) p.a.	Rent /€m^2	Yield	WALT
Core + properties									
ComCon, Frankfurt	Office	16,264	12%	33,500	2,060	2,039	10.5	6.1%	3.1
Airport Centre, Düsseldorf	Office	13,077	17%	40,000	3,059	1,800	13.0	4.5%	3.9
Pentahof, Hamburg	Office	24,747	0%	60,600	2,449	2,952	9.4	4.9%	4.8
Zeughaus, Hamburg	Office	43,522	11%	153,000	3,515	7,300	12.9	4.8%	3.3
Core + total		**97,610**	**9%**	**287,100**	**2,941**	**14,091**	**11.7**	**4.7%**	**3.7**
Value-add properties									
Sunsquare, Munich	Office	18,820	63%	30,500	1,621	803	11.5	2.6%	3.7
Frankfurt Airport Centre	Office	48,495	20%	168,000	3,464	9,970	20.7	5.9%	6.1
Y2, Frankfurt	Office	31,256	35%	52,000	1,681	2,700	11.1	5.2%	5.5
Aschheim, Munich	Office	17,612	51%	30,000	1,703	1,100	10.0	3.7%	4.2
Herzog-Terrassen; Düsseldorf	Office	55,717	45%	140,000	2,513	6,700	19.0	4.8%	6.4
Value-add total		**171,900**	**39%**	**420,500**	**2,446**	**21,273**	**16.8**	**5.1%**	**5.9**
Portfolio total		**269,510**	**28%**	**707,600**	**2,626**	**35,364**	**14.4**	**5.0%**	**5.0**

Source: First Berlin Equity Research; Godewind Immobilien AG

Exceptional upside for Munich We feature Sunsquare with a 63% vacancy rate as an example of Godewind's value-add approach. According to property market maven, JLL (Jones Lang LaSalle) Kirchheim's high vacancy rate owes to the poor letting and marketing strategies of the prior owner. GWD is confident in filling up the empty space here by YE 2020.

The property also harbours further development upside that could result in 13,300 m^2 of new lettable space. There are no firm plans as of this writing to develop the land, but the team is in talks with a healthcare provider about the potential for a rehabilitation centre and sees scope for additional annualised RI of €2.5m from the development. We regard this as a special situation for the Godewind and do not consider development a core activity.

Figure 8: Revisionary potential and development upside of current portfolio

	Current	Projected[1]
Assets	**9**	**9**
Lettable space	**269,510 m^2**	**282,810 m^2**
Annualised RI	**€35.4m**	**€37.9m**
Vacancy rate	**28.0%**	**4% - 5%**
Yield	**5.0%**	**4.9%**
FFO 1 (pre SG&A)	**€11.9m**	**€34.3m**
FFO 1 Yield[2]	**3.2%**	**9.2%**
FFO 1 (post SG&A)	**€5.3m**	**€27.2m**
FFO 1 Yield[2]	**1.4%**	**7.3%**

Optimisation adds €13m RI p.a., while Sunsquare developement yields €2.5 RI p.a.

[1] Includes the development of the Kirchheim property (+13,300 sqm) and LFL performance; [2] based on equity of EUR 375m

Source: First Berlin Equity Research; Godewind Immobilien AG

Based on the 59% value-add component of the portfolio and the associated 39% vacancy rate, the current portfolio harbours copious amount of reversionary upside. Management believe it can slash the overall vacancy rate down to 4% to 5% by 2020. Combined with LFL rental increases, the existing assets could generate over €50m (+43%) in RI alongside >€34m FFO 1 once fully optimised.

TENANT STRUCTURE

Tenant base and lease structure Godewind has a number of blue-chip anchor tenants, including Lufthansa, while the top two occupiers account for 17% of rental income. The WALT features a good blend of lease maturities topped by Mitsui & Co at 15.6 years. Good credit scores also give us confidence with a potentially weakening economy in the rear view mirror.

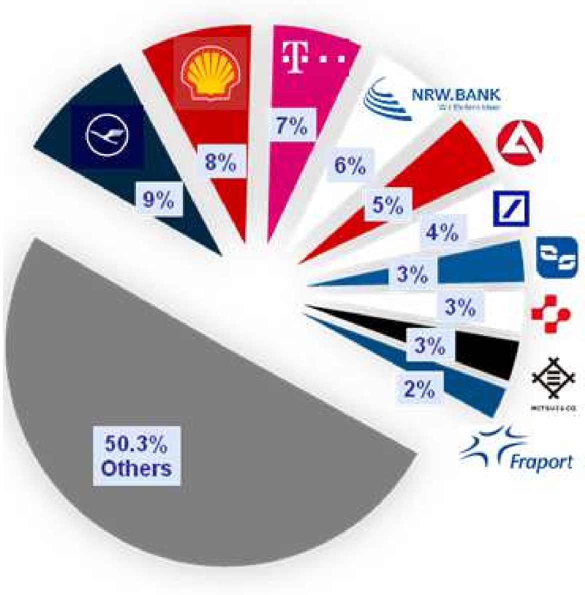
Figure 9: Tenant KPIs

Tenant	Rental income p.a. (€ M)	Rental income (in %)	WALT (in years)	Creditreform [1] Score (100-600)
Lufthansa	3.13	8.9	3.0	136
Shell Germany	2.90	8.2	4.9	100
T · · GMG mbH	2.31	6.6	1.6	184
NRW.BANK	2.25	4.5	8.0	121
Bundesagentur für Arbeit	1.60	3.7	3.0	211
Deutsche Bank	1.29	3.7	4.9	127
Operational Services	1.08	2.9	8.0	141
VINCI Energies	1.07	2.8	2.8	197
MITSUI & CO.	1.04	2.7	5.9	113
Fraport	0.83	2.3	12.5	115
Top Tenants	**17.5**	**49.6**	**5.1**	**142**
Other	17.9	50.3	4.9	
Total	**35.4**	**100.0**	**5.0**	

Source: First Berlin Equity Research; Godewind Immobilien AG

¹ Creditreform and the corresponding PD (Probability of Default) calculate the risk of default of a debtor within one year according to Basel II criteria. Applied on Creditreform, a score of 500 to 600 means default. A score of 224 or 0.38% for instance is a 'good' rating. The top ranking is 100, while 600 is the worst. The average in Germany is 1.42%

Figure 10: Top ten tenant split



Source: First Berlin Equity Research; Godewind Immobilien AG

FINANCIAL HISTORY AND OUTLOOK

Filling up the financial coffers In March 2018 the company executed a capital increase issuing 9.75m shares at €4.00ps. The cap hike generated net proceeds of €365m after costs and was entered into the commercial register on 28 March. The company's share capital increased from €15m to €108.75m. Godewind shares floated on the Frankfurt Stock Exchange on 3 April and commenced trading at a market cap of €435m (€4 / share).

More recently, the company initiated a share buyback program of up to 1.5m shares to take advantage of the current weakness in the share price, which has the company trading at a discount to EV. Purchased shares can be resold for cash or against contribution in kind in conjunction with future property deals. Management successfully used the latter approach at WCM on certain deals.

The program runs until 28 March 2019 and is limited to a €5.25m budget. The buyback is compliant with authorization granted at the 20 February 2018 ordinary shareholders' meeting, which permits the company to repurchase up to 10% of share capital (15m) at the time of the resolution.

Although a share buyback is somewhat unusual at this early stage of operations, the program helped sooth select key investors rankled by the lack of a blockbuster deal, while not robbing the company of significant financial resources for equity components of future deals.

LATEST RESULTS (NINE MONTH 2018)

Initial reporting reflects financial and infrastructure ramp up Business during the first months was largely shaped by the IPO and subsequent ramp up of personnel and infrastructure needed to embark on its acquisition campaign. GWD made its first acquisition in mid-September but will only realise modest rental income in FY18 with first closures slated for December 2018. Thus, nine month reporting chiefly reflected the company's personnel and administration expenses in preparation of the capital increase and portfolio build up. The net loss (€-6.5m) also entailed some €-3.2m in deferred tax expenses as shown below.

Table 6: Nine month KPIs

in EUR '000	9M/18	9M/17	*variance*
Rental income	**0**	**0**	-
Other operating income	33	9	*267%*
Staffing costs	-2,202	-18	-
Other OpEx	-1,250	-95	-
EBITDA	**-3,419**	**-104**	-
Depreciation & amortisation	-10	0	-
Financial result	-202	375	-
Tax result	-2,963	0	-
Net income	**-6,594**	**271**	-

Source: First Berlin Equity Research; Godewind Immobilien AG

Table 7: 9M 2018 balance sheet highlights

All figures in EUR '000	9M/18	2017	*variance*
Cash and liquid assets	373,420	19,172	*1848%*
Total assets	381,545	19,611	*1846%*
Investment property	0	0	-
Shareholders' equity	380,645	18,561	*1951%*
Total debt (short- and long-term)	0	0	-
Net debt	-373,420	-19,172	*1848%*
Loan-to-Value	0.0%	0.0%	-
Equity ratio	99.8%	94.6%	-

Source: First Berlin Equity Research; Godewind Immobilien AG

As of nine month reporting, cash and equity were the major line items on the balance sheet following the aforementioned cap hike. The company began converting cash into investment properties in Q4 and should have exited the year with some €332m in properties. Our pro-forma snapshot does not consider the envisioned debt component.

Godewind recently secured €82m in debt financing for three office properties (ComCon Center in Frankfurt, Airport Business-Center in Düsseldorf and Pentahof in Hamburg), and we expect the company to raise further debt within its targeted < 55% LTV range. The new debt featured a 5 year maturity 1.09% coupon—well below the communicated target (1.5%). This adds to the existing €88m in debt assumed for Frankfurt Airport Center (LTV 52%; 1.87% coupon). The current debt load carries a 1.5% weighted average cost of debt (WACD).

FORECASTING ASSUMPTIONS

The company does not provide guidance, due to the current rapid growth phase, but does report annualised rental income and FFO 1 run rates as well as the common portfolio KPIs. The yield stands at 5.0% following the most recent deals, which translate into an annualised rental income run rate of €35.4m and an annualised FFO 1 run rate of €11.9m based on the properties already acquired. We expect Godewind to update these run rates on a quarterly basis going forward.

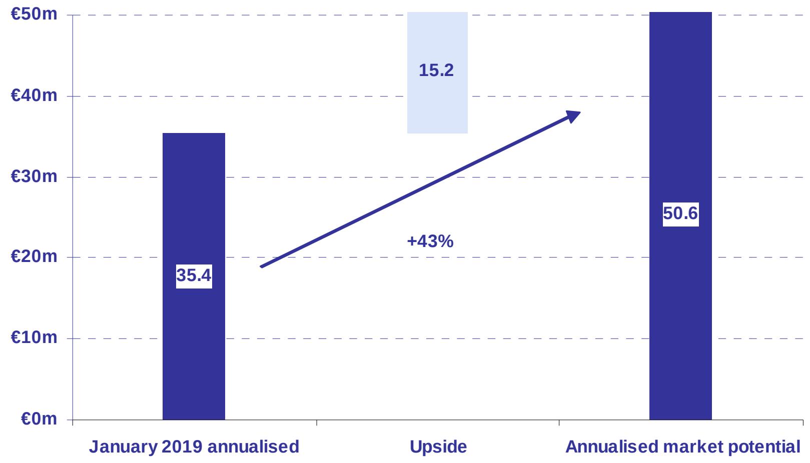
Table 8: Portfolio run rates

in EUR '000	
Rental income	35,400
Funds from operations 1	11,900
FFOPS 1 (€)	0.11

Source: First Berlin Equity Research; Godewind Immobilien AG

Management have hinted at a full pipeline topping €2.0bn—including a large portion of off-market deal flow—to help propel the company towards the targeted €3bn portfolio over the mid-term. GWD has already announced some €436m of signings set to close in H1 2019 and is optimistic about its access to capital to spur future investments. However, we take a conservative approach and limit investments to the currently available financial firepower, which assumes a debt component.

Figure 11: January 2019 rental income vs market potential including vacancies



Source: First Berlin Equity Research; Godewind Immobilien AG

We also believe the portfolio harbours excellent reversionary potential given the vacancy rates of the manage-to-core properties (59% of portfolio), below market level rents, and the prevailing frenzied demand for office space. We outline our key growth assumptions as follows:

Sharp near-term vacancy reduction Godewind's current vacancy rate stands at a relatively high 28%, owing in large part to the 63% vacancy at Kirchheim and the 45% vacancy at Herzog-Terrassen (55k m² vacant space). We expect a sharp vacancy reduction in 2019 and for the vacancy rate of the current assets to decline towards 5% by YE 2021. New assets will likely come with higher vacancy rates but the portfolio's share of new assets will decline every year, due to the base effect and slower investment rates.

Compelling organic rental income growth Aside from the rapid occupancy increases, our forecasts assume upward rent revisions as the company aligns rents to market levels when leases expire. The current WALT is 5.0 years with several properties featuring a WALT below four years (table 4). We expect LFL growth to normalise towards a mid-term target of 4% as the ratio of new properties with high vacancies compresses. To simplify calculations, we also assume 50% of in-place rent for newly acquired properties will be realised in year one. We also conservatively model organic LFL growth to kick-in during year three post-acquisition.

We have also excluded potential disposals from our forecasts, given the early stage of portfolio building. This also means this year's growth metrics are exceptionally inflated with first time rental income to be reported in 2019. But our RI assumptions equate to a 15% CAGR for 2019 – 2021.

Table 9: Rental income and portfolio growth assumptions

in €'000	2018E	2019E	2020E	2021E
Net rental income	1,218	25,297	35,332	37,938
Y/Y		*1978%*	*40%*	*7%*
Gross rental income	1,433	29,762	41,567	44,633
Y/Y		*1978%*	*40%*	*7%*
Gross asset value (GAV)				
Running yield	n.a.	4.9%	4.5%	4.3%
Investments	272,000	435,600	0	35,000
Disposals	0	0	0	0
GAV	272,000	804,775	908,523	954,590
Rental income forecasts				
Organic rent	0	13,881	35,332	37,098
LFL RI growth (incl. vacancies)	0.0%	8.0%	5.0%	5.0%
Acquisitions	272,000	435,600	0	35,000
Multiple (x)	19	21	-	17
Initial yield	5.4%	4.8%	5.0%	6.0%
Initial rental income (RI)	14,612	20,756	0	2,100
Weighted RI	1,218	11,416	0	840
Reported rental income	1,218	25,297	35,332	37,938

Source: First Berlin Equity Research estimates

Good revaluation potential Bottom line profitability will also be boosted by revaluation gains. Properties will be assessed by external auditors on an annual basis, which we believe will result in sizable revaluation gains to the portfolio. The company has given an indication of some €185m owing chiefly to the value-add component. We have assumed a more conservative figure totalling €153m through 2021.

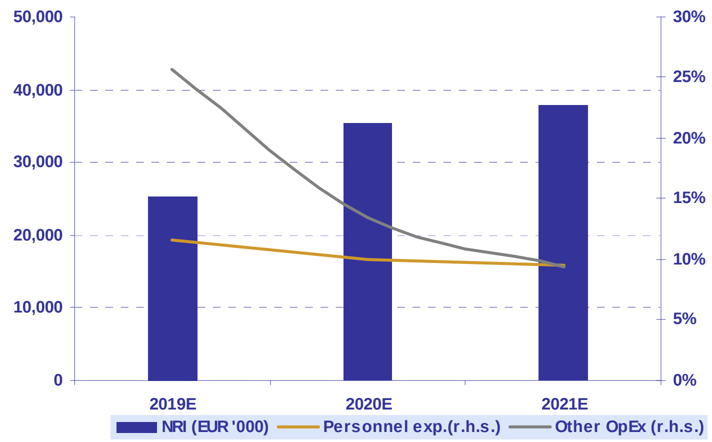
Kirchheim; Munich (Sunsquare) development upside Management have also hinted at the development potential of its Kirchheim property as wrote earlier. We have assumed the company will invest some €35m into the property, which will yield an estimated 13,300 m² of new lettable space. We think this will unlock an additional €2.2m in annualised rental income for the property. Management calculate somewhat higher at €2.5m.

We expect rental income to reach €25m in 2019 and climb to €35m in 2020 spurred by portfolio expansion and optimisation. The company aims for a 5.0% – 5.5% RI yield on the purchase price of new properties. We have adopted this yield hurdle in our near term forecasts until we see contrary evidence. Sunsquare accounts for the higher value in 2021.

Scalable structure spurs profitability We expect staffing expenses and other operating expenses to rise at a much slower pace than portfolio growth, due to scaling effects. Senior management is already in place and incentivised, but the company might increase the overall headcount (9M/18: 17) to bolster the acquisition team as needed. Otherwise, core staffing is in place to facilitate the expected growth over the mid-term. We thus model for staffing expenses to equate to 12% of the 2019 topline.

Other operating expenses encompass vacancy cost of some €4m in this year. We look for this to be halved in 2020, thanks to sharp vacancy reductions. The prime property locations should allow the company to quickly fill up the vacant space. By 2021 vacancy costs should be negligible and other operating expenses should dip below 10% of RI.

Figure 12: Net rental income (NRI) over operating cost ratios



Source: First Berlin Equity Research; Godewind Immobilien AG

Financing expenses reflect expected debt loads associated with portfolio growth using a 55% LTV in 2019. We expect management to secure long-term debt at around 1.5%. Our net income target is €-8.9m for 2018 followed by €1.7m this year. The sharp increase in earnings reflects the high amount of acquisitions in Q4 2018 and early 2019 that will have their initial full impact on RI and revaluations in 2019.

ADJUSTED EBITDA AND FFO 1 FORECASTS

'Adjusted EBITDA' is the key performance measurement for operating results. The KPI reflects the underlying operational profit of the commercial portfolio by excluding revaluation effects, disposal gains, and share of profits from other investments. Funds from operations 1 is the property industry standard indicator for recurring cash flows.

Table 10: Adjusted EBITDA and FFO 1 estimates

in €'000	2018E	2019E	2020E	2021E
Operating income	**-5,562**	**69,341**	**84,897**	**69,176**
(+) Depreciation & amortisation	13	30	42	45
(-) Capital gains, property revaluations	0	-55,175	-58,749	-39,067
(-) Result from disposals	0	0	0	0
(=) Adjusted EBITDA	**-5,549**	**14,196**	**26,190**	**30,154**
(-) Financial expense	-110	-5,312	-6,176	-6,176
(-) Tax expense	0	-1,921	-2,362	-1,890
(-) Minority contribution	0	-300	-700	-900
(=) FFO 1	**-5,659**	**6,664**	**16,952**	**21,188**
FFOPS 1 (€)	-0.07	0.06	0.16	0.19

Source: First Berlin Equity Research estimates

BALANCE SHEET AND NAV ASSUMPTIONS

Table 11: Balance sheet developments

All figures in EUR '000	2018E[1]	9M/18	*variance*
Cash and liquid assets	194,393	373,420	*-48%*
Total assets	467,343	381,545	*22%*
Investment property	272,000	0	
Shareholders' equity	378,376	380,645	*-1%*
Total debt (short- and long-term)	0	0	
Net debt	-194,393	-373,420	*-48%*
Loan-to-Value	0.0%	0.0%	
Equity ratio	81.0%	99.8%	

[1] reflects Q4 acquisitions

Source: First Berlin Equity Research; Godewind Immobilien AG

Recent investment sprint pushes portfolio > €700m mark Investments in 2018 eclipsed €272m thanks to a flurry of deals in Q4. Thanks to the latest deal in Düsseldorf, 2019 is shaping up to be another strong investment year. We model €436m including the €230m signed in December 2018 that is expected to close in April 2019. We have assumed the company will raise debt on the portfolio to free up further cash. Currently, we believe the company will have under €15m available to acquire new properties once debt is fully secured. We thus model a total of €743m in investments through 2021, which should push GAV north of €900m.

The company could accelerate investments by raising additional equity if good market conditions persist; however, we have not assumed further capital increases in our model for now. We believe the company will avoid a downround and not raise further equity until the share price is north of €4 where the initial issuance occurred.

Table 12: Loan-to-value development

in EUR '000	2018E	2019E	*variance*
Investment property	272,000	804,775	*196%*
Assets held for sale	0	0	-
Total value	272,000	804,775	*196%*
Financial debt	88,000	411,760	-
Net financial debt	-106,393	366,826	-
Loan-to-value (LTV)	32%	51%	-
Net LTV	-	46%	-

Source: First Berlin Equity Research; Godewind Immobilien AG

Once Godewind demonstrates good operating performance in the coming quarters, we believe management could look to issue corporate debt in the form of a convertible bond to boost its buying power. For now we have modelled €412m in bank debt into the financing mix. Our assumptions result in a 46% net LTV and 51% equity ratio for 2019.

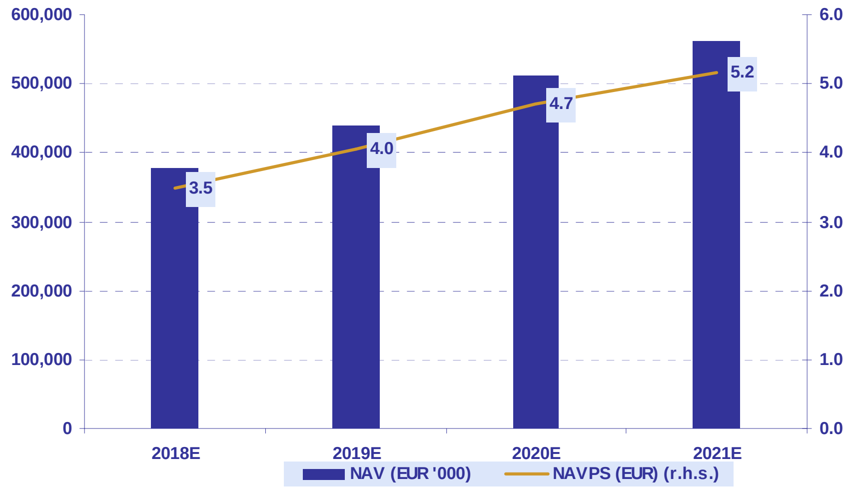
Table 13: EPRA NAV calculation

in EUR '000	2018E	2019E	*variance*
Net asset value	378,376	432,208	*14.2%*
Deferred tax liabiliteis	0	8,276	-
Non-controlling interests	0	-300	-
EPRA NAV	378,376	440,184	*16.3%*

Source: First Berlin Equity Research; Godewind Immobilien AG

We refer to EPRA NAV as the metric to asses NAV performance in the context of a long-term investment real estate strategy. This is defined as the IFRS net asset value adjusted to include real estate properties and other investments at fair value, while excluding other items not relevant to long-term real estate operations.

Figure 13: Net asset value periodic development



Source: First Berlin Equity Research; Godewind Immobilien AG

We look for bottom line profitability combined with portfolio appreciation to drive NAV and NAVPS growth going forward. We also expect GWD to pay shareholders a dividend equal to 60% of FFO 1 starting with 2019 earnings.

Table 14: NAV, FFO 1 and dividend forecasts

in €'000	2018E	2019E	2020E	2021E
NAV	378,376	440,184	511,845	561,884
Y/Y	-	*16%*	*16%*	*10%*
NAVPS (€)	3.5	4.0	4.7	5.2
Y/Y	-	*16%*	*16%*	*10%*
FFO 1	-5,659	6,664	16,952	21,188
Y/Y	-	-	*154%*	*25%*
FFOPS 1 (€)	-0.07	0.06	0.16	0.19
Y/Y	-	-	*154%*	*25%*
Dividend	0	3,998	10,171	12,713
Y/Y	-	-	*154%*	*25%*
DPS (€)	0.0	0.04	0.09	0.12
Y/Y	-	-	*154%*	*25%*

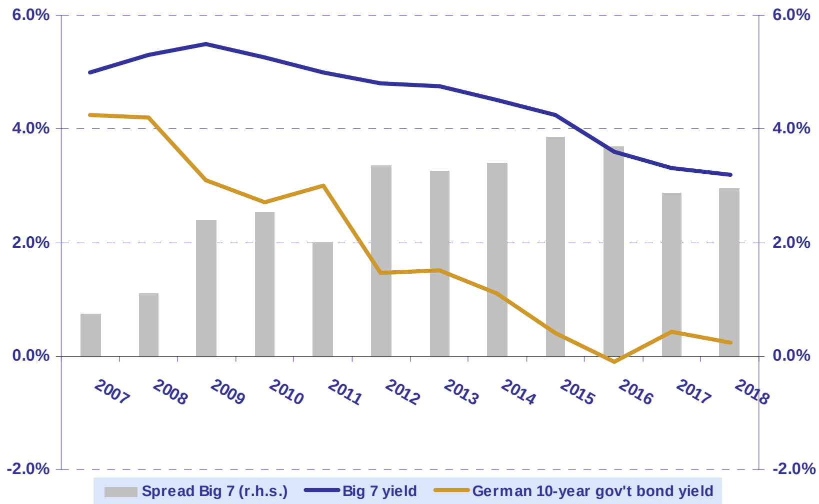
Source: First Berlin Equity Research estimates

Attractive tax holiday for shareholders The company has a significant stockpile of tax loss carry forwards, which will reduce corporate tax expenses: corporate tax €180m (*Körperschaftsteuer*) and a further €175m in trade tax (*Gewerbesteuer*). Investors will welcome dividends free of withholding tax, thanks to a contribution account (*steuerliches Einlagekonto*) of some €133m, which should provide a ~€35m tax benefit kicker.

MACRO THEMES TO TRACK THIS YEAR

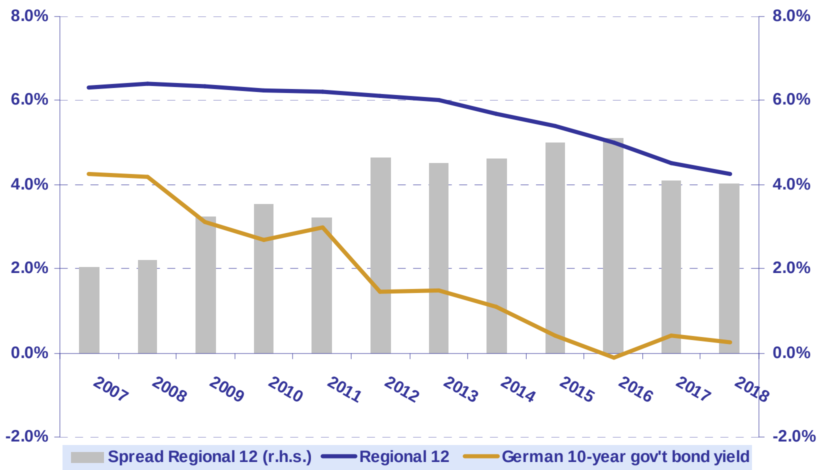
Is there still upside in the German property market? In our view, German CRE continues to harbour better growth potential than residential RE where yields have been compressing for years. We regard the commercial sector as lagging the late cycle residential space—a view supported by higher yields offered by the former. Good market fundamentals also give us confidence in the sustainability of the current cycle and growth potential into 2020. The main considerations supporting our view are: (1) good growth potential driven by brisk occupier demand; (2) persistent high demand for prime space fuelled by yield hungry investors; (3) limited alternative asset classes with comparable yields and income potential; (4) real estate yields that remain highly attractive over bond yields; and (5) healthy balance sheets among the landlords with gearing and LTVs at comfortable levels, meaning less funding risk in the system. Taking account of these factors, we see nothing from today's perspective that is a harbinger of a major reversal in the current market trajectory.

Figure 14: German Big 7 office over German bond yields



Source: Bulwiengesa, Bloomberg, First Berlin Equity Research

Figure 15: German Regional 12 office over German bond yields



Bond yield spread offers considerable comfort A key driver for the investment demand has been the attractive yields offered by real estate relative to alternative assets. A year ago, investors grew jittery in the wake of rising bond yields and a narrowing spread when the

German 10-year bond yield hit 0.8% last February. However, such fears are hardly supported by the fundamental evidence depicted in the figure above. Even if German bond yields edge higher to normalised levels, we think the spread will remain comfortably wide. The German 10-year peaked at 0.6% in October but has since retreated and is now ranging between 0.2% and 0.3%. The historical spread for the Big 7 since 2007 is 2.7% compared to 3.0% towards the end of 2018.

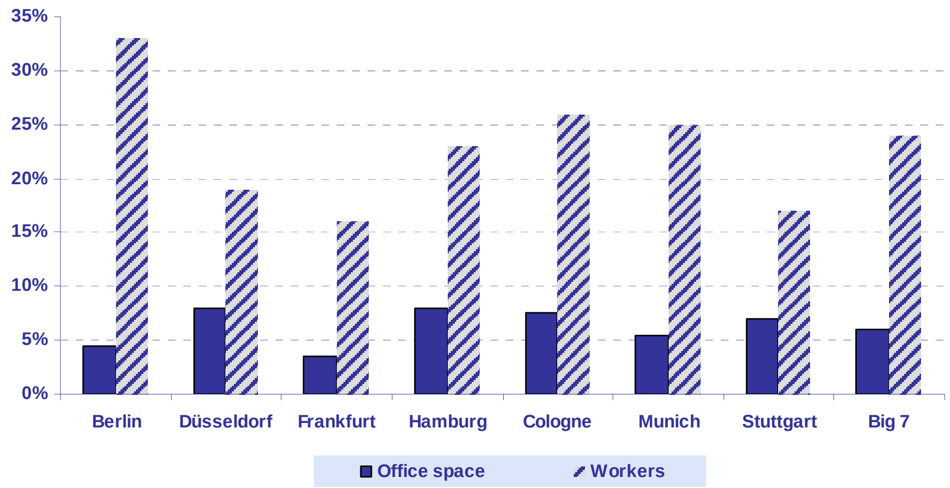
GOING LONG OFFICE SPACE

Godewind's business activities are primarily driven by the German office market, which has been booming. The office segment accounted for some 37% of the €79bn in German property transaction volume last year. Of this aggregate amount, 58% (€46bn) occurred in Germany's Big 7 highlighted in Table 14.

Looking ahead, the office sector should continue to see strong occupier demand and letting momentum as it continues to benefit from the strong economic environment. Office uptake remains at the high levels seen in 2017 led by Munich and Berlin. JLL noted in its H1 market update that the vacancy rate for the Big 7 has fallen by a further 20 basis points to 4.3% within the last three months. "If this pace is maintained, all vacancies in the Big 7 would disappear in around five years' time." The theoretical point underscores the acute shortage of quality space throughout Germany's metropolises.

Bursting at the seams The shortage of work space has been building up for a long time. There was little desire for developers to build new space. Germany had a reassuring 7 million square meters of vacant office space back in 2007 before the economic uptick in 2010. Demand for workspace has been growing strongly since, but new build has not matched the trajectory with demand in the Big 7 over the ten year time frame having surged some 24% led by Berlin at nearly 33%. New office space coming online trailed heavily at 6%.

Figure 16: Increase in office workers vs new workspace 2007 to 2017



Source: Bulwiengesa; Feri; First Berlin Equity Research

New build unable to fill the gap in the near term In the first six months of 2018, only 329k m² of new office space came online across the Big 7 with another 674k m² set for completion in H2. Even more sobering is the fact that only 141k m² of this new space is still available with the bulk already pre-let.

Table 15: Office rent developments for Germany's Big 7

	Prime rents (€ / m²)			Growth (Y/Y)		
	2017	2018E	2019E	2017	2018E	2019E
Berlin	30.0	32.7	34.0	7.1%	9.0%	4.0%
Düsseldorf	24.5	25.0	25.5	0.0%	2.0%	2.0%
Frankfurt	38.5	39.5	40.5	8.5%	2.6%	2.5%
Hamburg	26.5	27.0	27.5	1.9%	1.9%	1.9%
Cologne	21.0	21.5	21.9	0.0%	2.4%	2.0%
Munich	36.0	37.0	38.0	3.7%	2.8%	2.7%
Stuttgart	21.4	22.0	22.5	8.6%	2.8%	2.3%
Big 7	**29.3**	**30.5**	**31.3**	**4.7%**	**4.1%**	**2.8%**

Source: Bulwiengesa, Feri, DZ Bank Research

Source: Bulwiengesa, Feri, DZ Bank Research

THE TAILGATING ECONOMY

For equity investors, a faltering economy is the juggernaut looming in the rear view mirror of a bull market that has lost its steam. At home, Germany narrowly avoided a technical recession after posting flat GDP growth in the fourth quarter. This followed the first contraction since 2015 in Q3 (-0.2%) fuelling concerns that the long expansion period is coming to an end just as the European Central Bank ended its stimulus package. GDP forecasts for EU constituents are being revised down by market analysts with Brexit as the fulcrum. The outlook below assumes an orderly Brexit. A “crashing out” scenario would spill over into the rest of Europe making these forecasts untenable with trading agreements impaired.

Table 16: Germany's revised GDP outlook for 2019

	2017	2018	2019E	2020E
GDP - new	2.5	1.5	1.3	1.6
GDP - old			1.9	1.6
Revision			*-32%*	*0%*

Source: International Monetary Fund World Economic Outlook; January 2019

QE is over but don't look for a rate hike just yet The European Central Bank (ECB) formally wrapped up its multi-trillion bond-buying program at the end of 2018 aside from reinvesting in mature bonds. Policy makers have maintained since last summer that it will keep the main interest rate (0.0%) on hold well into 2019. And more recent comments from the ECB suggest this will remain the case even as concern about the economic outlook heightens. Most market watchers don't anticipate the ECB moving on rates until the end of the summer at the earliest.

Impact on property operators and Godewind Although it is too early to predict the full impact of a prolonged economic slowdown, we expect property players with the lowest balance sheet risk (low cost, long term debt) to best weather the downturn. From that standpoint, Godewind's manageable debt load (LTV < 55%) and strong equity ratio (51%) should help the company adapt to a downturn in the property market. The main risk from our viewpoint is a major collapse of the job market, which would hamper the company's ability to fill up its high vacancies.

EXECUTIVE BOARD

Stavros Efremidis (CEO)

Mr Efremidis is an industry veteran with over 30 years of commercial real estate and C-Level experience. He served as CEO of WCM Beteiligungs- und Grundbesitz AG from 2014 to 2017, when WCM was acquired by TLG Immobilien AG. Previously, he served as CEO of KWG Kommunale Wohnen AG helping grow the residential landlord's portfolio from 92 to 10k units. After conwert Immobilien SE took a major stake, he was responsible for the latter's German portfolio valued at some €1.8bn.

Ralf Struckmeyer (CFO)

Ralf Struckmeyer brings over 17 years of combined commercial property and financial experience to the Board. His career includes collaboration on some €20m in property transactions and financings. Mr Struckmeyer served as CFO of WCM Beteiligungs- und Grundbesitz AG from 2016 to 2017 and was charged with the M&A and corporate financing duties. Prior to this role, he was a director at Kuna & Co. responsible for property portfolios and financing / restructuring transactions. He launched his career with GE Capital Real Estate working on German and central European transactions.

SUPERVISORY BOARD

Board chairman

Dr Bertrand Malmendier has been a Berlin-based attorney for 20 years and is specialised in business law and the property sector. He works on development projects and transactions on portfolios and individual properties. His experience includes global and cross-border transactions in the energy, commodity, infrastructure and construction fields. He previously served on the supervisory board of Formycon AG and has been sitting on the supervisory board of Studio Babelsberg AG since 2006.

Board member

Dr Roland Folz brings over 25 years of banking and finance experience. He has deep expertise particularly strong in financial services, transport and telecommunications. Mr Folz currently serves as chairman of the supervisory board at solarisBank AG. He has held various CFO and senior management positions within Deutsche Bank AG, and performed executive roles at Deutsche Telekom AG, Daimler Chrysler Bank AG and Direkt Anlage Bank AG. Mr Folz served on the supervisory boards of Deutsche Asset- und Wealth Management Investment GmbH, Nürnberger Beteiligungs AG, Fürst Fugger Privatbank AG and Studio Babelsberg AG.

Board member

Karl Ehlerding has held a wide variety of management and supervisory board posts at listed and private German companies since 1970. He is member of the supervisory boards of Maternus-Kliniken AG and Elbstein AG. Mr Ehlerding was also a major shareholder of WCM AG helping the commercial landlord evolve into a leading German real estate company. WCM was acquired by TLG Immobilien AG for ~€450m in 2017.

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE000A2G8XX3
WKN	A2G8XX
Bloomberg ticker	GWD:GR
No. of issued shares	108,750,000
Transparency Standard	Prime Standard
Country	Germany
Sector	Financial Services
Subsector	Real Estate

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
K.P.Ehlerding	8.3%
Stavros Efremidis*	12.0%
K. Ehlerding	13.5%
J.F. Ehlerding	3.3%
Free float	62.9%

** including financial instruments*

Source: Godewind Immobilien AG

INCOME STATEMENT

All figures in EUR '000	2017	2018E	2019E	2020E	2021E
Rental income	**0**	**1,433**	**29,762**	**41,567**	**44,633**
Property OpEx	0	-215	-4,464	-6,235	-6,695
Net rental income	**0**	**1,218**	**25,297**	**35,332**	**37,938**
Gains on disposal	0	0	0	0	0
Revaluation gains	0	0	55,175	58,749	39,067
Other operating income	530	32	0	0	0
Personnel expenses	0	-3,321	-3,454	-3,523	-3,593
Other operating expenses	-817	-3,478	-7,648	-5,619	-4,191
Depreciation & amortisation	0	-13	-30	-42	-45
Operating income	**-287**	**-5,562**	**69,341**	**84,897**	**69,176**
Net financial result	-24	-102	-5,312	-6,176	-6,176
Other financial expenses	0	0	0	0	0
Pre-tax income (EBT)	**-311**	**-5,664**	**64,029**	**78,721**	**63,000**
Income taxes	0	0	-1,921	-2,362	-1,890
Deferred taxes	0	-3,199	-8,276	-8,812	-5,860
Net income / loss	**-311**	**-8,863**	**1,358**	**67,547**	**55,250**
Minority interests	0	0	-300	-700	-900
Net income after minorities	**-311**	**-8,863**	**1,658**	**68,247**	**56,150**
Basic EPS (in €)	**n.m.**	**-0.10**	**0.49**	**0.61**	**0.50**
Diluted EPS (in €)	**n.m.**	**-0.10**	**0.49**	**0.61**	**0.50**
Adjusted EBITDA	**-287**	**-5,549**	**14,196**	**26,190**	**30,154**
Ratios					
Adj. EBITDA margin	n.m.	n.m.	47.7%	63.0%	67.6%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Expenses as % of revenues					
Personnel expenses	n.m.	231.8%	11.6%	10.0%	9.5%
Other operating expenses	n.m.	242.8%	25.7%	13.5%	9.4%
Y-Y Growth					
Rental income	n.a.	n.m.	1977.5%	39.7%	7.4%
Adj. EBITDA	n.a.	n.m.	n.m.	84.5%	15.1%
Net income/ loss	n.a.	n.m.	n.m.	4874.0%	-18.2%
Operating income	**-287**	**-5,562**	**69,341**	**84,897**	**69,176**
Depreciation & amortisation	0	13	30	42	45
Capital gains, property revaluations and other	0	0	-55,175	-58,749	-39,067
Result from disposals	0	0	0	0	0
Adjusted EBITDA	**-287**	**-5,549**	**14,196**	**26,190**	**30,154**
Financial expense	-53	-110	-5,312	-6,176	-6,176
Tax expense	0	0	-1,921	-2,362	-1,890
Minority contribution	0	0	-300	-700	-900
FFO 1	**-340**	**-5,659**	**6,664**	**16,952**	**21,188**
FFOPS 1 (€)	0.00	-0.07	0.06	0.16	0.19

BALANCE SHEET

All figures in EUR '000	2017	2018E	2019E	2020E	2021E
Assets					
Current assets, total	**19,516**	**194,589**	**48,196**	**17,007**	**21,915**
Cash and cash equivalents	19,172	194,393	44,934	12,452	17,024
Assets held for sale	0	0	0	0	0
Trade receivables	344	196	3,262	4,555	4,891
Other current assets	0	0	0	0	0
Non-current assets, total	**95**	**272,754**	**805,599**	**909,433**	**955,590**
Property, plant & equipment	0	45	60	81	103
Intangible assets	0	77	89	106	123
Investment property	0	272,000	804,775	908,523	954,590
Other LT assets	95	632	676	723	774
Total assets	**19,611**	**467,343**	**853,795**	**926,440**	**977,506**
Shareholders' equity & debt					
Current liabilities, total	**676**	**600**	**1,147**	**1,390**	**1,473**
Short-term debt	0	0	0	0	0
Trade payables	668	455	988	1,215	1,280
Provisions & current liabilities	8	145	160	175	193
Long-term liabilities, total	**374**	**88,367**	**420,440**	**429,293**	**435,197**
Corporate debt	0	0	0	0	0
Long-term bank debt	0	88,000	411,760	411,760	411,760
Other liabilities	374	367	404	444	488
Deferred tax liabilities	0	0	8,276	17,089	22,948
Shareholders' equity	**18,561**	**378,376**	**431,908**	**494,757**	**538,935**
Minority interests	0	0	300	1,000	1,900
Total equity	**18,561**	**378,376**	**432,208**	**495,757**	**540,835**
Total consolidated equity and debt	**19,611**	**467,343**	**853,795**	**926,440**	**977,506**
Ratios					
EPRA NAV	18,561	378,376	440,184	511,845	561,884
NAVPS (€)	n.m.	3.5	4.0	4.7	5.2
Net debt	-19,172	-106,393	366,826	399,308	394,736
Interest cover (ICR)	-	-50.4x	2.7x	4.2x	4.9x
Equity ratio	94.6%	81.0%	50.6%	53.5%	55.3%
Loan-to-value (LTV)	-	32.4%	51.2%	45.3%	43.1%
Net LTV	-	-	45.6%	44.0%	41.4%

CASH FLOW STATEMENT

All figures in EUR '000	2017	2018E	2019E	2020E	2021E
Net income	**-318**	**-8,863**	**53,832**	**67,547**	**55,250**
Non-cash gains / losses	0	0	-55,175	-58,749	-39,067
Depreciation & amortisation	0	13	30	42	45
Net financial result	23	102	5,312	6,176	6,176
Tax result	0	3,199	10,197	11,174	7,750
Operating cash flow	**-295**	**-5,549**	**14,196**	**26,190**	**30,154**
Trade receivables & other assets	-532	-65	-2,533	-1,067	-270
Trade & other payables	623	130	51	56	62
Provisions and other liabilities	0	0	-1,921	-2,362	-1,890
Tax paid					
Net operating cash flow	**-204**	**-5,484**	**9,793**	**22,818**	**28,056**
Investment in fixed/intangible assets	0	-135	-57	-79	-85
Outflows for investment property	0	-272,000	-477,600	-45,000	-7,000
Inflows from asset disposals	11,557	0	0	0	0
Outflows for financial assets	-5,591	-537	-44	-47	-51
Interest income	30	8	0	0	0
Cash flow from investing	**5,996**	**-272,664**	**-477,700**	**-45,126**	**-7,136**
Debt financing, net	-2,995	88,000	323,760	0	0
Equity financing, net	14,500	365,479	0	0	0
Interest paid	-53	-110	-5,312	-6,176	-6,176
Dividends paid	0	0	0	-3,998	-10,171
Cash flow from financing	**11,452**	**453,369**	**318,448**	**-10,175**	**-16,348**
Net cash flows	**17,244**	**175,221**	**-149,458**	**-32,482**	**4,572**
Cash, start of the year	1,928	19,172	194,393	44,934	12,452
Cash, end of the year	**19,172**	**194,393**	**44,934**	**12,452**	**17,024**
FFO 1	**-340**	**-5,659**	**6,664**	**16,952**	**21,188**
FFOPS 1 (€)	n.m.	-0.07	0.06	0.16	0.19
Y-Y Growth					
FFO 1	n.m.	n.a.	n.m.	154%	25%
FFOPS 1	n.m.	n.a.	n.m.	154%	25%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	7 March 2019	€ 3.49	Buy	€ 5.50

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

Legally required information regarding

- **key sources of information in the preparation of this research report**
- **valuation methods and principles**
- **sensitivity of valuation parameters**

can be accessed through the following internet link: http://firstberlin.com/disclaimer-english-link/

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

EXCLUSION OF LIABILITY (DISCLAIMER)

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