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14/02/2018 - GBC Management interview - The Grounds Real Estate Development AG

Company: The Grounds Real Estate Development AG^{*4;5a;5b;6a;7;11}

ISIN: DE000A2GSVV5

Analyst: Cosmin Filker

Date of completion/Date of first publication: 14/02/2018

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The Grounds Real Estate Development AG (The Grounds Group) implemented a capital increase at the end of the most recent financial year 2017. Of the 5.1 million shares offered (subscription price of €2.20 per share), a total of 2.21 million shares were subscribed (subscription offer and private placement), thus resulting in gross issue proceeds of €4.85 million. The shares that are yet to be placed shall be offered in particular to institutional investors in South Africa. The liquidity raised has already been used as planned for the acquisition of two real estate portfolios in order to increase the inventory. GBC Analyst, Cosmin Filker, spoke with Hans Wittmann, a member of The Grounds Executive Board.

GBC AG: Mr Wittmann, as part of the capital increase, around 45% of the shares offered were placed in a first tranche. How satisfied are you with this placement and what do you expect from the discussions in South Africa?

Hans Wittmann: We have received a lot of positive feedback as part of investor discussions in Germany and are also very pleased with the success of the capital measure thus far. The second stage of the capital measure is currently being implemented in South Africa. Authorisation from the South African Central Bank (Federal Reserve) is imminent and we expect the listing on the AltX (Alternative Exchange) in Johannesburg within the next two to three weeks. On this basis, we can then hold concrete investor talks in South Africa, where we have already received initial positive feedback.

GBC AG: The initial funds from the capital increase have already been successfully used to acquire several properties. Can you outline the key information of the investments?

Hans Wittmann: You are right. The funds from the capital increase were used as planned and in accordance with the communicated use of funds for the acquisition of the first existing properties. However, that is only the beginning. This is because we are currently in concrete talks regarding further acquisitions, the completion of which we will report in the coming months. In this respect, our investment activities are proceeding as planned. The properties you mentioned are primarily several multi-family houses, which comprise a total of 120 apartments and seven commercial properties. We will develop the properties through restructuring or development, in order to increase their value in addition to the rental income. We have also acquired a logistics property with significant development potential.

GBC AG: In addition to the successful first property portfolio development, your main focus is on project development. With this combination, The Grounds Group

stands out among listed real estate companies. Why do you consider the combination of inventory and project development to be promising?

Hans Wittmann: We have come to the conclusion that the broadest possible coverage of value creation in the real estate sector brings significantly higher earnings potential than would be the case if we only covered one business area. In principle, we plan to develop our own real estate portfolios. However, if we cover the development in advance, we can determine the quality of the location, construction quality, tenant structure, etc. early on and comparatively flexibly. Furthermore, for several years now, there has been a clear trend in the new construction sector whereby construction costs have fallen and are now even below acquisition costs, which makes in-house development particularly attractive.

You have to bear in mind that property development generally allows for higher margins and faster realisation of profit than inventory management. We will therefore also sell internally developed properties in individual cases and, in doing so, profit from high returns on the project development and the stable earnings situation from the inventory management process.

GBC AG: What projects are currently in your development pipeline?

Hans Wittmann: We have access to an extensive project pipeline, and contractual negotiations have already begun for some projects. The projects are both development projects and ready-made properties for the build-up of inventory. We expect positive news in the coming weeks regarding the corresponding contractual protections for individual projects. In addition to the new acquisitions forming part of the capital measure that have already been reported, our current development focus is on three projects in Frankfurt am Main, Germany; the Blue Towers project with almost 18,000 m² of useable area, the Microappartementanlage (micro-apartment facility) with a total of 14,000 m² useable area, and Boardinghouse, which is close to the Frankfurt airport and has over 10,000 m² of useable area. Furthermore, we still have a housing project in Oldenburg, Germany and a building site development in Schwarzhede, Germany.

GBC AG: You are planning a medium-term expansion of the current portfolio to over several hundred million euros. How will this seemingly ambitious target volume be financed?

Hans Wittmann: In principle, we can use a variety of financial instruments. However, it's important to bear in mind that we will be financing the projects with an average equity ratio of around 25% so that we are able to cope with high investment volumes. Equity at property company level can be entirely provided by borrowed capital at holding company level. In future, we will therefore also make use of borrowed capital and equity instruments at holding level, in addition to bank financing at project level. We can also implement a portfolio expansion comparatively quickly through capital increases for a contribution in kind.

GBC AG: Mr Wittmann, where do you see The Grounds Group in five years' time?

Hans Wittmann: In five years' time, we want to significantly expand our market position in the listed developers segment and thus become one of the leading companies in this segment. Our unique approach, which covers the highest possible value creation and the resulting combination of stable income and high earnings potential, should allow for corresponding growth. We are also aiming to establish a sustainable dividend policy, provided that we successfully conclude the investment cycle.

GBC AG: Mr Wittmann, thank you for talking to us.

ANNEX

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