

Unveiling 2017 FFO Estimates; Key Themes to Watch

Summary

While we are among the last to issue 2017 FFO estimates, we do so intentionally as we believe accuracy and relevance of the estimates are enhanced with current year guidance in the books. As we show in Exhibit 1, we provide both our initial 2017 estimates and the key modeling assumptions behind them (excluding CCP and SBRA which we expect to provide a 2016 outlook shortly). Our updated models are available upon request. Key investment themes provided below for the office, multifamily and health care sectors.

Key Points

- Office:** Our Buy rated office REITs have a bend toward second tier/suburban locations on the view that many of these markets are seeing incremental capital flow that is supporting property values: OFC, BDN and PKY. Meanwhile, we view the diversity of the Los Angeles office market (legal, financial services, entertainment, retail, insurance, technology, education, etc.) as a key contributor to our Buy rating on DEI. Finally, we believe the way to play technology markets is through life science REIT, ARE. Distinguishing characteristics include "real-time" cash flow (e.g., 2016 cash releasing spreads of 6%-9%) that is diversified across several research hub markets such as Boston, San Francisco, New York City and San Diego.
- Multifamily:** The sector lends itself to many blanket statements, including ongoing demand for rental housing driven by the Millennial population that is less committal about many things in life, in comparison to predecessor generations. This has proven to be less of a marriage (pun intended) to home ownership. It is true that pockets of supply (Seattle, Houston, DC, parts of NYC, etc.) are requiring a deeper analysis in spots, but overall we expect reasonably healthy internal growth prospects from the sector beyond 2017 (we assume same store moderates in 2017). Our thesis here is to own three REITs that are unlike one another, and hence may cycle out of sync in a manner that creates a diversified approach -- Buy ratings on ESS (West Coast), MAA (Southeast/Sunbelt) and UDR (multiple price points and a mix of urban and suburban).
- Health Care:** Our recent upgrade of VTR to Buy (PT assumes 18x 2016 AFFO, which has recent precedence) was based on cash flow clarity tied to strong rent coverage (e.g., 1.7x for post-acute). This visibility plus dividend growth prospects from a well-capitalized and large organization wins out over the operating risks of some of its skilled nursing and senior housing

Company	Symbol	Price (3/04)	Rating		
			Prior	Curr	PT
Alexandria Real Estate Equities	ARE	\$83.67	-	Buy	\$98.00
Apartment Investment & Management Company	AIV	\$38.54	-	Neutral	\$36.00
AvalonBay Communities, Inc.	AVB	\$180.02	-	Neutral	\$180.00
Boston Properties, Inc.	BXP	\$118.58	-	Neutral	\$125.00
Brandywine Realty Trust	BDN	\$13.14	-	Buy	\$16.00
Camden Property Trust	CPT	\$79.14	-	Neutral	\$77.00
Corporate Office Properties Trust	OFC	\$24.89	-	Buy	\$25.00
Douglas Emmett, Inc	DEI	\$28.65	-	Buy	\$36.00
Equity Residential	EQR	\$71.47	-	Neutral	\$68.00
Essex Property Trust, Inc.	ESS	\$222.49	-	Buy	\$234.00
HCP, Inc.	HCP	\$31.50	-	Neutral	\$32.00
Healthcare Realty Trust Incorporated	HR	\$29.50	-	Neutral	\$29.00
Healthcare Trust of America	HTA	\$28.27	-	Neutral	\$28.00
Hudson Pacific Properties, Inc.	HPP	\$26.98	-	Neutral	\$26.00
LTC Properties	LTC	\$44.55	-	Buy	\$49.00
Mid-America Apartment Communities, Inc.	MAA	\$93.37	-	Buy	\$95.00
National Health Investors, Inc.	NHI	\$64.30	-	Neutral	\$63.00
Paramount Group, Inc.	PGRE	\$16.14	-	Neutral	\$16.00
Parkway Properties, Inc.	PKY	\$14.15	-	Buy	\$17.50
Post Properties, Inc.	PPS	\$58.75	-	Neutral	\$58.00
UDR, Inc.	UDR	\$34.76	-	Buy	\$39.00
Ventas, Inc.	VTR	\$56.75	-	Buy	\$66.00
Welltower, Inc.	HCN	\$66.19	-	Neutral	\$71.00

Source: Bloomberg and Mizuho Securities USA

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tenants -- a key point of discussion from our shop lately. We also like the balance sheet and the (even better) coverage metrics from Buy-rated LTC.

Exhibit 1: Initial 2017 FFO Estimates, Growth Rates and Key 2017 Modeling Assumptions

Company	Ticker	Stock Rating	Price Target	2016 FFO Estimates		2017 FFO Estimates		2017 FFO Growth		2017 Modeling Assumption Comments
				Cons.	MSUSA	Cons.	MSUSA	Cons.	MSUSA	
Office										
Alexandria Real Estate	ARE	Buy	\$98	\$5.51	\$5.53	\$5.93	\$6.13	7.6%	10.8%	5% GAAP releasing spread (15% for 2016); \$281mm development deliveries.
Boston Properties	BXP	Neutral	\$125	\$5.36	\$5.85	\$5.84	\$6.35	9.0%	8.5%	4.6% SSNOI growth; Occupancy +180bps vs. 2016; \$736mm development deliveries.
Brandywine Realty (1)	BDN	Buy	\$16	\$1.28	\$0.90	\$1.38	\$1.41	7.8%	56.7%	93.3% occupancy (flat vs. 2016); 3% GAAP releasing spreads.
Corp. Office Prop.	OFC	Buy	\$25	\$2.01	\$1.98	\$2.10	\$2.16	4.5%	9.1%	3.2% SSNOI growth; +120bps occupancy vs. 2016 (to 93.3%).
Douglas Emmett	DEI	Buy	\$36	\$1.73	\$1.76	\$1.82	\$1.89	5.2%	7.4%	50bps occupancy lift to 91.8% for office; 1.6% SSNOI growth.
Hudson Pacific Prop. (2)	HPP	Neutral	\$26	\$1.72	\$1.71	\$1.94	\$1.91	12.8%	11.7%	\$134mm of total capex (\$129mm in 2016); average occupancy of 91.3% vs. 89.9% for 2016.
Paramount Group (2)	PGRE	Neutral	\$16	\$0.85	\$0.82	\$0.99	\$0.89	16.5%	8.5%	SSNOI growth of 1.2%; portfolio occupancy of 92% vs. 90.4% for 2016.
Parkway Properties	PKY	Buy	\$17.50	\$1.28	\$1.25	\$1.37	\$1.39	7.0%	11.2%	1.3% SSNOI growth; 91.5% occupancy vs. 90.3% for 2016.
Multifamily										
AIMCO	AIV	Neutral	\$36	\$2.31	\$2.28	\$2.48	\$2.41	7.4%	5.7%	4.5% SSNOI growth vs. 5.8% for 2016; 20bps decline in occupancy to 95.4%.
AvalonBay Comm.	AVB	Neutral	\$180	\$8.27	\$8.38	\$8.91	\$8.85	7.7%	5.6%	5.6% SSNOI growth, equal to 2016 assumption; 80bps occupancy increase to 95.9%; \$1.4b of development deliveries.
Camden Property	CPT	Neutral	\$77	\$4.85	\$4.88	\$5.09	\$5.00	4.9%	2.5%	4.3% SSNOI growth vs. 4.7% for 2016; \$171mm of development completions.
Equity Residential (2)	EQR	Neutral	\$68	\$3.17	\$3.14	\$3.34	\$3.34	5.4%	6.4%	5.4% SSNOI growth vs. 5.6% for 2016; 10bps reduction in occupancy to 95.6%; \$937mm of development deliveries.
Essex Property	ESS	Buy	\$234	\$10.97	\$10.94	\$11.84	\$12.07	7.9%	10.3%	7.2% SSNOI growth vs. 8.2% for 2016; occupancy up 10bps to 95.8%.
Mid-America Apts.	MAA	Buy	\$95	\$5.85	\$5.92	\$6.23	\$6.22	6.5%	5.1%	4.4% SSNOI growth vs. 4.9% for 2016; 20bps reduction to occupancy to 95.8%.
Post Properties	PPS	Neutral	\$58	\$3.15	\$3.19	\$3.35	\$3.31	6.3%	3.8%	2.2% SSNOI growth vs. 2.3% for 2016; occupancy stays flat vs. 2016 at 95.8%
UDR, Inc.	UDR	Buy	\$39	\$1.79	\$1.78	\$1.90	\$1.92	6.1%	7.9%	6.4% SSNOI growth vs. 7.0% for 2016; 20bps decline in occupancy to 96.6%; \$232mm of development deliveries.
Health Care (3)										
HCP, Inc.	HCP	Neutral	\$32	\$2.87	\$2.76	\$2.83	\$2.82	-1.4%	2.2%	1.9% total SSNOI growth, including 3.0% for operating assets and 1.1% for triple net; DFL income of \$533mm.
Healthcare Realty	HR	Neutral	\$29	\$1.67	\$1.70	\$1.75	\$1.79	4.8%	5.3%	Single tenant net lease and operating lease SSNOI growth of 2% and 3%, respectively; \$63mm of development deliveries.
Healthcare Tr. of America	HTA	Neutral	\$28	\$1.63	\$1.60	\$1.72	\$1.70	5.3%	6.3%	Weighted average SSNOI growth of 2.6% vs. 2.9% in 2016.
LTC Properties	LTC	Buy	\$49	\$3.00	\$2.99	\$3.16	\$3.13	5.3%	4.7%	2% same store growth (triple net); zero investment activity strips out a key source of growth (for now).
National Health Inv.	NHI	Neutral	\$63	\$4.87	\$4.85	\$5.12	\$5.14	5.1%	6.0%	2.5% blended same store growth (mostly triple net); as with LTC, zero acquisition assumption limits growth upside.
Ventas, Inc.	VTR	Buy	\$66	\$4.19	\$4.16	\$4.25	\$4.27	1.4%	2.6%	RIDEA growth of 1.3% vs. 1.5% for 2016; low single-digit growth elsewhere in the portfolio.
Welltower, Inc.	HCN	Neutral	\$71	\$4.57	\$4.55	\$4.73	\$4.73	3.5%	4.0%	RIDEA growth of 2.0% vs. 2.7% for 2016; \$349mm of development completions.

Except where noted, all MSUSA FFO estimates are NAREIT-defined.

(1) 2017 FFO growth for MSUSA estimates is impacted by non-recurring events.

(2) Estimate is "normalized FFO" due to significant events that render the NAREIT definition less useful.

(3) Excludes CCP and SBRA which have yet to provide 2016 guidance; our 2017 estimates will be provided following these reports (which are expected shortly).

Source: Company reports, Mizuho Securities USA, Inc.

Price Target Calculation and Key Risks

Alexandria Real Estate Equities

Our price target is based on a 5% range around 21x our 2016 AFFO estimate. Should consolidation in the biotech and pharmaceuticals industries create a declining need for space, our price target may not be achieved.

Apartment Investment & Management Company

Our price target is based on a 5% range around 18.5x our 2016 AFFO estimate. Should the company's redevelopment platform experience further cost overruns and delays, our price target may not be achieved.

AvalonBay Communities, Inc.

Our price target is based on a 5% range around 23.5x our 2016 AFFO estimate. Should the company's extensive development pipeline produce returns below current expectations, our price target may not be achieved.

Boston Properties, Inc.

Our price target reflects a 14% to 17% discount range relative to our NAV estimate. Should the technology industry begin to slow resulting in reduced demand for office space in San Francisco, Boston and New York City, our price target may not be achieved.

Brandywine Realty Trust

Our price target is based on a 5% range around 17x our 2016 AFFO estimate. To the extent the city of Philadelphia is unable to produce incremental organic growth to support the company's portfolio, our price target may not be achieved.

Camden Property Trust

Our price target is based on a 5% range around 18.5x our 2016 AFFO estimate. Should CPT's DC and Houston exposure weigh on growth to a degree greater than we expect, our price target may not be achieved.

Corporate Office Properties Trust

Our price target is based on a 5% range around 16x our 2016 AFFO estimate. Should the US government continue to negatively impact the demand for office space in the Washington DC metro area to a degree greater than expected, our price target may not be achieved.

Douglas Emmett, Inc

Our price target is based on a 5% range around 25x our 2016 AFFO estimate. Should the economy of the state of California negatively impact business development, our price target may not be achieved.

Equity Residential

Our price target is based on a 5% range around 23.5x our 2016 AFFO estimate. If the company's same store growth prospects decline in the face of increased competition from new supply, our price target may not be achieved.

Essex Property Trust, Inc.

Our price target is based on a 5% range around 23.5x our 2016 AFFO estimate. Should the performance of its West Coast markets be negatively impacted by supply, primarily in Seattle and San Jose, our price target may not be achieved.

HCP, Inc.

Our price target is based on a range around 12x our 2016 AFFO estimate. To the extent the company's exposures to HCRMC and other troubled tenants cause more problems than we expect, our price target may not be achieved.

Healthcare Realty Trust Incorporated

Our price target is based on a 5% range around 20x our 2016 AFFO estimate. Should the company's same store growth fail to maintain its historic pace of performance, our price target may not be achieved.

Healthcare Trust of America

Our price target is based on a 5% range around 19x our 2016 AFFO estimate. If the company's active investment platform result in weaker than expected performance in future periods, our price target may not be achieved.

Hudson Pacific Properties, Inc.

Our price target reflects a 25% discount range relative to our NAV estimate. To the extent the technology industry in San Francisco and Seattle begin to slow resulting in a reduced pace of office space needs, our price target may not be achieved.

LTC Properties

Our price target is based on a 5% range around 17x our 2016 AFFO estimate. To the extent the regulatory environment negatively impacts rent coverages in the company's skilled nursing portfolio, our price target may not be received.

Mid-America Apartment Communities, Inc.

Our price target is based on a 5% range around 18.5x our 2016 AFFO estimate. Should MAA's secondary markets experience further job growth deceleration, our price target may not be achieved.

National Health Investors, Inc.

Our price target is based on a 5% range around 15x our 2016 AFFO estimate. Should senior housing development negatively impact the company's RIDEA growth prospects, our price target may not be achieved.

Paramount Group, Inc.

Our price target reflects a 25% discount range relative to our NAV estimate. Should the company find some difficulty producing rent growth from its portfolio from this leasing effort, our price target may not be achieved.

Parkway Properties, Inc.

Our price target reflects a 5% to 10% discount range relative to our NAV estimate. To the extent PKY's active investment platform results in pockets of underperformance relative to expectations, our price target may not be achieved.

Post Properties, Inc.

Given the elevated industry chatter regarding consolidation, and with PPS being a direct part of that conversation, our price target is based on a 5% range around 21.5x our 2016 AFFO estimate -- above its nearest peers. In the absence of a transaction, and/or if supply pressures continue to mute same store performance to a degree greater than expected, our price target may not be achieved.

UDR, Inc.

Our price target is based on a 5% range around 23.5x our 2016 AFFO estimate. Should UDR experience revenue growth deceleration to a degree greater than our expectations, our price target may not be achieved.

Ventas, Inc.

Our price target is based on a 5% range around 18x our 2016 AFFO estimate. Should the company's fast pace of investment activity result in some missteps given the numerous moving parts, our price target may not be achieved.

Welltower, Inc.

Our price target is based on a 5% range around 18x our 2016 AFFO estimate. If the company's significant exposure to the RIDEA structure results in declining same store prospects in the face of new supply growth, our price target may not be achieved.

Companies Mentioned (prices as of 3/04)

Care Capital Properties (CCP- Neutral \$27.81)

Sabra Health Care REIT, Inc. (SBRA- Buy \$21.22)

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(As of 3/04)	% of coverage	IB service past 12 mo
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