

"Brexit Firpta Gics!" (Translation: REITs Should Outperform)

Summary: A series of non-fundamental factors appear to be net near-term supportive for US REITs, including "Brexit" (lower interest rates), FIRPTA (more foreign demand for US real estate and REITs), and the 11th GICS sector (greater generalist attention in REITs). We see varying degrees of impact from these external forces on REIT stock performance individually, but collectively a positive set of circumstances that should also resonate well with relative sound supply/demand fundamentals. As a result, we expect US REITs to continue to outperform broader markets in 2H16. We think the search for REIT alpha within this industry observation starts with our 12 Buy rated stocks listed to the right, but we expect stock-specific debates to be the focal point during the second half of the year given macro angst and a winnowing list of safe and cheap sectors.

- Brexit:** From MSUSA Chief Economist Steve Ricchiuto: "(We) see no reason to rush into equities, especially in what is likely to be a very negative political season and a period of global economic and political uncertainty, leaving us with a "Grab Yield Strategy". The UK "yes" vote simply adds to this strategy near-term as the uncertainty and contagion concerns are an economic negative." Although REITs are both equities and yield vehicles, and we expect the latter to win out for now. We could be at or near the floor on the 10-year Treasury (1.46%) based on this separate Ricchiuto comment: "The 10-year treasury should be sold below 1.5% as this is probably a longer-term inflationary event.", but we think that is a dialogue for another day from the REIT perspective.
- FIRPTA:** As we detailed in a note recently (see it [here](#)), the PATH Act of 2015 included several modifications to the Foreign Investment in Real Property Tax Act (FIRPTA) that reduced or eliminated tax withholdings for foreigners invested in US real estate or US REITs. So far, an informal poll of US REIT managers suggests any FIRPTA impact is moving at a glacial pace at best. We think a worst case scenario is no change in demand for REITs from non-US investors. But all else being equal, we think the more likely scenario is some incremental interest in direct or indirect ownership in US commercial real estate, purely on the basis that it became less expensive with the new FIRPTA guidelines.
- GICS #11:** Finally, there is a lot of debate in the markets surrounding the incremental demand for REIT shares leading up to the REIT carve out from financials in August. We think behavioral factors like this are more likely to take time to manifest themselves in stock performance, and the implications of the new sector, in and of itself, may be hard to decipher. But taken in combination with the other two factors highlighted in this note, we think GICS 11 may be more influential than as a standalone force. We see a few

Company	Symbol	Price (6/27)	Rating	PT
Alexandria Real Estate Equities	ARE	\$99.13	Buy	\$110.00
American Assets Trust, Inc.	AAT	\$40.71	Buy	\$46.00
Apartment Investment & Management Company	AIV	\$41.70	Buy	\$47.00
Brandywine Realty Trust	BDN	\$15.75	Buy	\$17.00
Camden Property Trust	CPT	\$85.32	Buy	\$92.00
Corporate Office Properties Trust	OFC	\$28.36	Buy	\$30.00
Douglas Emmett, Inc.	DEI	\$33.74	Buy	\$37.00
General Growth Properties, Inc.	GGP	\$28.63	Buy	\$35.00
LTC Properties	LTC	\$50.32	Buy	\$53.00
Simon Property Group, Inc.	SPG	\$207.95	Buy	\$235.00
Taubman Centers, Inc.	TCO	\$71.76	Buy	\$86.00
Ventas, Inc.	VTR	\$71.01	Buy	\$71.00

Source: Bloomberg and Mizuho Securities USA

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baskets of potential generalist demand related to the carve out: a) large cap/high quality REITs (given the widely benchmarked S&P 500), b) attractive cash flow multiples (since generalist may not be as in tune with NAV valuations), and c) a "buy what you know" strategy (new REIT investors may find comfort in areas that they interface with in daily life, such as malls, apartments and hotels).

Price Target Calculation and Key Risks

Alexandria Real Estate Equities

Our price target is based on a 5% range around 21x our 2017 AFFO estimate. Should consolidation in the biotech and pharmaceuticals industries create a declining need for space, our price target may not be achieved.

American Assets Trust, Inc.

Our price target of \$46.00/sh equates to our NAV estimate of \$46.00 (with an applied 0% premium / discount due to superior asset quality and higher probability of M&A offset by smaller size and liquidity). Risks to our views include increased fears of a near-term U.S. recession, widening CMBS spreads and slowing retail sales, all of which are disproportionately negative for lower productivity landlords.

Apartment Investment & Management Company

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

Brandywine Realty Trust

Our price target is based on a 5% range around 19x 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 range around a 5% NAV premium. 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 19x 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.

General Growth Properties, Inc.

Our price target of \$35.00/sh equates to our NAV estimate of \$34.50 with no premium/discount applied due to unfavorable leverage, complexity and liquidity attributes partially offset by high quality portfolio and M&A potential. Risks to our views include increased fears of a near-term U.S. recession, widening CMBS spreads and slowing retail sales, all of which are disproportionately negative for lower productivity landlords.

LTC Properties

Our price target is based on a 5% range around 18x 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.

Simon Property Group, Inc

Our price target of \$235.00/sh equates to our NAV estimate of \$214.00 (with a 10% premium due to SPG's aforementioned advantages). Risks to our views include increased fears of a near-term U.S. recession, widening CMBS spreads and slowing retail sales, all of which are disproportionately negative for lower productivity landlords.

Taubman Centers, Inc.

Our price target of \$86.00/sh equates to our NAV estimate of \$101.00 with a 15% discount (given aforementioned take-over proof by-laws, rising leverage ahead and further Asia development starts). Risks to our views include increased fears of a near-term U.S. recession, widening CMBS spreads and slowing retail sales, all of which are disproportionately negative for lower productivity landlords.

Ventas, Inc.

Our price target is based on a 5% range around 19x 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.

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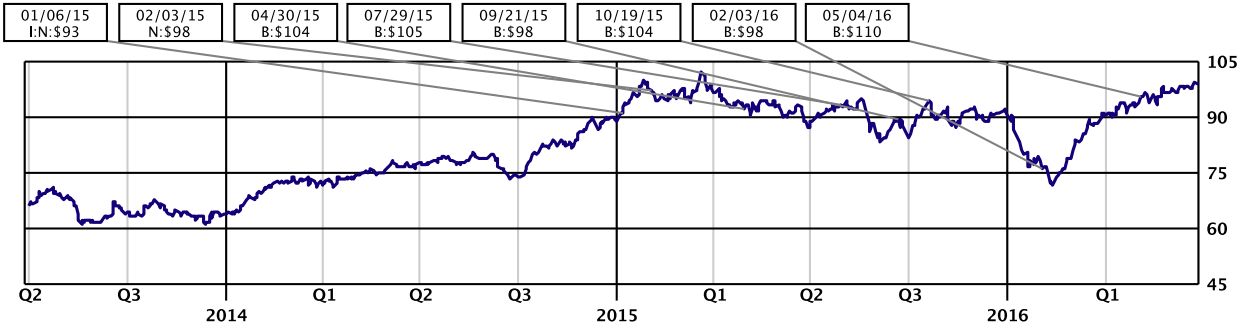
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- Neutral:** Stocks for which the anticipated share price appreciation is within 10% of the share price.
- Underperform:** Stocks for which the anticipated share price falls by 10% or more.
- RS:** Rating Suspended - rating and price objective temporarily suspended.
- NR:** No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 6/27)	% of coverage	IB service past 12 mo
Buy (Buy)	46.83%	36.46%
Hold (Neutral)	51.71%	24.53%
Sell (Underperform)	1.46%	33.33%

For disclosure purposes only (NYSE and FINRA ratings distribution requirements), our Buy, Neutral and Underperform ratings are displayed as Buy, Hold and Sell, respectively.

Rating and Price Target History for: Alexandria Real Estate Equities (ARE) as of 06-27-2016



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Rating and Price Target History for: Camden Property Trust (CPT) as of 06-27-2016



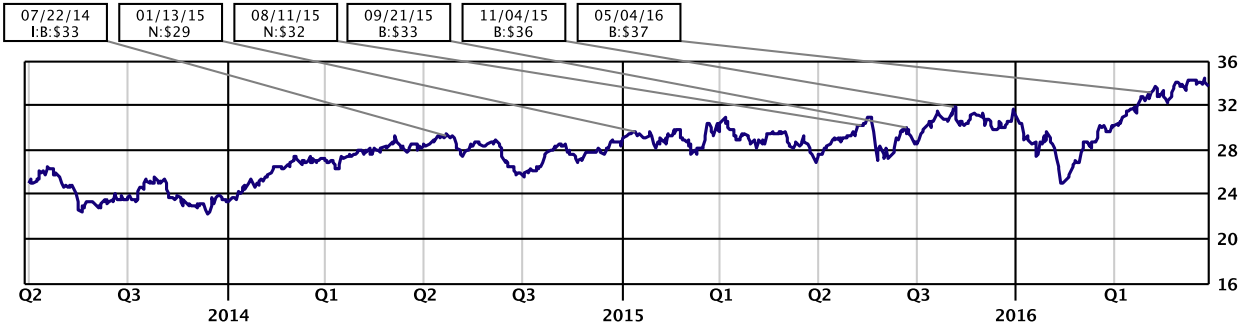
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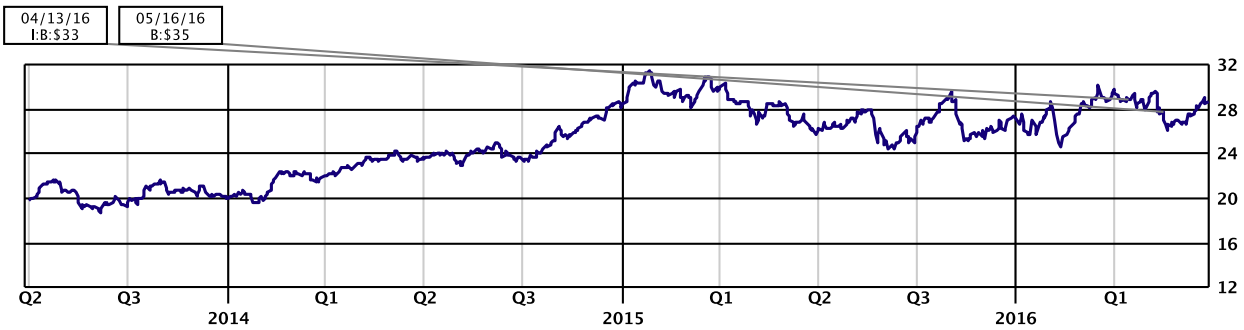
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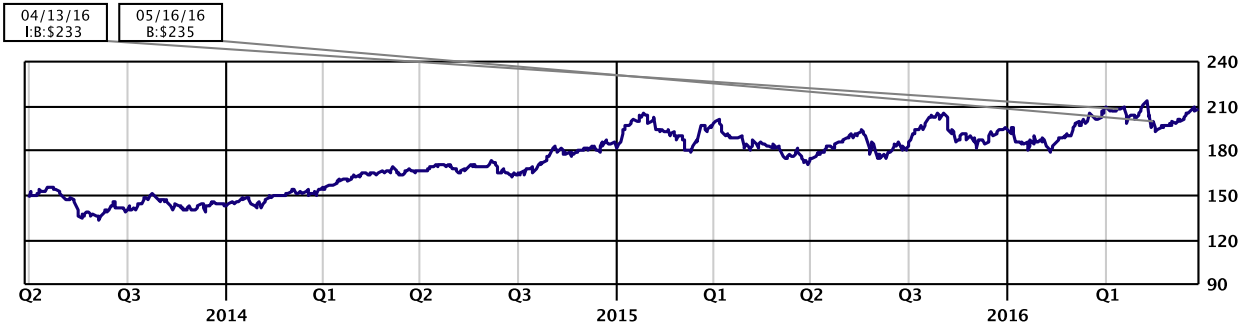
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