



Real Estate Securities Outlook

Winter is
Coming

January 2018

STIFEL



Who is Stifel?

- Stifel Research:
 - 12th largest U.S. equity research platform
 - 7th largest provider of small cap stocks
 - 65* Senior analysts across 11 industry verticals
 - 968* companies under coverage
- Stifel is a market maker in roughly 3,700 U.S. domestic equities

**Includes UK
As of 10/31/17
Source: Stifel Research*

Stifel REIT Team

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Pricing as of December 31, 2017 unless otherwise noted.

All relevant disclosures and certifications appear on pages 129-132 of this report.



Macro Trends

- REITs with better fundamentals trading at < 5.0% implied cap rates
- REITs with principal risk trading at > 7.0% implied cap rates
- Generalists more excited about other places to invest
- REIT Dedicated – Active funds flows negative
- FFO growth decelerating
- Dividend growth decelerating (dividends matter)
- Interest rates – Elephant in the room



Property Sector Fundamentals

- Retail – Secular changes effect on rental rates unknown.
- Office – Decelerating net effective rents in almost all markets.
- Industrial – Supply could exceed demand soon.
- Multifamily – Will rapidly increasing construction costs and pullback in lending serve to govern supply?
- Hotel – Supply is finally catching up with demand.
- Senior Housing – Will the industry work through backlog of oversupply in 2018?
- Skilled Nursing – When will reimbursement rates and regulatory environment become favorable?
- Storage – New supply driving deceleration of fundamentals.

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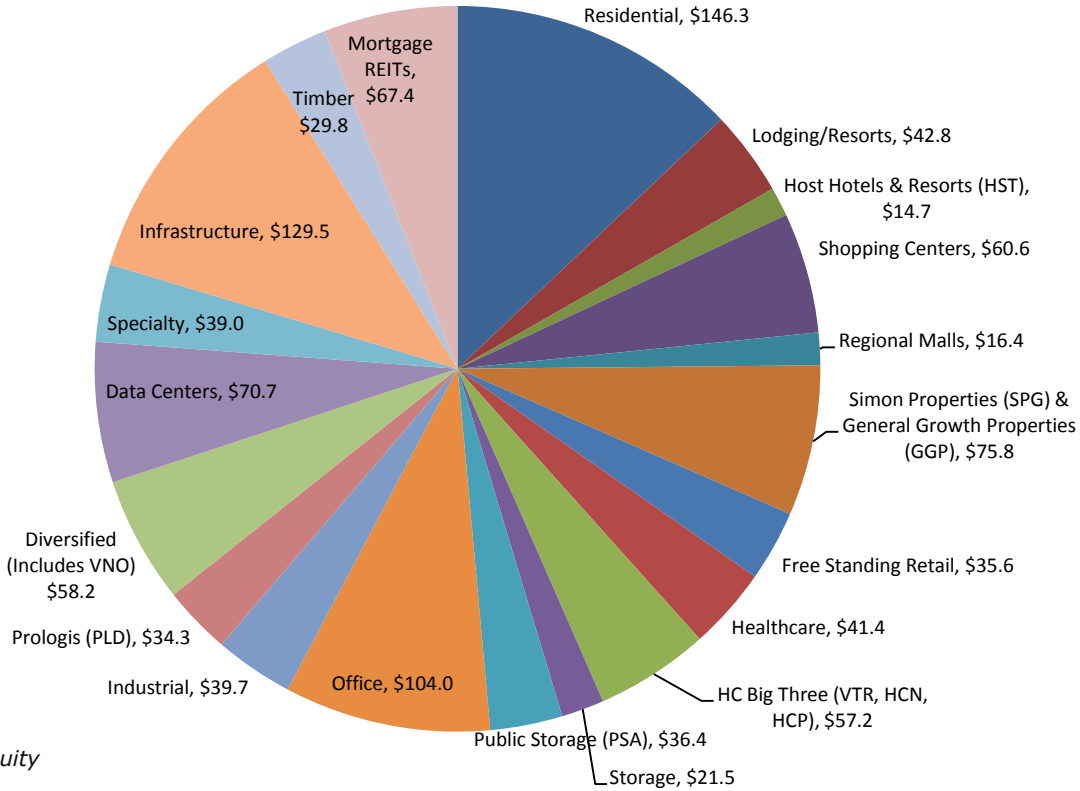
Brief Review 2017



REIT Universe

	All REITs	All Equity REITs	Equity REITs	Apple	Amazon
Market Cap	\$1.2T	\$1.1T	\$900B	\$861B	\$564B
Constituents	203	167	161	1	1

- Minor component - Over 3% of the U.S. equity universe *
- Risk-on, rising interest rate investment environment
- Foreign language "FFO, AFFO and FAD" still troubling



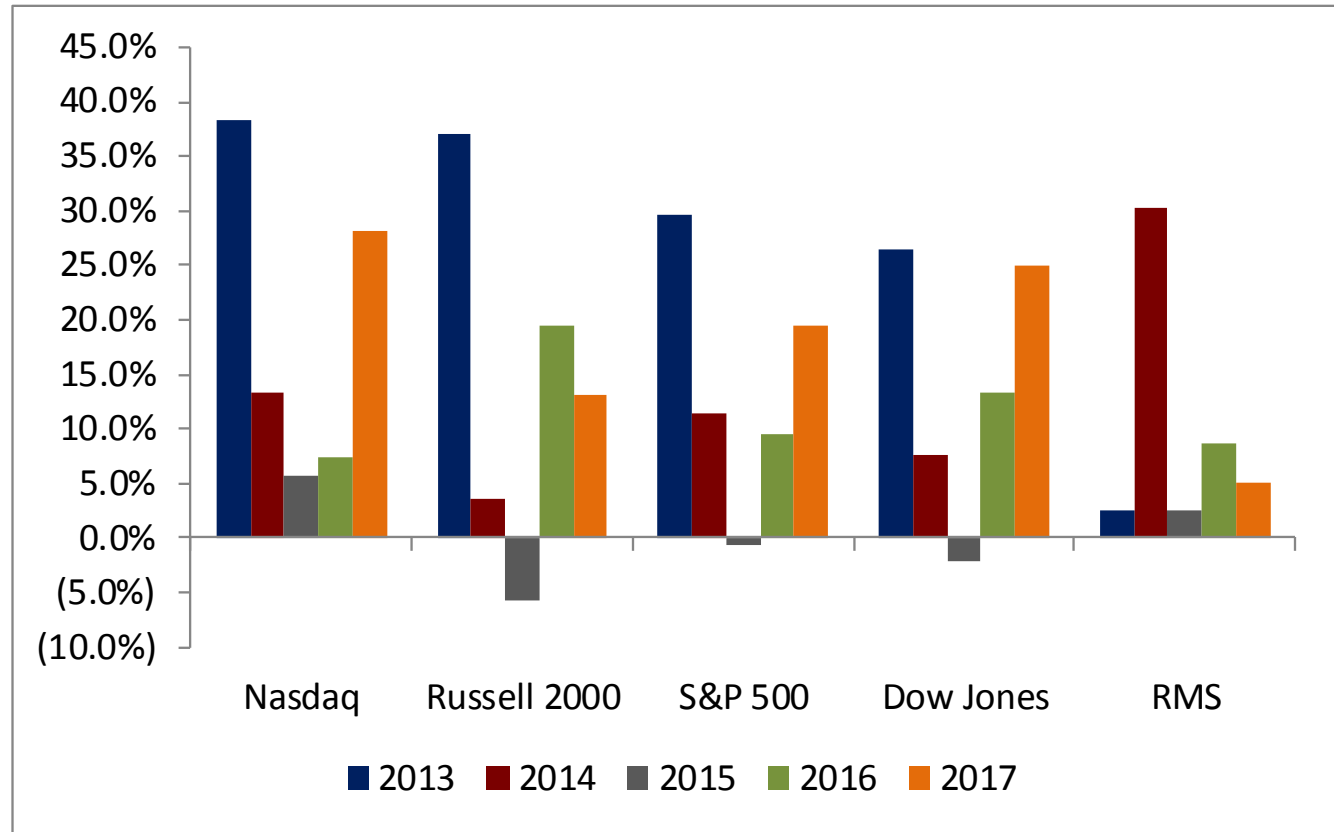
Source: NAREIT, FactSet Research
 Data as of 12/31/2017
 * Infrastructure, Timber and Mortgage REITs are not included in equity REITs.



Historical Performance

Total Return since 12/31/12	128.6%	80.8%	87.5%	88.6%	56.3%
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- Last good year was 2014
- Risk-on since 2015
- Dividend was ~55% total return 2015 – 2017



Source: SNL Financial and FactSet

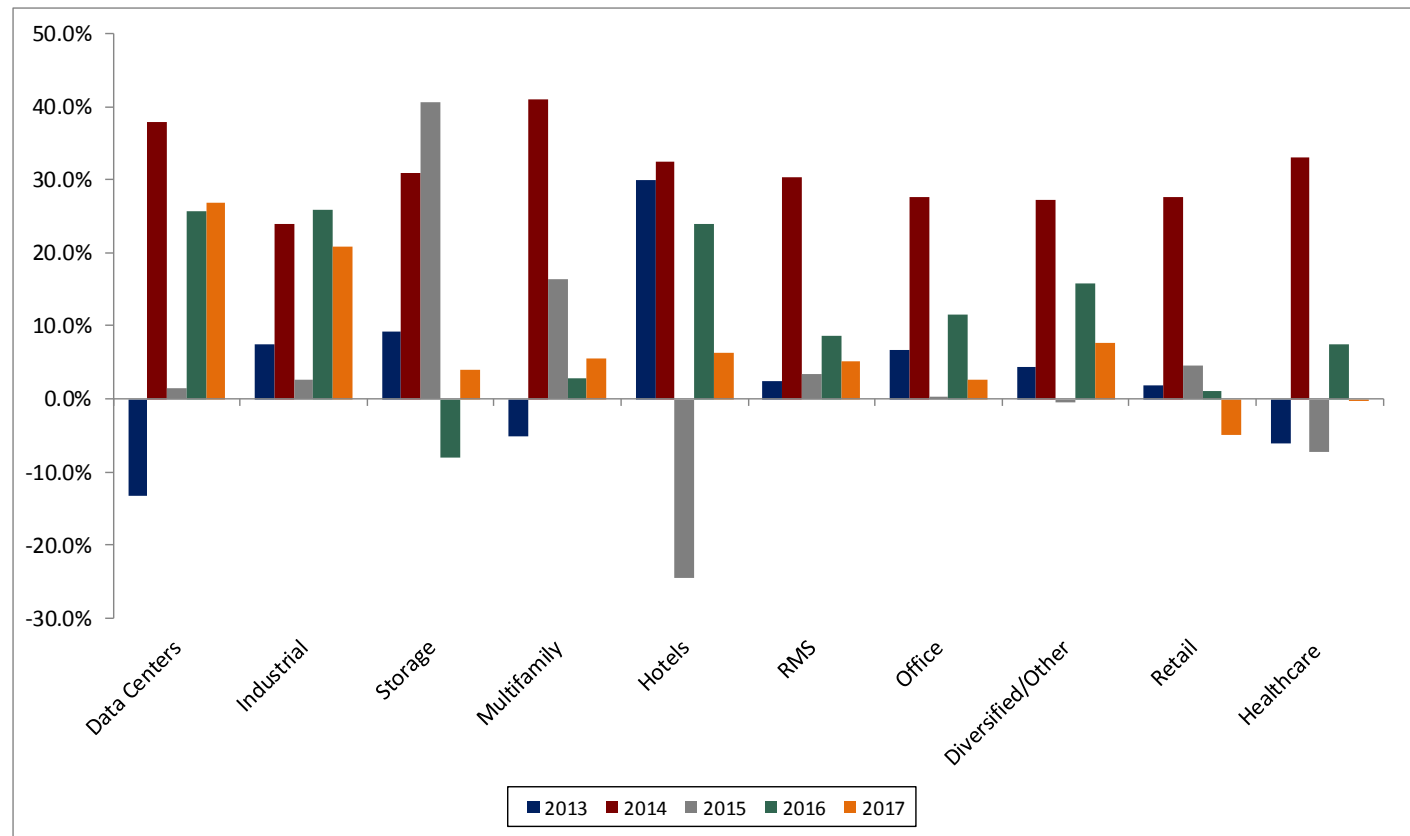
Historical Sector Performance

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Total Return since 12/31/12	150.3%	103.7%	92.1%	70.8%	69.9%	56.3%	55.3%	39.0%	31.8%	24.1%
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- Clear sector winners and losers
- All about fundamentals and cost of capital



Source: SNL Financial, FactSet, Stifel Research & NAREIT

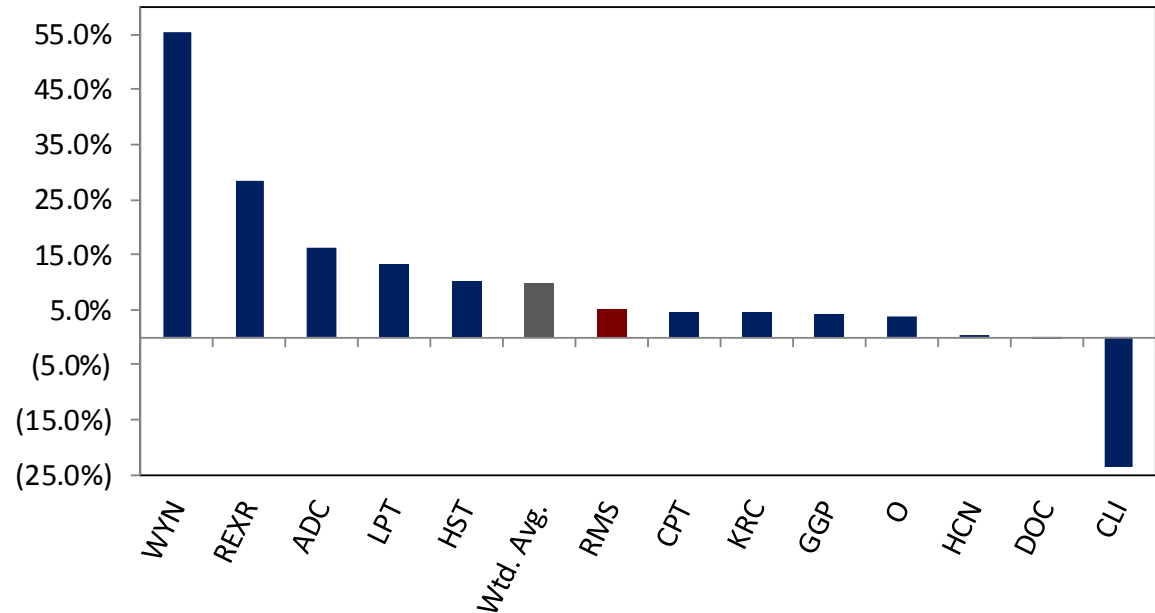
Stifel 2017 Best Ideas

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Sector	Stock	Total Return
Lodging C-Corp	WYN	55.4%
Industrial	REXR	28.5%
Industrial	LPT	13.2%
Triple-Net	ADC	16.4%
Lodging	HST	10.2%
Healthcare	HCN	0.2%
Multifamily	CPT	4.6%
Malls	GGP	4.0%
Triple-Net	O	3.7%
Office	KRC	4.3%
Healthcare	DOC	(0.5%)
Office	CLI	(23.7%)
Weighted Avg.		9.70%
RMS REIT Index		5.07%
Alpha		4.6%

2017 Stifel Best Ideas Total Returns



Simple Avg: **9.7%**

Source: FactSet Research Systems
Best Ideas from 2017 Stifel Rollout, December 2016
GGP Performance from 7/13/17 to 12/31/17 and CPT
performance from 8/31/17 to 12/31/17
List excludes CONE and CCI due to suspension of coverage
and SPG due to new analyst reinitiating coverage.

Source(s): Factset, SNL and Stifel Research

Noticeable Investment Periods

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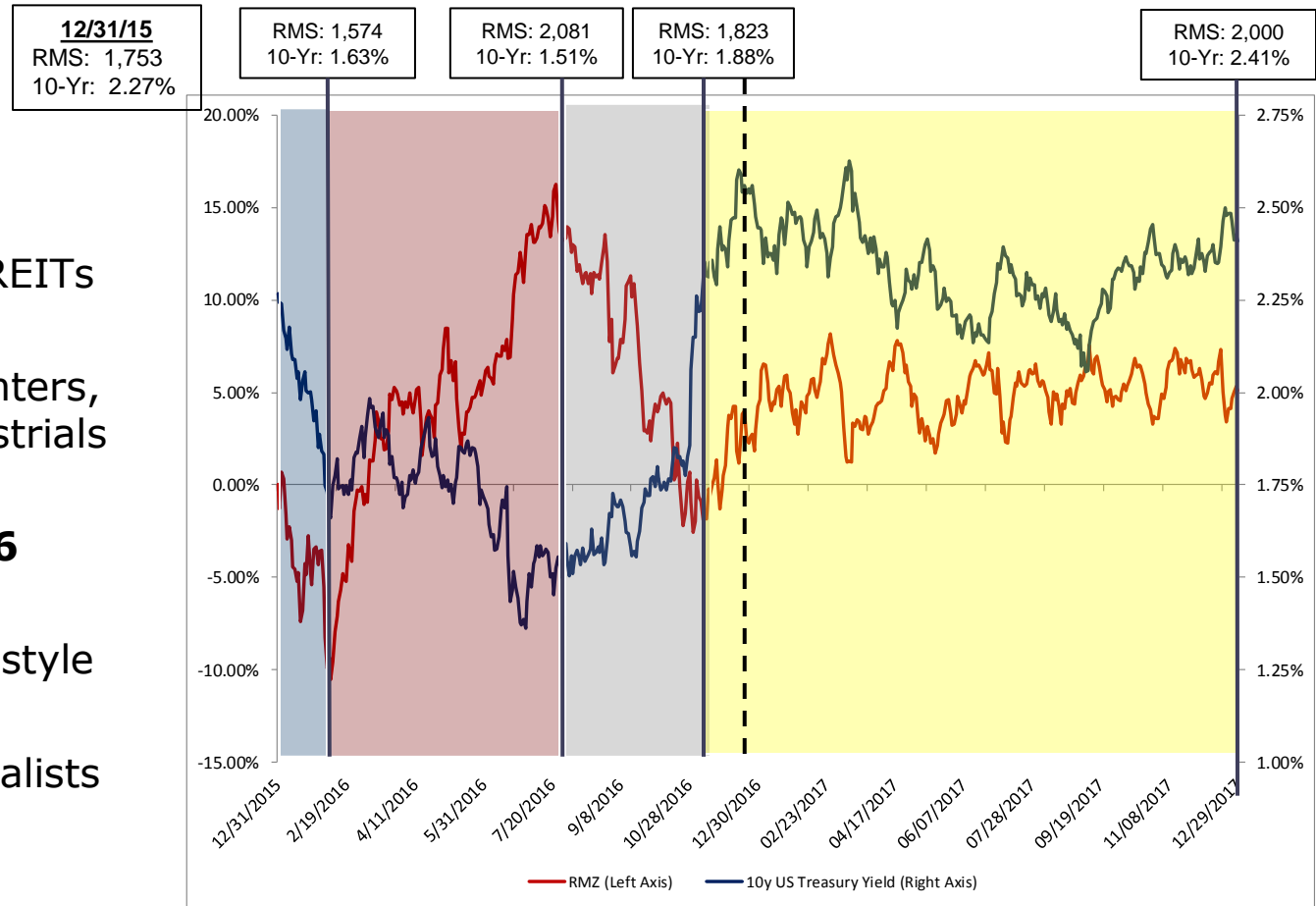


2016

- Generalists rented REITs
- Invested in strip centers, triple nets and industrials

Since November 2016

- Risk-on investment style
- No reason for generalists to invest



Source: SNL Financial and FactSet

M&A Activity

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2016 M&A Participants:

Seller

Rouse Properties (RSE)
Carefree Communities
Parkway Properties (PKY)
Diamond Resorts International
NorthStar Realty Finance Corp.
American Realty Capital Global Trust II
Post Properties (PPS)
American Farmland Company (AFCO)
JBG Companies
Equity One (EQY)

Buyer

Brookfield Asset Management
Sun Communities
Cousins Properties (CUZ)
Apollo Global Management
NorthStar Asset Mgmt./Colony Capital
Global Net Lease
Mid-America Apartment Communities (MAA)
Farmland Partners Inc. (FPI)
Vornado Realty Trust (VNO)
Regency Centers (REG)

2017 M&A Participants:

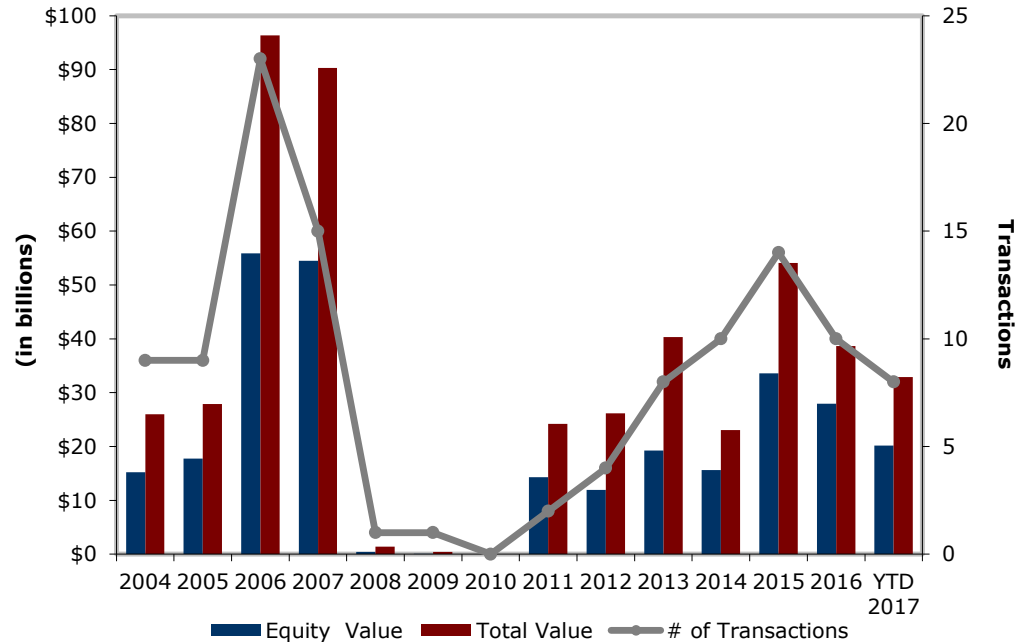
Seller

Milestone Apartments Real Estate Investment Trust
Silver Bay Realty Trust Corp. (SBY)
FelCor Lodging Trust Incorporated (FCH)
Care Capital Properties, Inc. (CCP)
DuPont Fabros Technology, Inc. (DFT)
Monogram Residential Trust, Inc. (MORE)
Parkway Properties (PKY)
First Potomac Realty Trust (FPO)
Starwood Waypoint Homes

Buyer

Starwood Capital Group Management, LLC
Tricon Capital Group, Inc.
RLJ Lodging Trust (RLJ)
Sabra Health Care REIT, Inc. (SBRA)
Digital Realty Trust, Inc. (DLR)
Investor Group*
Canada Pension Plan Investment Board
Government Properties Income Trust (GOV)
Invitation Homes, Inc. (INVH)

REIT M&A Activity 2004-YTD 2017



Source: SNL Financial, Stifel estimates

Please note that we do not have any knowledge of any potential M&A activity or discussion.

* GIC Pvt. Ltd.; APG Asset Management N.V.; Ivanhoe Cambridge Inc.; Greystar Real Estate Partners.



2017 In Summary

- REITs underperformed most major indices for third year
- Tightest trading range in years; RMS 1.0% to 8.0%
- Significant performance diverge (Data Centers +27% vs. Retail -5%)
- Decelerating fundamentals and secular changes
- Late in real estate cycle
- Investment sales volumes down
- M&A and privatizations primarily small cap
- Fed likely to continue to raise rates in 2018

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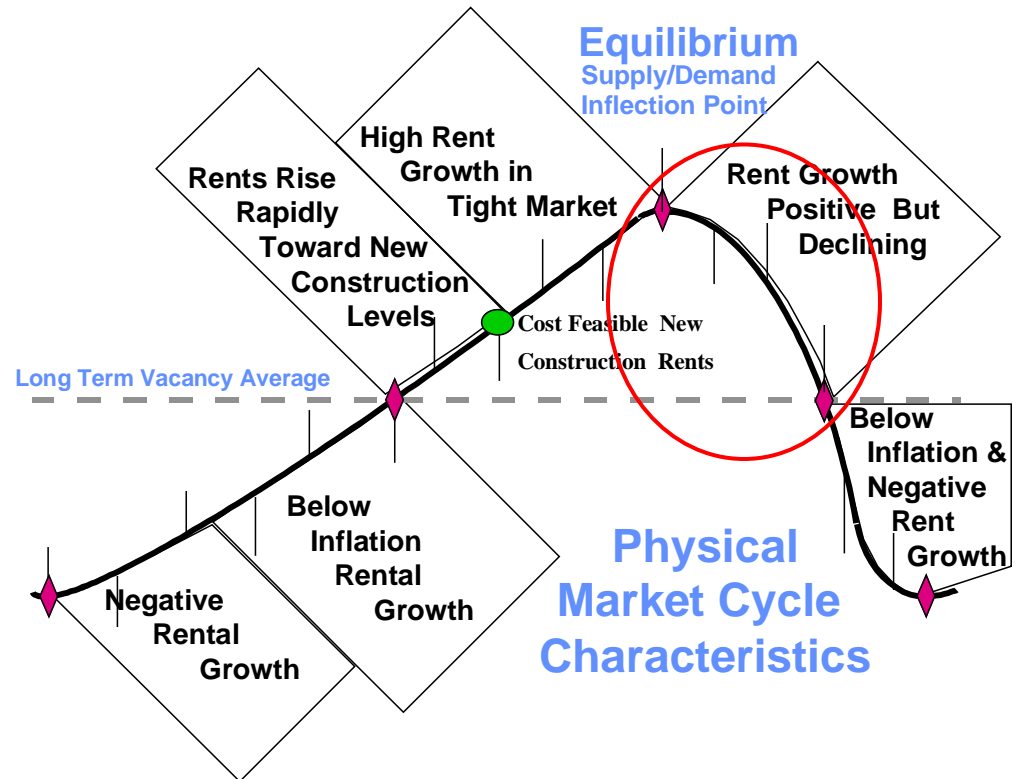


2018 Outlook



Late In Cycle

- Supply/demand ratio weakening throughout
- Most property types past equilibrium
- Some property types still modest rent growth
- Development yields declining



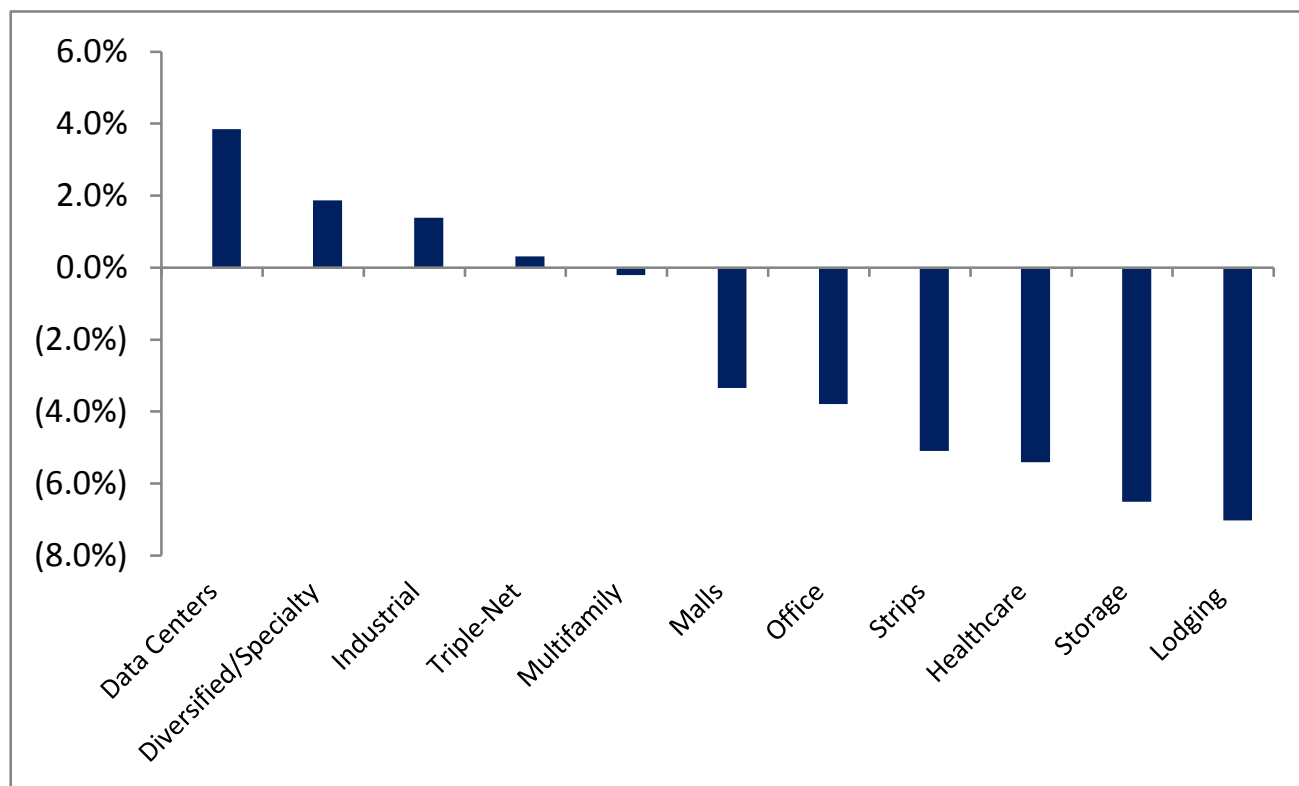
Source: SNL Financial and FactSet

Earnings Revisions 2018 FFO – During 2017

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- Most sectors heading lower
- Data Centers riding the tech tailwinds



Sector Growth Drivers

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Sector	Internal Growth			External Growth		Cost of Capital Advantage	
	Rental Rate Growth Accel/Decel	Annual/periodic rent bumps	Operating Margins	Accretive development/ redevelopment	Capital recycling that improves Portfolio Quality	Spread investing, acquisitions	Premiums to NAV
Multifamily	👎	N/A	👎	👍	👍	👎	=
Lodging	👎	N/A	👎	N/A	👍	👎	👎
Gateway Office	👎	👍	👎	👍	👍	👎	👎
Low Barrier Office	👎	👍	👎	👍	👍	👎	=
Industrial	👍	👍	👍	👍	👍	👎	👍
Malls	👎	👍	=	=	=	👎	👎
Strips	👎	👍	=	=	=	👎	👎
Senior Housing	👎	👍	👎	👎	👍	👍	👎
Medical Office	=	👍	👎	👍	👍	👍	=
Skilled Nursing	👎	👎	👎	N/A	👍	👍	=
Triple-net	=	👍	=	👎	👍	👍	👍



Private Markets & Public REITs

Cap Rate Range	Investment Attributes	Private Investors	REITs
Sub 5%	<ul style="list-style-type: none"> - Expect NOI growth greater than inflation - Zoning barrier to entry 	<ul style="list-style-type: none"> - Super Core - Sovereign Wealth Funds 	<ul style="list-style-type: none"> - Coastal Multi-Family - Best West Coast Office - Most Industrial - Best Strip Centers
5%-6%	<ul style="list-style-type: none"> - Expect value creation - 1031 market very strong - Rental rate increase likely - Possible barriers to entry - Rents in place at market 	<ul style="list-style-type: none"> - Domestic Pension Funds - Global Pension Funds - Many Types of Investors 	<ul style="list-style-type: none"> - Storage - Best NNN - Manhattan Office - Other Multi-Family - A Malls - Medical Office
6%-7%	<ul style="list-style-type: none"> - Few barriers to entry - Solid demand, sound fundamentals - Development in check 		<ul style="list-style-type: none"> - Private Pay Healthcare - Best Low Barrier Office
7%-8%	<ul style="list-style-type: none"> - Primary component of return is levered NOI - Riskier credit or short lease term 	<ul style="list-style-type: none"> - Value-Add 	<ul style="list-style-type: none"> - Gov't Reimbursed Healthcare - Lower Quality NNN - Generic Low Barrier Office
Above 8%	<ul style="list-style-type: none"> - Fundamentals extremely challenged even with decrease in value - Downside to income stream - Principal or basis risk 	<ul style="list-style-type: none"> - Opportunistic - High Leverage 	<ul style="list-style-type: none"> - B/C Malls - Value Office - Power Centers - Gov't Reimbursed Healthcare

Source: Stifel estimates



Interest Rate Expectations

- Forward curve indicates 10-year treasury 2.5%
- Forward curve indicates 10-year treasury 2.7% by the end of 2020
- Managers investing in slightly rising interest rate environment

<u>Year</u>	<u>January 1st, 10-Yr. Treasury</u>	<u>Low Point</u>	<u>Year End Rate</u>	<u>Perception</u>	<u>Reality</u>	<u>RMS Total Return</u>
2013	1.78%	1.66%	3.04%	Rates stay low	Bernanke speech 5/21/13	2.5%
2014	3.04%	2.07%	2.17%	10-Yr. Treasury to 3.5%	Risk off year	30.4%
2015	2.17%	1.68%	2.27%	Modest increases	Never materialized	2.5%
2016	2.27%	1.37%	2.44%	Modest increases	Brexit & risk off	8.6%
2017	2.48%	2.06%	2.41%	Modest increase	Very low volatility	5.1%

Source: SNL Financial



What Matters?

2005 – 2015 (Except '08-'09)

- Accelerating Fundamentals
- NAV Estimates Increasing
- Stock Selection
- FFO/FAD/Dividend Secondary
- Positive REIT Dedicated Funds Flows
- REIT Dedicated/Long
- Discounted Cash Flow Analysis
- Generalist Reluctant
- Mergers & Acquisitions

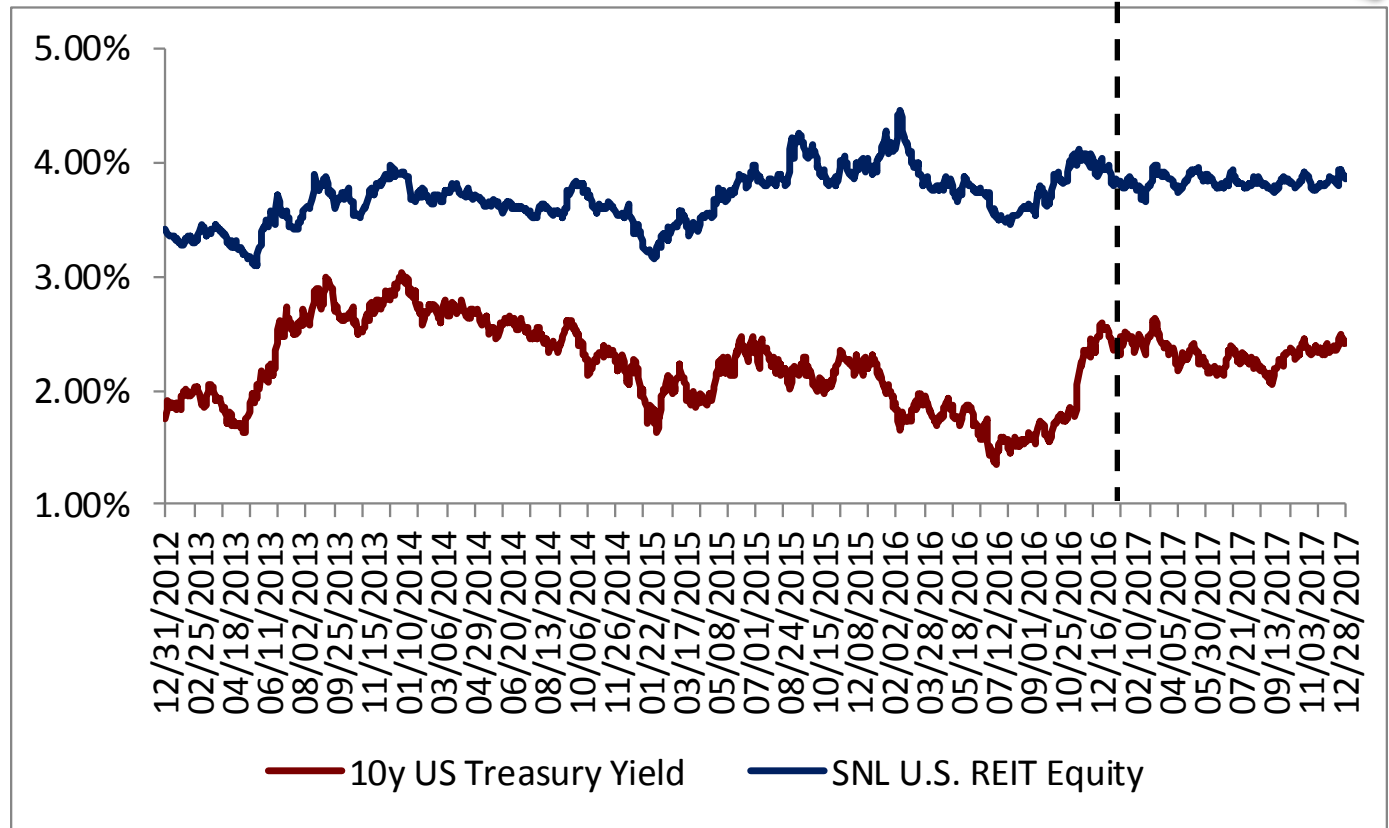
Current Environment

- End of Cycle Fundamentals
- NAV Estimates Sector Specific
- Sector Selection
- Stock Metrics Matter
- Negative Active REIT Dedicated Funds Flows
- Incremental Investor
- Incremental Catalyst
- Generalists Agnostic
- Free Cash Flow Growth



Dividend Yield Matters

- 10 Year Treasury 1.36% - 3.04%
- Perception of the 10-Year <1% - >3.5%
- Dividend yield range bound 3.09% to 4.45%
- Dividend yield in 2017 3.86% to 4.14%

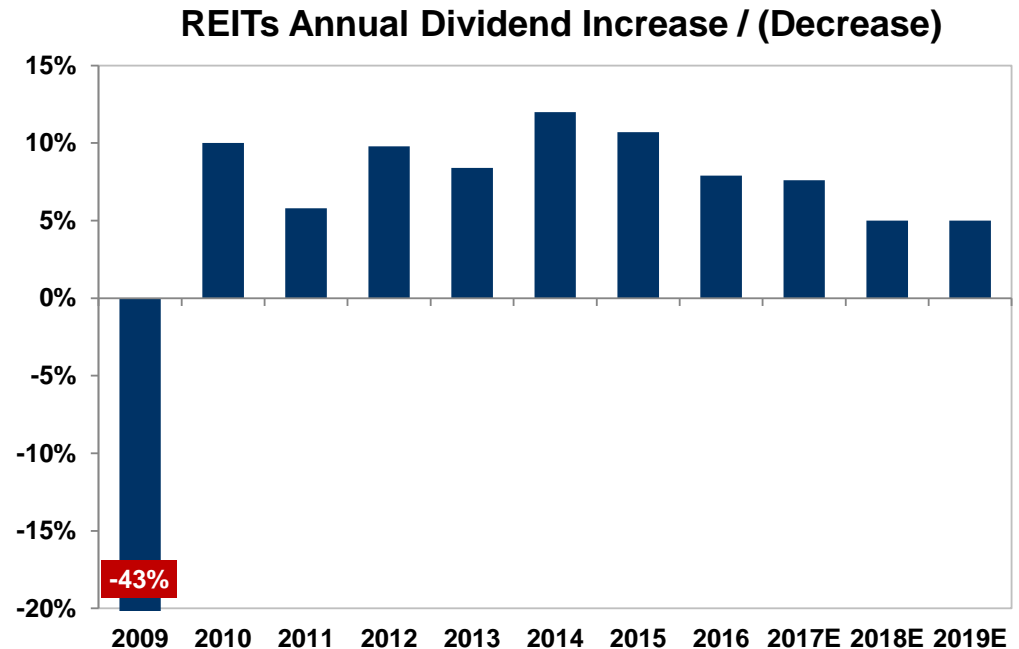


Source: SNL Financial, FactSet, Stifel Research & NAREIT



Dividend Increases Matter

- 2006 – 2015
Average Growth: 2.7%
- 2010 – 2016
Average Growth: 10%
- 2017 – 2019
Estimated Average Growth: 5%
- Current Dividend Yield is 4.3%



Source: FactSet Research Systems, SNL Financial, Stifel estimates



Funds Flows Overview

➤ Domestic REIT Dedicated Inflows

(\$ in Billions)	2010	2011	2012	2013	2014	2015	2016	YTD 2017
Mutual Funds								
ACTIVELY MANAGED	\$2.5	\$3.3	\$3.8	\$4.4	\$3.6	(\$4.7)	(\$3.9)	(\$3.2)
Passive (Index)	\$0.6	\$0.8	\$1.6	\$1.8	\$3.9	\$1.5	\$2.2	\$6.6
Exchange Traded Funds	\$1.7	\$4.1	\$8.1	\$2.7	\$9.1	\$1.0	\$8.0	\$2.6
	\$4.9	\$8.2	\$13.6	\$8.9	\$16.7	(\$2.2)	\$6.2	\$6.0

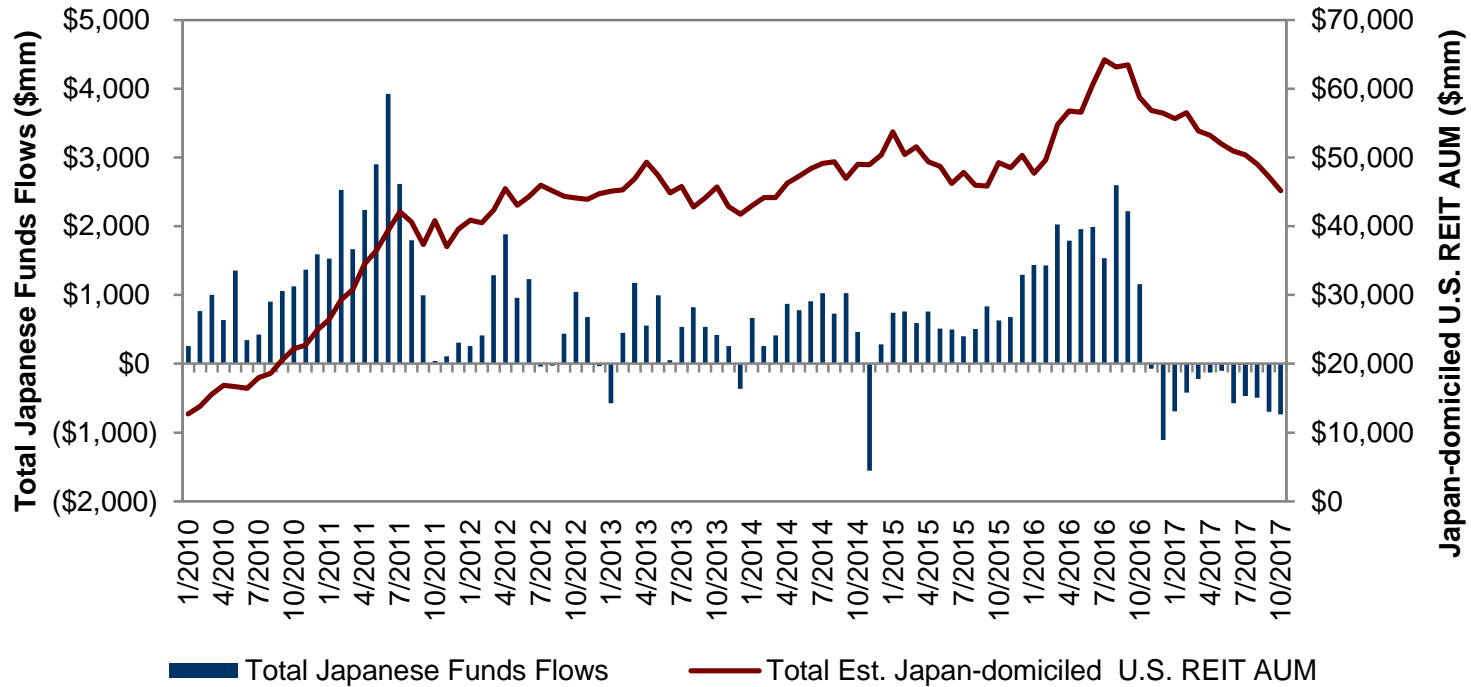
Assumes 50% of global funds flows invested domestically

Source: Morningstar, Stifel estimates

- Domestic Institutional – REIT interest modest due to late real estate cycle and rising interest rate perceptions
- Global Institutional – flight to safety and principal protection-oriented
- Global Individual – Japanese funds flows declining while flows from other nations remain minor

Funds Flows Japanese Only

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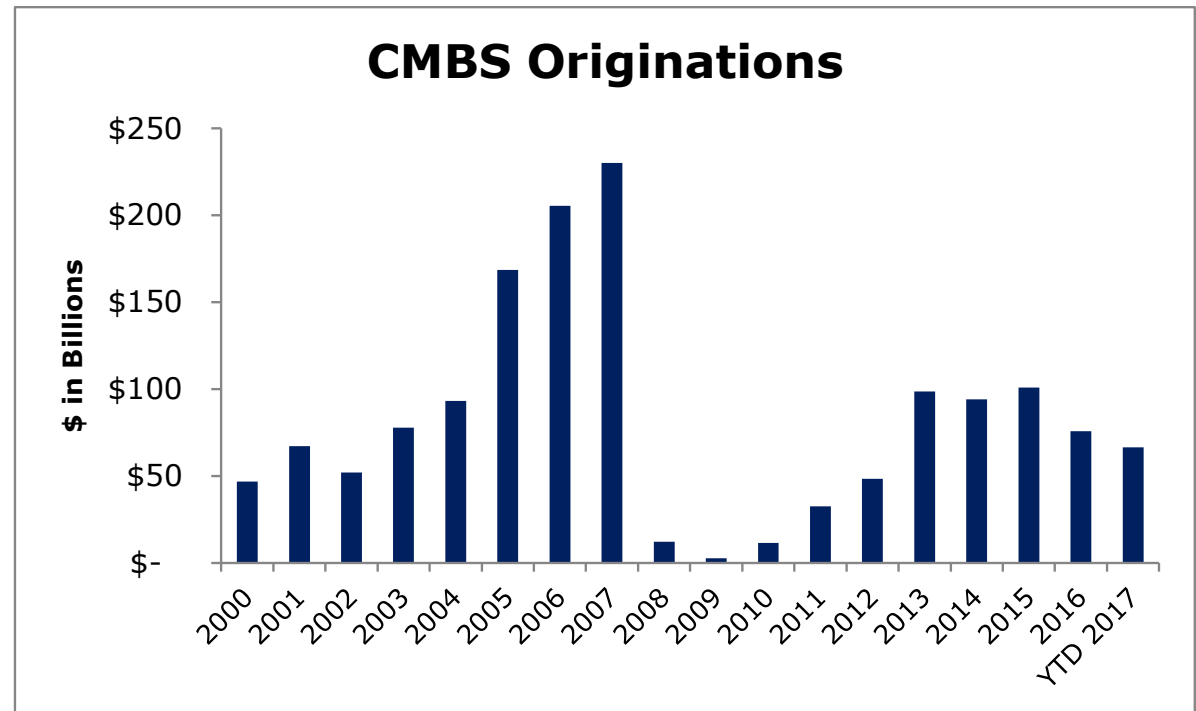
	12/31/2010	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	10/31/2017
RMZ Equity Market Capitalization (\$ Billions)	\$317	\$363	\$449	\$531	\$727	\$775	\$838	\$866
Japan-Domiciled U.S. REIT AUM as % RMZ Mkt. Cap	8.4%	11.3%	10.3%	8.2%	7.3%	6.7%	6.7%	5.2%
<u>U.S. MF/ETF AUM as a % of the RMZ Mkt. Cap</u>	<u>23.2%</u>	<u>23.1%</u>	<u>25.0%</u>	<u>19.0%</u>	<u>21.4%</u>	<u>21.2%</u>	<u>20.9%</u>	<u>21.7%</u>
Combined	31.6%	34.4%	35.3%	27.2%	28.7%	27.9%	27.6%	26.9%

Lending Environment

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- All about getting repaid
- CMBS increasingly aggressive despite retention rules
- Banks - Basel III regulations increase risk capital rules
- Life Companies remain conservative
- YTD (9/30/17) Dollar volume of issuances up 33.6% from first nine months of 2016



Source: Commercial Mortgage Alert

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2018 Recommendations

Performance Predictions & Assumptions



- Tail of the broader equity markets - driven by interest rates and funds flows

- REIT Performance (3%) - 3%
 - Earnings Growth 3% - 5%
 - Dividend 4.0%
 - Dividend Growth 4% - 6%
 - Multiple Contraction 5% - 10%

- REITs underperform the S&P 500 with moderate multiple contraction

- Stifel projects 2,750 S&P 500

- Based on the forward yield curve, 10-year Treasury at 2.5% by YE 2018

- Stifel estimates GDP growth of 2.7% in 2018

- Significant interest rate increase may cause severe REIT correction



Sector Recommendations

Overweight

- Sunbelt Office
- West Coast Office
- Core Industrial
- Value Industrial
- Development
Multifamily
- Medical Office
Buildings

Equal-Weight

- Last Mile Industrial
- Malls
- Strip Centers
- Lodging C Corps
- Triple-Net
- Senior Housing

Underweight

- Manhattan Office
- DC Office
- Low Barrier Office
- Operating
Multifamily
- Lodging REITs
- Skilled Nursing

2018 Catalysts – What Can Help REITs?

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➤ Positive

- Risk-off trade as REITs are more defensive
- Interest rates bump along, could surprise to downside
- Stabilization of fundamentals in key sectors
- Supply stays in check, development muted
- Dividend increases across the board to attract incremental generalists

➤ Negative

- More uncertainty in the retail space
- Fundamentals decelerate more than anticipated
- Major markets show poor fundamental macroeconomic numbers
- Negative headline news hurts funds flows
- Fed funds rate up – 3-4 increases through 2018

2018 M&A Candidates by Sector

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Office	Equity Commonwealth (EQC) Mack-Cali (CLI)
Industrial	N/A
Hotel	Chesapeake (CHSP) Pebblebrook Hotel Trust (PEB) Ryman Hospitality (RHP)
Retail	Cedar Realty (CDR) and General Growth (GGP)
Triple-Net	Spirit Realty (SRC)
Healthcare	New Senior Investment Group (SNR) Brookdale (BKD)
Multifamily	N/A



Real Estate Securities - Multifamily

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2018 – Investment Themes

- We continue to favor names with a strong development pipeline and proven track record of delivering quality product
- Continue to favor high density coastal markets, especially West Coast
- Hard costs appear to be escalating at a 5%-10% annual rate
- Increasing hard costs, sticky land values and tighter CRE lending to slow supply growth and support rent growth
- Increases in operating metrics to be at slower pace than recent years
- Multifamily real estate valuations appear appropriate, hard to differentiate
- Multifamily stock valuations appear stretched



High-Rise



Atlanta, GA

Mid-Rise Podium



Hollywood, CA

Mid-Rise Podium



Dallas, TX

Garden



Santa Barbara, CA

Podium



Atlanta, GA

Podium



Anaheim, CA

Multifamily Property Types

Garden



Anaheim, CA

Tight Wrap/Podium



Denver, CO

Tight Wrap/Texas Donut



Houston, TX

Tight Wrap



Austin, TX

Source: Camden Property Trust, Mid-America and Stifel Research

YTD 2017 Multifamily REITs – Total Returns

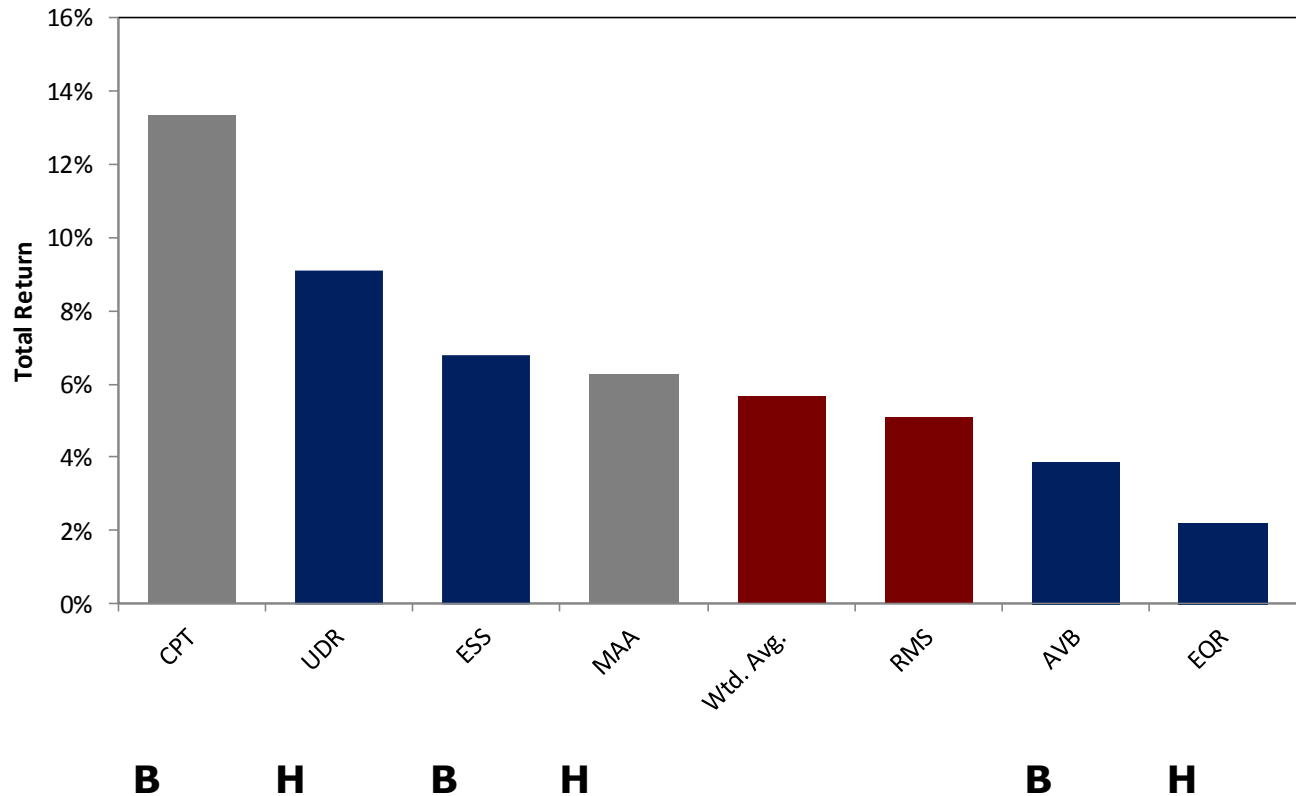
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Coastal

Averages

Regional



Source: FactSet Research Systems, SNL Financial and Stifel formatting

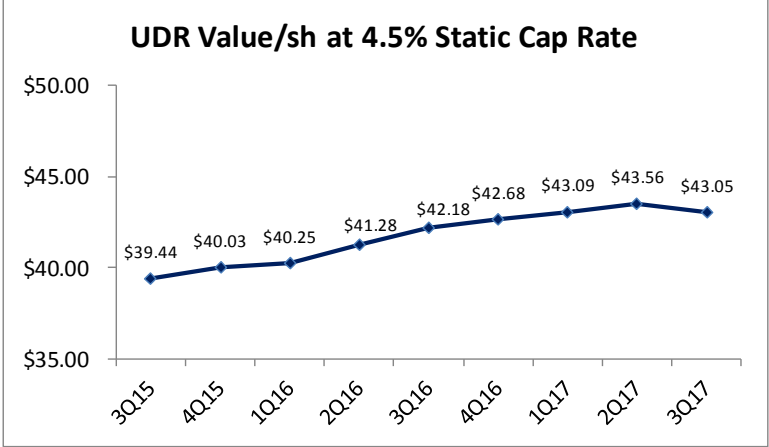
Parkway is excluded

B = Buy, H = Hold, S = Sell



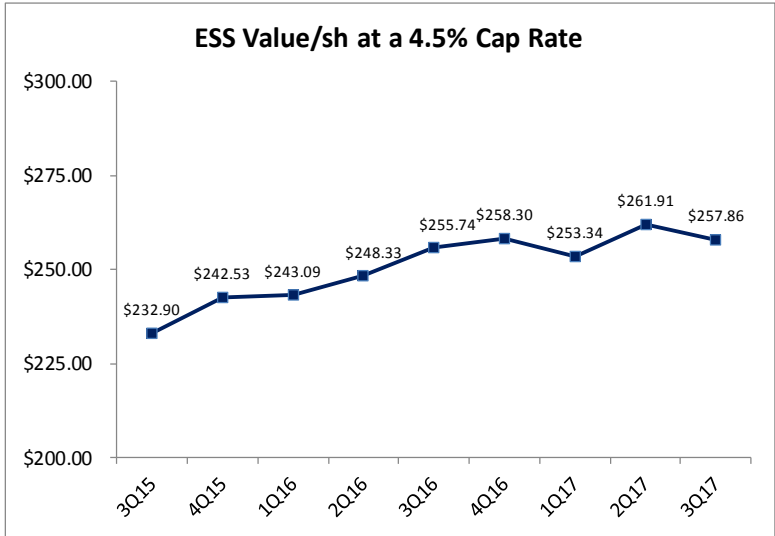
Examples of Value Creation

- 7.7% - NAV CAGR since 3Q15 plus dividends
- Solid development pipeline and multi-dimensional strategy expected to drive additional value creation



Source(s): Company data and Stifel estimates

- 8.1% - NAV CAGR since 3Q15 plus dividends
- Focused on the West Coast, primarily California, stringent transit-oriented development restrictions serve as a barrier to entry and supply control
- ESS employs less development efforts than some peers. We see high barrier to entry West Coast footprint driving continued value creation.



Source(s): Company data and Stifel estimates

Total Return Across Office, Industrial and Multifamily

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Ticker	Total Return 2Q15 - 2Q17	Value Creation Component	Annualized Dividend ¹
DCT	16.9%	13.6%	3.3%
REXR	13.0%	10.9%	2.1%
FR	12.0%	9.0%	3.1%
TRNO	11.3%	8.6%	2.7%
DRE	9.4%	5.9%	3.5%
PLD	9.4%	5.9%	3.5%
EGP	7.3%	3.8%	3.6%
LPT	7.3%	2.5%	4.7%
BDN	14.9%	10.7%	4.2%
DEI	13.5%	10.8%	2.7%
HIW	12.5%	7.5%	5.0%
LXP	11.0%	3.4%	7.6%
OFC	9.7%	5.2%	4.5%
CLI	8.7%	6.3%	2.3%
KRC	8.2%	5.1%	3.1%
ESRT	8.2%	6.2%	1.9%
PDM	8.1%	4.0%	4.0%
WRE	7.6%	3.8%	3.8%
AHH	7.5%	1.5%	6.0%
BXP	4.4%	1.9%	2.5%
FSP	4.3%	(2.0%)	6.3%
SLG	3.5%	1.0%	2.5%
EQC	3.2%	3.2%	0.0%
VNO	1.0%	(1.2%)	2.2%
AVB	10.0%	6.8%	3.2%
ESS	9.9%	7.1%	2.8%
UDR	9.4%	6.3%	3.1%
CPT	5.3%	0.3%	5.0%
EQR	1.4%	(2.2%)	3.6%

RMS 9.1%

Source(s): Company data and Stifel estimates

¹ Dividend based on 3Q15-2Q17 divided by base quarter 2Q15.

¹ Dividend includes special dividend for HIW, KRC, BXP, CPT and EQR

Valuation Metrics

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Company	Ticker	12/29/17 CLOSE	Inv Rating
AVALONBAY COMMUNITIES, INC	AVB	\$178.41	B
UDR, INC.	UDR	\$38.52	H
ESSEX PROPERTY TRUST, INC.	ESS	\$241.37	B
EQUITY RESIDENTIAL	EQR	\$63.77	H
MID-AMERICA APARTMENT COM	MAA	\$100.56	H
CAMDEN PROPERTY TRUST	CPT	\$92.06	B

Avg Growth 17-19 FFO	Avg Growth 17-19 FAD
4.6%	4.9%
3.4%	3.7%
4.2%	4.5%
2.9%	2.8%
3.1%	3.2%
3.5%	4.2%

Price/FFO 2018E	Price/FAD 2018E
19.8x	20.7x
19.9x	21.5x
19.5x	21.2x
19.9x	21.9x
16.7x	18.7x
19.7x	22.7x

Dividend Yield	Implied NOI Cap Rate
3.2%	4.9%
3.2%	4.9%
2.9%	4.7%
3.2%	5.1%
3.7%	5.6%
3.3%	5.4%

Company	Ticker	12/29/17 CLOSE	Inv Rating	Total Per Unit TEV	Per Unit Gross RC	Per Unit Adjusted RC	Prem / (Disc)
AVALONBAY COMMUNITIES, INC.	AVB	\$178.41	B	\$406,482	\$420,660	\$398,404	2%
UDR, INC.	UDR	\$38.52	H	\$337,093	\$380,866	\$361,823	(7%)
ESSEX PROPERTY TRUST, INC.	ESS	\$241.37	B	\$408,059	\$535,808	\$482,227	(15%)
EQUITY RESIDENTIAL	EQR	\$63.77	H	\$430,354	\$536,075	\$509,271	(15%)
Mid-America	MAA	\$100.56	H	\$163,983	\$191,697	\$175,191	(6%)
CAMDEN PROPERTY TRUST	CPT	\$92.06	B	\$217,090	\$244,140	\$230,572	(6%)

Source: FactSet Research Systems, Company data and Stifel estimates



Multifamily Best Ideas

➤ **Camden (CPT, Buy, \$92.06)**

- Sizable development pipeline
- Trading at attractive real estate valuation metrics relative to peers
- Reasonable stock valuation metrics
- Sector call
- Risks include economic slowdown or recession and excess housing inventories that will negatively impact fundamentals and, by extension, asset values

➤ **AvalonBay (AVB, Buy, \$178.41)**

- The most robust development pipeline in the Multifamily REIT space
- Strong presence in desirable metropolitan areas undergoing urban densification
- Active asset recycling and entry into new markets
- Attractive real estate valuation metrics
- Low Capex and G&A burden
- Sector call
- Risks include economic slowdown or recession and excess housing inventories that will negatively impact fundamentals and, by extension, asset values



Real Estate Securities - Office

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Winter is Coming



2018 – Investment Themes - Office

- Fundamentals are very industry and market specific
- Few real “barrier-to-entry” sub-markets
- Lease Economics Analysis indicates wide range of value creation/destruction
- Re-leasing costs continue to escalate significantly
- Large financial services firms and law firms are very price sensitive
- SF Bay Area is the technology capital of the world. West Coast industries strong. Less price sensitive.
- NAV valuation metrics matter more in a period of rising NAV metrics



Typical CBD Office Bldg.



534,918 SF Class A Office

Trophy Office Tower



1,561,277 SF Class A Office

750K SF Industrial Bldg.



768,000 SF Class A Industrial Warehouse

400K SF Industrial Bldg.



423,500 SF Class A Industrial Warehouse

200K SF Industrial Bldg.



216,752 SF Class B Industrial Warehouse

60K SF Flex Bldg.



63,263 SF Class B Flex



350K SF+ 12-13 Story Office



655,000 SF Class A Office

150K SF 4-6 Story Office Bldg.
with structured parking



152,242 SF Class A Office

120K SF 4-Story Office Bldg.
with surface parking



120,000 SF Class A Office Bldg

60K SF 2-Story Office Bldg.



60,000 SF Class B Office Bldg

40K SF 1-Story Office Bldg.



38,618 SF Class B Office Bldg

Source: CoStar data, Stifel Research

YTD 2017 Office REITs – Total Returns

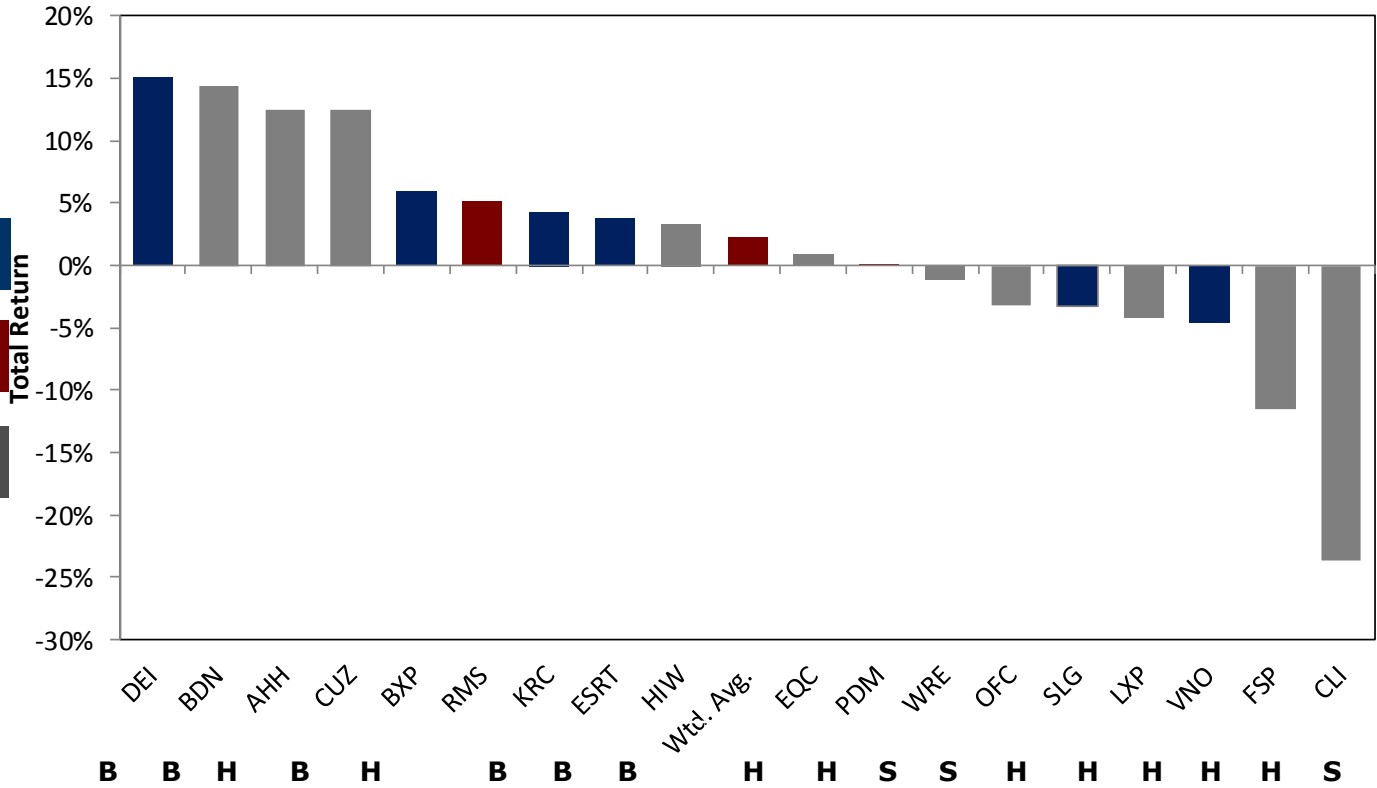
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Gateway City

Averages

Low Barrier



Source: FactSet Research Systems, SNL Financial and Stifel formatting

Parkway is excluded

B = Buy, H = Hold, S = Sell

Office Replacement Cost Analysis

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➤ TEV/SF investment basis mostly in-line

➤ Manhattan attractive

➤ OFC is an outlier

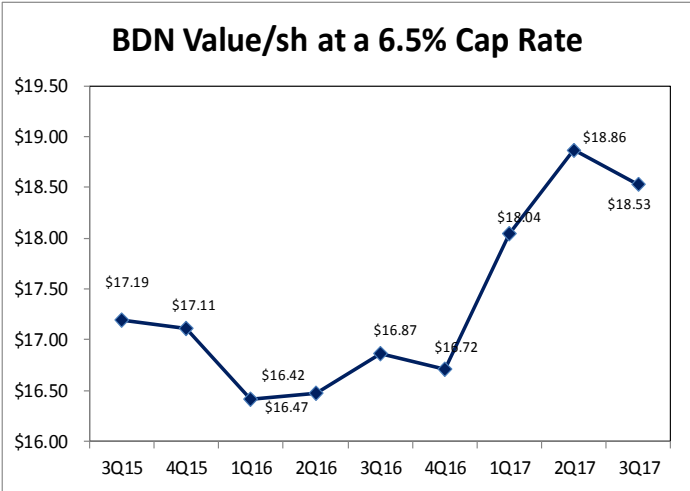
Company	Ticker	12/29/17 CLOSE	Inv Rating	Total PSF TEV	PSF Gross RC	PSF Adjusted RC	Prem / (Disc)
<u>GATEWAY CITIES</u>							
DOUGLAS EMMETT	DEI	\$41.06	B	\$638	\$885	\$668	(4%)
KILROY REALTY	KRC	\$74.65	B	\$646	\$697	\$612	6%
BOSTON PROP.	BXP	\$130.03	H	\$783	\$875	\$709	10%
EMPIRE STATE	ESRT	\$20.53	B	\$740	\$1,597	\$853	(13%)
VORNADO	VNO	\$78.18	H	NA	NA	NA	NA
SL GREEN	SLG	\$100.93	H	\$744	\$1,621	\$1,088	(32%)
<u>SUBURBAN/LOW BARRIER</u>							
COUSINS PROP	CUZ	\$9.25	B	\$362	\$416	\$320	13%
HIGHWOODS	HIW	\$50.91	B	\$263	\$311	\$232	13%
PIEDMONT	PDM	\$19.61	H	\$245	\$468	\$352	(30%)
FRANKLIN STREET	FSP	\$10.74	H	\$213	\$358	\$253	(16%)
CORP. OFFICE	OFC	\$29.20	S	\$279	\$278	\$212	32%
BRANDYWINE	BDN	\$18.19	B	\$282	\$403	\$287	(2%)
MACK-CALI	CLI	\$21.56	S	NA	NA	NA	NA
EQUITY COMMONWEALTH	EQC	\$30.51	H	\$242	\$420	\$292	(17%)
<u>SPECIALTY</u>							
LEXINGTON	LXP	\$9.65	H	NA	NA	NA	NA
ARMADA HOFFLER	AHH	\$15.53	H	NA	NA	NA	NA
WASH REIT	WRE	\$31.12	S	\$438	\$682	\$492	(11%)

Source(s): Company reports and Stifel estimates



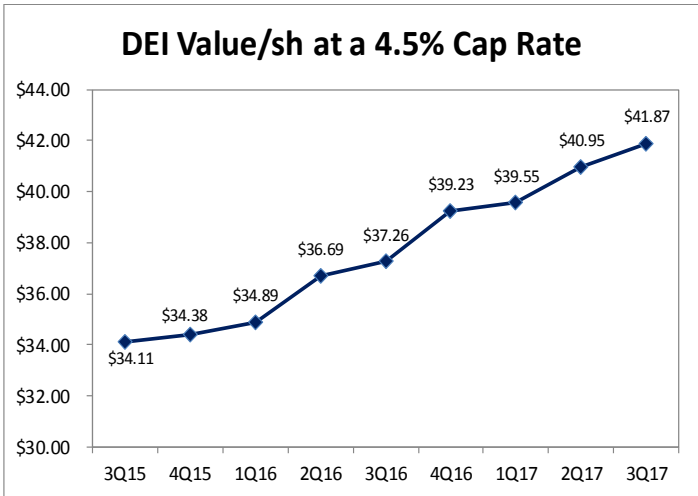
Examples of Value Creation

- Significant value creation as BDN continues to execute on portfolio repositioning
- 7.7% - NAV CAGR since 3Q15 plus dividends
- Expect opportunistic development projects to drive future value creation



Sources: Company data and Stifel estimates

- Significant value creation resulting from strong lease economics driven by strong demand Los Angeles office space
- 13.4% - NAV CAGR since 3Q15 plus dividends
- Expect lease economics to drive future value creation



Sources: Company data and Stifel estimates

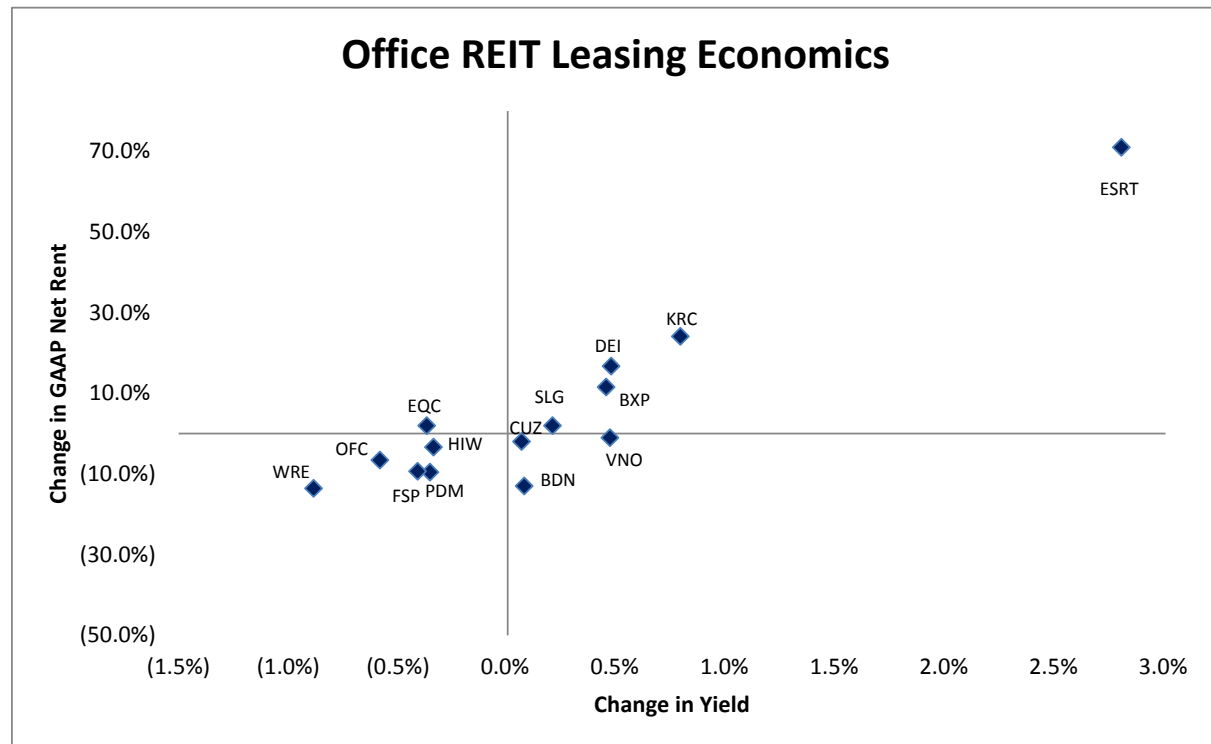
Lease Economics Analysis

Very Different Value Propositions

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- Cannot evaluate SSNOI and re-leasing spreads without incorporating re-leasing costs
- Value destruction = \$20/SF net rents, 2%/10% cash/GAAP rental rate increases and \$5/SF/yr in re-leasing costs
- Value creation mostly limited to higher rent markets



*Note: CLI, AHH, LXP & FPO are not listed due to inadequate disclosures
PKY & CUZ data updated through 2Q16 – pre-merger
Sources: Company data and Stifel estimates*

Gateway City – Market Fundamentals

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Gateway Cities Office Markets Third Quarter 2017 - Class A & B Current Vacancy plus Construction in Progress

Metro	Companies	Stock (MM) SF	Under Const. (MM SF)	Construction % of Stock ¹	Yr/Yr Vacancy Change			Quarter/Quarter Vac. + Const. Change		
					3Q16	3Q17	Chg ²	2Q17 Vacancy + Construction	3Q17 Vacancy + Construction	Chg ²
New York City										
Uptown, NY	SLG, VNO	9	0.1	1.1%	6.9%	6.1%	-0.8%	11.0%	7.2%	-3.8%
Midtown South, NY	SLG, VNO, ESRT	74	1.6	2.2%	7.0%	6.8%	-0.2%	8.6%	9.0%	0.4%
Downtown, NY	SLG, VNO, PDM	111	2.9	2.6%	8.8%	8.8%	0.0%	11.3%	11.4%	0.1%
Midtown, NY	SLG, BXP, VNO, ESRT	297	10.9	3.7%	9.4%	9.0%	-0.1%	12.6%	12.7%	0.1%
Manhattan Totals		490	15.5	3.2%	8.2%	8.6%	0.4%	11.7%	11.7%	0.0%
Washington DC, NoVA, Suburban MD (See Exhibit B)*										
		473	10.8	2.3%	15.2%	14.2%	-1.0%	16.7%	16.5%	-0.3%
Los Angeles County										
Burbank/ Glendale/ Pasadena, CA	DEI, PDM	44	0.2	0.5%	10.1%	9.6%	-0.5%	9.8%	10.1%	0.4%
San Fernando Valley, CA	DEI	30	0.0	0.0%	11.4%	10.5%	-0.9%	11.0%	10.5%	-0.5%
San Gabriel Valley, CA		21	0.1	0.4%	9.9%	10.3%	0.4%	11.0%	10.7%	-0.3%
West Los Angeles/Beverly Hills, CA	KRC, DEI, BXP	74	1.5	2.0%	11.2%	11.6%	0.4%	14.1%	13.6%	-0.4%
South Bay, LA, CA	KRC	53	1.0	1.8%	13.5%	12.9%	-0.6%	15.1%	14.7%	-0.4%
Mid Wilshire Corridor/Hollywood, CA	KRC	32	0.6	1.7%	13.5%	14.0%	0.5%	15.6%	15.7%	0.2%
<u>CBD Los Angeles, CA</u>		<u>60</u>	<u>1.7</u>	<u>2.8%</u>	<u>13.7%</u>	<u>14.4%</u>	<u>0.7%</u>	<u>18.2%</u>	<u>17.2%</u>	<u>-1.0%</u>
Los Angeles County Totals		315	5.1	1.6%	12.1%	12.1%	0.0%	14.1%	13.7%	-0.3%
Boston Area										
Financial District, Boston, MA	BXP	40	0.0	0.0%	9.5%	8.3%	-1.2%	8.6%	8.3%	-0.3%
Back Bay, Boston, MA	BXP	16	0.0	0.0%	8.7%	9.1%	0.4%	9.8%	9.1%	-0.7%
Cambridge, MA	BXP, PDM	30	1.8	5.9%	3.3%	3.1%	-0.2%	7.4%	9.0%	1.7%
Inner Suburbs	BXP, EQC, PDM	49	1.1	2.2%	6.1%	5.5%	-0.6%	7.8%	7.7%	-0.1%
Route 495, MA	PDM	41	0.0	0.0%	13.2%	12.1%	-1.1%	13.3%	12.1%	-1.2%
<u>Route 128</u>	<u>BXP</u>	<u>96</u>	<u>1.3</u>	<u>1.3%</u>	<u>10.0%</u>	<u>11.5%</u>	<u>1.5%</u>	<u>12.4%</u>	<u>12.8%</u>	<u>0.4%</u>
Boston Area Totals		272	4.1	1.5%	9.2%	9.0%	-0.2%	10.4%	10.5%	0.0%
San Francisco Area										
San Francisco CBD, CA	BXP, VNO, KRC	56	4.3	7.7%	6.9%	8.5%	1.6%	16.0%	16.2%	0.2%
San Mateo County, CA	BXP, KRC	43	2.4	5.6%	8.5%	9.2%	0.7%	14.9%	14.8%	-0.1%
South Bay / San Jose, CA	BXP, FSP, KRC	100	7.8	7.8%	8.6%	9.7%	1.1%	18.0%	17.5%	-0.4%
Oakland, CA; I-80, I-880 Corridor		19	0.8	4.0%	12.4%	9.1%	-3.3%	15.7%	13.1%	-2.5%
<u>Oakland, CA</u>		<u>22</u>	<u>0.6</u>	<u>2.8%</u>	<u>5.1%</u>	<u>10.7%</u>	<u>5.6%</u>	<u>10.3%</u>	<u>13.5%</u>	<u>3.2%</u>
San Francisco Area Totals		239	15.9	5.6%	8.2%	9.4%	1.2%	14.8%	15.0%	0.2%
Totals / Weighted Averages		1,789	51.3	2.9%	11.0%	10.8%	-0.2%	13.8%	13.7%	-0.1%

¹ Cells highlighted: for Construction % of Stock > 2.5%

² Cells highlighted represent Yr/Yr Vacancy Change and Q/Q Change in Vac. + Const. > 2% or >-2%

*The Washington DC/Northern VA/Suburban MD numbers include Class A, Class B & Class C Office Space
Source: CoStar data

Valuation Metrics – Excluding NAV Premium/Discount

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Company	Ticker	12/29/17 CLOSE	Inv Rating	Avg Growth 17-19 FFO	Avg Growth 17-19 FAD	Price/FFO 2018E	Price/FAD 2018E	Dividend Yield	Implied NOI Cap Rate
<u>GATEWAY CITIES</u>									
DOUGLAS EMMETT	DEI	\$41.06	B	5.6%	9.4%	20.5x	25.0x	2.4%	4.6%
KILROY REALTY	KRC	\$74.65	B	6.5%	7.9%	20.3x	28.8x	2.3%	5.2%
BOSTON PROP.	BXP	\$130.03	H	6.4%	3.1%	20.7x	34.9x	2.5%	4.9%
EMPIRE STATE	ESRT	\$20.53	B	5.2%	7.2%	20.9x	23.9x	2.0%	4.8%
VORNADO	VNO	\$78.18	H	NM	NM	19.0x	25.1x	3.1%	5.1%
SL GREEN	SLG	\$100.93	H	4.6%	27.1%	15.2x	25.0x	3.2%	5.1%
<u>SUBURBAN/LOW BARRIER</u>									
COUSINS PROP.	CUZ	\$9.25	B	3.3%	10.7%	15.2x	20.6x	2.6%	5.8%
HIGHWOODS	HIW	\$50.91	B	2.3%	2.3%	14.8x	23.7x	3.5%	6.3%
PIEDMONT	PDM	\$19.61	H	-0.9%	-1.8%	11.5x	15.1x	4.3%	7.1%
FRANKLIN STREET	FSP	\$10.74	H	-2.4%	-6.7%	10.3x	16.8x	7.1%	7.2%
CORP. OFFICE	OFC	\$29.20	S	1.2%	-0.3%	14.6x	18.7x	3.8%	7.1%
BRANDYWINE	BDN	\$18.19	B	4.1%	5.9%	13.2x	19.6x	4.0%	6.6%
MACK-CALI	CLI	\$21.56	S	-7.3%	-11.6%	11.4x	19.6x	3.7%	NA
EQUITY COMMONWEALTH	EQC	\$30.51	H	-0.6%	49.7%	36.3x	54.5x	0.0%	7.4%
<u>SPECIALTY</u>									
LEXINGTON	LXP	\$9.65	H	2.1%	1.2%	9.7x	11.5x	7.4%	7.3%
ARMADA HOFFLER	AHH	\$15.53	H	2.0%	-4.7%	15.8x	19.9x	4.9%	5.8%
WASH REIT	WRE	\$31.12	S	-0.6%	-9.2%	17.0x	28.8x	3.9%	5.7%



Office Best Ideas

- **Brandywine (BDN, Buy, \$18.19)**
 - Internal growth on par with GC Office REITs
 - Development pipeline very accretive, in our view
 - Very attractive real estate valuation metrics relative to Gateway City Office REITS, in our view
 - Attractive stock valuation metrics, in our view
 - Risks include interest rate risk, transaction risk, operational risk and general economic risk
- **Kilroy Realty (KRC, Buy, \$74.65)**
 - San Francisco Bay Area is technology capital of the world, and KRC assets are transportation centric
 - San Francisco CBD rents could easily surpass Midtown Manhattan in five years
 - Other West Coast TAMI markets strong
 - Trading at real estate valuation metrics equal to Manhattan centric office REITs; and we believe the best and deepest development pipeline in Office space
 - Risks include development and lease-up risk, tech bubble fears, interest rate and general economic risk.



Real Estate Securities - Industrial

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Winter is Coming



2018 – Investment Themes

- Solid fundamentals...Demand still exceeds supply...Maybe next year
- Economic growth primary driver of industrial demand– GDP ramping
- About 30% of leasing is solely e-commerce
- Developers and lenders remain surprisingly disciplined
- Lease Economics Analysis indicates continued strength
- Indicative of strong relative earnings growth and fundamentals
- Replacement costs continue to escalate, particularly in coastal markets

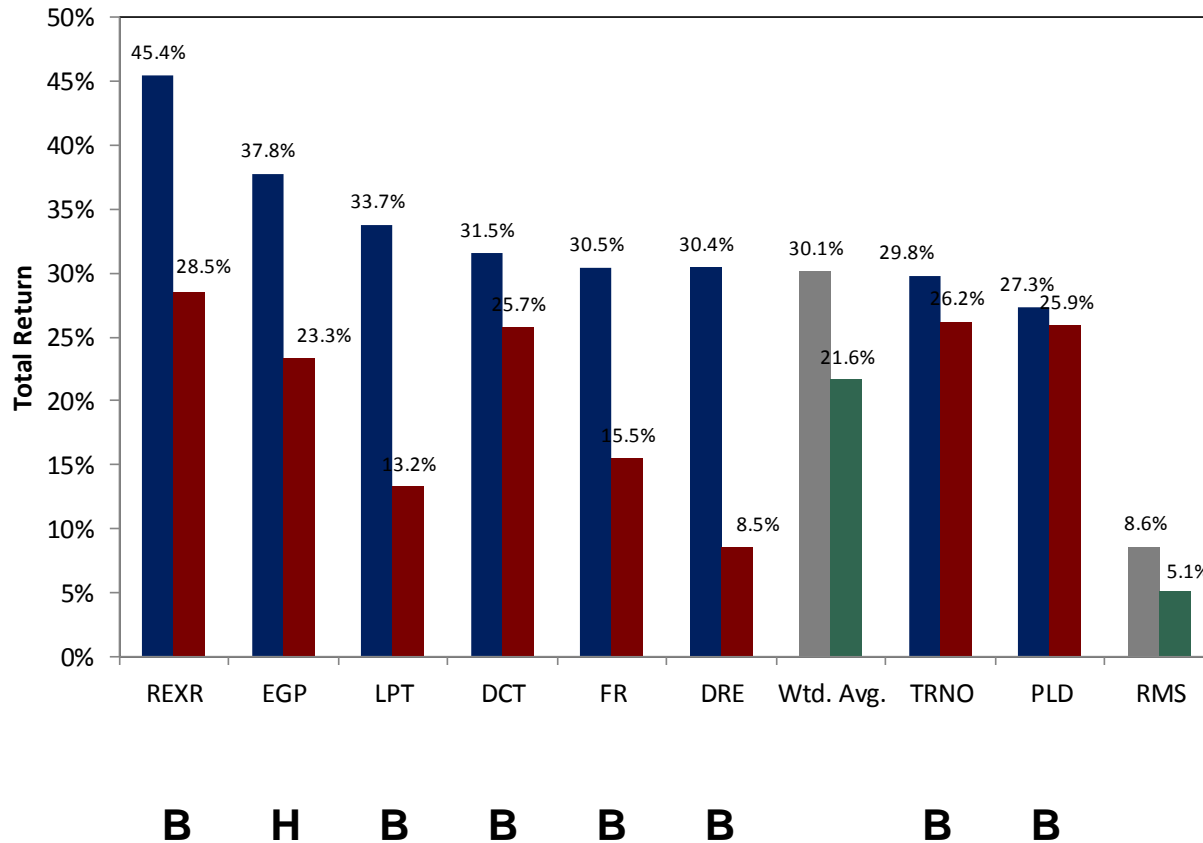


The Effects of E-Commerce

- E-Commerce still in its early stages – only about 9% of total retail sales in 2017 and growing at 15.5% Y/Y.
- Domestic growth 15.5% Y/Y; \$450B estimate – 2017 U.S. e-commerce sales of physical goods
- Expected to create 50-60mm SF of additional U.S. industrial demand annually over the next three to four years
- CBRE forecast 220mm SF of net absorption for 2017 and 2018, about 25% being e-commerce related
- For consumer goods companies – just another distribution channel
- For retailers a threat to margins and business models
- Industrial space usage and logistics strategy becoming increasingly important – click to consumption time compression

2016 and YTD 2017 Industrial REIT Total Returns

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Source: FactSet Research Systems, SNL Financial and Stifel Research

B = Buy, H = Hold, S = Sell

Industrial Replacement Cost Analysis

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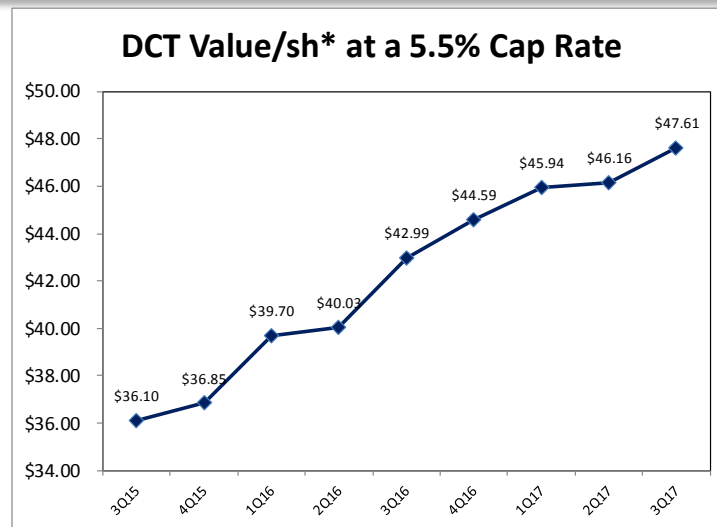
Company	Ticker	12/29/17 CLOSE	Inv Rating	Total PSF TEV	PSF Gross RC	PSF Adjusted RC	Prem / (Disc)
DUKE REALTY	DRE	\$27.21	B	\$78	\$79	\$73	7%
DCT INDUSTRIAL	DCT	\$58.78	B	\$111	\$96	\$90	23%
PROLOGIS INC	PLD	\$64.51	B	\$121	\$120	\$100	21%
LIBERTY PROP.	LPT	\$43.01	B	\$81	\$80	\$75	9%
FIRST INDUSTRIAL	FR	\$31.47	B	\$81	\$98	\$79	4%
EASTGROUP PROP.	EGP	\$88.38	H	\$107	\$89	\$78	37%
REXFORD INDUSTRIAL	REXR	\$29.16	B	\$172	\$175	\$142	21%
TERRENO REALTY	TRNO	\$35.06	B	\$180	\$173	\$143	26%

Source(s): Company reports and Stifel estimates



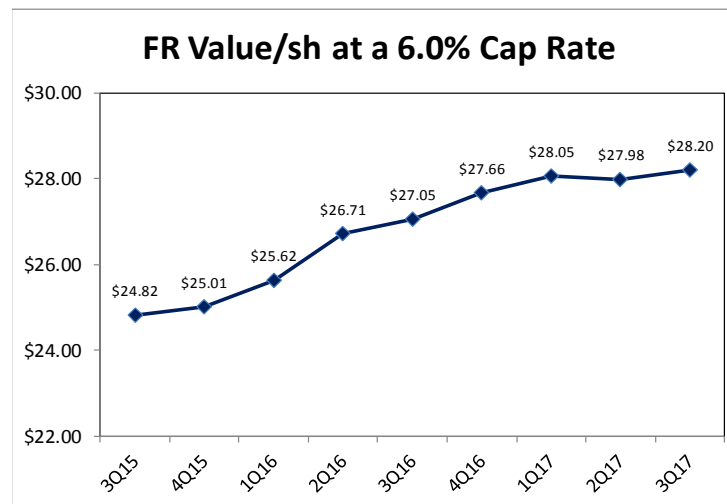
Examples of Value Creation

- Development-driven value creation
- Active asset recycler with dilutive asset sales largely complete
- De-leveraging also complete
- Solid leasing economics
- 18% - NAV CAGR since 3Q15 plus dividends



Sources: Company data and Stifel estimates
* All share price estimates are split-adjusted

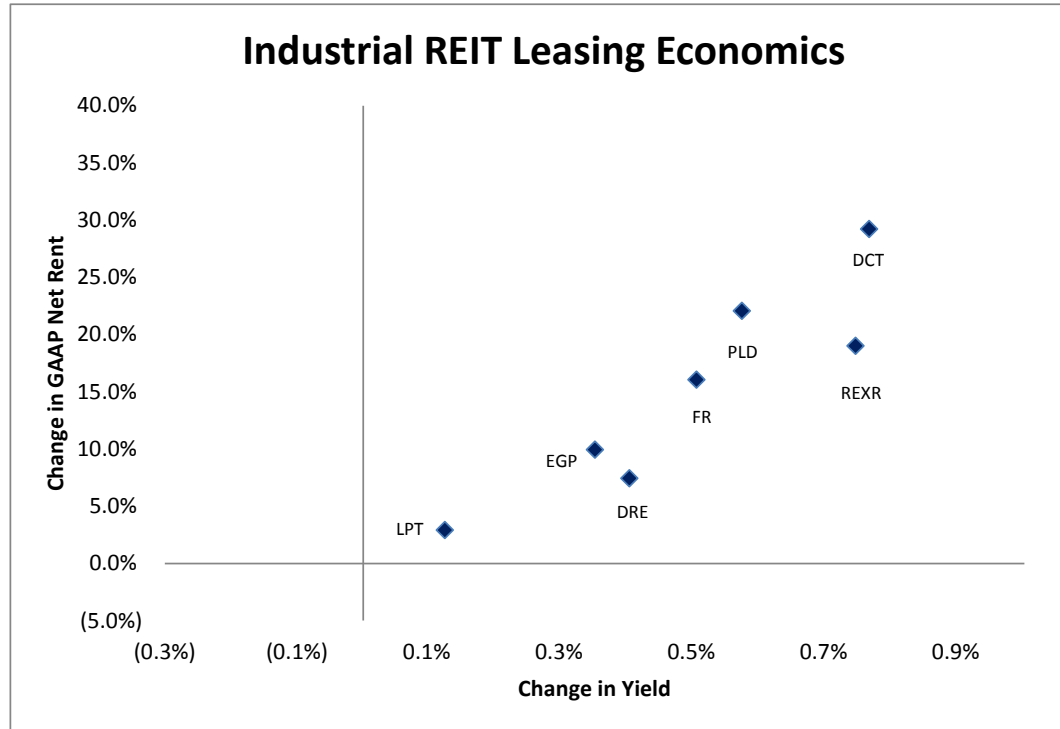
- Lower quality portfolio and small development platform
- Lower rental rates and smaller buildings allow greater rental rate increases
- Low \$/SF basis
- 9.7% - NAV CAGR since 3Q15 plus dividends



Sources: Company data and Stifel estimates

Lease Economics

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- All pure-play industrial REITs have re-leasing value creation
- Low CAPEX costs – \$0.38-\$0.86/SF/lease year – are relatively easy to absorb with re-leasing spreads over 5%/10% cash/GAAP
- Fundamentals will likely have to change appreciably for these relationships to become negative

Industrial – Market Fundamentals

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Primary Distribution Markets			Third Quarter 2016			Third Quarter 2017		
Metro	Companies	Total Stock (MM) SF	Total Under Const. (MM SF)	Construction % of Stock ¹	3Q16 Vacancy + Construction	Total Under Const. (MM SF)	Construction % of Stock ¹	3Q17 Vacancy + Construction
1	LA Basin, CA	995	5.8	0.6%	2.3%	5.8	0.6%	2.8%
2	North/Central New Jersey, NJ	820	7.4	0.9%	6.0%	14.1	1.7%	7.0%
3	Chicago, IL	1205	18.2	1.5%	6.6%	11.9	1.0%	7.7%
4	Philadelphia/ Eastern PA	968	17.4	1.9%	6.5%	14.5	1.5%	7.7%
5	Inland Empire, CA	589	15.4	2.7%	5.3%	23.1	3.9%	8.7%
6	Atlanta, GA	705	15.3	2.2%	7.3%	15.8	2.2%	8.8%
7	Dallas/Fort Worth, TX	870	22.3	2.7%	6.1%	22.1	2.5%	9.0%
Totals / Weighted Averages		6,151	101.7	1.7%	5.7%	107.2	1.7%	7.2%

Barrier to Entry Industrial Markets			Third Quarter 2016			Third Quarter 2017		
Metro	Companies	Total Stock (MM) SF	Total Under Const. (MM SF)	Construction % of Stock ¹	3Q16 Vacancy + Construction	Total Under Const. (MM SF)	Construction % of Stock ¹	3Q17 Vacancy + Construction
1	Orange County, CA	304	0.3	0.1%	2.4%	1.3	0.4%	3.1%
2	Long Island, NY	357	0.5	0.1%	3.5%	0.4	0.1%	4.2%
3	East Bay / Oakland, CA	264	1.4	0.5%	5.0%	1.7	0.7%	4.4%
4	Palm Beach/ Broward County, FL	190	2.0	1.1%	4.5%	1.9	1.0%	4.4%
5	Miami / Dade County, FL	239	4.4	1.9%	3.9%	3.0	1.2%	5.3%
6	Seattle / Puget Sound, WA	317	2.9	0.9%	3.5%	6.2	2.0%	5.4%
7	Boston, MA	459	1.4	0.3%	6.3%	2.5	0.6%	5.6%
8	San Diego, CA	190	1.6	0.8%	5.2%	1.8	1.0%	5.8%
9	South Bay / San Jose, CA	198	1.4	0.7%	5.7%	1.2	0.6%	6.5%
10	Washington DC/ Suburban MD/ North VA	224	1.5	0.7%	8.1%	2.5	1.1%	8.4%
11	Baltimore, MD	244	2.5	1.1%	8.8%	7.6	3.1%	9.6%
Totals / Weighted Averages		2,985	20.0	0.7%	5.1%	30.0	1.0%	5.5%

Energy Driven Secondary Markets		Third Quarter 2016			Third Quarter 2017			
Totals / Weighted Averages		1,526	20.0	0.7%	5.1%	20.2	1.3%	7.0%

Secondary Industrial Markets		Third Quarter 2016			Third Quarter 2017			
Totals / Weighted Averages		4,081	27.8	0.7%	6.5%	49.8	1.2%	6.0%

¹ Cells highlighted: for Construction % of Stock > 1.2%; Q/Q Change in Vac. + Const. > 2% or >-2%

Source: CoStar data

Valuation Metrics – Excluding NAV Premium/Discount

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Company	Ticker	12/29/17 CLOSE	Inv Rating
DUKE REALTY	DRE	\$27.21	B
PROLOGIS INC	PLD	\$64.51	B
DCT INDUSTRIAL	DCT	\$58.78	B
FIRST INDUSTRIAL	FR	\$31.47	B
LIBERTY PROP.	LPT	\$43.01	B
EASTGROUP PROP.	EGP	\$88.38	H
REXFORD INDUSTRIAL	REXR	\$29.16	B
TERRENO REALTY	TRNO	\$35.06	B

Avg Growth 17-19 FFO	Avg Growth 17-19 FAD
2.8%	3.2%
5.5%	7.9%
6.3%	11.0%
5.7%	7.6%
4.0%	8.8%
4.7%	4.7%
10.1%	7.0%
9.5%	11.4%

Price/FFO 2018E	Price/FAD 2018E
22.1x	25.9x
22.2x	27.6x
22.4x	28.4x
19.3x	24.0x
16.4x	20.8x
19.9x	28.5x
27.0x	39.9x
28.3x	38.1x

Dividend Yield	Implied NOI Cap Rate
2.9%	5.4%
2.7%	4.5%
2.4%	4.7%
2.7%	5.5%
3.7%	5.7%
2.9%	4.8%
2.0%	4.2%
2.5%	4.1%

Industrial Best Ideas

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➤ **First Industrial (FR, Buy, \$31.47)**

- Industrial fundamentals unlikely to deteriorate enough to affect 2018 property operations
- Attractive real estate and stock valuation metrics relative to entire industrial sector peer group, in our view
- Small tenant format allows for greater ability to increase rents
- Increased asset recycling
- Risks include leasing risk, development-related risks, general economic risk and interest rate risk

➤ **Duke Realty (DRE, Buy, \$27.21)**

- Industrial fundamentals unlikely to deteriorate enough to affect 2018 property operations
- Very attractive real estate valuations relative to immediate peer group (PLD,DCT), in our view
- Ramp up of 2018 FFO likely as purchased vacancy fills and development delivers
- Believe best balance sheet in Industrial sector, plus \$375mm of loan repayments
- Risks include development risk, investment sales risk, interest rate risk, and general economic risks

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