

Quick Thoughts on Brexit and US REITs

Largely Domestic Sector Minimizes Risks

- **Non US Exposure Light:** The US REIT sector has very low non-US exposure with investments outside the US representing only ~4% of the sector's NOI (list below and herein). In addition, because US REITs sell domestic goods – almost all of the “cost of goods sold” is locally sourced (ie - no import cost risk). The biggest potential headwind we see for the sector is the cost and availability of capital. While REIT balance sheets are in superior shape with low leverage and well laddered maturities, it is possible REITs' cost of debt and equity capital will rise given macro uncertainty. This could also affect cap rates with every 25bps move about 6-7% impact to stocks. Some foreign capital sources – especially from Europe and the UK – could pull back debt and equity sources raising the cost of financing. Lastly while the 10-year Treasury is down and the Fed has recently been more dovish, should credit spreads widen materially similar to the GFC – REITs could sell off to a large extent given a high correlation to BBB corporate bond yields.
- **While A Risk – US Could be Safe Haven:** While risks certainly exist above, we believe US Real Estate will remain well bid relative to other global markets keeping cap rates relatively low and competitive. With low leverage and excess cash, REITs could use market uncertainty to buy assets and/or the company's stock. Overall, with REITs being largely domestic, interest rates low and moderate economic growth, REITs could continue to be relatively well bid versus other equity sectors.
- **Seeking Shelter:** There will likely be a flight to safety with investors seeking largely domestic, low leveraged and “Blue Chip” REITs and shunning higher leverage names with larger capital commitments and asset sale plans. We have had a barbell strategy in our current model portfolio owning a mix of names. We would use a potential sell off as a buying opportunity for some of our current Buy rated names with higher leverage including **GGP**, **SLG** and **FCEA** given the wide existing discounts to NAV, in addition to Blue Chip / low leveraged names such as **AKR**, **BPX**, **SPG**, and **VNO**. From a sector perspective, shopping centers, apartments, student housing and net lease could be well bid, while lodging, malls, industrial and globally exposed names could see relative weakness.
- **Non US Exposure Light:** Non US exposure is concentrated in a number of the large cap names including EQIX (52%), WPC (~38%), PLD (~29%), DLR (~20%), HCN (~15%), SPG (~8%), PSA (~7%) and HST (~5%) – where a predominance of non US investment is in the UK and Europe. TCO (~5%), VTR (~6%) and SKT (2%) also have non US exposure – but it is Asia for TCO and primarily Canada for SKT and VTR. See chart herein. While the REITs hedge their investments via local debt minimizing FX, there is the potential that fundamental weakness abroad could have an impact on growth and asset values for each of the REITs with foreign exposure.

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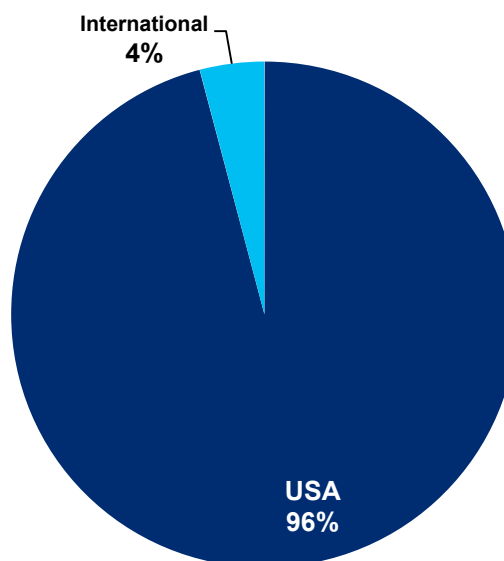
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Brexit Quick Thoughts

Below are US REITs' exposure to non US investments.

Figure 1. US vs. International Exposure for US REITs



Source: Citi Research, SNL

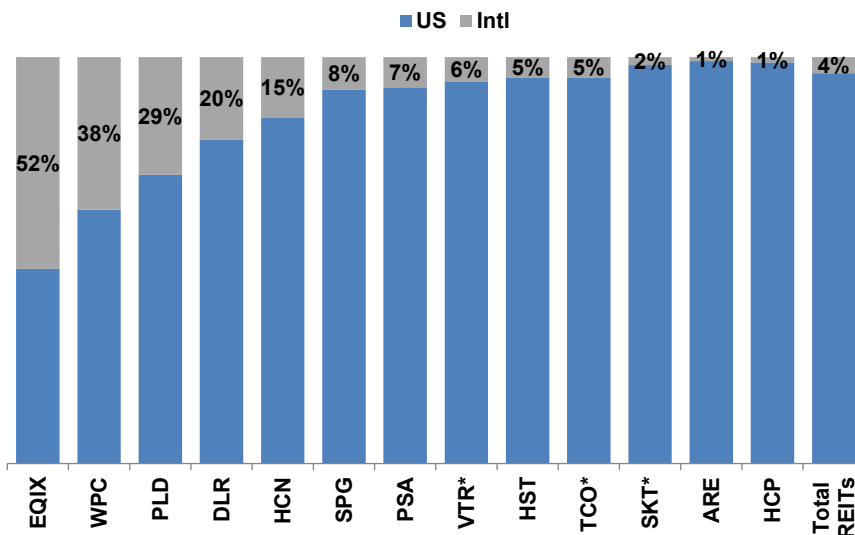
Figure 2. International REIT Exposure

REITs with International Exposure	Estimated % GAV		
	US	Intl	Total
EQIX	48%	52%	100%
WPC	62%	38%	100%
PLD	71%	29%	100%
DLR	80%	20%	100%
HCN	85%	15%	100%
SPG	92%	8%	100%
PSA	93%	7%	100%
VTR*	94%	6%	100%
HST	95%	5%	100%
TCO*	95%	5%	100%
SKT*	98%	2%	100%
ARE	99%	1%	100%
HCP	99%	1%	100%
Total REIT Sector	96%	4%	100%

Footnote: *Represents Canada for VTR and SKT, and Asia for TCO. Remaining exposure for other REITs largely UK and Europe.

Source: Citi Research, SNL

Figure 3. US vs. International REIT Exposure Across Companies



Source: Citi Research, SNL

Companies mentioned:

(AKR.N; US\$34.14; 1); (ARE.N; US\$99.24; 2); (BXP.N; US\$129.98; 1); (DLR.N; US\$104.82; 2); (EQIX.O; US\$385.43; 2); (FCEa.N; US\$22.82; 1); (GGP.N; US\$29.00; 1); (HCN.N; US\$73.04; 2); (HCP.N; US\$34.11; 2); (HST.N; US\$16.95; 1); (PLD.N; US\$50.09; 2); (PSA.N; US\$241.00; 2); (SKT.N; US\$38.04; 2); (SLG.N; US\$105.37; 1); (SPG.N; US\$209.09; 1); (TCO.N; US\$71.30; 2); (VNO.N; US\$98.93; 1); (VTR.N; US\$68.90; 2); (WPC.N; US\$68.97; 3)

Appendix A-1

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