NAREIT Recap - Day 2

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We met with executive management teams of 30 of our covered companies in the Office, Industrial, Apartments, Healthcare, Storage, Regional Malls, Shopping Centers, Triple Net and Lodging subsectors during day two of the NAREIT conference in Phoenix. We provide the key company takeaways below.

Key Investment Points

OFFICE

Kilroy Realty Corporation - KRC. We met with John Kilroy, Chairman, President, and CEO; Tyler Rose, EVP and CFO; Bob Paratte, EVP – Leasing and Business Development; and Michelle Ngo, SVP and Treasurer. Key takeaways include:

- **Incremental color on leasing.** Following the 200ksf lease with Adobe at 100 Hooper, KRC has another 750ksf under LOI. We suspect the bulk of that relates to the 700ksf Exchange development, which likely indicates significant pre-leasing. The rents on these leases are in line or better than pro forma, which likely translates into >8% initial returns. The ability to substantially lease these projects to credit tenants with LT leases and annual escalators should drive substantial value creation and NAV upside and de-risk the development pipeline.
- **Substantial balance sheet capacity.** Management indicated that recent capital raises and the anticipated close of the $170M mortgage financing should fund the investment plan through 2018. Beyond that, the current leverage of 5.1x debt/EBITDA implies $1B of debt capacity while remaining at the high-6x debt/EBITDA level. While we suspect KRC would avoid hitting this threshold, it is indicative of the flexibility of the current balance sheet.

INDUSTRIAL

EastGroup Properties, Inc. - EGP. We met with Marshall Loeb, President and CEO; Keith McKey, EVP and CFO; and Bill Petsas, SVP. Key takeaways include:

- **Anticipated Houston softness materializing.** Houston industrial fundamentals largely remained steady over the past 18 months despite concerns about softness following the drop in oil prices. However, conditions weakened in 3Q16 as leases rolled and tenants began to rationalize space. Comments suggest retention rates could see pressure in 2017. In addition, rents could roll down 10-15% at EGP's high quality World Houston Park, which could pressure earnings and NAV growth. Separately, buyer pools have thinned and investors are more discerning on quality; EGP has several assets in the market, but pricing could ultimately prove unattractive.
- **Dade County land purchase.** EGP recently announced the acquisition of a 60-acre land site in Dade County, FL, for $26M, or $10/FAR. The parcel can support 850ksf of industrial product that will be spread across five buildings with an estimated incremental cost of $80/sf, or $68M; EGP will target 6.5-6.75% development yields. The first development will likely commence on the entitled site in 1Q18.
- **Development starts.** We suspect that development starts could be at the $100M level for 2017. EGP could likely fund this level of starts without the need for equity given current balance sheet capacity. Separately, the under construction pipeline has ramped given the acquisition of $80M of value-add projects that will be added to the pipeline; these projects could ultimately put pressure on total portfolio occupancy if the ability to capitalize ceases ahead of final lease-up; however, SSNOI and occupancy should be unaffected.

First Industrial Realty Trust, Inc. - FR. We met with Bruce Duncan, Chairman and CEO; Peter Baccile, President; JoJo Yapp, CIO; Scott Musil, CFO; and Art Harmon, VP – Investor Relations and Marketing. Key takeaways include:

- **Optimistic about fundamentals.** Management indicated it is more bullish today than it was six months ago given continued fundamental momentum, additional balance sheet capacity given 5.5x debt/EBITDA and ongoing discipline on the supply side. Incoming CEO Peter Baccile indicated that FR may look to expand headcount on market level personnel to ensure the Company is in the flow on all opportunities across its markets.
- **Positioning for an improved credit rating.** FR continues to pursue a BBB rating vs. the current BBB- rating. The ability to get the rating bump would likely improve borrowing costs by 40 bps.

- **Cap rate impact from higher interest rates.** Management suspects that the 10-Year Treasury yield could rise to 4% before cap rates are affected.

Liberty Property Trust - LPT. We met with Bill Hankowsky, Chairman, President, and CEO; George Alburger, Jr., EVP; Chris Papa, EVP and CFO; John DiVall, SVP; and Jeanne Leonard, VP – Investor Relations. Key takeaways include:

- **Thoughts on capital deployment and funding.** Now that the portfolio repositioning is in the rear-view, LPT remains focused on expanding the industrial portfolio. We suspect LPT would look to expand across the current footprint, with a few exceptions, and will likely need to get bigger in some lower cap rate infill markets (e.g., SoCal and northern New Jersey). We suspect that LPT will be deliberate in the expansion into lower cap rate markets and will likely be focused on acquiring value-add operating assets; the lower yields can be balanced by higher cap rate developments in other markets. We expect that baseline capital deployment could be 70-80% traditional LPT markets with 20-30% in lower cap rate markets.
- **Dispositions should slow in 2017.** LPT will provide guidance in mid-December and we expect that following the anticipated $1.3B of sales in 2016, the volume will slow next year. Incremental sales will likely be sized to help fund the investment plan. We suspect that in general, we could see 50% of planned spending funded with debt, 40-50% with sales and any remaining balance funded with retained cash flow.
- **The dividend.** The board has yet to make a final decision regarding dividend policy, but management continues to target a 75-85% payout of recurring AFFO. The right-sized dividend will likely be in excess of taxable net income, even at the low end of management's previously discussed range of $1.60-$1.70/sh. While LPT will forgo additional retained cash flow that can be reinvested, it will provide a cushion to absorb potential gains associated with incremental asset sales.

PS Business Parks, Inc. - PSB. We met with Maria Hawthorne, President and CEO; John Petersen, EVP and COO; and Ed Stokx, EVP and CFO. Key takeaways include:

- **Preferred redemption.** We previously estimated the redemption of the 6.45% Series S and 6% Series T preferreds could ultimately represent a $0.35/sh annual FFO uplift and the Series W issuance helped pre-fund $190M of the $230M Series S redemption. However, spreads in the preferred market have widened – the 5.2% Series W preferreds are currently trading at 6.1% – which could pressure this upside as the break-even for redemption is a 50 bps spread. We suspect PSB could use a larger proportion of bank term debt to help reduce the blended rate on the sources and preserve some of the upside from redemptions.
- **D.C. Metro rent spreads likely unchanged.** Despite the optimism post-election, management expects the mid-single-digit cash rent roll-downs in the D.C. Metro region could persist into 2017. PSB has 20% and 8% of 2017 expirations in Northern Virginia and Maryland, respectively.
- **Westpark rezoning.** The decision to do a second multifamily development at PSB's Westpark has prompted the Company to pursue re-entitlement of the whole park. Importantly, this is more reflective of the desire for optionality ahead of any future opposition from residents rather than a signal for any NT activity. Ultimately, we expect current office assets to remain so as long as occupancy stays strong – remaining office assets are ~94% leased.

Terreno Realty Corporation - TRNO. We met with W. Blake Baird, Chairman and CEO; Mike Coke, President; and Jaime Cannon, EVP and CFO. Key takeaways include:

- **Cap rate impact from higher interest rates.** Management expects that TRNO will be able to continue to deploy capital even if rising interest rates portend higher cap rates given its focus in historically higher rent growth markets. Replacement costs may be a bigger factor as it evaluates opportunities in some of its submarkets.
- **More exposed to consumption vs. trade.** TRNO's infill portfolio in its six coastal markets is more leveraged to consumption patterns than global trade. Accordingly, any potential slowdown in trade due to policies of the incoming administration will likely have little impact. Management suggested that certain assets in Miami and the JFK airport submarket in New York represent the bulk of the exposure to global trade, which we suspect would represent <15% of TRNO's portfolio.
- **Portfolio mark-to-market.** TRNO's portfolio mark-to-market should remain at the high-single-digit level through 1H17. However, this could prove conservative given continued market rent growth. For instance, 2016 YTD spreads have outperformed management's expectations given the strength in Seattle, San Francisco and the D.C. Metro.

APARTMENTS

AvalonBay Communities, Inc. - AVB. We met with Kevin O'Shea, CFO; Sean Breslin, COO; and Jason Reilly, Director, Investor Relations. Key takeaways from our meeting include:

- **Supply in AVB's markets.** Supply growth in AVB's markets is projected to increase to 2.1% in 2017 from 1.6% this year, though delays could decrease forecasts by 20-30 bps. The 2.1% increase is composed of a 3% increase in urban markets (vs. ~2% in 2016) and a 1.6% increase in suburban markets (vs. 1.3% in 2016). In NoCal, supply is projected to increase to 2.3% from 1.8%. SoCal supply is projected to remain below average at ~1.5%, with pockets of above average increases (e.g., Irvine). Supply growth in D.C. is increasing in 2017 vs. 2016 with notable increases in the District; in the suburbs, Maryland will be disproportionately impacted relative to NoVA, though Tysons will continue to get heavy supply next year.

- **Development.** AVB plans to maintain its development pipeline toward the low end of its targeted range of 10-15% of enterprise value. Despite headwinds from new supply, rents on lease-up properties are 8% above management's initial underwriting; at AVB's sizeable AVA DoBro project in Brooklyn, rents are 6% above initial underwriting.
- **Debt costs have increased.** While spreads have tightened a bit, the move in the 10-Year has resulted in a 50 bps increase in AVB's cost of debt.

Camden Property Trust - CPT. We met with Ric Campo, Chairman and CEO, and Kim Callahan, SVP of Investor Relations. Key takeaways from our meeting include:

- **Cap rates and interest rates.** Management suspects the 10-Year treasury yield would have to reach 4-5% before there would be upward pressure on multifamily cap rates.
- **Houston likely remains a drag NT; signs of light in the job market.** CPT reiterated that Houston apartment fundamentals will remain challenging in 2017 as new supply is delivered, though job losses have likely bottomed. While the Company is going through its budgeting process, revenue growth could be down by as much as 4%. Interestingly, the Company noted that rig counts in Houston bottomed in January; that for every one increase in rig count, 200 jobs are created; and that cost efficiencies have made drilling profitable in select oil basins at $35 (e.g., Permian basin). Management also noted that the medical center in Houston has 10K-15K jobs open.
- **Upbeat on D.C.** Management's tone toward apartment fundamentals in D.C. was upbeat, and it suspects the new administration will be a net positive for the market.
- **Other Sun Belt markets.** While revenue growth across CPT's Sun Belt markets will likely decelerate from elevated levels in 2017, revenue growth should remain above its LT average in the 3-4% range.
- **Tech package.** CPT plans to continue to roll out 5K units/quarter through 2017, which should complete its initial roll-out across the portfolio. The positive impact on revenue growth in 2017 could be lower than 100 bps and 50 bps positive impacts to revenue and NOI, respectively, in 2016. Management does not plan to push through a second round of increases related to its tech package until it has fully rolled out its first round across the portfolio, but noted rates being charged to tenants are ~30% below market.
- **Hitting the pause button on dispositions.** Following significant disposition activity in 2016, management plans to hit the pause button on additional sales in the NT, but would consider asset trades to the extent opportunities arise. The Company could sell $100M-$150M of assets in 2017 before triggering a special dividend.

Education Realty Trust, Inc. - EDR. We met with Randy Churchey, Chairman and CEO; Bill Brewer, EVP and CFO; and Drew Koester, SVP of Capital Markets and Investor Relations. Key takeaways from our meeting include:

- **Development update.** Management was confident that 2018 development deliveries could reach at least $400M based on its existing backlog. Newly added projects would likely be off-campus opportunities, including a mix of joint venture and wholly owned projects. Yields remain in the 6.75-7% range. The $80M deal at Cornell is still expected to receive the necessary permits by year end, and is still on track for delivery in 2018 at this point.
- **ONE Plan opportunities.** The University of South Carolina is running an RFP for a 2,200-bed on-campus development. EDR previously won the right to negotiate with this university on a prior on-campus development project, though the two parties could not reach an agreement on terms, and the project was ultimately developed and delivered late by a third party. Separately, EDR expects the University of California system to announce an RFQ next week. EDR plans to evaluate the opportunity, which could initially be for 14K beds, although it remains unclear if management is interested in owning the properties under its ONE Plan structure.
- **New Mexico State third-party deal.** Management indicated its New Mexico State deal includes the development of 2K on-campus beds, and the renovation of 200-300 existing beds on campus that could result in $5M-$6M of third-party development fees booked from 2018-2020, and $500K of recurring management fees.
- **University of Missouri and Oklahoma.** EDR is budgeting occupancy to remain flat at 80% at the University of Missouri for the 2017/2018 school year given uncertainty surrounding future enrollment trends; 2016 enrollment declined 8% overall, including a 15% decrease in incoming freshman. The University of Oklahoma is expected to rebound from its ~60% occupancy achieved for the 2016/2017 school year in 2017/2018. The revenue impact from these two schools is expected to be $1.5M-$2M in 2017.

MAA, Inc. - MAA. We met with Eric Bolton, Chairman and CEO; Al Campbell, EVP and CFO; Tom Grimes, EVP and COO; Rob DelPriore, EVP and General Counsel; Tim Argo, SVP, Director of Finance; Brad Hill, SVP, Director of Multifamily Investing; and David Ward, EVP and CIO at PPS. Key takeaways from our meeting include:

- **PPS integration update.** MAA is nearly complete with organizational structure changes, but it remains very early in the integration of back office systems, which could take six to nine months. Early indications suggest operating upside across Post's portfolio could be better than what is factored into management's initial underwriting. The deal is on track to close in early December.
- **Redevelopment.** MAA plans to spend at least $25M-$30M on redevelopment in 2017, and is considering increasing this amount due to its larger platform. The Company has identified 10K PPS units targeted for redevelopment and an additional 10K-15K units within its legacy portfolio. MAA typically spends $4,500/unit with rent increases of ~$90/month.
- **Debt prepayment.** MAA is evaluating a $400M-$500M bond issuance in 2017 in order to prepay $150M of legacy PPS debt and $200M-$250M of MAA debt maturing in late 2017 at a positive 20-30 bps spread. Management did not include any interest expense savings in its initial underwriting, although any lag between issuance and prepayment could limit upside in 2018.
- **Capital recycling.** Annual disposition volume could be in the $200M-$400M range, with initial sales focusing on achieving portfolio management objectives, and a LT focus on selling older, slower growth assets with above average capex needs. Atlanta and Dallas are target markets for disposition and, ultimately, Las Vegas, given MAA's limited scale (two properties). Proceeds will be used to fund ongoing development, redevelopment and opportunistic acquisitions (outside Atlanta and Dallas).

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- **Sun Belt fundamentals.** Management expects 2017 revenue growth will decelerate vs. 2016, though supply growth is projected to remain consistent with 2016 and moderate in 2018. Dallas, Atlanta and Nashville are expected to produce above average new supply growth in 2017.

HEALTHCARE

Healthcare Realty Trust Incorporated - HR. We met with Todd Meredith, EVP of Investments; Doug Whitman, EVP of Corporate Finance; and Kris Douglass, CFO. Key takeaways include:

- **Limited exposure to ACA reform/repeal.** Though the outlook for the ACA remains uncertain, management suspects any changes will most likely focus on access to care and would most impact those states that expanded Medicaid; the Company's underwriting has historically attempted to limit Medicaid exposure and only ~40% of the portfolio is located in expansion states.
- **Focus on CYH.** HR owns four buildings on two CYH health systems campuses in Gadsden, AL, and Cleveland, TN. Though management considers them a part of the non-core portfolio, the highly publicized distress at CYH has put any potential sale on the back burner; nonetheless, the team is satisfied with its performance, as occupancies are in the 75-80% range and the associated health systems are performing better than CYH overall, in management's estimation. Additionally, the team noted that CYH is in the market selling a $100M-$200M MOB portfolio, though it is not a great fit for HR.

LTC Properties, Inc. - LTC. We met with Wendy Simpson, Chairman and CEO; Clint Malin, CIO; Pam Kessler, CFO; Brent Chappell, SVP of Investment and Portfolio Management; and Cece Chikhale, Controller and Treasurer. Key takeaways include:

- **Color on the bundled payments initiative.** ~10 of LTC's properties currently take part in the CJR bundled payments study. Management expects SNF operators will see increasing challenges from increasing exposure to bundled payments. LTC believes most of its regional operators possess both the scale and flexibility to effectively prepare, though smaller operations (i.e., local mom and pop's) may be at a disadvantage given the large capital requirements necessary to upgrade systems.
- **On the SNF portfolio.** Management remains confident in its current SNF portfolio, but it did not rule out a few one-off sales of SNF assets outside of its core geographies. The Company also indicated that the most attractive use of any proceeds from potential sales would be to fund the development pipeline; LTC currently has ~$80M of forward development commitments.

Medical Properties Trust, Inc. - MPW. We met with Emmett McLean, COO; Charles Lambert, Director of Finance; and Tim Berryman, Head of IR. Key takeaways include:

- **Confidence in Adeptus business model.** MPW remains ADPT's largest creditor and management believes the underlying business remains both viable and attractive, noting that ~90% of the procedures conducted in ADPT facilities are too acute to be handled in an urgent care setting. The Company currently has $88M in committed development with ADPT, including three acute care hospitals: one in Dallas, TX, joint ventured with Tenet; one in Houston, TX, which does not have a joint venture partner yet; and one in Mesa, AZ, partnered with Dignity Health.
- **Operational challenges at Ernest LTACHs.** Four of Ernest Health's LTACHs are facing operational difficulties, one of which is apparently quite severe. MPW believes the issues are due to inefficient patient mix, possibly due to the small size of the markets in which the properties operate. Ernest is currently exploring options to convert these beds to IRFs or even potentially add them to acute care beds in partnership with a local hospital partner; MPW does not anticipate a need for any sort of rent abatement at this time.
- **Limited impact from potential changes to ACA.** MPW noted that its hospitals saw little/no positive impact from ACA implementation in 2014 and management anticipates no negative impact from the recent presidential election on its business or the broader transaction environment for hospitals. Further, the team noted that the portfolio has only 12% exposure to Medicaid, with the remainder being Medicare and private pay; additionally, the Company's European exposure (currently 25% of revenue) helps to offset any minimal exposure to potential ACA headwinds.

Physicians Realty Trust - DOC. We met with John Thomas, CEO; Jeff Theiler, CFO; Deeni Taylor, EVP of Investments; and Mark Theine, SVP of Asset and Investment Management. Key takeaways include:

- **On CHI and Dignity.** The Company continues to view the potential CHI and Dignity Health tie-up as a net positive: 1) Dignity's strong balance sheet and CHI's larger scale as a combined entity would have a stronger balance sheet and better negotiating power with insurance companies; and 2) the combined entity would likely be a better tenant credit (at least from the standpoint of guarantor coverage). Though Dignity does not own many of the MOBs it operates in, DOC believes CHI will continue to refine its portfolio and expects the hospital operator could bring several hundred million dollars worth of assets to the market in the future.
- **On current competition for assets.** The Company primarily runs into PE companies in auctions, rarely other REITs, though management mentioned running into HCP more often recently. The team suspects the influx of private equity capital is one of the main drivers of frothy yields currently in the market. In the wake of the highly competitive transaction market, as well as increased uncertainty in the wake of the recent presidential election, management indicated it may take a brief pause to assess the current transaction market and economy, though it expects any slowdown in its investment pace would be offset by accelerated activity in 2H17.
- **Avoiding development risk.** Management reiterated its lack of interest in bearing development risk, instead preferring its strategy of offering mezz financing to developers in exchange for a call option on the property once it is 90% preleased; the Company's mezz financing typically yields a 150 bps spread to comparable acquisitions.

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Ventas Inc. - VTR. We met with Debra Cafaro, Chairman and CEO; Bob Probst, CFO; and Ryan Shannon, IR. Key takeaways include:

- **Election uncertainty offers puts and takes across the portfolio.** Management noted that a full repeal of the ACA would negatively impact the acute care space if the number of insured people declines, a particular concern in the 19 Medicaid expansion states; ~one-third of Ardent's properties are in expansion states. However, the Company expects this tailwind could well be counterbalanced by the reversal of the reimbursement cuts used to pay for the initial expansion. Separately, the team was optimistic about the prospects for the new Wexford biotech portfolio.
- **Additional color on KND SNF deal.** The agreement provides KND with a strategic exit to the SNF business and gives clarity on the remaining LTAC leases; in return, VTR locked in a very attractive 7% disposition cap rate on a vintage SNF portfolio showing signs of distress, which appears to be a clear win, in our view. Management was quick to note the 7% cap rate does not reflect current market rates for SNFs, but rather was evidence of the strength of VTR's structuring and negotiating expertise. The agreement is expected to yield ~$600M in gains for VTR, which it may use to fund Wexford developments, though the Company retains the flexibility to recycle them into potential acquisitions (via 10-31 exchange) or even a special dividend.

Welltower Inc. - HCN. We met with Tom DeRosa, CEO; Scott Brinker, CIO; and Kevin Tyler, VP of Investments. Key takeaways include:

- **Focus on GEN.** In the wake of the recently announced GEN disposition transactions, including both the Lindsey Goldberg and Cindat deals, HCN's GEN exposure is expected to fall to ~5% of NOI, and management thinks it could go lower in 2017. In addition to the well-known challenges at GEN, management's efforts to reduce government-pay exposure were a key rationale behind the transactions. Though a potential GEN transaction had been in the works for ~12 months, the eventual announcement was held up by HCN's focus on managing the timing and use of proceeds to avoid unnecessary dilution or the prospect of a special dividend.
- **Spotlight remains on operating senior housing and MOBs located in infill markets.** Management believes the greater operational risk inherent in the RIDEA structure can be mitigated by actively supporting the joint venture operations (not just the real estate). As an example, HCN currently runs a program that allows its operators to consolidate their food purchasing to take advantage of economies of scale; additionally, the Company is facilitating discussions among operators to potentially develop a floating labor pool system across different operators in close proximity. LT, management envisions the Company maintaining its focus on operating senior housing and MOBs, while further positioning the portfolio toward urban cores where management expects inexorable demographic tailwinds will drive increasing market penetration as well as superior returns.

STORAGE

CubeSmart - CUBE. We met with Chris Marr, CEO; Tim Martin, CFO; and Charlie Place, Director of Investor Relations. Key takeaways include:

- **Fundamentals, early read on 2017.** CUBE has not experienced any change in demand or customer behavior; discounting remains lower YOY within the Company's portfolio, and occupancy remains at peak levels. That said, management suggested that fundamentals should moderate in 2017 vs. 2016.
- **Operating expenses.** Real estate taxes are expected to increase 4-8% in most markets over the next two to three years. In addition, the Company anticipates modest wage pressures, and noted that winter related expenses (e.g., utilities, snow removal) will be very tough in early 2017.
- **C/O appetite.** Management characterized its appetite for new C/O deals as "tepid," as seller expectations remain high and the Company's cost of capital has increased alongside the stock's pullback. Management estimates the Company will incur at least $0.03/sh of dilution from development and C/O activity in 2017, which compares to $0.03/sh in 2016.
- **Market by market.** Management expects more supply to be delivered in 2017 vs. 2016, particularly in Charlotte, Denver, the New York MSA and all four major Texas markets. Below average new supply is expected in California, Florida (excluding Miami), Boston, Philadelphia and the D.C. Metro.
- **New York MSA.** Without giving guidance, management commented that its New York MSA assets will likely perform below average from a same-store perspective in the year ahead, though it would be unlikely to see negative revenue growth on average.

Extra Space Storage Inc. - EXR. We met with Spencer Kirk, CEO; Joe Margolis, CIO; and Jeff Norman, Senior Director of Investor Relations. Key takeaways include:

- **Fundamentals.** Management commented that the Company has not experienced a meaningful change in demand across its portfolio. Net rentals were slightly lower YOY in October, though management pointed to a tough comparable in October 2015, when the Company recorded its first October of positive net move-in activity.
- **On discounts and promotions.** The percentage of new customers receiving a discount is up YOY, though the actual dollar value of discounts is up less meaningfully (+20 bps).
- **On external growth and redevelopment.** After two banner years of acquisition activity, management suggested that 2017 should look a lot more like 2012-2014 in terms of external growth (i.e., ~$500M or less). The Company appears to be placing a greater focus on redevelopment, and believes the risk-adjusted returns on expansion and redevelopment projects within the portfolio may be attractive.
- **Double-digit FFO growth.** Management remains focused on generating double-digit FFO growth. EXR's leverage is at the high end of the Company's target (i.e., 4-6x on a net debt/EBITDA basis), and it does not expect to meaningfully increase leverage above current levels.

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Life Storage, Inc. - LSI.

We met with David Rogers, CEO; Andy Gregoire, CFO; Ed Killeen, CIO; and Diane Piegza, Director of Investor Relations. Key takeaways include:

- **Fundamentals.** Management commented that it has not seen a material decline in demand and that occupancy levels have held fairly steady as we head into the slower seasonal months. Occupancy at the end of October was higher by 50 bps YOY, and management anticipates free rent in 4Q16 coming in higher by ~$600K YOY.
- **Texas.** The Company pointed to price competition, increased use of discounts and promotions as a driver of slowing rent growth in Texas. Asking rents in Houston are lower YOY by 5%, and management expects its Houston portfolio to experience negative revenue growth for a few quarters through mid-2017 (+1.9% in 3Q16).
- **On web traffic.** Management noted that web reservations "are down a bit" and there has been a slight increase in the "bounce rate," indicating that prospective renters are spending less time on LSI's website than in prior quarters. It is experiencing this trend more in Texas, but it commented that it is happening in other markets as well.
- **On rebranding and integrating Life Storage.** LSI's Buffalo and Chicago properties have been rebranded; Southern California is slated to be completed this week and Colorado will be completed next week. Management expressed that the rebranding has been nicely timed with the end of peak leasing season. Search engine optimization for the LSI transition has gone well and management remains enthusiastic about its ability to transfer web traffic to the new Life Storage website.
- **Hitting the yield on Life.** Management reiterated that it expects to achieve a year-one yield of 4.6% (including the lease-up properties) on the $1.3B Life Storage acquisition, a slight decrease from 4.7% when the acquisition was initially inked. The Company forecasts 10% NOI growth in Sacramento and the three Los Angeles stores, with the rest of the portfolio realizing ~6% NOI growth; the Houston portfolio will fall short of 6%, and was the primary reason for the slight decrease in yield.
- **C/O and investments.** LSI is not looking at new C/O or acquisition opportunities today, and management commented that it may walk away from three C/O deals in Austin and forego its ~$2.5M deposit on those developments.

National Storage Affiliates Trust - NSA. We met with Arlen Nordhagen, CEO; Tamara Fischer, CFO; and Marti Dowling, Director of Investor Relations. Key takeaways include:

- **Continued outperformance.** Management commented that the NSA portfolio should continue to operate at the high end of the sector over the next two to three years due to occupancy and rate tailwinds within the portfolio. On a seasonally adjusted basis, management believes there is roughly 50-100 bps of occupancy to gain in 2017. Given NSA's lower nominal rates relative to its public company peers, existing customer rent increases in the high-single digits may continue and are likely to see relatively less push-back compared to higher dollar value rent increases.
- **New supply.** Management estimates that 10% of the stores in the portfolio will experience new supply pressures by the end of 2017, as measured within a three-mile radius of existing facilities.
- **Cap rates.** Cap rates in most markets are roughly flat and they are not compressing further, though management has not experienced any increase in cap rates on deals it is underwriting. There remains a significant bid from private equity investors in the self storage space.
- **Portfolio growth.** NSA expects to add between one and three new PROs next year and believes it can complete a reasonable amount of third-party acquisitions; management noted that it would like to grow the Company's asset base by 10-20%/year.
- **Leverage rising.** Management estimates that the Company's net debt/EBITDA will be approximately 7x at the end of 2016, which is at the high end of management's comfort range.

REGIONAL MALLS

The Macerich Company - MAC. We met with Tom O'Hern, CFO, and Jean Wood, VP of Investor Relations. Key takeaways include:

- **Watch list thins.** Management indicated that its tenant watch list seems smaller heading into 2017 as compared to both 2015 and 2016.
- **E-tailers and retailers taking space.** Like others, the Company continues to see an increase in demand from e-tailers including Peloton, Shinola and TrunkClub. Zara remains in the market for space and is looking for larger, two-level boxes in many cases. In addition, management noted that the feedback regarding Primark's first batch of U.S. stores has been positive and expects the Company to continue expanding.
- **Category shifts.** Over the last 10 years, MAC's top 30 centers have seen food use increase from 9.6% to 12% and apparel decrease from 33.4% to 30.1%. Theaters and big-box tenants (e.g., TJX, Dick's) have also seen their share of GLA in MAC's malls increase, and management expects these trends to continue.

Tanger Factory Outlet Centers, Inc. - SKT. We met with Jim Williams, CFO; Tom McDonough, COO; and Cyndi Holt, VP of Investor Relations. Key takeaways include:

- **Fundamentals.** Based on recent press, management expects that Kenneth Cole will close its five SKT stores totaling 20ksf in the coming months. Currently, management has visibility on a total of 40ksf of 2017 store closures (including Kenneth Cole), and expects that may grow to 100-150ksf over the course of the year, which is roughly in line with 2015 and 2016 levels of store closure activity.
- **New demand.** The Company is seeing good demand from homegoods retailers including Restoration Hardware, West Elm and Kirkland's, while also expanding its food use offerings.

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- **Developments.** Management continues to expect 9-11% stabilized development yields, and is comfortable it can continue to deliver one to two new projects over the coming years. In 2015, management increased its preleasing threshold from 50% to 60% in order to reduce development risk.

Taubman Centers, Inc. - TCO. We met with Simon Leopold, CFO, and Ryan Hurren, Director of Investor Relations. Key takeaways include:

- **Developments on track.** The four projects identified by management that will generate $40M-$45M of incremental NOI in 2017 remain on track. South Korea seems to be tracking ahead of management's expectations, with stabilization anticipated for 2018 – a year ahead of schedule. The project may be close to the 8% stabilized yield as early as year-end 2017. Both projects in China are roughly 100% leased and management expects occupancy at International Marketplace to be roughly 90% leased by year end and 100% leased by mid-2017.
- **San Juan.** Management indicated that the yield on San Juan continues to trend higher and that the contribution from the center will be greater in 2017 than 2016. The center is nearly 90% occupied and management indicated that the Company has formed an alliance of sorts with transportation (e.g., taxis, Uber), which has driven an increase in traffic in recent months.
- **Beverly Center.** Management reiterated that tenants continue to embrace the reimagination of the center; there will be some tenant rotation and NOI disruption in 2017, though the aggregate impact appears to be less than $5M. The ground floor restaurants are slated to begin opening in late 2017 with the majority of the openings taking place in mid-2018.

SHOPPING CENTERS

American Assets Trust, Inc. - AAT. We met with Ernest Rady, CEO, and Bob Barton, CFO. Key takeaways include:

- **Acquisition environment.** Management commented that it has started to focus more on acquisitions than it has over the last several years, and remains hopeful that market volatility could result in new investment opportunities for AAT.
- **Waikele Center.** The Company remains bullish on the redevelopment opportunity at the center resulting from the combined recapture of the Sports Authority (50ksf) and Kmart box (120ksf). Rents are expected to roll down on a net effective basis and management is in the process of contemplating a number of options to remerchandise and reposition the center. Management's 2017 FFO guidance assumes Kmart will close its store by the end of the year, but will continue to pay rent ($38/ft) through mid-2018 when the lease expires.
- **ICW move-out.** ICW's lease at Torrey Reserve expires next month (~80ksf); management will begin to reposition the asset by upgrading the amenities and modernizing the space and expects to begin signing leases with tenants in August of 2017. With an estimated five months of free rent factored in, management's guidance includes no base rent will be realized for 2017.
- **Upgrading Loma Palisades.** Management is beginning to renovate the 548-unit coastal apartment property in San Diego; the Company anticipates spending $5K-$7K/unit at turn for modest updates, but is committed to spending $6M (~$300K/unit) to gut renovate 20 prime units within the facility to test the market's appetite for higher-end luxury units with more to follow if leasing conditions indicate positive traction.

Retail Opportunity Investments Corp. - ROIC. We met with Stuart Tanz, CEO, and Mike Haines, CFO. Key takeaways include:

- **Early read on 2017.** Given a few previously disclosed tenant move-outs, management anticipates a slight moderation in SSNOI growth in 1H17 to approximately 3-4% before reaccelerating in 2H17. In addition, the setup for 2018 seems very strong given lease negotiations management is having today that should bear fruit in future quarters.
- **Acquisition pipeline.** The Company has three assets in the pipeline today that total approximately $110M in value; all three have existing debt in-place and are being negotiated with an OP equity component. The assets are located in San Francisco, Orange County and Portland.
- **Harvesting NOI.** Management continues to see three buckets of opportunity to generate NOI, including pad opportunities ($3.5M), repositioning opportunities ($5M-$6M), and the closing of the gap between leased and occupied GLA (~$6M). Generating this NOI will require capital spend; however, it will be meaningfully accretive to NAV.

TRIPLE NET

EPR Properties - EPR. We met with Greg Silvers, CEO; Mark Peterson, CFO; Jerry Earnest, SVP and CIO; and Brian Moriarty, VP – Corporate Communications. Key takeaways include:

- **Equity locked in for 2017.** EPR pre-funded 2017 investment spending with the over-equitization of the CNL transaction. The timing and use of a two-way collar ($68.25-$82.63/sh) helped lock in financing ahead of the post-election volatility. However, given the potential for price discovery following the ~30 bps rise in the 10-Year Treasury to 2.2%, we suspect that 1H17 investment volume could be tempered – the CNL transaction locks in 34% of the $1.3B-$1.35B investment spending guidance for 2017.
- **Imagine sales.** While the tenant continues to perform, management has decided to reduce its exposure to Imagine in order to eliminate a persistent talking point and to take advantage of demand in the market. Consequently, the planned sales of $135M of Imagine Schools over the next two quarters should reduce its exposure from $190M to $50M-$75M while also removing Imagine from its top 10 tenant list.
- **AMC/Carmike merger moves forward.** Carmike stockholders approved the merger with AMC on Tuesday and the transaction is now expected to close in late 2016/early 2017. Following the merger, AMC would remain the top tenant, representing over 20% of revenues (vs. 17% at quarter end).

LODGING

Chesapeake Lodging Trust - CHSP. We met with James Francis, President and CEO; Doug Vicari, EVP and CFO; and Graham Wootten, SVP, CAO, and Secretary. Key takeaways from our meeting include:

- **Renovations.** CHSP plans to spend ~$30M on renovations in 2017, which will be concentrated at the Boston Marriott Newton, JW Marriott San Francisco and the Denver Marriott City Center.
- **4Q16 RevPAR guidance.** We suspect CHSP's implied 4Q RevPAR growth could prove conservative as management looks to regain investor confidence, and will likely take a similar approach to 2017 guidance.
- **Chicago.** Chicago lodging fundamentals remain challenged, with CHSP estimating that RevPAR growth could be flattish in 2017. Management noted the 1,200-room Marriott Marquis in Chicago will be delivered in late 2017 and will likely initially be a headwind.
- **San Francisco.** CHSP reiterated that 2017 will be challenging, particularly in the 2Q and the 3Q. However, it did note that it is seeing improving traction in group bookings in 2018, and citywide room nights are at ~1.1M in 2019.
- **Buybacks.** While stock buybacks are not off the table with the stock trading near undepreciated book value, management plans to remain thoughtful about future buybacks given their size, limited float and difficulty underwriting in the current environment.

DiamondRock Hospitality Company - DRH. We met with Mark Brugger, CEO. Key takeaways from our meeting include:

- **2017.** DRH is budgeting to remain defensive on the revenue management front in 2017, and we suspect will provide conservative initial 2017 guidance, though management appeared more upbeat about the prospects for improving lodging demand into 2018 based on potential policy shifts coming off the election. A pickup in business transient demand would be the first sign of improvement in lodging fundamentals, particularly across DRH's special corporate accounts.
- **Relative RevPAR growth.** Given continued supply pressure, management suspects the top 15/25 lodging markets will likely underperform the overall industry, though expects its limited exposure to markets with the softest fundamentals in 2017 (e.g., San Francisco, Miami and Houston) and a modest tailwind from projects previously under renovation could result in above average RevPAR growth relative to its peers, although New York City will likely remain somewhat of a drag on DRH's portfolio.

RLJ Lodging Trust - RLJ. We met with Ross Bierkan, President and CEO; Leslie Hale, EVP, COO, and CFO; and Hilda Delgado, Director of Finance. Key takeaways from our meeting include:

- **Market overview; D.C. a top market in 2017.** RLJ suspects D.C. could be its best market in 2017, and referenced 3Q16 as a good indication of what is to come next year in this market. While management expects San Francisco RevPAR growth for the overall market could be down as much as 5% in 2017, RLJ's NoCal portfolio is expected to produce positive RevPAR growth next year given its limited exposure to the downtown market. SoCal is also projected to remain relatively strong, and Chicago is expected to be less of a headwind next year.
- **Capital allocation.** While a large portfolio sale is off the table, RLJ has received interest in individual and pairs of non-core assets, and is also evaluating offshore interests in its New York City hotels. Management remains open to reinvesting in acquisitions and is evaluating stabilized, value-add and lease-up opportunities. Management targets 9-10% unlevered returns on deep turns. The Company is also open to stock repurchases, with debt repayment low on the list of capital uses today; RLJ has $150M of low-cost, variable rate debt that could be prepaid.
- **4Q RevPAR growth.** While industrywide RevPAR growth data points in November have been encouraging, management noted December group pace has been soft up until this point.

Summit Hotel Properties, Inc. - INN. We met with Dan Hansen, President and CEO; Greg Dowell, EVP, CFO, and Treasurer; and Adam Wudel, VP of Finance. Key takeaways from our meeting include:

- **ARCH transaction.** INN does not expect that ARCH will close on the remaining seven assets (651 rooms) under a purchase and sale agreement by year end, and will more likely dispose of these assets on a one-off basis. In this case, INN would receive the $7.5M earnest money deposit as well as the balance and interest on the $23M loan. The seven assets yield between 8-8.25% based off of the contract sale price of $66.8M.
- **Other potential dispositions.** Management noted that it has received interest in ~12 other properties for sale that are unrelated to the ARCH transaction.
- **Acquisition environment.** INN will continue to opportunistically pursue acquisitions, and typically takes a contrarian approach toward seeking opportunities with attractive upside.
- **Election impact.** While it remains early, management suspects that the election outcome could ultimately be a net positive for lodging fundamentals, though noted any impact will be difficult to gauge until at least mid-2017. Management is comfortable with the 0-3% RevPAR growth range for 2017, which includes the low and high end provided by industry forecasters and brands, but noted it has consistently outperformed the upscale chain scale. Local negotiated rates are expected to be in the 3-4% range vs. 6-7% last year.
- **Property taxes.** Taxes are projected to increase between 2-5% in 2017, as management remains comfortable with its ability to win appraisal appeals.

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Disclosure Appendix

Important disclosures for the companies mentioned in this report can be found at https://key2.bluematrix.com/sellside/Disclosures.action.

Please refer to the analysts' recently published reports for company-specific valuation and risks.

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Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
Overweight [OW]	301	41.18	65	21.59
Sector Weight [SW]	422	57.73	52	12.32
Underweight [UW]	8	1.09	0	0.00

Real Estate			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
Overweight [OW]	25	38.46	14	56.00
Sector Weight [SW]	36	55.38	17	47.22
Underweight [UW]	4	6.15	0	0.00

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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