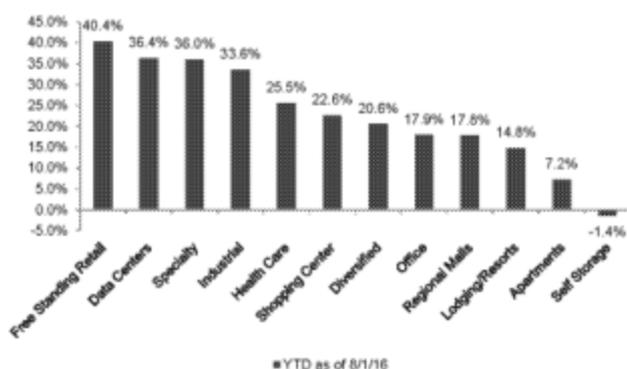




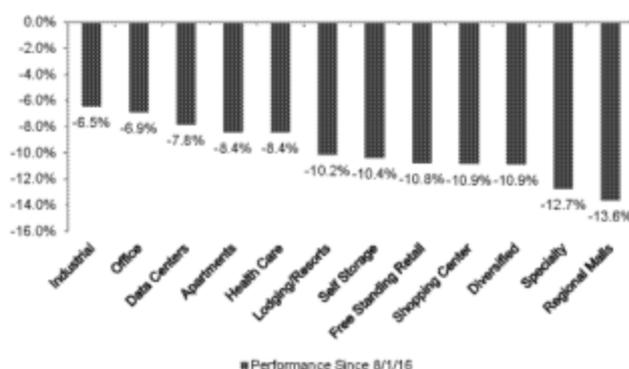
in the face of slowing rent spreads and NOI growth, while concerns about retailer health, in particular teen apparel and department stores remain in high focus. Malls as a group have dropped 14% since 8/1. Industrial, which remains an investor favorite as e-commerce demand and rational supply growth make it one of the few property types seeing improving internal growth and continued development opportunities, is up 25% YTD and down only 6.5% since early August. Healthcare, which is typically considered defensive and more yield oriented has not pulled back as much as we would have thought.

Figure 3: REIT performance pre 8/1/16



Source: Deutsche Bank, SNL

Figure 4: REIT performance post 8/1/16



Source: Deutsche Bank, SNL

...but catalysts remain elusive

While the set up is good, we aren't expecting 3Q to provide a lot of sparks to the upside as only a handful (BXP, FRT, GGP, CLI, SRC in our coverage) are expected to provide initial 2017 guidance this Q and internal growth trends are likely to slow for the Apartments, Malls, and Strips, while leasing volumes for CBD office could also moderate with D.C. in election related lock down and S.F. job growth slowing. NYC, however could surprise to the upside with JLL reporting a pickup in 3Q office net absorption versus the past few quarters. SLG also reported YTD leasing activity as of mid-September that suggested another strong quarter of leasing in 3Q.

Data Centers remain our favorite property type

Data center leasing volume, recently driven by accelerating hyper-scale cloud demand, has also come into question as there has been some discussion of a near-term pullback in demand from this group. Additionally, there could again be some flow through concerns as any 3Q leasing activity is unlikely to have a significant impact on 2016 revenues given commencement timing. CONE, which has been one of the biggest beneficiaries of the aforementioned hyper-scale cloud demand, could see the biggest deceleration in volumes in our data center coverage from recently-elevated levels, but we think this is already reflected in the 14% decline in the shares since 8/1. CONE also remains the cheapest on AFFO, despite its recent equity raise that took leverage down to the mid-4x range. We also think expectations for DLR are low, with leasing activity trailing its peers for most of the post Telx acquisition period, still no backfill for the head of sales role, and the stock off 10% since early August. If