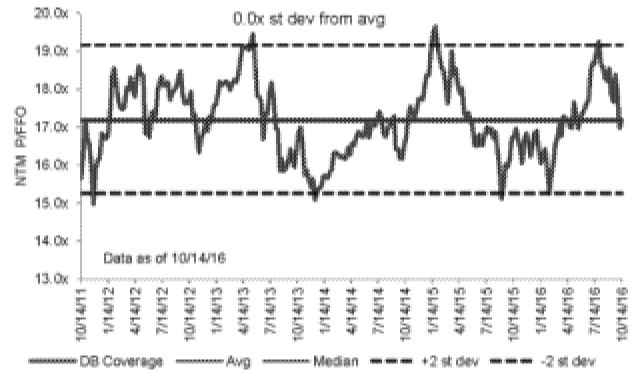
Rising yields weighing on REIT stocks

Following a strong start to 2016 that saw the RMZ deliver a 19% total return through 8/1, the REITs have since traded off, down 10% through 10/14. The decline coincides with a 30bps rise in the 10-year yield and an increase in the probability of a December rate hike to 66% from 37%. While painful, the move has reset valuations which now appear much healthier. Our coverage is now trading at a 5.6% implied cap rate, a 7% discount to consensus NAV (8% discount to DBe), roughly in-line with historical FFO and FAD multiples, and a still wider (44bps) dividend yield spread to the 10-year. As we have stated in the past, we think the REITs remain in macro limbo, with expectations regarding yields and overall risk appetites, trumping bottom up trends. However, the DB house view, which calls for muted GDP growth, a stable 10-year environment, no recession through 2017, and REIT valuations now much less aggressive, we think the stocks have a little room to run if 3Q can exceed low expectations.

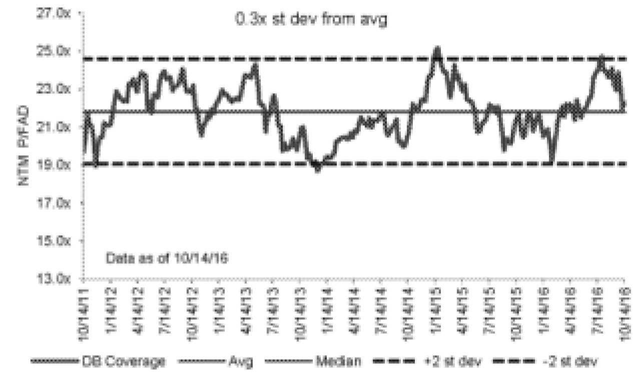
Figure 21: NTM P/FFO



Data is based on consensus estimates

Source: Deutsche Bank, SNL

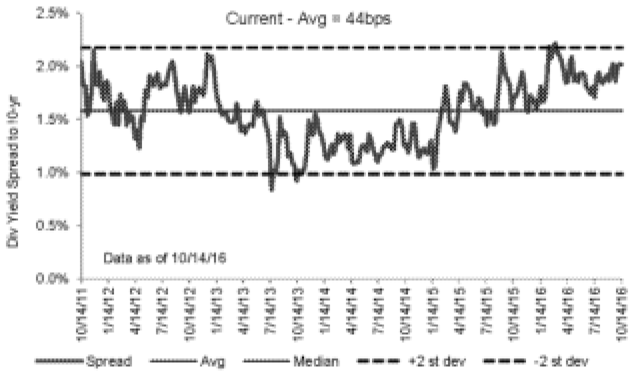
Figure 22: NTM P/FAD



Data is based on consensus estimates

Source: Deutsche Bank, SNL

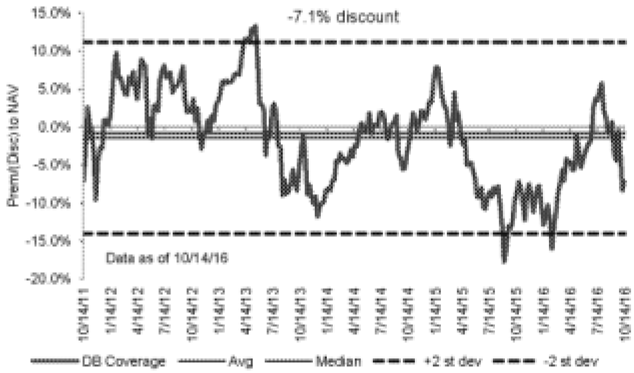
Figure 23: Dividend Yield Spread to 10-year



Data is based on consensus estimates

Source: Deutsche Bank, SNL

Figure 24: Premium/Discount to NAV



Data is based on consensus estimates

Source: Deutsche Bank, SNL