



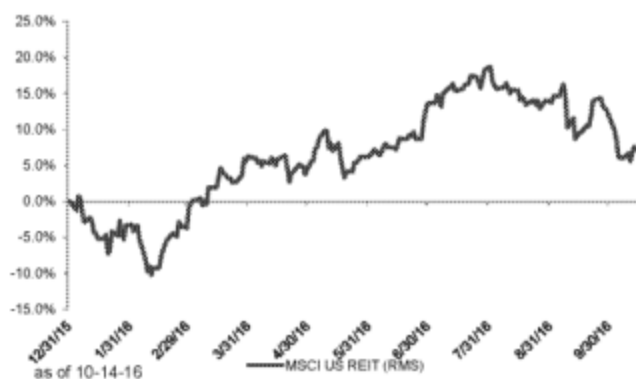
REIT 3Q16 preview

Set up into 3Q better than it's been in a long time...

Broad-based sell-off since 8/1/16

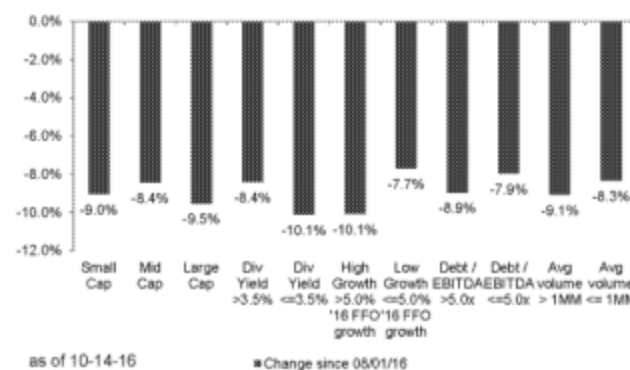
Since the YTD peak on 8/1, the RMZ has dropped by almost 10% versus a 1.3% drop for the S&P500. Uncertainty regarding the direction of rates remains an issue with the 10-year yield ranging from as low as 1.50% to as high as 1.80% over that time. Concerns ranging from the potential for nearer-term rate hikes, the impact of the U.S. election, and to the probability of a recession have all been cited as reasons for the weakness, but overall the market's taste for yield appears to have diminished since early August with the S&P Electric Utilities Index also falling over 7%. The pullback in the REITs could also simply reflect profit taking on a group that has outperformed for most of the year and was trading almost 2 standard deviations above historical multiple averages at the YTD peak established on 8/1. With the stocks now back in line with historical multiples, our coverage trading at an 8% discount to NAV, and with low expectations into the Q, we think the setup for the group is better than it's been in a while.

Figure 1: YTD RMZ performance



Source: Deutsche Bank, SNL

Figure 2: Performance by risk bucket since 8/1/16



Source: Deutsche Bank, SNL

Property sector performance more nuanced

The market's improving economic outlook has helped reduce near-term recession fears and pushed 10-year yields higher over the past few months, which has led to significant underperformance of Freestanding Retail (triple nets), which have fallen 11% since 8/1 but remain a top performing sector YTD at +25%. Other more economically sensitive property types like Office and Apartments, which were some of the weakest performers earlier in the year, have done "less bad" in the post 8/1 period down only 7% and 8.4%, respectively.

While yield concerns have weighed on REITs overall over the past few months, performance by property type was not just yield driven, with Data Centers falling almost 8% since 8/1 after running up 36% YTD up to that point. Concerns about a near-term pullback in hyper-scale cloud demand and the lack of near-term flow through from recent leasing activity drove some profit taking in a group that remains up over 25% YTD. Malls have also fared poorly