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REITS

Mirror, Mirror: 2Q16 Revisions to Apartment Same-Store Estimates

We are updating our 2016 and 2017 same-store NOI, revenue, and expense growth estimates for the 8 major apartment REITs following 2Q16 earnings (see Figure 1). Importantly, our estimates continue to be predicated on a US economy (including job growth) and interest rates similar to today going forward. We are also not expecting any significant benefit in 2017 from the “odd year bounce” of the last few years. On a weighted average basis, we now expect 4.8% SS revenue growth and 5.5% SS NOI growth for the peer group in 2016 (-10bps from last quarter), and 4.0% and 4.4% in 2017 (-10bps from last quarter), respectively.

- AIMCO (AIV) – Management SS NOI growth guidance is +5.5% to +6.5%, with a YTD actual of +5.5%. We are expecting +4.6% SS revenue growth and +5.7% SS NOI growth in 2016, and +4.0% and +4.4% in 2017. Our 2016 estimates are consistent with our previous estimates (following 1Q16 earnings), while our 2017 NOI estimate improved 30bps.
- AvalonBay (AVB) – Management SS NOI growth guidance is +5.0% to 5.75%, with a YTD actual of +6.4%. We are expecting +4.7% SS revenue growth and +5.6% SS NOI growth in 2016, and +3.9% and +4.3% in 2017 based on additional softening in NYC and SF. Our 2016 estimates have been revised downward (consistent with AVB’s own guidance), while our 2017 estimates are marginally lower (-10bps).
- Camden (CPT) – Management SS NOI growth guidance is +4.0% to +4.5%, with a YTD actual of +5.1%. We are expecting +4.2% SS revenue growth and +4.4% SS NOI growth in 2016, and +3.8% and +4.0% in 2017. Our 2016 estimates have been revised slightly upward on lower expenses, while our 2017 estimates remain unchanged.
- Equity Residential (EQR) – Management SS NOI growth guidance is +3.75% to 4.25%, with a YTD actual of +5.9%. We are expecting +3.7% SS revenue growth and +4.2% SS NOI growth in 2016, and +3.6% and +3.8% in 2017 based on additional softening in NYC and SF. Our 2016 estimates have been revised downward (consistent with EQR’s own guidance), while our 2017 NOI estimate is now 40bps lower.
- Essex (ESS) – Management SS NOI growth guidance is +7.7% to +8.5%, with a YTD actual of +8.5%. We are expecting +6.9% SS revenue growth and +8.4% SS NOI growth in 2016, and +5.4% and +6.4% in 2017 based on additional softening in NoCal. Our 2016 estimates have been revised downward by 20bps (ESS also lowered its guidance), while our 2017 estimates are roughly flat as we had been expecting some reversion to the mean on the West Coast next year.
- Mid-America (MAA) – Management SS NOI growth guidance is +4.75% to +5.25%, with a YTD actual of +6.4% (note: MAA is 1 of 2 to raise their SS NOI guidance this year). We are expecting +4.3% SS revenue growth and +5.0% SS NOI growth in 2016, and +3.7% and +4.0% in 2017 as MAA has more difficult occupancy comparisons going forward. Our 2016 NOI growth has been revised upward by 70bps on both higher revenue and lower expense growth, while our 2017 NOI estimate is now 30bps higher given our expectations of continued strength. Our numbers for 2017 do not include PPS.
- Post (PPS) – Management SS NOI growth guidance is +2.5% to +3.3%, with a YTD actual of +2.9% (note: PPS is the other that raised their SS NOI guidance this year). We are expecting +3.1% SS revenue growth and +2.7% SS NOI growth in 2016, and +3.1% and +2.7% in 2017 for the legacy PPS portfolio (PPS’ announced acquisition by MAA should close by YE2016). Our 2016 NOI growth has been revised upward by 40bps on slightly higher revenue and 30bps lower expense growth.
- UDR (UDR) – Management SS NOI growth guidance is +6.5% to +7.0%, with a YTD actual of +6.8%. We are expecting +5.6% SS revenue growth and +6.6% SS NOI growth in 2016, and +4.2% and +4.7% in 2017, making UDR second to only ESS in terms of expected 2017 performance. Our 2016 NOI growth remains in-line with our previous expectations, while our 2017 NOI estimate is now 60bps higher given our expectations of continued strength in UDR’s non-core markets.
- Buy-rated AIV, MAA, and EQR remain our favorite names in the apartment REIT space.

Figure 1

Apartment REIT 2016 Same-Store Guidance and Current Janney 2016 and 2017 Expectations

	AIV	AVB	CPT	EQR	ESS	MAA	PPS	UDR	Weighted Average
2016 Full Year Guidance									
SS Revenue Growth Y/Y	4.5%-5.0%	4.25%-4.75%	3.85%-4.35%	3.5%-4.0%	6.5%-7.5%	4%-4.5%	3.0%-3.3%	5.5%-6.0%	4.7%
SS Expense Growth Y/Y	1.75%-2.25%	2.0%-2.75%	3.5%-4%	2.5%-3.0%	3.25%-4.25%	2.5%-3.5%	3.3%-3.7%	3.0%-3.5%	2.9%
SS NOI Growth Y/Y	5.5%-6.5%	5.0%-5.75%	4%-4.5%	3.75%-4.25%	7.7%-8.5%	4.75%-5.25%	2.5%-3.3%	6.5%-7.0%	5.4%
6 Months YTD Actual									
SS Revenue Growth Y/Y	4.5%	5.2%	4.6%	4.4%	7.1%	4.9%	3.6%	6.0%	5.2%
SS Expense Growth Y/Y	2.3%	2.4%	3.8%	0.9%	4.0%	2.6%	4.7%	4.1%	2.6%
SS NOI Growth Y/Y	5.5%	6.4%	5.1%	5.9%	8.5%	6.4%	2.9%	6.8%	6.4%
2016 Janney Estimates									
SS Revenue Growth Y/Y	4.6%	4.7%	4.2%	3.7%	6.9%	4.3%	3.1%	5.6%	4.8%
SS Expense Growth Y/Y	2.2%	2.5%	3.8%	2.9%	3.7%	3.2%	3.7%	3.3%	3.0%
SS NOI Growth Y/Y	5.7%	5.6%	4.4%	4.2%	8.4%	5.0%	2.7%	6.6%	5.5%
2017 Janney Estimates									
SS Revenue Growth Y/Y	4.0%	3.9%	3.8%	3.6%	5.4%	3.7%	3.3%	4.2%	4.0%
SS Expense Growth Y/Y	3.2%	3.0%	3.5%	3.2%	3.2%	3.3%	3.5%	3.1%	3.2%
SS NOI Growth Y/Y	4.4%	4.3%	4.0%	3.8%	6.4%	4.0%	3.1%	4.7%	4.4%

Source: Company documents, Janney Montgomery Scott LLC

Figure 2

Janney Apartment REIT Coverage Universe with Ratings and Fair Value Estimates

	AIV	AVB	BRG	CPT	EQR	ESS	MAA	PPS	UDR	Wtd. Avg.
Common Stock Price	\$44.85	\$174.42	\$13.41	\$87.26	\$64.68	\$225.75	\$93.88	\$66.24	\$36.05	
Implied Cap Rate (pre-capex)	6.0%	4.9%	5.2%	5.9%	5.2%	4.9%	6.1%	5.3%	5.1%	5.3%
Implied Economic Cap Rate	5.5%	4.7%	5.0%	5.4%	5.0%	4.6%	5.6%	4.7%	4.8%	5.0%
Implied Apartment Price/Unit	\$231,322	\$398,111	\$163,742	\$197,629	\$410,700	\$389,590	\$136,845	\$210,613	\$329,159	\$320,708
Janney Rating	B	N	B	N	B	N	B	N	N	
Janney Fair Value Estimate	\$48	\$189	\$14	\$87	\$74	\$239	\$108	\$62	\$37	
Upside to our price target	7.0%	8.4%	4.4%	-0.3%	14.4%	5.9%	15.0%	-6.4%	2.6%	7.3%
Dividend Yield	2.9%	3.1%	8.7%	3.4%	3.1%	2.8%	3.5%	2.8%	3.3%	3.2%
Total return Implied	10.0%	11.5%	13.0%	3.1%	17.5%	8.7%	18.5%	-3.6%	5.9%	10.5%
Janney estimates:										
2015 NAREIT FFO per share	\$2.22	\$8.05	\$0.29	\$4.59	\$3.48	\$9.72	\$5.69	\$2.98	\$1.66	
2016 NAREIT FFO per share	\$2.30	\$8.35	\$0.35	\$4.53	\$2.99	\$11.00	\$5.60	\$3.22	\$1.77	
2017 NAREIT FFO per share	\$2.47	\$8.84	\$0.55	\$4.39	\$3.20	\$11.75	\$5.58	\$3.38	\$1.84	
2015 Normalized FFO per share	\$2.22	\$7.52	\$0.29	\$4.59	\$3.49	\$9.78	\$5.48	\$2.99	\$1.66	
2016 Normalized FFO per share	\$2.30	\$8.23	\$0.35	\$4.53	\$3.06	\$10.97	\$5.88	\$3.22	\$1.78	
2017 Normalized FFO per share	\$2.47	\$8.84	\$0.55	\$4.39	\$3.20	\$11.75	\$5.77	\$3.38	\$1.84	
2015 AFFO per share	\$1.87	\$7.54	\$0.25	\$3.82	\$3.25	\$9.01	\$4.97	\$2.52	\$1.50	
2016 AFFO per share	\$1.98	\$7.82	\$0.31	\$3.99	\$2.88	\$10.12	\$4.88	\$2.70	\$1.63	
2017 AFFO per share	\$2.14	\$8.28	\$0.50	\$3.81	\$3.02	\$10.88	\$4.96	\$2.88	\$1.67	
2015 NAREIT FFO multiple	20.2x	21.7x	46.5x	19.0x	18.6x	23.2x	16.5x	22.2x	21.7x	20.3x
2016 NAREIT FFO multiple	19.5x	20.9x	37.9x	19.3x	21.6x	20.5x	16.8x	20.6x	20.4x	20.2x
2017 NAREIT FFO multiple	18.2x	19.7x	24.2x	19.9x	20.2x	19.2x	16.8x	19.6x	19.6x	19.2x
2015 Normalized FFO multiple	20.2x	23.2x	46.5x	19.0x	18.5x	23.1x	17.1x	22.2x	21.8x	20.7x
2016 Normalized FFO multiple	19.5x	21.2x	37.9x	19.3x	21.1x	20.6x	16.0x	20.6x	20.3x	20.0x
2017 Normalized FFO multiple	18.2x	19.7x	24.2x	19.9x	20.2x	19.2x	16.3x	19.6x	19.6x	19.2x
2015 AFFO multiple	23.9x	23.1x	53.5x	22.9x	19.9x	25.1x	18.9x	26.3x	24.1x	22.5x
2016 AFFO multiple	22.7x	22.3x	43.7x	21.9x	22.5x	22.3x	19.2x	24.5x	22.2x	22.1x
2017 AFFO multiple	20.9x	21.1x	26.7x	22.9x	21.4x	20.7x	18.9x	23.0x	21.6x	21.1x

Source: Factset, Janney Montgomery Scott LLC

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SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

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Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	109	52.15	26	23.85
NEUTRAL [N]	98	46.89	11	11.22
SELL [S]	2	0.95	0	0.00

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