Global REITs: Sparkling But Not Too Bubbly

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Global REITs: Sparkling But Not Too Bubbly

REITs have had a great run globally but can the party go on? Is this is a bubble in the making? In this first-ever cross-border collaboration among Mizuho group analysts, we try to answer this very question by diving into the fundamentals of the REITs sector in four major global markets – the US, Japan, Hong Kong (China) and Singapore.

The answer depends on whether the underlying property sector is healthy… The news is generally good for the US and Japan. US real estate fundamentals remain favorable with moderating, yet still above-average organic growth rates driven by full occupancies, favorable demand (propped by a slowly improving economy, supportive demographics and cheap access to debt) and generally low levels of new supply. Cap rates are low, but the math relative to interest rates remains defensible. In Japan, although cap rates are also at historical low post-NIRP, rising rents have yet to break out of their long-term decline and so we don't fear a bubble. On the other hand, we think the physical property markets of China, Hong Kong and Singapore are increasingly disconnected from slowing economic growth, with some China markets clearly in bubble territory.

… And on the specific dynamics of REITs as an asset class. With demand-supply fundamentals supportive of REIT valuations, we should expect interest rates and yield spread considerations to be the marginal drivers of REIT performance going forward. Barring any policy shock, we find that the rates/yield environment remains supportive to REITs over the foreseeable future. Counter-intuitively – but because the REITs sector is much less developed in Asia ex-Japan – we find that despite bubbling property prices, the REITs market still offers value amid a scarcity of decent yield plays.

But ultimately it depends on what kind of investor you are… For the risk-averse global investor, we recommend cherry-picking in the US and Japan, with the US most preferred overall given that it is the largest and most established REIT market from a global perspective, with growing trading liquidity and conservative balance sheets that may be better equipped to deal with higher rates should they happen. For the more adventurous investor, there's a lot of value in Asia but Japan is safer thanks to a stronger property market while AEJ REITs could actually appreciate significantly from here if the property market stabilizes. This report includes a full list of our coverage recommendations and highlights the ten best Buy ideas from the team.

Timing is everything… This report is timed nearly coincident with the formation of the 11th Global Industry Classification Standard (GICS) sector for Real Estate, which broke free from the Financial sector on September 1, 2016. Hence, a larger audience of generalist investors is now being prompted to take a closer look at REITs on the global stage. Our effort should help those newer to the space to compare and contrast REIT markets across the world.

Mizuho Securities USA Inc.

Company	SYM	Price $	PT	Rating
Alexandria Real Estate Equities	ARE	110.09	125.00	B
Hudson Pacific Properties, Inc.	HPP	33.47	38.00	B
Taubman Centers, Inc.	TCO	77.67	89.00	B
UDR, Inc.	UDR	36.18	41.00	B

Source: Mizuho Securities and Bloomberg Finance LLP
B = Buy. Prices as of the close, 8/31/16

Mizuho Securities Co. Ltd.

Company	SYM	Price ¥	PT	Rating
NIPPON ACCOMMODATIONS FUND INC.	3226 JP	443000	510000	B
GLP J-REIT	3281 JP	128400	148000	B
LASALLE LOGIPORT REIT	3466 JP	104800	127000	B
Kenedix Office Investment Corp	8972 JP	624000	710000	B

Source: Mizuho Securities and Bloomberg Finance LLP
B = Buy. Prices as of the close, 8/31/16

Mizuho Securities Asia Ltd.

Company	SYM	Price HKD	PT	Rating
Yuexiu REIT	405 HK	5.09	5.36	B
Fortune REIT	778 HK	9.52	11.21	B

Source: Mizuho Securities and Bloomberg Finance LLP
B = Buy. Prices as of the close, 8/31/16

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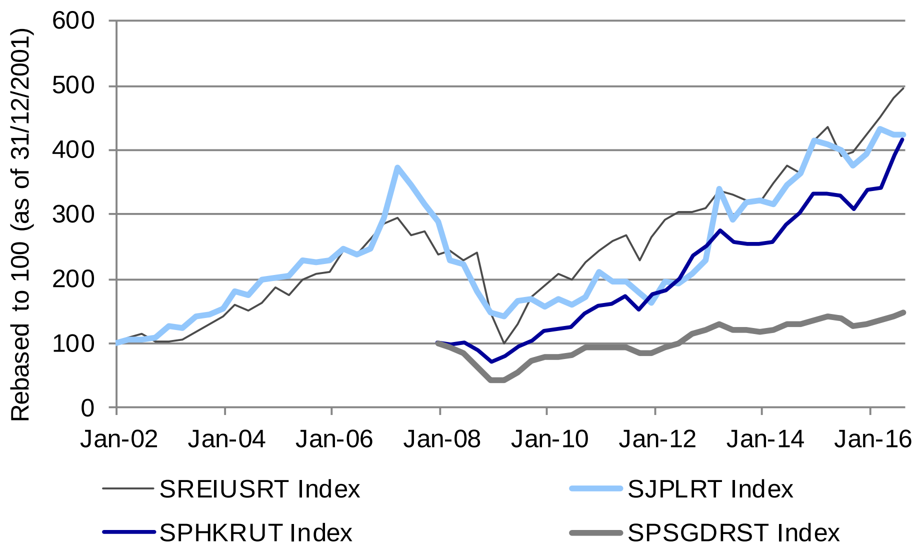
Note on Price Target/ Price Objective: We use the terms Price Target and Price Objective as defined for each Mizuho entity in the disclosure statements at the end of this report.

Sparkling But Not Too Bubbly

REITs Party Not Over Yet

REITs are performing well globally. We think a key reason is a REIT market tailwind from global flows of funds into high-yield assets in this prolonged period of low interest rates. Based on fundamentals – and, in some instances, overheated REIT valuations – it is natural that some investors may wonder if the party has gone on too long. Here we take this opportunity to summarize our investment views based on a risk/return analysis of the individual REIT markets that fall within the Mizuho framework of regional coverage.

Figure 1. REITs Have Done Well Since the Global Financial Crisis



Note: Although we benchmark to other indices for intra-regional analysis elsewhere in the report, we use S&P total return indices in the chart above for easy comparability; SREIUSRT for the US, SJPLRT for Japan, SPHKRUT for Hong Kong and SPSGDRST for Singapore
Source: Mizuho Securities Group, from Bloomberg

We dive into the fundamentals of the REITs sector in four major global markets: the US, Japan, Hong Kong (China) and Singapore. While bubbles are best identified in hindsight, we try to assess the risk of a bubble in REITs using three main questions:

- Are there signs of a bubble in the underlying property sector?
- Are valuations in the REITs sector explainably connected to the fundamentals and valuations of the property sector?
- What are the other factors driving REITs valuations, such as the all-important interest rates picture?

The short answer is we don't see the risk of a bubble as such…BUT we do see that the risk-reward proposition is a lot more complex than it used to be. The long answer will take up the rest of this report after this summary, and includes specific stock recommendations and region-specific investment considerations, but the following paragraphs summarize our key learnings and recommended positioning for global funds.

US REITs for the Relatively Risk-Averse but be Selective

- Market conditions, in general, offer fundamental support
- Low rates and weak dollar have been positives…
- … but conservative balance sheets can deal with higher rates if they happen
- Valuations are getting to fair territory, if not stretched, relative to historical comparisons.

We see US REITs as having the best balance from a risk/return standpoint, despite valuation. In the multifamily rental market, cash flows are still rising but growth has slowed, and the market could taper off if the economy slows. However, while supply is a near-term concern, the market has fundamental support from positive demand demographics and we see little risk of major disruption to the business.

In the broader commercial US property market, there has been a pronounced decline in cap rates, property prices are higher than their pre-global financial crisis (GFC) peaks of 2007-2008, and we would not rule out the risk of cap rates reversing course and starting to rise. However, REITs have generally shown little interest in acquiring assets at current elevated prices and they have maintained conservative balance sheets. Management teams have demonstrated appropriate restraint from an acquisitions standpoint, in the face of low cap rates (REITs have generally been net sellers), and we expect this mindset to continue.

The greatest risk for US REITs is a rise in interest rates, which would be negative if it fed into a rise in cap rates. Offsetting this, we would say US REITs' conservative balance sheets are already prepared for higher interest rates to some extent. Also, rising interest rates may be a result of strong economic activity and a strong economy should be positive for a market where supply is limited. In case of a weak economy, continuing low interest rates would also be a support for US REITs, and a weak dollar would also work as a support mechanism for the real economy. We thus see little risk of extreme movement in the US REIT market in either direction.

Figure 2. Global REITs Heat Map

Sector	Supply Growth	Demand / Absorption	Pricing Power	Asset Value (upside/ downside)	External Growth Outlook	N/t Earnings Growth	Balance Sheet / Liquidity	Consolidation (M&A)
US								
Healthcare	Unfavorable	Neutral	Neutral	Neutral	Neutral	Unfavorable	Favorable	Favorable
Industrial	Neutral	Favorable	Favorable	Neutral	Unfavorable	Favorable	Neutral	Unfavorable
Multifamily	Unfavorable	Favorable	Neutral	Neutral	Unfavorable	Neutral	Favorable	Unfavorable
Malls	Favorable	Neutral	Favorable	Favorable	Unfavorable	Neutral	Neutral	Unfavorable
Shopping Centers	Favorable	Favorable	Favorable	Neutral	Unfavorable	Neutral	Neutral	Favorable
Office	Favorable	Neutral	Neutral	Favorable	Unfavorable	Favorable	Neutral	Neutral
Japan								
Office	Unfavorable	Favorable	Neutral	Neutral	Neutral	Favorable	Favorable	Neutral
Residential	Neutral	Neutral	Neutral	Favorable	Unfavorable	Neutral	Favorable	Favorable
Retail	Favorable	Unfavorable	Unfavorable	Unfavorable	Neutral	Unfavorable	Unfavorable	Unfavorable
Logistics	Unfavorable	Favorable	Neutral	Favorable	Favorable	Favorable	Neutral	Neutral
Hong Kong								
Retail - High Street Shops and high-end malls	Neutral	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Favorable	Unfavorable
Retail - community malls	Favorable	Neutral	Neutral	Neutral	Unfavorable	Favorable	Favorable	Neutral
Office	Favorable	Unfavorable	Neutral	Neutral	Neutral	Neutral	Favorable	Favorable
Residential	Unfavorable	Neutral	Neutral	Neutral	Unfavorable	Neutral	Favorable	Unfavorable
Singapore								
Retail	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Neutral	Unfavorable
Office	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Neutral	Unfavorable
Housing	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Neutral	Unfavorable
China								
Tier-1 Retail	Neutral	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Neutral	Unfavorable
Tier-1 Office	Neutral	Neutral	Neutral	Neutral	Unfavorable	Neutral	Neutral	Neutral
Tier-1 Residential	Neutral	Unfavorable	Unfavorable	Unfavorable	Unfavorable	Favorable	Unfavorable	Neutral
Lower-tier Residential	Unfavorable	Favorable	Neutral	Favorable	Neutral	Favorable	Favorable	Favorable

Source: Company reports, Mizuho Securities Group

Asia for Risk Appetite, but Japan is Safer than Rest

- Property market in Japan is strong but Asia ex-Japan (AeJ) is already in correction mode
- REIT valuations in Japan already enjoy credit for property fundamentals but AeJ REIT valuations seem to factor in property market corrections…
- … which means Japanese REITs could correct if the property market stalls but AeJ REITs could actually appreciate from here if the property market stabilizes

In Asia including Japan, conditions are divided. In Japan, the property market is sustaining a recovery and we think Japan has the strongest fundamentals in Asia; cap rates are clearly tending toward decline but we do not see a bubble considering negative interest rate environment. In Asia ex-Japan, a correction is underway. Rents are confronting downward pressure in office and retail segments in China and Singapore. China housing prices are bubble-style spiking in Tier 1 cities and some Tier 2 cities. REIT valuations are high by historical standards in Japan, reflecting the strength of the property market, and we see high risk of a correction if the underlying market corrects. We also regard J-REITs as somewhat vulnerable to external shocks, noting their volatility around the time of the GFC. Asia ex-Japan REITs show no signs of overheating and we would say valuations are a reasonable reflection of property market corrections.

Based on this overall view, we would be overweight Asia including Japan if we were an investor with high risk tolerance and overweight the US if we were risk averse. Asia risks include government credit policy and a slowdown in demand in China, further growth in supply in Singapore, and a valuation undershoot in a correction in Japan but upside is potentially commensurate with risk, in our view, if risk is successfully controlled.

Ten for the Road: Top Buy Ideas

The table below presents our top ten Buy ideas in our coverage universe in the US, Japan and Hong Kong. We also have fresh write-ups on each of these later in this report.

Figure 3. Ten for the Road: Latest Views on our Top Picks in Global REITs

Company	Ticker	Rating	Currency	Share Price	Price Target/ Objective	Div. Yield	Disc/ Prem to NAV	Implied Cap Rate	Debt/ Assets	Interest Cover	Main exposure
US											
Alexandria Real Estate	ARE US	Buy	USD	110.09	125	2.9%	-5.1%	5.8%	45%	5.6x	Office
Hudson Pacific Properties	HPP US	Buy	USD	33.47	38	2.4%	-16.1%	6.2%	37%	4.5x	Office
UDR, Inc.	UDR US	Buy	USD	36.18	41	3.3%	-3.9%	5.0%	46%	5.3x	Multifamily
Taubman Centers	TCO US	Buy	USD	77.67	89	3.1%	-20.5%	5.9%	30%	3.7x	Mall
Japan											
GLP J-REIT	3281 JP	Buy	JPY	128,400	148,000	3.7%	25.5%	4.1%	48.8%	6.6	Logistics
Kenedix Office Invt	8972 JP	Buy	JPY	624,000	710,000	3.5%	8.9%	4.1%	43.1%	5.2	Office
Nippon Accommodations Fund	3226 JP	Buy	JPY	443,000	510,000	3.7%	15.5%	4.3%	51.5%	7.5	Residential
Lasalle LOGIPORT	3466 JP	Buy	JPY	104,800	127,000	4.9%	3.9%	4.5%	41.5%	11.0	Logistics
Hong Kong											
Fortune REIT	778 HK	Buy	HKD	9.92	11.21	5.0%	-22%	4.7%	29.6%	5.3	Retail
Yuexiu REIT	405 HK	Buy	HKD	5.09	5.36	6.2%	-9%	5.1%	37.4%	3.4	Office, Retail

Source: Mizuho Securities Group; share prices as of 31 August 2016; all financial estimates for FY16 (the current financial year)

Executive summary by Yosuke Ohata, Mizuho Securities Equity Research

Physical Markets: Domestic Divergence

Summary of regional views

Strong Real Estate Runs in US and Japan but Low Bubble Risk

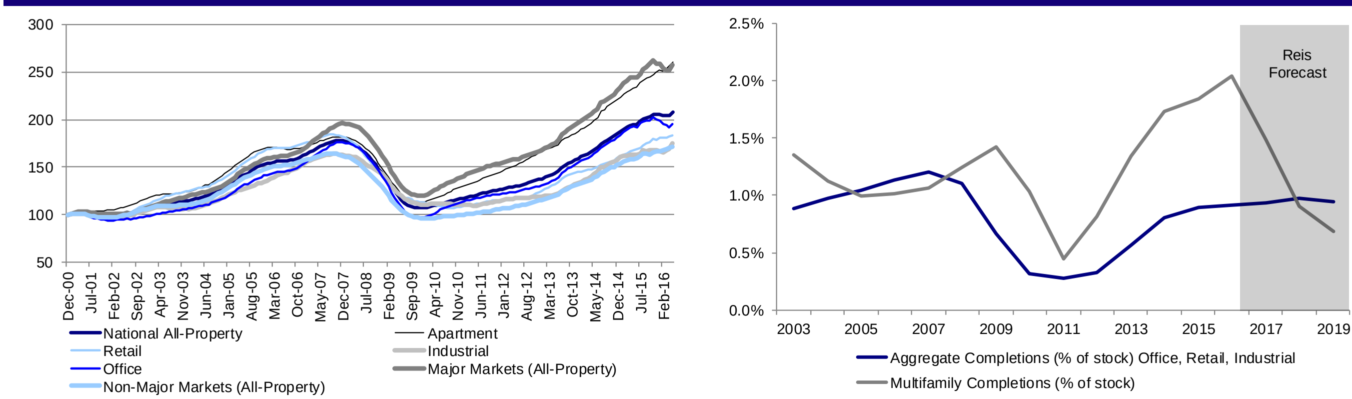
US real estate fundamentals remain favorable today evidenced by full occupancies, favorable demand and above-average organic growth rates. Favorable demand drivers include a slowly improving economy (as measured by job growth, household formation and lackluster but positive GDP growth), demographics (a growing population and an emerging Echo Boomer work force) and cheap/plentiful debt capital. When combined with generally low levels of new supply, this has resulted in a favorable supply / demand balance that is driving above-average same-store net operating income (ssNOI) growth. Combined, these inputs should support real estate values in the near-term.

Looking ahead, we expect to see ssNOI moderate, but remain above its long-term average through YE17 at the least, barring a recession (driven by the resilience of the aforementioned supply / demand drivers).

In Japan, real estate prices that corrected heavily as a result of the GFC and the subsequent credit crunch began to rise again in 2012 as monetary easing lowered the cost of capital and drove a recovery in property market. This drove cap rates lower again and lifted prices.

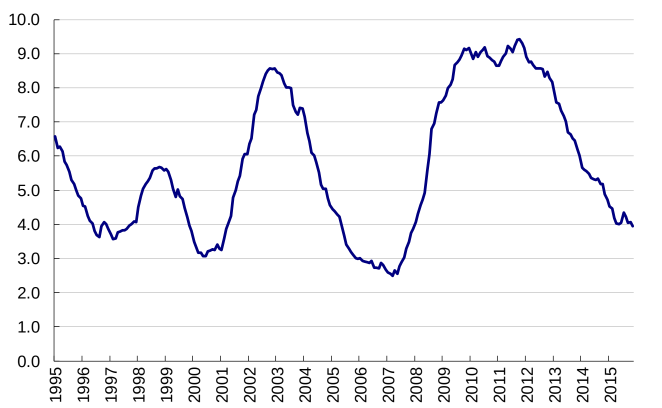
This trend continues. Cap rates overall are currently back to their pre-GFC lows. They are even lower for logistics facilities because market growth has reduced risk premiums substantially. The 10y JGB yield has declined from around 2.0% in 2007 to –0.2% now. Cap rates may be at historical lows because of the difference in borrowing costs that results from this change; we do not believe accommodative monetary conditions have brought extremely low cap rates and a real estate price bubble.

Figure 4. US Real Estate Asset Values Have Surpassed Prior Peak Values But Supply is Still Muted



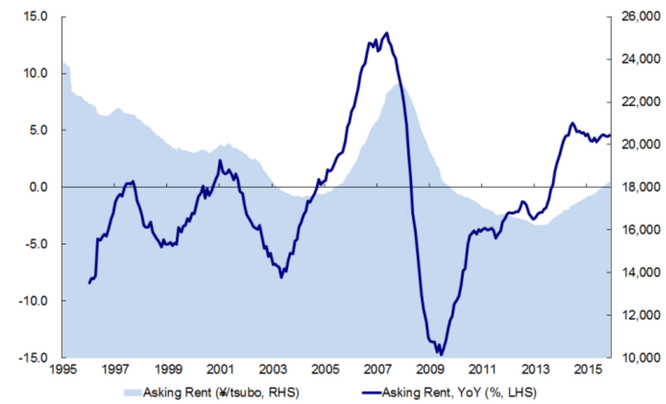
Source: Real Capital Analytics, Reis Inc., Mizuho Securities Group

Figure 5. Office Vacancy Rate in Tokyo's Five Central Wards (%)



Source: Mizuho Securities Group, Miki Shoji data

Figure 6. Office Asking Rents in Tokyo's Five Central Wards (%YoY, ¥/tsubo)



Note: 1 *tsubo* = 3.30578 sqm
Source: Mizuho Securities Group, Miki Shoji data

Asia Looks Toppish; China in Bubble Territory

We think the physical property markets of China, Hong Kong and Singapore are all toppish. The market thinks potential interest rate hikes are the key risk. Yet we believe that a slowdown in economic growth in the region is more important.

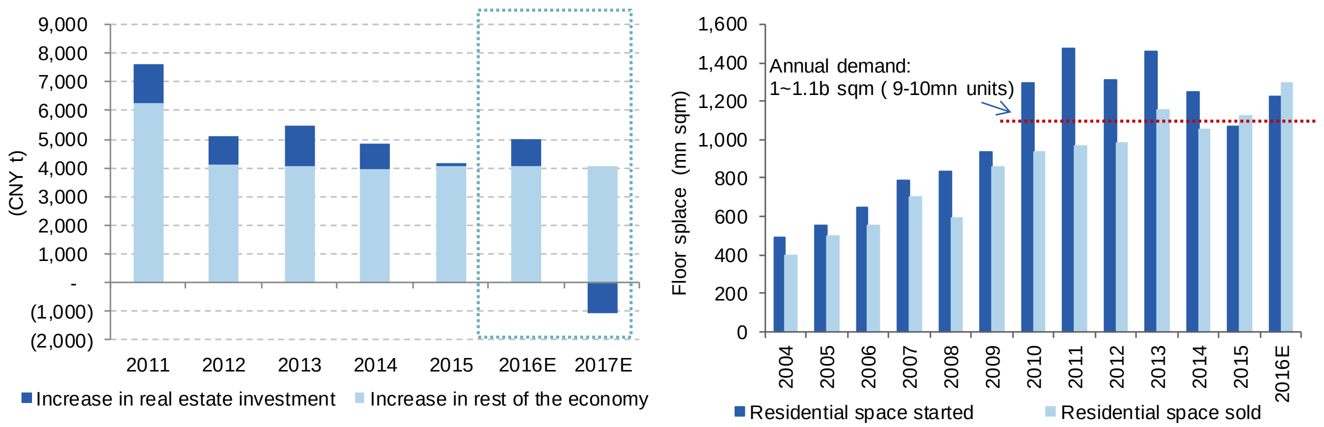
China: We think the housing markets of tier-1 cities—especially Shenzhen and Shanghai—plus some upper tier-2 cities are in bubble territory. The potential bursting of these bubbles is probably the biggest risk the region faces, given the size of these property markets and the region's close ties with China's economy.

Posing less of a danger than housing, the office and retail markets of Tier-1 cities are holding up, with both Beijing and Shanghai in recent quarters registering positive rental growth for Grade-A office and prime retail premises. However, maintaining such growth may be difficult in the face of a weaker economy. The retail market in tier-2 cities is struggling and less resilient than in tier-1 cities, amid weak retail sales growth, competition from e-commerce and an over-supply of retail properties.

Hong Kong: Hong Kong's housing market is already in a correction phase. Although sentiment has improved post the Brexit vote, affordability remains stretched. In the face of a weaker economy and increasing supply, the prevailing sense of market stabilization may be short-lived. We assume that Hong Kong home prices will fall by 2% in 2016 and by 10% in 2017. The situation is somewhat better in the office market, which has been resilient in recent years thanks to solid demand from China-related companies. Yet in 1H16 demand from China companies also showed early signs of weakness.

Singapore: In Singapore, we think over-supply is a universal problem across residential, retail and office property. The housing market is in the third year of decline. The retail vacancy rate has jumped to a 10-year high, and the office market will see 5.2mn sq ft of new supply in 2Q-4Q16, or 6.2% of the existing stock. Given the lackluster economic prospects for Singapore's main trading partners, it's hard to forecast a bottom for the property market.

Figure 7. China's Bubble

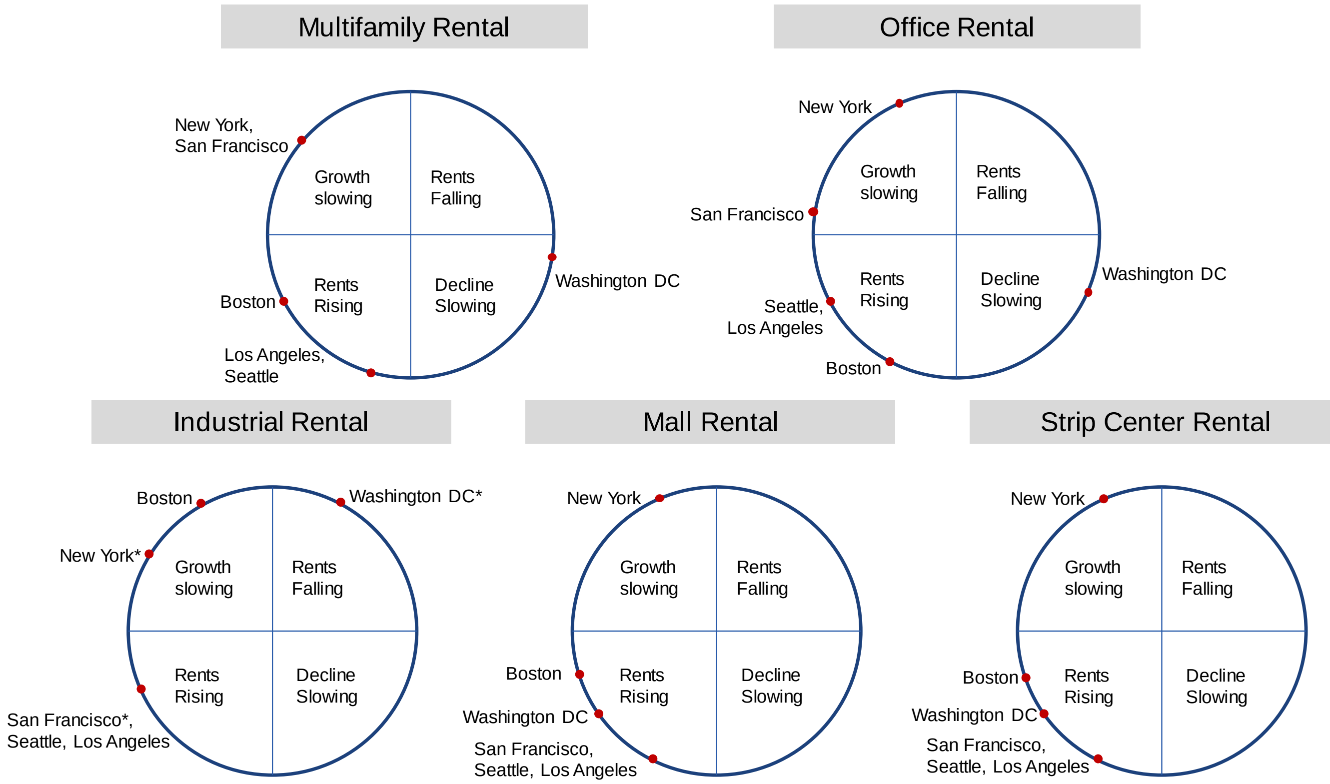


Source: CEIC, Mizuho Securities Group; estimates by Mizuho Securities Asia

Global Property Clocks

Subsequent sections of this chapter will discuss the dynamics of the key sub-markets and geographies in each of our regional markets that have informed the headline points we have just made. There's a lot of information and we realize it's easy to get lost in it, and so we have attempted a visual representation of the state of the various geographies in various property segments in various regions along a stylized property cycle that goes through falling rents, slowing decline, rising rents and slowing growth. These clocks would be a good place to start before you look at the regional breakouts and a good place to return to, to put it all into perspective.

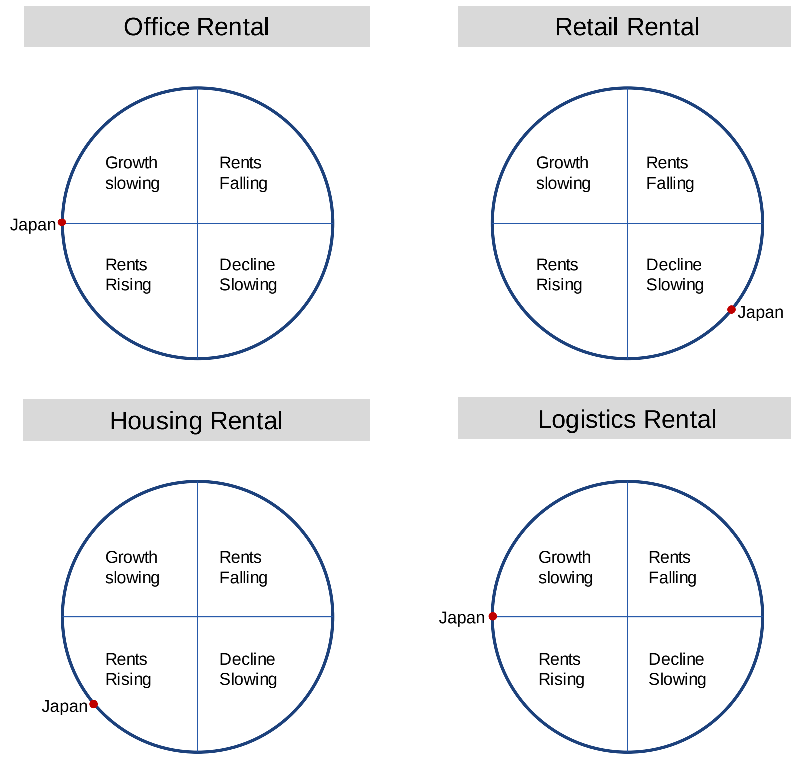
Figure 8. US REIT Sector Clocks for Six Regions



*DC industrial data covers 'Suburban Maryland', NY industrial data covers 'Northern NJ', and SF industrial data covers 'Oakland/East Bay'.

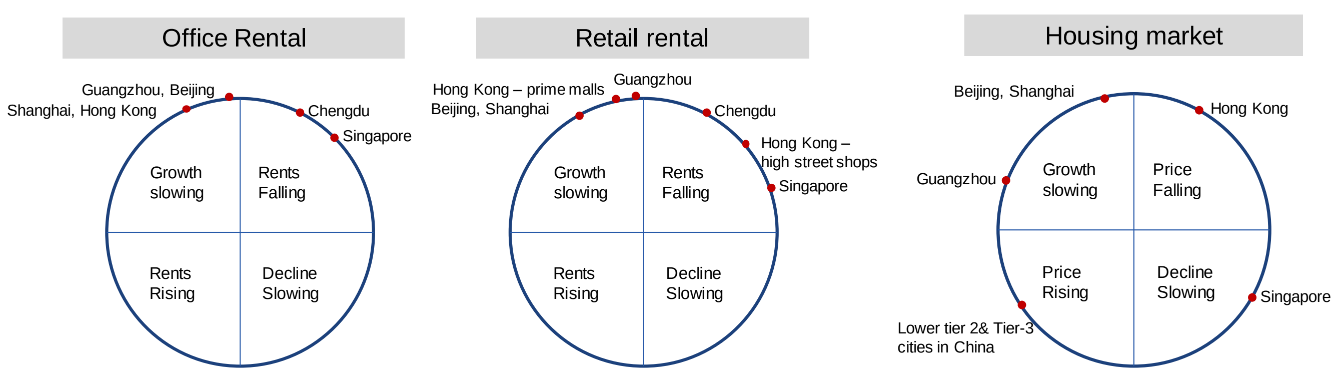
Source: SNL Financial, Mizuho Securities Group

Figure 9. Japan Property Clocks



Source: Mizuho Securities Group, Jones Lang LaSalle

Figure 10. Asia Property Clocks



Source: Mizuho Securities Group, Jones Lang LaSalle

Regional Breakout: US

Real Estate Asset Values Have Likely Peaked

While it is hard to deny that the US real estate cycle is in the late innings of the current cycle, US real estate fundamentals remain favorable today evidenced by full occupancies, favorable demand and above-average organic growth rates. Favorable demand drivers include a slowly improving economy (as measured by job growth, household formation and lackluster but positive GDP growth), demographics (a growing population and an emerging Echo Boomer work force) and cheap/plentiful debt capital. When combined with generally low levels of new supply, this has resulted in a favorable supply / demand balance that is driving above-average same-store net operating income (ssNOI) growth. Combined, these inputs should support real estate values in the near-term.

While our official view is that the current level of "bubble risk" is moderate, we acknowledge the prevalence of several red flags for prospective real estate investors. First and foremost, US property cap rates (a proxy for asset values), have compressed to historically low levels, averaging 6.4% versus the long-term average of 8.1%.

Property prices have appreciated nearly 2x since the trough of 2009 and are also now roughly 15-20% above prior peak values of 2007. In addition, same-store NOI growth should moderate near-term and exit cap rate risk is increasingly a risk for investors – underwriting new real estate investments today, facing slowing growth and likely higher interest rates in the outer years, can dispute the math.

With these headwinds, it is difficult to see real estate values appreciating meaningfully from here, unless US interest rates move lower. Such a scenario, although unlikely in our view, could precipitate another leg down for cap rates (meaning another leg up in property values). Mizuho Securities USA's Chief Economist Steven Ricchiuto recently said the following:

> *"The markets are indicating that if the Fed follows up on its plan (to raise short-term interest rates), the result will be an even flatter curve and an economy drifting dangerously close to stall speed. The latest data on manufacturing and building outlays confirm that the disappointing 1.2% Q2 GDP report was no mistake and that the outlook for Q3 is not much better."*

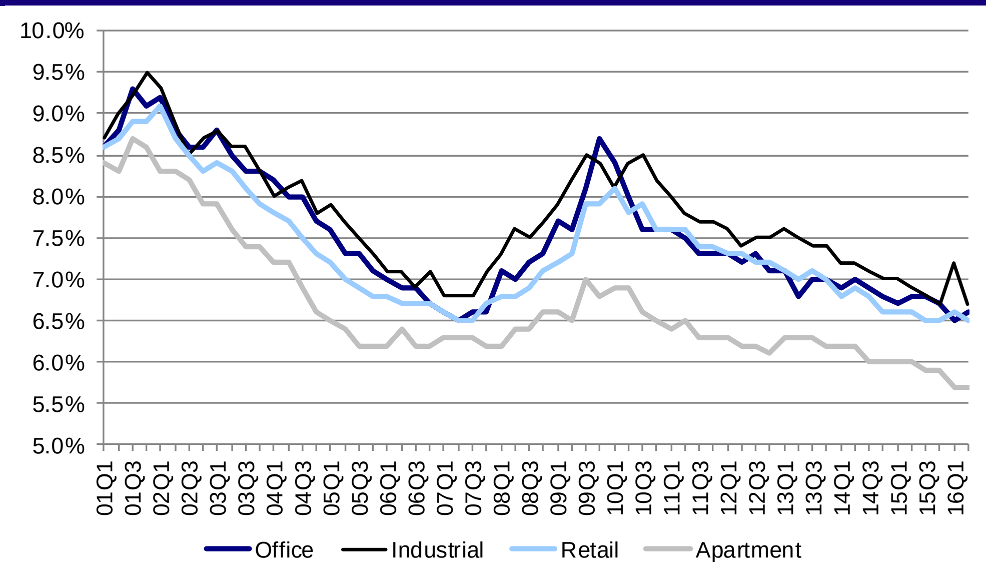
So this may be viewed as a double-edged sword. A flattening of the yield curve may be perceived as a short-term positive for REITs and real estate values, since the long-end of the curve is the most important to our industry. However, a major disruption to the economy would likely have the counter-impact to the negative. As such, the broader events at work, combined with the market interpretation of those events, may go a long way in dictating the presence of a commercial real estate bubble in the US.

However, in response to these concerns, which we view think are credible, we highlight the following offsets.

- First, while organic growth (or ssNOI) is expected to slow given real estate is late cycle, it is fairly attractive today (mid-4% expected for 2016E, well above the 2.5% averaged since 2003) and should remain above-average through YE2017, at least, barring a recession.
- Second, supply remains low overall (with the exception of the multifamily sector).
- Third, debt capital remains cheap and abundant (low-3% on a 10-year basis for high credit quality borrowers) that is allowing for positive spread investing and relatively attractive IRRs (6-7% unlevered / high single-double digits), which present a relatively compelling investment alternative in a low yield world.

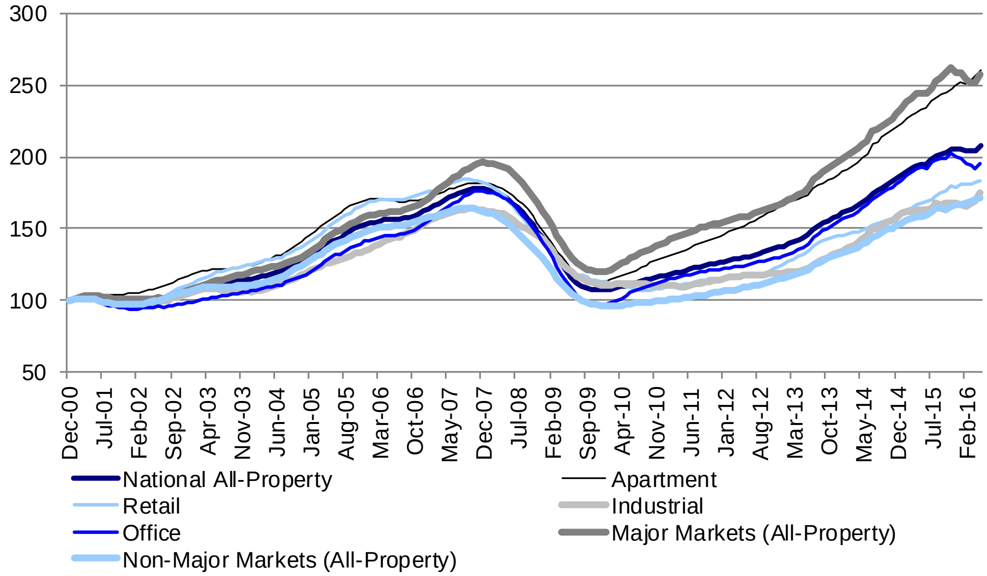
We do note, however, that exit cap rate risk (as mentioned earlier) could easily take a chunk out of prospective IRRs and are a risk worth highlighting.

Figure 11. US Real Estate Cap Rates at New Lows



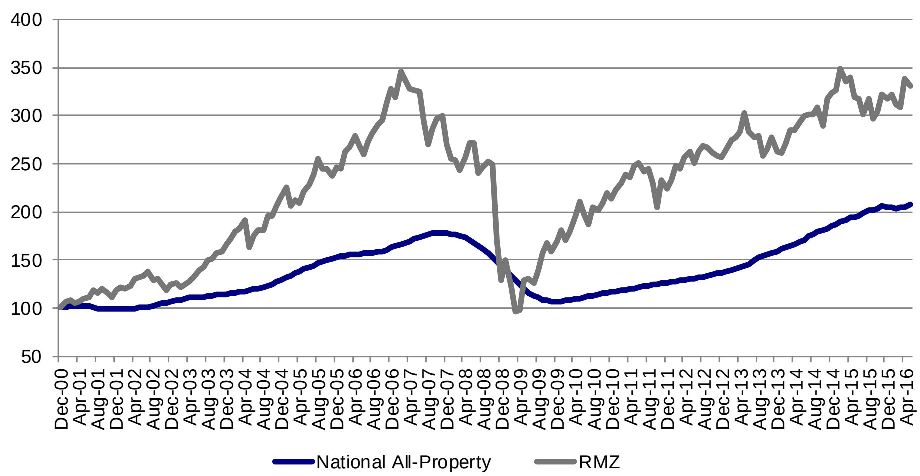
Source: RCA, Mizuho Securities Group

Figure 12. US Real Estate Asset Values Have Surpassed Prior Peak Values



Source: RCA, Mizuho Securities Group

Figure 13. REIT Public Pricing has Historically Been a Leading Indicator for Private R/E Pricing (RMZ vs RCA National Property Index)



Note: RMZ is the MSCI US REIT (price only) Index; this chart shows the relationship between how US REIT share prices trend relative to the underlying value of US commercial real estate
Source: RCA, Mizuho Securities Group

Supply Not an Issue in Industrial, Office or Retail…But Multifamily at Risk

The low level of new supply, at ~1% of existing stock (inclusively of Multifamily, Industrial, Office and Retail), is an oft-cited factor that we think can, and should, continue to work in the favor of real estate landlords' pricing power and asset values in the near-term. For context, new supply at or below ~2% of existing stock is generally seen as healthy – above 2% tends to start to enter into more of a supply/demand equilibrium condition. The overall low levels of new supply during the late innings of the real estate cycle can be partially explained by greater lender-imposed discipline (with still fresh memories of their experiences during the recent “Great Recession”) along with increased transparency of new starts data. This may allow lenders and developers alike greater ability to avoid flooding the market with new supply. As we push into the late innings of the real estate fundamental cycle in the US, and the absolute level of rent and NOI growth continues to slow, this below average supply phenomena should provide additional downside support to real estate fundamentals.

Property Specific Supply Observations

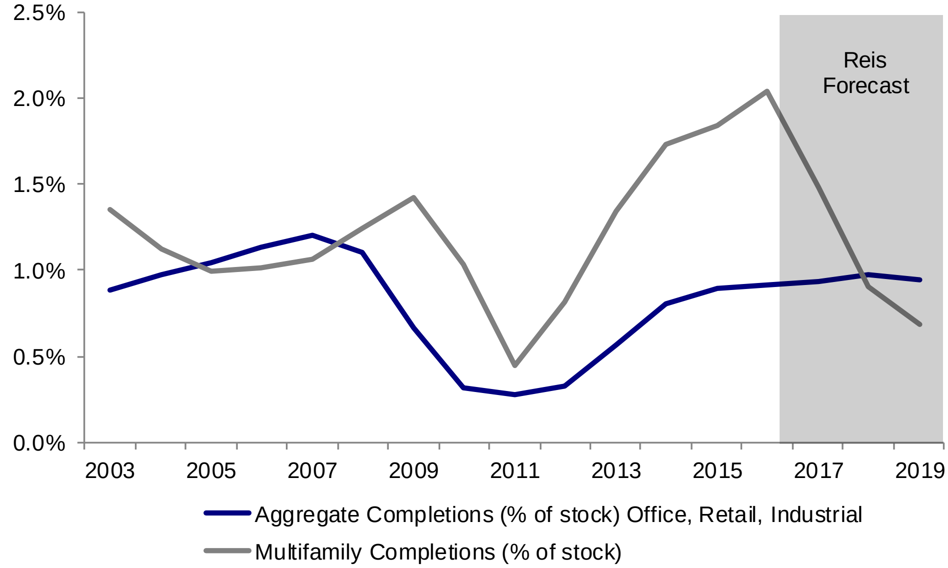
Assessing the supply risk among the major real estate asset classes, we see low near-term risk in **retail** as, per REIT management teams, rent levels and returns are not yet attractive enough to justify excessive levels of new construction. Similarly, the fundamental picture for **office** and **industrial** real estate is benefiting from relatively low levels of supply growth when assessing the national picture, except in certain markets for specific reasons. For example, developers rushed to bring product to market in Houston when oil prices were above $100/barrel. But as is often the case, the delivery of the real estate is arriving too late, and out of sync with demand.

Separately in New York City, subsidized office development in the far west side of midtown Manhattan and the Financial District is creating substantial competition, particularly since those tax subsidies allow owners to offer prospective tenants rental rates that are often meaningfully lower than other more established areas of the city. So while the general supply dynamic for office and industrial remains very favorable, there are areas of the country that represent exceptions to the rule.

There is one sector, however, where new supply is increasingly becoming an issue – **multifamily**. With new supply today hovering around 2.5-3% of new stock, and with the multifamily in the 6th year of its recovery (started in 2H10), multifamily fundamentals are under more pressure than most other sectors, causing some concern for multifamily investors. That said, demographic forces (Echo Boomers) and an expanding economy are driving household formation growth that should provide downside support. So while decelerating, we expect a floor to form such that a sizeable multifamily correction is less likely versus the last down-cycle, when the homeownership rate continued to rise for all the wrong reasons (a result of borrowing costs and lax lending standards).

Ultimately, an over-extended housing market was the primary cause of the US Great Recession that commenced in 2008.

Figure 14. Supply Picture Remains Muted, Except in Multifamily



Source: Reis Inc, Mizuho Securities Group

Deeper Dive into Supply

Echoing further these fundamental observations, in the more detailed figures provided below we show supply and demand trend lines over a 16-year history for the US overall, broken out by the four major property sectors of retail, industrial, office and multifamily (data source is Reis Inc.). Critically important in each figure is the pace of new supply growth as a percentage of existing stock (depicted as line and right-side axis). These figures help to further reinforce our view that supply from a national perspective is mainly an issue with the multifamily sector, running at or above 2% of existing stock. The equivalent metric for retail, industrial and office is below 1%.

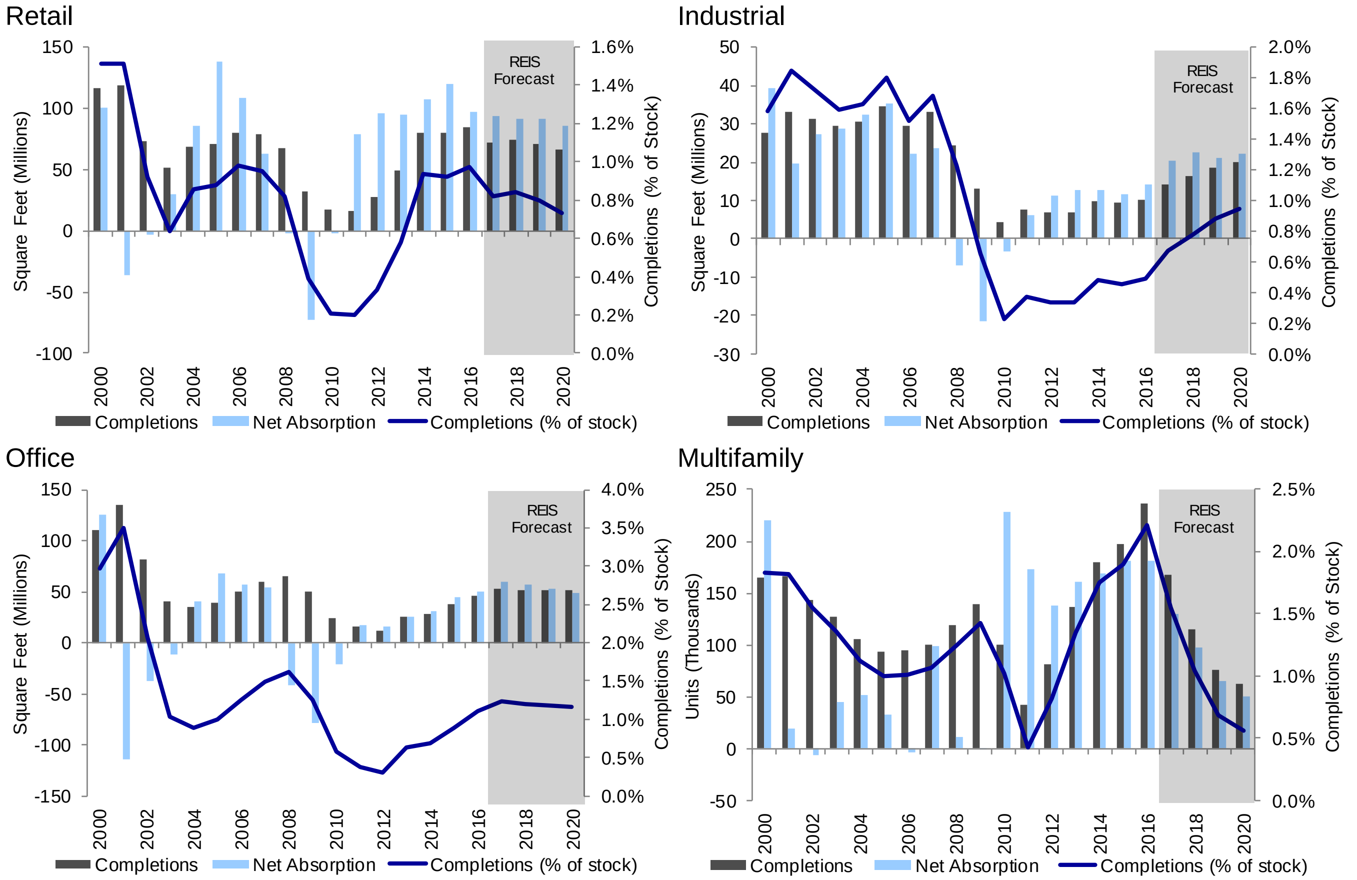
Completions (i.e., supply) are expected to outpace absorption (i.e., demand) for the multifamily sector during 2016, as shown in the bottom right chart of Figure 15. For the other three property sectors presented, Reis is expecting demand to outpace supply, albeit modestly in most cases.

Regional Observations

We believe it is important to consider local fundamental conditions in assessing the fundamental health of the US real estate industry. The national observation discussed above, while important, may not be an appropriate proxy for specific regions of the country. Therefore, we provide the same information for six critical US geography including Boston, Los Angeles, New York, San Francisco, Seattle and Washington DC (please note that data limitations for New York restricted the presentation to just the office and multifamily sectors). A few brief observations from those regional snapshots include the following:

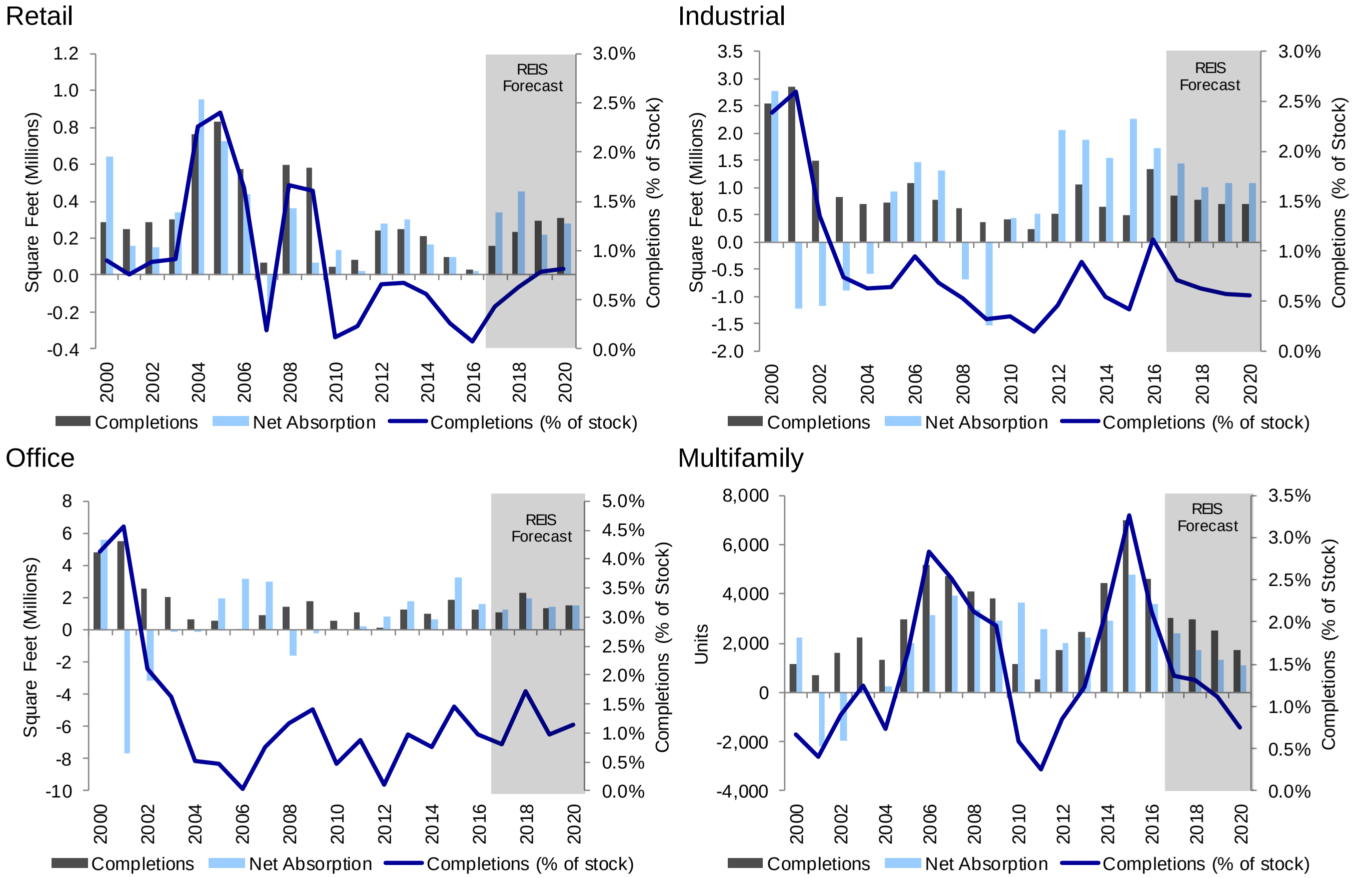
- **Boston:** Multifamily supply growth peaked in 2015, mainly in the downtown (CBD) area, while retail supply is running at almost 0% of existing stock.
- **Los Angeles:** Constraints on new supply are very apparent across all property sectors, including multifamily which is running at about 1% of stock (well below the national average).
- **New York:** Office supply is climbing and multifamily supply is peaking, and both of these are factoring into those US REITs invested in these areas. For example, large-cap multifamily REIT Equity Residential has reduced its same store growth outlook three consecutive times during 2016 alone, in large part because of supply pressures in New York City.
- **San Francisco:** For this technology-heavy region, retail had a major uptick in activity during 2014, followed by a major reversal and now running at nearly zero supply growth. Industrial (where we use the East Bay given the lack of available data in San Francisco proper) presents as a relatively quiet sector at the present time. Multifamily has experienced a supply jolt similar to New York City
- **Seattle:** Another technology driven market has demonstrated the ability of demand to keep pace with elevated levels of supply, particularly in the office and multifamily sectors. The key question will be if that offset will continue – Reis forecasts supply to modestly outpace demand in multifamily, and demand to modestly outpace supply in the office sector.
- **Washington DC:** Generally weak conditions for the office and multifamily sectors over the past several years can be tied to government dysfunction and reduced spending related to sequestration measures (compromise measures taken when parties can't agree on spending initiatives). DC has long been a strong real estate market over the longer history, and we expect a return to better performance overall following the presidential election. But real estate fundamentals remain in flux for the time being.

Figure 15. United States Supply and Demand Fundamentals



Source: Reis Inc., Company reports, Mizuho Securities Group

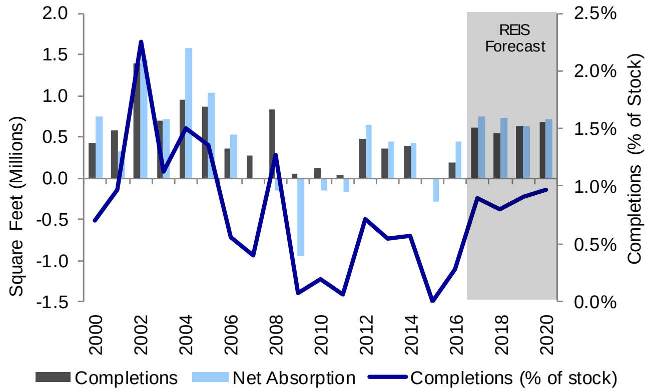
Figure 16. Boston Supply and Demand Fundamentals



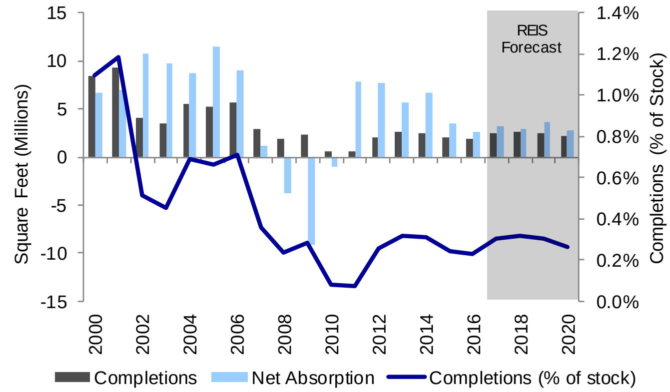
Source: Reis Inc., Company reports, Mizuho Securities Group

Figure 17. Los Angeles Supply and Demand Fundamentals

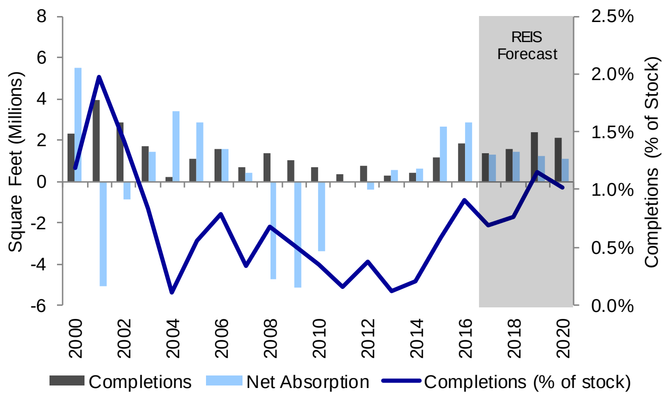
Retail



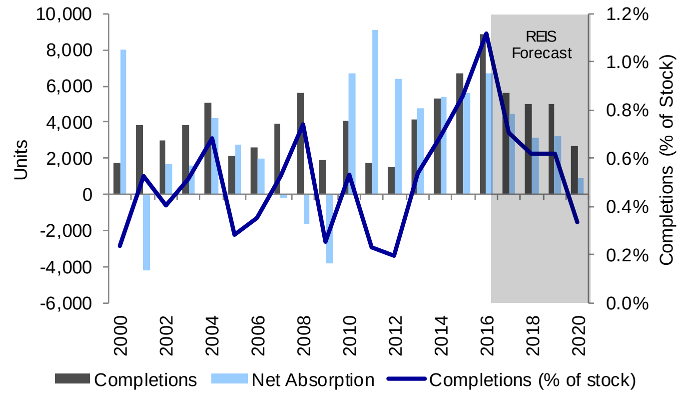
Industrial



Office



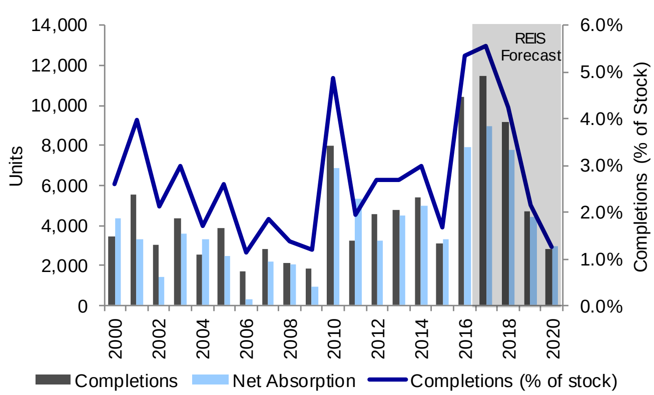
Multifamily



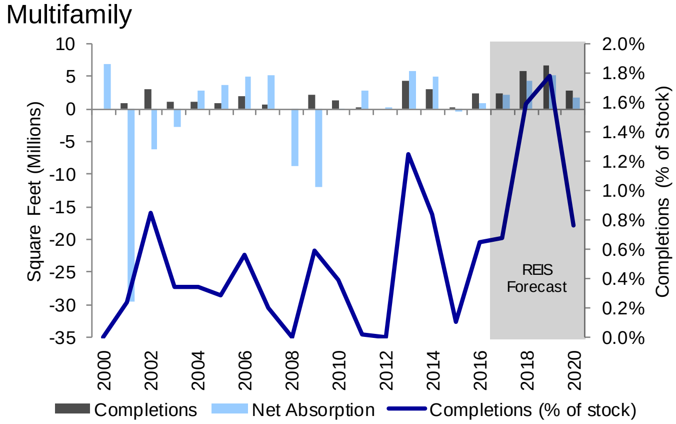
Source: Reis Inc., Company reports, Mizuho Securities Group

Figure 18. New York City Supply and Demand Fundamentals

Office

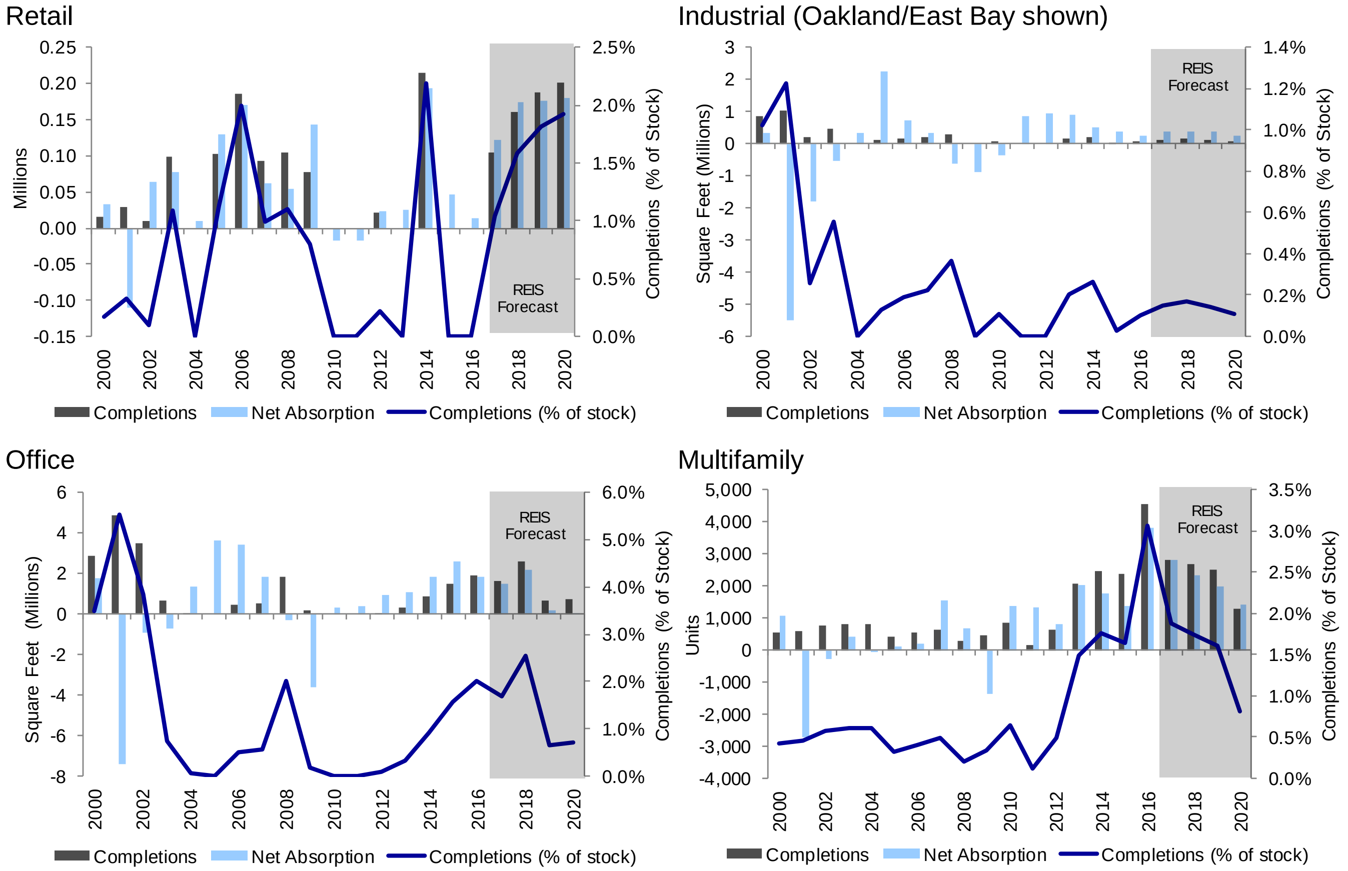


Multifamily



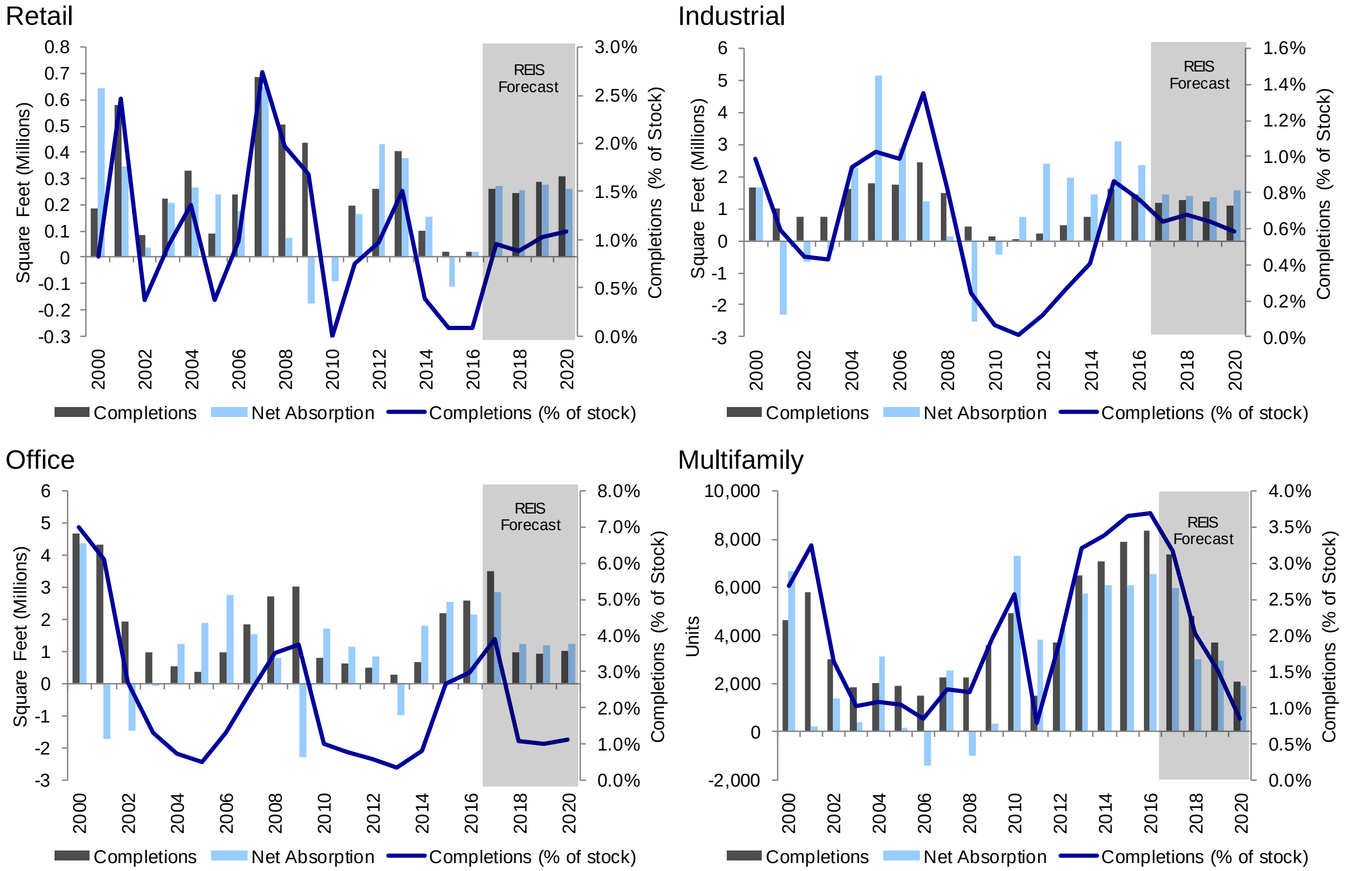
Note: Data for retail and industrial NYC and surrounding areas are unavailable
Source: Reis Inc., Company reports, Mizuho Securities Group

Figure 19. San Francisco Supply and Demand Fundamentals



Source: Reis Inc., Company reports, Mizuho Securities Group

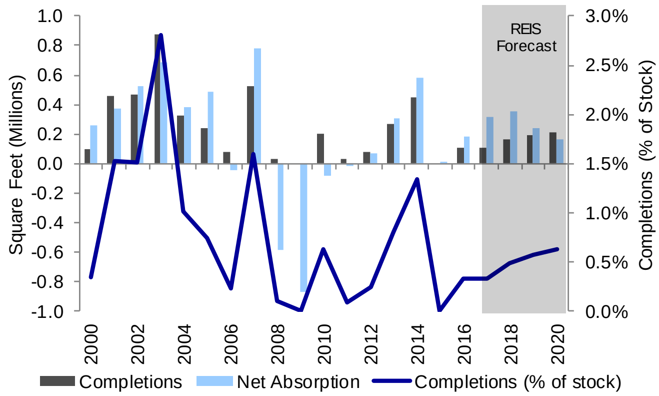
Figure 20. Seattle Supply and Demand Fundamentals



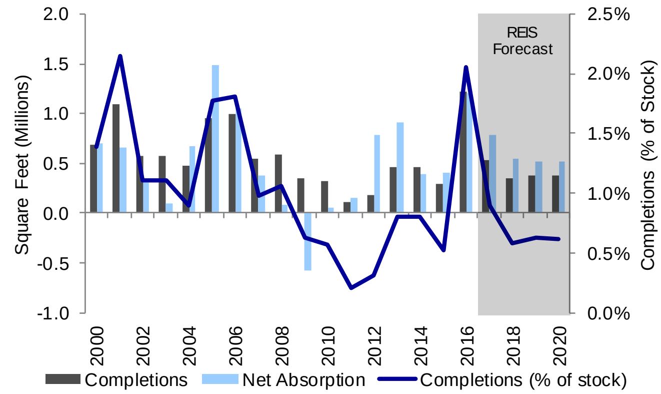
Source: Reis Inc., Company reports, Mizuho Securities Group

Figure 21. Washington DC Supply and Demand Fundamentals

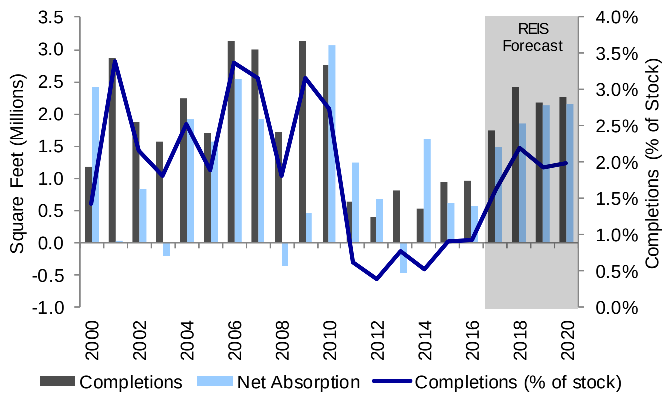
Retail (Suburban Maryland shown)



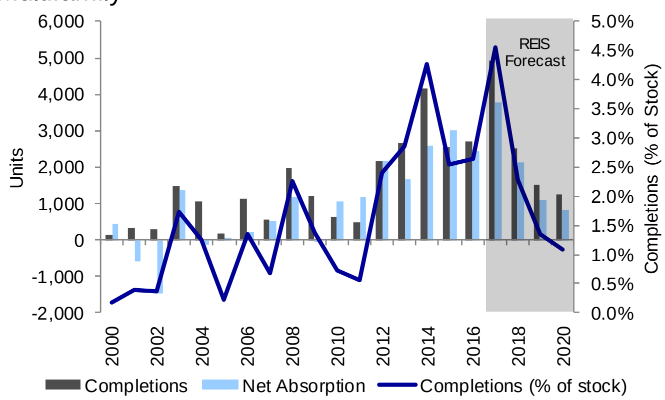
Industrial (Suburban Maryland show)



Office



Multifamily



Source: Reis Inc., Company reports, Mizuho Securities Group

Regional Breakout: Japan

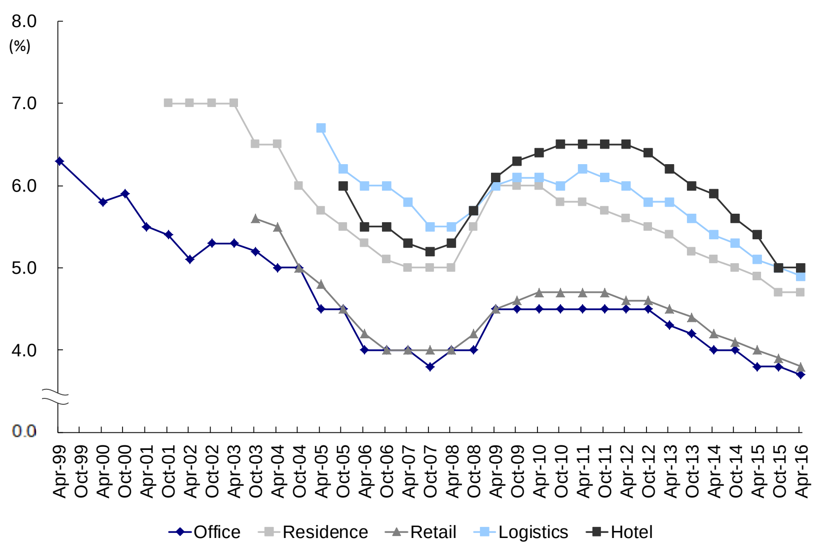
Is Japan Experiencing a Property Market Bubble?

Japan's commercial real estate (CRE) market has expanded rapidly since the J-REIT market launched in 2001. Before then, it had been unusual to trade property on the basis of capitalization rate (yield), but this has steadily become the dominant way to value real estate, since it incorporates the cost of capital and risk premium. Cap rates trended lower as the J-REIT and CRE markets grew. Until the GFC (2008), cap rates fell and property prices rose, reflecting the recovery in the property market and hopes of higher market rents.

Real estate prices corrected heavily as a result of the GFC and the subsequent credit crunch, but began to rise again in 2012 as monetary easing lowered the cost of capital and drove a recovery in property market. This drove cap rates lower again and lifted prices. This trend continues.

Cap rates overall are currently back to their pre-GFC lows. They are even lower for logistics facilities because market growth has reduced risk premiums substantially. The 10y JGB yield has declined from around 2.0% in 2007 to –0.2% now. Cap rates may be at historical lows because of the difference in borrowing costs that results from this change; we do not believe accommodative monetary conditions have brought extremely low cap rates and a real estate price bubble.

Figure 22. J-REIT Market: Expected Returns From Investment by Asset Type (%)

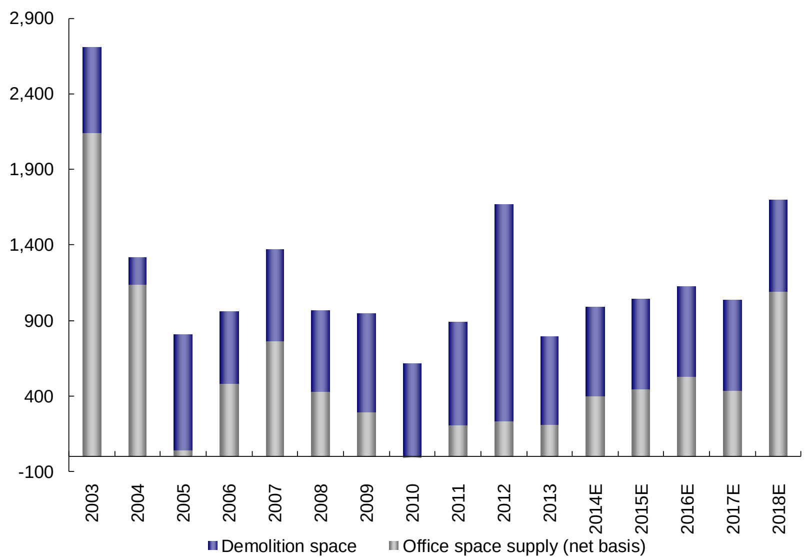


Note: Expected returns are the median values of survey response given by investors and other market participants
Source: Japan Real Estate Institute's *Japan Real Estate Investor Survey*, Mizuho Securities Group

The vacancy rate in Tokyo's five central wards peaked and prices fell sharply in 2003 as large volumes of new space became available. Vacancy rates then trended lower as new supply waned and the economy picked up. Market rents began to rise in 2005, and surged in 2008 on robust demand from the financial services industry, although demand collapsed during the GFC: the vacancy rate rose from below 3% to above 9%, reducing market rents to 30% below their peak by 2013. The market has since recovered, lifting rents more than 10% above their 2013 bottom, but growth has been slow and cash flow remains around 20% below its pre-GFC peak.

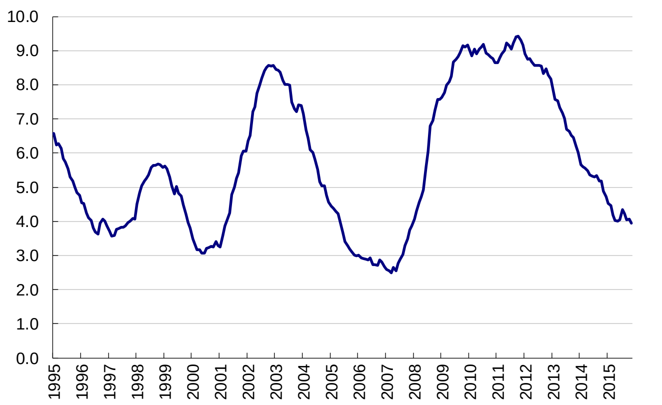
Office rent levels rise and fall over the course of the cycle but have yet to break out of their long-term decline. The cause is structural: new supply of high-spec floor space becomes available each year, but has not been matched by growth in the number of office workers or improved productivity. The idea of a property market bubble – in which excess demand drives rents higher – therefore appears improbable for the Japan market at present.

Figure 23. Office Building Supply in Tokyo Central 5 Wards (‘000 sqm)



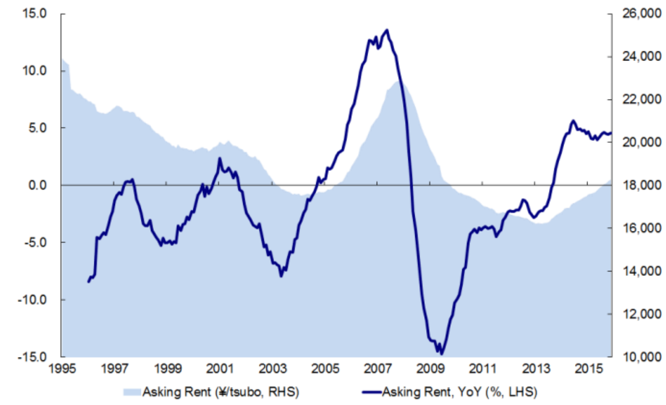
Source: Mizuho Securities Group, Bureau of Urban Development, Tokyo Metropolitan Government; estimates by Mizuho Securities Equity Research

Figure 24. Office Vacancy Rate in Tokyo's Five Central Wards (%)



Source: Mizuho Securities Group, Miki Shoji data

Figure 25. Office Asking Rents in Tokyo's Five Central Wards (%YoY, ¥/tsubo)



Note: 1 *tsubo* = 3.30578 sqm
Source: Mizuho Securities Group, Miki Shoji data

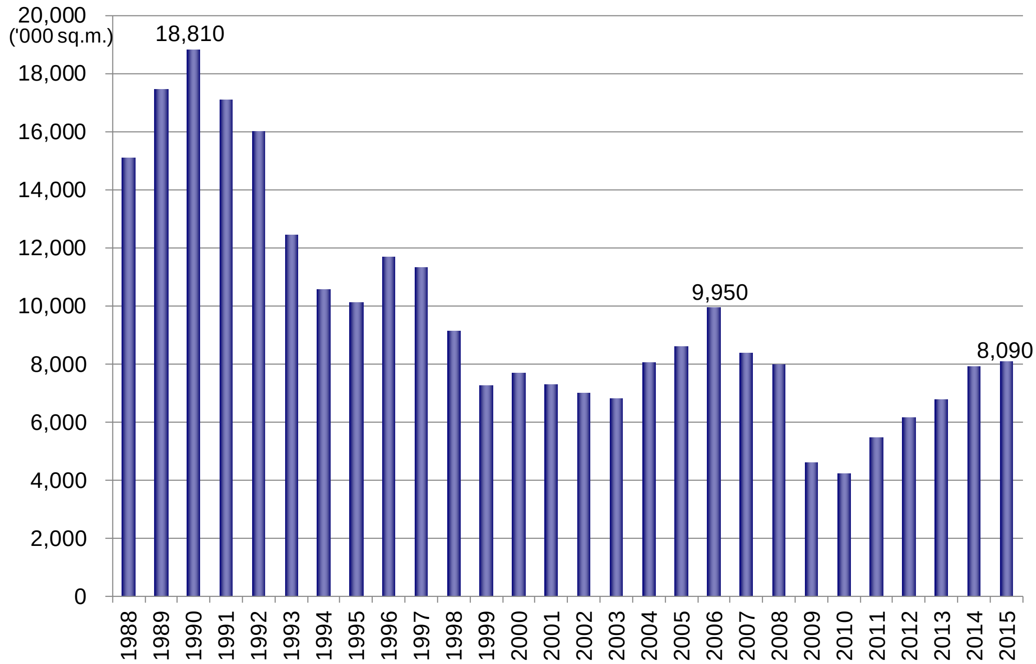
Japan's market for logistics facilities has expanded rapidly since Prologis and other global logistics companies began to develop high-spec distribution centers in the early 2000s. Japan traditionally focused on warehousing (simple storage of goods), but distribution networks have been upgraded and reconfigured as e-commerce vendors and dedicated third-party logistics (3PL) companies have driven demand for large and functional facilities.

This development of logistics facilities has been accompanied by an expansion of investment in them by J-REITs and private funds. J-REITs are viewed as the final element of developers' exit strategies because they operate as going concerns, rather than private funds that have a set investment horizon. The expansion of this investment market has enabled developers and owners of logistics facilities to recover and reinvest their money. This recycling of capital has in turn driven more rapid market growth. The market has further room to expand: state-of-the-art facilities still account for only 3.5% of the overall market.

Vacancy rates in the logistics facility market are determined by demand and supply. Demand rose consistently from the start of the 2000s until the GFC, after which new demand growth slowed sharply for a time. The vacancy rate in both greater Tokyo and greater Osaka exceeded 10% because property that had been planned before the GFC came onto the market but in many cases failed to find tenants. These properties gradually became occupied as new supply dwindled, leading to lower vacancy rates between 2012 and 2015. Vacancy rates are likely to climb over the coming years as new supply increases; the rate at which it climbs will depend on the level of new demand.

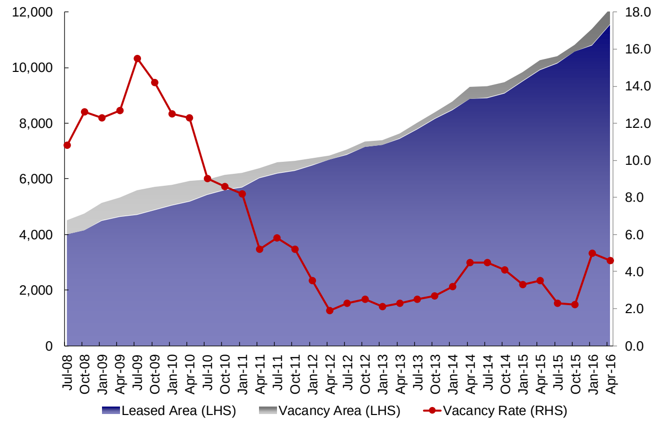
Rents generally fluctuate less than vacancy rates: long-run volatility has been less than 10%. Rents dipped following the GFC but have returned to moderate growth in recent years.

Figure 26. Logistics Facilities Supply in Japan ('000 sqm)



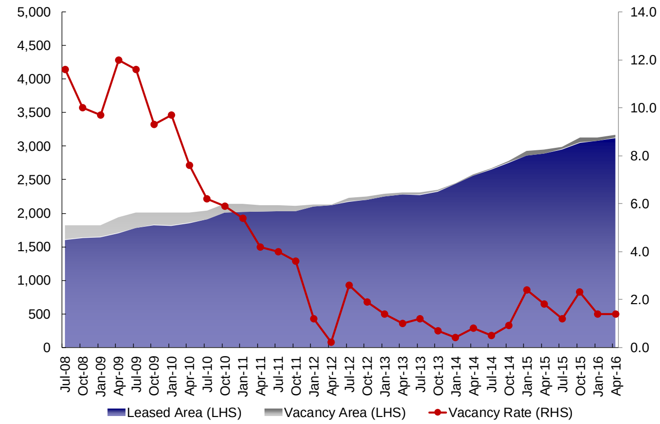
Source: Mizuho Securities Group, from MLIT data

Figure 27. Supply-Demand Balance of Logistics Facilities in Greater Tokyo ('000 sqm, %)



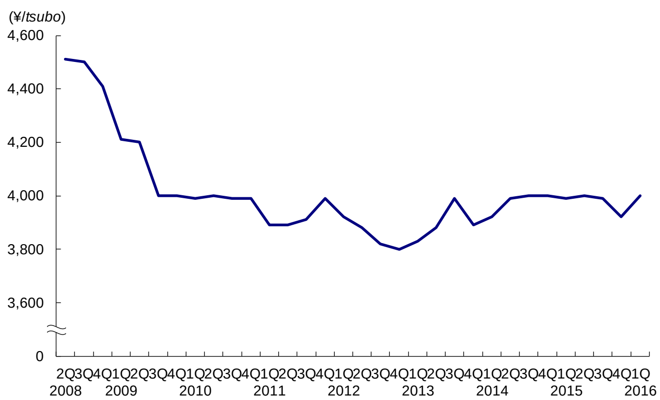
Source: Ichigo Real Estate Service, Mizuho Securities Group

Figure 28. Supply-Demand Balance of Logistics Facilities in Kansai Area ('000 sqm, %)



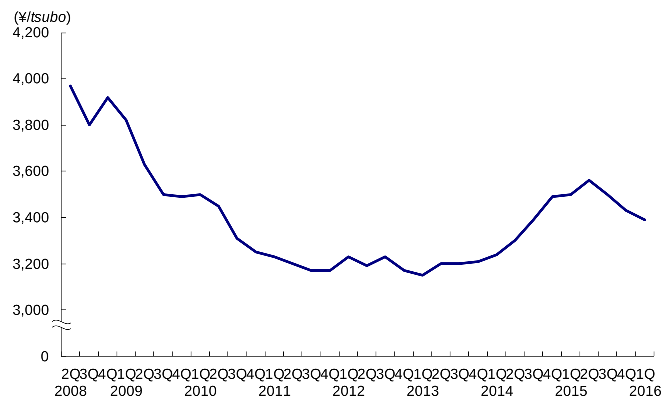
Source: Ichigo Real Estate Service, Mizuho Securities Group

Figure 29. Logistics Facilities Asking Rents in Greater Tokyo (¥/tsubo)



Note: 1Q = Feb–Apr, 2Q = May–Jul, 3Q = Aug–Oct, 4Q = Nov–Jan
Source: Ichigo Real Estate Service, Mizuho Securities Group

Figure 30. Logistics Facilities Asking Rents in Greater Osaka (¥/tsubo)



Note: 1Q = Feb–Apr, 2Q = May–Jul, 3Q = Aug–Oct, 4Q = Nov–Jan
Source: Ichigo Real Estate Service, Mizuho Securities Group

Office and logistics property offer a richer information set than other segments of the CRE market. The data indicate that the market is not in a bubble—meaning that rents are not rising beyond the long-run trend line. In terms of longer-term cycle, we believe the real estate market is currently between the mid-point and the later stages of a recovery phase. Prices are set to peak at some point (the state of the economy is the key variable), but our baseline scenario is that the subsequent correction will be gentle, given the absence of any bubbly rise in rents during this recovery phase.

Regional Breakout: Asia ex-Japan

Hong Kong and China Physical Property: Bubble Territory?

We think the physical property markets of China, Hong Kong and Singapore are all toppish. The market thinks potential interest rate hikes are the key risk. Yet we believe that a slowdown in economic growth in the region is more important.

China residential: We think the housing markets of tier-1 cities—especially Shenzhen and Shanghai—plus some upper tier-2 cities are in bubble territory. The potential bursting of these bubbles is probably the biggest risk the region faces, given the size of these property markets and the region's close ties with China's economy.

Will these bubbles burst? We think the China government's credit policy is critical. Even with continued stimulus, however, maintaining the prevailing economic growth momentum is becoming more difficult given high base effect. By contrast, the housing markets in the much-feared "ghost towns" of lower-tier cities are turning healthier as inventory decreases, thanks to scaled-back land sales by local governments and ongoing urbanization.

China commercial: The office and retail markets of Tier-1 cities are holding up, with both Beijing and Shanghai in recent quarters registering positive rental growth for Grade-A office and prime retail premises. However, maintaining such growth may be difficult in the face of a weaker economy. Over-supply of office space appears to be a bigger problem in tier-2 cities, where demand is weak. Office rents in Chengdu have being falling since 2012, with vacancy rates of 30%-plus.

The retail market in tier-2 cities is similarly struggling, amid weak retail sales growth, competition from e-commerce and an over-supply of retail properties. Our channel checks show that even some of the most trusted landlords are facing downward pressure when renewing leases. However, the pressure is not evenly spread. In some cases, we spot a 'winner takes all' dynamic. Some top-notch malls are benefiting from market consolidation, as retailer close shops in the malls operated by less trusted/experienced landlords but maintain shops in top malls.

Hong Kong residential: Hong Kong's housing market is already in a correction phase. Although sentiment has improved post the Brexit vote, affordability remains stretched. In the face of a weaker economy and increasing supply, the prevailing sense of market stabilization may be short-lived. We assume that Hong Kong home prices will fall by 2% in 2016 and 10% in 2017, with a total decline of 20-30% in this multi-year correction.

Hong Kong commercial: The office market has been resilient in recent years, thanks to solid demand from China-related companies. In 2015 these companies took up more than 35% of new space let out in Central, almost double the percentage five years ago. Yet in 1H16, demand from China-based companies also showed early signs of weakness.

Retail sales continue to trend south and we foresee further declines over the next few years. High Street shops have seen rents drop by as much as 30%, with downward momentum. Shopping malls seem better protected for now but we expect rents there to soften over the next few years.

Singapore residential/commercial: In Singapore, we think over-supply is a universal problem across residential, retail and office property. The housing market is in the third year of decline. The retail vacancy rate has jumped to a 10-year high, and the office market will see 5.2mn sq ft of new supply in 2Q-4Q16, or 6.2% of the existing stock. Given the lackluster economic prospects for Singapore's main trading partners, it is hard to forecast a bottom for the property market.

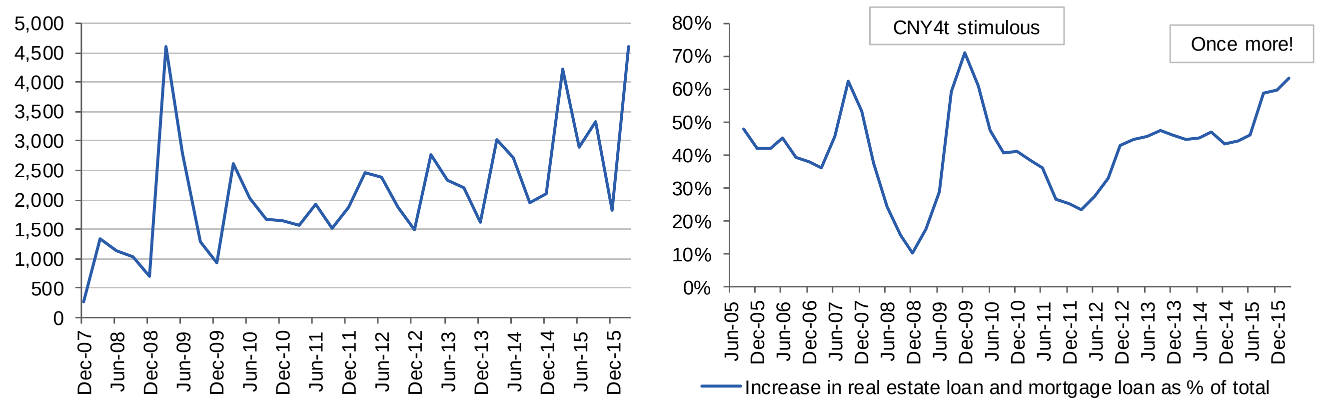
China's Residential Market: Liquidity-Driven Housing Bubble in Tier-1 Cities

China's housing market has staged a strong recovery since March 2015, as the government embarked on aggressive easing of credit and its housing policy. Recent optimism in tier-1 cities is spilling over to tier-2 cities. The recovery is in line with our expectation in terms of direction, but the magnitude of credit easing and home price appreciation in the upper-tier cites is beyond our expectation.

We are very concerned. The rally in China's housing market implies significant risks for the future. With the newly eased liquidity, which should reach lower-tier cities according to policy intention (for most of the past 18 months it has been exclusively in upper-tier cities), we see the price run-up in tier-1 cities as a clear bubble. Concerns:

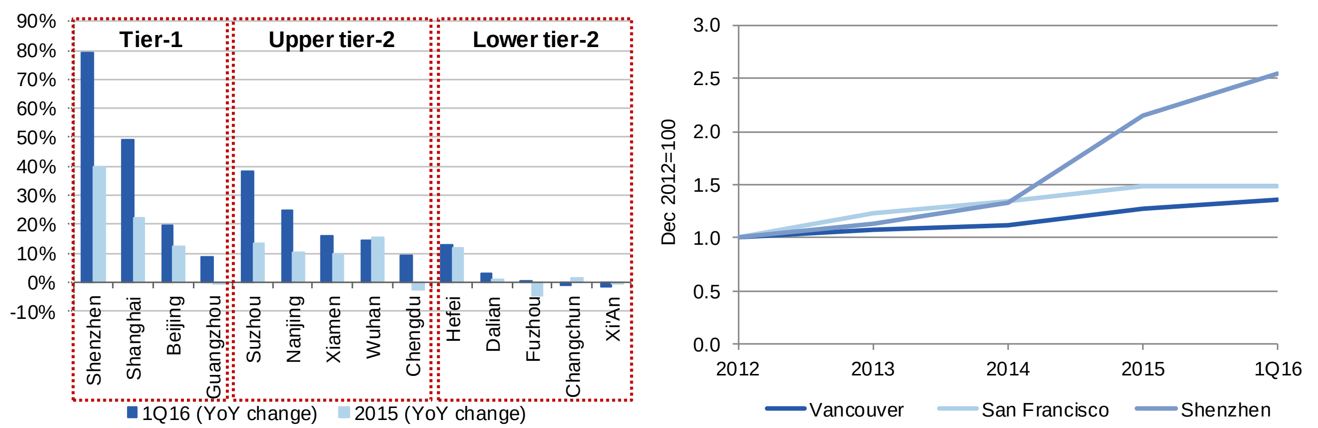
- The stimulus this time around is even bigger than the CNY4tn package introduced in 2009, but seems to be less effective.
- The sharp price run-up in tier-1 cities and some tier-2 cities poses a policy dilemma for government.
- We attribute the apparent "stabilization" of economic growth mainly to the revival in property investment. But this is once again running above sustainable levels, in our view. Should the boost from property investment lose stream over the next two years in line with our assumption, economic growth will likely revert to slow-motion mode.

Figure 31. New Loan Growth: Unprecedented



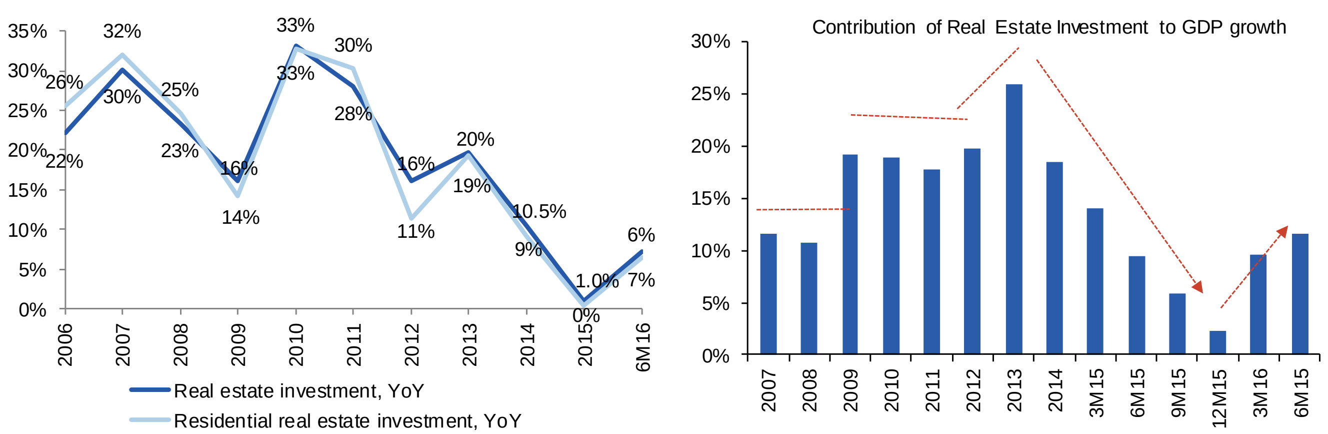
Source: CEIC, Mizuho Securities Group

Figure 32. Home Prices Surged in Tier-1 and Some Tier-2 Cites



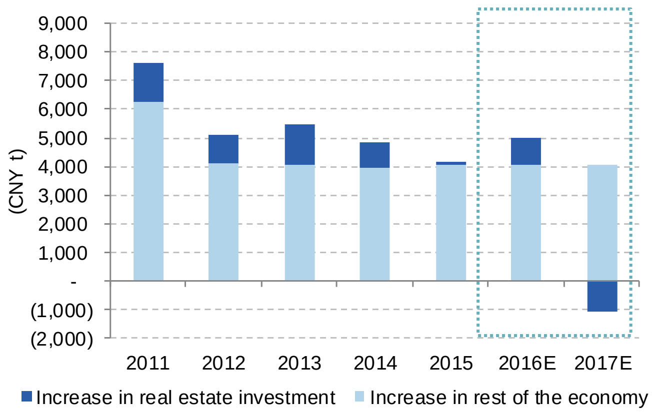
Source: CEIC, CREIS, US Statistics Bureau, S&P/Case-Shiller Home Price Index, National Bank of Canada, Mizuho Securities Group

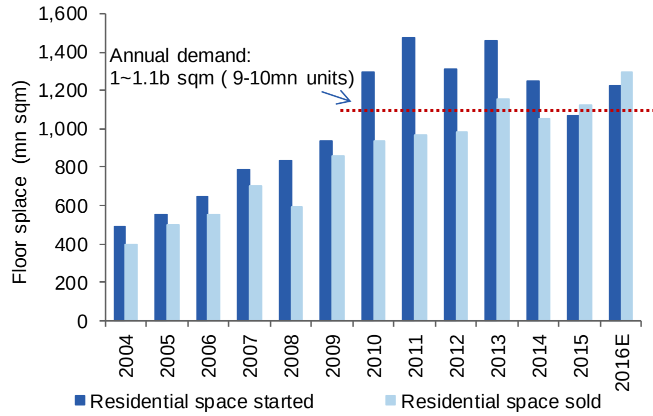
Figure 33. Underneath the Seemingly Stabilized Economy



Source: CEIC, Mizuho Securities Group

Figure 34. Is the Recovery Sustainable?





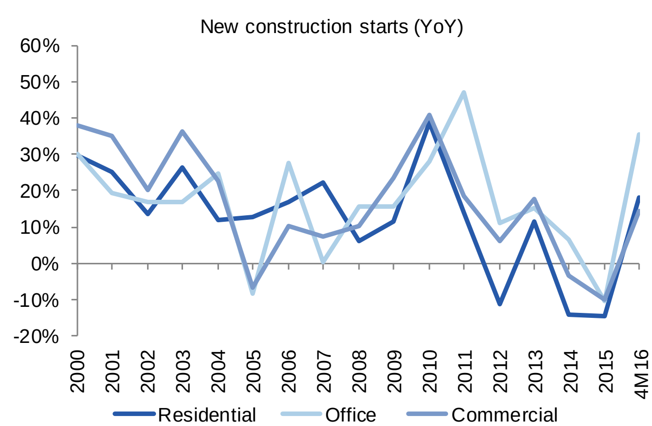
Source: CEIC, Mizuho Securities Group; estimates by Mizuho Securities Asia

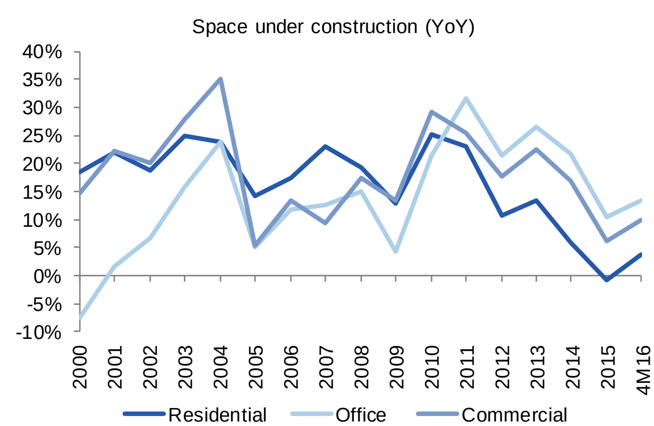
China: Office and Retail

At the national level, the over-supply situation in commercial and office properties is becoming more severe. The following charts show that since 2010 new construction starts – office and commercial properties – have consistently outstripped that for residential property. And commercial and office construction starts are rebounding much more strongly than residential properties again this year amid liquidity easing, even though demand for office and retail space is cooling down.

We think the situation in lower-tier cities is particularly bad—demand for office space is generally weak and the operators of retail space lack the ability to differentiate their offerings as the economy slows and e-commerce wins market share from physical stores.

Figure 35. Over-Supply is More Severe in Office and Retail, Especially in Lower-Tier Cities

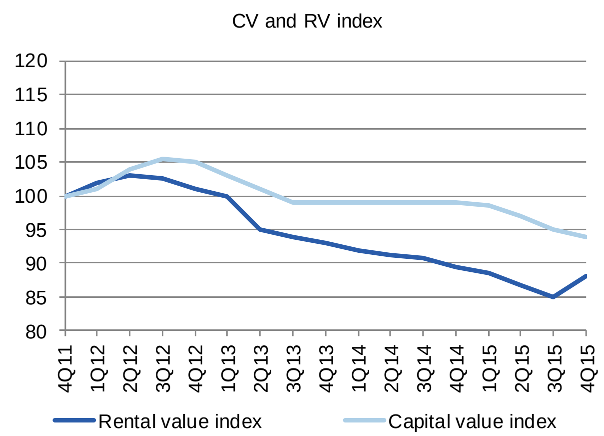


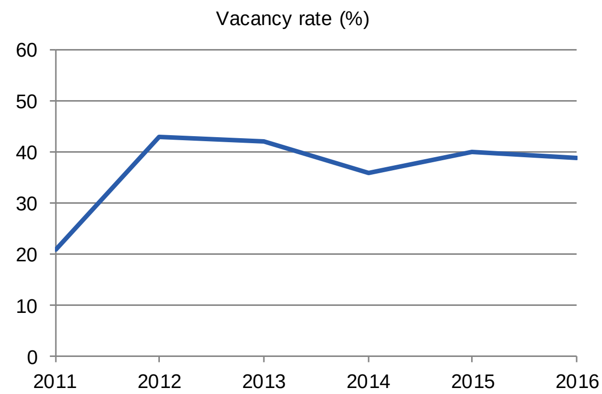


Source: CEIC, Mizuho Securities Group

Tier-2 Chengdu is typical. In recent years its office vacancy rate has remained north of 30%, as bumper new supply meets muted demand amid a weak economy. Some office buildings, designed for financial trading floors with 5m ceilings and raised floors, now accommodate bars and restaurants.

Figure 36. Chengdu Office





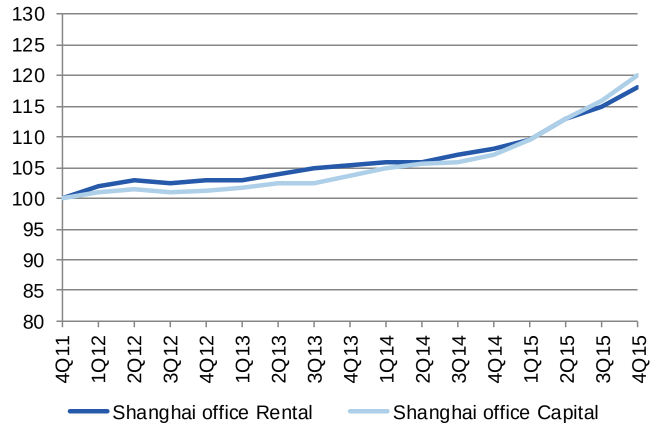
Source: Jones Lang LaSalle, Mizuho Securities Group

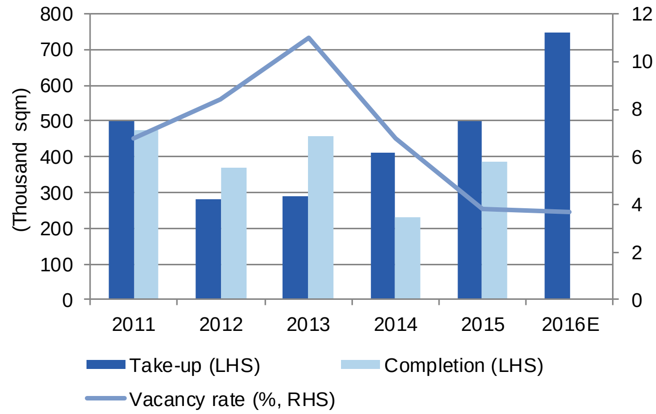
Yet we believe the outlook for tier-1 and upper tier-2 cities is not as bad as the consensus view. Supply in core areas in tier-1 cities is tight. The grade-A office markets of Beijing and Shanghai are still posting positive rental growth, with supply and demand broadly in balance. Vacancy rates in both cities have remained at low single-digit levels over the past few years. Similarly, though the rate of increase is slowing, retail rents in Beijing and Shanghai edged up in 2015.

For office and retail properties in tier-1 cities, softer demand (not supply) is our chief concern. Longer term, though, we are moderately positive on the retail and rental outlook for China's top malls. We foresee consolidation, especially in the retail property market where we assume the winner takes all.

Louis Vuitton recently announced that it had shut three stores (one each in Guangzhou, Harbin and Urumqi), all with unlisted local developers, following respective departures by H&M and Zara. By contrast, Apple is expanding quickly in China. We believe top developer China Resources Land (1109 HK, Buy, PO HKD24.50) is the landlord for seven out of 36 Apple stores in China, followed by Hang Lung (101 HK, NEUTRAL, PO HKD16.10) and Joy City (207 HK, NR) with four stores apiece.

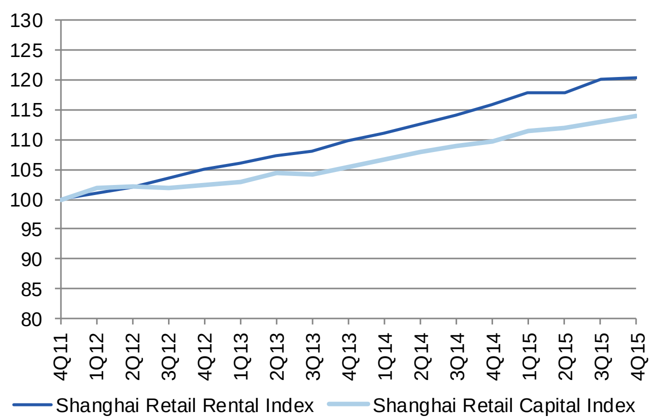
Figure 37. Shanghai Office

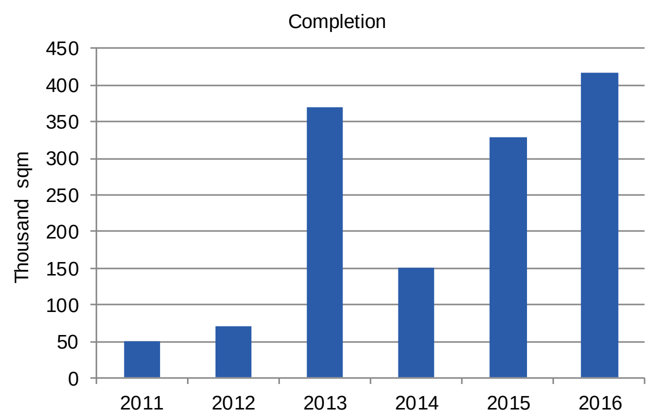




Source: Jones Lang LaSalle, Mizuho Securities Group

Figure 38. Shanghai Retail



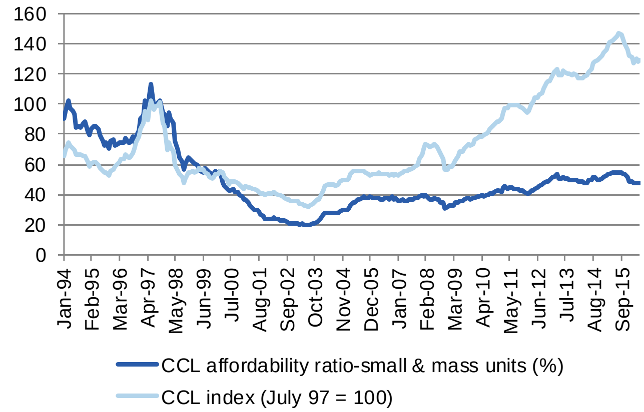


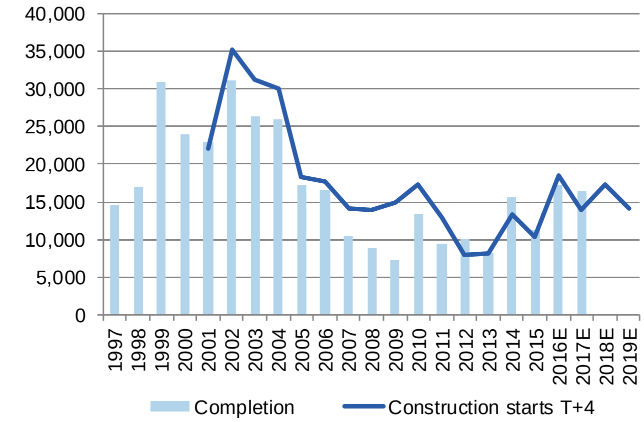
Source: Jones Lang LaSalle, Mizuho Securities Group

Hong Kong Housing: M-Shaped Recovery?

In Hong Kong, overall home prices had dropped by around 9% by end-August 2016 after peaking in September 2015. Following the Brexit vote, the market appears to be stabilizing with the CCL index tracking upward over the past two months. However, we believe this phase will soon pass. Once pent-up demand has been digested and new launches hit the market later in 2H16, unit prices will probably resume their downward path. We forecast a multi-year correction, given slowing Hong Kong and China economies, declining tourist spending and increasing supply.

Figure 39. CCL and Affordability **Housing Supply**



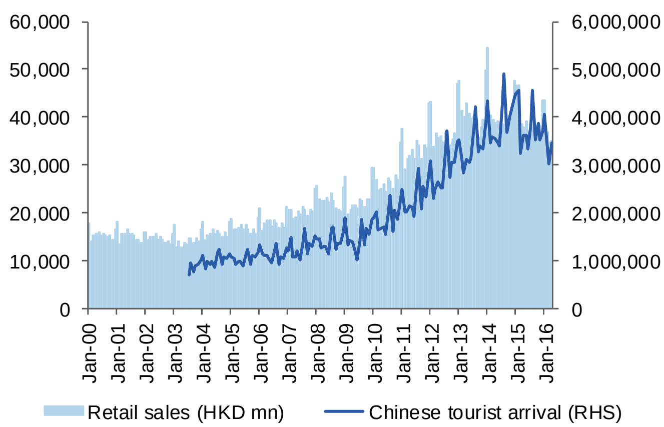


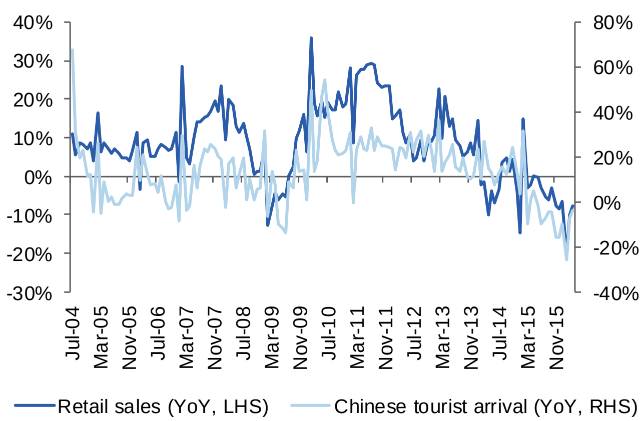
Source: CEIC, Mizuho Securities Group; estimates by Mizuho Securities Asia

Hong Kong Retail: Where is the Bottom?

Retail sales in Hong Kong have fallen sharply from end 2014. The most recent print indicates a 9% YoY decline for June 2016, the 16th consecutive month of decline. Similarly, tourist arrivals from China dropped by 8% YoY in June. The worst is not over, it seems. Fewer mainland Chinese shoppers has prompted rent cuts of some 40% for high street shops (Savills data). Shopping malls are faring better with rents holding up. Still, in the coming years we foresee rent cuts given our weak outlook for the Hong Kong and China economies.

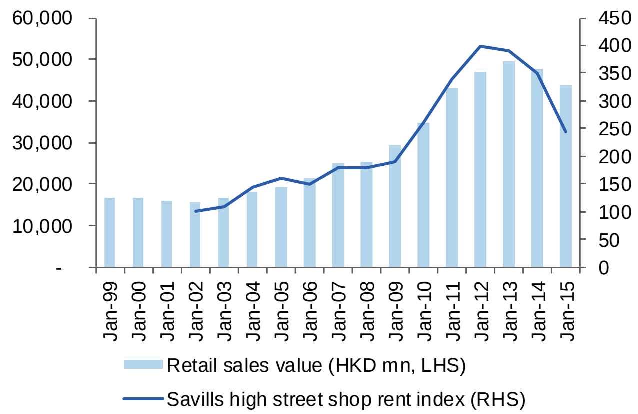
Figure 40. Hong Kong Retail Sales Versus Tourist Arrivals from China

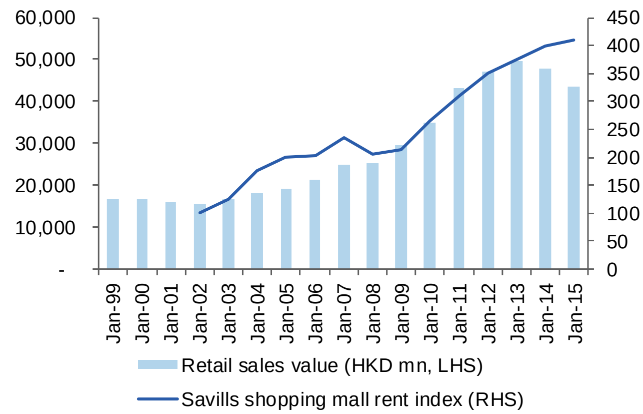




Source: CEIC, Mizuho Securities Group

Figure 41. Shopping Malls are Faring Better than High Street Shops





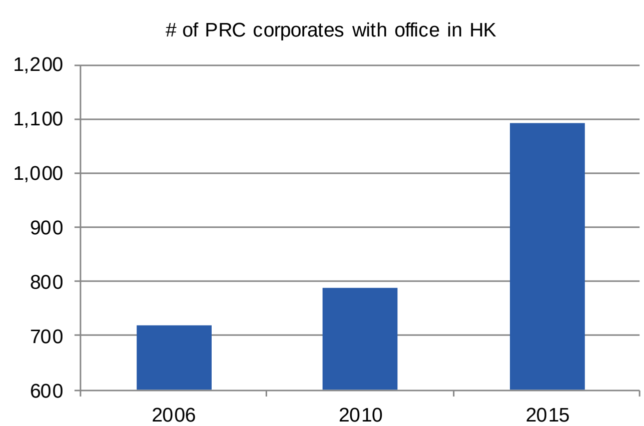
Source: CEIC, Savills, Mizuho Securities Group

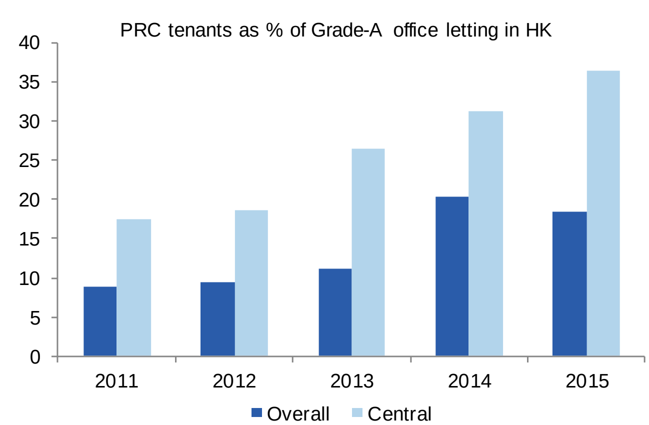
Office: Limited Upside, Significant Downside?

For several years Hong Kong's office market, especially in Central, has been a bright spot as mainland Chinese financial companies expand. Per Jones Lang LaSalle, in 2015 more than 35% of new lettings of Grade-A office space in Central was taken by mainland Chinese companies, almost double the percentage five years ago. Also in 2015, 1,091 mainland companies had offices in Hong Kong, up 52% vs 2005.

We think this demand has peaked too, at least for this economic cycle, and our channel checks confirm this. Many mainland Chinese financial firms, particularly the big ones, have already set up in Hong Kong. Plus capital market activity is muted on slow economic growth and weak stock markets in both Hong Kong and China. Hong Kong's decades-long position as the go-to financial hub for Greater China is diminishing, hit by low valuation multiples for listcos and thinner trading volumes next to mainland bourses.

Figure 42. Hong Kong office: Mainland Chinese Firms Have Been a Stabilizing Force





Source: Jones Lang LaSalle, Mizuho Securities Group

Figure 43. Hong Kong Grade-A Office Market: Snapshot

	Overall	Central	Wanchai / Causeway Bay	Tsimshatsui	Hong Kong East	Kowloon East	Core Central	Central A1
Vacancy Rate	3.80%	1.30%	2.00%	2.00%	0.80%	7.50%	1.40%	1.10%
MoM change (ppts)	0.4	-0.1	0.1	0	0.1	1.1	0	0
YTD change (ppts)	0.7	0.1	-0.2	0.4	-0.3	2	0.3	0.3

	Overall	Central	Wanchai / Causeway Bay	Tsimshatsui	Hong Kong East	Kowloon East	Core Central	Central A1
Rents (hkd/sq ft)	67.5	106.8	62.4	49.3	47.2	33.9	120.2	157.8
MoM Change	0.60%	1.20%	0.30%	0.20%	0.00%	-1.10%	1.40%	1.30%
YTD Change	2.40%	4.20%	1.10%	0.80%	0.40%	-1.10%	5.10%	6.70%

Source: Jones Lang LaSalle, Mizuho Securities Group; data as of end-May 2016.

Singapore's Physical Market

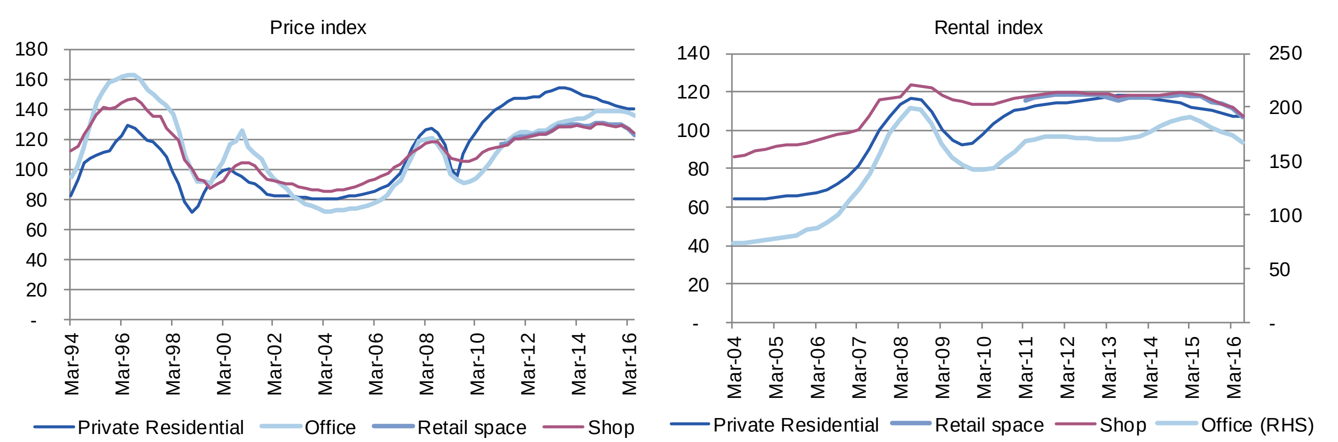
Singapore property prices generally are falling in the face of increasing supply, weak economic growth and declining retail sales. Residential, office and retail are in a correction phase.

In the 12 months to June, home prices fell 3% and rents fell 4% (URA). Office: prices down 2%, rents down 10%. Retail: prices down 5%, rents down 9%.

A total of 5.2mn sq ft of office space is slated for completion in 2Q-4Q16, boosting the office stock by 6.4% while demand is softening (URA). Similarly, Jones Lang LaSalle foresees a surge in supply to the tune of ~0.25mn sqm of grade-A office space in 2016, almost 4x the 2013-15 average.

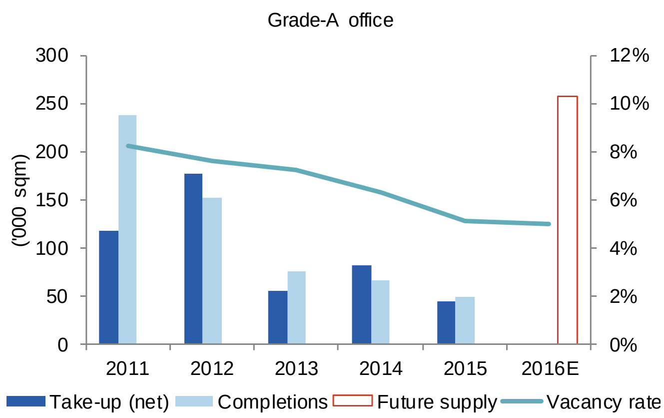
For retail space, Jones Lang LaSalle forecasts a full-2016 completion of around ~150,000 sqm, more than double the 2015 figure. Retail vacancies already stand at a 10-year high; further downward price pressure looks inevitable.

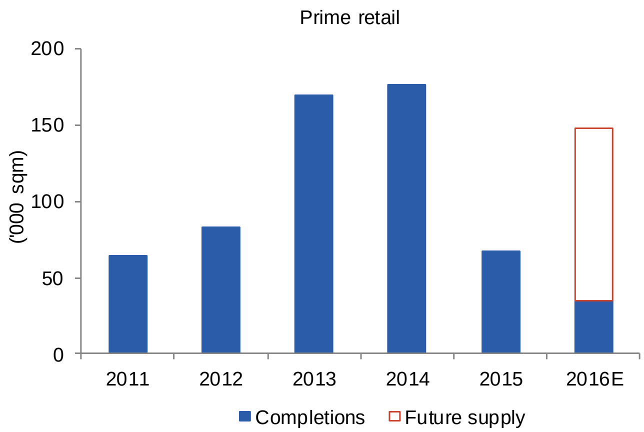
Figure 44. Singapore Property: Prices and Rental Trending South



Source: CEIC, URA, Mizuho Securities Group

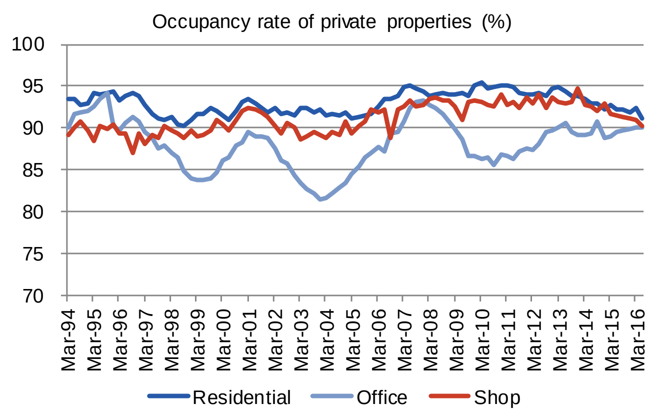
Figure 45. Singapore Office and Retail: Supply and Demand

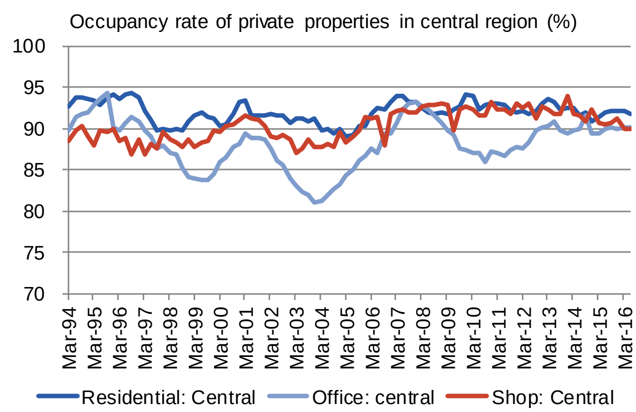




Source: Jones Lang LaSalle forecasts, Mizuho Securities Group

Figure 46. Singapore Office and Retail: Occupancy Rates





Source: CEIC, URA, Mizuho Securities Group

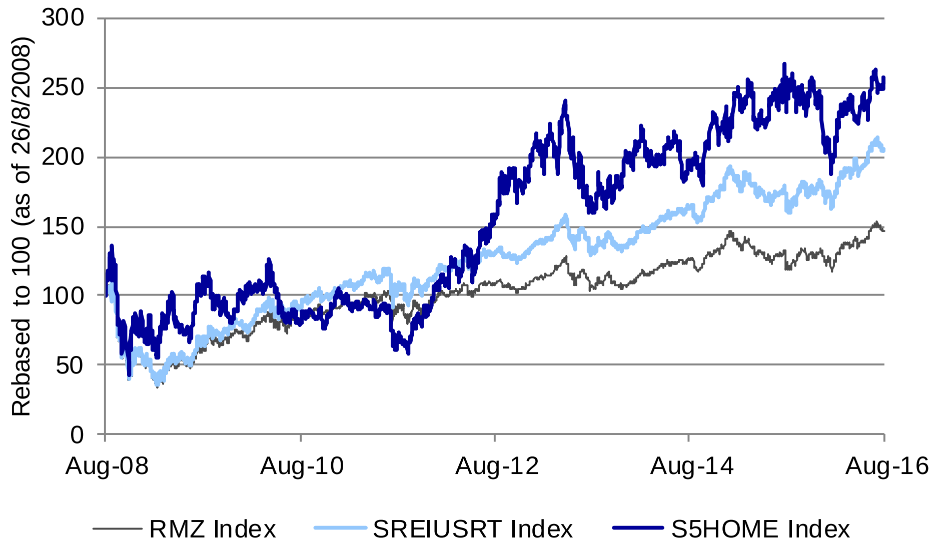
REITs vs Physical = Developed vs Developing

Summary of regional views

While the underlying property sectors in the different global markets are behaving differently at this juncture, it is apparent that they are all just at different waypoints on a universal cycle.

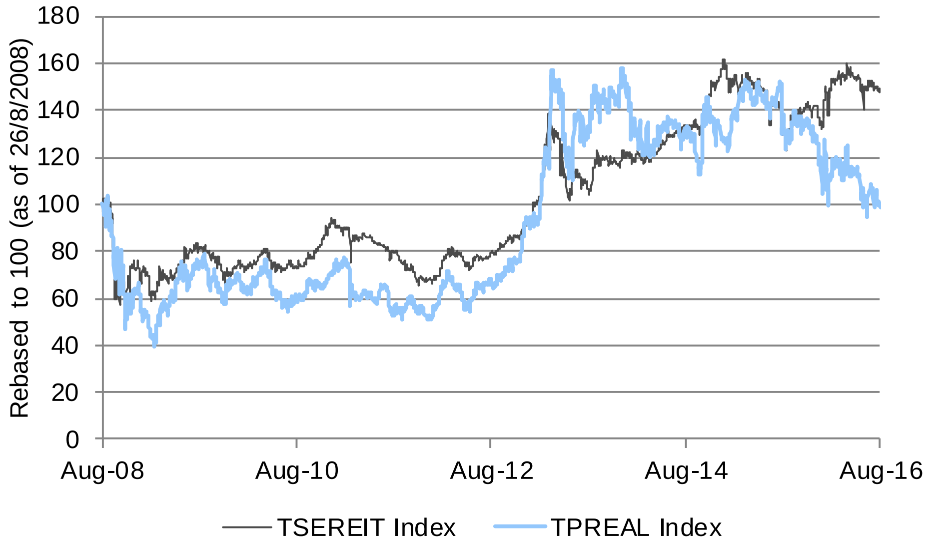
However, we see an interesting divergence in the relationship between the listed REIT sectors and underlying property markets since the Global Financial Crisis. Although there are explainable variations between the US and Japan, it is clear that REITs in both markets have historically taken their cue from physical property. The recent decline in the real estate stocks in Japan post the introduction of negative interest rates has not affected the REITs, however, which have stayed resilient because of the widening of the yield spread.

Figure 47. US REITs vs Homebuilders



Note: We note RMZ (MSCI US REIT (price only) Index is very popular in the US but we use S&P for comparability; although RMZ and the S&P index have recorded differing absolute performance, they clearly move in the same direction.
Source: Mizuho Securities Group, from Bloomberg

Figure 48. Japan REITs vs Real Estate



Source: Mizuho Securities Group, from Bloomberg

What this means for the sectors in the US and Japan is that:

- With the underlying property markets looking close to a consolidation phase, but demand-supply fundamentals nevertheless supportive of REIT valuations, as we explain in the breakout sections below;
- We should expect interest rates and yield spread considerations to be the marginal drivers of REIT performance going forward;
- And, barring any policy shock, we find that the rates/yield environment remains supportive to REITs over the foreseeable future.

The story in Asia (ex-Japan, Australia and New Zealand) is very different and the biggest reason for this is just the fact that the REITs sector is much less developed in the region overall and the development across the region is very spotty.

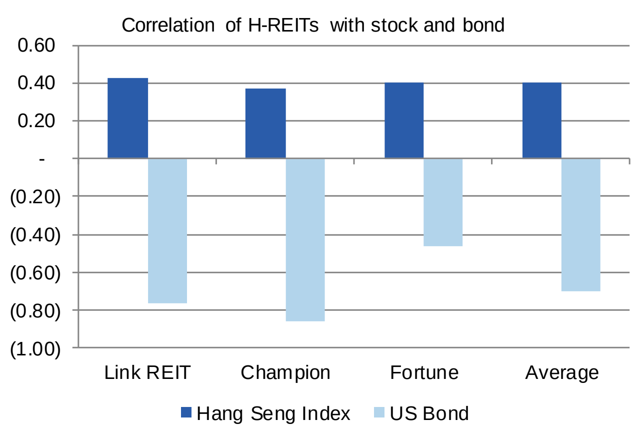
Singapore stands out as the most developed REITs market in the region despite having launched REITS only in 2002 and in fact Singapore REITs outnumber and trade much more actively on the Singapore Exchange than the property developer stocks. In Hong Kong, the big property developers remain the dominant investment vehicles for real estate investors with only Link REIT being comparable. The next largest REITs sector is in Malaysia, but the giant property markets of China and India are yet to embrace REITs in a significant way.

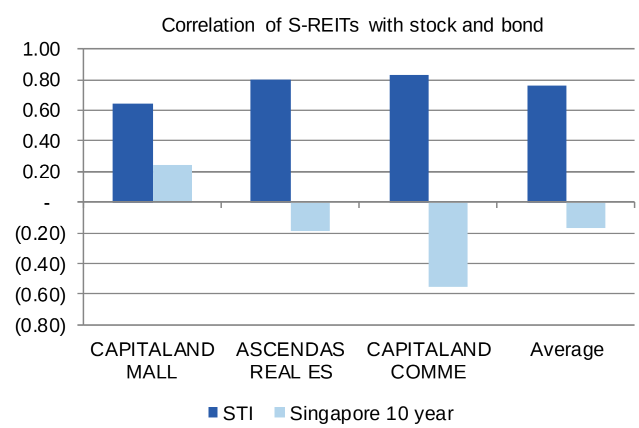
As a result, in the Hong Kong and China markets, physical properties are often transacted at a cap rate much lower than the dividend yield generated by REITs. Link REIT disposed of some of its less prime Hong Kong assets at cap rates of 3-4%. In several instances, mainland Chinese companies have bought Hong Kong office buildings with cap rates of 2%. Even in China, where interest rates are much higher than in Hong Kong, the cap rate of quality commercial properties transacted have been compressed, especially for buildings in prime locations. In 2015 ARA bought two buildings in China with a cap rate of below 5% per our estimate. Link REIT's acquisition of Corporate Avenue 1&2 had a cap rate of about 4.5%. This means while the Hong Kong and China commercial property markets may be in bubble territory, the REIT market most likely is not. Unless the bubble bursts in the physical market, the prolonged low interest rate environment coupled with the scarcity of decent yielding assets could prompt REIT unit prices to increase. This leads to a peculiar situation where we find that Hong Kong REITs are trading like bonds.

H-REITs are more tightly correlated to bonds—the three largest REITs sport an average correlation coefficient of 0.7 with the US 10-year bond yield and only 0.4 with the benchmark Hang Seng Index.

S-REITs are more tightly correlated to stocks—the three largest sport an average correlation coefficient of 0.76 with the benchmark STI and only -0.17 with the Singapore 10-year government bond yield.

Figure 49. H-REITs Are More Like Bonds, S-REITs Are More Like Shares





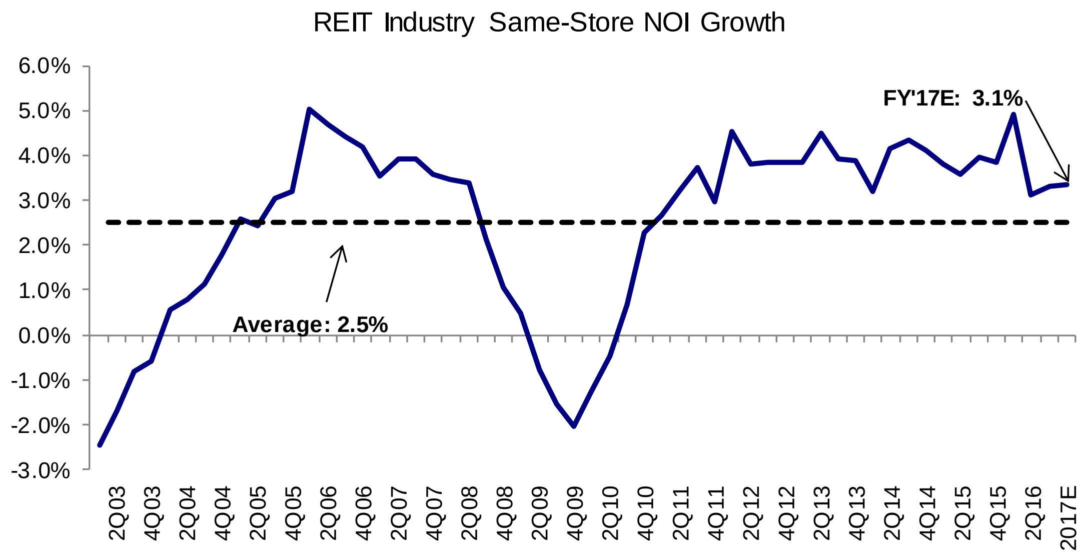
Source: Bloomberg, Mizuho Securities Group

Regional breakout: US

Same-store NOI Will Continue to Drive REIT Performance

As we have noted in the previous chapter, the real estate fundamentals underpinning the performance of REITs in the US remain solid. Looking ahead, we do expect to see ssNOI moderate, but still remain above its long-term average through YE17 at the least, barring a recession (driven by the resilience of the aforementioned supply / demand drivers). Our near-term outlook is further supported by the embedded protection of the long-term nature of leases for many asset classes (e.g., industrial, office and retail) and the near-term visibility provided by the shorter-term lease sectors (e.g., multifamily, self-storage, lodging) that continue to generate mid-single digit ssNOI growth.

Figure 50. SSNOI Remains Above Average, but Moderating



Source: SNL Financial, estimates by Mizuho Securities USA

Interest Rate Threat Appears Low for the Foreseeable Future

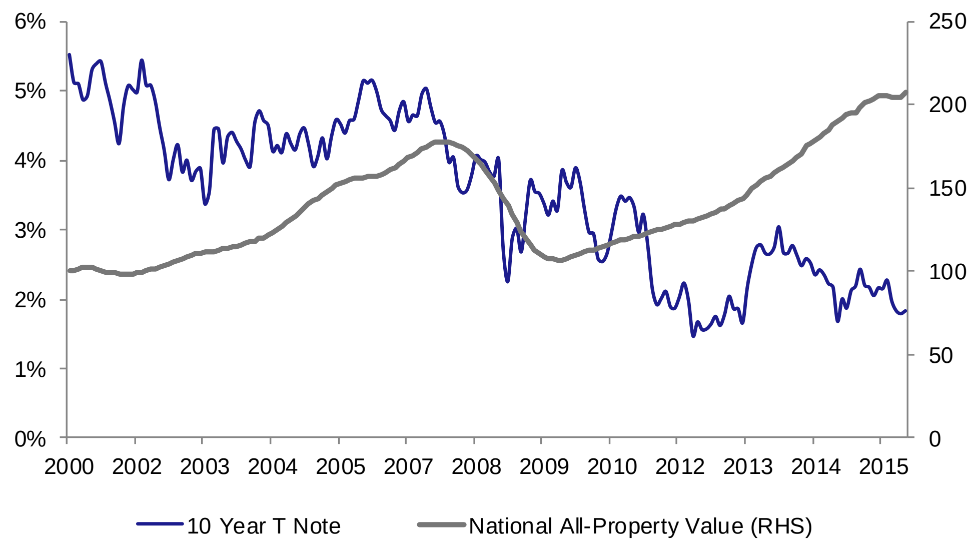
To be clear, we think the sustainability of historically low cap rates (i.e., real estate asset values) is connected to the continued low interest environment. Otherwise said, historically low interest rates have helped push cap rates to new lows as they allow for a still positive spread between property investment cap rates and borrowing costs. And in the current low yield environment (a world "thirsty for yield") and with fewer and fewer attractive yield opportunities around the globe, we think this should drive continued investment in US real estate and support real estate asset values / property cap rates in the near term.

Looking ahead, we do not think cap rates are sustainable at the current depressed level in the long term – a normalization of interest estates seems to be our destiny. But we do not view a near-term meaningful hike in borrowing rates as a likely event. As we mentioned above, even if the Fed does make a move on the short end of the curve, the likely response will be a rally at the long end as fears of an economic recession creep into investors' minds – more appetite for yield. In addition, slowing global growth and negative interest rates in parts of Europe and Asia present a significant deterrent.

However, from the file of "nothing lasts forever", we think that once interest rates return to more normal long-term levels, investor focus will shift from external (non-real estate) considerations, to a real estate fundamental approach based on a more conventional supply/demand analysis. It is at that point when we think US asset values could face pressure as the crutch of low interest rates is removed from the equation.

The difficulty is in visualizing the circumstances by which long-term rates would embark on a steady climb upward, at a disruptive pace from a real estate perspective (even if the reason is a function of an improving domestic economy).

Figure 51. Decline in Benchmark Yields Have Provided Tailwind to US Property Values



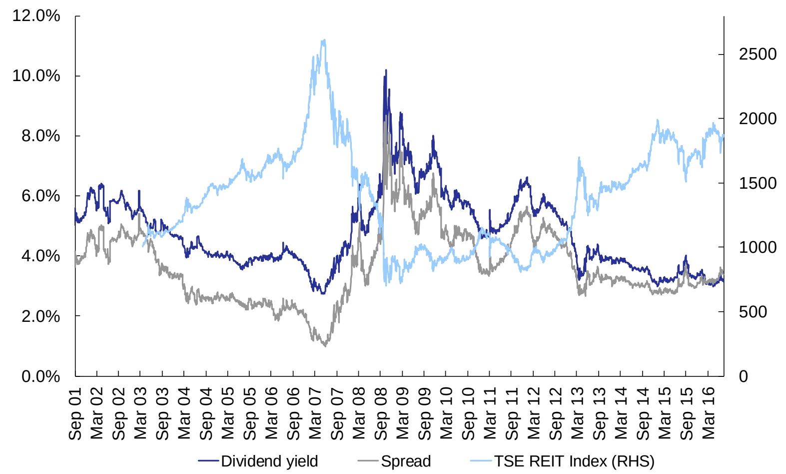
Source: Bloomberg, RCA, Mizuho Securities Group

Regional breakout: Japan

No Evidence of a Bubble in the J-REIT Market

The J-REIT dividend yield is presently 3.4%, close to the lowest level since the market launched in 2001. It fell to 3% in May 2007, the market's pre-GFC peak, when the yield spread (J-REIT dividend yield minus 10y JGB yield) was just 1%. It has now widened to 3.6% because the dividend yield is broadly where it stood before the GFC but the negative interest rate policy adopted in January has reduced the 10y JGB yield to –0.2%. This yield spread is hardly bubbly in historical terms. It is perhaps more relevant to question why an asset class with the potential to generate stable, yen-denominated dividends over the long term pays such high dividends.

Figure 52. J-REIT Dividend Yields, Spread vs 10-Year JGBs, and TSE REIT Index



Source: Mizuho Securities Group

Since the market opened in 2001, J-REITs have traded at an average 18% premium to appraised value NAV. This figure masks extreme volatility: the premium to NAV was 80% at the pre-GFC peak in May 2007, moving to a 50% discount at the market bottom in October 2008. It returned to a 60% premium in April 2013 and again in October 2014, both in response to large-scale monetary easing.

Figure 53. J-REITs: P/NAV Multiple

Source: Mizuho Securities Group

Share prices and NAV generally do not diverge significantly in the global market, since any such mismatch leads to arbitrage opportunities between the listed and unlisted markets. In practical terms, rising multiples among listed REITs will result in an increased number of listed funds (growth in supply), which eventually lowers multiples.

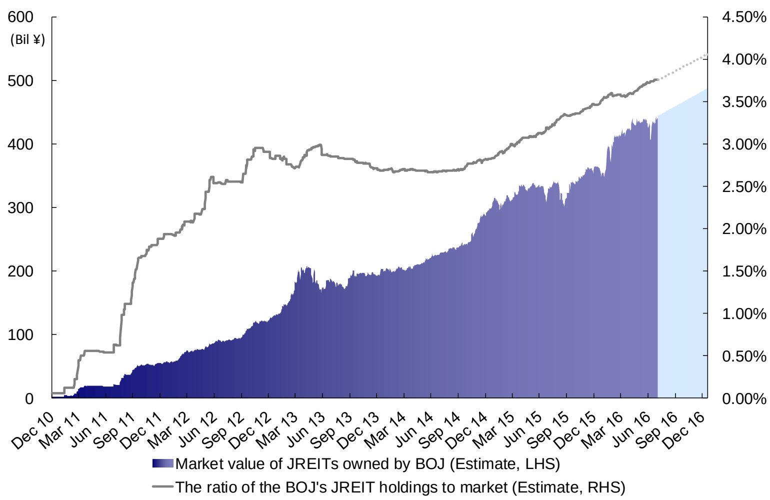
Lower multiples among listed REITs will encourage funds to delist and cash out their portfolios, which eventually raises multiples. The J-REIT market has been much more volatile than other global REIT markets because of the constraints on such arbitrage between the listed and unlisted markets.

A number of factors contribute to the 18% average premium noted above: the listed J-REITs are exempt from corporate tax because they meet the tax conduit test; they leverage low funding costs to achieve high returns; and they offer much greater liquidity than investing directly in real estate. This combination, plus the vast number of domestic funds searching for yield, ensures that demand for J-REIT shares will structurally exceed supply and that they will trade on a higher premium to appraised value NAV than other REIT markets.

It must also be noted that appraised values in Japan tend to be less volatile than market prices. This means that appraised values are likely to be lower than the price at which properties change hands when the market is rising, as it is now. J-REITs sold a combined ¥213.2b of property last year, at a 10% premium to the most recent appraised value of ¥193.9. When this happens, appraised value NAV understates the real picture and share prices appear to trade at a larger premium to NAV.

We have discussed dividend yield and premium to NAV in the J-REIT market, and the factors behind them. We conclude that market multiples are currently not frothy. It was argued when the BoJ began to purchase J-REIT shares as part of its monetary easing program in 2010 that this would fuel a bubble. The BoJ now purchases ¥90b of J-REIT shares a year, and may increase this further as part of future additional easing. The current level is just 1% of overall trading in these stocks, and therefore does not significantly impact flow. New supply of shares can also comfortably absorb this new money coming into the market: J-REITs raised ¥764.5b through initial and secondary public listings in the past year. The BoJ's announcement that it would purchase J-REIT stocks certainly lifted market multiples to an extent, but we would argue that it has not fueled a bubble.

Figure 54. Estimated Market Value of J-REITs Owned by the BoJ and Estimated Ratio of BoJ's J-REIT holdings to market



Source: Mizuho Securities Group

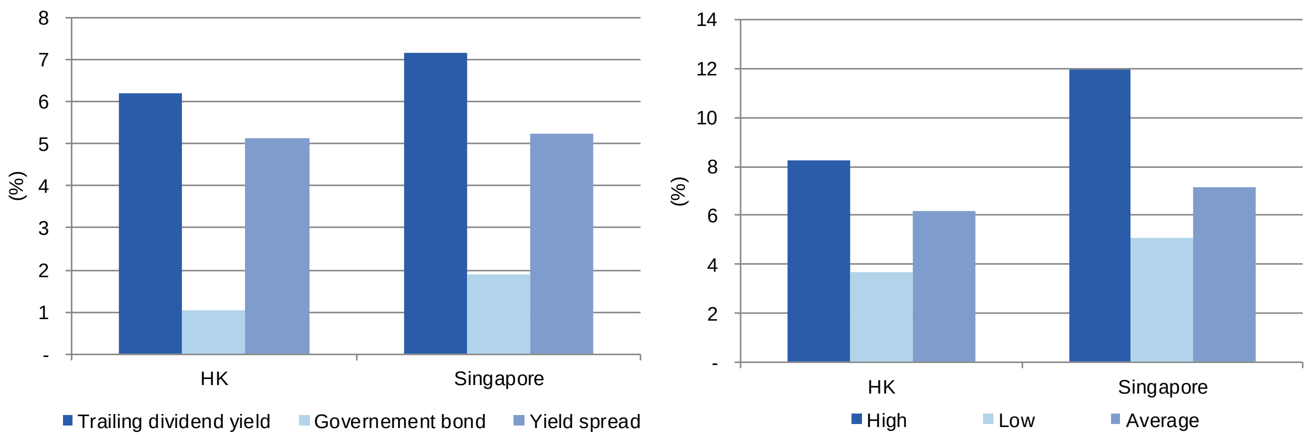
We therefore believe the key questions to consider when assessing the J-REIT market are whether a future bubble is possible, and under what conditions it might occur, rather than whether one already exists.

Regional Breakout: Asia ex-Japan

H-REITs and S-REITs: Yield Spread Almost the Same

Hong Kong REITs deliver a trailing dividend yield of 6.2%, slightly lower than S-REITs' 7.2%, though the yield spread over 10-year government bonds is almost the same. That said, the yield of S-REITs has a wider variance compared with H-REITs, ranging from 12% at the upper boundary to 5% at the lower boundary. H-REITs: upper boundary of 8.1%, lower boundary of 3.8%.

Figure 55. Both H-REITs and S-REITs Offer a Solid Spread Over Government Bonds

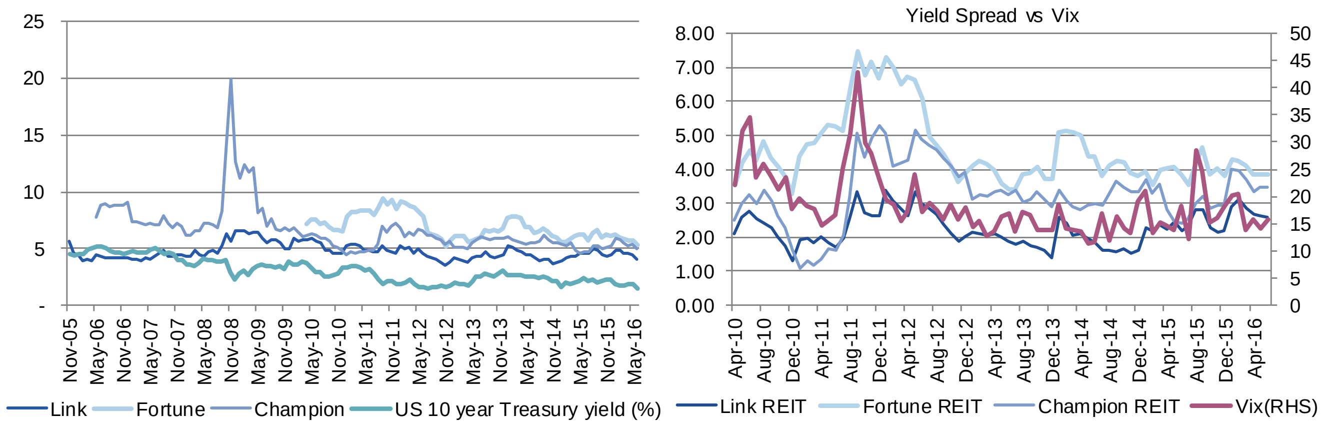


Source: Bloomberg, Mizuho Securities Group

Yields Compressed on Lower Risk-Free Rate While Spread Remains Stable

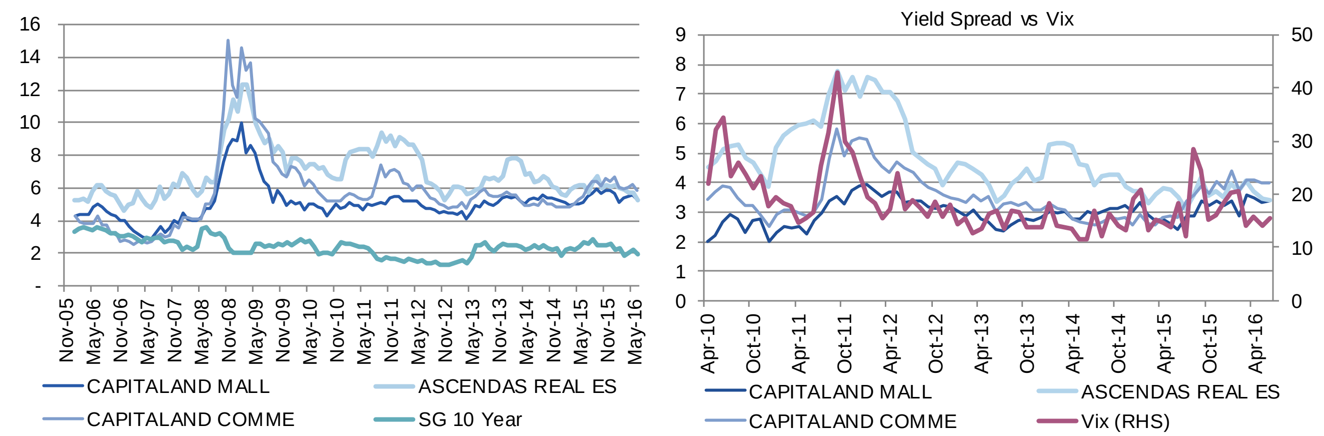
Although yields have been compressed after 2008, the yield spread between REITs and 10-year government bonds has been largely stable in both Hong Kong and Singapore. Yield spread volatility has closely followed overall market volatility, taking the VIX Index as a proxy. This goes for both H-REITs and S-REITs. In this sense the REITs do not look over-valued. We think both H-REIT and S-REIT pricing has been rational.

Figure 56. Yield Spread Between H-REITs and US 10-year Government Bonds



Source: Bloomberg, Mizuho Securities Group

Figure 57. Yield Spread Between S-REITs and Singapore 10-year Government Bonds



Source: Bloomberg, Mizuho Securities Group

Cap Rates: Physical Transactions Versus REITs

In the Hong Kong and China markets, physical properties are often transacted at a cap rate much lower than the dividend yield generated by REITs. Link REIT disposed of some of its less prime Hong Kong assets at cap rates of 3-4%. In several instances, mainland Chinese companies have bought Hong Kong office buildings with cap rates of 2%.

Even in China, where interest rates are much higher than in Hong Kong, the cap rate of quality commercial properties transacted have been compressed, especially for buildings in prime locations. In 2015 ARA bought two buildings in China with a cap rate of below 5% per our estimate. Link REIT's acquisition of Corporate Avenue 1&2 had a cap rate of about 4.5%.

While the Hong Kong and China commercial property markets may be in bubble territory, the REIT market most likely is not. Unless the bubble bursts in the physical market, the prolonged low interest rate environment coupled with the scarcity of decent yielding assets could prompt REIT unit prices to increase.

Figure 58. Hong Kong and China: En-Bloc Transactions—Cap Rates

Hong Kong: office transactions 2015

Date	Property	District	GFA (sq ft)	Consideration (HKD b)	Average Price (HKD psf)	Buy-in cap rate
16-Feb	Dah Sing Financial Centre	Wanchai	400,000	10.0	25,000	2.4%
16-Feb	Trade and Industry Department Tower	Mong KoK	284,285	5.9	20,789	na
15-Nov	MassMutual Tower	Wanchai	344,448	12.5	36,290	1.4%
15-Nov	One HarbourGate West	Hung Hom	393,013	5.9	14,885	2.2%

A selection of en bloc transactions in China in 2015

City	Property	Transacted Price (CNY)	Consideration (USD mn)	Above-ground GFA (sq. m.)	ASP (CNY/sqm)	Buyer	Cap rate
Shanghai	Platinum	2,780	434	32,200	86,335	ARA	4.4%
Shanghai	BEA Finance Tower	2,700	422	43,000	62,791	ARA	4.3%
Shanghai	Corporate Avenue 3	5,700	891	87,000	65,517	Lee Kum Kee & Vanke	n.a.
Shanghai	Corporate Avenue 1&2	6,600	1,031	83,155	79,370	Link REIT	4.5%
Shanghai	Sandhill	1,888	295	63,456	29,753	MAGIC REIT	6.0%
Beijing	EC Mall	1,939	303	55,422	34,990	Link REIT	6.3%

Source: Company data, Mizuho Securities Group

Fed, BoJ: September Elephants in the Room

Not Expecting Higher Rates Anytime Soon

Given how much the low rates environment has helped the REITs sector in recent years, investors may well wonder if any uptick in the Fed Funds Rate would spoil the party, particularly in the US. As we have already explained in the previous chapter, we think that any rise in rates would indicate a stronger economy and that would arguably boost REIT cash flows. Besides, no one is expecting a high rates environment any time soon, and so we think the yield appeal of REITs amid generally low global growth is not going away any time soon.

For now, given the Fed remains data-dependent and the data remains volatile, we are comfortable assuming no rate hike in September in our explicit forecasts. But for a more nuanced view on rates, we hand over to Mizuho Securities USA's Chief Economist, Steven Ricchiuto.

The other elephant in the room, of course, is what the Bank of Japan will do at its policy meeting in September. Ostensibly this will have particular impact on J-REITs and possibly knock-on implications for policy makers around the world, but we don't think the rates environment will turn uncomfortable for J-REITs in light of Senior Economist Tomochika Kitaoka's latest view, which we reproduce below.

Steven Ricchiuto, Chief Economist, Mizuho USA, says…

Grab Yield!

29 August 2016: Grab yield! I am always asked the same two questions at the end of my client presentations: what can be done to correct the imbalances my analysis has identified, and what investment strategy will maximize returns. The answer to both is simple: Grab yield!

This answer reflects my view that policy makers are clueless on how to deal with the problems they confront and, as a result, all an investor should do is put new money to work in the highest yielding asset an investor feels comfortable holding given their risk tolerance. My personal pension fund has been following this strategy since the middle of 2013 and has seen yields drop by over 50% in the past two and a half years. Even though I have left equity money on the table by having sold at 1500 on the S&P, my biggest problem has been selling fixed income assets before they have been called and replacing them with the next highest yield with in my risk tolerance.

I know a lot of investors are overweight credit, but buying on backups has worked well and we expect it to continue to work well. Equity investors are likewise overweight utilities and REITS, but those still have generous yields. The only things that could force me to change this strategy are either a significant deterioration in balance sheets, or a shift in macro economy policy that allows banks to begin re-leveraging the economy. A significant deterioration in credit in the next 12-24 months appears highly unlikely given that companies are levered long and facing exceptionally low debt service costs. Companies may have increased leverage, but borrowing to buy back shares is not like borrowing to build a new plant.

Alternatively, there is a risk that a new administration could relax regulatory oversight enough to motivate increased lending to get the economy moving. The poor performance of bank stocks suggests that management may be willing, under the right political circumstances, to juice lending (especially to the housing market). Housing fundamentals are favorable, and the risk added to lending books would be marginal but the benefit to the bottom line could be significant. Keep in mind the Clinton Administration used leverage to power the economy and the Trump organization is no stranger to leverage.

Never Mind Jackson Hole

26 August 2016: All this speculation and discussion is a waste of time! Not only has the Chair tried to deemphasize the policy significance of the annual Jackson Hole event, but it is also unlike her to break new ground in a public address. This chair sees her role as delivering the message the Committee wanted transmitted, and not to unilaterally set policy as Alan Greenspan often had. Instead, she sees the post meeting policy statement and press conference as the means for delivering important policy messages to the market. It is also unlikely that the committee would have had an emergency meeting to discuss needed policy changes that would need to be delivered to the market at this weekend's event.

Moreover, the title of her talk is "The Federal Reserve's Monetary Policy Tool kit" and there is no question and answer period scheduled. This doesn't mean there won't be juicy sound bites to come out of the meeting; but we already know the opinion of most of the Committee members given nothing new is likely to be discovered. Expect lots of gossip and innuendo but nothing of substance. The next payroll report, due out on Friday, September 2, will be decidedly more important to the market than this weekend's symposium, and even the jobs report is unlikely to move the needle much on a September rate hike (although it could start the clock ticking on a December move.)

Our view is that a rate hike is uncalled for, but the fact that the Committee has been looking to hike for the past year leaves open the risk that if the data gives them an opportunity they will take it before year-end.

Tomochika Kitaoka, Senior Japan Economist, Mizuho Securities, says…

NIRP is Not Going Away Soon

26 August 2016: The obvious items on the agenda for the BoJ's comprehensive review at the upcoming 20–21 September policy board meeting include an assessment of the effectiveness and side effects of quantitative targets, large-scale asset purchases, the 2% inflation target, and the Negative Interest Rate Policy (NIRP). Based on the outcome of this assessment, the Bank will probably either continue or expand the existing easing measures while working to restrain the side effects. Our focus, however, is the hidden side of the assessment, which we suspect might include a review of the yield curve and the most comfortable location for the long-term interest rate as well as wages (possible cooperation with the government), how to coordinate the monetary and fiscal policy mix, and ways to correct side effects from asset buying.

For more, click the full report here: ***Overt, covert sides of BoJ's policy review***. But we would highlight the following extract (page 11 of the report) where Kitaoka expresses his opinion on interest rates: The goals of monetary policy in advanced countries may include not just the lowering of the yield curve but also the lowering of real interest rates (or the stabilization of real interest rates at a low level). BoJ Governor Kuroda has mentioned negative real interest rates any number of times in press conferences and in other prepared remarks.

That inflation expectations are below 2% should be a source of concern for the central banks of Japan, the US, and the euro zone alike. Kazumasa Iwata, President of the Japan Center for Economic Research (and former Deputy Governor of the Bank of Japan) estimates that Japan's natural rate of interest is around -1%, and assuming that he is correct, real interest rates may need to be brought down further (from *NIRP: The effects and limits of monetary policy easing with three dimensions*, by Kazumasa Iwata, Ikuko Samikawa, and JCER August 2016).

Yet, as pointed out by Kiyohiko G. Nishimura, a Professor of the University of Tokyo's Faculty of Economics (and also a former Deputy Governor of the Bank of Japan), we may be at the point of policy saturation, with the real economy becoming less sensitive to changes in real interest rates (from a 22 August 2016 entry in the Nikkei's weekday economics feature titled "*Monetary policy at the saturation point*").

Investment Recommendations

Summary of Regional Views

With our coverage concentrated largely in the US and Japan, our starting point for global investors is the choice between the US and Asia including Japan. We see US REITs as having the best balance from a risk/return standpoint.

- In the rental market, cash flow is still rising.
- Supply is muted.
- The greatest risk for US REITs is a rise in interest rates, but we would temper that statement by pointing out that rising interest rates would be the result of strong economic activity.

In Asia including Japan, conditions are divided.

- REIT valuations are high by historical standards in Japan, but in our view this reflects the strength of the property market. This explains our preference for Japan over Asia ex-Japan from a safety standpoint, other things being constant. If other things don't stay constant, we regard J-REITs as somewhat vulnerable to external shocks, noting their volatility around the time of the GFC.
- Asia ex-Japan REITs show no signs of overheating and we would say valuations are a reasonable reflection of property market corrections.

We would be overweight Asia including Japan if we were an investor with high risk tolerance and overweight the US if we were risk-averse.

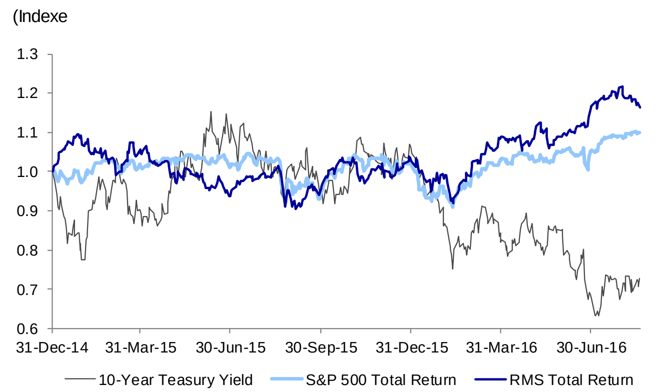
Regional breakout: US

Question of Valuation and Rates

Year-to-date, the RMZ (MCSI's REIT index, a widely-used US REIT proxy) is up 11.4% (as of 31 August), outpacing the S&P (+6.2%) and Russell 2000 (+9.2%); the RMZ has outperformed the S&P in seven of the past 10 years. Given prevailing valuations, we consider the US REIT sector to be fully valued based on the fundamental snapshot we see today. We expound on our view of US REIT valuation further below; see Figures 59-68 for further detail.

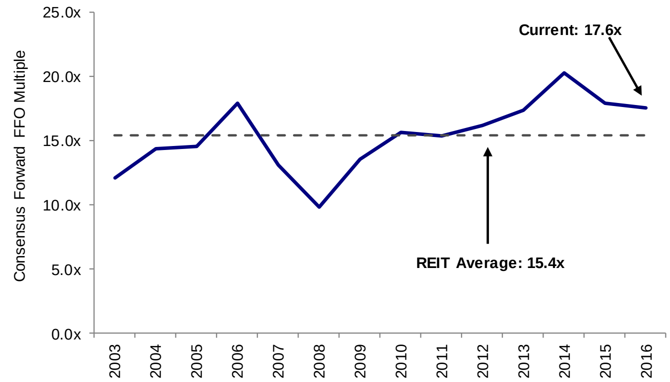
- **Historical Perspective:** By our estimates, the US REIT sector now trades 17.6x 2017E FFO, 103% of NAV and 6.1% implied cap rate. By historical standards, the US REITs are trading at the upper end of its long-term ranges (since 1993) and placing it in 'full" territory on an absolute valuation basis. Among the major property subsectors, the Industrial and Strip Center sectors screen most expensive, while Mall and Office are among the least expensive. (Note: FFO = funds from operations = net profit ＋ depreciation - gains/losses on real estate sales).
- **Versus Broader Markets:** Relative to stocks, the REIT sector trades at a 20 bps premium to the S&P and a 70 bps premium to the Russell 2000, on a forward earnings multiple basis, versus long-term premiums (since 2003) of negative 170bps and negative 80bps, respectively.
- **Implied Cap Rates Versus Treasury Yields:** The average US REIT implied cap spread versus the US 10-Year Treasury yield stands at 450 bps versus its long-term trailing average of 390bps (since 2003), representing a modest bright spot from a valuation perspective.
- **Dividend Yields:** Compared to the US 10 Year Treasury yield of 1.58%, the US REIT sector average dividend yield of 3.5% equates to nearly 200 bps spread, versus the historical average of 113 bps – another valuation "bright spot". We note today's REIT average yield is below the 4.4% long-term average, although that is arguably an apples-to-oranges comparison that is impacted by the prevailing interest rate environment.

Figure 59. REITs Have Outperformed Over The Past 20 Months



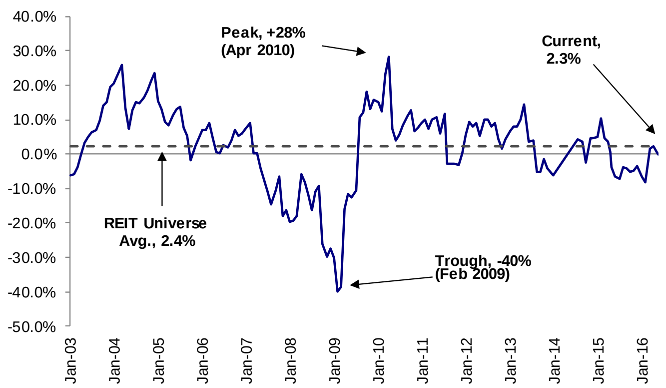
Source: SNL Financial, Mizuho Securities Group

Figure 60. REIT FFO Multiple is Close to Cycle-High, Well Above Average



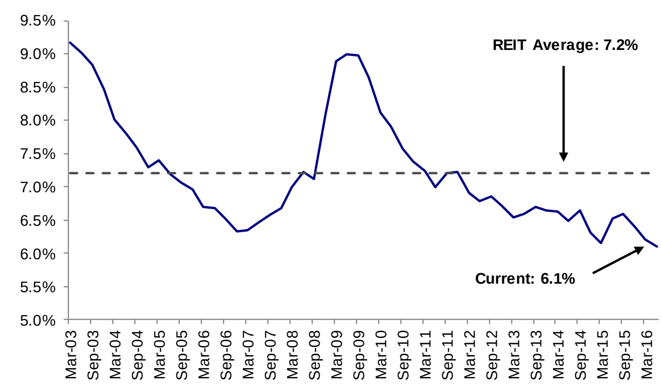
Source: SNL Financial, Mizuho Securities Group

Figure 61. REITs Appear Fairly Valued on a Price to NAV Basis



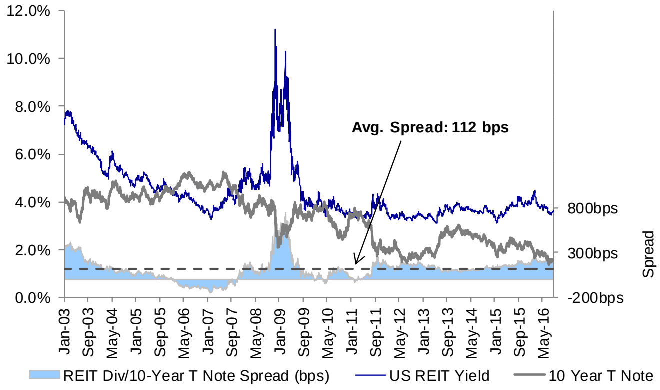
Source: SNL Financial, Mizuho Securities Group

Figure 62. Market Cap Rates Have Compressed Beyond Long-term Average



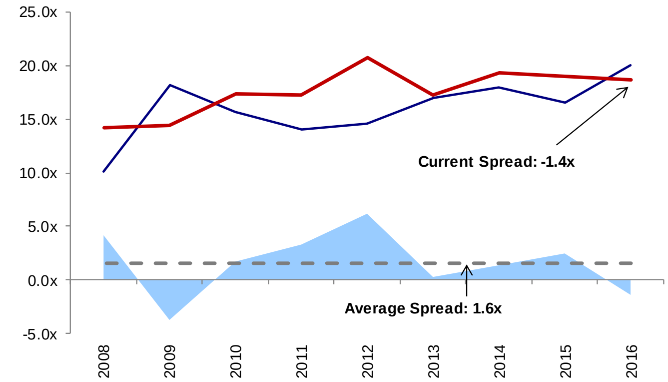
Source: SNL Financial, Mizuho Securities Group

Figure 63. REIT Yields Generally Higher Than the 10-year Spread - Now Above-average



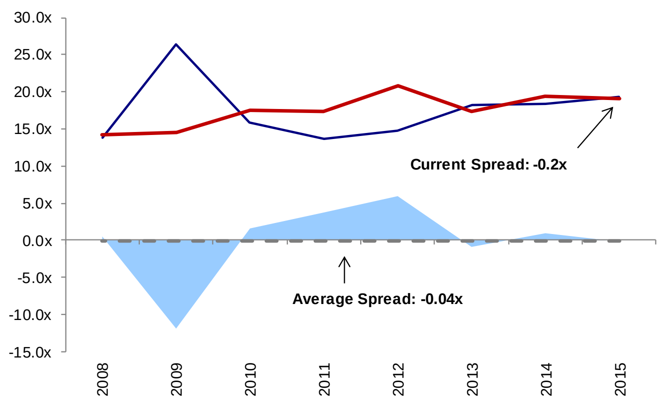
Source: SNL Financial, FRED, Mizuho Securities Group

Figure 64. REITs (red) Generally Trade at Premium to the S&P (blue) on Earnings Basis



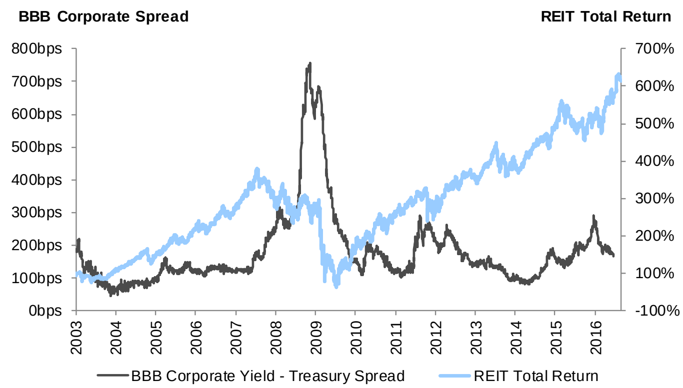
Source: SNL Financial, Mizuho Securities Group

Figure 65. REITs (red) and Russell 3000 (blue) Trade In-line on Earnings Basis



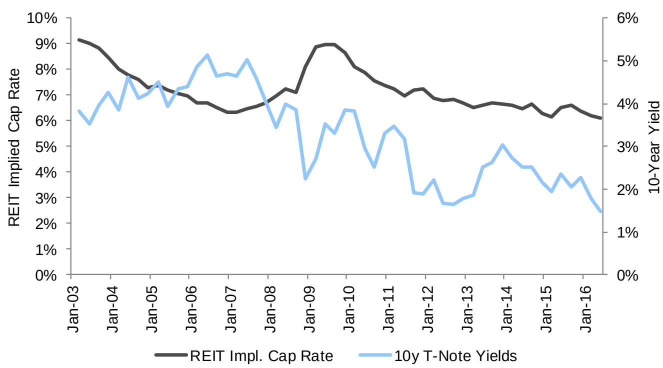
Source: SNL Financial, FactSet, Mizuho Securities Group

Figure 66. Relative Valuation Looks Attractive vs. BBB-bonds



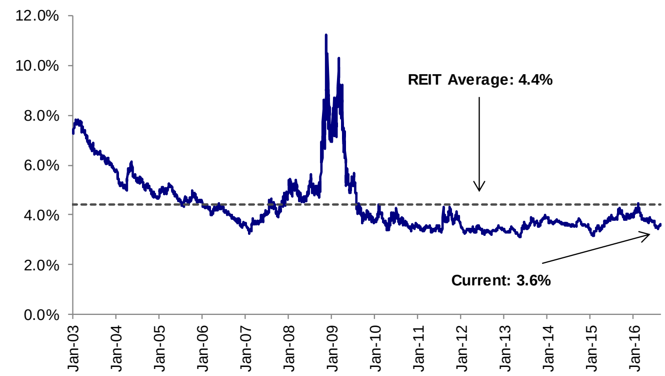
Source: SNL Financial, Mizuho Securities Group

Figure 67. Relative Valuation Looks Attractive vs. 10-year T-notes



Source: SNL Financial, Mizuho Securities Group

Figure 68. REIT Yield Currently Slightly Below-Average



Source: SNL Financial, Mizuho Securities Group

US REIT Stock Recommendations

Alexandria Real Estate (ARE, Buy, Price Target USD125): Science of Growth

Alexandria Real Estate Equities (ARE) is an urban office REIT focused on collaborative science and technology campuses in innovation cluster locations, with an asset base in North America of 24.4 million square feet as of June 30.

We believe ARE provides investors with a unique combination of current cash flow growth and future NAV creation through its creative and highly pre-leased development pipeline. Regarding the former, ARE's Class A property portfolio is expected to produce cash same store NOI growth of 4%-6%, which is largely driven by cash re-leasing spreads approaching 10% on average. It runs the portfolio at a very high 97% occupancy level, with the vast majority of its tenants being large and well-established organizations and/or research institutions. In addition, its current development effort encompasses 3.5 million square feet (already 81% pre-leased) and is expected to produce approximately $200 million of incremental net operating income over the next few years.

Hudson Pacific Properties (HPP US, Buy, Price Target USD38): Bay Area Alpha

Hudson Pacific Properties (HPP) is a REIT focused on acquiring, repositioning, developing and operating high-quality office and state-of-the-art media and entertainment properties in select West Coast markets.

The company has strategically assembled a portfolio totaling over 17 million square feet, including land for development, in high-growth, high-barrier-to-entry submarkets throughout Northern and Southern California and the Pacific Northwest. After a year-long debate of how and when a moderating technology environment would impact HPP's office portfolio, the company continues to perform extremely well in the Bay Area, aided by an embedded mark-to-market (MTM) cushion of 129%, 23% and 21% for SF, the Peninsula and Silicon Valley, respectively. While we are coming to the conclusion that a soft landing in tech is the higher probability of outcomes (relative to the loud burst of the 2001 bubble), that unknown factor remains the key risk to the story.

UDR, Inc. (UDR US, Buy, Price Target USD41): Well Diversified Multi-Family Player

UDR is a leading multifamily REIT with a demonstrated performance history of delivering superior and dependable returns by successfully managing, buying, selling, developing and redeveloping attractive real estate properties in targeted US markets. As of June 30, 2016, UDR owned or had an ownership position in 51,381 apartment homes including 3,510 homes under development or in preferred equity investments.

The stock has underperformed during 2016 in large part because of its exposure to New York City and San Francisco, where moderating growth prospects appear to be emerging. However, in a current multifamily environment where growth is on a decelerating path in general, we think UDR demonstrates the best risk-adjusted return – owning a portfolio identified by its multiple layers of diversification (i.e., Class A and B price points, an appropriate collection of geographies, and a suburban/urban mix within those geographies). In a nutshell, we recommend investors underweight multifamily by overweighting UDR.

Taubman Centers (TCO US, Buy, Price Target USD89): Most Productive Mall Portfolio

Taubman Centers (TCO) is engaged in the ownership, management and/or leasing of 24 regional, super-regional and outlet shopping centers in the US and Asia. Taubman's US-owned properties are the most productive in the publicly held US regional mall industry, with sales psf $789 vs mall peers' $599, which we believe will support superior demand / pricing power and core growth as retailers become increasingly selective on store locations in a slowing sales environment.

Combined with contributions from redevelopment (incl. Short Hills, Cherry Creek, Great Lakes) and development (San Juan, Hawaii, China) this should help TCO generate total NOI growth >30% through YE19, a feat few REITs can match and one which should support double-digit earnings growth over the same period.

Regional breakout: Japan

Good Value if you Look Across the Valley

While we see no evidence of a bubble forming in either the Japanese real estate or J-REIT markets at present, potential investors should be aware that the real estate market is at risk of a normal cyclical correction. Both markets rose strongly before the GFC and then underwent particularly deep corrections afterwards. This time, both markets have grown relatively moderately during the recovery phase that began in 2012, meaning the correction should be mild as long as external conditions do not deteriorate sharply.

Cap rates tend to rise when the real estate market corrects, but they are unlikely to increase much as long as interest rates remain low. The greatest risk of higher cap rates is in asset classes such as office property, where rates have fallen in anticipation of rising rents. We see a relatively low risk of higher cap rates in logistics because the market's expansion is likely to reduce the risk premium.

Lower borrowing costs are set to contribute positively to profits in the near term. We forecast that borrowing costs for the J-REIT market as a whole will fall 0.1% in 2016, lifting DPU by around 2%. We expect further reductions in borrowing costs next year and beyond. The chief downside risk is a reduction in cash flow from property leasing, particularly if occupancy rates decline. The risk is also greater for properties that rely heavily on major tenants, since revenue may not be sufficiently diversified.

Risk tolerance increased greatly between 2012 and 2014 as investment in the J-REIT market delivered total returns of 30%–40%. Risk tolerance has decreased since the TSE REIT index reached 2,000 in early 2015. We see little prospect of a return to increased risk tolerance in the near term. In such market conditions, the most liquid stocks are likely to maintain the highest valuation multiples.

We regard logistics facilities and housing as the most promising investments over the medium to long term, based on considerations of cap rate, cash flow, and J-REIT market conditions. Increased supply of new property is a risk for logistics, although the use of long-term leases means cash flow is stable. Lower risk premiums as the market expands are likely to offset the risk of rising cap rates. Declining occupancy is not a major risk for residential property because rents do not fluctuate widely and the tenant base is diversified. Stable asset cash flow means any decrease in borrowing costs translates directly into higher returns.

The office sector is most at risk of a market correction, meaning that the benefit of lower borrowing costs may be canceled out by diminished cash flow. Cap rates may also rise if hopes of rent increases—which have been behind the recent fall in cap rates—fade. Cash flows from retail property are stabilized by the use of long-term leases, but the risk of reduced cash flow resulting from tenant departures and contract revision can weigh on multiples for funds investing in suburban shopping centers.

J-REIT Stock Recommendations

GLP J-REIT (3281 JP, Buy, Price Objective ¥148,000): Positive Rental Reversion and Secure Pipeline

GLP J-REIT is Japan's second-largest logistics REIT, with total portfolio assets of ¥384.6b. Although rents for properties owned by the company are currently around 5-10% below market rates, we look for a gradual upturn in rent levels through FY17 as the company negotiates lease contracts as they come up for renewal. While we expect to see an increase in logistics facilities supply going forward, we think GLP J-REIT will be able to maintain high profitability thanks to its long track record of maintaining high occupancy rates. On the external growth front, the company has a secure pipeline to logistics facilities owned by its sponsor the GLP Group.

Kenedix Office Investment (8972 JP, Buy, Price Objective ¥710,000): Solid Office Player, Potential Boost from Credit Rating Improvement

Kenedix Office Investment (KDO) is a J-REIT that primarily invests in office buildings in Japan, with total assets of ¥398.3b. KDO operates mainly in the Tokyo metropolitan area and the majority of properties are mid-sized office buildings.

As rents for office buildings owned by the company are trending slightly below market prices, we think KDO has room going forward for rent hikes. We also think the company has ample room to lower borrowing costs compared to sector peers, which should contribute to DPU growth going forward. Finally, we note that if KDO can boost its credit rating to AA or better, the REIT's shares would be added to the list of J-REITs eligible for purchase by a Bank of Japan REIT fund.

Nippon Accommodations Fund (3226 JP, Buy, Price Objective ¥510,000): Fastest Rental Growth in Residential

Nippon Accommodations Fund (NAF) is a J-REIT specializing in rental residential properties. With total assets of ¥298.7b, NAF is Japan's second-largest residential REIT, behind Advance Residence Investment. However, NAF has high exposure to central Tokyo, which is a competitive advantage along with its focus on singles and DINK families. This is why NAF enjoys the fastest growth in rents among the residential J-REITs.

The backing of its sponsor Mitsui Fudosan means the company enjoys a strong credit rating, in turn helping to keep borrowing costs down, which should also contribute to earnings growth going forward.

LaSalle Logiport REIT (3466 JP, Buy, Price Objective ¥127,000): Solid Parentage and Prime Logistics

LaSalle Logiport REIT (LLR) is a JREIT that specializes in logistics facilities investments. LLR's sponsor is LaSalle Investment Management Japan, an entity within the LaSalle group of companies that together form one of the world's top real estate investment advisory firms.

The company's real estate portfolio (total assets: ¥161.4b) are located entirely in major metropolitan areas. The two basic principles of its investment policy are a focus on properties in the Tokyo and Osaka areas and a focus on prime logistics—large-scale logistics facilities with sophisticated features.

Regional Breakout: Asia ex-Japan

Long-Term Structural Positives

Interest rate expectations are set to remain the key driver of performance. In addition, we believe the AeJ REIT sector has scope to grow. Tailwinds:

- We expect the spread gap between AeJ REITs and J-REITs/US-REITs to narrow, given **increased yield-hunting trading spurred by prolonged low interest rates** and sluggish global economic growth. This process could be accelerated by the fact that REITs (and other listed real estate companies) have been carved out of the financial sector to become the 11th GICS sector. This, in turn, may prompt investors to overcome the learning curve of the sector.
- The **expanding institutional investor base in the AeJ region** may improve market liquidity and valuations. Mainland Chinese insurers are set to be active players in the AeJ REIT market. Any change in regulations that allow pension funds to increase their exposure to REITs would similarly help. In Hong Kong, MPF scheme allocations to REITs are limited to 10% of total scheme funds, because of the categorization of the instruments as a permissible asset.
- **Securitized properties are still limited in terms of market cap**, when compared with the size of the physical market.

We think on a comparative basis Hong Kong has the greatest potential to develop its REITs market, by virtue of its fixed dollar exchange rate and closeness to mainland China. Yet we believe the Singapore government and regulators are more efficient and market-savvy.

AEJ REIT Stock Recommendations

Fortune REIT (778 HK, Buy, Price Objective HKD11.21): Mini Link REIT but with Better M&A Opportunities

Based on a few valuation metrics such as growth potential (both organic and inorganic growth), earnings visibility, liquidity (shareholder structure and turnover), as well as dividend yield, our top pick in AeJ is Fortune REIT (778 HK, Buy) which we view as a good substitute to industry leader Link REIT (823 HK, Neutral) but with higher yield.

We like it for resilient earnings outlook with high visibility and proven track record of growth by M&A thanks to a supportive and resourceful sponsor. The high correlation between its share price and treasury yield indicates it is an ideal proxy for yield hunters if this low interest rate environment is going to persist given its attractive forward yield of 5.0%.

Yuexiu REIT (405 HK, Buy, Price Objective HKD5.36): Grow Together with Guangzhou

We also like Yuexiu REIT (405 HK, Buy) as it offers attractive yield (6.5%) together with growth prospectus as its flagship asset Guangzhou IFC is well positioned to benefit from office rent growth in Guangzhou CBD after the decade-long building spree comes to an end.

Global REITs Coverage Universe

Figure 69. Mizuho Securities - Japan REITs Coverage

Company	Ticker	Rating	Currency	Share Price	Price Objective	Div. Yield	Disc/ Prem to NAV	Implied Cap Rate	Debt/ Assets	Interest Cover	Main exposure
MCUBS MidCity Invt	3227	Buy	JPY	348,500	400,000	4.1%	-6.3%	4.9%	42.1%	4.5	Office
Mori Hills REIT Invt	3234	Buy	JPY	156,500	175,000	3.4%	40.6%	3.1%	45.4%	7.7	Office
Sekisui House Reit Invt	3309	Buy	JPY	145,900	165,000	3.5%	9.2%	3.6%	40.9%	8.1	Office
Kenedix Office Invt	8972	Buy	JPY	624,000	710,000	3.5%	8.9%	4.1%	43.1%	5.2	Office
Nippon REIT	3296	Neutral	JPY	256,400	280,000	5.9%	-16.0%	5.0%	45.9%	7.3	Office
Nippon Building Fund	8951	Neutral	JPY	633,000	670,000	2.7%	27.1%	3.4%	42.2%	7.1	Office
Japan Real Estate Invt	8952	Neutral	JPY	608,000	635,000	2.7%	28.9%	3.4%	39.7%	9.0	Office
Japan Prime Realty Invt	8955	Neutral	JPY	457,500	470,000	3.1%	62.9%	3.6%	42.5%	7.1	Office
Ichigo Office REIT Invt	8975	Neutral	JPY	77,100	85,000	4.7%	2.2%	4.9%	46.3%	4.2	Office
Daiwa Office Invt	8976	Neutral	JPY	619,000	650,000	3.4%	5.3%	3.6%	42.3%	7.6	Office
Japan Excellent	8987	Neutral	JPY	139,400	145,000	3.6%	18.3%	4.3%	46.8%	5.1	Office
Nippon Accommodations Fund	3226	Buy	JPY	443,000	510,000	3.7%	15.5%	4.3%	51.5%	7.5	Residential
Comforia Residential Reit	3282	Buy	JPY	238,200	255,000	3.8%	11.0%	4.2%	50.9%	6.1	Residential
Japan Rental Housing Invt	8986	Buy	JPY	82,100	97,000	4.2%	-0.3%	5.2%	51.3%	4.2	Residential
Kenedix Residential Invt	3278	Neutral	JPY	285,200	325,000	4.5%	-4.3%	5.0%	48.0%	5.7	Residential
Sekisui House SI Residential Invt	8973	Neutral	JPY	119,600	127,000	3.6%	5.6%	4.5%	53.7%	5.3	Residential
Starts Proceed Invt	8979	Neutral	JPY	168,800	180,000	4.9%	-20.0%	5.9%	48.4%	4.7	Residential
Japan Retail Fund Invt	8953	Buy	JPY	232,300	290,000	3.7%	14.8%	4.3%	42.1%	5.8	Retail
AEON REIT Invt	3292	Neutral	JPY	128,700	150,000	4.4%	-2.6%	6.4%	39.5%	7.2	Retail
Kenedix Retail REIT	3453	Neutral	JPY	258,600	290,000	4.6%	8.8%	5.0%	38.6%	8.0	Retail
Frontier Real Estate Invt	8964	Underperform	JPY	506,000	510,000	3.8%	25.7%	4.4%	31.7%	12.4	Retail
Japan Hotel REIT Invt	8985	Neutral	JPY	88,900	105,000	3.9%	22.6%	4.6%	40.9%	8.0	Hotel
GLP J-REIT	3281	Buy	JPY	128,400	148,000	3.7%	25.5%	4.1%	48.8%	6.6	Logistics
Lasalle LOGIPORT	3466	Buy	JPY	104,800	127,000	4.9%	3.9%	4.5%	41.5%	11.0	Logistics
Industrial & Infrastructure Fund Invt	3249	Neutral	JPY	516,000	530,000	3.6%	41.8%	4.1%	50.1%	5.0	Logistics
Nippon Prologis REIT	3283	Neutral	JPY	248,300	270,000	3.3%	35.4%	4.0%	38.6%	7.9	Logistics
Japan Logistics Fund	8967	Underperform	JPY	235,900	235,000	3.6%	7.6%	4.7%	37.6%	9.4	Logistics
Activia Properties	3279	Buy	JPY	528,000	630,000	3.3%	40.5%	3.4%	44.3%	8.8	Diversified
Hulic Reit	3295	Buy	JPY	182,400	200,000	3.5%	23.0%	3.6%	40.8%	9.1	Diversified
Orix JREIT	8954	Buy	JPY	180,900	205,000	3.4%	20.2%	4.2%	45.8%	6.1	Diversified
Premier Invt	8956	Buy	JPY	140,300	152,000	3.5%	36.3%	4.0%	44.8%	7.8	Diversified
Invincible Invt	8963	Buy	JPY	66,500	97,500	4.4%	12.6%	4.9%	49.5%	10.7	Diversified
United Urban Invt	8960	Neutral	JPY	184,300	204,000	3.3%	31.2%	3.9%	42.9%	8.0	Diversified
Mori Trust Sogo Reit	8961	Neutral	JPY	182,800	210,000	3.9%	33.2%	3.6%	48.3%	9.4	Diversified
Fukuoka REIT	8968	Neutral	JPY	186,100	205,000	3.9%	19.9%	5.0%	40.5%	7.2	Diversified
Hankyu REIT	8977	Neutral	JPY	141,600	147,000	3.8%	-2.2%	4.8%	43.1%	5.4	Diversified
Daiwa House REIT	8984	Neutral	JPY	291,800	290,000	3.2%	45.0%	4.1%	50.8%	5.9	Diversified
Tokyu Reit	8957	Underperform	JPY	141,800	153,000	3.5%	-6.1%	4.0%	43.5%	4.9	Diversified

Source: Mizuho Securities Group; share prices as of 31 August 2016; all financial estimates for FY16 (the current financial year)

Figure 70. Mizuho Securities USA - US REITs Coverage

Company	Ticker	Rating	Currency	Share Price	Price Objective	Div. Yield	Disc/ Prem to NAV	Implied Cap Rate	Debt/ Assets	Interest Cover	Main exposure
Alexandria Real Estate	ARE	Buy	USD	110.09	125	2.9%	-5.1%	5.8%	45%	5.6x	Office
Corporate Office Properties	OFC	Buy	USD	28.52	34	3.9%	-7.3%	7.9%	55%	3.3x	Office
Hudson Pacific Properties	HPP	Buy	USD	33.47	38	2.4%	-16.1%	6.2%	37%	4.5x	Office
Boston Properties	BXP	Neutral	USD	140.13	131	1.9%	-2.9%	5.1%	52%	3.7x	Office
Brandywine Realty	BDN	Neutral	USD	16.13	17	4.0%	-0.9%	7.0%	49%	3.8x	Office
Douglas Emmett	DEI	Neutral	USD	37.56	37	2.3%	3.0%	4.5%	59%	3.1x	Office
Paramount Group	PGRE	Neutral	USD	18.00	17	2.1%	-13.8%	5.8%	36%	2.7x	Office
Parkway Properties	PKY	Neutral	USD	18.00	17.5	4.2%	1.5%	7.0%	47%	3.4x	Office
UDR, Inc.	UDR	Buy	USD	36.18	41	3.3%	-3.9%	5.0%	46%	5.3x	Multifamily
Aimco	AIV	Neutral	USD	45.18	48	2.9%	-4.0%	5.8%	63%	3.0x	Multifamily
AvalonBay Communities	AVB	Neutral	USD	175.01	187	3.1%	-8.1%	4.9%	39%	6.9x	Multifamily
Camden Property	CPT	Neutral	USD	87.77	93	3.4%	-2.2%	5.6%	40%	5.3x	Multifamily
Essex Property Trust	ESS	Neutral	USD	227.10	236	2.8%	-4.5%	4.7%	46%	4.8x	Multifamily
MAA	MAA	Neutral	USD	93.99	103	3.5%	-2.9%	5.8%	51%	4.2x	Multifamily
Post Properties	PPS	Neutral	USD	66.28	64	2.8%	-0.8%	5.3%	41%	6.4x	Multifamily
Equity Residential	EQR	Underperform	USD	64.87	60	3.1%	-8.9%	5.1%	40%	3.3x	Multifamily
General Growth	GGP	Buy	USD	29.14	36	2.6%	-15.3%	5.3%	60%	2.8x	Mall
Taubman Centers	TCO	Buy	USD	77.67	89	3.1%	-20.5%	5.9%	30%	3.7x	Mall
CBL & Associates	CBL	Neutral	USD	14.27	14	7.4%	-28.6%	9.5%	73%	3.2x	Mall
Macerich	MAC	Neutral	USD	81.89	94	3.3%	-6.1%	5.2%	49%	3.5x	Mall
Simon Property	SPG	Neutral	USD	215.47	238	3.0%	-5.1%	5.0%	73%	4.3x	Mall
Federal Realty	FRT	Buy	USD	159.00	176	2.4%	9.9%	4.2%	51%	5.0x	Shopping Center
American Assets	AAT	Neutral	USD	44.30	48	2.3%	-7.7%	5.2%	54%	3.2x	Shopping Center
Brixmor Property	BRX	Neutral	USD	28.56	28.5	3.4%	-0.5%	6.5%	63%	3.6x	Shopping Center
Kimco Realty	KIM	Neutral	USD	30.05	30.5	3.4%	3.0%	5.8%	46%	3.8x	Shopping Center
DDR Corporation	DDR	Underperform	USD	18.91	17.5	4.0%	-0.3%	6.1%	56%	2.9x	Shopping Center
Care Capital Properties	CCP	Buy	USD	29.99	34	7.6%	6.4%	8.2%	51%	5.6x	Health Care
Ventas Inc.	VTR	Buy	USD	72.67	84	4.0%	32.2%	5.5%	50%	4.4x	Health Care
HCP Inc.	HCP	Neutral	USD	39.33	37	5.8%	22.9%	6.3%	51%	3.9x	Health Care
Healthcare Realty	HR	Neutral	USD	35.06	34	3.4%	19.5%	5.1%	49%	4.6x	Health Care
Healthcare Trust of America	HTA	Neutral	USD	33.74	34	3.5%	23.3%	5.0%	46%	4.5x	Health Care
LTC Properties	LTC	Neutral	USD	51.92	53	4.2%	30.7%	6.7%	44%	5.3x	Health Care
National Health Investors	NHI	Neutral	USD	80.28	77	4.5%	38.2%	6.0%	46%	5.1x	Health Care
Sabra Health Care	SBRA	Neutral	USD	25.48	23	6.6%	12.5%	8.3%	53%	3.7x	Health Care
Welltower Inc.	HCN	Neutral	USD	76.75	75	4.5%	22.3%	5.4%	45%	4.4x	Health Care

Source: Mizuho Securities Group; share prices as of 31 August 2016; all financial estimates for FY16 (the current financial year)

Figure 71. Mizuho Securities Asia - Hong Kong REITs Coverage

Company	Ticker	Rating	Currency	Share Price	Price Objective	Div Yield	Disc/ Prem to NAV	Implied Cap Rate	Debt/ Assets	Interest Cover	Main exposure
Fortune REIT	778 HK	Buy	HKD	9.92	11.21	5.0%	-22%	4.7%	29.6%	5.3	Retail
Yuexiu REIT	405 HK	Buy	HKD	5.09	5.36	6.2%	-9%	5.1%	37.4%	3.4	Office, Retail
Spring REIT	1426 HK	Buy	HKD	3.47	3.87	7.5%	-46%	6.7%	31.6%	3.7	Office
Link REIT	823 HK	Neutral	HKD	56.4	54.7	3.7%	-1%	4.4%	17.0%	12.1	Retail
Champion REIT	2778 HK	Underperform	HKD	4.95	3.87	4.5%	-42%	4.7%	27.3%	6.3	Office, Retail

Source: Mizuho Securities Group; share prices as of 31 August 2016; all financial estimates for FY16 (the current financial year)

Alexandria Real Estate (ARE US, Buy, Price Target USD125)

Company Description

Alexandria Real Estate Equities (ARE US, Buy rated by Richard Anderson) is an urban office REIT focused on collaborative science and technology campuses in innovation cluster locations, with an equity market capitalization of approximately $9 billion and an asset base in North America of 24.4 million square feet as of June 30, 2016. Assets in North America includes 18.8 million square feet of operating properties and development and redevelopment projects (under construction or pre-construction) and 5.6 million square feet of future ground-up development projects.

ARE began operations in 1994 and has since established a significant market presence in key locations, including Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle Park (North Carolina).

Investment Thesis

We believe ARE provides investors with a unique combination of current cash flow growth and future NAV creation through its creative and highly pre-leased development pipeline. Regarding the former, ARE's Class A property portfolio is expected to produce cash same store NOI growth of 4%-6%, which is largely driven by cash re-leasing spreads approaching 10% on average. It runs the portfolio at a very high 97% occupancy level, with the vast majority of its tenants being large and well-established organizations and/or research institutions. In addition, its current development effort encompasses 3.5 million square feet (already 81% pre-leased) and is expected to produce approximately $200 million of incremental net operating income over the next few years. Finally, the company has made great progress de-levering the balance sheet.

The risk: The ARE portfolio shares many markets with the technology industry, and the company does some business directly with technology tenants. To the extent there is a meaningful correction in that industry, ARE stock could be impacted negatively.

More detailed discussion on ARE from previously published reports can be found at the following hyperlinks: May 31, 2016 and July 8, 2016.

Valuation Discussion

ARE trades at 22x 2017 AFFO, about a 20% discount to its office peer group weighted average. We estimate the stock trades roughly in line with our NAV estimate of $111.65/share, compared to a 5% premium for the REIT industry. We believe our 5.8% estimate for the implied cap rate compares favorably with values being attributed to ARE's Class A portfolio, with some recent transactions trading well below a 5% cap rate. Despite the recent recovery in the stock since February, we believe there is more run to go for this high-quality organization.

Exhibit 72. ARE Earnings Model

Income Statement

(In thousands, except per share figures)	Full Year 2015A	% Chg	2016 1QA	2QA	3QE	4QE	Full Year 2016E	% Chg	Full Year 2017E	% Chg
Operating Income and Expenses										
Rental Revenues	$608,824		$158,276	$161,638	$164,904	$167,745	$652,563		$693,227	
Tenant Recoveries	209,063		52,597	54,107	54,528	54,940	216,172		224,456	
Rental Operations Expenses	(261,232)		(65,837)	(67,325)	(67,841)	(68,358)	(269,362)		(278,453)	
NOI from Investment Activity	0				(2,090)	10,943	8,853		102,309	
Net Operating Income	**$556,655**	**11.7%**	**$145,036**	**$148,420**	**$149,500**	**$165,270**	**$608,226**	**9.3%**	**$741,539**	**21.9%**
Other/Interest Income	25,587		5,216	10,331	5,970	5,970	27,487		24,000	
Equity in Income of Unconsolidated JVs	1,651		(397)	(146)	(146)	(146)	(835)		(600)	
General & Administrative Expenses	(59,621)		(15,188)	(15,384)	(15,461)	(15,538)	(61,571)		(66,494)	
EBITDA	**$524,272**	**15.3%**	**$134,667**	**$143,221**	**$139,863**	**$155,556**	**$573,307**	**9.4%**	**$698,445**	**21.8%**
Interest Expense	(105,813)		(24,855)	(25,025)	(23,088)	(29,459)	(102,427)		(160,664)	
Perpetual Preferred Dividends	(24,986)		(5,907)	(5,474)	(4,786)	(4,786)	(20,954)		(19,145)	
Gains/(Losses) on Sale of Land Parcel	0				0	0	0		0	
Noncontrolling Interests/Unvested Restricted Stock	(6,028)		(4,911)	(4,585)	(4,585)	(4,585)	(18,666)		(20,000)	
Discontinued Operations	(43)		0		0	0	0		0	
Non-Recurring Charge Items	(189)		(3,046)	(9,473)	(6,750)	(6,750)	(26,019)		0	
Non-Real Estate Depreciation	1,362		(1,558)	(1,575)	(1,575)	(1,575)	(6,283)		0	
Acquisition-related Expenses	0				0	0	0		0	
Impairment of Real Estate (land)	0		(28,980)	(67,748)			(96,728)		0	
FFO - NAREIT Definition	**$388,575**	**23.5%**	**$65,410**	**$29,341**	**$99,079**	**$108,400**	**$302,231**	**-22.2%**	**$498,636**	**65.0%**
Normalizing Factors										
Expensed Acquisition Costs	0				0	0	0		0	
Impairment of Investments	0		28,980	67,162	0	0	96,142		0	
Loss on Early Extinguishment of Debt	189				3,100	0	3,100		0	
Investment Income	(13,109)			(4,361)	(900)	(900)	(6,161)			
Preferred stock redemption charge	0		3,046	9,473	6,750	6,750	26,019		0	
Allocation to unvested restricted stock awards	150		(358)	(530)	(600)	(600)	(2,088)		0	
Normalized FFO	**$375,805**	**10.0%**	**$97,078**	**$101,085**	**$107,429**	**$113,650**	**$419,243**	**11.6%**	**$498,636**	**18.9%**
Real Estate Depreciation	(262,651)		(69,308)	(68,594)	(67,404)	(75,250)	(280,556)		(317,593)	
Noncontrolling Interests	1,767		80		0	0	80		1,000	
Operating Earnings (before gains and extra.)	**$127,691**		**($3,818)**	**($39,253)**	**$31,675**	**$33,150**	**$21,755**		**$182,044**	
Gain/(Loss) on Asset Sales	12,426				0	0	0		0	
Impairment of Investments	(23,250)			(88,395)	0	0	(88,395)		0	
Non-Recurring Charge Items	0				0	0	0		0	
Net Income after gain on sales and extra.	**$116,867**		**($3,818)**	**($127,648)**	**$31,675**	**$33,150**	**($66,640)**		**$182,044**	
Straight Line Rent Adjustment	(50,379)		(12,492)	(2,688)	(13,500)	(20,000)	(48,680)		(52,000)	
Amortization of Loan Fees	11,102		2,792	2,986	2,986	2,986	11,750		12,000	
Non-cash Stock Compensation	17,512		5,439	6,117	6,117	6,117	23,790		25,000	
Reserve for Replacements	(1,638)		(415)	(424)	(424)	(424)	(1,688)		(1,698)	
Total Releasing Costs	(42,595)		(12,140)	(12,413)	(12,413)	(12,413)	(49,379)		(55,170)	
Adjusted Funds from Operations	**$309,807**	**6.6%**	**$80,262**	**$94,662**	**$90,195**	**$89,916**	**$355,035**	**14.6%**	**$426,769**	**20.2%**
Weighted Average Shares-diluted	71,528		72,584	74,319	74,319	81,819	75,760		82,194	
Weighted Average Shares and OPUs-diluted	71,528		72,584	74,319	74,319	81,819	75,760		82,194	
Per Share Amounts										
FFO - NAREIT Definition	**$5.43**	**22.9%**	**$0.90**	**$0.39**	**$1.33**	**$1.32**	**$3.99**	**-26.6%**	**$6.07**	**52.1%**
Normalized FFO	**$5.25**	**9.5%**	**$1.34**	**$1.36**	**$1.45**	**$1.39**	**$5.53**	**5.3%**	**$6.07**	**9.6%**
Straight Line Rent Adjustment	($0.70)		($0.17)	($0.04)	($0.18)	($0.24)	($0.64)		($0.63)	
Amortization of Loan Fees	$0.16		$0.04	$0.04	$0.04	$0.04	$0.16		$0.15	
Non-cash Stock Compensation	$0.24		$0.07	$0.08	$0.08	$0.07	$0.31		$0.30	
Reserve for Replacements	($0.02)		($0.01)	($0.01)	($0.01)	($0.01)	($0.02)		($0.02)	
Total Releasing Costs	($0.60)		($0.17)	($0.17)	($0.17)	($0.15)	($0.65)		($0.67)	
Adjusted Funds from Operations	**$4.33**	**6.1%**	**$1.11**	**$1.27**	**$1.21**	**$1.10**	**$4.69**	**8.2%**	**$5.19**	**10.8%**
EPS after gains and extra. Items	**$1.63**		**-$0.05**	**-$1.72**	**$0.43**	**$0.41**	**-$0.88**		**$2.21**	

Source: Company reports, Mizuho Securities USA, Inc.

Hudson Pacific Properties (HPP US, Buy, Price Target USD38)

Company Description

Hudson Pacific Properties (HPP US, Buy rated by Richard Anderson) is a REIT focused on acquiring, repositioning, developing and operating high-quality office and state-of-the-art media and entertainment properties in select West Coast markets. HPP invests across the risk-return spectrum, favoring opportunities where it can employ leasing, capital investment and management expertise to create additional value.

Founded in 2006, the company went public in 2010 and has strategically assembled a portfolio totaling over 17 million square feet, including land for development, in high-growth, high-barrier-to-entry submarkets throughout Northern and Southern California and the Pacific Northwest. The Company is a leading provider of design-forward, next-generation workspaces for a variety of tenants in the technology, media and entertainment sectors.

Investment Thesis

After a year-long debate of how and when a moderating technology environment would impact HPP's office portfolio, the company continues to perform extremely well in the Bay Area, aided by an embedded mark-to-market (MTM) cushion of 129%, 23% and 21% for SF, the Peninsula and Silicon Valley, respectively. We think the discounted valuation relative to NAV provides a very reasonable rationale to make a bull case on the stock, considering that underlying math. We have toured most of HPP's Bay Area and Southern California portfolio over the recent timeframe, which was an intentional effort aimed at investigating the strength of the organization behind the numbers. Our conclusion is that HPP's on-the-ground management come off as well-versed into the nuances of the environment, and those interactions helped us gain comfort to raise our rating to Buy in July 2016.

The risk: While we are coming to the conclusion that a soft landing in tech is the higher probability of outcomes (relative to the loud burst of the 2001 bubble), that unknown factor remains the key risk to the story.

More detailed discussion on HPP from previously published reports can be found at the following hyperlinks: July 22, 2016 and August 4, 2016.

Valuation Discussion

HPP trades at a 13% discount to our NAV estimate of $37.64/share, which compares to a 5% premium for the REIT industry. We believe our 6.1% estimate for the stock’s implied cap rate compares favorably with the values being attributed to HPP’s West Coast portfolio, particularly considering the opportunistic element to many of its recent investments (including the $3.5 billion acquisition in 2015 of a Peninsula/Silicon Valley portfolio previously owned by

Blackstone). Although there is risk related to the technology industry, we believe the stock's valuation and management's demonstrated acumen for West Coast real estate provide investors with a unique opportunity to capture incremental alpha.

Figure 73. HPP Earnings Model

Income Statement

(In thousands, except per share figures)	Full Year 2015A	% Chg	2016 1QA	2QA	3QE	4QE	Full Year 2016E	% Chg	Full Year 2017E	% Chg
Operating Income and Expenses										
OFFICE: Rental Revenues	$394,543		$116,227	$118,047	$121,288	$124,436	$479,997		$528,556	
Net Lease Termination Income	0				0	0	0		0	
Tenant Recoveries	66,235		20,533	21,303	21,553	21,833	85,222		89,441	
Property Operating Expenses	(166,131)		(47,703)	(49,091)	(49,735)	(50,370)	(196,899)		(205,139)	
MEDIA/ENTERTAINMENT: Rental Revenues	23,027		6,028	6,857	6,927	7,019	26,831		27,089	
Tenant Recoveries	943		199	213	216	219	846		885	
Media/Entertainment Service Revenues	15,162		5,018	2,810	4,500	4,000	16,328		15,300	
Property Operating and M/E Service Expe	(23,726)		(5,952)	(6,295)	(6,374)	(6,453)	(25,074)		(28,286)	
NOI from Investment Activity	0				3,692	3,623	7,315		25,613	
Net Operating Income	**$310,053**	**146.0%**	**$94,350**	**$93,844**	**$102,067**	**$104,307**	**$394,568**	**27.3%**	**$453,459**	**14.9%**
Other property related revenue/expenses	20,878		5,508	5,138	5,220	5,261	21,128		21,577	
Property Management Income, Net	0				0	0	0		0	
Interest Income	124		13	73	73	73	232		292	
General & Administrative Expenses	(38,534)		(12,503)	(13,016)	(13,081)	(13,146)	(51,747)		(56,030)	
EBITDA	**$292,521**	**141.9%**	**$87,368**	**$86,039**	**$94,280**	**$96,494**	**$364,181**	**24.5%**	**$419,298**	**15.1%**
Interest Expense	(50,667)		(17,251)	(17,614)	(22,673)	(23,961)	(81,499)		(101,031)	
Perpetual Preferred Dividends	(12,105)		(159)	(159)	(159)	(159)	(636)		(636)	
Preferred Redemption Charge	0				0	0	0		0	
Minority Interests	(14,198)		(4,162)	(4,510)	(4,510)	(4,510)	(17,692)		(20,000)	
Gain on Investment in Interest Contracts, 1	0			(384)	(384)	(384)	(1,152)		(1,600)	
Discontinued Operations	0						0		0	
Other Items	0		(2,125)	0			(2,125)		0	
Gain on Sale of Real Estate	0		0	0			0		0	
Non-Real Estate Depreciation	(889)		(463)	(453)	(453)	(453)	(1,822)		(1,800)	
Expensed Acquisition Costs	(43,336)			(61)	(3,110)	0	(3,171)		0	
Non-Cash Impairments	0						0		0	
FFO -- NAREIT Definition	**$171,326**	**136.7%**	**$63,208**	**$62,858**	**$62,991**	**$67,027**	**$256,084**	**49.5%**	**$294,231**	**14.9%**
Normalizing Factors (HPP Defined)										
Acquisition-related expenses	43,336		0	61	3,110	0	3,171		0	
Consulting fee to former executive										
Supplemental net property tax expenses (savings)										
Lease termination revenue										
Lease termination non-cash write-off										
Normalized FFO	**$214,662**	**168.7%**	**$63,208**	**$62,919**	**$66,101**	**$67,027**	**$259,255**	**20.8%**	**$294,231**	**13.5%**
Minority Interests	29,703		4,321	4,669	4,669	4,669	18,328		18,676	
Real Estate Depreciation/Amortization	(244,182)		(67,905)	(65,655)	(68,131)	(68,308)	(269,999)		(275,588)	
Preferred Stock	0				159	159	318		636	
Other Adjustments	0				0	0	0		0	
Operating Earnings (before gains and extra	**($43,153)**		**($376)**	**$1,872**	**($313)**	**$3,548**	**$4,731**		**$37,955**	
Gain/(Loss) on asset sales	30,471		6,352	2,163	0	8,000	16,515		0	
Non-Cash Impairments	0						0		0	
Extraordinary Items	0		0		0	0	0		0	
Net Income after gain on sales and extra.	**($12,682)**		**$5,976**	**$4,035**	**($313)**	**$11,548**	**$21,246**		**$37,955**	
Straight Line Rent + FAS 141 (Blackstone)	(27,925)		(4,790)	(4,979)	(4,830)	(4,685)	(19,283)		(20,000)	
FAS 141 (Legacy Portfolio)	(21,457)		(4,697)	(4,298)	(4,169)	(4,044)	(17,208)		(14,999)	
Reserve for Replacements	(6,414)		(1,795)	(1,762)	(1,762)	(1,762)	(7,080)		(7,047)	
Total Releasing Costs	(108,080)		(31,139)	(30,533)	(27,188)	(27,188)	(116,048)		(112,716)	
Non-cash Stock Compensation	8,421		3,342	3,301	3,301	3,301	13,245		13,204	
KTLA Rent Adjustment	0				0	0	0		0	
Other Amortizations	8,311		1,819	2,361	2,361	2,361	8,902		0	
Adjusted Funds from Operations	**$67,518**	**170.8%**	**$25,948**	**$27,009**	**$33,814**	**$35,011**	**$121,782**	**80.4%**	**$152,673**	**25.4%**
Weighted Average Shares	86,050		89,598	95,995	95,995	95,995	94,396		95,995	
Weighted Average Shares and OPUs	129,353		145,894	146,399	146,399	146,399	146,273		146,399	
Per Share Amounts										
FFO -- NAREIT Definition	**$1.32**	**26.1%**	**$0.43**	**$0.43**	**$0.43**	**$0.46**	**$1.75**	**32.2%**	**$2.01**	**14.8%**
Normalized FFO	**$1.66**	**43.1%**	**$0.43**	**$0.43**	**$0.45**	**$0.46**	**$1.77**	**6.8%**	**$2.01**	**13.4%**
Straight Line Rent Adjustment	($0.22)		($0.03)	($0.03)	($0.03)	($0.03)	($0.13)		($0.14)	
Reserve for Replacements	($0.05)		($0.01)	($0.01)	($0.01)	($0.01)	($0.05)		($0.05)	
Total Releasing Costs	($0.84)		($0.21)	($0.21)	($0.19)	($0.19)	($0.79)		($0.77)	
Non-cash Stock Compensation	$0.07		$0.02	$0.02	$0.02	$0.02	$0.09		$0.09	
KTLA Rent Adjustment	$0.00		$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	
FAS 141	($0.17)		($0.03)	($0.03)	($0.03)	($0.03)	($0.12)		($0.10)	
Other Amortizations	$0.06		$0.01	$0.02	$0.02	$0.02	$0.06		$0.00	
Adjusted Funds from Operations	**$0.52**	**44.2%**	**$0.18**	**$0.18**	**$0.23**	**$0.24**	**$0.83**	**59.5%**	**$1.04**	**25.3%**
Net Income - EPS (after gain on sale)	**($0.15)**	**-141.2%**	**$0.07**	**$0.04**	**($0.00)**	**$0.12**	**$0.23**	**-252.7%**	**$0.40**	**75.7%**

Source: Company reports, Mizuho Securities USA, Inc.

UDR, Inc. (UDR US, Buy, Price Target USD41)

Company Description

UDR, Inc. (UDR US, Buy rated by Richard Anderson), an S&P 500 company, is a leading multifamily REIT with a demonstrated performance history of delivering superior and dependable returns by successfully managing, buying, selling, developing and redeveloping attractive real estate properties in targeted US markets.

As of June 30, UDR owned or had an ownership position in 51,381 apartment homes including 3,510 homes under development or in preferred equity investments. For over 44 years, UDR has delivered long-term value to shareholders, and the best standard of service to residents.

Investment Thesis

UDR stock has underperformed during 2016 in large part because of its exposure to New York City and San Francisco, where moderating growth prospects appear to be emerging. However, we see the structure of the company as the right fit with supply (and to a lesser degree, demand) question marks abound. Its 2016 same store NOI growth guidance of 6.5%-7.0% is significantly above the more modest expectations of its peers. And in a current multifamily environment where growth is on a decelerating path in general, we think UDR demonstrates the best risk-adjusted return – owning a portfolio identified by its multiple layers of diversification (i.e., Class A and B price points, an appropriate collection of geographies, and a suburban/urban mix within those geographies).

We believe this model is best suited for the challenges of a US multifamily industry now in its 6th consecutive upcycle year (which, we note, is still likely to produce above average growth for the foreseeable future). The stock's year-to-date underperformance helps to reinforce this view.

The risk: We think the tendency for investors to weigh the direction of growth more heavily than the absolute level, could continue to impact UDR stock performance, even though the company continues to produce solid results. In a nutshell, we recommend investors underweight multifamily by overweighting UDR.

More detailed discussion on ARE from previously published reports can be found at the following hyperlinks: August 1, 2016 and December 17, 2015.

Valuation Discussion

UDR trades at 21x 2017 AFFO (adjusted funds from operations = FFO − capital expenditures) which is in line with the US multifamily REIT peer group and a slight premium (about 2%) to the US REIT valuation overall. Further, we estimate the stock trades roughly in line with our NAV estimate of $35.15/share, which compares to a 5% premium for the REIT industry. We believe our 5.0% estimate for the stock's implied cap rate represents a reasonable proxy for the underlying property values attributable to UDR's markets. The bottom line is valuation is neither a benefit nor a detriment to the UDR investment thesis, and we view the organization as having the potential to continue to exceed its peer group performance given its uniquely-diversified investment strategy.

Figure 74. UDR Earnings Model

Income Statement	Full Year		2016				Full Year		Full Year	
(In thousands, except per share figures)	2015A	% Chg	1QA	2QA	3QE	4QE	2016E	% Chg	2017E	% Chg
Operating Income and Expenses										
Rental Revenue	**$871,928**	**8%**	**$231,957**	**$236,168**	**$238,477**	**$240,819**	**$947,421**	**9%**	**$997,255**	**5%**
Operating Expenses:										
Property Operating and Maintenance	(155,096)		(39,446)	(38,574)	(38,870)	(39,179)	(156,069)		(159,644)	
Real Estate Taxes and Insurance	(102,963)		(28,377)	(30,279)	(30,464)	(30,666)	(119,786)		(124,884)	
Property Management	(23,978)		(6,379)	(6,494)	(6,494)	(6,494)	(25,861)		(26,000)	
Other	(9,708)		(1,752)	(1,892)	(1,892)	(1,892)	(7,428)		(7,568)	
Total Operating Expenses	**(291,745)**	**5%**	**(75,954)**	**(77,239)**	**(77,721)**	**(78,231)**	**(309,144)**	**6%**	**(318,095)**	**3%**
NOI from Investment Activity	0				(1,912)	(3,412)	(5,325)		(5,959)	
Net Operating Income	**$580,183**	**10%**	**$156,003**	**$158,929**	**$158,844**	**$159,176**	**$632,952**	**9%**	**$673,200**	**6%**
Other Income and Expenses										
Sale of Technology Investment	0				0	0	0		0	
Joint Venture FFO (excluding mgmt income)	41,908		11,029	12,624	17,500	17,552	58,705		60,452	
Joint Venture Management Income	22,710		2,858	2,618	2,500	2,500	10,476		11,000	
Interest and Other Income	1,551		431	540	540	540	2,051		2,000	
General & Administrative Expenses	(57,564)		(13,844)	(10,835)	(11,889)	(11,949)	(48,517)		(51,179)	
EBITDA	**$588,788**	**9%**	**$156,477**	**$163,876**	**$167,495**	**$167,820**	**$655,668**	**11%**	**$695,474**	**6%**
Interest Expense (Excl. APB 14-1)	(121,875)		(31,104)	(30,678)	(30,584)	(30,772)	(123,138)		(131,028)	
APB 14-1 Non-cash Interest Expense	0		0		0	0	0		0	
Preferred Dividends	0		0	0	0	0	0		0	
Noncontrolling Interest	0		0	0	0	0	0		0	
Gains from Asset Sales	(372)		1,685	0	250	250	2,185			
One Time Items	(2,335)		0	(1,629)			(1,629)		0	
Loss On Early Debt Retirement	0						0		0	
Tax Adjustment	3,886		403	402	400	400	1,605		800	
Discontinued Operations	0				0	0	0		0	
Non-Real Estate Depreciation/Amortization	(6,679)		(1,553)	(1,486)	(1,750)	(1,750)	(6,539)		(6,000)	
Expensed Acquisition Costs	(2,126)		0		(250)	(500)	(750)		0	
Non-Cash Impairments	0						0		0	
FFO -- NAREIT Definition	**$459,287**		**$125,908**	**$130,485**	**$135,561**	**$135,448**	**$527,402**		**$559,246**	
Normalizing Factors										
Expensed Acquisition Costs	3,586				250	500	750		0	
JV Financing and Acquisition Costs	(372)						0		0	
Debt Extinguishment/Tender Activity	0						0		0	
Land Sales Adjustment	0		(1,685)				(1,685)		0	
Gain on Note Prepayment	705						0		0	
Gains on Sale of TRS/Marketable Securities	0						0		0	
Other Gains/Promotes	(9,633)						0		0	
Other One Time Costs	0						0		0	
Tax Adjustment	0						0		0	
Long-term Incentive Plan Transition Cost	3,537		323	28			351		0	
Casualty-Related Adjustments	4,809		1,126	1,629			2,755		0	
Normalized FFO	**$461,919**	15%	**$125,672**	**$132,142**	**$135,811**	**$135,948**	**$529,573**	15%	**$559,246**	6%
Depreciation/Amortization	(413,250)		(115,689)	(118,236)	(117,142)	(116,205)	(467,272)		(469,782)	
Minority Interest	(23,782)		(2,140)	(2,547)	(2,547)	(2,547)	(9,781)		(10,188)	
Net Income before gain, non-recur., extra.	**$22,255**	131%	**$8,079**	**$9,702**	**$15,871**	**$16,696**	**$50,349**	126%	**$79,276**	57%
Gain (Loss) on Asset Sales	311,122		1,385	7,315	20,000	20,000	48,700		0	
APB 14-1	0						0		0	
Non-Recurring Income (Expense)	0						0		0	
Convertible Preferred Stock	0			0	0	0	0		0	
Net Income after gain, non-recur., extra.	**$333,377**	116%	**$9,464**	**$17,017**	**$35,871**	**$36,696**	**$99,049**	-70%	**$79,276**	-20%
Capital Expenditures	(39,873)		(12,218)	(12,218)	(12,218)	(12,218)	(48,874)		(48,874)	
Non Cash Items	0		0	0	0	0	0		0	
Adjusted Funds From Operations	**$422,046**	18%	**$113,454**	**$119,924**	**$123,592**	**$123,730**	**$480,699**	14%	**$510,372**	6%
Weighted Average Shares and OPUs	276,628		292,504	296,392	296,392	296,392	295,420		296,392	
Weighted Average Shares	266,814		264,285	266,268	266,268	266,268	265,772		266,268	
Per Share Amounts										
FFO -- NAREIT Definition	**$1.66**	6%	**$0.43**	**$0.44**	**$0.46**	**$0.46**	**$1.79**	8%	**$1.89**	6%
Normalized FFO	**$1.67**	10%	**$0.43**	**$0.45**	**$0.46**	**$0.46**	**$1.79**	7%	**$1.89**	5%
Net Income after gain, non-recur., extra.	**$1.25**	111%	**$0.04**	**$0.06**	**$0.13**	**$0.14**	**$0.37**	-70%	**$0.30**	-20%
Capital Expenditures	($0.14)		($0.04)	($0.04)	($0.04)	($0.04)	($0.17)		($0.16)	
Non Cash Items	$0.00		$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	
Adjusted Funds From Operations	**$1.53**	13%	**$0.39**	**$0.40**	**$0.42**	**$0.42**	**$1.63**	7%	**$1.72**	6%

Source: Company reports, Mizuho Securities USA, Inc.

Taubman Centers (TCO US, Buy, Price Target USD89)

Company Description

Taubman Centers (TCO US, Buy rated by Haendel St. Juste) is an S&P MidCap 400 Real Estate Investment Trust engaged in the ownership, management and/or leasing of 24 regional, super-regional and outlet shopping centers in the US and Asia. Taubman's US-owned properties are the most productive in the publicly held US regional mall industry. Taubman is currently developing three properties in the US and Asia totaling 3.1 million square feet. Founded in 1950, Taubman is headquartered in Bloomfield Hills, Mich. Taubman Asia, founded in 2005, is headquartered in Hong Kong. (Source: http://www.taubman.com/)

Investment Thesis

Among mall REITs, TCO owns the highest productivity mall portfolio (sales psf $789 vs Mall peers' $599), which we believe will support superior demand / pricing power (measured by average base rent growth and re-leasing spreads) and core growth (TCO's 5% ssNOI growth for 2017 vs Mall peers' 3.9%) as retailers become increasingly selective on store locations in a slowing sales environment. Combined with contributions from redevelopment (incl. Short Hills, Cherry Creek, Great Lakes) and development (San Juan, Hawaii, China) this should help TCO generate total NOI growth >30% through YE19, a feat few REITs can match and one which should support double-digit earnings growth over the same period.

However, TCO trades at the largest discount to NAV among the 'A' mall cohort, given its "acquisition-proof' corporate by-laws, concerns over its Asia developments, recent development yield reductions / cost over-runs (Puerto Rico, Hawaii), low initial yields of its sizeable Beverly Center Mall redevelopment project and rising leverage near-term as TCO funds its re/developments. That said, we believe TCO's superior operating metrics (i.e., ssNOI, spreads, sales psf) support our expectation of stronger core growth prospects going forward (vs peers) and cap rates for 'A' malls have compressed further over the past year (now in the low / sub-4% range), widening TCO's discount to NAV and providing a floor for its stock (trading at ~6% cap rate).

The risks include ramping debt (debt/EBITDA now 7.4x, growing to >8x by YE17 as TCO funds near-term re/developments); increased (JV) investments in China; and higher bad debt expense (+100bps YOY), which is worth watching as it may reflect potential rent growth / re-leasing spread headwinds.

More detailed discussion on TCO from previously published reports can be found at the following hyperlinks: July 29, 2016 and August 3, 2016.

Valuation Discussion

Though trailing the RMZ YTD (+2% vs +11%), TCO has outpaced the RMZ by ~500bps (14% vs 9%) since mid-May. At recent levels, TCO trades at a P/NAV and implied cap rate of 74.5% and 5.9%, respectively, compared to mall REIT peers' average of 92.0% and 4.6%, respectively. On a multiples basis, TCO trades at 2017 FFO and AFFO multiples of 19.4x and 26.0x, respectively.

Figure 75. TCO Earnings Model

Taubman Centers Earnings Estimate (000s)	2015 Full Year	2016 1QA	2016 2QA	2016 3QE	2016 4QE	2016 Full Year	2017 1QE	2017 2QE	2017 3QE	2017 4QE	2017 Full Year
Minimum rents	**310,831**	81,977	82,694	82,094	86,243	**333,009**	86,882	89,140	87,001	90,920	**353,942**
Percentage rents	**20,233**	2,772	924	4,941	9,982	**18,619**	2,619	897	4,403	9,218	**17,137**
Expense recoveries	**188,023**	47,760	47,380	50,826	54,910	**200,875**	56,230	57,729	57,404	62,452	**233,815**
Other	**17,194**	3,781	4,558	4,932	5,635	**18,906**	3,495	4,482	5,227	5,506	**18,711**
Lease cancellation revenue	**7,714**	1,437	138	800	800	**3,175**	1,000	1,000	1,000	1,000	**4,000**
Less: S/L rent	**(5,211)**	(1,114)	(2,024)	(2,200)	(2,200)	**(7,538)**	(2,200)	(2,200)	(2,200)	(2,200)	**(8,800)**
Less: Interest income	**(5,569)**	(1,456)	(2,704)	(1,500)	(1,500)	**(7,160)**	(1,500)	(1,500)	(1,500)	(1,500)	**(6,000)**
Less: Gain on land sales	**0**	(403)	0	0	0	**(403)**	0	0	0	0	**0**
Operating Revenue	**533,215**	**134,754**	**130,966**	**139,893**	**153,870**	**559,483**	**146,526**	**149,548**	**151,335**	**165,396**	**612,805**
Maintenance, taxes, and utilities	**145,118**	34,938	35,917	39,407	43,129	**153,390**	43,198	44,253	44,266	48,967	**180,684**
Shopping center expenses	**43,034**	13,118	15,320	15,245	15,914	**59,597**	15,991	16,514	16,160	16,772	**65,437**
Bad debt expense	**1,994**	2,243	1,766	1,648	1,732	**7,389**	1,320	1,368	1,329	1,390	**5,407**
Ground rent	**8,766**	2,108	2,075	2,050	2,550	**8,783**	2,050	2,050	2,500	2,500	**9,100**
Consolidated NOI	**334,303**	**82,347**	**75,888**	**81,544**	**90,545**	**330,324**	**83,967**	**85,362**	**87,080**	**95,767**	**352,177**
Noncontrolling interest in consolidated income	**(11,222)**	(2,521)	(1,630)	(1,631)	(2,716)	**(8,498)**	(2,939)	(2,134)	(2,177)	(2,873)	**(10,123)**
Noncontrolling share of interest expense	**(6,965)**	(1,952)	(2,566)	(2,666)	(2,746)	**(9,930)**	(2,267)	(2,780)	(2,785)	(2,788)	**(10,619)**
Noncontrolling share of depreciation & amortization	**(3,681)**	(1,419)	(1,267)	(946)	(1,063)	**(4,695)**	(1,348)	(1,204)	(898)	(1,010)	**(4,460)**
Noncontrolling share of NOI	**(21,868)**	**(5,892)**	**(5,463)**	**(5,243)**	**(6,526)**	**(23,123)**	**(6,554)**	**(6,117)**	**(5,861)**	**(6,671)**	**(25,202)**
TCO's prorata share of unconsolidated JVs											
Equity in earnings of JVs (ex. one-timers)	**67,980**	18,478	15,910	22,710	29,270	**86,368**	24,580	19,661	27,019	33,678	**104,938**
Interest expense	**45,564**	11,528	13,207	13,110	13,504	**51,349**	13,614	13,669	13,696	13,710	**54,688**
Depreciation & amortization	**34,361**	9,335	11,669	12,858	16,026	**49,889**	15,056	16,036	15,599	16,100	**62,790**
Unconsolidated NOI	**147,905**	**39,341**	**40,786**	**48,678**	**58,800**	**187,605**	**53,250**	**49,365**	**56,314**	**63,487**	**222,416**
Pier Shops NOI	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Regency Square NOI	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Combined NOI	**460,340**	**115,796**	**111,211**	**124,979**	**142,819**	**494,806**	**130,663**	**128,610**	**137,534**	**152,583**	**549,390**
Add: Noncontrolling interest expense	**6,965**	1,952	2,566	2,666	2,746	**9,930**	2,267	2,780	2,785	2,788	**10,619**
Management, leasing, development, net	**7,263**	856	22,302	625	714	**24,497**	523	514	550	610	**2,198**
Pre-development costs	**(4,337)**	(1,239)	(1,321)	(1,517)	(1,646)	**(5,724)**	(1,877)	(1,284)	(1,414)	(1,393)	**(5,967)**
G&A	**(45,727)**	(11,380)	(11,693)	(11,891)	(12,310)	**(47,273)**	(12,374)	(11,964)	(11,350)	(13,232)	**(48,920)**
Nonoperating income	**16,036**	4,443	7,404	3,749	4,285	**19,881**	2,613	2,572	2,751	3,052	**10,988**
Income tax expense	**(2,125)**	(321)	(442)	(497)	(568)	**(1,827)**	(653)	(643)	(688)	(763)	**(2,747)**
Combined EBITDA	**438,415**	**110,107**	**130,027**	**118,115**	**136,040**	**494,289**	**121,161**	**120,586**	**130,168**	**143,646**	**515,562**
Add: Pier Shops NOI	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Add: Regency NOI	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Interest expense	**(63,041)**	(19,128)	(20,588)	(21,390)	(22,033)	**(83,139)**	(22,212)	(22,301)	(22,346)	(22,368)	**(89,228)**
Less: JV interest expense	**(45,564)**	(11,528)	(13,207)	(13,110)	(13,504)	**(51,349)**	(13,614)	(13,669)	(13,696)	(13,710)	**(54,688)**
Non-RE depreciation & amortization	**(3,051)**	(643)	(631)	(618)	(606)	**(2,498)**	(594)	(582)	(570)	(559)	**(2,305)**
Series F distributions	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Other Income	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Preferred dividends	**(23,138)**	(5,784)	(5,785)	(5,784)	(5,784)	**(23,138)**	(5,784)	(5,784)	(5,784)	(5,784)	**(23,138)**
Acquisition costs	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Litigation charges	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Gain on dispositions	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Gain on debt extinguishment	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Impairments	**(11,754)**	0	0	0	0	**0**	0	0	0	0	**0**
Restructuring	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Reported Funds from Operations (FFO)	**291,867**	**73,024**	**89,816**	**77,212**	**94,113**	**334,165**	**78,957**	**78,250**	**87,772**	**101,224**	**346,203**
Non-recurring charges	**0**	0	(21,702)	0	0	**(21,702)**	0	0	0	0	**0**
Pier Shops FFO	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Regency FFO	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Operating FFO	**291,867**	**73,024**	**68,114**	**77,212**	**94,113**	**312,463**	**78,957**	**78,250**	**87,772**	**101,224**	**346,203**
S/L rent & FAS 141 rent	**(5,211)**	(1,114)	(2,024)	(2,200)	(2,200)	**(7,538)**	(2,200)	(2,200)	(2,200)	(2,200)	**(8,800)**
Capital expenditures	**(160,561)**	(16,619)	(38,533)	(35,000)	(35,000)	**(125,152)**	(20,000)	(20,000)	(20,000)	(20,000)	**(80,000)**
Adjusted FFO (AFFO)	**126,095**	**55,291**	**27,557**	**40,012**	**56,913**	**179,773**	**56,757**	**56,050**	**65,572**	**79,024**	**257,403**
W/A shares and units	**88,106**	86,724	86,634	85,474	85,524	**86,089**	85,574	85,624	85,674	85,724	**85,649**
Reported FFO per share	**$3.31**	**$0.84**	**$1.04**	**$0.90**	**$1.10**	**$3.88**	**$0.92**	**$0.91**	**$1.02**	**$1.18**	**$4.04**
Operating FFO per share	**$3.31**	**$0.84**	**$0.79**	**$0.90**	**$1.10**	**$3.63**	**$0.92**	**$0.91**	**$1.02**	**$1.18**	**$4.04**
y-o-y Growth Rate	***-9%***	***4%***	***3%***	***2%***	***30%***	***10%***	***10%***	***16%***	***13%***	***7%***	***11%***
3-Year Growth Rate	***-0.2%***					***-0.2%***					***3.6%***
AFFO per share	**$1.43**	**$0.64**	**$0.32**	**$0.47**	**$0.67**	**$2.09**	**$0.66**	**$0.65**	**$0.77**	**$0.92**	**$3.01**

Source: Company reports, Mizuho Securities USA, Inc.

GLP J-REIT (3281 JP, Buy, Price Objective ¥148,000)

Company Description

GLP J-REIT (3281 JP, Buy rated by Yosuke Ohata) is primarily involved in owning and operating logistics facilities in Japan. The REIT's sponsor is the GLP Group, a SGX-listed company that owns and operates logistics facilities in Japan, China, Brazil and the US. The company's market cap (as of August 22) stands at around ¥317b. GLP J-REIT is Japan's second-largest logistics REIT, with total portfolio assets of ¥384.6b. The company primarily invests in logistics properties in the Kanto and Kansai areas (83% of total assets), and 73% are large-scale facilities (total floor area of at least 30,000 sq m). GLP J-REIT listed on the TSE in December 2012.

Investment Thesis

The majority of GLP J-REIT's portfolio is comprised of large-scale, modern logistics facilities. Rents for properties owned by the company are currently around 5-10% below market rates. We look for a gradual upturn in rent levels through FY17 as the company negotiates lease contracts as they come up for renewal, and we think GLP J-REIT is in position to experience faster internal growth compared to other logistics J-REIT peers.

While we expect to see an increase in logistics facilities supply going forward, we think GLP J-REIT will be able to maintain high profitability thanks to its long track record of maintaining high occupancy rates. On the external growth front, the company has a secure pipeline to logistics facilities owned by its sponsor the GLP Group. We look for steady DPU growth going forward as the company is able to acquire properties by securing reasonable financing in line with its cost of capital.

Valuation Discussion

GLP J-REIT's investment units currently (22 August) trade at 13.2% premium over our FY17 NAV forecast with an implied cap rate of 4.3% and forecast dividend yield of 4.1%. These figures are below the averages for both the overall J-REIT market and for the logistics J-REIT sub-sector. We expect this under-valuation to correct going forward as the market starts to price in GLP J-REIT's significant latent DPU growth potential as well as the high quality management behind the REIT's high ROE.

More detailed discussion on GLP J-REIT from previously published reports can be found at the following hyperlink: May 2, 2016

Figure 76. GLP J-REIT (3281 JP) - Profit/Loss Statement (¥m)

	FP8/15	FP2/16	Full-year	FP8/16E	FP2/17 E	Full-year	FP8/17 E	FP2/18E	Full-year	FP8/18 E	FP2/19E	Full-year
Operating revenues	11,075	12,332	23,408	12,263	13,504	25,767	13,550	14,730	28,281	14,766	15,937	30,703
Rental business revenues	10,651	11,810	22,462	11,792	13,017	24,810	13,030	14,199	27,230	14,199	15,362	29,561
Other rental business revenues	424	442	866	471	487	958	520	531	1,051	567	575	1,141
Gains on sale of investment property	0	80	80	0	0	0	0	0	0	0	0	0
Operating expenses	5,341	5,822	11,163	5,949	6,369	12,318	6,527	6,994	13,522	7,043	7,498	14,541
Rental expenses	4,149	4,475	8,623	4,603	4,861	9,465	5,007	5,346	10,353	5,363	5,680	11,043
Taxes & public dues	958	959	1,918	1,059	1,059	2,118	1,154	1,154	2,307	1,246	1,246	2,492
Depreciation	2,361	2,602	4,963	2,574	2,846	5,419	2,831	3,068	5,900	3,053	3,288	6,341
Other rental expenses	829	914	1,743	970	957	1,927	1,022	1,124	2,146	1,064	1,146	2,210
Losses on sale of investment property	0	0	0	0	0	0	0	0	0	0	0	0
Asset management fees	1,097	1,219	2,316	1,228	1,378	2,606	1,400	1,527	2,927	1,564	1,692	3,256
Other operating expenses	96	128	224	118	130	247	120	122	242	116	126	242
OP	5,734	6,511	12,244	6,314	7,135	13,449	7,023	7,736	14,759	7,723	8,439	16,161
Non-operating revenues	1	1	2	1	1	2	1	1	2	1	1	2
Non-operating expenses	1,085	1,151	2,236	1,083	1,141	2,224	1,073	1,156	2,229	1,102	1,183	2,285
Financial expenses	986	1,043	2,029	1,003	1,021	2,024	993	1,036	2,029	1,022	1,063	2,085
Other non-operating expenses	99	107	206	80	120	200	80	120	200	80	120	200
RP	4,649	5,361	10,010	5,231	5,995	11,227	5,951	6,581	12,532	6,622	7,257	13,879
Extraordinary income	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary loss	0	0	0	0	0	0	0	0	0	0	0	0
Pretax profit	4,649	5,361	10,010	5,231	5,995	11,227	5,951	6,581	12,532	6,622	7,257	13,879
Corporate tax	1	1	2	1	1	1	1	1	1	1	1	1
NP	4,648	5,360	10,008	5,231	5,995	11,226	5,950	6,580	12,530	6,621	7,256	13,877
DPU (¥)	2,240	2,367	4,607	2,314	2,478	4,792	2,461	2,557	5,018	2,570	2,657	5,227
EPU (¥)	1,944	2,067	4,011	2,017	2,169	4,186	2,153	2,243	4,396	2,257	2,339	4,596
Per share FFO (¥)	2,932	3,039	5,971	3,009	3,199	6,208	3,178	3,290	6,468	3,298	3,398	6,696
Per share AFFO (¥)	2,763	2,824	5,587	2,790	2,972	5,762	2,947	3,054	6,001	3,064	3,159	6,223

Notes: 1. Financial expenses are the combined total of interest paid, interest on investment corporation bonds, and loan-related expenses.
2. FFO = NP ＋ depreciation - gains/losses on real estate sales
3. AFFO = FFO － capital expenditures
Source: Mizuho Securities Equity Research

Kenedix Office Investment (8972 JP, Buy, Price Objective ¥710,000)

Company Description

Kenedix Office Investment (KDO; 8972 JP, Buy rated by Yosuke Ohata) is a J-REIT that primarily invests in office buildings in Japan. Kenedix Office Investment's (KDO) sponsor is Kenedix, an independent real estate asset management firm. KDO's market cap (as of August 22) stands at ¥242b. The REIT's assets total ¥398.3b. KDO operates mainly in the Tokyo metropolitan area – over 81% of portfolio assets are located in Tokyo's five central wards. The majority of properties are mid-sized office buildings. KDO listed on the Tokyo Stock Exchange in July 2005.

Investment Thesis

Rents for office buildings owned by the company are trending slightly below market prices. We think KDO has room going forward for rent hikes. We also think the company has ample room to lower borrowing costs compared to other sector peers, which should contribute to DPU growth going forward. The company has been focusing on bolstering the quality of its portfolio by swapping out properties; we look for steady DPU growth even as the company prepares for downside risks over the medium and long term.

If KDO can boost its credit rating to AA or better, the REIT's shares would be added to the list of J-REITs eligible for purchase by a Bank of Japan REIT fund (currently restricted to REITs with credit ratings of AA or higher).

Valuation Discussion

KDO's investment units currently (22 August) trade at 0.7% premium over our FY17 NAV forecast with an implied cap rate of 4.3% and forecast dividend yield of 3.8%. These figures are slightly below the overall J-REIT market averages.

We see ample upside potential for KDO valuations as the market recognizes the company's strong internal growth potential, thanks to its high-quality portfolio of mid-sized office buildings and room for steady rent hikes, coupled with an expanded potential investor base if KDO can boost its credit rating.

More detailed discussion on KDO from previously published reports can be found at the following hyperlinks: June 15, 2016 and April 11, 2016

Figure 77. Kenedix Office Investment (8972 JP) – Profit/Loss Statement (¥m)

	FP4/15	FP10/15	Full-year	FP4/16E	FP10/16 E	Full-year	FP4/17 E	FP10/17E	Full-year	FP4/18 E	FP10/18E	Full-year
Operating revenues	14,130	13,741	27,871	14,362	13,393	27,755	13,430	13,700	27,131	13,666	13,870	27,537
Rental business revenues	11,059	11,107	22,166	11,048	11,202	22,250	11,330	11,459	22,789	11,529	11,601	23,130
Other rental business revenues	2,362	2,173	4,534	1,804	2,191	3,995	2,100	2,242	4,342	2,137	2,269	4,406
Gains on sale of investment property	710	461	1,171	1,510	0	1,510	0	0	0	0	0	0
Operating expenses	7,593	7,800	15,394	8,260	7,815	16,075	7,682	7,949	15,631	7,786	8,025	15,812
Rental expenses	6,378	6,669	13,047	6,533	6,849	13,382	6,711	6,973	13,685	6,801	7,037	13,838
Taxes & public dues	957	1,097	2,054	1,113	1,143	2,256	1,163	1,182	2,345	1,190	1,197	2,387
Depreciation	2,221	2,219	4,440	2,231	2,274	4,505	2,277	2,280	4,558	2,283	2,286	4,569
Other rental expenses	3,199	3,353	6,552	3,190	3,432	6,622	3,271	3,510	6,782	3,329	3,554	6,883
Losses on sale of investment property	288	166	453	766	0	766	0	0	0	0	0	0
Asset management fees	740	753	1,493	760	749	1,509	760	763	1,523	772	774	1,546
Other operating expenses	187	213	400	201	217	418	210	213	423	213	214	427
OP	6,537	5,940	12,477	6,102	5,578	11,680	5,749	5,751	11,500	5,880	5,845	11,725
Non-operating revenues	2	2	4	2	2	4	2	2	4	2	2	4
Non-operating expenses	1,428	1,376	2,804	1,287	1,193	2,480	1,132	1,098	2,230	1,062	1,025	2,087
Financial expenses	1,331	1,278	2,609	1,178	1,083	2,261	1,023	988	2,010	952	916	1,868
Other non-operating expenses	97	98	195	110	110	219	110	110	219	110	110	219
RP	5,112	4,566	9,677	4,817	4,387	9,204	4,618	4,655	9,273	4,820	4,822	9,642
Extraordinary income	0	0	0	0	0	0	0	0	0	0	0	0
Extraordinary loss	0	0	0	0	0	0	0	0	0	0	0	0
Pretax profit	5,112	4,566	9,677	4,817	4,387	9,204	4,618	4,655	9,273	4,820	4,822	9,642
Corporate tax	1	1	3	1	1	3	1	1	3	1	1	3
NP	5,110	4,564	9,675	4,815	4,386	9,201	4,617	4,654	9,271	4,819	4,820	9,639
DPU (¥)	11,363	10,300	21,663	10,707	11,169	21,876	11,403	11,494	22,897	11,902	11,905	23,807
EPU (¥)	12,859	11,273	24,132	11,892	10,833	22,725	11,403	11,494	22,897	11,902	11,905	23,807
Per share FFO (¥)	17,065	16,023	33,088	15,565	16,449	32,014	17,028	17,126	34,154	17,540	17,551	35,091
Per share AFFO (¥)	16,253	14,865	31,118	12,798	14,543	27,341	15,283	15,347	30,630	15,798	15,782	31,580

Notes: 1. Financial expenses are the combined total of interest paid, interest on investment corporation bonds, and loan-related expenses.
2. FFO = NP ＋ depreciation - gains/losses on real estate sales
3. AFFO = FFO － capital expenditures

Source: Mizuho Securities Equity Research

Nippon Accommodations Fund (3226 JP, Buy, Price Objective ¥510,000)

Company Description

Nippon Accommodations Fund (NAF; 3226 JP, Buy rated by Yosuke Ohata) is a J-REIT specializing in rental residential properties; the company's sponsor is Mitsui Fudosan, a major real estate developer in Japan. The company's market cap (as of August 22) stands at around ¥219b; with total assets of ¥298.7b, NAF is Japan's second-largest residential REIT, behind Advance Residence Investment.

NAF mainly owns properties in the Tokyo metropolitan area – 84% of portfolio assets are located in Tokyo's 23 wards. The company's properties are mainly targeted at singles and DINK families. NAF's portfolio includes 11,729 leasable units, with total rentable area of approx. 480,000 sq.m. NAF originally listed on the Tokyo Stock Exchange in 2006.

Investment Thesis

As noted above, NAF primarily invests in properties located in the Tokyo metropolitan area. On balance we think the company has a relatively high-quality portfolio relative to other residential J-REITs. NAF is also enjoying the fastest growth in rents among the residential J-REITs. The company's comparative advantage in property locations – focusing mainly on central Tokyo – gives the company a competitive advantage, in our view, and should drive continued earnings growth going forward.

The backing of its sponsor Mitsui Fudosan means the company enjoys a strong credit rating, in turn helping to keep borrowing costs down, which should also contribute to earnings growth going forward. There is a growing trend for investors to select investments in the REIT sector based on a quality. Bearing this in mind, we believe there is significant upside for NAF valuations relative to peers given the company's reputation as a high-quality, well-managed company within the residential REIT sub-sector.

Valuation Discussion

NAF's investment units currently (22 August) trade at 11.3% premium over our FY17 NAV forecast with an implied cap rate of 4.4% and forecast dividend yield of 3.8%. These figures are slightly below the overall J-REIT market averages.

We forecast average annual growth in DPU of 4.2% over the next three years, in line with the J-REIT market average. Given the company's stable earnings base based on its high-quality portfolio of residential assets, we think NAF offers a favorable risk/reward profile.

More detailed discussion on NAF from previously published reports can be found at the following hyperlink: May 2, 2016

Figure 78. Nippon Accommodations Fund (3226 JP) - Profit/Loss Statement (¥m)

	FP8/15	FP2/16	Full-year	FP8/16E	FP2/17 E	Full-year	FP8/17 E	FP2/18E	Full-year	FP8/18 E	FP2/19E	Full-year
Operating revenues	10,435	10,433	20,868	**10,590**	**10,802**	**21,392**	**11,100**	**11,180**	**22,280**	**11,461**	**11,515**	**22,976**
Rental business revenues	9,959	10,052	20,012	**10,103**	**10,408**	**20,510**	**10,589**	**10,772**	**21,361**	**10,933**	**11,095**	**22,028**
Other rental business revenues	476	381	857	**487**	**394**	**882**	**511**	**408**	**919**	**527**	**420**	**948**
Gains on sale of investment property	0	0	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Operating expenses	6,063	5,902	11,964	**6,043**	**6,137**	**12,180**	**6,376**	**6,335**	**12,711**	**6,555**	**6,509**	**13,064**
Rental expenses	4,954	4,784	9,738	**4,919**	**4,986**	**9,905**	**5,151**	**5,082**	**10,233**	**5,316**	**5,258**	**10,574**
Taxes & public dues	574	574	1,148	**586**	**586**	**1,172**	**603**	**603**	**1,206**	**620**	**620**	**1,240**
Depreciation	2,083	2,074	4,157	**2,062**	**2,108**	**4,170**	**2,128**	**2,148**	**4,276**	**2,167**	**2,186**	**4,353**
Other rental expenses	2,296	2,136	4,432	**2,271**	**2,292**	**4,563**	**2,421**	**2,332**	**4,752**	**2,529**	**2,452**	**4,981**
Losses on sale of investment property	0	0	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Asset management fees	745	754	1,499	**763**	**780**	**1,543**	**799**	**810**	**1,609**	**827**	**834**	**1,661**
Other operating expenses	363	363	726	**361**	**372**	**732**	**426**	**443**	**869**	**411**	**417**	**829**
OP	4,373	4,532	8,904	**4,547**	**4,665**	**9,212**	**4,723**	**4,845**	**9,568**	**4,906**	**5,006**	**9,912**
Non-operating revenues	10	6	15	**10**	**10**	**20**	**10**	**10**	**20**	**10**	**10**	**20**
Non-operating expenses	656	643	1,299	**632**	**634**	**1,266**	**636**	**628**	**1,264**	**643**	**658**	**1,300**
Financial expenses	642	628	1,270	**612**	**614**	**1,226**	**616**	**608**	**1,224**	**623**	**638**	**1,260**
Other non-operating expenses	14	15	29	**20**	**20**	**40**	**20**	**20**	**40**	**20**	**20**	**40**
RP	3,726	3,894	7,620	**3,925**	**4,041**	**7,966**	**4,097**	**4,228**	**8,325**	**4,274**	**4,358**	**8,632**
Extraordinary income	0	0	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Extraordinary loss	0	0	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Pretax profit	3,726	3,894	7,620	**3,925**	**4,041**	**7,966**	**4,097**	**4,228**	**8,325**	**4,274**	**4,358**	**8,632**
Corporate tax	1	1	2	**1**	**1**	**2**	**1**	**1**	**2**	**1**	**1**	**2**
NP	3,725	3,893	7,618	**3,924**	**4,040**	**7,964**	**4,096**	**4,227**	**8,323**	**4,273**	**4,357**	**8,630**
DPU (¥)	7,688	8,036	15,724	**8,099**	**8,338**	**16,437**	**8,454**	**8,724**	**17,178**	**8,819**	**8,993**	**17,812**
EPU (¥)	7,692	8,035	15,727	**8,099**	**8,338**	**16,437**	**8,454**	**8,724**	**17,178**	**8,819**	**8,993**	**17,812**
Per share FFO (¥)	11,988	12,316	24,304	**12,355**	**12,688**	**25,043**	**12,846**	**13,156**	**26,002**	**13,291**	**13,504**	**26,795**
Per share AFFO (¥)	11,652	11,821	23,473	**11,899**	**12,223**	**24,122**	**12,418**	**12,725**	**25,143**	**12,828**	**13,040**	**25,868**

Notes: 1. Financial expenses are the combined total of interest paid, interest on investment corporation bonds, and loan-related expenses.
2. FFO = NP ＋ depreciation - gains/losses on real estate sales
3. AFFO = FFO － capital expenditures
Source: Mizuho Securities Equity Research

LaSalle Logiport REIT (3466 JP, Buy, Price Objective ¥127,000)

Company Description

LaSalle Logiport REIT (LLR; 3466 JP, Buy rated by Yosuke Ohata) is a JREIT that specializes in logistics facilities investments. LLR's sponsor is LaSalle Investment Management Japan, an entity within the LaSalle group of companies that together form one of the world's top real estate investment advisory firms. LLR's market cap (as of August 22) stands at around ¥117.0b. The company's real estate portfolio (total assets: ¥161.4b) are located entirely in major metropolitan areas. The two basic principles of its investment policy are a focus on properties in the Tokyo and Osaka areas and a focus on prime logistics—large-scale logistics facilities with sophisticated features. LLR listed on the TSE in February 2016.

Investment Thesis

We expect stable earnings growth over the medium and long term, thanks to the company's portfolio of large-scale logistics facilities located in major metro areas. We look for LLR to broaden its investments to include the Kansai region through the acquisition of logistics facilities developed by its sponsor, LaSalle Investment Management Japan, with external growth powering an increase in DPU and improvement in the liquidity of LLR's investment units.

LLR's valuations are currently considerably lower than those of other logistics REITs. However, the LaSalle group has made it clear that it intends to provide LLR with global support as its flagship fund investing in logistics facilities. We expect the valuation gap to shrink as LLR accumulates a performance track record and demonstrates its growth potential.

Valuation Discussion

LLR's investment units currently (22 August) trade at 5.2% premium over our FY17 NAV forecast with an implied cap rate of 4.5% and forecast dividend yield of 5.2%; these figures are below the averages for both logistics J-REITs and for the overall J-REIT market. LLR only listed on the TSE this past February, but we expect the currently low valuations to correct higher as the company is able to demonstrate its external growth potential, thanks to stable earnings momentum from its high-quality portfolio and a robust pipeline for property acquisitions via the fund's sponsor.

More detailed discussion on LLR from previously published reports can be found at the following hyperlink: August 5, 2016

Figure 79. LaSalle Logiport REIT (3466 JP) - Profit/Loss Statement (¥m)

	FP8/16E	FP2/17E	Full-year	FP8/17E	FP2/18E	Full-year	FP8/18E	FP2/19E	Full-year
Operating revenues	5,122	4,782	9,905	5,349	5,349	10,697	6,256	6,256	12,512
Rental business revenues	5,122	4,782	9,905	5,349	5,349	10,697	6,256	6,256	12,512
Other rental business revenues	0	0	0	0	0	0	0	0	0
Gains on sale of investment property	0	0	0	0	0	0	0	0	0
Operating expenses	2,047	1,909	3,956	2,430	2,416	4,846	2,764	2,806	5,570
Rental expenses	1,450	1,168	2,618	1,741	1,704	3,445	2,006	1,963	3,969
Taxes & public dues	0	0	0	404	404	808	449	449	899
Depreciation	670	572	1,242	637	634	1,271	738	735	1,473
Other rental expenses	780	596	1,376	700	666	1,366	818	779	1,597
Losses on sale of investment property	0	0	0	0	0	0	0	0	0
Asset management fees	497	651	1,148	586	610	1,196	638	723	1,361
Other operating expenses	100	90	190	103	103	205	120	120	240
OP	3,076	2,874	5,949	2,919	2,933	5,852	3,492	3,450	6,942
Non-operating revenues	1	1	2	1	1	2	1	1	2
Non-operating expenses	673	226	900	286	285	570	319	319	638
Financial expenses	333	206	540	266	265	530	299	299	598
Other non-operating expenses	340	20	360	20	20	40	20	20	40
RP	2,403	2,648	5,052	2,635	2,649	5,283	3,173	3,132	6,306
Extraordinary income	0	0	0	0	0	0	0	0	0
Extraordinary loss	0	0	0	0	0	0	0	0	0
Pretax profit	2,403	2,648	5,052	2,635	2,649	5,283	3,173	3,132	6,306
Corporate tax	1	1	2	1	1	2	1	1	2
NP	2,402	2,647	5,050	2,634	2,648	5,281	3,172	3,131	6,304
DPU (¥)	2,367	2,563	4,930	2,568	2,580	5,148	2,659	2,625	5,284
EPU (¥)	2,184	2,407	4,591	2,394	2,407	4,801	2,485	2,453	4,938
Per share FFO (¥)	2,793	2,927	5,720	2,973	2,983	5,956	3,063	3,028	6,091
Per share AFFO (¥)	2,653	2,796	5,449	2,827	2,838	5,665	2,916	2,881	5,797

Notes: 1. Financial expenses are the combined total of interest paid, interest on investment corporation bonds, and loan-related expenses.
2. FFO = NP ＋ depreciation - gains/losses on real estate sales
3. AFFO = FFO － capital expenditures
Source: Mizuho Securities Equity Research

Fortune REIT (778 HK, Buy, Price Objective HKD11.21)

Company Description

Fortune REIT (778 HK, Buy rated by Alan Jin) is Asia's first cross-border REIT and dually listed in the stock exchanges of HK and Singapore. Fortune REIT currently holds a portfolio of 17 private housing estate retail properties in Hong Kong comprising of 3.18 million square feet of retail space and 2,713 car parking spaces.

The Manager's key objectives are to deliver stable distributions to Fortune REIT's Unitholders and to achieve long-term growth in the net asset value per Unit of Fortune REIT. The Manager intends to accomplish these objectives by ensuring that Fortune REIT continues to own a portfolio quality shopping malls with balanced exposure to any particular sub-sector, building or tenant. (Source: www.fortunereit.com)

Investment Thesis

Fortune REIT is our top pick for the H-REITs sector. It is similar to Link REIT in terms of business fundamentals, but has a better M&A track record and higher dividend yield in our view.

Business model provides stability: Fortune REIT's assets are exclusively community retail malls targeting for local middle class. With 60% of tenants being non-discretionary retailers, Fortune's portfolio provides resilient rental outlook with high visibility. In 1H16 Fortune REIT reported 6% DPU growth, compared with a 9% decline in Hong Kong's overall retail sales.

Proven M&A track record set to continue: We also like Fortune REIT for its proven track record of M&A. Its asset base has increased by 10x since listing from HKD3.3b to HKD36b in 1H16, thanks a large part to its supportive and resourceful sponsor Cheung Kong Property (113 HK, NR). With compressed cap rate seen in recent en bloc transactions in property market, yield-accretive M&As are becoming increasingly difficult to find in Hong Kong. Having a strong sponsor has thus become more important than before in sourcing potential M&As in our view.

Substitute for Link REIT: Share price of Fortune REIT showed increased correlation with US treasury in recent years, indicating it is a good proxy for yield play. As the global hunt for yield sparks further yield compression for quality REITs like Link REIT (823 HK), we believe investors will find Fortune REIT's forward yield of 5.1% more attractive.

Risks: a rapid deterioration of Hong Kong economy could cripple the spending power of local middle class and hence rents of Fortune's malls. Earlier than expected interest rate hike could also lead to lower valuation for REIT assets.

More detailed discussion on Fortune REIT from previously published reports can be found at the following hyperlink: 17 August 2016.

Valuation Discussion

Our PO of HKD11.21 for Fortune REIT is based on a DDM valuation assuming a CAPM-derived discount rate of 6.7%. To derive our PO, we have assumed spot rental growth of 5% in FY16, 3% per year in FY17-19E and 1% per year thereafter, and a stable 97% occupancy rate. Forward yield for Fortune REIT is 5.04%. Its share is trading at 0.78x FY16 PBR with a gearing ratio of 30%.

Figure 80. Fortune REIT (778 HK) – Profit/Loss Statement (HKDm)

Summary income statement (HKDm)	Dec 13	Dec 14	Dec 15	Dec 16E	Dec 17E
Revenue	1,317	1,656	1,882	1,974	2,035
Property-related operating fees	(389)	(495)	(558)	(576)	(594)
Net Property Income	928	1,161	1,324	1,398	1,441
Gen & admin expenses	(4)	(4)	(7)	(3)	(3)
Other operating expense					
Revaulation gain on investment properties					
Operating profit	924	1,157	1,317	1,395	1,438
Operating EBITDA	924	1,157	1,317	1,395	1,438
Depreciation and amortisation	-	-	-	-	-
Operating EBIT	924	1,157	1,317	1,395	1,438
Net interest income	(149)	(205)	(236)	(255)	(254)
Forex and related gains					
Associates and JVs	-	-	-	-	-
Other income	-	-	-	-	-
Exceptionals	-	-	-	-	-
Pre-tax profit	775	952	1,081	1,140	1,184
Taxation	(133)	(171)	(196)	(198)	(205)
Post-tax profit	642	781	885	942	979
Minorities	-	-	-	-	-
Preferred dividends					
Net profit	642	781	885	942	979
Extraordinary & other adjustments					
Normalised net profit	642	781	885	942	979
Adjustment to net profit					
Distributable income	642	781	885	942	979
Dividends	(642)	(781)	(885)	(943)	(979)

Key ratios	Dec 13	Dec 14	Dec 15	Dec 16E	Dec 17E
Revenue growth	18.30%	25.68%	13.67%	4.90%	3.07%
Net profit margin	48.76%	47.15%	47.00%	47.72%	48.10%
Norm. net profit growth	16.91%	21.54%	13.29%	6.52%	3.89%
EPS growth	11.28%	15.78%	12.48%	5.81%	2.93%
Normalised EPS growth	11.28%	15.78%	12.48%	5.81%	2.93%
Operating margin	70.2%	69.9%	70.0%	70.7%	70.7%
Norm. net profit margin	48.76%	47.15%	47.00%	47.72%	48.10%
Tax rate	17.10%	17.96%	18.17%	17.33%	17.33%
Dividend yield	3.63%	4.20%	4.73%	5.01%	5.15%
Dividend payout ratio	100%	100%	100%	100%	100%
Net debt (HKDm)	8,972	9,133	10,299	10,214	10,148
Net debt to equity	46.95%	40.82%	42.72%	42.18%	41.72%
ROAE	3.74%	3.76%	3.81%	3.90%	4.03%
Days of account receivable	16.95	14.10	13.02	13.95	14.03

Source: Company reports, Mizuho Securities Asia

Yuexiu REIT (405 HK, Buy, Price Objective HKD5.36)

Company Description

Yuexiu REIT (YXR; 405 HK, Buy rated by Alan Jin) was listed on the Hong Kong Stock Exchange in December 2005 and is the world's first listed REIT only investing in properties in China. The current property portfolio of Yuexiu REIT comprises seven high quality properties, with a total area of approximately 743,000 sqm. Six out of the seven are located in the central business district ("CBD") of Guangzhou and one in Shanghai. Top rental contributing buildings are Guangzhou IFC – a complex consisting of Grade-A offices, retail space and a Four Seasons Hotel, and White Horse Building – a wholesale market for clothing. (Source: www.yuexiureit.com)

Investment Thesis

We like YXR's attractive dividend yield, strong track record of DPU growth and stable business outlook. Long-term upside should be underpinned by the gradual maturing of Guangzhou CBD/Pearl River New Town. This is where its trophy asset Guangzhou IFC is located.

Attractive yield backed by a track record of stable DPU growth: YXR is offering a forward yield of 6.5% per our estimate, which is attractive in the prevailing low interest rate environment. Over the years, Yuexiu REIT managed to build a track record of stable DPU growth, even in 2011 and 2014 when the housing market in China was sluggish and the economy was weak.

Balanced combination of unique assets: Guangzhou IFC is XYR's trophy asset, with a latest occupancy rate of 96% for office and 98% for retail, it contributed 56% of YXR's total rental income in 1H16. We believe rental at Guangzhou IFC has great potential to improve in the next three-four years as the building spree in the Pearl River New Town enters the final phase. Another key asset is White Horse Building, probably one of the most successful wholesale markets in China. Unlike those brick-and-mortar retail premises which are facing fierce competition from e-tailers, wholesale markets are where both on-line and off-line retailers buy merchandise. As a result, since listing the building has been close to fully occupied.

In 1H16, the building contributed 22% of rental income, while its lettable area only accounts for 10% of the total portfolio. We believe Guangzhou IFC will be the main source of rental growth, while the White Horse Building provides stability.

Risks: weaker-than-expected economic growth in Guangzhou in upcoming years; a fight for tenants with neighboring buildings in the Guangzhou CBD; and rapid RMB deprecation given its CNY-denominated assets.

More detailed discussion on Yuexiu REIT from previously published reports can be found at the following hyperlink: 17 August 2016.

Valuation Discussion

Our PO of HKD5.36 for Yuexiu REIT is based on discounted dividend model (DDM) valuation. We assume a discount rate of 7.84%, which is derived by adding 1% country risk premium on top of CAPM-based equity cost of 6.84%. YXR is trading at 0.95x FY16E PBR with a net gearing of 37.4%.

Figure 81. Yuexiu REIT (405 HK) – Profit/Loss Statement (CNYm)

Summary income statement (CNYm)	**Dec 13**	**Dec 14**	**Dec 15**	**Dec 16E**	**Dec 17E**
Revenue	1,371	1,571	1,710	1,884	1,916
Property-related operating fees	(486)	(584)	(621)	(646)	(657)
Net Property Income	884	988	1,088	1,238	1,260
Gen & admin expenses	(70)	(90)	(106)	(126)	(128)
Other operating expense					
Revaulation gain on investment properties					
Operating profit	814	897	983	1,112	1,132
Operating EBITDA	814	897	983	1,112	1,132
Depreciation and amortisation	-	-	-	-	-
Operating EBIT	814	897	983	1,112	1,132
Net interest income	(353)	(310)	(314)	(334)	(349)
Forex and related gains					
Associates and JVs	-	-	-	-	-
Other income					
Exceptionals	-	-	-	-	-
Pre-tax profit	461	587	668	779	783
Taxation	(29)	(26)	(26)	(42)	(42)
Post-tax profit	432	561	642	736	740
Minorities	0	(2)	(5)	(6)	(6)
Preferred dividends	166	104	67	60	-
Net profit	599	663	704	791	735
Extraordinary & other adjustments					
Normalised net profit	599	663	704	791	735
Adjustment to net profit					
Distributable income	599	663	704	791	735
Dividends	(599)	(663)	(704)	(791)	(735)

Key ratios	**Dec 13**	**Dec 14**	**Dec 15**	**Dec 16E**	**Dec 17E**
Revenue growth	92.5%	14.6%	8.8%	10.2%	1.7%
Net profit margin	43.67%	42.18%	41.20%	41.98%	38.34%
Norm. net profit growth	48.37%	10.71%	6.28%	12.29%	(7.11%)
EPS growth	47.74%	9.59%	5.10%	10.03%	(9.75%)
Normalised EPS growth	47.74%	9.59%	5.10%	10.03%	(9.75%)
Operating margin	59.4%	57.1%	57.5%	59.0%	59.1%
Norm. net profit margin	43.67%	42.18%	41.20%	41.98%	38.34%
Tax rate	6.31%	4.51%	3.88%	5.43%	5.43%
Dividend yield	4.94%	5.40%	5.68%	6.19%	5.59%
Dividend payout ratio	100%	100%	100%	100%	100%
Net debt (CNYm)	7,202	7,110	10,238	10,081	9,923
Net debt to equity	56.8%	54.1%	76.4%	75.2%	74.1%
ROAE	4.75%	5.14%	5.31%	5.90%	5.48%
Days of account receivable	2.96	2.62	2.64	2.56	2.51

Source: Company reports, Mizuho Securities Asia

Valuation basis and risks for top ideas

Alexandria Real Estate (ARE US): Our price target is based on a 5% range around 24x our 2017 AFFO estimate. Should consolidation in the biotech and pharmaceuticals industries create a declining need for space, our price target may not be achieved.

Hudson Pacific Properties (HPP US): Our price target reflects our NAV estimate. To the extent the technology industry in San Francisco and Seattle begin to slow resulting in a reduced pace of office space needs, our price target may not be achieved.

UDR (UDR US): Our price target is based on a range around a 15% NAV premium. Should UDR experience revenue growth deceleration to a degree greater than our expectations, our price target may not be achieved.

Taubman Centers (TCO US): Our price target of $89.00/sh equates to our NAV estimate of $103.00 with a 15% discount, given company specific risks including take-over proof corporate by-laws, rising leverage ahead and further Asia development starts. Macro risks to our views include potential US recession, widening CMBS spreads and slowing retail sales, all of which are disproportionately negative for lower productivity landlords.

GLP J-REIT (3281 JP): Our price objective is based on a 3.2% dividend yield based on our FY16 dividend forecast. Risks include further compression of cap rate and a drop-off in growth expectations accompanying a decline in opportunities to acquire properties from GLP group, the sponsor.

Kenedix Office (8972 JP): Our price objective is based on a 3.2% dividend yield based on our FY17 dividend forecast. One risk we see is a slump in office demand, as that would raise concerns over earnings momentum.

Nippon Accommodations Fund (3226 JP): Our price objective is based on a 3.2% dividend yield based on our FY16 dividend forecast. The main risk is a slump in residential properties demand from an economic slowdown, leading to a fall in earnings.

Lasalle Logiport (3466 JP): Our price objective is based on a 4.1% dividend yield based on our FY17 dividend forecast. A decline in occupancy rates in portfolio properties should be seen as a risk factor, as such a decline would imply potential earnings deterioration.

Fortune REIT (778 HK): Our price objective of HKD11.21 is based on our DDM valuation by assuming a CAPM-derived discount rate of 6.7%. To derive our PO, we have assumed spot rental growth of 5% in FY16, 3% per year in FY17-19E and 1% per year thereafter, and a stable 97% occupancy rate. Key risk is a rapid deterioration of the Hong Kong economy could cripple the spending power of local middle class and hence rents of Fortune’s malls.

Yuexiu REIT (405 HK): Our price objective of HKD5.36 is based on discounted dividend model (DDM) valuation. We assume a discount rate of 7.84%. Key risks include weaker-than-expected economic growth in Guangzhou in upcoming years, a flight for tenants among office landlords in Guangzhou CBD; and rapid RMB depreciation.

Appendix: REITs 101

US REITs

Historical Snapshot

President Dwight Eisenhower signed the Real Estate Investment Trust Act in September 1960 that, for the first time, provided all individuals to invest in commercial real estate in a tax-friendly manner. However, the REIT model laid largely dormant for 30+ years until a few pioneers recognized the opportunity to deploy the structure with creativity – among them, legendary investor Sam Zell.

The excessive use of leverage in the mid- to late-1980s prompted Mr. Zell to create the Zell-Merrill I real estate opportunity fund with $400mm of equity at the ready to purchase assets thought to be at risk of future foreclosure, which in a nutshell is exactly what happened. Eventually, the accelerated deployment of the REIT structure coincided with the government's rescue collection of assets that were previously tied up in the Savings & Loans debacle, which formed the Resolution Trust Corporation (RTC) in 1989. With equity available, the modern-day era of the US REIT industry began as high-quality assets were purchased from the RTC as a fraction to the dollar. Eventually through the sale of assets and other corrective steps, the RTC ceased operations on December 31, 1995.

The US REITs, on the other hand, continue to thrive to this day, at a market capitalization of $1 trillion and a total asset base of nearly $2 trillion. And yet, the REITs collectively may only own roughly 10%-15% of the US commercial real estate industry – a still fragmented scenario that presents many years of additional investment opportunities.

At the early stages of the modern era of the US REITs, management teams were mainly yield focused, with business decisions generally and singularly aimed at producing a stronger and growing dividend. The slow and steady maturation of the industry has had the transformational effect of REITs being more total return-minded. That is, paying the requisite dividend to maintain REIT status, but keeping payouts as low as possible in order to reinvest into the existing portfolio, or purchase or build new assets. Simply put, today's US REIT is far more sophisticated, creative, balance sheet focused, and cost conscious versus their predecessors, creating a unique collection of assets and interesting operating strategies (through an intensely analytical approach), that goes far beyond the bricks and mortar required to build them.

To Qualify as a US REIT

- Must be governed by directors or trustees.
- At least 100 different shareholders, and 5 or fewer individuals cannot own more than 50% of the value of a REIT's stock.
- Must pay out at least 90% of taxable net income (any amount of taxable net income not distributed is taxed).

- **Asset Test:** At least 75% of total assets must be invested in real estate, and no more than 25% of assets can be in the form of stock in a taxable REIT subsidiary.
- **Income Test:** At least 75% of its gross income must come from a) rents from real property, b) interest on mortgages financing real property, or c) capital gains associated with the sale of real estate property or shares in other REITs. And at least 95% of a REIT's income must be derived from items meeting the 75% income test plus additional categories of "passive" income including dividends and interest.

Advantages of US REITs

- **Liquidity:** With real estate long considered an illiquid investment, the creation of the REIT in 1960 represented the beginning of a change. As the investor base for listed real estate had grown, average daily trading volume in the US has soared – from about $100 million in 1994 to more than $4 billion today.
- **Diversification:** REITs own large portfolios of assets spanning all types of property including multifamily (apartment), office, industrial, malls, shopping centers, and health care facilities.
- **Fragmentation:** The equity market capitalization of the US equity REIT industry is nearly $1 trillion, representing 10% of the total market for institutional-quality real estate. There are over 150 publicly traded US equity REITs.
- **Income:** The average cash dividend yield of 3.8% compares with the 10-year Treasury yield of 1.58%.
- **Positive Total Return Track Record:** The combination of capital appreciation and dividends has resulted in the US REITs outperforming the S&P 500 Index in 12 of the last 15 years.
- **Inflation Protection:** Real estate provides landlords the ability to pass through rising costs in the form of rent increases to its tenants.

Pieces of US REIT Legislation

- **Real Estate Investment Trust Act of 1960:** The federal law that authorized REITs. Its purpose was to allow small investors to pool their investments in real estate to get the same benefits as might be obtained by direct ownership, while diversifying their risks and obtaining professional management.
- **Tax Reform Act of 1986:** Federal law that substantially altered the real estate investment landscape by permitting REITs not only to own, but also to operate and manage, most types of income-producing commercial properties. It also stopped real estate "tax shelters"

- **REIT Modernization Act of 1999:** Federal tax law change whose provisions allow a REIT to own up to 100% of stock of a taxable REIT subsidiary (TRS) that can provide services to REIT tenants and others. The law also changed the minimum distribution requirement from 95% to 90% of a REIT's taxable income – consistent with the rules for REITs from 1960 to 1980.
- **REIT Investment Diversification and Empowerment Act of 2007 (RIDEA):** Amended Internal Revenue Code provisions relating to REITs:
  - Treat passive foreign exchange gains attributable to overseas real estate investment as qualifying REIT income.
  - Increase from 20% to 25% the maximum value of a REIT's total assets that may be represented by securities of one or more taxable REIT subsidiaries.
  - Revise safe harbor rules for the excise tax penalty on certain REIT sales activities.
  - Treat rental payments made by a health care facility to a REIT as qualifying REIT income.
  - Treat income from, and interests in, foreign-qualified REITs as qualifying REIT income and assets.

Types of REITs

- **Equity REITs:** Owns, or has an "equity interest" in, Rental real estate (rather than making loans secured by real estate collateral). There are approximately 150 US Equity REITs in existence today.
- **Mortgage REITs:** Makes or owns loans and other obligations that are secured by real estate collateral. There are approximately 35 US Mortgage REITs in existence today.
- **Hybrid REITs:** Combines the investment strategies of both equity REITs and mortgage REITs. Most REITs are characterized as either Equity or Mortgage today.

Broader Market Dynamics

Beyond the fundamental discussion of the US REIT marketplace discussed above, and other uncertainties surrounding US politics and geopolitical risks around the globe, there are numerous other external forces at work that collectively suggest the potential for capital flows to continue into the industry. So while our view on US REIT stock valuation makes the search for alpha, from this point forward, a somewhat difficult task, there exists a backdrop of recent events and/or systemic changes to the broader landscape that may provide a unique support mechanism for the US REITs.

Below, we provide a brief commentary of the most relevant factors, starting with the best indicator yet that the REIT maturation process has placed the industry firmly on the proverbial map – the creation of the 11th GICS sector focused on real estate.

11th Global Industry Classification Standard (GICS)

On September 1, 2016, the S&P and MSCI extracted listed real estate companies from underneath the financials umbrella to create an 11th GICS sector. This change is affirmation that real estate is an important industry in the global economy that is deserving of its own stage, and acknowledgement that REITs represent a growing influence in investment portfolios. Within the US, the REIT industry has outperformed the S&P 500 Index in 12 of the past 15 years, and has grown from a $10 billion market capitalization industry in the early 1990s, to nearly $1 trillion today.

There has been a lot of debate in the markets surrounding the incremental demand for REIT shares leading up to, and now following the REIT carve out from financials. While the math could suggest $100 billion of incremental demand in the US alone for mutual funds to reach a market-weighting (the average mutual fund is about 200bps underweight REITs), we think behavioral factors like this are more likely to take time to manifest themselves in stock performance. And given our sense that the average generalist investor views US REITs as being in overvalued territory, the implications of the new sector, in and of itself, may be hard to decipher.

That said, we see a few baskets of potential generalist demand related to the carve out: a) large cap/ high quality REITs (given the widely benchmarked S&P 500), b) attractive cash flow multiples (generalists may not be as in tune with NAV valuations), and c) a "buy what you know" strategy (new REIT investors may find comfort in areas that they interface with in daily life, such as malls, apartments and hotels).

Foreign Investment in Real Property Tax Act (FIRPTA)

The US Congress enacted FIRPTA in 1980 out of fear that foreigners may overrun US control in its own real estate and farmland. FIRPTA has long since been viewed by many as an antiquated roadblock to foreign investment in the US, particularly considering that the majority of developed countries don't impose income tax on capital gains related to the sale of assets by nondomestic investors. So on December 18, 2015, President Obama signed the "Protecting Americans from Tax Hikes of 2015 Act (the "PATH Act"), which includes several changes to rules governing FIRPTA. These changes are meaningful, in our view, as they collectively should encourage more foreign investment is US real estate -- mainly through reduced or eliminated withholding taxes.

The headline outcome from FIRPTA reform is "Qualified Foreign Pension Funds" will no longer be subject to tax withholding associated with US real estate investment gains. But, pension funds are just one segment of the foreign investor community. Modifications to the law are vast and comprehensive, including reduced or eliminated taxes for investment by a broader list of investors in both real US property and US REITs, while increasing allowable ownership thresholds by foreigners in US REIT stocks.

“Brexit” Impact

From Mizuho Securities USA Chief Economist Steven Ricchiuto: "(We) see no reason to rush into equities, especially in what is likely to be a very negative political season and a period of global economic and political uncertainty, leaving us with a “Grab Yield Strategy”. The UK “yes” vote simply adds to this strategy near-term as the uncertainty and contagion concerns are an economic negative."

Although REITs are both equities and yield vehicles, the latter was the overwhelming factor – driving REIT shares up in the aftermath as investors placed even greater emphasis on the REIT dividend. This has been a contributing factor to the elevated valuation of the US REIT sector, in our view, adding some concern that it wouldn’t take much for US REITs to experience a short but meaningful sell-off. However, we think the greater likelihood is for interest rates to remain low, particularly with the UK in an extended period of uncertainty for the foreseeable future.

US Internal Revenue Service (IRS) and the Cap on Tax-Free REIT Spin-offs

In 2015, the IRS issued Notice 2015-59 describing a study, and its concerns, as it relates to tax-free spin-offs. The basic concern was that tax dollars were being taken out of the system.

We believe a confluence of recent and proposed events, both inside and outside of the REIT industry (including Yahoo’s plan to spin off is Alibaba shares), prompted the IRS to take closer look at spin-offs and their implications on management behaviors and tax revenues. At the time, the IRS ceased providing private letter rulings for any company, REITs or otherwise, seeking to spinoff an entity on a tax-free basis if it falls into one of three basic baskets: a) Creating a REIT from a (non-tax paying) NonREIT; b) When any of several imbalances exist between the two companies, including an overweighting of active businesses in one and passive business in the other; and c) When the result of the spin creates an over-abundance of investment assets (as a percentage of total assets) in one of the entities.

The IRS has since taken a more official stance, which we think is good for the US REIT industry. We believe the creation of new REITs purely motivated by tax savings was slowly tainting an industry as a tax loophole, while diluting the initial intention of the REIT model – to provide everyday investors with trading liquidity to an otherwise illiquid investment in real estate. Through this IRS effort, US REITs maintain an element of scarcity value which we believe will have longer-term positive consequences.

Affordable Care Act (ACA)

Signed into law by President Obama on March 23, 2010, and upheld as constitutional by the US Supreme Court on June 28, 2012. The overriding objective of the ACA is to widen healthcare coverage to all Americans. To that end, a recent Gallup poll reported that the percentage of uninsured Americans dropped from 18% as of 3Q13, to 11% as of 1Q16. While this major overhaul to the system of healthcare delivery in the US only has direct implications for the healthcare REIT sector, we believe a mention in this section is worthwhile because of the scale of the initiative. All companies and individuals are impacted by the ACA, at least tangentially, and it remains a highly political topic that has broader economic influences as well.

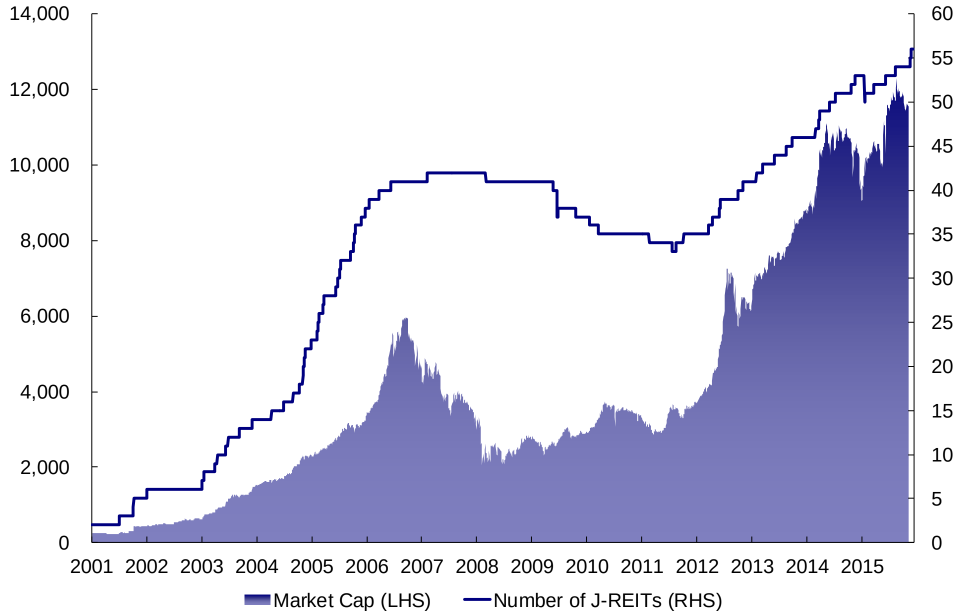
The next presidential administration may seek to change it, or completely eliminate it. From the REITs' perspective, the ACA is a double-edged sword. On one hand, universal health coverage should mean more demand for healthcare real estate. On the other hand, since the goal of the ACA is to also enhance cost savings, weaker healthcare providers could be forced to consolidate or close.

Introduction to J-REITs

The birth of the J-REIT market can be traced back to the amendment to the Investment Trust Act in 2000, which permitted the establishment of real estate investment trusts (J-REITs). The TSE established a J-REIT exchange market in March 2001, and the first two funds listed in September: Nippon Building Fund (8951) and Japan Real Estate (8952). A lack of publicity held back market growth in the early stages, but the number of listed funds and total market capitalization steadily increased subsequently.

The market entered a correction phase in May 2007, emerging from the global financial crisis in March 2009 with a market cap down 67% from its peak. The post-GFC period brought a succession of mergers as funds with the most limited ability to raise funds were rescued. This naturally reduced the number of listed funds but made the market more efficient. The market came under renewed pressure in the wake of the Great East Japan Earthquake of 2011, but returned to rapid growth from 2012, driven by monetary easing and a recovery in property prices. The market currently numbers 54 investment corporations with a combined market cap of ¥12 trillion.

Figure 82. J-REITs - Market Capitalization and Numbers of J-REITs (¥b)



Source: Mizuho Securities Group

A J-REIT is a fund that invests only in real estate; management of its portfolio is outsourced. In this respect, the Japanese system differs from the in-house management model of the US, in which business corporations that meet certain conditions are exempt from corporate tax.

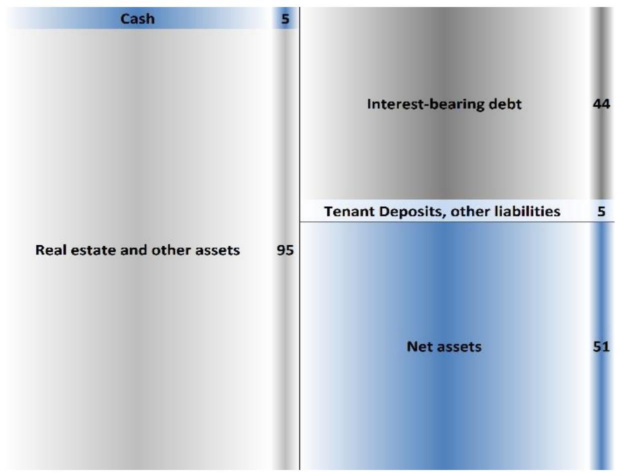
A J-REIT is established by the shareholder in the asset management corporation, which is known as the fund's sponsor. The sponsor supports the J-REIT in a variety of ways, including assigning staff to the asset manager and supplying property that is acquired by the fund. J-REIT sponsors have varied business interests: they can be property developers, real estate fund managers, trading companies, railway operators, or financial institutions. They establish J-REITs as a vehicle to manage property.

All assets held by a J-REIT are leased to generate cash flow; investment corporations do not in principle develop property. Funds can either specialize in a particular asset class (such as office or residential property) or can hold multiple types of property.

J-REITs raise money in simple ways. They can raise equity by issuing common shares, or debt by borrowing or issuing investment corporation bonds. They do not issue hybrid securities such as preferred shares, subordinated debt, or CBs. Loan-to-value (LTV), defined as debt (borrowings and investment corporation bonds) as a percentage of total assets, averages around 45%.

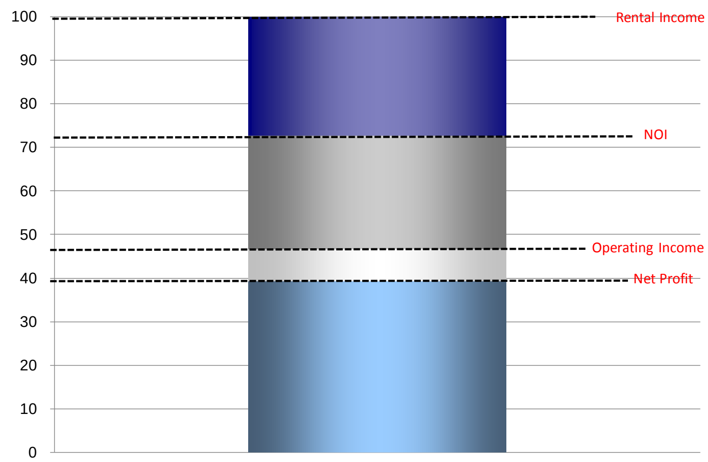
A J-REIT's sole source of income is rental income from its property portfolio. Net profit is what remains after subtracting the cost of managing portfolio properties and the fund, and of financing. NP equals around 40% of rental income, giving a yield of 2.9% on property assets. Funds generally pay 100% of NP as dividends, although some with heavy depreciation expenses distribute an amount greater than NP. The dividend payout averages 69% of funds from operations (FFO, NP plus depreciation) and 76% of AFFO (Adjusted FFO, FFO minus capital spending).

Figure 83. J-REITs - Balance Sheets (%)



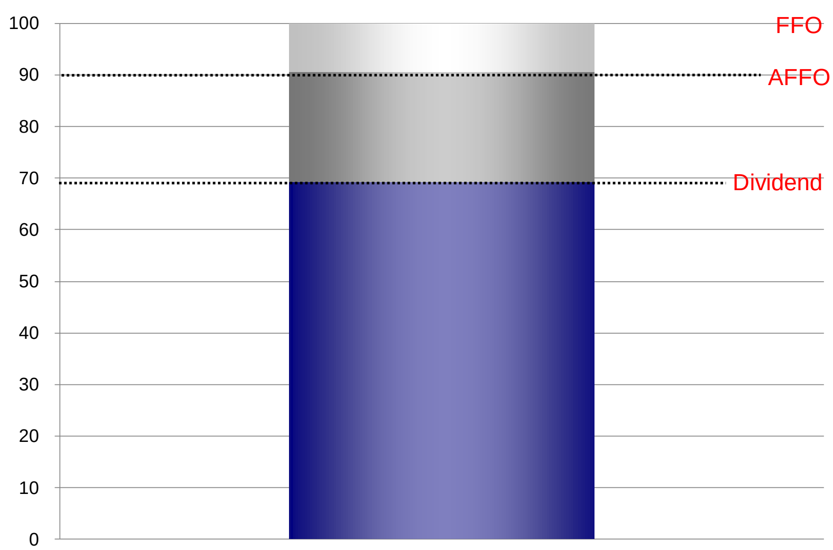
Source: Mizuho Securities Group; based on end-FY16 Mizuho Securities Equity Research forecasts

Figure 84. J-REITs - Earnings Structure



Note: Compares each item to rental income indexed to 100
Source: Mizuho Securities Group; based on end-FY16 Mizuho Securities Equity Research forecasts

Figure 85. J-REITs - FFO, AFFO and Net Profit

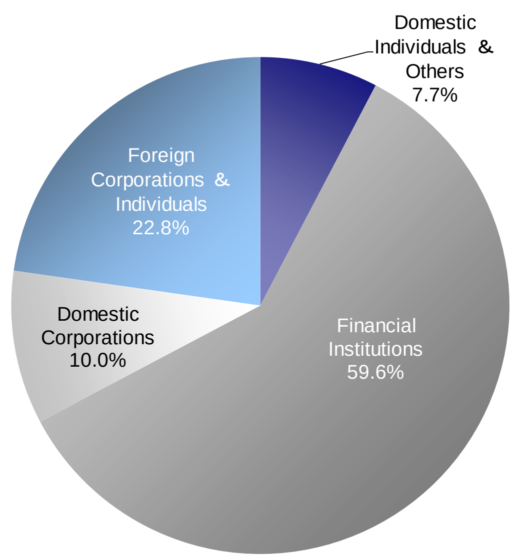


Source: Mizuho Securities Group; based on end-FY16 Mizuho Securities Equity Research forecasts

Investors

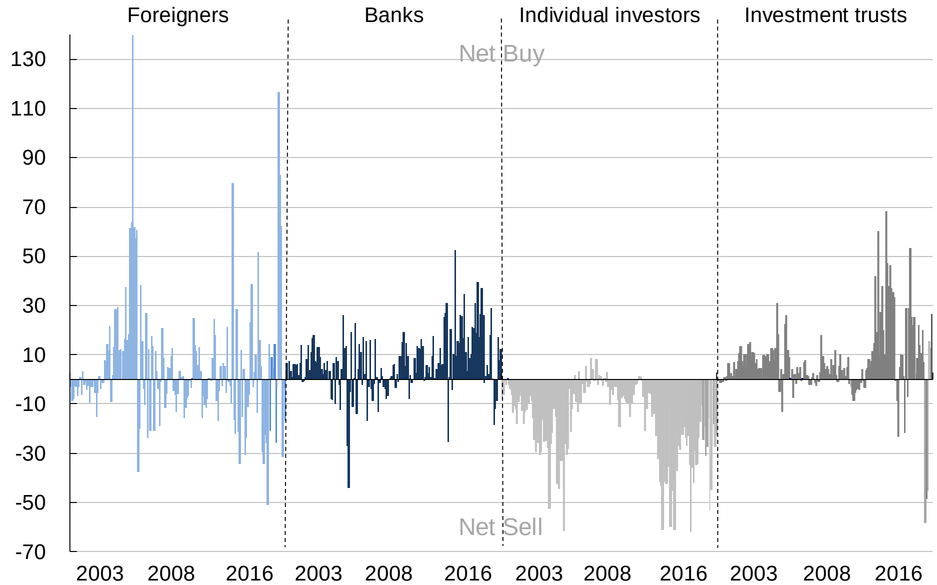
Retail investors are the principal holders of J-REIT shares, with around 40% of the total in real terms. However, they hold only about 10% directly; the other 30% is via investment trusts. Foreigners hold around 25% of the total, although they tend to be relatively active traders, accounting for 40% of overall trading. The other significant holders of J-REIT shares are Japanese banks, insurance companies, and business corporations.

Figure 86. J-REITs – Unitholders, by Investor Type



Source: Mizuho Securities Group, from company materials; data as of July 2016

Figure 87. TSE J-REIT Trading by Investor Type (¥b)



Source: Mizuho Securities Group, Tokyo Stock Exchange

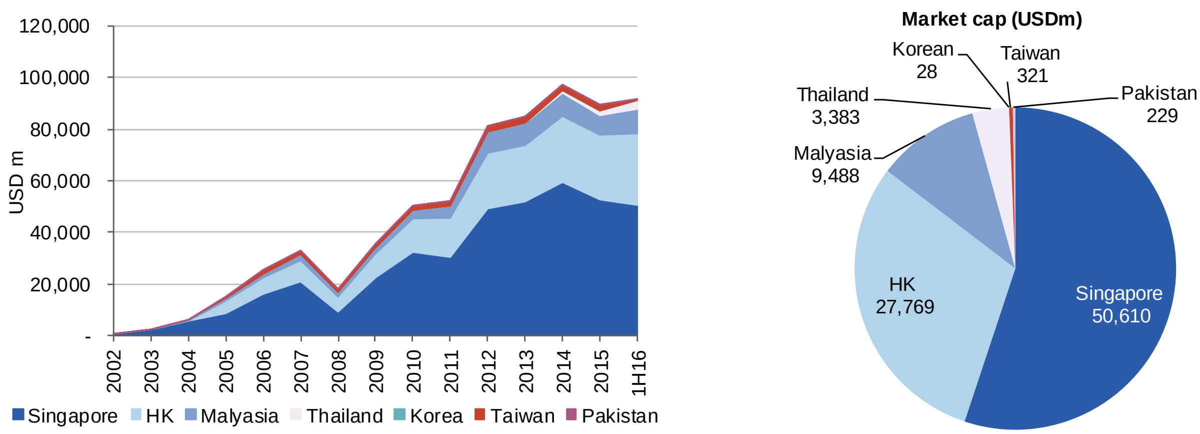
Asia ex-Japan REITs Overview

Status Quo

Although still small compared with the REIT sectors of the US and Japan, the AeJ REIT sector is developing rapidly. Low interest rates fueled growth after 2008.

A temporary setback amid the global financial crisis was swiftly reversed. The AeJ REIT sector's aggregate market cap hit USD92b at end June 2016, almost 3x the 2007 level (Bloomberg). Singapore has enjoyed the most success. With a market cap of USD51b, S-REITs account for 55% of the region's total. Hong Kong is number two with a total market cap of USD28b, 30% of the AeJ total. Malaysia is number three, with a USD9b market cap and 10% total market share. Pakistan listed its first REIT in 2015.

Figure 88. AeJ REITs: Market Cap



Source: Bloomberg, Mizuho Securities Group

The relative maturity of the various REIT markets is positively correlated to Jones Lang LaSalle's transparency index. Singapore and Hong Kong place top, with Malaysia also ranking well.

Figure 89. Jones Lang LaSalle Global Real Estate Transparency Index

Market	Region	Investment performance	Market fundamentals	Listed vehicles	Regulatory and legal	Transaction process	2016 composite score	Global Ranking
United Kingdom	EUR	1.0	1.5	1.0	1.3	1.3	1.2	1
Australia	AP	1.3	1.5	1.1	1.3	1.0	1.3	2
Canada	AM	1.6	1.3	1.2	1.1	1.2	1.3	3
United States	AM	1.2	1.4	1.0	1.4	1.3	1.3	4
Singapore	AP	2.0	1.8	1.5	1.7	2.0	1.8	11
Hong Kong	AP	2.1	1.6	2.0	1.8	1.9	1.9	15
Japan	AP	1.7	2.9	2.1	1.6	2.1	2.0	19
Malaysia	AP	2.7	2.1	2.2	2.4	2.2	2.3	28
China - Tier1	AP	2.4	2.0	3.3	2.6	2.8	2.5	33
India - Tier1	AP	3.1	2.9	2.1	2.3	2.2	2.6	36
South Korea	AP	3.2	2.8	3.2	1.9	2.7	2.7	40
India - Tier2	AP	3.1	2.9	2.1	2.4	2.3	2.6	39
China - Tier1.5	AP	2.7	2.9	3.3	2.8	3.3	2.9	49

Source: Jones Lang LaSalle, Mizuho Securities Group

League Table

By market cap, Link (823 HK, NEUTRAL, PO HKD54.68) is the largest REIT in the AeJ region with a 17% market share. CapitaLand Mall (CT SP, NR) is number two with a 6% market share (Bloomberg). The top 15 REITs account for nearly two-thirds of total AeJ market cap. HK-REITs and S-REITs are giants.

Figure 90. AeJ - Top REITs

Name	Ticker	Market Cap (USD mn)	Rank	As % of AeJ market cap	Market
LINK REIT	823 HK	15,278.53	1	17%	HK
CAPITALAND MALL	CT SP	5,702.85	2	6%	SP
ASCENDAS REAL ES	AREIT SP	4,920.74	3	5%	SP
KLCCP STAPLED GR	KLCCSS MK	3,699.07	4	4%	Malaysia
CAPITALAND COMME	CCT SP	3,399.62	5	4%	SP
SUNTEC REIT	SUN SP	3,378.79	6	4%	SP
CHAMPION REIT	2778 HK	3,269.13	7	4%	HK
KEPPEL REIT	KREIT SP	2,613.58	8	3%	SP
MAPLETREE COMMER	MCT SP	2,430.52	9	3%	SP
MAPLETREE INDUST	MINT SP	2,385.38	10	3%	SP
FORTUNE REIT	778 HK /FRT SP	2,259.00	11	2%	HK & SP
HUI XIAN REIT	87001 HK	2,219.95	12	2%	HK
MAPLETREE GREATE	MAGIC SP	2,199.94	13	2%	SP
MAPLETREE LOG TR	MLT SP	1,941.66	14	2%	SP
SPH REIT	SPHREIT SP	1,801.26	15	2%	SP

Source: Bloomberg, Mizuho Securities Group

Chronicling AeJ REITs

Figure 91. Development of REIT markets: year of establishment

1960
- United States (1960)
- Netherlands (1969)

1970
- Australia (1971)

1980

1990
- Canada (1994)
- Ghana (1994)
- Belgium (1995)
- Brazil (1995)
- Turkey (1999)
- Greece (1999)

2000
- **Japan (2000)**
- **South Korea (2001)**
- **Singapore (2002)**
- France (2003)
- **Taiwan (2003)**
- **HK (2003)**
- Bulgaria (2005)
- **Malaysia (2005)**
- Germany (2007)
- UK (2007)
- Italy (2007)
- New Zealand (2007)

2010
- Nigeria (2010)
- Mexico (2011)
- **Thailand (2012)**
- Finland (2013)
- Ireland (2013)
- **Pakistan (2013)**
- South Africa (2013)

Source: Mizuho Securities Group

South Korea's REIT (K-REIT) market was established in 2001. Development has been slow.

Singapore introduced REITs in 2002 and is now a REIT hub. Listing in July 2002, CapitaLand Commercial Trust was the first S-REIT. Now 37 REITs are listed in Singapore, for a market cap of USD51b. Underlying assets are diversified geographically, spanning Singapore, other ASEAN countries and Greater China and Japan.

Taiwan introduced REITs in 2003. Progress is slow, with five listed REITs for a total market cap of USD321mn. Three REITs have been delisted.

Hong Kong introduced REITs in 2003. Eleven REITs are listed in Hong Kong; total market cap is USD28b. H-REITs are not as diversified as S-REITs, with underlying assets centering on office and retail. By market cap Link REIT is the largest REIT in the AeJ region.

Malaysia introduced REITs in 2005. The market's active, with 16 listed REITs for a total market cap of USD9.5b.

Thailand introduced REITs in 2012. Market cap is small: the 17 listed REITs have a total market cap of USD3.4b.

Pakistan established the legal frame work for REITs in 2013. In 2015, Dolmen City REIT (DCR PA, NR) became its first REIT.

China and **India** are behind the pack. India seems ahead of China, as the Indian government recently announced plans to waive dividend distribution tax on the country's REITs (www.asiaasset.com).

Figure 92. REITs Global Regulatory Framework

	Hong Kong	Singapore	Australia	Japan	United States	United Kingdom
Legal structure	Trust	Trust or Corporation	Trust	Trust or Corporation	Corporation	Close-ended company
Mandatory listing	Yes	No	No	No	No	Yes
Dividend policy	At least 90% net income after tax	At least 90% of taxable earnings	100% of taxable earnings	At least 90% of taxable earnings, capital gain is part of the distributable income.	At least 90% of taxable earnings	At least 90% of income from the property rental business
Overseas investments allowed?	Yes	Yes	Yes	Yes (amended Feb 08)	Yes	Yes
Real estate investments	100%	75%+ of income must be from rental or other specified sources.		70%+ of assets	95%+ of earnings and 75%+ of investments must be real estate	75%+ of both earnings and market value. Must hold at least
Development	10% of total assets.	10% of total assets. Development for sale not allowed	OK	No	OK	OK for the proposed of renting out
Leverage	Borrowings shall not exceed 45% of the total gross asset value	Borrowings shall not exceed 45% of the total gross asset value	If the thin capitalisation7rules apply, the listed property trust is broadly allowed to gear 75% of its adjusted Australian asset base	Unlimited, but any borrowings by a J-REIT must be from a qualified financial institution	Not limited by legislation	Tax charge on REIT if the interest cover is less than 1.25
Tax treatment						
At REIT level						
Profit tax	1) HK REIT is not tax transparent and has to pay local income tax, no special tax treatment for REITs in HK	1) Tax exemption on eligible rental income upon 90% income distribution	1) Tax pass through for property trusts - Not taxed at Trust level provided unit holders are entitled to the Trust's income; Stapled trusts pay tax on active income	1) Japanese withholding tax can be credited.		1) Income from a property rental business is exempt from corporation tax. Residual business income is taxable at the highest rate of corporation tax (currently 26%)
Tax on capital gain and dividends	2) No tax on capital gains or dividends	2) No tax on capital gains	2) No capital gains tax provided unit holders are entitled to the Trusts' income	2) Dividends are deductible from taxable income.	2) Dividends are deductible from taxable income. No refund of foreign withholding tax	2) Distributions out of the property rental business profits are generally subject to 20% withholding tax; no withholding tax levied on distributions that are made out of the residual business income
Transaction tax	3) Stamp duty of up to 8.5% on transfer of real estate into a REIT	3) 2-3% stamp duty on purchase of real estate assets by REITs, remissioned; Transfer of properties not subject to GST	3) No stamp duty for listed Trusts, but duty of up to 6.75% on transfer of property/units in unlisted property trusts.	3) Reduced real property acquisition tax and registration, license tax on real estate purchase	3) Real property acquisition tax and registration tax apply	3) Stamp Duty of between 1% -4% for commercial property and 5% for residential property
At investor level						
Tax on distribution to domestic investors	1) No further tax to pay after corporate tax	1) Current income distribution taxed at corporate tax rate (17%); No tax on distribution to domestic investors	1) Franked dividend - No withholding tax; All other trust income - dependent on the taxable income of the individual and could be between 29% - 47%. Corporate unit holders pay at corporate tax rate (30%).	1) Dividends paid to corporations are subject to 15% withholding tax. Dividend income is aggregated with other income and taxed at corporate tax rate. Dividends paid to qualified pension funds are not subject to tax. Dividends paid to individual investors holdings less than 5% of total units are subject to withholding tax of 10% which can be credited against their own income tax liability.	1) Dividends paid to domestic corporations/individuals are subject to 35% tax	1) No further tax to pay after corporate tax; for individuals however, higher rate tax payers pay additional tax (the amount of which depends on their personal tax position)
Tax on distribution to foreign investors	2) No withholding tax for international institutional investors	2) Tax on distributions made to a foreign non-individual investor is 10% till 2015; tax treaty not applicable	2) Rules are different for 'managed investment trusts'. Nonfinal flat 30% tax on distributions to non-residents unit holders.	2) For foreign shareholder, withholding tax is final; can claim benefits from tax treaties.	2) For foreign shareholder, withholding tax is 30%	2) 20% withholding tax for international investors; can claim benefits from tax treaties.
Tax on capital gain		3) Capital gains are generally tax exempt	3) Taxable capital gains eligible for a 50% discount.		3) Shareholders are taxed on capital gain distributions from assets the REIT held for at least one year at a 15%	
Corporate tax rate	16.50%	17%	30%	38%	40%	24%

Source: Various government websites, Development Council of HKSAR, Mizuho Securities Group

Companies Mentioned

Company Name	Ticker	Rating	Currency	Price	Price Target or Objective	Company Name	Ticker	Rating	Currency	Price	Price Target or Objective
Activia Properties	3279 JP	Buy	JPY	528,000	630,000	Japan Prime Realty Invt	8955 JP	Neutral	JPY	457,500	470,000
AEON REIT Invt	3292 JP	Neutral	JPY	128,700	150,000	Japan Real Estate Invt	8952 JP	Neutral	JPY	608,000	635,000
Aimco	AIV	Neutral	USD	45.18	48.00	Japan Rental Housing Invt	8986 JP	Buy	JPY	82,100	97,000
Alexandria Real Estate	ARE	Buy	USD	110.09	125.00	Japan Retail Fund Invt	8953 JP	Buy	JPY	232,300	290,000
American Assets	AAT	Neutral	USD	44.30	48.00	Kenedix Office Invt	8972 JP	Buy	JPY	624,000	710,000
AvalonBay Communities	AVB	Neutral	USD	175.01	187.00	Kenedix Residential Invt	3278 JP	Neutral	JPY	285,200	325,000
Boston Properties	BXP	Neutral	USD	140.13	131.00	Kenedix Retail REIT	3453 JP	Neutral	JPY	258,600	290,000
Brandywine Realty	BDN	Neutral	USD	16.13	17.00	Kimco Realty	KIM	Neutral	USD	30.05	30.50
Brixmor Property	BRX	Neutral	USD	28.56	28.50	Lasalle LOGIPORT	3466 JP	Buy	JPY	104,800	127,000
Camden Property	CPT	Neutral	USD	87.77	93.00	Link REIT	823 HK	Neutral	HKD	56.4	54.7
Care Capital Properties	CCP	Buy	USD	29.99	34.00	LTC Properties	LTC	Neutral	USD	51.92	53.00
CBL & Associates	CBL	Neutral	USD	14.27	14.00	Macerich	MAC	Neutral	USD	81.89	94.00
Champion REIT	2778 HK	Underperform	HKD	4.95	3.87	MCUBS MidCity Invt	3227 JP	Buy	JPY	348,500	400,000
Comforia Residential Reit	3282 JP	Buy	JPY	238,200	255,000	Mid-Americal Apartment Communities	MAA	Neutral	USD	93.99	103.00
Corporate Office Properties	OFC	Buy	USD	28.52	34.00	Mori Hills REIT Invt	3234 JP	Buy	JPY	156,500	175,000
Daiwa House REIT	8984 JP	Neutral	JPY	291,800	290,000	Mori Trust Sogo Reit	8961 JP	Neutral	JPY	182,800	210,000
Daiwa Office Invt	8976 JP	Neutral	JPY	619,000	650,000	National Health Investors	NHI	Neutral	USD	80.28	77.00
DDR Corporation	DDR	Underperform	USD	18.91	17.50	Nippon Accommodations Fund	3226 JP	Buy	JPY	443,000	510,000
Douglas Emmett	DEI	Neutral	USD	37.56	37.00	Nippon Building Fund	8951 JP	Neutral	JPY	633,000	670,000
Equity Residential	EQR	Underperform	USD	64.87	60.00	Nippon Prologis REIT	3283 JP	Neutral	JPY	248,300	270,000
Essex Property Trust	ESS	Neutral	USD	227.10	236.00	Nippon REIT	3296 JP	Neutral	JPY	256,400	280,000
Federal Realty	FRT	Buy	USD	159.00	176.00	Orix JREIT	8954 JP	Buy	JPY	180,900	205,000
Fortune REIT	778 HK	Buy	HKD	9.92	11.21	Paramount Group	PGRE	Neutral	USD	18.00	17.00
Frontier Real Estate Invt	8964 JP	Underperform	JPY	506,000	510,000	Parkway Properties	PKY	Neutral	USD	18.00	17.50
Fukuoka REIT	8968 JP	Neutral	JPY	186,100	205,000	Post Properties	PPS	Neutral	USD	66.28	64.00
General Growth	GGP	Buy	USD	29.14	36.00	Premier Invt	8956 JP	Buy	JPY	140,300	152,000
GLP J-REIT	3281 JP	Buy	JPY	128,400	148,000	Sabra Health Care	SBRA	Neutral	USD	25.48	23.00
Hankyu REIT	8977 JP	Neutral	JPY	141,600	147,000	Sekisui House Reit Invt	3309 JP	Buy	JPY	145,900	165,000
HCP Inc.	HCP	Neutral	USD	39.33	37.00	Sekisui House SI Residential Invt	8973 JP	Neutral	JPY	119,600	127,000
Healthcare Realty	HR	Neutral	USD	35.06	34.00	Simon Property	SPG	Neutral	USD	215.47	238.00
Healthcare Trust of America	HTA	Neutral	USD	33.74	34.00	Spring REIT	1426 HK	Buy	HKD	3.47	3.87
Hudson Pacific Properties	HPP	Buy	USD	33.47	38.00	Starts Proceed Invt	8979 JP	Neutral	JPY	168,800	180,000
Hulic Reit	3295 JP	Buy	JPY	182,400	200,000	Taubman Centers	TCO	Buy	USD	77.67	89.00
Ichigo Office REIT Invt	8975 JP	Neutral	JPY	77,100	85,000	Tokyu Reit	8957 JP	Jnderperforn	JPY	141,800	153,000
Industrial & Infrastructure Fund Invt	3249 JP	Neutral	JPY	516,000	530,000	UDR, Inc.	UDR	Buy	USD	36.18	41.00
Invincible Invt	8963 JP	Buy	JPY	66,500	97,500	United Urban Invt	8960 JP	Neutral	JPY	184,300	204,000
Japan Excellent	8987 JP	Neutral	JPY	139,400	145,000	Ventas Inc.	VTR	Buy	USD	72.67	84.00
Japan Hotel REIT Invt	8985 JP	Neutral	JPY	88,900	105,000	Welltower Inc.	HCN	Neutral	USD	76.75	75.00
Japan Logistics Fund	8967 JP	Underperform	JPY	235,900	235,000	Yuexiu REIT	405 HK	Buy	HKD	5.09	5.36

Sources: Mizuho Securities and Bloomberg; Prices as of the close on 8/31/16

IMPORTANT DISCLOSURES

The disclosures for the subject companies of this report can be found at https://msusa.bluematrix.com/sellside/Disclosures.action or obtained by contacting EQSupervisoryAnalystUS@us.mizuho-sc.com or via postal mail at Equity Research Editorial Department, Mizuho Securities USA Inc., 320 Park Avenue, 12th Floor, New York NY 10022.

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None

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Buy : Stocks for which our price objective, as of the date it is set, exceeds the share price by 10% or more and which are not classified as "Underperform" under the guidelines for distribution of ratings detailed below.

Neutral : Stocks for which our price objective, as of the date it is set, is within 10% of the share price (either above or below) and which are not classified as "Underperform" under the guidelines for distribution of ratings detailed below.

Underperform : Stocks for which our price objective, as of the date it is set, falls below the share price by 10% or more or stocks classified as "Underperform" under the guidelines for distribution of ratings detailed below.

RS : Rating Suspended - rating and price objective temporarily suspended.

NR : No rating - not covered, and therefore not assigned a rating.

Guidelines for Distribution of Ratings:

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Neutral:	Stocks for which the anticipated share price appreciation is within 10% of the share price.
Underperform:	Stocks for which the anticipated share price falls by 10% or more.
RS:	Rating Suspended - rating and price objective temporarily suspended.
NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of September 7)	% of coverage	IB service past 12 mo
Buy (Buy)	42.45%	42.31%
Hold (Neutral)	55.51%	30.15%
Sell (Underperform)	2.04%	40.00%

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