

Positive Multifamily Call Intact with a Possible Improvement in 2018

Summary

With one multifamily REIT left to report (CPT), we are updating the rest of our PTs and estimates, the full details are presented in Exhibit 1. We continue to favor the multifamily sector from this point forward, following the reset of same store expectations from management. Our thesis is not predicated on same store ramping up during 2017 (we don't expect much), but rather anticipation of a fundamental improvement commencing in 2018. Given the depressed nature of the sector's valuation, we envision a steady turnaround in stock performance over the course of the year. Reiterate Buy ratings on AIV, AVB and UDR -- which is our three-pronged approach to overweight the sector.

Key Points

- **The Early 2018 Vision:** AIV and UDR both provided a first glance at 2018, and in each case the organic growth next year was similar to the expectation for this year. To us, that suggests future upside to guidance because it is a base-case observation with limited visibility at this point (no reason to be heroic). And with the exception of EQR's unwillingness to make a call on 2018 (still licking its wounds from a tough guidance year in 2016), all others had at least a dose of optimism about the prospects for 2018. The main factor is supply pressures beginning to wane sometime between late-2017 (UDR) and mid-2018 (AVB). While the delta between 2018 and 2017 may be small, we think any indication of an inflection point would be well-received -- particularly following relatively weak stock performance last year and again to start 2017 (average NAV discount of 8%). In the meantime, demographics (i.e., demand) are likely to continue to move in the favor of landlords.
- **Our Same Store Estimates:** Our earnings reset was largely a function of our same store assumptions. We show in Exhibit 2 the difference between our same store estimates before and after 4Q16 earnings, with the biggest downward NOI changes being ESS (180bps), UDR (130bps) and EQR (100bps). We don't expect much improvement to the sector's organic growth potential during 2017 as each manages pockets of supply pressure in their own separate ways. However, we do sense a floor to growth is forming.
- **Conference Call Takeaways:** We heard commonality on a few key items including a) DC pivoting to stability or a slight improvement; b) the Bay Area possibly stabilizing heading into 2018; c) an extended choppy environment in NYC that may not see signs of recovery until later in 2018 (but better in surrounding areas); d) Seattle in the balance with jobs combating supply (but it feels risky to us); and d) some temporary caution on entertaining new development (AVB is light on land, AIV may decelerate redevelopment).

Company	Symbol	Price (2/06)	Rating		PT
			Prior	Curr	
Apartment Investment & Management Company	AIV	\$44.25	-	Buy	\$50.00
AvalonBay Communities, Inc.	AVB	\$174.82	-	Buy	\$199.00
Equity Residential	EQR	\$60.56	-	Neutral	\$64.00
Essex Property Trust, Inc.	ESS	\$223.17	-	Neutral	\$220.00
Mid-America Apartment Communities, Inc.	MAA	\$97.82	-	Neutral	\$94.00
UDR, Inc.	UDR	\$34.76	-	Buy	\$39.00

Source: Bloomberg and Mizuho Securities USA

Richard Anderson
Managing Director
+1 212 205 8445

richard.anderson@us.mizuho-sc.com

Zachary Silverberg
Research Associate
(212) 205-7855

zachary.silverberg@us.mizuho-sc.com

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Exhibit 1: Multifamily Price Targets, NAV Estimates and FFO/AFFO Estimate Changes

Company	Ticker	Stock Rating	2/6/2017 Price	Price Target (PT)		Stock Upside to PT	MSUSA NAV Est.	PT Prem/Disc. to NAV	PT 2017 AFFO Multiple	MSUSA FFO Estimates			MSUSA AFFO Estimates 2017
				Prev.	New					2016 Actual	2017 Prev.	2017 New	
AIMCO	AIV	Buy	\$44.25	\$49	\$50	13.0%	\$47.92	4.3%	23.5x	\$2.31	\$2.45	NC	\$2.13
AvalonBay Comm.	AVB	Buy	\$174.82	\$190	\$199	13.8%	\$190.88	4.3%	24.6x	\$8.26	\$8.61	\$8.77	\$8.10
Equity Residential (1)	EQR	Neutral	\$60.56	\$62	\$64	5.7%	\$67.58	(5.3%)	22.6x	\$3.09	\$3.20	\$3.11	\$2.83
Essex Property	ESS	Neutral	\$223.17	\$219	\$220	(1.4%)	\$233.20	(5.7%)	20.5x	\$11.12	\$11.71	\$11.64	\$10.72
Mid-America Apts	MAA	Neutral	\$97.82	\$93	\$94	(3.9%)	\$93.86	0.1%	17.9x	\$5.59	\$6.07	\$5.84	\$5.24
UDR, Inc.	UDR	Buy	\$34.76	\$38	\$39	12.2%	\$36.60	6.6%	22.9x	\$1.80	\$1.89	\$1.85	\$1.70

(1) FFO Estimates are "Normalized" given the transformational impact of the suburban sale in 2016. NC: No Change.

Source: Company Reports and Mizuho Securities USA estimates. Full models are provided in Exhibits 3-8 below.

Price Target Methodology (no changes):

AIV, AVB and UDR: Our price target approximates a 5% premium to our NAV estimate.

EQR and ESS: Our price target approximates a 5% discount to our NAV estimate.

MAA: Our price target approximates our NAV estimate.

Exhibit 2: MSUSA Multifamily REIT 2017 Same Store Changes

	Multifamily Same Store Estimates								
	Pre- 4Q16 Earnings Estimates			Post- 4Q16 Earnings Estimates			Variance		
	2017			2017			2017		
	Revenues	Expenses	NOI	Revenues	Expenses	NOI	Revenues	Expenses	NOI
AIV	3.8%	2.9%	4.2%	3.7%	2.8%	4.1%	-0.1%	-0.1%	-0.1%
AVB	2.8%	3.5%	2.5%	2.5%	2.0%	2.7%	-0.3%	-1.5%	0.2%
CPT	3.1%	2.8%	3.4%	TBD	TBD	TBD	TBD	TBD	TBD
EQR	2.4%	3.0%	2.1%	1.9%	3.5%	1.1%	-0.5%	0.5%	-1.0%
ESS	4.6%	3.5%	5.1%	3.2%	3.0%	3.3%	-1.4%	-0.5%	-1.8%
MAA	3.2%	3.0%	3.4%	3.2%	3.3%	3.2%	0.0%	0.3%	-0.2%
UDR	4.5%	3.0%	5.2%	3.6%	3.0%	3.9%	-0.9%	0.0%	-1.3%

Source: Mizuho Securities USA estimates.

A Few Additional Observations

- PT Methodologies:** We made no changes to the mechanism we use to arrive at our price targets, and as we show above, we place the seven REITs (including CPT, which reports tomorrow night) into three buckets: a) a 5% NAV premium (AIV, AVB and UDR) where we think geographic and price-point diversification positions the companies particularly well in the current environment; b) at par with NAV (CPT, MAA) where we see no overwhelming risk to growth projections, but no catalyst either; and c) a 5% NAV discount (EQR, ESS) where we think the jury is still out on what direction fundamentals may take over the intermediate time frame.
- Acquisition Costs, etc.:** We were pleased to see MAA issued 2017 guidance using the NAREIT definition only, and related to this, the company discontinued the expensing of acquisition costs. On January 5, 2017, FASB reversed course and will no longer require REITs to expense acquisition costs, effective 2018 (see the pronouncement [here](#)). However, companies have the flexibility of early adoption, which MAA chose to take. We think this is a positive step in the right direction, as we have long thought the expensing of acquisition costs (with the exception of M&A) created more confusion than clarity. Furthermore, we hope other REITs follow MAA and move to leading with a consistent definition of FFO as defined by NAREIT. The multifamily sector is already a leader in this category, with all companies providing NAREIT guidance to some degree, although not always as exclusively as the new MAA format.

Exhibit 3: Updated AIV Earnings Model

Income Statement								
(In thousands, except per share figures)								
	4Q	Full Year 2016A	% Chg	1Q	2017 2Q	3Q	4Q	Full Year 2017E
RENTAL AND OTHER PROPERTY REVENUES								
Conventional Same Store Properties	\$165,522	\$677,380		\$164,308	\$167,774	\$170,102	\$171,757	\$673,942
Conventional Redevelopment Properties	33,019	101,474		33,019	34,010	35,030	36,081	138,139
Other Conventional Properties	17,157	65,141		17,306	17,433	17,579	17,750	70,068
Affordable Properties	25,755	104,242		24,725	24,230	24,230	24,230	97,416
TOTAL RENTAL AND OTHER PROPERTY REVENUES	\$241,453	\$948,237		\$239,357	\$243,448	\$246,941	\$249,819	\$979,565
PROPERTY OPERATING EXPENSES								
Conventional Same Store Properties	(\$47,422)	(\$206,847)		(\$47,822)	(\$48,153)	(\$48,485)	(\$48,841)	(\$193,302)
Conventional Redevelopment Properties	(10,592)	(34,448)		(10,804)	(11,020)	(11,240)	(11,465)	(44,529)
Other Conventional Properties	(8,373)	(31,118)		(8,000)	(8,000)	(8,000)	(8,000)	(32,000)
Affordable Properties	(9,711)	(40,355)		(9,905)	(10,103)	(10,305)	(10,511)	(40,825)
Casualties	220	(5,746)		(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Property Management Expense (owned properties)	(6,513)	(24,752)		(5,750)	(5,787)	(5,827)	(5,876)	(23,240)
TOTAL PROPERTY OPERATING EXPENSES	(\$82,391)	(\$343,266)		(\$83,282)	(\$84,063)	(\$84,858)	(\$85,693)	(\$337,896)
NOI from Investment Activity		0		(675)	(1,350)	(1,432)	(1,514)	(4,971)
PROPERTY NET OPERATING INCOME	\$159,062	\$604,971	5%	\$155,401	\$158,034	\$160,651	\$162,612	\$636,698
THIRD PARTY PROPERTY MANAGEMENT								
Property Management Revenue, affiliates	\$2	\$179		\$1	\$1	\$1	\$1	\$4
Property Management Expense		0		(1)	(1)	(1)	(1)	(2)
TOTAL THIRD PARTY PROPERTY MGMT	\$2	\$179		\$0	\$0	\$0	\$0	\$1
INVESTMENT MGMT INCOME								
Deferred Tax Credit Income	3,416	14,979		3,000	2,880	2,765	2,654	11,299
Asset Management Revenues		0		0	0	0	0	0
Investment Mgmt Expenses (incl. taxes)	(1,403)	(4,333)		(1,050)	(1,008)	(968)	(929)	(3,955)
Transaction Income, net	13	3,698		0	0	0	0	0
TOTAL ASSET MGMT/TRANSACTIONS, net	\$2,026	\$14,344		\$1,950	\$1,872	\$1,797	\$1,725	\$7,344
INTEREST INCOME AND OTHER								
Other Income/(Expenses)	(5,604)	(12,485)		(2,500)	(2,500)	(2,500)	(2,500)	(10,000)
Interest Income	1,956	7,831		2,000	2,000	2,000	2,000	8,000
TOTAL INTEREST INCOME AND OTHER	(\$3,648)	(\$4,654)		(\$500)	(\$500)	(\$500)	(\$500)	(\$2,000)
General & Administrative Expenses	(10,428)	(44,937)		(11,500)	(10,808)	(10,862)	(10,916)	(44,085)
EBITDA	\$147,014	\$569,903	3%	\$145,351	\$148,599	\$151,087	\$152,921	\$597,959
Interest Expense	(50,461)	(191,890)		(50,124)	(49,786)	(49,631)	(49,294)	(198,834)
Preferred Dividends	(4,119)	(19,233)		(4,119)	(4,119)	(4,119)	(4,119)	(16,476)
Cumulative Effect of Change in Accounting Principle		0		0	0	0	0	0
Debt Prepayment Penalty		0		0	0	0	0	0
Preferred Redemption Charge/Gain		0						
Income Tax Benefit (expense)	8,868	26,159		6,500	6,500	6,500	6,500	26,000
Discontinued Operations (net)	3,295	8,176		2,000	2,000	2,000	2,000	8,000
Noncontrolling Interests (share of adjustments)	(7,556)	(24,004)		(5,500)	(5,500)	(5,500)	(5,500)	(22,000)
Depreciation and Amortizations	(2,851)	(11,023)		(2,750)	(2,750)	(2,750)	(2,750)	(11,000)
Expensed Acquisition Costs		0		0	0	0	0	0
Non-Cash Impairments		2,646						0
FFO (NAREIT Definition)	\$94,190	\$360,734	4%	\$91,359	\$94,945	\$97,588	\$99,759	\$383,651
Normalizing Factors								
Expensed Acquisition Costs	0	0		0	0	0	0	0
Preferred Redemption Charge	0	1,877		0	0	0	0	0
Normalized FFO	\$94,190	\$362,611		\$91,359	\$94,945	\$97,588	\$99,759	\$383,651
Real Estate Depreciation	(83,031)	(314,840)		(82,750)	(82,469)	(82,644)	(82,362)	(330,224)
Real Estate Impairments		0						0
Discontinued Operations Excl. Asset Sales	(1,954)	(3,913)						0
Noncontrolling Interests	(3,410)	(2,870)		5,500	5,500	5,500	5,500	22,000
Net Income before gain on sales	\$5,795	\$39,111	-37%	\$14,110	\$17,976	\$20,444	\$22,897	\$75,427
Gain on asset sales	156,205	378,670		4,500	4,500	4,500	4,500	18,000
Net Income after gain on sales	\$162,000	\$417,781	77%	\$18,610	\$22,476	\$24,944	\$27,397	\$93,427
Capital Expenditures	(13,629)	(53,751)		(12,493)	(12,720)	(12,720)	(12,493)	(50,427)
Preferred Redemption Charge	0	0		0	0	0	0	0
Non-Cash Items		0						0
ADJUSTED FUNDS FROM OPERATION	\$80,561	\$306,983	4%	\$78,866	\$82,224	\$84,867	\$87,266	\$333,224
Share Outstanding (EPS)	156,540	156,391		156,540	156,540	156,540	156,540	156,540
Shares and Units Outstanding (FFO Diluted)	156,540	156,391		156,540	156,540	156,540	156,540	156,540
Total Shares, Units and Dilutive Share Equivalents	164,661							
PER SHARE AMOUNTS								
FFO (NAREIT Definition)	\$0.60	\$2.31	3.9%	\$0.58	\$0.61	\$0.62	\$0.64	\$2.45
Normalized FFO	\$0.60	\$2.32	4.4%	\$0.58	\$0.61	\$0.62	\$0.64	\$2.45
Capital Expenditures	(\$0.09)	(\$0.34)		(\$0.08)	(\$0.08)	(\$0.08)	(\$0.08)	(\$0.32)
Non-Cash Items	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Adjusted Funds From Operations	\$0.51	\$1.96	3.4%	\$0.50	\$0.53	\$0.54	\$0.56	\$2.13
Net Income - EPS (after gain on sale)	\$1.03	\$2.67	76%	\$0.12	\$0.14	\$0.16	\$0.18	\$0.60

Source: Company Reports and Mizuho Securities USA estimates.

Exhibit 4: Updated AVB Earnings Model

Income Statement

(In thousands, except per share figures)	Full Year			2017			Full Year		
	4QA	2016A	% chg	1QE	2QE	3QE	4QE	2017E	% chg
Operating Items									
Property Rental Revenue	\$516,952	\$2,039,657		\$520,118	\$523,246	\$527,932	\$528,219	\$2,099,515	
Operating Expenses	(152,480)	(611,416)		(153,217)	(153,977)	(154,775)	(155,537)	(617,506)	
Accounting Adjustment (MSUSA estimate)		0		0	0	0	0	0	
Property Management and Other Expenses	(\$15,688)	(67,038)		(\$18,500)	(\$18,585)	(\$18,666)	(\$18,745)	(74,496)	
NOI from Investment Activity		0		3,796	6,575	11,216	15,462	37,048	
Net Operating Income	\$348,784	\$1,361,203	13%	\$352,197	\$357,259	\$365,707	\$369,399	\$1,444,562	6%
Nonoperating Items									
Interest Income		0		0	0	0	0	0	
Management Income and Other Fees	1,288	5,599		1,300	1,307	1,313	1,320	5,239	
Investment Management Expenses	(1,277)	(4,821)		(1,283)	(1,290)	(1,296)	(1,303)	(5,172)	
Expensed Development/Pursuit Costs		0		0	0	0	0	0	
Other income (expense)		0		0	0	0	0	0	
G&A Expense	(10,428)	(45,771)		(12,000)	(12,060)	(12,120)	(12,181)	(48,361)	
EBITDA	\$338,367	\$1,316,210	12%	\$340,213	\$345,216	\$353,603	\$357,235	\$1,396,267	6%
Interest Expense	(49,648)	(187,510)		(54,203)	(53,905)	(54,607)	(57,053)	(219,768)	
Preferred Dividends	0	0		0	0	0	0	0	
Preferred Redemption Charge		0						0	
Joint Venture Total Income (incl. Promotes)	10,184	64,962		4,000	7,000	7,000	4,000	22,000	
Less: Joint Venture Asst Sale Gains	(4,897)	(58,069)						0	
Other Minority Interest	62	334		75	75	75	75	300	
Land Sale Gains, net	(697)	10,224						0	
Gain on Sale of Communities	0	0						0	
Depreciation and Amortizations	753	7,173		1,750	1,750	1,750	1,750	7,000	
Income Tax	(210)	(305)		(50)	(50)	(50)	(50)	(200)	
Disc. Ops		0		0	0	0	0	0	
Edgewater Fire	0	(261)						0	
Gain on Extinguishment of debt, net	(4,614)	(7,075)						0	
Other Non-recurring Adjustments		0						0	
Expensed Acquisition Costs	(1,220)	(9,922)		0	0	0	0	0	
Non-cash Real Estate Impairments		0						0	
FFO - NAREIT Definition	\$288,080	\$1,135,761	5%	\$291,785	\$300,087	\$307,771	\$305,957	\$1,205,600	6%
Normalizing Factors (AVB defined)									
Expensed Acquisition Costs	959	3,524		0	0	0	0	0	
Joint Venture Adjustments	268	6,031						0	
Joint Venture Promote	(4,538)	(7,985)		(4,000)	(7,000)	(7,000)	(4,000)	(22,000)	
Loss on Interest Rate Swaps		0						0	
Debt Mark-to-Market		0						0	
Development-related Write-offs	(107)	3,662						0	
Compensation Adjustments		0						0	
Business Interruption	(143)	(20,565)						0	
Debt Extinguishment	4,614	7,075						0	
Land Sale Gains, net	697	(10,224)						0	
Income Taxes		0						0	
Edgewater Fire		(2,202)						0	
Chrystie Place Promote		0						0	
Non-cash Impairments	1,786	9,829						0	
Other Non-recurring Adjustments (incl. Sevr	(472)	435						0	
Normalized FFO	\$291,144	\$1,125,341	11%	\$287,785	\$293,087	\$300,771	\$301,957	\$1,183,600	5%
Depreciation	(140,773)	(538,607)		(144,077)	(144,549)	(145,821)	(145,821)	(580,267)	
JV Depreciation		0		0	0	0	0	0	
Minority Interest	(10)	(392)		(10)	(10)	(10)	(10)	(392)	
Net Income (Before Gains/Extra Items)	\$147,297	\$596,762		\$147,699	\$155,527	\$161,940	\$160,126	\$624,941	
Asset sales gains	90,041	374,624		5,000	30,000	30,000	30,000	95,000	
Casualty and Impairments, net of RE		0						0	
Amort. Of non-recurring charges		0						0	
Non-recurring charges	4,897	58,069						0	
Net Income	\$242,235	\$1,029,455		\$152,699	\$185,527	\$191,940	\$190,126	\$719,941	
Capitalized expenditures	(15,607)	(62,430)		(17,558)	(17,558)	(17,558)	(17,558)	(70,233)	
Add-back non-cash items	2,000	7,000						0	
Adjusted Funds from Operations	\$277,537	\$1,069,911	13%	\$270,227	\$275,528	\$283,213	\$284,398	\$1,113,366	4%
Shares Outstanding (EPS)	137,519	137,462		137,519	137,519	137,519	137,519	137,519	
Shares and Units Outstanding (FFO)	137,519	137,462		137,519	137,519	137,519	137,519	137,519	
End of Period Shares and Units Outstanding	137,338								
Per Share Amounts									
FFO - NAREIT Definition	\$2.09	\$8.26	3%	\$2.12	\$2.18	\$2.24	\$2.22	\$8.77	6%
Normalized FFO	\$2.12	\$8.19	8%	\$2.09	\$2.13	\$2.19	\$2.20	\$8.61	5%
Add-back non-cash items	\$0.01	\$0.05		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Capitalized expenditures	(\$0.11)	(\$0.45)	-6%	(\$0.13)	(\$0.13)	(\$0.13)	(\$0.13)	(\$0.51)	12%
Adjusted Funds from Operations	\$2.02	\$7.78	10%	\$1.97	\$2.00	\$2.06	\$2.07	\$8.10	4%
Net Income - EPS (after gain on sale)	\$1.76	\$7.49	36%	\$1.11	\$1.35	\$1.40	\$1.38	\$5.24	-30%

Source: Company Reports and Mizuho Securities USA estimates.

Exhibit 5: Updated EQR Earnings Model

Income Statement									
(In thousands, except per share figures)									
	2016	Full Year			2017			Full Year	
	4QA	2016A	% Change	1QE	2QE	3QE	4QE	2017E	% Change
Operating Income and Expenses									
Rental Revenue	\$605,273	\$2,422,233	-11%	\$603,002	\$607,504	\$610,533	\$610,505	\$2,431,543	0%
Property and Maintenance	(97,135)	(406,823)	-15%	(110,000)	(100,000)	(100,912)	(101,762)	(412,674)	1%
Real Estate Taxes and Insurance	(78,433)	(317,387)	-7%	(79,135)	(82,812)	(83,524)	(84,210)	(329,681)	4%
Property Management	(17,653)	(80,579)	1%	(23,000)	(20,115)	(20,216)	(20,317)	(83,647)	4%
NOI from Investment Activity		0		2,413	4,751	8,174	11,627	26,965	
Net Operating Income	\$412,052	\$1,617,444	-12%	\$393,280	\$409,328	\$414,056	\$415,843	\$1,632,507	1%
Nonoperating Income and Expenses									
Other/Interest Income	681	65,773		1,000	1,003	1,005	1,008	4,015	
Fee and Asset Mgmt Revenues	216	3,567		200	201	202	203	806	
Fee and Asset Mgmt Expenses		0		0	0	0	0	0	
Other Expenses (acq costs recorded separately)	4,126	(8,902)		(900)	(900)	(900)	(900)	(3,600)	
Duplicative Costs (new comp program)	(359)	(1,436)		(400)				(400)	
General & Administrative Expenses (ex. exp. &)	(10,432)	(57,840)		(15,000)	(12,075)	(12,135)	(12,196)	(51,406)	
EBITDA	\$406,284	\$1,618,606	-9%	\$378,180	\$397,556	\$402,228	\$403,958	\$1,581,922	-2%
Interest Expense	(98,563)	(489,485)		(92,821)	(93,556)	(94,056)	(95,388)	(375,821)	
Perpetual Preferred Dividends	(773)	(3,091)		(773)	(773)	(773)	(773)	(3,092)	
Debt Extinguishment Costs		0		(4,000)	(4,000)	(4,000)	(4,000)	(16,000)	
Preferred Redemption Charge		0						0	
NonControlling Interest	459	(1,909)		(750)	(750)	(750)	(750)	(3,000)	
Non-Real Estate Depreciation	(1,062)	(4,284)		(1,000)	(1,000)	(1,000)	(1,000)	(4,000)	
Gain/(Loss) on Technology Investment		0		0	0	0	0	0	
Debt Repurchase Gains/Charges		0						0	
Unconsolidated Entities	(1,045)	4,801						0	
Diluted Basis Adjustment		0		0	0	0	0	0	
Furniture Income		0		0	0	0	0	0	
Condo Sales Gains	0	0		0	0	0	0	0	
Land Sales and Other Gains (incl. disc. Ops)	366	7,365		0	0	0	0	0	
Income and Other Tax (Expense) Benefit	(424)	(1,613)		(500)	(500)	(500)	(500)	(2,000)	
FASB APB 14-1 (Convertible Debt costs)		0						0	
Amort. Def. Financing Costs and Other		(5,394)		0	0	0	0	0	
Expensed Acquisition Costs/Pursuit Costs	(14)	(1,466)		(250)	(500)	(500)	(750)	(2,000)	
Non-Cash Impairments		0		0	0	0	0	0	
FFO -- NAREIT Definition	\$305,228	\$1,123,530	-15%	\$278,086	\$296,477	\$300,648	\$300,797	\$1,176,008	5%
Normalizing Factors (EQR defined)									
Property Acquisition Costs & Write-off of Pur	991	6,478		250	500	500	750	2,000	
Archstone-related Adjustments		0						0	
Debt Extinguishment Costs	1,418	121,694		4,000	4,000	4,000	4,000	16,000	
(Gains)/losses on Sales of Non-operating Asse	35	(74,221)						0	
Other Miscellaneous Non-comparable Items	(5,052)	2,169						0	
Normalized FFO	\$302,620	\$1,179,650	-10%	\$282,336	\$300,977	\$305,148	\$305,547	\$1,194,008	1%
Real Estate Depreciation	(176,345)	(701,365)		(176,967)	(178,167)	(178,480)	(180,025)	(713,639)	
Income to Minority Interests	(14,521)	(174,963)		(14,521)	(14,521)	(14,521)	(14,521)	(58,084)	
Income Attributable to OP Units		0		0	0	0	0	0	
Subtract of Convertible Preferred Dividend		0		0	0	0	0	0	
Other		15		0	0	0	0	0	
Net Income before Extraordinary and Gain on s	\$114,362	\$247,217	-53%	\$86,598	\$103,789	\$107,648	\$106,251	\$404,286	64%
Extraordinary Item - Loss		0		0	0	0	0	0	
Gain on asset sales	173,184	4,052,924		15,000	15,000	0	0	30,000	
Cumulative effect of change in accounting principle		0						0	
Net Income after Extraordinary and Gain on Ss	\$287,546	\$4,300,141	398%	\$101,598	\$118,789	\$107,648	\$106,251	\$434,286	-90%
Non Recurring Items		0						0	
Non-Cash Items		0						0	
Non-cash Interest Adjustment	0	0		0	0	0	0	0	
Capital Expenditures	(27,110)	(111,907)		(27,110)	(27,110)	(27,110)	(27,110)	(108,441)	
Adjusted Funds From Operations	\$275,510	\$1,067,743	-10%	\$255,226	\$273,867	\$278,038	\$278,437	\$1,085,567	2%
Shares Outstanding (EPS Basic)	365,256	365,001		365,256	365,256	365,256	365,256	365,256	
Shares (EPS Diluted)	381,860	382,135		383,660	383,660	383,660	383,660	383,660	
Shares and Units Outstanding (FFO Diluted)	381,860	382,135		383,660	383,660	383,660	383,660	383,660	
Total Period End Shares Outstanding (for FFO	383,660								
Total Period End Shares Outstanding (for EPS	383,660								
Per Share Amounts									
FFO -- NAREIT Definition	\$0.80	\$2.94	-15%	\$0.72	\$0.77	\$0.78	\$0.78	\$3.07	4%
Normalized FFO (MSUSA Official Estimates)	\$0.79	\$3.09	-11%	\$0.74	\$0.78	\$0.80	\$0.80	\$3.11	1%
Non Recurring Items	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Non-Cash Items	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Mark to Market of Archstone Debt	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Capital Expenditures	(\$0.07)	(\$0.29)		(\$0.07)	(\$0.07)	(\$0.07)	(\$0.07)	(\$0.28)	
Adjusted Funds From Operation	\$0.72	\$2.79	-10%	\$0.67	\$0.71	\$0.72	\$0.73	\$2.83	1%
Net Income - EPS (after gain on sale)	\$0.75	\$11.25	374%	\$0.26	\$0.31	\$0.28	\$0.28	\$1.13	-90%

Source: Company Reports and Mizuho Securities USA estimates.

Exhibit 6: Updated ESS Earnings Model

Income Statement

(In thousands, except per share figures)

	4Q	Full Year 2016A	% Chg	1Q	2017 2Q	3Q	4Q	Full Year 2017E	% Chg
Operating Income and Expenses									
Rental Revenue	\$326,905	\$1,285,723	8%	\$326,392	\$329,892	\$332,696	\$334,427	\$1,323,408	3%
Property Operating Expense (inc. taxes)	(98,997)	(388,927)		(99,706)	(100,426)	(101,171)	(101,914)	(403,217)	
NOI from Investment Activity		0		2,111	2,715	3,318	2,469	10,613	
Net Operating Income	\$227,908	\$896,796	9%	\$228,797	\$232,181	\$234,843	\$234,982	\$930,803	4%
Nonoperating Income and Expenses									
Management Income	2,133	8,278		2,350	2,350	2,350	2,350	9,400	
Development and Redevelopment Income		0						0	
Cost of Management & Fee Income		0						0	
Co-Investment FFO (ex. Promotes)	18,077	70,225		18,206	18,354	18,508	18,646	73,715	
Income from Preferred Investments	5,308	16,383		5,500	5,500	5,500	5,500	22,000	
Promote Income	0	0		0	0	0	0	0	
Gain on Sale of Co-Investment Communities	0	13,046						0	
Interest and Other Income	7,745	27,305		5,250	5,263	5,276	5,289	21,079	
General & Administrative Expenses	(12,224)	(40,751)		(10,500)	(10,553)	(10,605)	(10,658)	(42,316)	
EBITDA	\$248,947	\$991,282	12%	\$249,604	\$253,096	\$255,872	\$256,109	\$1,014,680	2%
Interest Expense	(52,291)	(207,938)		(51,965)	(53,115)	(53,927)	(54,115)	(213,122)	
Preferred Dividends	0	(1,314)		0	0	0	0	0	
Preferred Stock Redemption Charge		0		0	0	0	0	0	
Convertible Debt Adjustment (APB-14-1)		0		0	0	0	0	0	
Noncontrolling Interest	(2,316)	(9,342)		(2,500)	(2,500)	(2,500)	(2,500)	(10,000)	
Provision for Income Taxes	0	0						0	
Debt Extinguishment	(395)	(3,147)						0	
Non-Cash Impairments		0						0	
Gain/(Loss) from Debt Repurchase		0						0	
Discontinued Operations	0	(13,046)		0	0	0	0	0	
Non-Real Estate Depreciation/Amort.	(6)	(9)		0	0	0	0	0	
Acquisition Costs (incl. BRE for 2014)	(462)	(1,841)		0	(500)	(500)	(300)	(1,300)	
Merger and Integration Expenses		0						0	
One-time items		0						0	
FFO (NAREIT Definition)	\$193,477	\$754,645	15%	\$195,138	\$196,981	\$198,945	\$199,194	\$790,258	5%
Normalizing Factors (ESS defined)									
Merger and Integration Expenses		0		0	500	500	300	1,300	
Cyber Intrusion Expenses		0						0	
Acquisition and Disposition Costs	462	1,841						0	
Acquisition Fee Income		0						0	
Loss/(Gain) on Sale of Marketable Securities	(2,843)	(5,719)						0	
Gain on Sale of Land		0						0	
Loss on Early Retirement of Debt	395	3,147						0	
Co-investment Promote Income		0						0	
Preferred Redemption Charge		0						0	
Other Non-core Adjustments	(679)	(4,720)						0	
Earthquake Costs		0						0	
Utility Accrual		0						0	
Normalized FFO	\$190,812	\$749,194		\$195,138	\$197,481	\$199,445	\$199,494	\$791,558	
Depreciation/Amortization	(125,448)	(492,629)		(126,538)	(126,551)	(126,394)	(125,926)	(505,409)	
Noncontrolling Interest	(6,632)	(14,089)		(6,632)	(6,632)	(6,632)	(6,632)	(26,528)	
Net Income before gains	\$61,397	\$247,927	72%	\$61,968	\$63,799	\$65,918	\$66,637	\$258,322	4%
Gain (Loss) on Asset Sales	134,303	167,607		13,250	15,000	15,000	15,000	58,250	
Non-Recurring Expense	(131)	(4,410)						0	
Convertible Preferred Stock		0						0	
Net Income after gains	\$195,569	\$411,124	81%	\$75,218	\$78,799	\$80,918	\$81,637	\$316,572	-23%
Non-Cash Items		0		0	0	0	0	0	
Mark to Market of BRE debt	(3,750)	(16,500)		(3,250)	(2,750)	(2,250)	(1,750)	(10,000)	
Capital Expenditures	(12,093)	(48,883)		(13,302)	(13,302)	(13,302)	(13,302)	(53,208)	
Adjusted Funds From Operations	\$174,969	\$683,812	16%	\$178,586	\$181,429	\$183,893	\$184,442	\$728,350	7%
Weighted Average Shares	65,829	65,588		65,829	65,829	65,829	65,829	65,829	
Weighted Average Shares and OPUs	67,915	67,890		67,915	67,915	67,915	67,915	67,915	
	67,949								
Per Share Amounts									
FFO (NAREIT Definition)	\$2.85	\$11.12	14.4%	\$2.87	\$2.90	\$2.93	\$2.93	\$11.64	4.7%
Normalized FFO	\$2.81	\$11.04	12.4%	\$2.87	\$2.91	\$2.94	\$2.94	\$11.66	5.6%
Non-Cash Items	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Capital Expenditures	(\$0.18)	(\$0.72)		(\$0.20)	(\$0.20)	(\$0.20)	(\$0.20)	(\$0.78)	
Adjusted Funds From Operations	\$2.58	\$10.07	15.4%	\$2.63	\$2.67	\$2.71	\$2.72	\$10.72	6.5%
Net Income after gains	\$2.97	\$6.27	80%	\$1.14	\$1.20	\$1.23	\$1.24	\$4.81	-23%

Source: Company Reports and Mizuho Securities USA estimates.

Exhibit 7: Updated MAA Earnings Model

Income Statement

(In thousands, except per share figures)

	Full Year			2017			Full Year		
	4QA	2016A	% Chg	1QE	2QE	3QE	4QE	2017E	% Chg
Operating Income and Expenses									
Rental Revenue	\$307,198	\$1,125,348		\$309,031	\$311,202	\$313,411	\$315,861	\$1,249,505	
Operating Expenses	(112,874)	(423,356)		(115,194)	(115,530)	(116,397)	(117,314)	(464,434)	
Management and fee income, net		0		0	0	0	0	0	
Property Management Expenses	(8,872)	(34,094)		(11,750)	(11,838)	(10,927)	(8,009)	(42,524)	
NOI from Investment Activity		0		41,132	42,493	43,853	45,783	173,260	
Net Operating Income	\$185,452	\$667,898	9.4%	\$223,219	\$226,326	\$229,940	\$236,321	\$915,807	37.1%
Other Income and Expense Items									
Other/Interest Income (Expenses)	565	723		50	50	50	50	201	
Gain/(Loss) from Unconsolidated Entities	214	214		214	214	214	214	856	
Bulk Cable Revenues		0		0	0	0	0	0	
Bulk Cable Expenses		0		0	0	0	0	0	
General & Administrative Expenses	(8,782)	(29,039)		(11,000)	(11,083)	(11,166)	(10,249)	(43,497)	
EBITDA	\$177,449	\$639,796	9.4%	\$212,483	\$215,508	\$219,039	\$226,336	\$873,366	36.5%
Interest Expense	(37,005)	(144,557)		(43,161)	(44,969)	(45,125)	(46,191)	(179,446)	
Perpetual Preferred Dividends	(307)	(307)		0	0	0	0	0	
Preferred Stock Redemption Charge	0	0		0	0	0	0	0	
Gain (loss) on debt extinguishment and extra items.	(85)	(82)		0	0	0	0	0	
Amortization of deferred financing costs	0	0		0	0	0	0	0	
Net gain on Insurance/Settlement Proceeds	(290)	1,395		0	0	0	0	0	
Income Taxes	(499)	(1,698)		(600)	(600)	(600)	(600)	(2,400)	
Income from Discontinued Operations	0	0		0	0	0	0	0	
Gain on Sale of depreciable Assets	0	(914)		0	0	0	0	0	
Gain on Sale of Non-Depreciable Assets	0	2,268		0	0	0	0	0	
One-Time Expense Adjustment	0	0		0	0	0	0	0	
Non-Cash Real Estate Impairments	0	0		0	0	0	0	0	
Non-Real Estate Depreciation and Amortization	(879)	(3,374)		(800)	(800)	(800)	(800)	(3,200)	
Expensed Acquisition Costs (non-CLP)	(761)	(2,928)		0	0	0	0	0	
Noncontrolling interests	0	0		0	0	0	0	0	
Mergers									
Merger and Integration Costs	(36,923)	(40,824)		(7,200)	(5,400)	(2,700)	(2,700)	(18,000)	
Mark-to-Market of Debt	3,476	14,610		4,500	4,300	4,100	3,900	16,800	
FFO (NAREIT Definition)	\$104,176	\$463,385	2.4%	\$165,223	\$168,039	\$173,914	\$179,944	\$687,120	48.3%
Normalizing Factors									
Acquisition Expense	761	2,928		0	0	0	0	0	
Merger and Integration Costs	36,923	40,824		7,200	5,400	2,700	2,700	18,000	
Loss/(Gain) on Sale of Non-depreciable Real Estate Assets		(2,300)						0	
Loss on Debt Extinguishment	85	82						0	
Mark-to-market Debt Adjustment	(3,476)	(14,610)		(4,500)	(4,300)	(4,100)	(3,900)	(16,800)	
Normalized FFO	\$138,469	\$490,309		\$167,923	\$169,139	\$172,514	\$178,744	\$688,320	
RE Depreciation	(94,250)	(319,589)		(114,769)	(115,958)	(116,114)	(116,839)	(463,679)	
Discontinued Operations	0	0		0	0	0	0	0	
Net Income to MAALP Before Gain/Loss on Sales	\$9,926	\$143,796	-10.6%	\$50,454	\$52,082	\$57,800	\$63,106	\$223,441	55.4%
Extraordinary Charge		(98)						0	
Net Income Attributable to OP Units	(2,672)	(12,180)		(1,766)	(1,823)	(2,023)	(2,209)	(7,820)	
Gain on Sale of Discontinued Operations & JV		0						0	
Gain on Sale of depreciable Assets	31,825	80,397		0	2,500	2,500	2,500	7,500	
Net Income to MAA after Gain/Loss on Sales	\$39,079	\$211,915	-36.2%	\$48,688	\$52,759	\$58,277	\$63,397	\$223,121	5.3%
Non-Cash Items		0						0	
Capital Expenditures	(19,825)	(63,222)		(17,966)	(17,966)	(17,966)	(17,966)	(71,865)	
Adjusted Funds from Operations	\$118,644	\$427,087	12.9%	\$149,956	\$151,173	\$154,548	\$160,778	\$616,455	44.3%
Common Shares - EPS Diluted	88,392	78,800		88,392	88,392	88,392	88,392	88,392	
Fully Diluted Shares (FFO)	92,535	82,918		117,738	117,738	117,738	117,738	117,738	
	117,738								
Per Share Amounts									
FFO (NAREIT Definition)	\$1.13	\$5.59	-1.7%	\$1.40	\$1.43	\$1.48	\$1.53	\$5.84	4.4%
Normalized FFO	\$1.50	\$5.91	7.2%	\$1.43	\$1.44	\$1.47	\$1.52	\$5.85	-1.1%
Non-Cash Items	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Capital Expenditures	(\$0.21)	(\$0.76)		(\$0.15)	(\$0.15)	(\$0.15)	(\$0.15)	(\$0.61)	
Adjusted Funds from Operations	\$1.28	\$5.15	8.3%	\$1.27	\$1.28	\$1.31	\$1.37	\$5.24	1.7%
Net Income - EPS (after gain on sale)	\$0.47	\$2.70	-38.7%	\$0.43	\$0.46	\$0.51	\$0.56	\$1.96	-27.4%

Source: Company Reports and Mizuho Securities USA estimates.

Exhibit 8: Updated UDR Earnings Model

Income Statement

(In thousands, except per share figures)

	4Q	Full Year 2016A	% Chg	1Q	2017 2Q	3Q	4Q	Full Year 2017E	% Chg
Operating Income and Expenses									
Rental Revenue	\$240,081	\$948,461	9%	\$241,262	\$244,210	\$246,613	\$247,977	\$980,062	3%
Operating Expenses:									
Property Operating and Maintenance	(40,075)	(159,947)		(39,871)	(40,160)	(40,474)	(40,775)	(161,280)	
Real Estate Taxes and Insurance	(28,726)	(115,429)		(28,939)	(29,166)	(29,376)	(29,592)	(117,073)	
Property Management	(6,603)	(26,083)		(6,400)	(6,400)	(6,400)	(6,400)	(25,600)	
Other	(2,369)	(7,649)		(1,750)	(1,750)	(1,750)	(1,750)	(7,000)	
Total Operating Expenses	(77,773)	(309,108)	6%	(76,960)	(77,476)	(78,000)	(78,516)	(310,952)	1%
NOI from Investment Activity		0		129	(634)	(996)	(1,684)	(3,184)	
Net Operating Income	\$162,308	\$639,353	10%	\$164,431	\$166,100	\$167,616	\$167,777	\$665,925	4%
Other Income and Expenses									
Sale of Technology Investment		0		0	0	0	0	0	
Joint Venture FFO (excluding mgmt income)	12,615	52,218		11,000	11,063	11,143	11,206	44,412	
Joint Venture Management Income	2,927	11,400		3,000	3,000	3,000	3,000	12,000	
Interest and Other Income	481	1,930		500	500	500	500	2,000	
General & Administrative Expenses	(13,104)	(49,548)		(13,670)	(11,238)	(11,294)	(11,351)	(47,552)	
EBITDA	\$165,227	\$655,353	11%	\$165,262	\$169,426	\$170,965	\$171,133	\$676,785	3%
Interest Expense (Excl. APB 14-1)	(29,295)	(121,302)		(30,595)	(30,095)	(30,220)	(30,345)	(121,255)	
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	0	1,685		350	350	350	350	1,400	
One Time Items	1,102	(732)						0	
Loss On Early Debt Retirement		(1,729)						0	
Tax Adjustment	3,063	3,774		(300)	(300)	(300)	(300)	(1,200)	
Discontinued Operations		0		0	0	0	0	0	
Non-Real Estate Depreciation/Amortization	(1,458)	(6,023)		(1,500)	(1,500)	(1,500)	(1,500)	(6,000)	
Expensed Acquisition Costs	(152)	(213)		(330)	0	(250)	(250)	(830)	
Non-Cash Impairments		0						0	
FFO -- NAREIT Definition	\$138,487	\$530,813		\$132,887	\$137,881	\$139,045	\$139,088	\$548,900	
Normalizing Factors									
Expensed Acquisition Costs	152	213		330	0	250	250	830	
JV Financing and Acquisition Costs		0						0	
Debt Extinguishment/Tender Activity	871	2,600						0	
Land Sales Adjustment		(669)		(350)	(350)	(350)	(350)	(1,400)	
Gain on Note Prepayment		0						0	
Gains on Sale of TRS/Marketable Securities		0						0	
Other Gains/Promotes		(480)						0	
Other One Time Costs		0						0	
Tax Adjustment	(2,436)	(2,436)						0	
Long-term Incentive Plan Transition Cost	274	899						0	
Casualty-Related Adjustments	(1,353)	(3,020)						0	
Normalized FFO	\$135,995	\$527,920	14%	\$132,867	\$137,531	\$138,945	\$138,988	\$548,330	4%
Depreciation/Amortization	(115,592)	(467,447)		(115,867)	(115,242)	(114,930)	(114,617)	(460,656)	
Minority Interest	(22,129)	(29,326)		(8,000)	(8,000)	(8,000)	(8,000)	(32,000)	
Net Income before gain, non-recur., extra.	\$766	\$34,040	53%	\$9,020	\$14,639	\$16,116	\$16,471	\$56,245	65%
Gain (Loss) on Asset Sales	236,851	257,014		10,000	10,000	10,000	10,000	40,000	
APB 14-1		0						0	
Non-Recurring Income (Expense)		0						0	
Convertible Preferred Stock	0	0		0	0	0	0	0	
Net Income after gain, non-recur., extra.	\$237,617	\$291,054	-13%	\$19,020	\$24,639	\$26,116	\$26,471	\$96,245	-67%
Capital Expenditures	(11,836)	(48,491)		(8,877)	(12,823)	(12,823)	(8,877)	(43,399)	
Non Cash Items	0	0		0	0	0	0	0	
Adjusted Funds From Operations	\$124,159	\$479,429	14%	\$123,990	\$124,708	\$126,123	\$130,110	\$504,931	5%
Weighted Average Shares and OPUs	296,524	295,480		296,591	296,591	296,591	296,591	296,591	
Weighted Average Shares	271,551	267,602		271,551	271,551	271,551	271,551	271,551	
Total Period End Shares Outstanding	296,591								
Per Share Amounts									
FFO -- NAREIT Definition	\$0.47	\$1.80	8%	\$0.45	\$0.46	\$0.47	\$0.47	\$1.85	3%
Normalized FFO	\$0.46	\$1.79	7%	\$0.45	\$0.46	\$0.47	\$0.47	\$1.85	3%
Net Income after gain, non-recur., extra.	\$0.88	\$1.09	-13%	\$0.07	\$0.09	\$0.10	\$0.10	\$0.35	-67%
Capital Expenditures	(\$0.04)	(\$0.16)		(\$0.03)	(\$0.04)	(\$0.04)	(\$0.03)	(\$0.15)	
Non Cash Items	\$0.00	\$0.00		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
Adjusted Funds From Operations	\$0.42	\$1.62	6%	\$0.42	\$0.42	\$0.43	\$0.44	\$1.70	5%

Source: Company Reports and Mizuho Securities USA estimates.

Price Target Calculation and Key Risks

Apartment Investment & Management Company

Our price target approximates a 5% premium to our NAV estimate. Should the company's redevelopment platform experience further cost overruns and delays, our price target may not be achieved. We intend to align our rating and PT by the time the December quarter results are reported.

AvalonBay Communities, Inc.

Our price target approximates a 5% premium to our NAV estimate. Should the company's extensive development pipeline produce returns below current expectations, our price target may not be achieved.

Equity Residential

Our price target approximates a 5% discount to our NAV estimate. If the company's same store growth prospects decline in the face of increased competition from new supply, our price target may not be achieved.

Essex Property Trust, Inc.

Our price target approximates a 5% discount to our NAV estimate. Should the performance of its West Coast markets be negatively impacted by supply, primarily in Seattle and San Jose, our price target may not be achieved.

Mid-America Apartment Communities, Inc.

Our price target approximates our NAV estimate. Should MAA's secondary markets experience further job growth deceleration, our price target may not be achieved.

UDR, Inc.

Our price target approximates a 5% premium to our NAV estimate. Should UDR experience revenue growth deceleration to a degree greater than our expectations, our price target may not be achieved.

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Investment Risks and Valuation Methods can be located in the following section of this research report - Price Target Calculation and Key Risks.

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Buy:	Stocks for which the anticipated share price appreciation exceeds 10%.
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.
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NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 2/06)	% of coverage	IB service past 12 mo
Buy (Buy)	44.88%	40.94%
Hold (Neutral)	51.94%	39.46%
Sell (Underperform)	3.18%	44.44%

For disclosure purposes only (NYSE and FINRA ratings distribution requirements), our Buy, Neutral and Underperform ratings are displayed as Buy, Hold and Sell, respectively.

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