



REITs

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REITs

2017 Q4 Earnings Preview

In 2017, the MSCI U.S. REIT Index was up 0.9%, compared to a 19.4% gain for the S&P 500. We believe many investors view REITs as attractive income investments, given REITs' yields compared to U.S. treasuries and bonds. However, as interest rates continue to rise, we may see investors sell some of their REIT shares and invest the proceeds in other potentially more attractively valued, yield-oriented investments. At this point, based on valuation, we believe most REITs under our coverage are fairly valued.

Most of our covered REITs have raised capital over the past several years through the sale of bonds, common stock, preferred stock, asset sales, and mortgage financings. Now that REITs have improved their balance sheets, we believe they will continue to focus on improving occupancy and rental rates. We think many REITs are looking for additional attractive acquisition opportunities, though competition for acquisitions remains strong. Several of our covered names have bought all or part of their joint venture partners' interest in properties.

In segments where attractively priced, quality acquisitions are hard to find, REITs will focus on the redevelopment/renovation of existing assets, in our view. We are seeing this in the mall space. Most of the new development we are seeing continues to be in apartments and outlet centers. International expansion and development are additional opportunities. We think many REITs will continue to sell underperforming or non-core properties, especially in the current low cap-rate environment.

Overall, we believe fourth quarter earnings will meet expectations. We believe some of the main topics on earnings calls will be acquisitions versus dispositions, new development, and store closings and replacement tenants.

To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, or send a request via e-mail to RsLib@hilliard.com, or go online to <http://hilliard.com/site/market-info/researchdisclosures.html>. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

**Note Important Disclosures on Pages 4 & 5.
Note Analyst Certification on Page 4.**

Individual Company Comments**Retail REITs (in order of earnings release date)**

Simon Property Group Buy - 2, TP \$189.00 (SPG - \$166.10) - Our fourth quarter FFO estimate is \$3.10 per share, a penny below the consensus estimate. We believe Simon continued to see positive releasing spreads in the quarter. We are eager to hear about the current retail environment on the call. SPG will report fourth quarter earnings before the market opens on January 31.

Kite Realty Group Trust* Buy - 3, TP \$25.00 (KRG - \$18.15) - Our fourth quarter FFO per share estimate is \$0.50, equal to the consensus. We look forward to hearing an update on the conference call about redevelopment opportunities and how the holiday shopping season was for Kite's tenants. Kite will report earnings after the market closes on February 1.

CBL & Associates Properties Neutral - 4 (CBL - \$5.71) - We expect CBL to report fourth quarter FFO per share of \$0.58, a penny above the consensus estimate. On the conference call we expect to hear updates on the leasing environment as well as redevelopment plans for vacant anchor spaces. CBL is scheduled to report earnings after the market closes on February 8.

Tanger Factory Outlet Centers Buy - 3, TP \$31.00 (SKT - \$25.84) - We expect Tanger to report fourth quarter FFO of \$0.64 per share, one cent above the consensus. We believe Tanger will continue to have positive leasing spreads. We look forward to hearing an update on the development pipeline and the leasing environment. Tanger will report fourth quarter earnings after the market closes on February 13.

DDR Corp.* Neutral - 3 (DDR - \$8.57) - We expect DDR to report fourth quarter FFO per share of \$0.25, a penny below the consensus estimate. We look forward to hearing more details on the company's planned spin-off. The company is scheduled to report earnings after the market closes on February 15.

Weingarten Realty Investors Neutral - 3 (WRI - \$31.33) - Our fourth quarter FFO estimate of \$0.61 per share is equal to the consensus estimate. We look forward to hearing an update on the development pipeline and the acquisition environment. WRI will report earnings after the market closes on February 21.

GGP Inc. Neutral - 2 (GGP - \$23.17) - Our fourth quarter FFO estimate of \$0.45 per share is one cent below the consensus. We look forward to hearing an update about leasing on the call. GGP has not yet announced when it will report earnings.

Other REITs (in order of earnings release date)

Mid-America Apartment Communities **Neutral - 3 (MAA - \$93.25)** - We expect fourth quarter FFO per share of \$1.45, three cents below the consensus estimate. We believe we will continue to see increasing rental rates in the quarter, though the rate of increase may be lower than in the recent past. MAA plans to report earnings on January 31 after the market closes.

Education Realty Trust* **Neutral - 3 (EDR - \$33.58)** - We look for EDR to report fourth quarter Core FFO of \$0.59 per share, a penny above the consensus. We are looking for updates on the development pipeline and early preleasing stats on the call. EDR will report fourth quarter earnings before the market opens on February 20.

American Campus Communities* **Neutral - 3 (ACC - \$38.92)** - We look for ACC to report fourth quarter FFOM (funds from operations - modified) of \$0.73 per share, two cents above the consensus estimate. We look for an update on the development pipeline and early preleasing stats. ACC will report earnings after the market closes on February 20.

SoTHERLY Hotels Inc.* **Long-term Buy - 4, TP \$8.00 (SOHO - \$6.25)** - We expect SOHO to report third quarter adjusted FFO of \$0.15 per share, equal to the consensus estimate. We expect to see an increase in average daily rate in the quarter. We look for any update on individual hotel and market performance, as well as the share buyback program. SOHO will report earnings before the market opens on February 27.

Whitestone REIT* **Neutral - 4 (WSR - \$13.54)** - We expect WSR to report fourth quarter Core FFO per share of \$0.32 versus the consensus estimate of \$0.33. We look for an update on leasing and the acquisition pipeline on the call. Whitestone has not announced when it will report earnings.

Return of Capital

*Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Sotherly Hotels in the past 12 months.

Hilliard Lyons received investment banking compensation from Sotherly Hotels in the past 12 months.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Whitestone REIT in the past 12 months.

Hilliard Lyons received investment banking compensation from Whitestone REIT in the past 12 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

Other Disclosures

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