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REIT Week 2017

Review of the conference and individual company meetings

Last week we attended the REIT Week 2017 conference in New York, New York. Store closings, retail bankruptcies and the releasing of impacted spaces seemed to be the hot topics in our meetings with retail REITs. All of the management teams we met with indicated that the retail environment is not as bad as the media portrays it to be. While expectations for meetings between landlords and retailers at the ICSC Recon meeting in Las Vegas last month was muted, all of the teams we met with said the conference was positive. The conference had many non-retail tenants there, such as entertainment concepts, fitness centers/studios, and restaurants. We believe the publicly traded REITs have embraced that the tenant make up of retail centers is changing, and in many cases are excited for the change.

A common topic we heard is that the publicly traded REITs typically own the better properties, so they may be less impacted by store closings than retail real estate in general. Case in point, earlier this year when JC Penney (JCP $4.87) announced 138 store closings less than 10% of the stores impacted were at properties owned by the public REITs. All retail space is not created equal, and each retail center and tenant are different. Many traditional retail tenants, including TJX Companies (TJX - $73.68), Ross Dress for Less (ROST - $61.96), Ulta (ULTA - $307.87), H&M, and Francesca's (FRAN - $11.39), are looking to open more stores.

Apartment fundamentals continue to be good. The impact of new supply is being offset by job growth in some markets. Occupancy and overall rental rate growth remain positive. We continue to believe there has been a fundamental shift regarding the view of home ownership versus renting. Many prefer the lifestyle of renting over home ownership.

Fundamentals appear good for student housing REITs. University funds remain tight, and more and more are turning to outside student housing developers to build communities to satisfy increases in enrollment. Both American Campus Communities and Education Realty Trust have had success working with universities to build new student housing on campus. Due to the age of most on-campus residence halls, we believe the newly constructed, high amenity communities are attractive alternatives for many students.

On pages 2-5 we have included comments from our individual company meetings.

Note Important Disclosures on Pages 6 - 7.
Note Analyst Certification on Page 6.

Individual Company Comments

Retail REITs

CBL & Associates Properties, Inc. **Long-term Buy - 3, TP = $17.50 (CBL - $8.10) -** We met with Stephen Lebovitz, President & CEO; Farzana Mitchell, Executive VP & CFO; and Katie Reinsmidt, Executive VP & CIO. Meetings at ICSC went well for CBL. The company met with many new tenants, including non-retail tenants. CBL is seeing good interest in its recently vacated department store spaces. Many retail tenants continue to perform well including Altar'd State, Hot Topic, Skechers (SKX - $27.32), Francesca's, and H&M.

All of CBL's malls are cash flow positive. Management believes its best use of capital is reinvesting in its properties. CBL expects to receive higher rent per square foot from replacement tenants in its recently vacated department store space than it did from the previous tenants. We do not believe the company will call its preferred shares in the nearterm.

DDR Corp.* **Neutral - 3 (DDR - $9.17) -** We were able to meet with David Lukes, President & CEO; Michael Makinen, Executive VP & COO; Matthew Ostrower, Executive VP, CFO, & Treasurer; and Conor Fennerty, Senior VP of Capital Markets. This new management team has been at DDR for about 90 days. Since joining the company, management has restructured general and administrative costs, eliminating some layers of bureaucracy, and has pushed out debt maturities. The portfolio is being evaluated on an asset by asset basis to determine what to keep and what to sell.

DDR encountered only a handful of negative comments/response at ICSC. They are seeing demand from off price retailers, theaters, grocers, and cosmetic retailers wanting space. Management believes its centers are well located and they are creative with space. The company is putting a larger focus on shop space than in the past, which will likely lead to more service tenants.

GGP, Inc. **Neutral - 2 (GGP - $23.32) -** We met with Michael Berman, Executive VP & CFO; Shobi Khan, Executive VP & COO; and Kevin Berry, VP Investor & Public Relations. One thing that impressed us about GGP is how proactive they are concerning anchors' spaces. The company has plans for what they would like to do with all of their anchor space if the current tenants were to leave. This way if a tenant leaves, the company has a head start on re-tenanting the space.

Retailers appear to be property type agnostic. Retailers are more concerned with having stores in the best retail space in the market, rather than being in a specific property type (mall, power center, grocery anchored centers, etc.). GGP's malls are the community gathering place in its markets. 56% of the US population lives within a one hour drive of a GGP center.

Kite Realty Group Trust* **Buy - 3, Target Price = $27.00 (KRG - $18.86) -** We met with Tom McGowan, President & COO; Dan Sink, Executive VP & CFO; and Ashley Underwood, Senior Analyst, Investor Relations & Strategy. The company has seen very little change in its portfolio regarding store closings since its earnings call in April. Management is not seeing more retailers ask for rent concessions than in the past.

KRG believes investments in its 3R program (redevelop, repurpose, and reposition) is a good use of capital in the current environment. The company currently has nine projects in process and nine additional opportunities. KRG's balance sheet appears to be in good shape, in our view, with only $83 million of debt maturing through 2020.

Simon Property Group, Inc. **Buy - 2, TP = $196 (SPG - $155.60) -** We met with Richard Sokolov, Director, President & COO; Andrew Juster, Executive VP & CFO; Tom Ward, Senior VP of Investor Relations; and Kristin Ely, Manager of Investor Relations. We believe Simon has a strong portfolio. This year department stores have announced 212 closures. Simon has only had two department store closures this year. Of Simon's 424 department stores, only one is vacant at this time. Simon continues to invest in it properties. The company is focused on making its product better.

Management believes the headline news about retail is not aligned with the reality it is experiencing. The company continues to add theaters, food, spas, and entertainment venues to its properties. Many apparel retailers are beginning to invest in their physical stores. Outlet centers continue to perform well, with good demand for space.

Tanger Factory Outlet Centers, Inc. **Buy - 3, TP = $36.50 (SKT - $25.86) -** We met with Tom McDonough, President & COO; James Williams, Senior VP & CFO; and Loren Dargan, Investor Relations Associate. Meetings at ICSC were better than SKT expected. Management noted in our meeting that several tenants closing some full price stores are not closing outlet stores, with some even expanding their outlet presence. Tenants in Tanger centers typically have a lower occupancy cost than in many malls. Many retailers believe outlets centers are their most profitable channel. Tanger does not believe the outlet center space is over retailed.

Tanger recently sold its Westbrook, Connecticut center. The company was approached by a broker about selling the space. Management is happy with the current portfolio. The company is trying to enhance the outlet center experience, adding home goods and foods to its centers and testing VIP lounges with TVs and food for the non-shopping spouse.

Weingarten Realty Investors **Neutral - 3 (WRI - $30.65) -** We met with Stephen Richter, Executive VP and CFO and Michelle Wiggs, VP, Investor Relations. WRI is not being as impacted by store closings as some of our other covered REITs. In fact, we were told the volume of store closings this year in WRI's portfolio is similar to most years. WRI's meeting schedule at ICSC was similar to past years.

WRI is seeing a lot of competition for acquisitions, and has lost deals to buyers willing to pay more. The company may put more assets for sale than originally expected this year due to the strong selling market. WRI noted there is a wide difference between private market and public market cap-rates.

Washington Prime Group* **Not Rated (WPG - $8.10) -** We met with Mark Yale, Executive VP & CFO; Lisa Indest, Senior VP, Finance & CAO; and Kim Green, Director of Investor Relations. WPG is the combination of Washington Prime (a Simon spinoff) and Glimcher Realty Trust. Management commented they were excited about all of the different types of tenants they met with at ICSC. WPG has Amazon (AMZN - $978.31) package lockers at 50 of its centers. The company is installing digital screens adjacent to the lockers with couponing and promotional capabilities. These lockers drive consumers to their centers. Consumers can send returns through these centers. WPG would like to track customer behavior to see if the locker users are spending additional time at these centers.

When asked how do you defend owning B malls in this market, management's response was they own A malls in B markets. These malls are typically the main shopping center in these communities and don't face direct competition from other malls. In WPG's latest presentation, which can be founded on its website, there are several slides devoted to the defense of dominant secondary retail assets. One fact we find interesting is that in the top 12 largest MSAs, the retail GLA (gross leasable area) per capita is 45.4 square feet. In the remaining MSAs the retail GLA per capita is 17.2 square feet.

Student Housing REITs

American Campus Communities, Inc.* **Underperform- 3 (ACC - $47.37) -** We met with Jennifer Beese, Executive VP & COO; James Hopke, President; Daniel Perry, Executive VP, CFO, and Treasurer; and Ryan Dennison, Senior VP Capital Markets & Investor Relations. We talked about Generation Z (the group most traditional college aged students are in at present) with ACC. Management said Gen Z students are more responsible than past generations and want to live in live and learn communities. These student want to go somewhere else to have "fun" and want to come home to a nice, calm environment conducive to learning.

ACC believes we may see one of the private student housing companies go public in the next five years. Management would welcome another well operated publicly traded peer, as it would bring more exposure to the sector. The availability of data on student housing companies is important to potential investors.

Education Realty Trust* **Neutral - 3 (EDR - $39.03) -** We met with Randy Churchey, CEO; Bill Brewer, Executive VP & CFO; and Drew Koester, Senior VP of Capital Markets and Investor Relations. EDR is receiving a lot of RFPs (request for proposals) from colleges and universities wanting to increase their housing stock. Each of these mandates is larger (for more beds) than typical in the past. We believe colleges and universities realize housing is a big fact in a student's decision on where to attend college.

EDR has a fully funded development pipeline. Management believes the market does not give them enough credit for their development pipeline. The company plans to fund future developments with dispositions and/or equity. The company is being outbid for acquisitions in the current environment.

Apartment REIT

Mid-America Apartment Communities **Neutral - 3 (MAA - $107.20) -** We met with Al Campbell, Executive VP & CFO; Tom Grimes, Executive VP & COO; and Robert DelPriore, Executive VP & General Counsel. In May, leasing spreads remained stable for renewals and new lease trends improved in May. The company saw good improvements in renewals from properties acquired from the Post Properties merger. MAA believes there are more redevelopment opportunities in the Post portfolio than they initially expected. We believe redevelopments are a smart use of capital.

Supply has increased in MAA's market but demand is there to absorb it. New jobs to new apartment completions in MAA's markets in 2017 is expected to be 6.9 to 1 compared to 6.1 to 1 in the top 25 institutional markets. Move outs to buy and rent a home continue to be low. Florida is MAA's strongest market and Houston is its weakest.

Office/Business Park REIT

First Potomac Realty Trust* **Neutral - 3 (FPO - $11.34) -** We met with Robert Milkovich, CEO & COO; Andrew Blocher, Executive VP, CFO, & Treasurer; Tricia Moore, Senior VP, Investments & Portfolio Management; and Randy Haugh, VP, Finance. FPO continues to focus on its strategic plan. Since the plan was announced, the company has disposed of $314 million of non-core assets, redeemed its preferred shares, reduced overhead expense, revised the dividend, and continues to work on addressing upcoming lease expirations.

Management does not believe any proposed government cutbacks under the new administrative should adversely impact its portfolio. FPO has leases with defense and military tenants, among others. The private sector is expected to be a major growth driver in FPO's markets.

Hotel REIT

SoTHERLY Hotels* **Long-term Buy - 4, TP = $8.50 (SOHO - $6.81) -** We met with Drew Sims, Chairman and CEO; David Folsom, President & COO; Scott Kucinski, VP Operations and Investor Relations; and Mack Sims, Brand Manager. The company is interested in entering new markets in the Southeast. SOHO has several assets it is actively pursuing. Any acquisitions would likely be funded with excess proceeds from the refinancing of other properties, bridge capital, or short-term loans. Management would not want to issue stock at the current share price.

Management believes there are a lot of good opportunities to generate revenue from its acquisition of the hotel commercial unit of the Hyde Resort & Residences in Hollywood, Florida. In addition to revenue growth, there are some cross sharing benefits and economies of scale from this asset and its Crowne Plaza Hollywood Beach Resort (IHG - $56.22). The company is not seeing a major impact from Airbnb. Management believes it is a different type of traveler who is looking to stay at an upper upscale hotel compared to those looking to rent a house or a room in someone's home.

Diversified REIT

Investors Real Estate Trust **Neutral - 3 (IRET - $6.17) -** We met with Mark Decker Jr, President & CEO; John Kirchmann, Executive VP & CFO; Anne Olson, General Counsel; and Matthew Volpano, Senior VP, Investments. The company continues to move towards becoming a pure play multifamily REIT. Management wants to focus on acquiring assets in the top 25 MSAs close to its current geographies. IRET wants to have a scale of about 12,000 to 15,000 units in each market. The company may sell assets is some of its smaller markets where it cannot gain scale.

IRET plans to sell its MOB portfolio. The company has not marketed this portfolio yet. Proceeds from this possible sale would likely be used to purchase multifamily assets. Once the disposition of the medical office building portfolio is complete, we would eventually expect IRET to trade at a multiple closer to its multifamily peers.

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 leases office space in a WP Glimcher lifestyle center.

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.

As of June 9, 2017, Hilliard Lyons and/or its affiliates beneficially owned (as defined for purposed of Section 13d of the 1934 Act) 1% or more of Investors Real Estate Trust pfd B 7.95% (IRET.B - $25.44).

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

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 2017

Other Disclosures

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