



REITs

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REITs

2017 Q2 Earnings Preview

In 2016, the MSCI U.S. REIT Index was up 4.2%, compared to a 9.5% gain for the S&P 500. As of June 30, the MSCI U.S. REIT Index was up 0.6% compared to an 8.2% gain for the S&P 500 since 2016 year end. 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 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 is 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 second quarter earnings will meet expectations. We anticipate earnings results to be less messy than in the recent past, with hopefully fewer impairment and one time charges. 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.

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

DDR Corp.* Neutral - 3 (DDR - \$8.97) - We expect DDR to report second quarter FFO per share of \$0.25, three cents below the consensus estimate. We look forward to hearing more details on disposition plans and the company's Puerto Rico portfolio. The company is scheduled to report earnings after the close on July 25.

Kite Realty Group Trust* Buy - 3, TP \$27.00 (KRG - \$18.30) - Our second quarter FFO per share estimate is \$0.50, a penny below the consensus. We look forward to hearing an update on the conference call about redevelopment opportunities. Kite will report earnings after the market closes on July 26.

Weingarten Realty Investors Neutral - 3 (WRI - \$29.63) - Our second quarter FFO estimate of \$0.59 per share is a penny below the consensus. We look forward to hearing an update on the development pipeline and the acquisition environment. WRI will report earnings after the market closes on July 27.

Simon Property Group Buy - 2, TP \$196.00 (SPG - \$155.44) - Our second quarter FFO estimate is \$2.45 per share, one cent above the consensus estimate. We believe Simon continued to see positive leasing spreads in the quarter. SPG will report second quarter earnings before the market opens on August 1.

Tanger Factory Outlet Centers Buy - 3, TP \$36.50 (SKT - \$25.74) - We expect Tanger to report second quarter FFO of \$0.59 per share, equal to 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 second quarter earnings after the market closes on August 1.

GGP Inc. Neutral - 2 (GGP - \$22.38) - Our second quarter FFO estimate of \$0.35 per share is one cent below the consensus. We look forward to hearing an update on the re-tenanting of recent store closures on the call. GGP will report earnings before the market opens on August 2.

CBL & Associates Properties Long-term Buy - 3, TP \$17.50 (CBL - \$8.25) - We expect CBL to report second quarter FFO per share of \$0.54, 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 recently vacated anchor spaces. CBL is scheduled to report earnings after the market closes on August 3.

Other REITs (in order of earnings release date)

American Campus Communities* Underperform - 3 (ACC - \$46.03) - We look for ACC to report second quarter FFOM (funds from operations - modified) of \$0.53 per share, one cent below the consensus estimate. We look for an update on the development pipeline and preleasing for the 2017-2018 academic year. ACC will report earnings after the market closes on July 24.

Mid-America Apartment Communities Neutral - 3 (MAA - \$100.63) - We expect second quarter FFO per share of \$1.41, below the consensus estimate of \$1.44. We may be assuming less realized synergies from the Post Properties merger in Q2 than our peers. 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 July 26 after the close.

Education Realty Trust* Neutral - 3 (EDR - \$37.54) - We look for EDR to report second quarter Core FFO of \$0.41 per share, equal to the consensus. We are looking for updates on the development pipeline and preleasing for the 2017-2018 academic year on the call. EDR will report second quarter earnings before the market opens on July 31.

Whitestone REIT* Neutral - 4 (WSR - \$12.16) - We expect WSR to report second quarter Core FFO per share of \$0.36 versus the consensus estimate of \$0.34. We look for an update on recent acquisitions on the call. Whitestone will report earnings after the market closes on August 2.

SoTHERLY Hotels Inc.* Long-term Buy - 4, TP \$8.50 (SOHO - \$6.56) - We expect SOHO to report second quarter adjusted FFO of \$0.37 per share, three cents below the consensus. 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 August 8.

First Potomac Realty Trust* Neutral - 3 (FPO - \$11.11) - Our second quarter Core FFO per share estimate is \$0.21, equal to the consensus estimate. We are interested in hearing an update on the acquisition of FPO by Government Properties Income Trust (GOV - \$17.59). FPO 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, Inc. & Whitestone REIT in the past 12 months.

Hilliard Lyons has received investment banking compensation from SoTHERLY Hotels, Inc. in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from Whitestone REIT in the coming 3 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	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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