



WALL STREET VS. MAIN STREET

The Search for Relative Value

JUNE 2018



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AEW REAL ESTATE SECURITIES RELATIVE VALUE INDEX

HISTORICAL AVERAGE:

2.3% premium to NAV
 117 bps to UST, (120) bps to BBB
 1.16x ratio S&P 500 P/E to REIT
 P/AFFO

5/18:

7.0% discount to NAV
 Spreads: 149 to UST, (37) to BBB
 0.81x ratio

4/10:

30.0% premium to NAV
 Spreads: (4) to UST, (246) to BBB
 0.65x ratio

3/09:

27.0% discount to NAV
 Spreads: 636 to UST, 57 to BBB
 1.26x ratio

1/07:

12.3% premium to NAV
 Spreads: (141) to UST, (300) to BBB
 0.58x ratio

12/99:

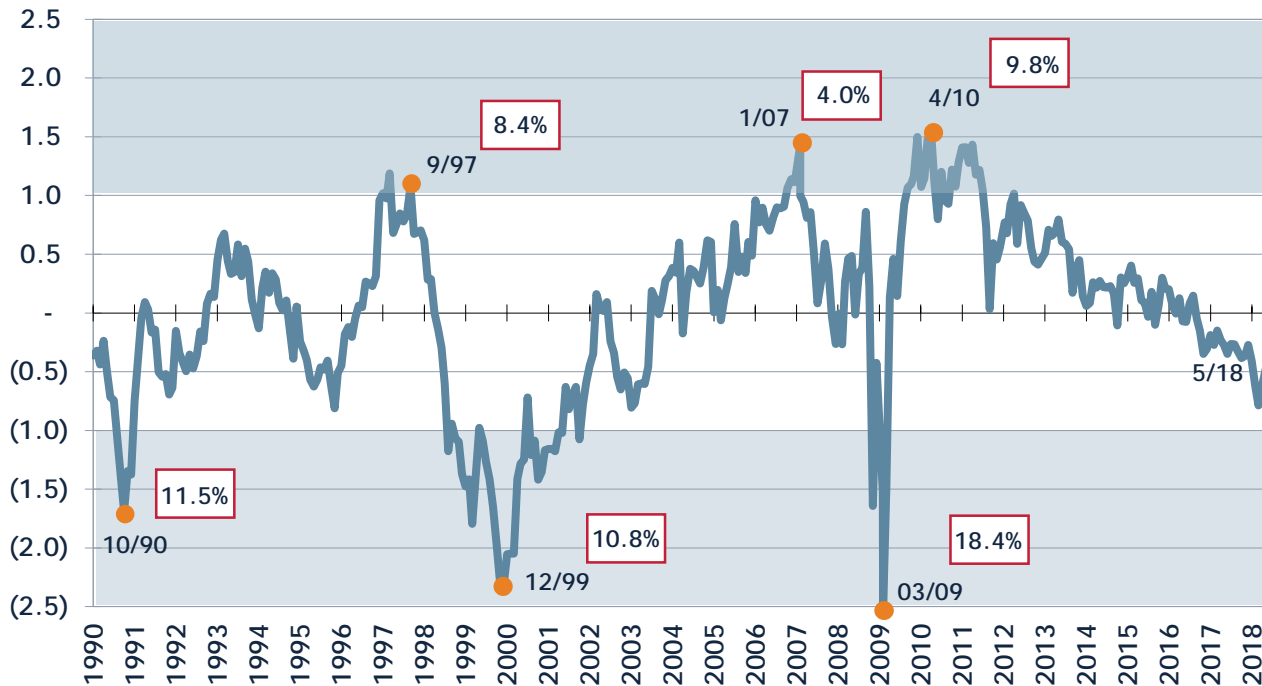
17.9% discount to NAV
 Spreads: 226 to UST, 52 to BBB
 3.10x ratio

9/97:

33.5% premium to NAV
 Spreads: (65) to UST, (221) to BBB
 1.46x ratio

10/90:

36.4% discount to NAV
 Spreads: 250 to UST, 34 to BBB
 1.25x ratio



REITs are expensive relative to stocks, bonds and real estate

Fairly Valued

REITs are attractively valued relative to stocks, bonds and real estate

■ Annualized return from point in time through May 31, 2018.

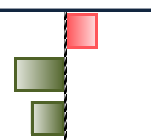
Listed RE Relative Valuations

Multiples vs. General Equities

Yields vs. Bonds

Premium to NAV

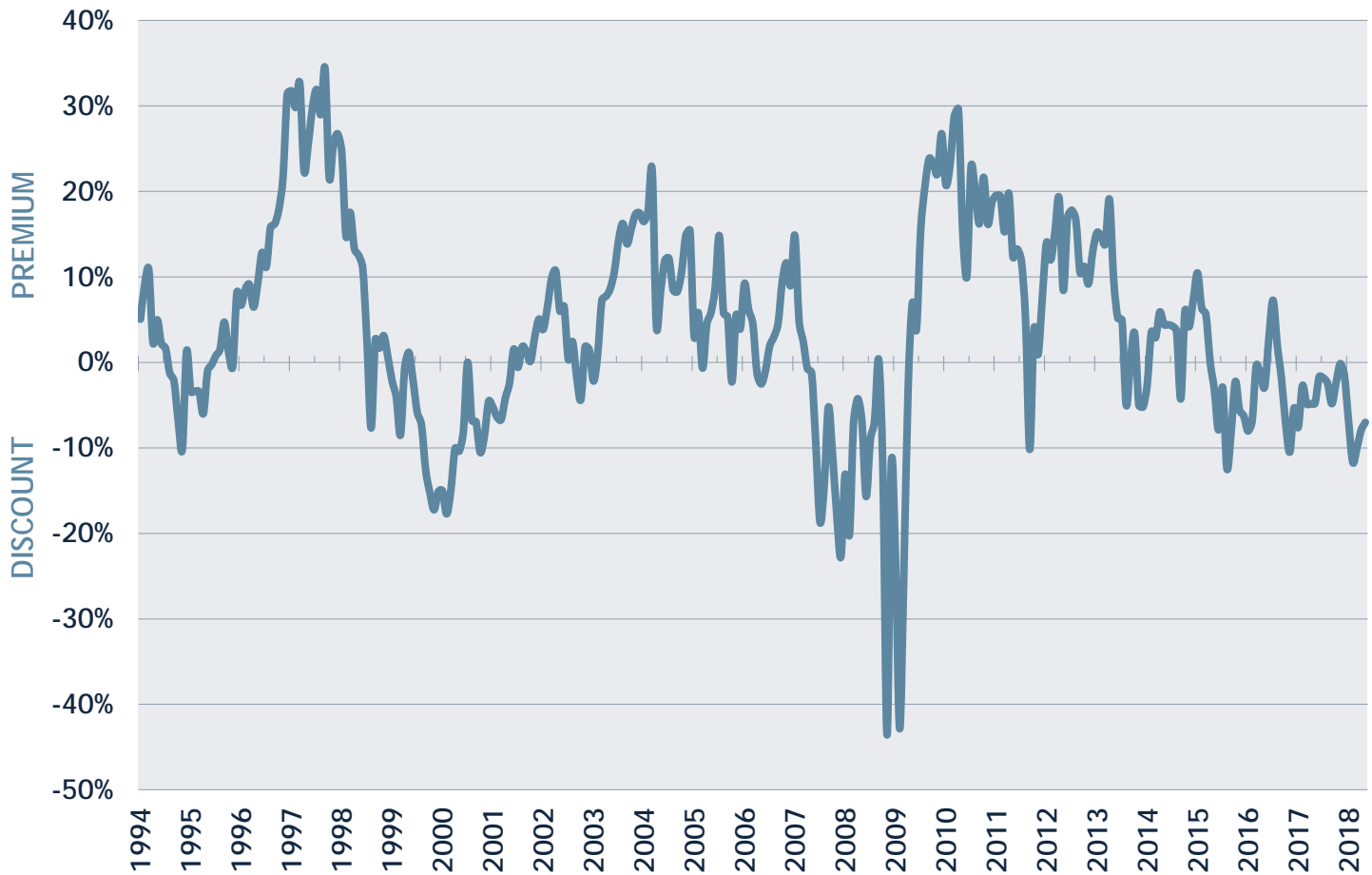
United States



(Red means listed RE is more richly valued by this metric versus long-term averages, green means it is relatively inexpensive versus those averages.)

Source: AEW Research
 As of May 31, 2018. Past performance is not indicative of future results.

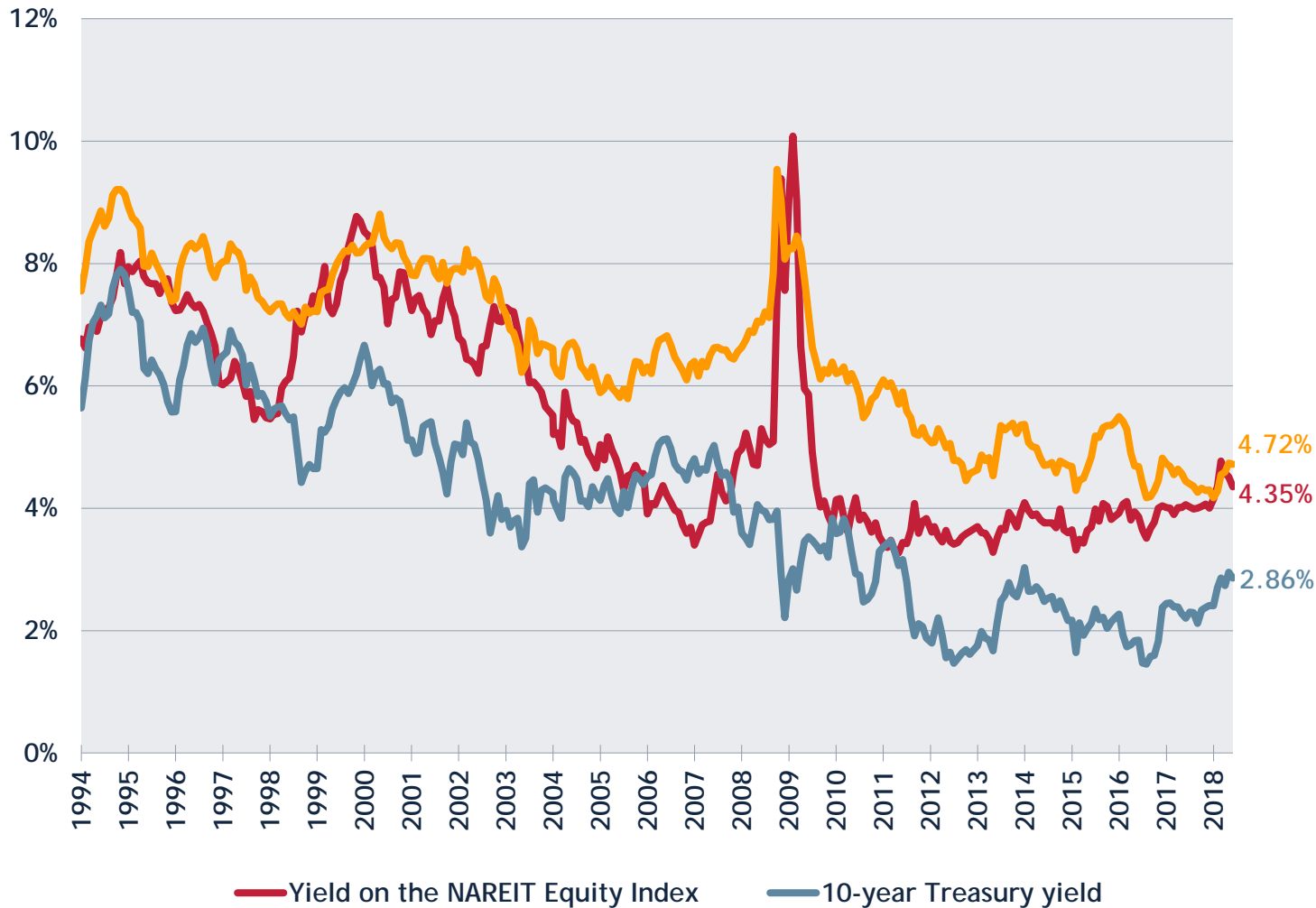
REIT PREMIUM/DISCOUNT TO NAV



Source: Green Street Advisors
As of May 31, 2018. Past performance is not indicative of future results.

- There have been 30 M&A deals totaling \$63B announced or completed over one-year ending 6/26/18, up from 22 deals totaling \$35B in the prior one-year period
- Retail REITs led the one-year M&A activity with roughly \$14B in transactions, followed by diversified (\$13B) and residential (\$12B)
- 15 REITs in 1Q18 announced new share repurchase programs or increases to existing plans, following 31 REIT repurchase announcements in 2017

RELATIVE YIELDS DURING THE MODERN REIT ERA

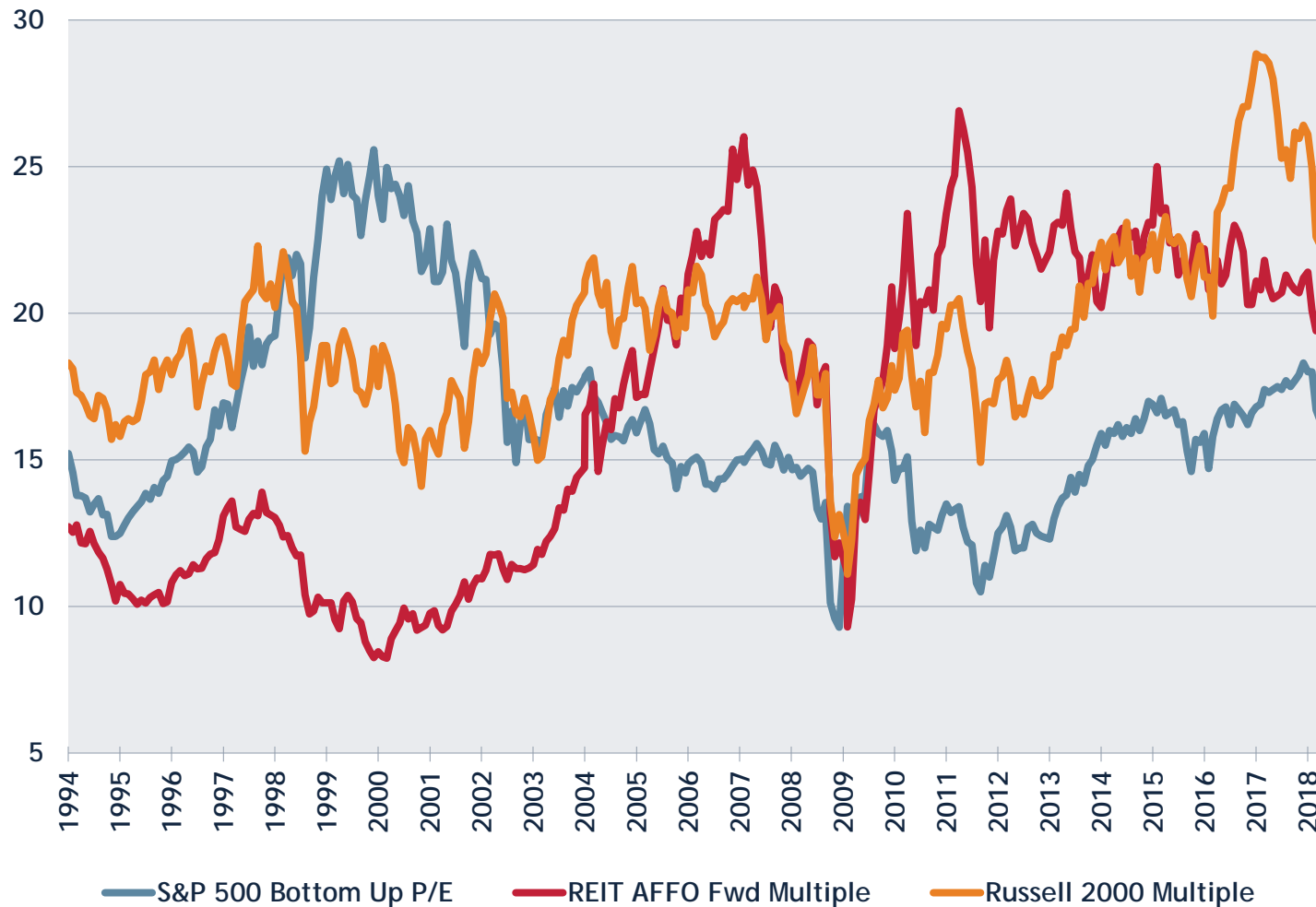


- REIT dividend yields briefly surpassed Moody's BAA yields in February before the sector rallied; they remain tighter to corporate bonds than usual
- On average, REIT dividend yields have been halfway between BAA yields and 10 year Treasury yields
- Low payout ratios and earnings growth both mean REIT dividend growth should continue to be solid

Source: NAREIT, Bloomberg
As of May 31, 2018. Past performance is not indicative of future results.

MULTIPLE COMPARISON

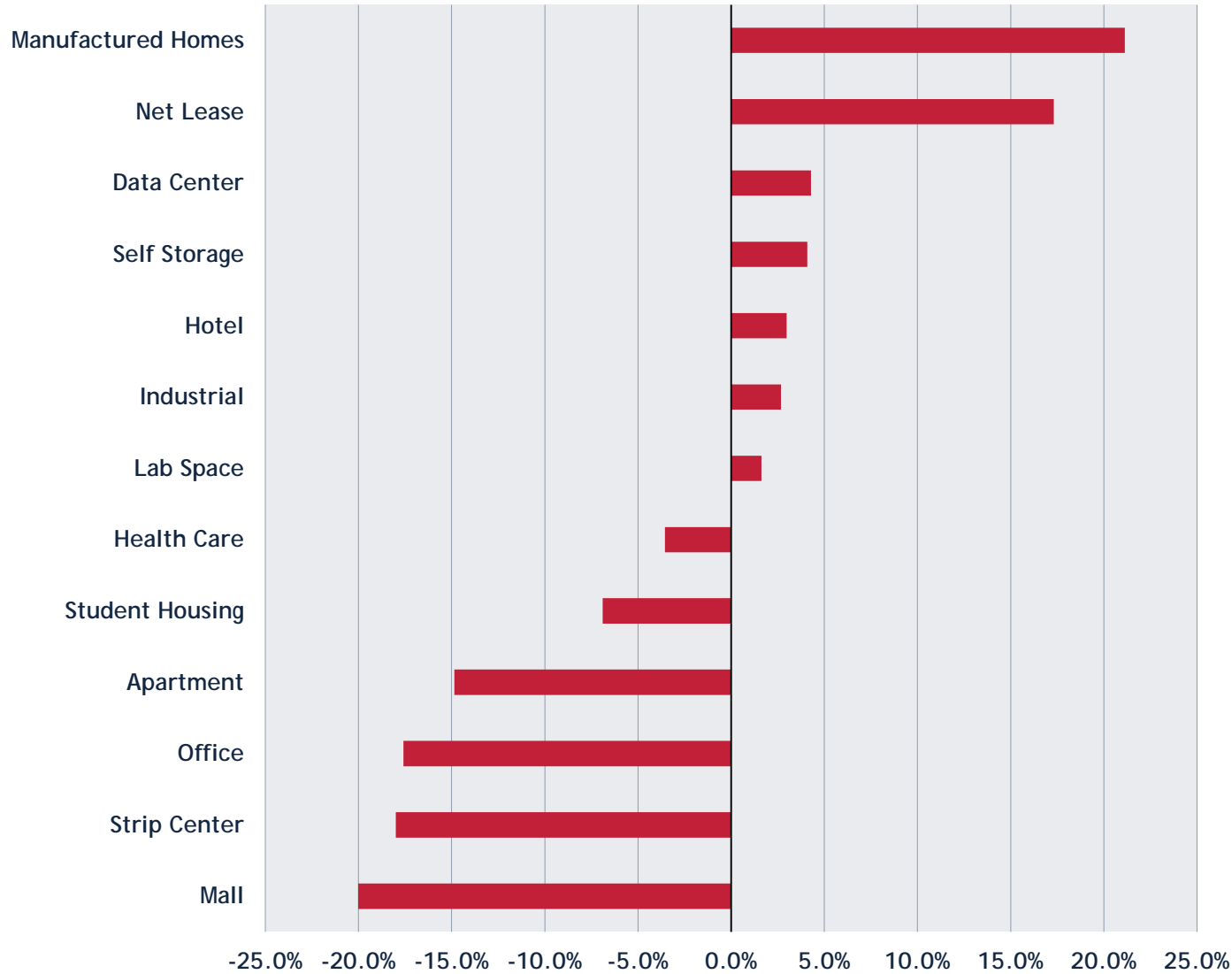
REITS vs. General Equities



Source: Evercore ISI, FTSE Russell
As of May 31, 2018. Past performance is not indicative of future results.

- Since 2011, REIT multiples have been flat to down slightly while stock multiples have trended up
- REIT multiples may never look as discounted relative to other stocks as they did in the tech bubble era

REIT PREMIUM/DISCOUNT TO NAV BY SECTOR

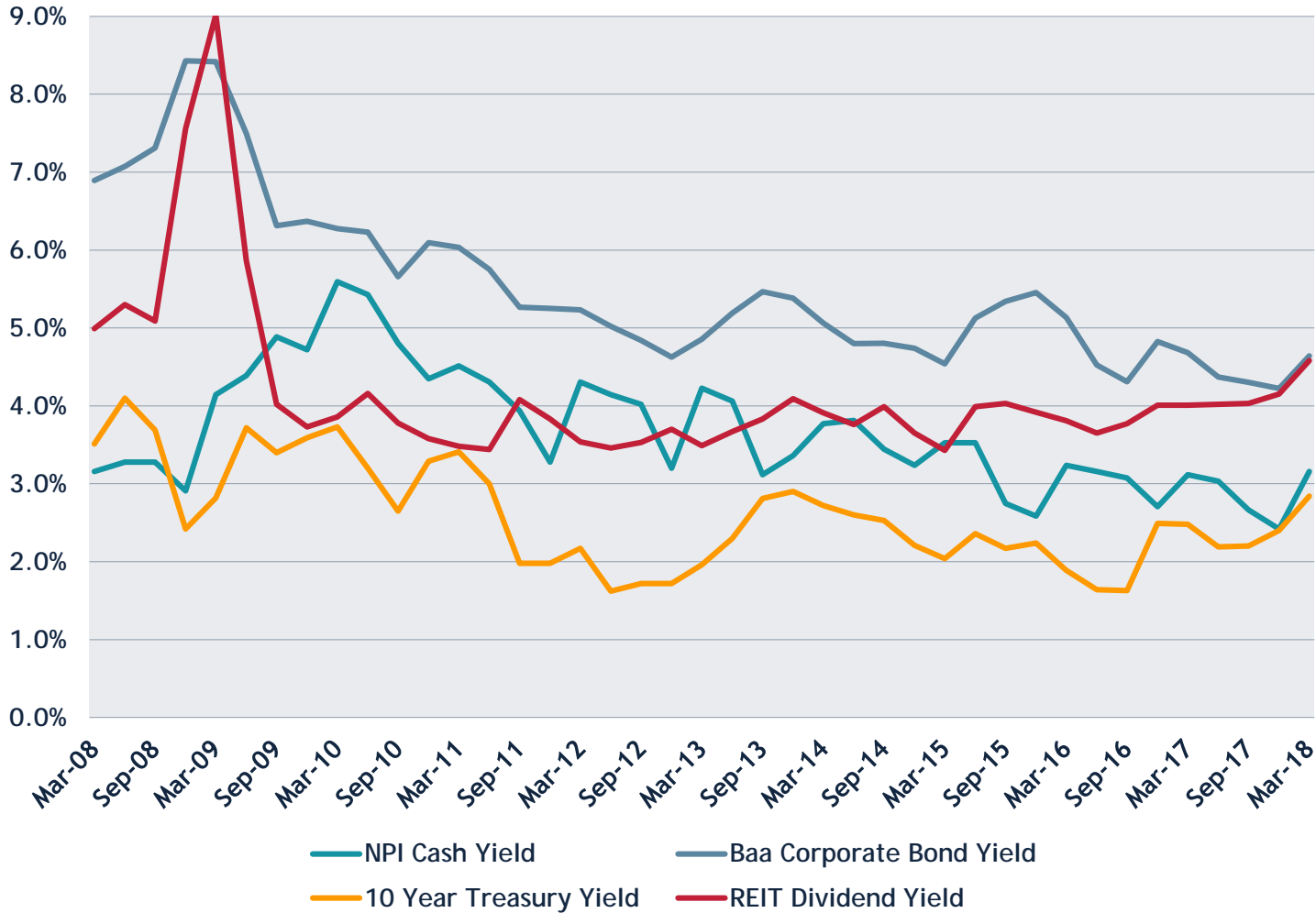


Source: Green Street, June 2018

- Most traditional institutional property types trading at discounts to underlying NAV in public market

DIRECT PROPERTY = TREASURIES, LISTED = BAA

CASH YIELDS, FOUR QUARTER MOVING AVERAGES

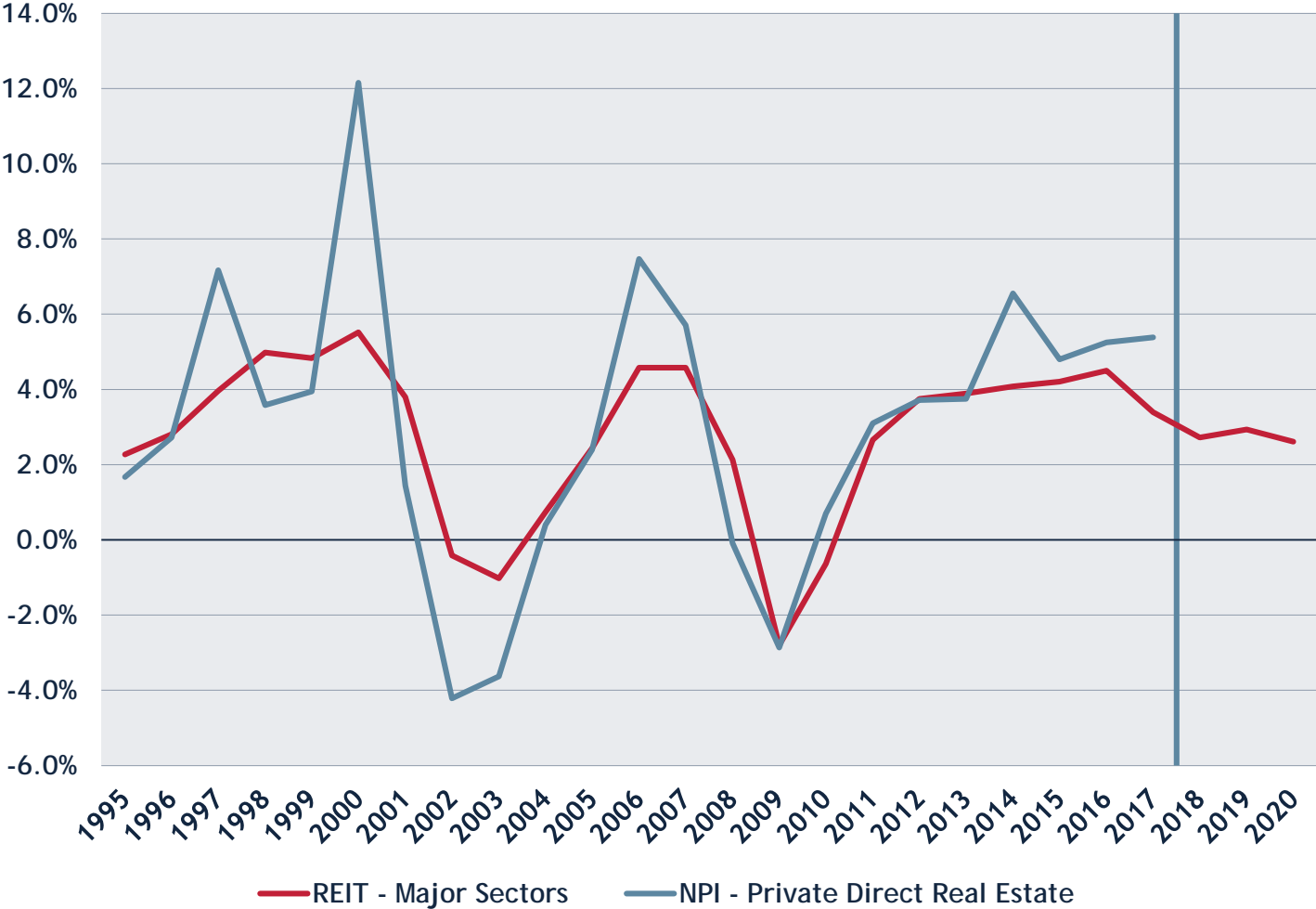


- Listed property yields now comparable to Baa bonds
- Direct property cash yields now comparable to Treasuries

Source: NCREIF, Moody's

STRONGEST NOI GROWTH OF THE CYCLE IS BEHIND US

ANNUAL NOI GROWTH

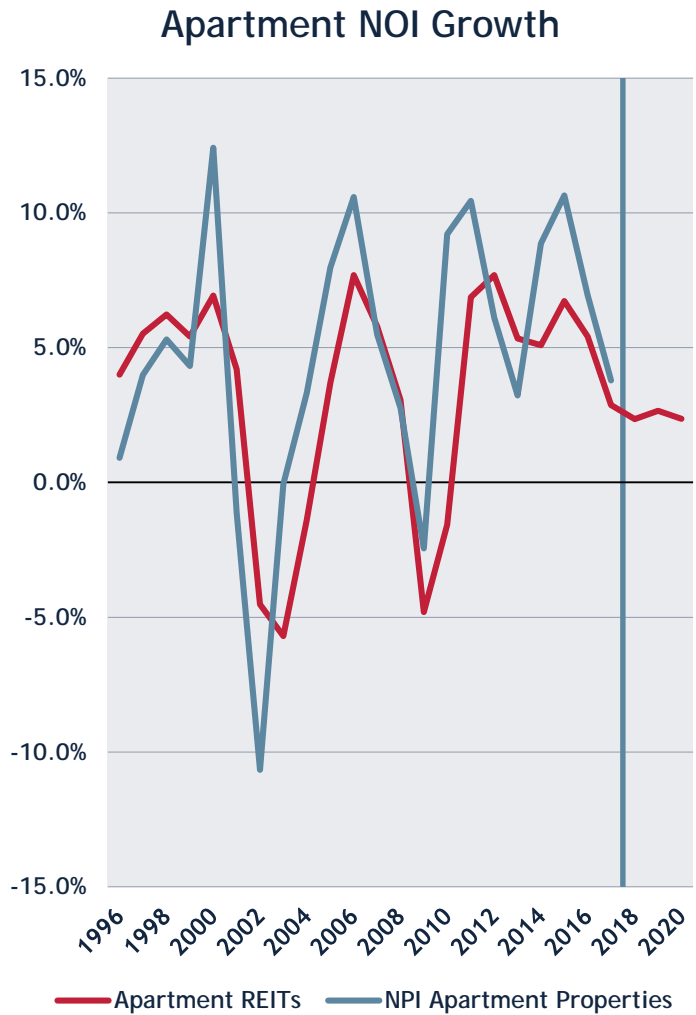


- Positive but slower NOI growth expected over the next two-to-three years

Source: NCREIF, Green Street

PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES



- Cap rate spread between listed and direct markets roughly at average for the past two decades

Source: Green Street, NCREIF

PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES

Industrial NOI Growth



Industrial Cap Rates

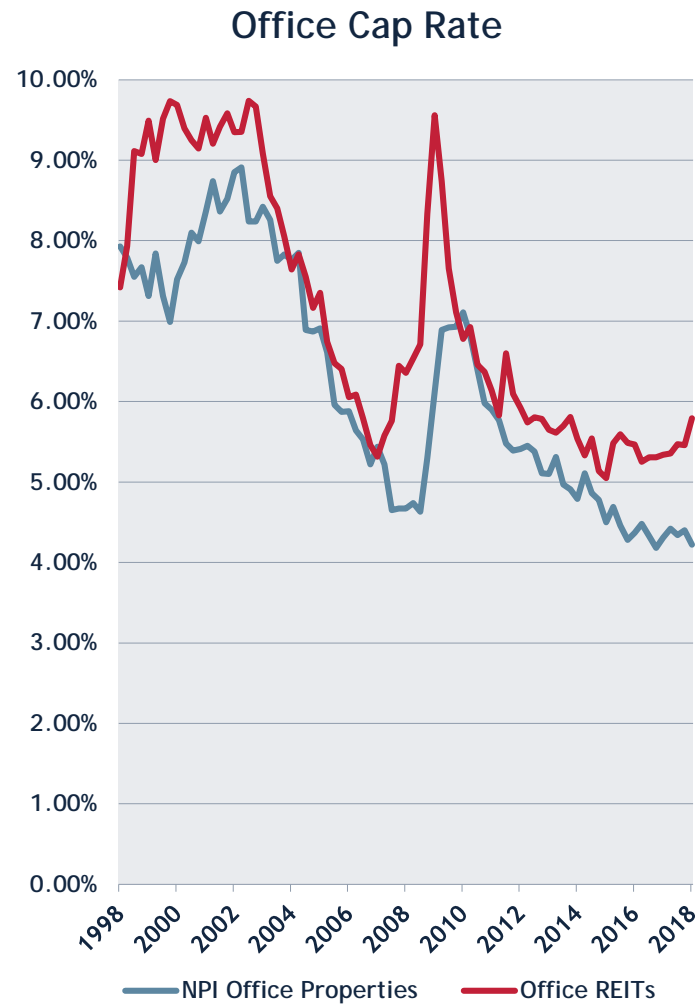
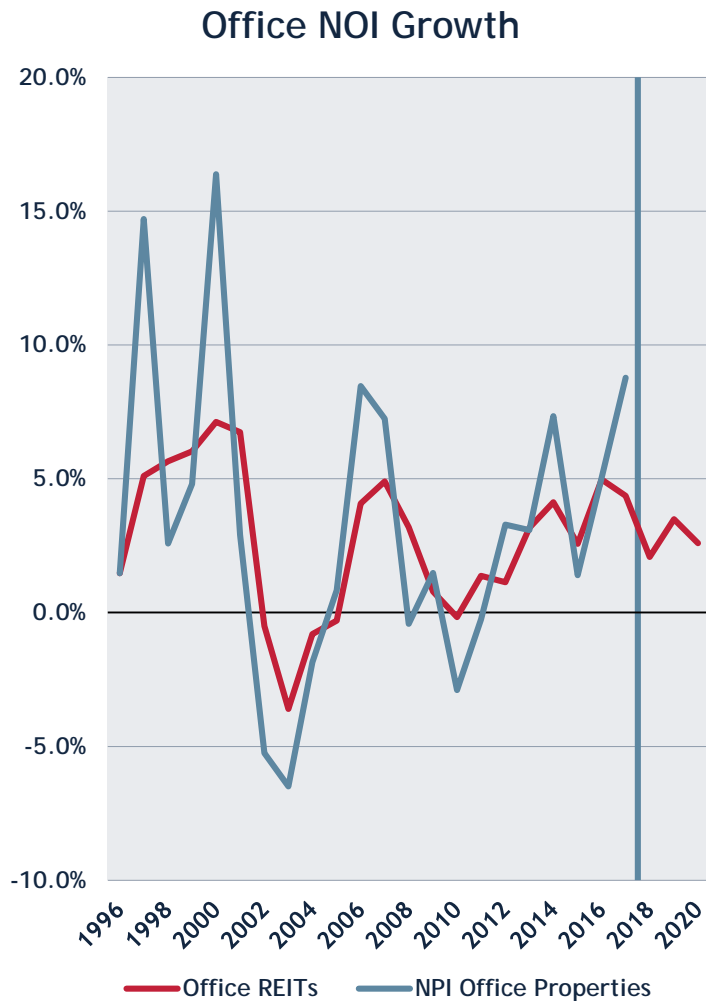


- Comparable industrial property pricing in both markets

Source: Green Street, NCREIF

PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES



- Office property cap rates nearing 6% in public market

Source: Green Street, NCREIF

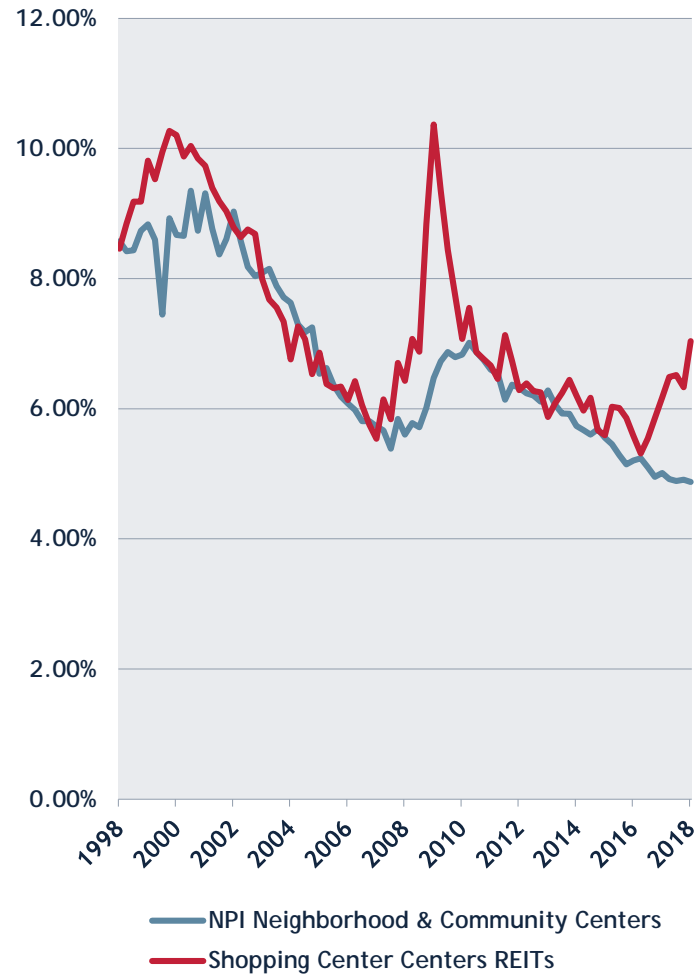
PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES

Shopping Center NOI Growth



Shopping Center Cap Rates



- Shopping centers trading at large discount to NAV in listed market

Source: Green Street, NCREIF

PUBLIC MARKET VS PRIVATE MARKET

NOI GROWTH AND CAP RATES



- Mall NOI growth holding up better in REIT-owned properties

Source: Green Street, NCREIF

CONCLUSIONS

- U.S. REITs are attractively valued relative to other yield assets and direct property
- Traditional institutional property types least favored in public market
- Implied property cap rates from current REIT valuations much higher than private market
- History suggests that public market over-adjusts and ultimately moves back towards private market pricing

QUESTIONS?

Please feel free to contact Mike, Russ or Caroline regarding any of the information contained herein

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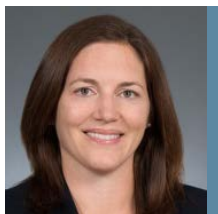
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Michael J. Acton, CFA, is Director of Research for AEW Capital Management, L.P. with responsibility for directing the activities of AEW Research, the firm's highly regarded in-house research group. Mike joined the firm in 1990 and has more than 30 years of experience as an economic analyst and forecaster and is a standing member of the firm's Investment Committee and Management Committee. The resources of AEW Research are an integral part of AEW's investment process and Mike works closely with senior professionals in all areas of the firm to develop investment strategies that match clients' risk/reward objectives with market opportunities. Mike is also a member of the firm's Compliance Committee and Risk Management Committee. Prior to joining AEW, he was with DRI/McGraw-Hill where he managed the Metropolitan Area Forecasting Service. He is a graduate of Bates College (B.A.) and a CFA charter holder.



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Russell Devlin is an economist in AEW Research, the firm's in-house research group. Russ devotes the majority of his time to providing research support to the firm's public market activities. His role is (i) to interpret the results of AEW Research forecasts with respect to factors affecting real estate securities investing; (ii) to conduct additional research (both directly and using third-party resources) into areas of particular interest or concern to the REIT team, and (iii) to develop and maintain specific tools that provide insights useful in portfolio construction and ongoing management. He is also responsible for maintaining the information database and reporting infrastructure used by AEW Research, and developing and maintaining many of AEW's proprietary research tools. Russ joined the firm in 1998 and has 22 years of experience as an economic analyst and forecaster. Prior to joining AEW, he was with DRI/McGraw-Hill's Industry Forecasting Service. Russ is a graduate of the Massachusetts Institute of Technology (B.S.) and the University of Minnesota's Humphrey Institute (M.A.). He is a CFA charterholder.



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