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Each quarter, Morgan Stanley research polls our Doug Aronson, along with a select list of net lease brokers around the country, for market cap rate report information.

Deal Momentum Persists as Investment Spreads Remain Attractive

Q2 July 2019

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July 9, 2019 04:01 AM GMT

Triple Net REIT Roundup | North America

Brokers see Strong Deal Momentum, but Expect Selectivity from REITs

Our 2Q broker check reveals an active start to summer (uncharacteristic of historical trend), but selectivity among public REITs. Stable cap rate outlook along with declining funding costs, gives us confidence that REIT acquisitions will prove to be highly accretive. Reiterate Overweight on STOR.

Below we highlight top takes from our Triple Net AlphaWise survey:

- 1. Deal momentum strong and expected to remain so, but brokers note selectivity from public REITs.** After a strong 2018 for Triple Net deal flow, YTD 2019 volumes (January through May) increased +11.7% over the same period in 2018 (see [Exhibit 1](#)), brokers expect momentum to increase (brokers noted an extremely active start to summer which is inconsistent with historical trends) with Office (which also gained acquisition share YTD) having the most positive outlook with large-size portfolios generally the weakest. Contrary to recent surveys where brokers noted increasing interest from Public REITs, in our July survey, 20% of brokers noted a decrease in interest from Public REITs (see [Exhibit 9](#)).
- 2. Focus shifts from rate fears to asset quality.** The percentage of brokers seeing interest rates as the most important factor impacting deal volume fell to its lowest level since our January '18 survey, as asset quality has risen to its highest level since October '17, which we think could be indicative of late cycle sentiment. As cap rates have remained relatively flat, investment spreads have increased, given lower interest rates, with most brokers expecting bid-ask spreads to remain unchanged (see [Exhibit 6](#)).
- 3. Calls for cap rate expansion have subsided.** After 2.5 years (since the '16 election) of brokers expecting cap rates to rise, calls for cap rate expansion continued to be largely absent from our July '19 survey, similar to our April '19 survey (see [Exhibit 12](#)). Furthermore, in line with an inverted yield curve, a net 30% of brokers expect short lease term cap rates to widen, while a net 18% of brokers expect long term cap rates to tighten (see [Exhibit 13](#)).
- 4. Triple net valuations look stretched at the end of 1Q, but more reasonable today on a relative basis.** With yields coming in, clearly the public markets anticipated the move and implied cap rate spreads to 10 year treasuries today stand at 296bps versus 247bps at the end of 1Q19.

alphawise α

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Exhibit 1: YTD 2019 Triple Net deal volume up +11.7% vs. 2018 levels, driven primarily by Office.

Deal Volume in Billions

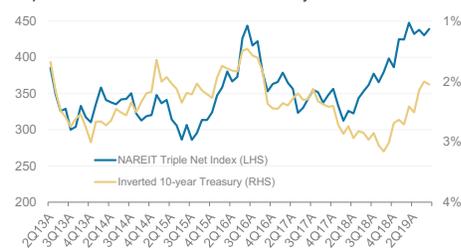


Source: Real Capital Analytics.

Note: 2019 data is through May and transaction volumes exclude large portfolio deals announced but not closed and deals under \$2.5 million.

Exhibit 2: Since 4/30 Triple Net prices have returned +1.6% despite the 10 year declining -46bps.

Triple Net Price Return vs. 10 Year Treasury Yields



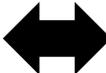
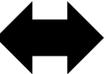
Source: NAREIT, Morgan Stanley Research.

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Similarly, implied cap rate spreads to BBB bond yields stand at 136bps versus the 1Q19 levels of 73bps. Furthermore, since the end of April, Triple Net price returns have been only +1.6% despite the 10 year declining -46bps (see [Exhibit 2](#)).

What's changed since our April Broker Survey?

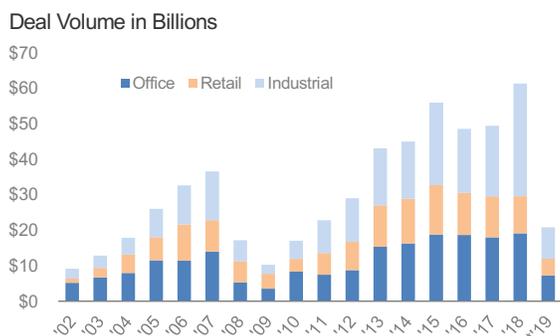
Question	Broker View	What's Changed: July vs. April
Deal Pipeline Sentiment - Next 3M		Forward outlook up significantly from last round; most positive for Office assets: Higher expectations with an average net reading of +40% vs. +19% last round. The most positive outlook is Retail (IG) and Office assets with large-size portfolios generally weakest.
Impact of interest rates on Deal Volume - Next 3M		Focus shifts away from rates: 27% of brokers see interest rates as the most important factor impacting deal volume, down from 34% in April. 40% of brokers see asset quality as most important, up from 25% in April.
Competition Levels		Change in investor interest flat during the last three months. Most brokers saw stable demand across the various investor buckets in recent months. Overall sentiment rose slightly to +25% from +24% in April.
Current Debt Costs		Debt costs down versus April. Brokers see debt costs on current net lease deals at an average of ~4.5%, down -26bps from our last survey.
Overall Cap Rate Outlook		Calls for cap rate expansion largely absent. About 23% of brokers expect a 10+ bps increase in the coming months while 16% expect a decrease.
Cap Rate Outlook (by lease term)		Premium pricing for long lease term assets expected to increase. Looking forward, a net 30% of brokers expect short lease term assets to see increasing cap rates, while a net 18% expect long lease term assets to see declining cap rates.
Cap Rate Outlook (by tenant credit)		NIG expected to expand while IG expected to contract slightly. Looking forward, expect expansion with NIG assets and slight contraction with IG assets.

How Robust Are Acquisition Pipelines?

Acquisition deal pipelines remain strong: Triple Net acquisition volumes thus far in 2019 (January through May) increased +11.7% over the same period in 2018, driven primarily by Office (+73.9% y/y). Industrial and Retail acquisitions volumes thus far in 2019 have declined -16.4% y/y and increased +21.2% y/y, respectively.

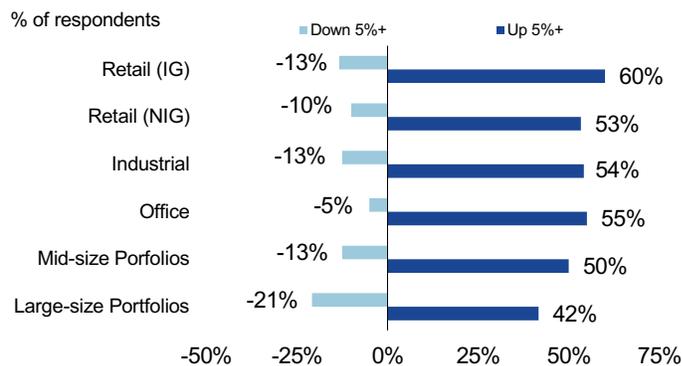
Heading into 3Q19, brokers expect momentum to accelerate significantly both y/y and q/q: The average net positive reading for future deal pipelines this round was +40%, up from last round's +19% reading. We note that this reading is above July 2018 (+18%) and July 2017 (+19%), and brokers appear most positive on Office (indicating that brokers expect strong YTD acquisition volumes to continue) and Retail (IG); while large portfolios is the weakest category, but still positive at +21%. In terms of bid-ask spread, most brokers expect bid-ask spreads to remain relatively unchanged over the next three months, with no brokers now expecting a significant narrowing or widening. This represents a narrowing of expectation when compared to April's results when 6% and 3% expected bid-ask spreads to widen significantly and narrow significantly, respectively.

Exhibit 3: YTD 2019 Triple Net deal volume up +11.7% vs. 2018 levels, driven primarily by Office.



Source: Real Capital Analytics.
 Note: 2019 data is through May and transaction volumes exclude large portfolio deals announced but not closed and deals under \$2.5 million.

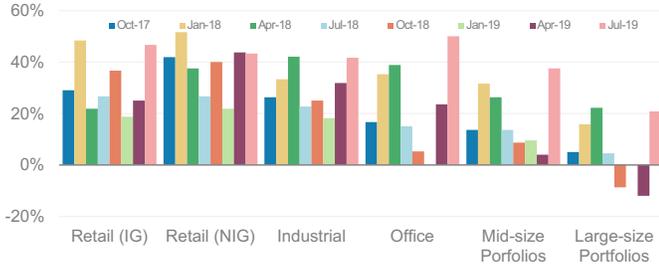
Exhibit 4: Broker View on Deal Pipelines (Next 3 Months)



Source: AlphaWise, Morgan Stanley Research.

Exhibit 5: Broker View on Pipeline - Next 3 Months: Portfolios saw greatest acceleration, but remain the lowest of all categories on an absolute basis.

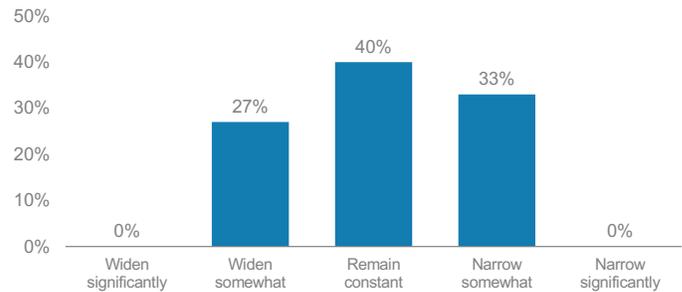
View on Pipeline N3M: % Saying Increase vs. Decrease



Source: AlphaWise, Morgan Stanley Research.

Exhibit 6: Brokers are more sure that bid-ask spreads will remain largely unchanged.

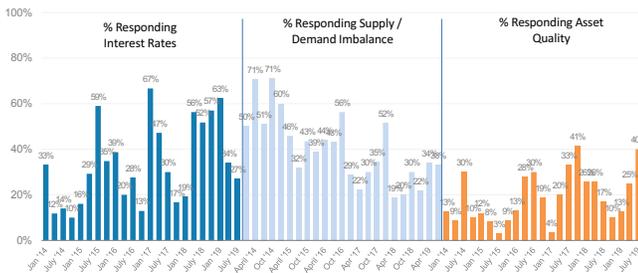
Bid-Ask Spread Expectations, Next Three Months



Source: AlphaWise, Morgan Stanley Research.

Exhibit 7: Focus has shifted away from rates to asset quality.

What do you expect to have the biggest impact on the volume of deals in the next 3 months?



Source: AlphaWise, Morgan Stanley Research.

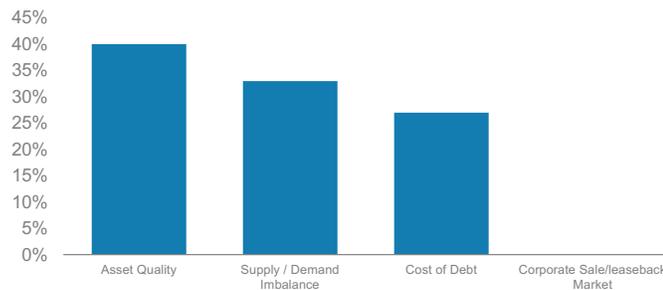
Focus has shifted to asset quality: 40% of brokers see asset quality as the most important factor impacting deal volume in the next three months (up from 25% in our April '19 survey), representing the highest level since our October '17 survey. Interest Rates garnered 27% (the lowest level since January '18) and supply / demand imbalance garnered 33%.

Brokers note stable demand broadly: Most brokers saw stable demand on average across the various investor buckets with 1031 Exchanges and Family Offices accelerating the most from April levels (+11% and +5%, respectively). **We note that interest from**

Public REITs fell with 20% of brokers noting a decrease in interest. Participating brokers noted an extremely active start to summer which is not characteristic of historical trends and expect activity to remain strong as the 10 year has fallen to lows and potential for trade wars could drive a continued flight to safety.

Exhibit 8: Impacts on Deal Volume: asset quality now from and center.

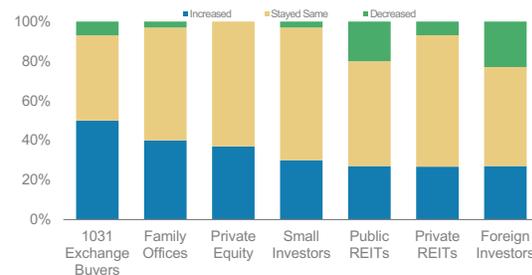
Largest Impact on Deal Volume - Next 3 Months



Source: AlphaWise, Morgan Stanley Research.

Exhibit 9: Investor Interest: Public REITs interest decline with 20% of brokers noting a decrease.

Change In Investor Interest - Last 3 Months



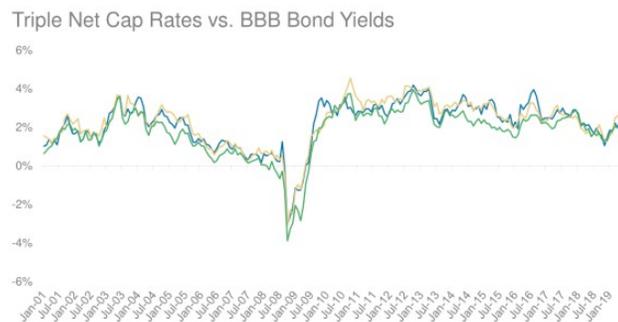
Source: AlphaWise, Morgan Stanley Research.

Where Will Cap Rates Go From Here?

Cap rate spreads expanded in 2Q19: Cap rates remained relatively flat in 2Q19 while debt costs pulled back indicating that cap rate spreads have expanded. Cap rates spreads for Office, Industrial, and Retail have expanded YTD by +81bps, +145bps, and +63bps, respectively.

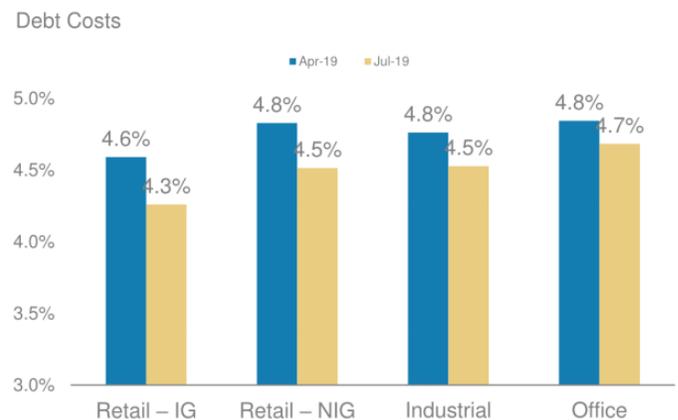
Financing costs decreased relative to April '19 levels, but less so than the 10 Year UST: Brokers see interest rates required to finance current net lease deals at an average of ~4.5%, down -26bps from our last survey. While the 10 year has declined -55bps, risk premiums have increased.

Exhibit 10: Cap rate spreads have widened as debt costs have declined.



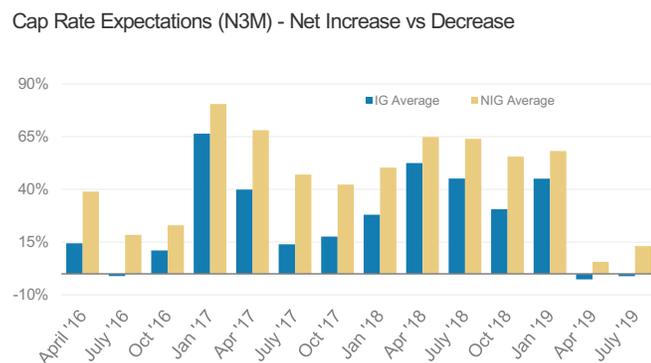
Source: Real Capital Analytics, Thomson Reuters, Morgan Stanley Research. Note data is through August.

Exhibit 11: Current Debt Costs (versus last 3 months)



Source: AlphaWise, Morgan Stanley Research.

Exhibit 12: NIG assets more likely to see cap rate expansion.



Source: AlphaWise, Morgan Stanley Research.

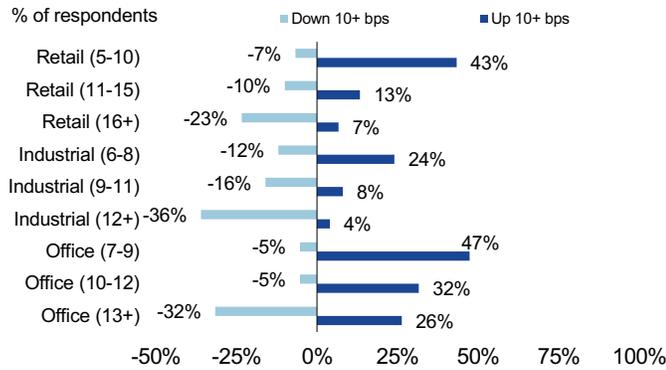
Expectations for rising cap rates down YTD: Brokers now expect cap rates to remain relatively flat over the next three months down significantly from 53% expecting cap rate expansion in our January survey. 18% of brokers expect overall cap rates to increase by at least 10bps in 3Q19 and 12% expect a decrease, compared to 53% and 1% expecting an increase and decrease in our January survey, respectively. **This sentiment reflects some of the lowest levels seen in at least three years.** Brokers see an increase for NIG assets as more likely with a +13% average reading. IG assets have historically had lower expectations of expansion and are now actually expected to tighten with a -1% net reading.

Cap Rates by Remaining Lease Term

Long lease term cap rates expected to tighten while short lease term cap rates expected to expand: 23% of brokers now expect cap rates to expand by 10+bps while 16% expect cap rates to tighten compared to 55% and 0% of brokers calling for cap rates to expand

and tighten by 10+bps in our January survey, respectively. In line with an inverted yield curve, brokers expecting short lease term cap rate expansion exceeds those expecting tightening by 30%. For long lease term assets, the percentage of brokers expecting tightening to occur exceeds those expecting expansion by 18%.

Exhibit 13: Cap Rate Outlook (IG Assets) - Next 3 Months

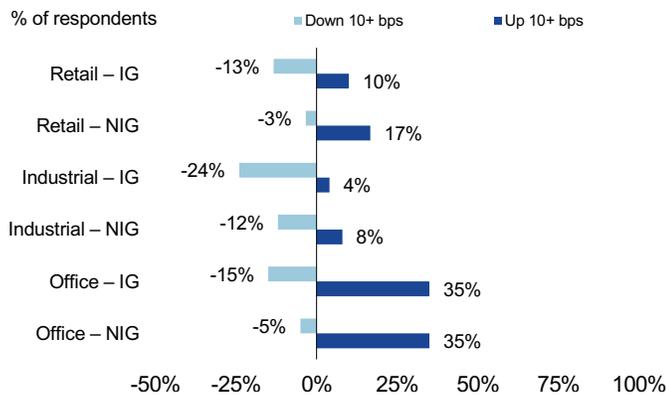


Source: AlphaWise, Morgan Stanley Research.

Cap Rates by Tenant Credit

Non-investment grade cap rates expected to widen: Brokers see non-investment grade (NIG) assets as more likely to expand with a net positive reading of +13%, while investment grade (IG) asset cap rates are expected to tighten slightly with a net reading of -1%.

Exhibit 14: Cap Rate Outlook - Next 3 Months



Source: AlphaWise, Morgan Stanley Research.

Monitoring the Triple Net Landscape

Retail Tenant Health

Triple Net REITs are exposed industries that have seen positive SS sales growth YTD, with the exception of Sporting Goods (moderate exposure among Triple Nets), which has seen SS sales growth of -6.7% YTD and Furniture Stores (minimal exposure among Triple Nets), which has seen SS sales growth of -0.5% YTD. Despite having +4.3% SS sales growth YTD, Drugstores remain a highly debated sector given AMZN's announced entry into the drug supply chains on June 28th 2018 with its announced acquisition of PillPack (see ["Alexa, Refill my RX"](#)), and note O (9.8%), SRC (6.5%), and NNN (1.7%) all have exposure.

Exhibit 15: Triple Net REITs are exposed to retail categories that are seeing relatively strong sales growth.

Industry	Industry SS Sales Growth			REIT Portfolio Exposure					
	YTD	1 Year	3 Year	O	NNN	SRC	STOR	VER	Avg
Convenience Stores	5.2%	6.1%	6.6%	12.4%	18.0%	10.0%		2.7%	10.8%
Automotive Parts, Acc & Tire Stores	4.2%	2.8%	0.9%	4.0%	12.0%	3.5%	3.8%	3.7%	5.4%
Pharmacies & Drug Stores	4.3%	3.5%	2.7%	9.8%	1.8%	6.8%		6.8%	6.3%
Health & Personal Care Stores	4.4%	3.8%	3.0%	7.2%	5.6%	8.4%	5.3%	1.0%	5.5%
General Merchandise Stores	2.5%	2.9%	2.2%	2.3%	1.6%				2.0%
Grocery Stores	2.2%	2.8%	2.7%	4.9%		4.8%		4.6%	4.8%
Garden Equipment & Supply Dealers	3.1%	3.1%	5.2%	2.9%	2.2%	4.3%		5.5%	3.7%
Building Materials & Supply Dealers	4.3%	4.1%	5.6%			1.9%	2.9%		2.4%
Gasoline Stations	1.2%	8.5%	7.3%	12.4%	18.0%	10.0%		2.7%	10.8%
Sporting Goods and Other Hobby	(6.7%)	(7.4%)	(4.0%)	1.0%		2.0%		2.0%	1.7%
Furniture & Home Furnishing Stores	(0.5%)	1.0%	3.7%	0.8%	1.7%	3.6%	0.7%	2.0%	1.8%
Warehouse Clubs & Super Stores	3.6%	3.8%	3.1%	2.8%	2.3%	2.2%		2.0%	2.3%
Clothing Stores	(0.4%)	2.8%	2.1%	1.2%		1.0%			1.1%
Clothing & Accessory Stores	(0.0%)	2.9%	2.4%					1.3%	1.3%
Electronics & Appliance Stores	(2.9%)	(0.2%)	(1.3%)	0.8%	1.6%	0.6%		0.9%	1.0%
Department Stores	(3.6%)	(2.1%)	(2.7%)			1.2%		0.7%	1.0%
Subtotal				62.5%	64.8%	60.3%	12.7%	35.9%	61.7%
1 Year WA SS Sales Growth				4.7%	5.3%	4.0%	3.4%	2.9%	4.2%

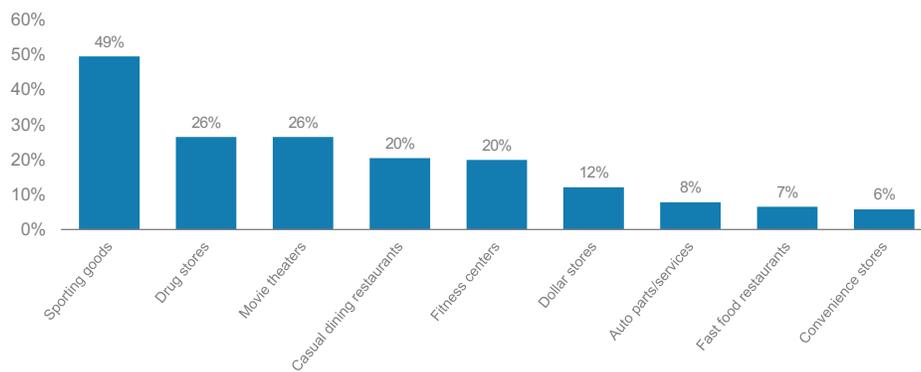
Source: Company Data, Census, Morgan Stanley Research.
Note totals do not sum to 100% as data is not available for other categories.

Coincident with our above analysis, we also asked brokers for their expectations for property types most likely to be impacted by broader retail weakness:

- Responses were largely in line with the April survey results, indicating a minimal shift in views on the retail environment over the last three months.
- Again, brokers noted a demand for medical retail - "Med-Tail" - assets as having grown a lot in terms of interest and is likely to continue and "Indust-Tail" was also mentioned (distribution centers that combine the brand name of a retailer with a traditional industrial use).

Exhibit 16: Sporting Goods are expected to be most impacted by broader retail weakness.

Property types most likely to be impacted by broader retail weakness - Next 6 Months

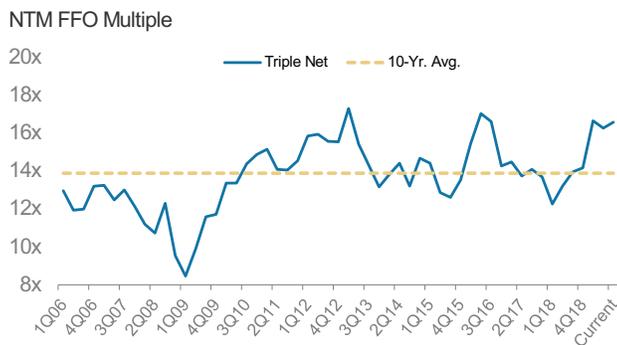


Source: AlphaWise, Morgan Stanley Research.

Triple Net Valuation

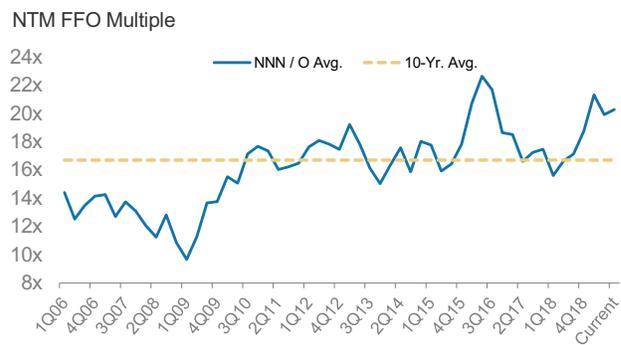
Triple Net multiples nearing 2Q16 levels. After seeing significant outperformance in late 2018, Triple Net multiples now stand just -0.5x below their 2Q16 peak (-2.4x below for NNN & O). Furthermore, as the current Triple Net multiple of 16.6x is 2.7x above its ten year average (3.6x above for NNN & O), investors may think that valuations appear somewhat rich, however, we note relative valuation (to the broader group) is reasonable (see [2019 Outlook Feedback - The Clock Starts Now](#)).

Exhibit 17: Triple Net industry multiples rebounded during a volatile 2H18.



Source: SNL Financial, Thomson Reuters, Morgan Stanley Research.

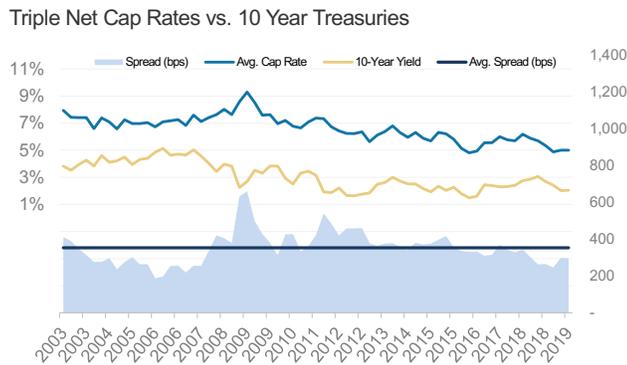
Exhibit 18: Multiples for NNN & O are now 3.6x above their ten year average.



Source: SNL Financial, Thomson Reuters, Morgan Stanley Research.

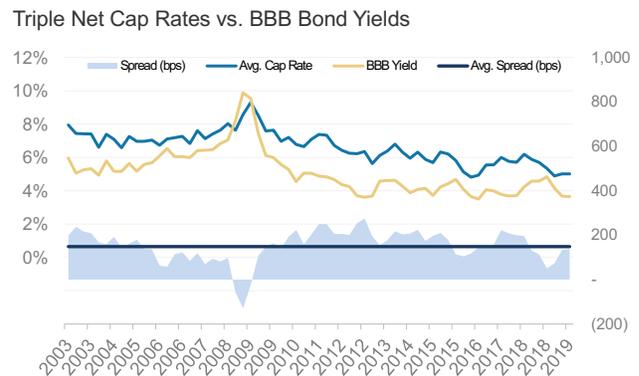
Triple Net implied cap rates continue to screen expensive relative to 10 Year Treasury and BBB bond yields: Implied cap rate spreads of 296bps versus 10 Year Treasury yields are below the long-term average of 353bps. Current spreads relative to BBB yields of 136bps are also below the long-term average of 148bps.

Exhibit 19: Cap Rates vs. 10 Year Treasuries



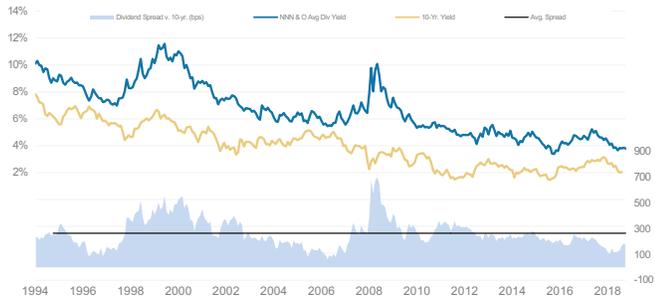
Source: Thomson Reuters, Morgan Stanley Research.
Note: Cap rates are an average of NNN and O.

Exhibit 20: Cap Rates vs. BBB Bond Yields



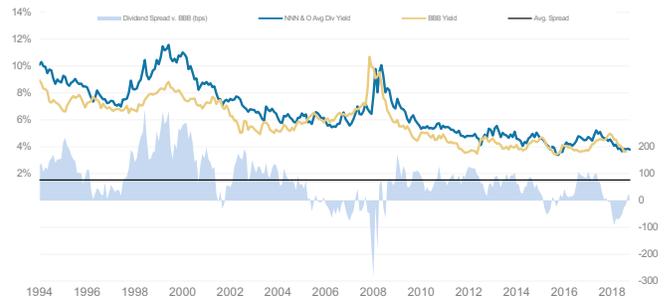
Source: Thomson Reuters, Morgan Stanley Research.
Note: Cap rates are an average of NNN and O.

Exhibit 21: Dividend Yields vs. 10 Year Treasuries



Source: Thomson Reuters, Morgan Stanley Research.
 Note: Cap rates are an average of NNN and O.

Exhibit 22: Dividend Yields vs. BBB Bond Yields



Source: Thomson Reuters, Morgan Stanley Research.
 Note: Cap rates are an average of NNN and O.

Valuation Methodology & Risks

SRC: We apply a 12x multiple to our 2020E Base Case AFFO to arrive at our price target of \$41. Our multiple is below the company's historical long term average and above SRC's recent average given improved tenant and portfolio quality as well as cost of capital post the spin. Risks to achieving our price target include: increasing competition for non-investment grade assets could result in less accretive acquisitions, rising interest rates result in lower acquisition volumes, and broad retail weakness negatively impacts tenant health.

O: We apply a 21x multiple to our 2020E AFFO to arrive at our price target of \$71. Risks to achieving our price target include: a significant rise in interest rates causes a rotation out of the subsector, weakness in the retail sector and related tenant bankruptcies, and an inability to source a significant number of accretive deals.

NNN: We apply an 18.5x multiple to our 2020E AFFO estimate to arrive at a price target of \$53. Risks to achieving our price target include: rising interest rates result in a bias towards shorter lease term sectors, increasing competition for non investment-grade assets could result in less accretive acquisitions, and additional weakness in restaurants leads to financial challenges for some of NNN's tenants.

STOR: We apply an 16.5x multiple to our 2020E AFFO estimate to arrive at a price target of \$35. The ~16.5x multiple is ~1x higher than current levels and based on a valuation closer to NNN given the company's above average earnings growth sourced partially by retained cash flow. Risks to achieving our price target include: interest rates rise sooner than expected; deal volume falls significantly, driving slower growth and lower efficiency levels; and Cap rates compress while financing costs remain the same or increase.

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Source: AlphaWise

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Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of American Assets Trust Inc., American Homes 4 Rent, AvalonBay Communities Inc., Boston Properties, Inc., Duke Realty Corp., HCP, Inc., Hudson Pacific Properties, Invitation Homes Inc, National Retail Properties Inc, Office Properties Income Trust, Prologis, Inc., Public Storage, Realty Income Corp, Site Centers Corp, Spirit Realty Capital, STORE Capital Corp, UDR, Inc., Ventas Inc, Welltower Inc..

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from American Assets Trust Inc., American Homes 4 Rent, AvalonBay Communities Inc., Boston Properties, Inc., Columbia Property Trust Inc, Duke Realty Corp., Equity Residential, HCP, Inc., Hudson Pacific Properties, Invitation Homes Inc, National Retail Properties Inc, Office Properties Income Trust, Prologis, Inc., Public Storage, Realty Income Corp, Retail Value Inc, Senior Housing Properties Trust, Spirit Realty Capital, STORE Capital Corp, Taubman Centers Inc, UDR, Inc., Ventas Inc, Welltower Inc..

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from American Assets Trust Inc., American Homes 4 Rent, AvalonBay Communities Inc., Boston Properties, Inc., CBL & Associates Properties Inc, Columbia Property Trust Inc, Duke Realty Corp., EastGroup Properties Inc., Equity Residential, Essex Property Trust, Inc., Extra Space Storage Inc., HCP, Inc., Healthcare Realty Trust Inc., Healthcare Trust of America Inc, Highwoods Properties, Hudson Pacific Properties, Invitation Homes Inc, Kimco Realty Corp., Liberty Property Trust, National Retail Properties Inc, National Storage Affiliates Trust, New Senior Investment Group Inc, Office Properties Income Trust, Paramount Group Inc., Physicians Realty Trust, Prologis, Inc., Public Storage, Realty Income Corp, Regency Centers Corp, Retail Value Inc, Senior Housing Properties Trust, Simon Property Group Inc, Site Centers Corp, SL Green Realty Corporation, Spirit Realty Capital, STORE Capital Corp, Taubman Centers Inc, UDR, Inc., Urban Edge Properties, Ventas Inc, Vornado Realty Trust, Welltower Inc..

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from AvalonBay Communities Inc., Boston Properties, Inc., Duke Realty Corp., Equity Residential, HCP, Inc., Kimco Realty Corp., Macerich Co, National Retail Properties Inc, New Senior Investment Group Inc, Prologis, Inc., Public Storage, Senior Housing Properties Trust, Simon Property Group Inc, Site Centers Corp, SL Green Realty Corporation, Spirit Realty Capital, STORE Capital Corp, Taubman Centers Inc, UDR, Inc., Ventas Inc, Vornado Realty Trust, Welltower Inc..

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: American Assets Trust Inc., American Homes 4 Rent, AvalonBay Communities Inc., Boston Properties, Inc., CBL & Associates Properties Inc, Columbia Property Trust Inc, Duke Realty Corp., EastGroup Properties Inc., Equity Residential, Essex Property Trust, Inc., Extra Space Storage Inc., HCP, Inc., Healthcare Realty Trust Inc., Healthcare Trust of America Inc, Highwoods Properties, Hudson Pacific Properties, Invitation Homes Inc, Kimco Realty Corp., Liberty Property Trust, National Retail Properties Inc, National Storage Affiliates Trust, New Senior Investment Group Inc, Office Properties Income Trust, Paramount Group Inc., Physicians Realty Trust, Prologis, Inc., Public Storage, Realty Income Corp, Regency Centers Corp, Retail Value Inc, Senior Housing Properties Trust, Simon Property Group Inc, Site Centers Corp, SL Green Realty Corporation, Spirit Realty Capital, STORE Capital Corp, Taubman Centers Inc, UDR, Inc., Urban Edge Properties, Ventas Inc, Vornado Realty Trust, Welltower Inc..

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: AvalonBay Communities Inc., Boston Properties, Inc., Columbia Property Trust Inc, Duke Realty Corp., Equity Residential, HCP, Inc., Highwoods Properties, Invitation Homes Inc, Kimco Realty Corp., Macerich Co, National Retail Properties Inc, New Senior Investment Group Inc, Prologis, Inc., Public Storage, Realty Income Corp, Senior Housing Properties Trust, Simon Property Group Inc, Site Centers Corp, SL Green Realty Corporation, Spirit Realty Capital, STORE Capital Corp, Taubman Centers Inc, UDR, Inc., Ventas Inc, Vornado Realty Trust, Welltower Inc..

An employee, director or consultant of Morgan Stanley is a director of Boston Properties, Inc.. This person is not a research analyst or a member of a research analyst's household.

Morgan Stanley & Co. LLC makes a market in the securities of American Assets Trust Inc., American Homes 4 Rent, AvalonBay Communities Inc., Boston Properties, Inc., CBL & Associates Properties Inc, Columbia Property Trust Inc, Duke Realty Corp., EastGroup Properties Inc., Equity Residential, Extra Space Storage Inc., HCP, Inc., Healthcare Realty Trust Inc., Healthcare Trust of America Inc, Highwoods Properties, Hudson Pacific Properties, Kimco Realty Corp., Liberty Property Trust, Macerich Co, National Retail Properties Inc, National Storage Affiliates Trust, Office Properties Income Trust, Paramount Group Inc., Physicians Realty Trust, Prologis, Inc., Public Storage, Realty Income Corp, Regency Centers Corp, Senior Housing Properties Trust, Simon Property Group Inc, Site Centers Corp, SL Green Realty Corporation, Spirit Realty Capital, STORE Capital Corp, Taubman Centers Inc, UDR, Inc., Urban Edge Properties, Ventas Inc, Vornado Realty Trust, Welltower Inc..

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Global Stock Ratings Distribution

(as of June 30, 2019)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm. For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1110	36%	282	42%	25%	515	37%
Equal-weight/Hold	1404	45%	312	47%	22%	656	47%
Not-Rated/Hold	13	0%	2	0%	15%	2	0%
Underweight/Sell	581	19%	73	11%	13%	229	16%
TOTAL	3,108		669			1402	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

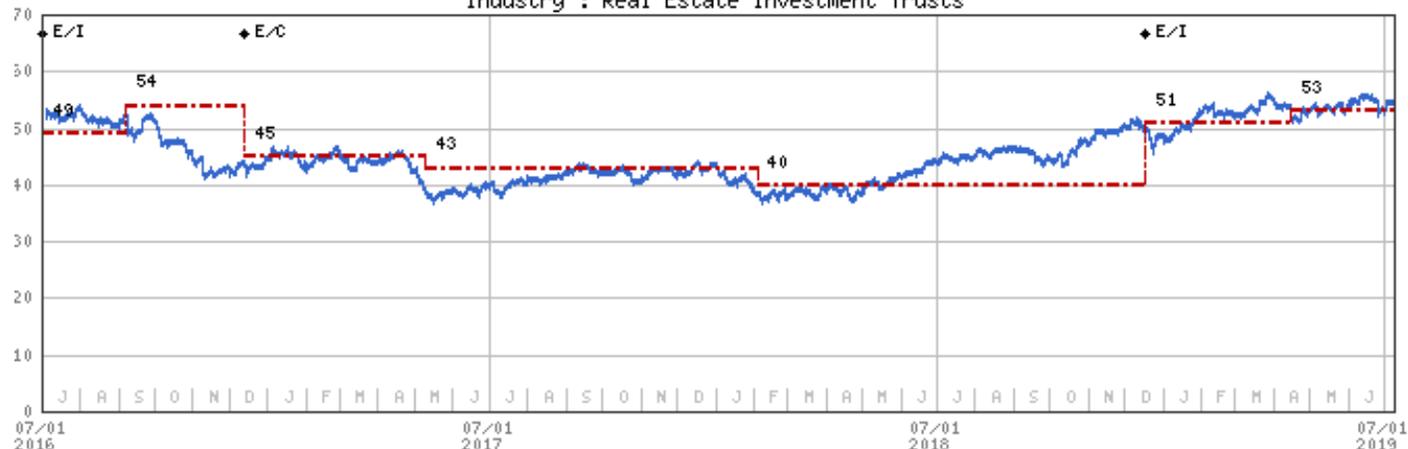
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)

National Retail Properties Inc (NNN.N) - As of 7/7/19 in USD
Industry : Real Estate Investment Trusts



Stock Rating History: 7/1/16 : E/I; 12/12/16 : E/C; 12/17/18 : E/I

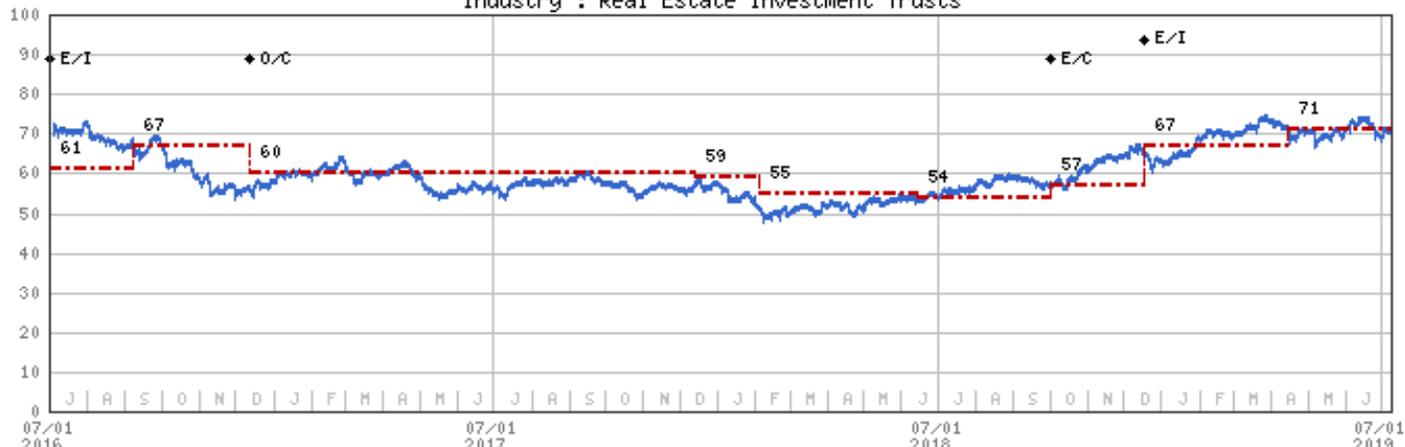
Price Target History: 5/16/16 : 49; 9/7/16 : 54; 12/12/16 : 45; 5/9/17 : 43; 2/4/18 : 40; 12/17/18 : 51; 4/15/19 : 53

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Realty Income Corp (O.N) - As of 7/7/19 in USD
Industry : Real Estate Investment Trusts



Stock Rating History: 7/1/16 : E/I; 12/12/16 : O/C; 10/1/18 : E/C; 12/17/18 : E/I

Price Target History: 5/16/16 : 61; 9/7/16 : 67; 12/12/16 : 60; 12/13/17 : 59; 2/4/18 : 55; 6/14/18 : 54; 10/1/18 : 57; 12/17/18 : 67; 4/15/19 : 71

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Spirit Realty Capital (SRC.N) - As of 7/7/19 in USD
Industry : Real Estate Investment Trusts



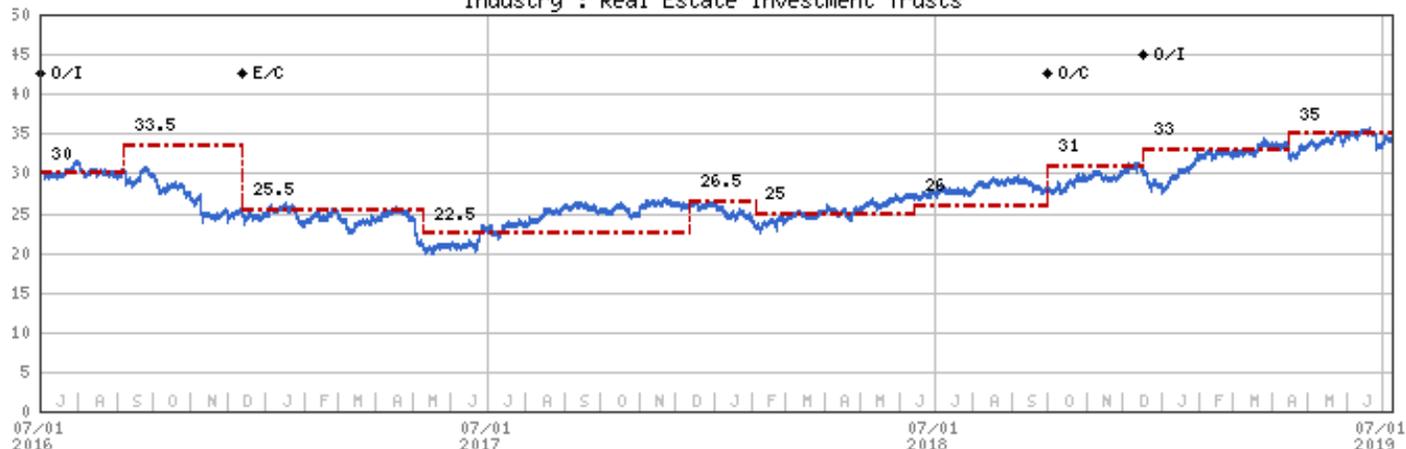
Stock Rating History: 7/1/16 : E/I; 9/7/16 : O/I; 12/12/16 : O/C; 5/9/17 : E/C; 12/17/18 : E/I

Price Target History: 5/16/16 : 55; 9/7/16 : 75; 12/12/16 : 57.5; 5/9/17 : 42; 12/13/17 : 43.75; 2/4/18 : 41.25; 6/13/18 : 42.5; 12/17/18 : 38.75; 4/15/19 : 41

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

STORE Capital Corp (STOR.N) - As of 7/7/19 in USD
Industry : Real Estate Investment Trusts

Stock Rating History: 7/1/16 : 0/I; 12/12/16 : E/C; 10/1/18 : 0/C; 12/17/18 : 0/I

Price Target History: 5/16/16 : 30; 9/7/16 : 33.5; 12/12/16 : 25.5; 5/9/17 : 22.5; 12/13/17 : 26.5; 2/4/18 : 25; 6/14/18 : 26; 10/1/18 : 31; 12/17/18 : 33; 4/15/19 : 35

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Real Estate Investment Trusts

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/08/2019)
Richard Hill		
American Assets Trust Inc. (AAT.N)	O (03/27/2018)	\$47.76
American Homes 4 Rent (AMH.N)	E (11/15/2018)	\$25.23
AvalonBay Communities Inc. (AVB.N)	E (12/10/2013)	\$210.11
CBL & Associates Properties Inc (CBL.N)	U (05/16/2016)	\$1.12
Equity Residential (EQR.N)	E (12/12/2016)	\$78.83
Essex Property Trust, Inc. (ESS.N)	O (05/18/2011)	\$303.94
Invitation Homes Inc (INVH.N)	O (12/13/2017)	\$27.61
Kimco Realty Corp. (KIM.N)	U (03/27/2018)	\$18.64
Macerich Co (MAC.N)	U (11/26/2018)	\$33.61
Regency Centers Corp (REG.O)	O (03/27/2018)	\$68.82
Retail Value Inc (RVI.N)	O (07/17/2018)	\$34.21
Simon Property Group Inc (SPG.N)	E (05/16/2016)	\$164.28
Site Centers Corp (SITC.N)	E (03/06/2017)	\$13.49
Taubman Centers Inc (TCO.N)	E (11/26/2018)	\$41.42
UDR, Inc. (UDR.N)	E (08/16/2017)	\$46.47
Urban Edge Properties (UE.N)	E (05/16/2016)	\$17.38
Ronald Kamdem, CFA		
Extra Space Storage Inc. (EXR.N)	E (08/01/2018)	\$109.42
National Storage Affiliates Trust (NSAN)	E (08/07/2018)	\$29.15
Public Storage (PSAN)	U (08/02/2018)	\$246.64
Vikram Malhotra		
Boston Properties, Inc. (BXP.N)	U (03/13/2019)	\$132.35
Columbia Property Trust Inc (CXP.N)	E (03/03/2016)	\$21.28
Duke Realty Corp. (DRE.N)	O (04/03/2014)	\$32.78
EastGroup Properties Inc. (EGP.N)	E (04/12/2017)	\$119.57
HCP, Inc. (HCP.N)	E (03/20/2017)	\$33.07
Healthcare Realty Trust Inc. (HR.N)	E (08/15/2018)	\$32.75
Healthcare Trust of America Inc (HTAN)	E (08/15/2018)	\$27.92
Highwoods Properties (HIW.N)	E (05/12/2016)	\$43.39
Hudson Pacific Properties (HPP.N)	O (12/04/2015)	\$34.42
Liberty Property Trust (LPT.N)	E (09/06/2016)	\$51.49
National Retail Properties Inc (NNN.N)	E (05/16/2016)	\$54.12
New Senior Investment Group Inc (SNR.N)	E (10/29/2018)	\$6.81
Office Properties Income Trust (OPI.O)	E (10/16/2018)	\$27.62
Paramount Group Inc. (PGRE.N)	E (03/13/2019)	\$14.20
Physicians Realty Trust (DOC.N)	E (07/24/2017)	\$17.62
Prologis, Inc. (PLD.N)	O (04/16/2013)	\$82.31
Realty Income Corp (O.N)	E (10/01/2018)	\$70.11
Senior Housing Properties Trust (SNH.O)		\$8.69
SL Green Realty Corporation (SLG.N)	U (03/13/2019)	\$80.96
Spirit Realty Capital (SRC.N)	E (05/09/2017)	\$44.38
STORE Capital Corp (STOR.N)	O (10/01/2018)	\$34.24
Ventas Inc (VTR.N)	E (03/27/2019)	\$70.10
Vornado Realty Trust (VNO.N)	O (10/10/2017)	\$65.66
Welltower Inc. (WELL.N)	O (03/20/2017)	\$85.26

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.