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Residential REIT Sector Comments

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Summary and Outlook

Residential REITs have had an outstanding year in 2014, trading up 22% on average during the first 8 months of 2014, compared to average gain of 12% for all REITs followed by **REITMonitor.net**. Residential REITs benefit from positive employment trends, as most new jobs are taken by the target age group for apartment dwellers, ages 24-35 year olds. Apartment shortage continues in many urban areas, leading to monthly rental rate increases of more than 5% during 2014. New supply of apartments may cause rental rate decline during 2015. Mergers during 2013 excited investors, including merger of **BRE Properties** with **Essex Property Trust**, as well as premium paid for **Colonial Properties Trust** on merger with **MAA**.

Yield Range

Yields for Residential REITs range from 2.7% for **Essex Property Trust** to 4.6% for **Home Properties**. Average yield for Residential REITs is 3.5%. Dividend growth for 2014 exceeded expectations, with notable increments including **Equity Residential** 25% increase, **Home Properties** 30% increase and **Post Properties** 21% increase. Continued profitability improvement for 2015 should drive additional dividend increases.

Capitalization Range

Market cap for Residential REITs totals \$96 billion, representing 13% of total market cap for all REITs followed by **REITMonitor.net**. Residential REITs report total capitalization (including market cap, as well as debt, preferred stock and non-trading equity) in a range of 19.6X-33.9X to annualized FFO. Lowest valuation is **Camden Property Trust** and highest is **Equity Residential**.

S&P 500 Index Residential REITs

Residential REITs included in the S&P 500 Index include **Equity Residential** (at market cap of \$25 billion and total cap/FFO at 33.9X, yielding 3.0%), **AvalonBay Communities** (market cap of \$20 billion, total cap/FFO 30.8X, yielding 3.0%), **Essex Property Trust** (market cap of \$12 billion, total cap/FFO 32.9X, yielding 2.7%), and **Apartment Investment and Management** (market cap of \$5 billion, total cap/FFO 33.3X, yielding 3.3%).

Residential REIT Rankings

All of our rankings for Residential REITs are BUYs at this time, with a BUY ranking representing potential for 25% stock price appreciation. The list of BUY rankings includes **Equity Residential**, **AvalonBay Communities**, **Essex Property Trust** and **Apartment Investment and Management**, as well as **Associated Estates Realty**, **Camden Property Trust**, **Home Properties**, **MAA**, and **Post Properties**. We have reclassified Manufactured Home REITs as Residential REITs, with ranking of BUY for **Sun Communities** and HOLD for **Equity LifeStyle Properties** and **UMH Properties**.

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