



Financial Commercial REIT Sector Comments

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Summary and Outlook

Financial Commercial REIT stock prices declined (7%) during the first 8 months of 2014, dramatically underperforming gain of 14% for Financial Mortgage REITs followed by **REITMonitor.net**. Lower volume of securitizations concerns investors, while spin-offs from several Financial Commercial REITs impacted stock market valuation of remaining stock, while providing incremental returns for shareholders on a combined stock basis. Volume of securitizations of CMBS decreased (20%) to less than \$30 billion during the first 5 months of 2014, according to Trepp, although the total volume of commercial lending transactions increased 26% year to date for 2014. Pending maturities of CMBS highlights the need for securitizations, with \$330 billion CMBS maturities before the end of 2017.

Yield Range

Dividend increases follow portfolio growth. Average yield for Financial Commercial REITs paying dividends is now 6.3%, with **Newcastle Investment** leading at 9.0% yield. Also offering attractive yields are **NorthStar Realty Finance** with yield of 8.6%, **RAIT Financial Trust** with yield of 8.5%, **Starwood Property Trust**, with yield of 8.1%, **Arbor Realty Trust** with yield of 7.5%, and **Blackstone Mortgage Trust** with yield of 6.6%. **Gramercy Property Trust** restored dividends, now yielding 2.3%, while **iStar Financial** has not yet restored dividend distributions.

Capitalization Range

Market cap for Financial Commercial REITs now totals \$13 billion, representing 2% of total market cap for all REITs followed by **REITMonitor.net**. Financial Commercial REITs report total capitalization (including market cap, as well as debt, preferred stock and non-trading equity) in a range of 28.2X-267.7X to annualized FFO. (We exclude from this calculation those Financial Commercial REITs reporting negative current EPS, including **iStar Financial**, **Gramercy Property Trust**, **NorthStar Realty Finance** and **RAIT Financial Trust**.) Lowest valuation among Financial Commercial REITs is **Newcastle Investment** and highest is **Starwood Property Trust**.

S&P 500 Index Financial Commercial REITs

At this time, there are no Financial Commercial REITs included in the S&P 500 Index. Previously the best known to investors among Financial Commercial REITs, **iStar Financial**, with a current market cap of \$1 billion, is once again profitable, but has not yet restored dividends on common stock. Largest market caps have been achieved by **NorthStar Realty Finance** at \$3 billion and **Starwood Property Trust** at \$5 billion.

Financial Commercial REIT Rankings

We upgraded several Financial Commercial REITs to BUY, reflecting dividend restoration and portfolio growth. We maintain BUY ranks on **Arbor Realty Trust**, **Blackstone Mortgage Trust**, **Gramercy Property Trust**, **Newcastle Investment**, **NorthStar Realty Finance**, **RAIT Financial Trust** and **Starwood Property Trust**. We maintain HOLD rank on **iStar Financial**, pending dividend restoration.

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