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Office REIT Sector Comments

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Summary and Outlook

Office REITs rallied up 16% during the first 8 months of 2014, outperforming average 12% gain for all REITs followed by **REITMonitor.net**. Investor concern continues over lagging rental rates. Additional concern focuses on shrinking demand for office space from financial industry tenants, as a result of new bank regulation, as well as a trend to lower space per employee as a result of technology change. Investors ponder the long term potential for cloud computing, likely to contribute to a shift to mobile Internet access and working from home, implying less demand for rented office space, particularly for small business and technology workers. Many Office REITs saw FFO contract during 2012 and 2013, while outlook for FFO growth for 2014 indicates less than 5% growth for most Office REITs.

Yield Range

Yields for Office REITs range from 1.8% for **SL Green Realty** to 6.3% for **Lexington Realty Trust**. Average yield for Office REITs is 3.7%. We expect stable dividends overall from Office REITs during 2014. Although a few Office REITs provided modest dividend increments, **Mack-Cali Realty** reduced dividend by (33%) during 2013 and a further (50%) during 2014, seeking to preserve capital for diversification away from office properties.

Capitalization Range

Market cap for Office REITs totals \$82 billion, representing 11% of total market cap for all REITs followed by **REITMonitor.net**. Office REITs report total capitalization (including market cap, as well as debt, preferred stock and non-trading equity) in a range of 17.4X-42.1X to annualized FFO. Lowest valuation is **Lexington Realty Trust** and highest is **Boston Properties**.

S&P 500 Index Office REITs

Office REITs included in the S&P 500 Index include **Boston Properties** (at market cap of \$19 billion and total cap/FFO at 42.1X, yielding 2.2%) and **Vornado Realty Trust** (with market cap of \$21 billion and total cap/FFO at 36.2X, yielding 2.8%).

Office REIT Rankings

Our BUY rankings on Office REITs include **Kilroy Realty** and **Brandywine Realty Trust**. Current HOLD rankings include **Cousins Properties**, **Corporate Office Properties Trust**, **First Potomac Realty Trust**, **Franklin Street Properties**, **Highwoods Properties**, **Lexington Realty Trust**, **Parkway Properties**, **Vornado Realty Trust**, **Washington REIT** and **Winthrop Realty Trust** (now liquidating). Current SELL rankings include **Boston Properties**, **Equity Commonwealth**, **Mack-Cali Realty** and **SL Green Realty**.

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