

US Real Estate

WeWork - Partner and Disruptor

Bottom Line: We attended a standing-room-only presentation by WeWork at its global HQ in New York, in which it presented to business leaders its momentous impact on real estate. The message, in our view, is that WeWork has created significant value, and is "open for business" with office owners for increased partnerships to share in this value creation – striving to have its cake and eat it too. We believe this relationship is currently symbiotic but increasingly poses a competitive threat to office owners.

Key Points

- **Tenant, Partner & Neighbor.** WeWork hosted NYC business leaders and urban planners to discuss its profound impact on real estate (and indirectly making the case for its asking \$35B valuation). Among compelling figures: 63% of NYC companies are small businesses and 20% of NYC entrepreneurs are WeWork members – making it uniquely positioned to connect them with landlords. WeWork also claims to have a significant positive impact on local retail and multifamily.
- **Value creation.** We believe the main point of WeWork's presentation is that it is "open for business" to partner with real estate developers and owners, with the intention of sharing in future upside. WeWork noted values on assets sold have increased 50-120% shortly after it moved in. We see this as the company striving to have its cake (high valuation, asset-light growth model) and eating it too (profit participation, more favorable debt terms) – a sensible move, if it can be achieved.
- **Real Estate Player.** The company has already made strides in real estate with the formation of WeWork Property Investors with JV partner Rhone Group, recently raising approximately \$400mm to invest in real estate it occupies. The JV made headlines by acquiring Lord & Taylor's flagship store at 424 Fifth Ave. for \$850mm, subleasing the bottom 150k sf back to the department store. This is the fifth largest transaction in NYC over the past 12 months – See Exhibit 3.
- **Co-working an operating model...** WeWork hosted a panel that included its landlords Boston Properties (BXP), Columbia Property (CXP) and Silverstein Properties. The panel was generally in agreement that co-working is an operating model that taps an under-served market - and the owners have no interest to enter this membership business. BXP's EVP John Powers could see co-working being 2-5% of the office market, but probably not 10% (not including enterprise leasing).
- **...but Enterprise leasing poses a threat.** However, enterprise leasing is a part of WeWork's business that landlords view as addressable competition. Silverstein offers Silver Suites – flexible, turnkey office space for growing companies; and CXP stated it may offer a similar concept in one of its Chelsea buildings. We believe landlords may need to offer more of this space to capture demand, which may alter the current risk/reward dynamic. Alternatively, they may invest in a WeWork competitor, as we suggested in [2018 REIT Predictions](#).
- **REIT exposure.** Despite its rapid growth and being a top 15 tenant in NYC, office REITs have relatively minor exposure to the company, with only BXP, CXP, and JBGS listing it as a top 20 tenant representing an average of 1.2% of annual rent. Notably, Vornado and Empire State Realty have no exposure to WeWork.

Please refer to pages 7 to 11 for Important Disclosures, including Analyst's Certification.

US Real Estate

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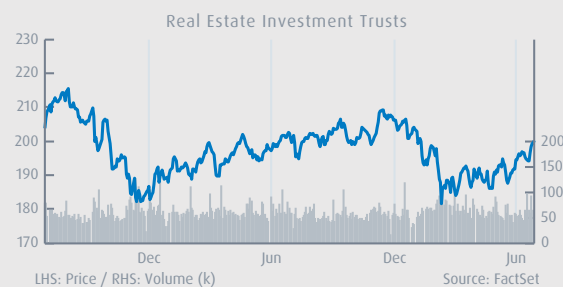
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BMO Top 15 List Member

Columbia Property Trust (CXP) U.S.
Small Cap Stock
Vornado Realty (VNO) Income Stock

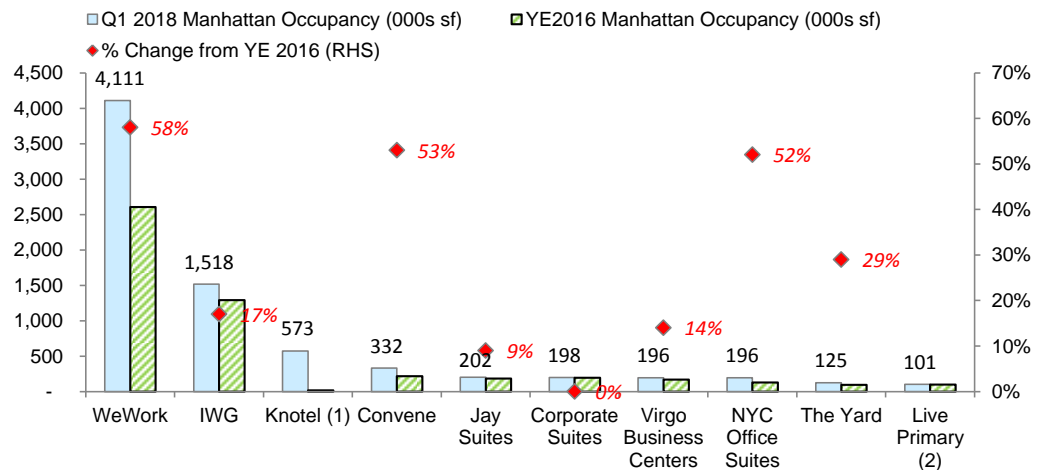
BMO Top
15 List

Please see pages 5-6 for our coverage universe.

WeWork – Partner and Disruptor

We attended a standing-room-only presentation by WeWork at its global HQ in New York, in which it presented its impact on real estate to the business and real estate communities. The message, in our view, is that WeWork has created significant value to real estate, and is "open for business" for increased partnerships to share in this value creation – striving to have its cake and eat it too. We believe this relationship is currently symbiotic but increasingly poses a competitive threat to office owners.

Exhibit 1: New York Flexible Space Leaders

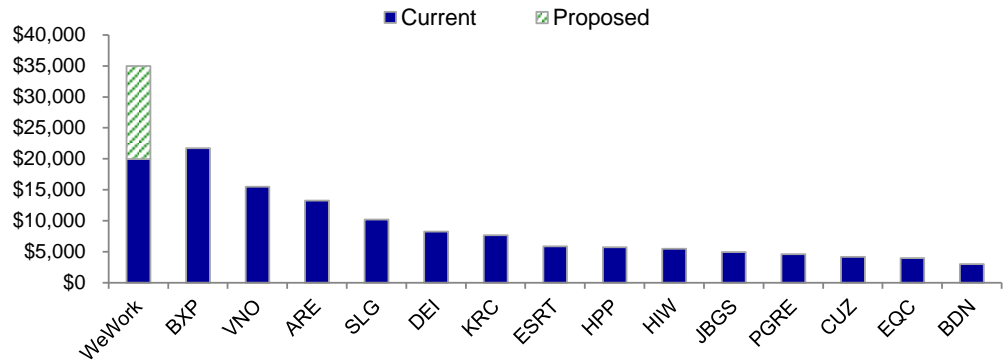


Source: CBRE Research, BMO Capital Markets. (1) Knotel % change of 3,271% (2) Live Primary % change of 304%

Tenant, Partner & Neighbor. We believe the most interesting statistics WeWork discussed in its presentation included the following (BMO commentary in parentheses):

- Real Estate Values.** WeWork believes there has been a 50 to 120% increase in asset sales prices in assets sold after it moved into the buildings. This analysis compares prices only of assets last sold within the past six years (We believe cap rate compression and fund flows also were major contributors to asset values, but WeWork has certainly helped in creating value by adding occupancy and leasing momentum). Examples cited include:
 - 85 Broad Street**, NYC, which sold for \$650mm in 2017 vs. \$350mm in 2014 (+86%)
 - Fine Arts Building**, LA, which sold for \$43mm in 2017 vs. \$28.5mm in 2012 (+51%)
 - Union Station**, Denver, which sold for \$154mm in 2017 vs. \$85mm in 2015 (+81%)
- Small Business Access.** 63% of companies in New York are small businesses; given WeWork has over 18k small business members, landlords to service this pool of tenants (This is a concept that BXP's EVP John Powers highlighted in his discussion of WeWork.) Additionally, WeWork has stated that 72% of WeWork companies survive at least three years, which is 12 years more than average.
- Neighborhood Benefits.** WeWork has had a positive impact on some of the local communities where it has located in NYC. For instance, 19% of new jobs in Long Island City in 2015-18 are located in a WeWork location, and the company has been a major driver of the 9% increase in occupancy in Crystal City. The company claims that its members are 38% more likely to live within 15 minutes of work, having a positive impact on retail and multifamily in the area.

Exhibit 2: WeWork Equity Valuation vs. Major Office REITs (\$ billions)



Source: BMO Capital Markets, Bloomberg.

Real Estate Player. The company has already made strides in real estate with the formation of WeWork Property Investors with JV partner Rhone Group, recently raising approximately \$400mm to invest in real estate it occupies. The JV made headlines by acquiring Lord & Taylor's flagship store at 424 Fifth Ave. for \$850mm, subleasing the bottom 150k sf back to the department store. This is the fifth largest transaction in NYC over the past 12 months. WeWork's \$4.4B investment (August 2017) from SoftBank's Vision Fund, gave the company its \$20B valuation, and ability to execute on a broader strategy, and the company is reportedly looking to raise additional capital at a \$35B valuation.

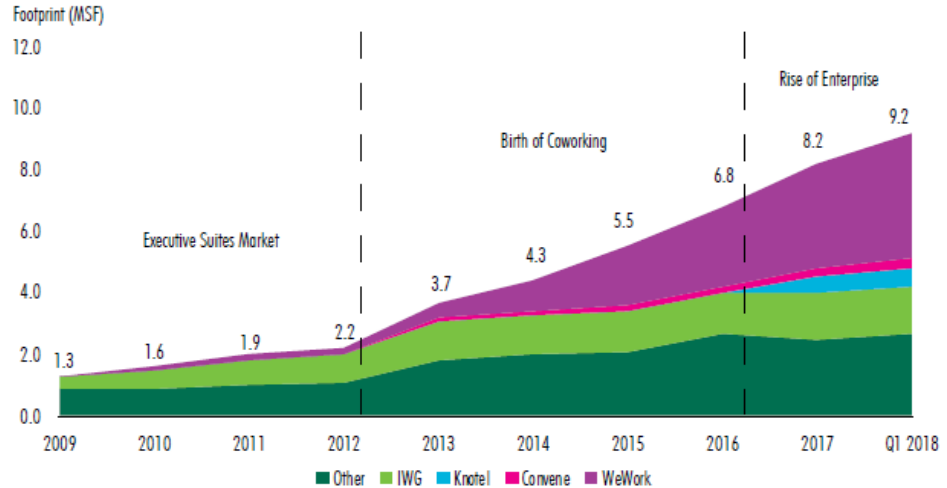
Exhibit 3: Largest New York Real Estate Transactions, Last 12 Months

Property Name	Price (\$m)	Buyer	Seller
Chelsea Market	\$ 2,398.8	Alphabet Inc.	Jamestown
Times Square Edition	1,147.5	Fortress, Maefield Development	Witkoff, Winthrop Realty Trust, Ian Schragar Co, Vector Group
Spring Creek Towers	905.1	Brooksville Company, Rockpoint Group	Disque Deane Estate, Donald Trump
666 Fifth Ave. (Office)	891.0	Brookfield AM	Vornado
Lord & Taylor	850.0	WeWork, Rhone Group	Ares Management
One Astor Plaza	838.5	Allianz RE of America	SL Green
Worldwide Plaza	840.1	SL Green, RXR Realty	NY REIT
One Liberty Plaza	742.4	Blackstone	Brookfield Prop Prtnrs
Saint Johns Center	700.0	Oxford Properties Group, CPP Investment Board	Westbrook Partners, Atlas Capital Group
5 Bryant Park	640.0	Savanna	Swig Company, Equity Office (Blackstone)

Source: Real Capital Analytics, interpreted by BMO Capital Markets.

Recent moves by WeWork have pushed the company into competitor territory. WeWork's fastest growing segment has been enterprise clients. In November 2016, Microsoft signed up 300 employees in NYC (70% of NYC sales team) and a 37-person Atlanta team for WeWork memberships. Enterprise clients generated \$250mm in revenue in 2017, good for 25% of the company's \$1B total revenue.

Exhibit 4: The Rising Office Footprint of Flexible Space



Source: CBRE Research.

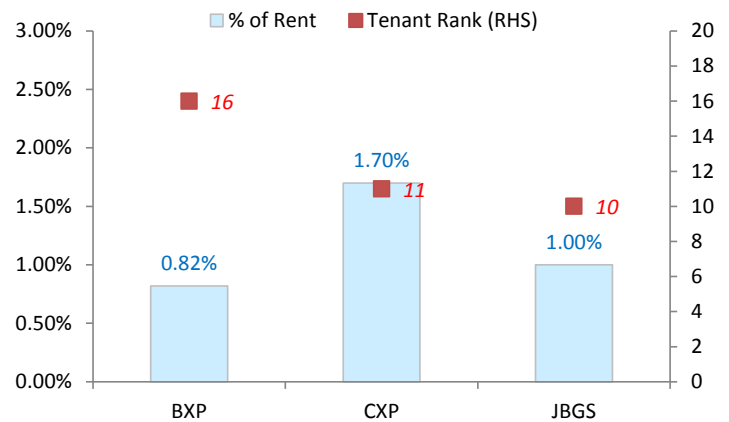
Enterprise leasing is a part of WeWork's business that landlords view as addressable competition. Silverstein offers Silver Suites – flexible, turnkey office space for growing companies; and CXP stated it may offer a similar concept in one of its Chelsea buildings. We believe landlords may need to offer more of this space to capture demand, which may alter the current risk/reward dynamic; or invest in a WeWork competitor, as we suggested in [2018 REIT Predictions](#).

Exhibit 5: BXP's Dock 72 in Brooklyn, 33% leased to WeWork



Source: BMO Capital Markets.

Exhibit 6: Office REIT exposure to WeWork



Source: BMO Capital Markets, company reports.

Despite its rapid growth and being a top 15 tenant in NYC, office REITs have relatively minor exposure to the company, with only BXP, CXP, and JBGS listing it as a top 20 tenant representing an average of 1.2% of annual rent. Notably, Vornado and Empire State Realty have no exposure to WeWork.

Coverage Universe

Company Name	Ticker	Analyst	Rating	Jun-26 Price	Target	Annual Div/Dist	Yield	Total Return	Mkt Cap. (mm)
US Real Estate									
Aimco	AIV	JK	Mkt	\$42.35	\$42.00	\$1.52	6.7%	5.9%	\$6,664
AvalonBay Communities	AVB	JK	Mkt	\$171.31	\$175.00	\$5.88	3.4%	5.6%	\$23,677
Boston Properties	BXP	JK	Mkt	\$124.57	\$130.00	\$3.20	2.6%	6.9%	\$19,229
Camden Property	CPT	JK	OP	\$91.75	\$92.00	\$3.08	3.4%	3.6%	\$8,512
CareTrust REIT	CTRE	JK	Mkt	\$17.01	\$15.00	\$0.82	4.8%	(7.0%)	\$1,295
Columbia Property Trust	CXP	JK	OP	\$22.59	\$25.00	\$0.80	3.5%	14.2%	\$2,679
Douglas Emmett	DEI	JK	Mkt	\$40.08	\$38.00	\$1.00	2.5%	(2.7%)	\$7,913
Empire State Realty Trust	ESRT	JK	OP	\$17.10	\$20.00	\$0.42	2.5%	19.4%	\$2,830
Equity Lifestyle Properties	ELS	JK	Mkt	\$91.31	\$94.00	\$2.20	2.4%	5.4%	\$8,103
Equity Residential	EQR	JK	Mkt	\$63.03	\$61.00	\$2.16	3.4%	0.2%	\$23,209
Essex Property	ESS	JK	OP	\$234.61	\$255.00	\$7.44	3.2%	11.9%	\$15,495
Franklin Street Properties	FSP	JK	Und	\$8.40	\$8.00	\$0.36	4.3%	(0.5%)	\$901
HCP	HCP	JK	Mkt	\$25.12	\$25.00	\$1.48	5.9%	5.4%	\$11,801
Healthcare Realty	HR	JK	Mkt	\$28.67	\$31.00	\$1.20	4.2%	12.3%	\$3,589
Healthcare Trust of America	HTA	JK	OP	\$26.64	\$31.00	\$1.22	4.6%	20.9%	\$5,466
Kilroy Realty	KRC	JK	OP	\$75.13	\$79.00	\$1.82	2.4%	7.6%	\$7,529
LTC Properties	LTC	JK	Und	\$42.85	\$39.00	\$2.28	5.3%	(3.7%)	\$1,698
MAA	MAA	JK	Mkt	\$100.05	\$97.00	\$3.69	3.7%	0.6%	\$11,385
National Health Investors	NHI	JK	Mkt	\$74.91	\$70.00	\$4.00	5.3%	(1.2%)	\$3,111
Physicians Realty Trust	DOC	JK	OP	\$16.02	\$18.00	\$0.92	5.7%	18.1%	\$2,916
SL Green Realty	SLG	JK	OP	\$100.16	\$115.00	\$3.25	3.2%	18.1%	\$8,856
Sun Communities	SUI	JK	OP	\$97.32	\$102.00	\$2.84	2.9%	7.7%	\$7,794
TIER REIT	TIER	JK	OP	\$23.98	\$23.00	\$0.72	3.0%	(1.1%)	\$1,149
UDR	UDR	JK	Mkt	\$37.27	\$38.00	\$1.29	3.5%	5.4%	\$16,818
Ventas	VTR	JK	Mkt	\$55.77	\$53.00	\$3.16	5.7%	0.7%	\$19,872
Vornado Realty	VNO	JK	OP	\$73.38	\$85.00	\$2.52	3.4%	19.3%	\$13,955
Welltower	WELL	JK	Mkt	\$59.44	\$55.00	\$3.48	5.9%	(1.6%)	\$22,111
US Real Estate									
Brixmor Property Group	BRX	RM	Mkt	\$17.94	\$16.50	\$1.10	6.1%	(1.9%)	\$5,433
CubeSmart	CUBE	RM	OP	\$32.61	\$32.00	\$1.20	3.7%	1.8%	\$5,944
DCT Industrial Trust	DCT	RM	Mkt	\$65.25	\$66.00	\$1.44	2.2%	3.4%	\$6,145
Duke Realty	DRE	RM	Mkt	\$28.95	\$28.00	\$0.80	2.8%	(0.5%)	\$10,435
Extra Space Storage	EXR	RM	Mkt	\$100.96	\$93.00	\$3.44	3.4%	(4.5%)	\$12,736
Federal Realty Investment	FRT	RM	OP	\$124.96	\$135.00	\$4.00	3.2%	11.2%	9,150
GGP	GGP	RM	Mkt	\$20.49	\$23.50	\$0.88	4.3%	19.0%	\$19,637
KIMCO Realty	KIM	RM	Mkt	\$17.45	\$16.00	\$1.12	6.4%	(1.9%)	\$7,414
Life Storage	LSI	RM	Mkt	\$97.28	\$87.00	\$4.00	4.1%	(6.5%)	\$4,533
Macerich	MAC	RM	OP	\$57.21	\$66.00	\$2.96	5.2%	20.5%	\$8,066

JK - John Kim - BMO Capital Markets Corp.

RM - R. Jeremy Metz - BMO Capital Markets Corp.

Stock Rating System: OP - Outperform; Mkt - Market Perform; Und - Underperform; R - Restricted; NR - Not Rated; (S) - Speculative.

Source: BMO Capital Markets.

Coverage Universe

Company Name	Ticker	Analyst	Rating	Jun-26 Price	Target	Annual Div/Dist	Yield	Total Return	Mkt Cap. (mm)
Monmouth RE Investment	MNR	RM	Mkt	\$16.17	\$18.00	\$0.68	4.2%	15.5%	\$1,281
National Storage Affiliates Trust	NSA	RM	Mkt	\$30.62	\$26.00	\$1.16	3.8%	(11.3%)	\$1,547
Prologis	PLD	RM	OP	\$64.02	\$70.00	\$1.92	3.0%	12.3%	\$34,138
Public Storage	PSA	RM	Und	\$229.00	\$194.00	\$8.00	3.5%	(11.8%)	\$39,898
Regency Centers	REG	RM	Mkt	\$62.38	\$62.00	\$2.22	3.6%	2.9%	\$10,568
Simon Property Group	SPG	RM	OP	\$172.40	\$175.00	\$7.55	4.4%	5.9%	\$61,465
Taubman Centers	TCO	RM	Mkt	\$60.02	\$62.00	\$2.62	4.4%	7.7%	\$3,661

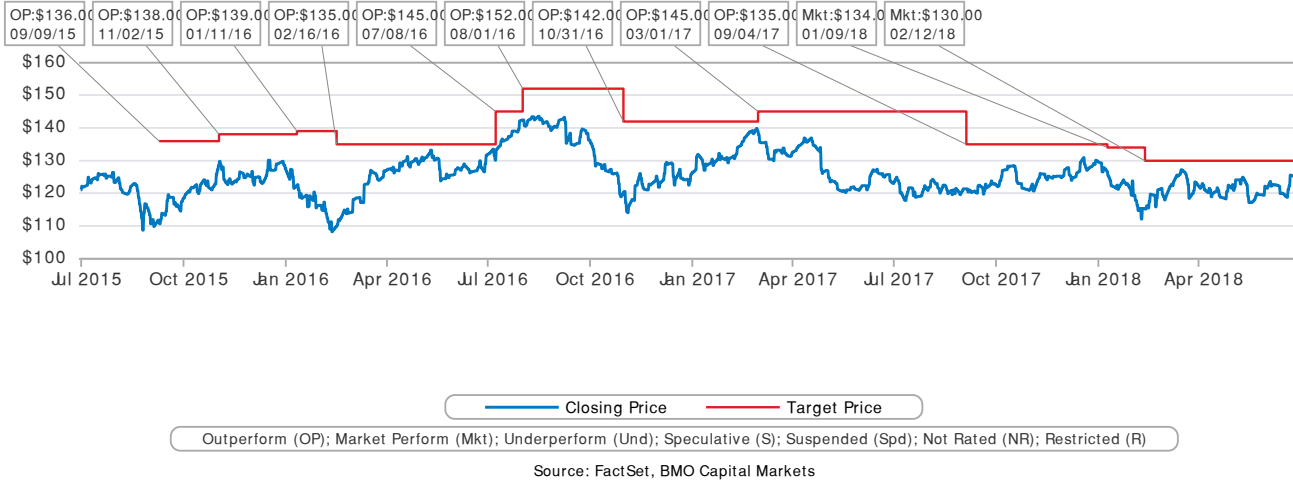
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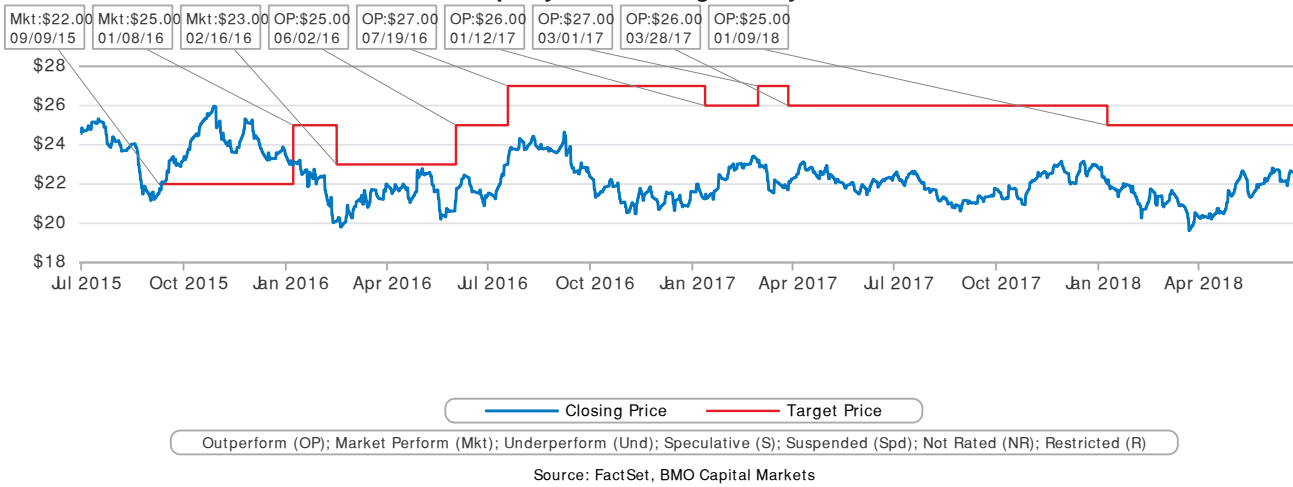
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Source: BMO Capital Markets.

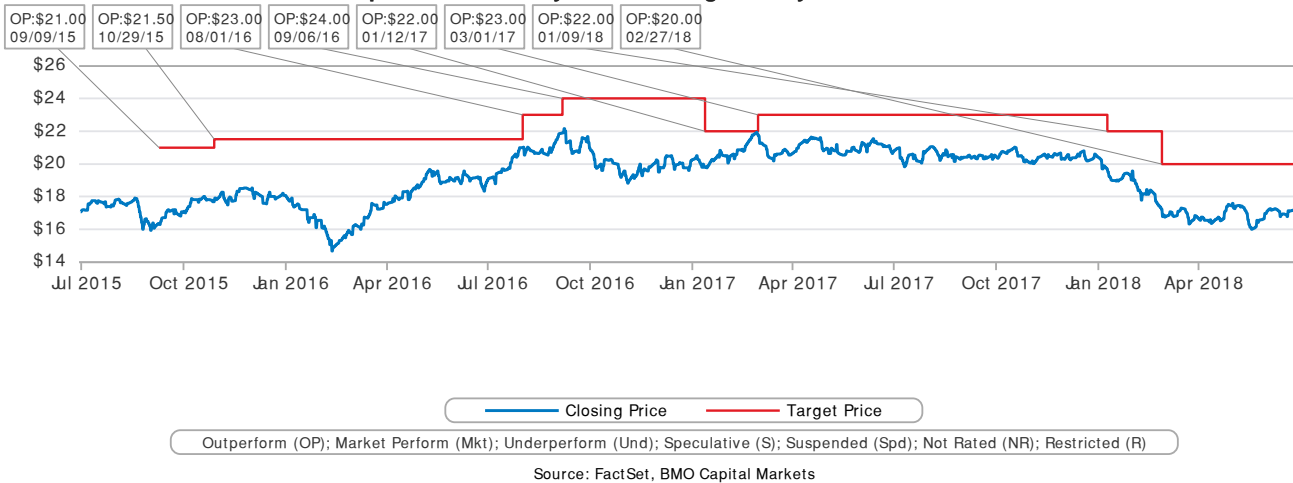
Boston Properties Rating History as of 06/26/2018



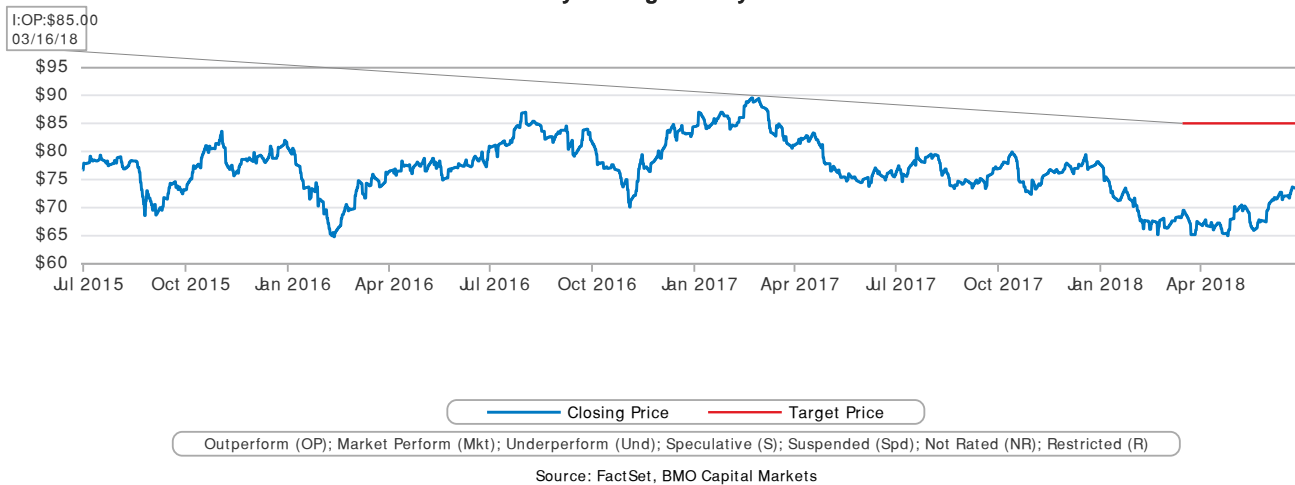
Columbia Property Trust Rating History as of 06/26/2018



Empire State Realty Trust Rating History as of 06/26/2018



Vornado Realty Rating History as of 06/26/2018



IMPORTANT DISCLOSURES

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Methodology: Our target price is based on a combination of our forward NAV and DCF (five-year FCFE), taking into account AFFO multiple relative to peers and ROIC relative to WACC.

Risks: Primary risks include rising interest rates and cost of capital, rising capitalization rates impacting valuations, a slowing economy leading to lower-than-expected job growth, and new competitive supply. BXP's major risks include development and construction risks, particularly as its large, complex developments may take a significant number of years from planning stages to completion.

Methodology and Risks to Target Price/Valuation for Columbia Property Trust (CXP-NYSE)

Methodology: Our target price is based on a combination of our forward NAV and DCF (five-year FCFE), taking into account AFFO multiple relative to peers and ROIC relative to WACC.

Risks: Primary risks include rising interest rates and cost of capital, rising capitalization rates impacting valuations, a slowing economy leading to lower-than-expected job growth, and new competitive supply. CXP's major risks include rising tenant concessions and concentration risk with potentially downsizing tenants (Credit Suisse and Westinghouse).

Methodology and Risks to Target Price/Valuation for Empire State Realty Trust (ESRT-NYSE)

Methodology: Our target price is based on a combination of our forward NAV and DCF (five-year FCFE), taking into account AFFO multiple relative to peers and ROIC relative to WACC.

Risks: Primary risks include rising capitalization rates impacting valuations, a slowing economy leading to lower-than-expected job growth, and new competitive supply. ESRT's major risks include leasing risks on its redevelopments, while its Observatory has risks from both volatility in New York tourism, and two new Midtown observatories that are being developed, at One Vanderbilt and Hudson Yards.

Methodology and Risks to Target Price/Valuation for Vornado Realty (VNO-NYSE)

Methodology: Our target price is based on a combination of our NAV and DCF (five-year FCFE), while taking into account the company's AFFO multiple relative to peers.

Risks: Primary risks include rising interest rates and cost of capital, rising capitalization rates impacting valuations, a slowing economy leading to lower-than-expected job growth, and new competitive supply. VNO also faces execution risks on its development and concentration risk in the New York City market.

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Hold	Market Perform	48.5%	16.1%	42.7%	46.9%	41.9%	39.7%
Sell	Underperform	2.3%	15.4%	1.9%	2.3%	1.2%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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