

## US Office REITs

### Big Apple Monitor: NYC uncertainty increases

#### Equities

Americas  
Real Estate

#### UK referendum result is creating nervousness in the leasing market

We provide an update on the NYC Office market based on our conversations with third-party leasing brokers and executives at BXP, PGRE, SLG and VNO this week. While leasing sentiment had already cooled earlier in the year, the UK referendum has created an added level of angst. Concerns are increasing about a weaker global financial sector and decreased business spending affecting future NYC office leasing demand. In fact, most landlords and brokers we spoke with are no longer willing to predict positive rent growth for NYC. While there is speculation that the NYC direct property market may eventually benefit from increased capital inflows (at the expense of London), we expect the stock market to take a different view with respect to the valuation of Offices REITs in the near term as the sector carries more economic risk within REITs; we downgraded SL Green (SLG) to Neutral from Buy today.

#### What's the latest news on NYC office fundamentals?

CBRE stats show negative absorption of 1.9m sf ytd through May in Midtown (w/ availability ticking up to 11.6%). Signs of greater weakness in the market may not be felt until September/October (after the slower summer leasing period). While REITs point to good leasing activity in their pipelines, there is growing talk from brokers about landlords likely becoming more competitive on concession packages (T/LC/free rent) before actually cutting face rents. The trend of tenants favouring renewals over moving to new space probably increases. Worries about increased sublease space seem less prevalent, absent another larger round of Wall Street layoffs.

#### New Supply – will it be a problem?

Our proprietary analysis calculates 14.9m sf of new/redeveloped office space being delivered in 2015-19, with this pipeline 52% pre-leased/pending today (leaving 7m sf left to lease). The bearish take on the supply, as one tenant rep broker told us: "Time is on the side of tenants for the next couple years, and there has to be downward pressure on pricing."

#### Top pick in NYC CBD Office is BXP

We favour BXP's blue-chip, lower leverage balance sheet later in the cycle (along with additional diversified market exposure to SF, Washington DC and Boston).

**Nick Yulico, CFA**

Analyst

[nick.yulico@ubs.com](mailto:nick.yulico@ubs.com)

+1-212-713 3402

**Frank Lee, CFA**

Analyst

[frank-a.lee@ubs.com](mailto:frank-a.lee@ubs.com)

+1-415-352 5679

## Big Apple Monitor

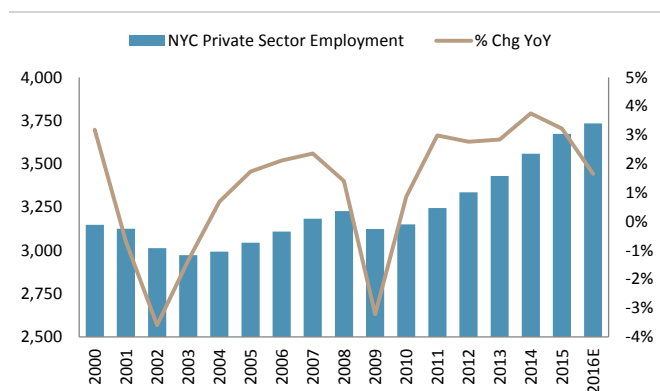
We provide an update on the latest leasing trends affecting the NYC office portfolios of Boston Properties (BXP-Buy), Empire State Realty (ESRT-Not Rated), Paramount (PGRE-Neutral), SL Green (SLG-Neutral) and Vornado Realty (VNO-Neutral).

**More cautiousness from REITs, leasing brokers.** While leasing sentiment had already cooled earlier in the year, the UK referendum has created an added level of angst. Concerns are increasing about a weaker global financial sector and decreased business spending affecting future NYC office leasing demand. In fact, most landlords and brokers we spoke with are no longer willing to predict positive rent growth for NYC. **Broker contacts we spoke with at CBRE and JLL sounded more bearish this week:**

- o One broker pointed to bank layoffs and bad economic news as being a harbinger of a tougher NYC office leasing market. "September and October could see a jolt, but it won't be horrible for NYC," he said. If bank layoffs became more meaningful, the NYC market could see a bigger impact. He pointed out that in 2008, rents headed back to 2003 levels. Today, maybe they return back to 2011 levels. That would equate to rents falling ~15%.
- o Another broker, who works entirely on the tenant rep side, said the market slowing down will manifest first in landlords become more aggressive with TILC/free rent, while trying to preserve face rents as long as possible. Since many tenants use GAAP reporting, such packages can be attractive since tenant improvement allowances can be amortized over the life of the lease, reducing the straight-line rent expense on the tenant's income statement.
- o This broker also pointed to tenants likely renewing more in place and thinks landlords will become more amenable to 2-year lease extensions. He's pushing for these today, since he thinks overall demand is falling and the supply impact for Manhattan will become more meaningful in 2018. "Time is on the side of tenants for the next couple years, and there has to be downward pressure on pricing," he said.

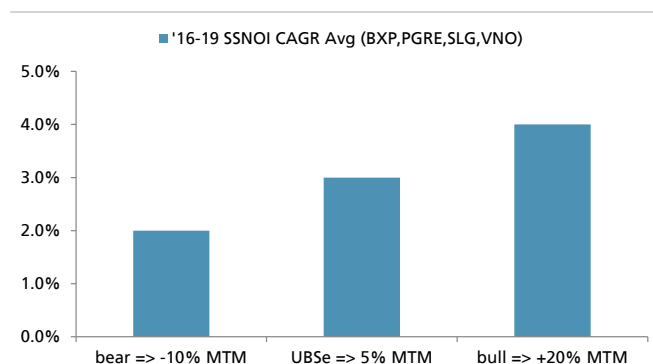
*For more details on our conversations with SLG, BXP, PGRE and VNO, please see inside our note today.*

**Figure 1: NYC Private Sector Employment**



Source: BLS, NYC Office of Management and Budget

**Figure 2: MTM on leases – impact to REITs' NYC office portfolios**



Source: Company reports, UBS Investment Research

### **SL Green (SLG-Neutral) - Steve Durels, Exec VP and Director of Leasing**

- Post UK referendum, it doesn't feel like there is an immediate sense of whether this is a positive or negative for New York City. On the positive side, people are talking about whether it drives up capital flows and values. On the negative side, will a slowing world economy affect NYC tenant demand?
- SLG highlighted 1.5m sf of pending office leases (which if the majority are closed would put them above their 2016 target). SLG's overall 2Q leasing volume should moderate vs. 1Q, but 3Q is set to be a big quarter based on timing of closings; with the mark-to-market on rents expected to remain healthy. Recent tenant is in sectors such as TAMI, financial services, legal and healthcare.
- Activity on higher-priced floors at Tower 46 and 10 E. 53<sup>rd</sup> remains strong. At Tower 46, there are 5 floors under lease negotiations with a law firm and media firm, both of which have an expansion component. Rents are in the \$85 to low \$100's range. At 10 E. 53<sup>rd</sup>, there are 9 leases under negotiation, with rents there ranging from \$70 to \$115.
- SLG is not seeing any push back on rents. Rents have held and landlords are cautiously optimistic. Downtown is slower while Midtown is still seeing good demand. Leasing velocity is still pretty strong, but not as good as last year.

### **Boston Properties (BXP-Buy) - John Powers, Senior VP, Regional NY Manager**

- With more uncertainty in leasing demand and new supply hitting, there will not be much rent growth in the next few years.
- High-end market has slowed, and he is seeing little activity there. The remaining 90% of the market is unaffected. High-end financial companies are more cautious due to prior-year hedge fund returns and slide in equity markets in the beginning of the year. These are smaller tenants that are willing to pay higher rents in buildings such as 510 Madison, 250 W. 55<sup>th</sup> St, GM Building, 425 Park, and top of 601 Lex and 399 Park.
- The market is moving to more lease-expiration-driven demand, and firms are not really expanding. Leasing velocity will likely be down this year vs prior year. As a case in point, BXP is talking to one tenant today with 50k sf looking to add 25ksf. But there are not a lot of 10k sf users looking for an additional 5k sf. However, he is not seeing sublease space hitting as tenants look to contract.
- 510 Madison: Point 72 has ~55k sf (including basement) that expires in 2022. The space is at the bottom of the building. Recent press articles mentioned the firm moving to new supply at 55 Hudson Yards (and consolidating its offices at 510 Madison and Vornado's 330 Madison).
- 250 W. 55<sup>th</sup> Street: Al Jazeera has 50ksf on 2<sup>nd</sup> floor and 1 floor in the tower, as well as the retail space (12k sf). BXP is not worried about the lower floor. They already have something pending on it.
- GM Building: Estee Lauder has ~275k sf expiring in March 31, 2020. Estee Lauder will probably explore the market in September 2016. Still no update on re-leasing the FAO Schwartz space, other than that BXP remains confident in getting a strong mark-to-market on rents.

- 601 Lexington: 2 parts – 1) In the tower portion, there are 3 small pieces of space. 2) BXP is working on redeveloping the base portion of the building and will look at opening that space to the market in Fall 2016. BXP let Citadel go because they didn't have space for them at 601 Lexington.
- 399 Park: There is not too much activity on the top 2 floors (2 tenants interested, 1 of them is serious). BXP is seeing some action on the lower and middle portions. Lower base asking rents are sub \$100psf, lower of the middle portion starting to crack \$100psf, and top floors >\$125psf. Availabilities include: Floors 2, 3 (200k sf), 7<sup>th</sup> (75k sf), 12<sup>th</sup> (60k sf). Various floors between 14-26<sup>th</sup> equate to ~200k sf. Tenants that are looking are mainly financial services and some consulting.

#### **Paramount Group (PGRE-Neutral) - Ted Koltis, Exec VP of Leasing**

- PGRE is still seeing good activity. The NYC market is "not unhealthy, but it's not robust." The tenant types looking at PGRE space are mainly financial services, media tenants, and some accounting/consulting firms.
- The majority of the tenants looking are 12-18 months out from expirations.
- PGRE is hearing some landlords are being more generous with concessions and tenants are getting more aggressive in negotiating asking rents.
- For rents to rise, PGRE believes we need availability to dip into the single-digits and more companies out there looking for expansion space.
- Sublease space is not a concern yet and remains low at under 2% of stock in Midtown.
- PGRE expects some leasing announcement over the next few months at 1301 AoA/1633 Broadway.
- PGRE views 390 Madison and 1271 AoA as competitors for its space. Also 1221 AoA and 1671 Broadway.

#### **Vornado Realty Trust (VNO-Neutral) - David Greenbaum, President of NY Division**

- NYC leasing activity remains resilient with pricing relatively firm. Tenants are favoring renewals over relocations and/or new deals. There are fewer larger deals for new commitments. Mr. Greenbaum echoed other execs in saying sublease space probably won't become meaningful in the market; he was also understandably reluctant to forecast whether NYC office rents might still grow in the post UK-referendum world.
- If job growth stays in the +1.5%-2.0%, VNO thinks NYC demand will be good enough relative to supply.
- VNO's 2Q leasing activity remains robust. Long Island City leases will bring rent number down, but core Manhattan leases still at mid-\$70s to low-\$80s psf.
- In 2Q, VNO signed leases at >\$100 psf at 280 and 350 Park. In total, 8 buildings achieved >\$100 psf rents.
- Banks already meaningfully downsized in the last financial crisis, with bulge bracket banks now accounting for 32m sf vs 45m sf in 2007

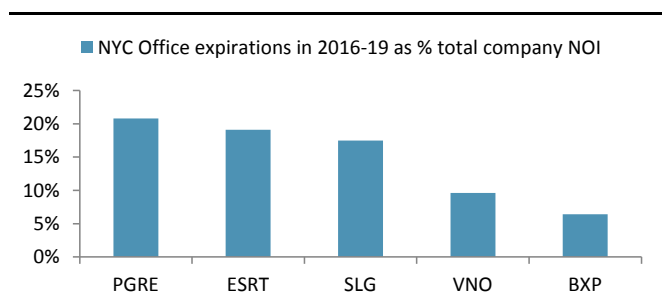
- 85 Tenth Avenue: VNO is trying to take space from GSA to give to Google.
- One Park Avenue: VNO has 3 floors for 93k sf available. One potential tenant is looking at the entire space and 2 others looking at just over one floor.
- 90 Park Avenue: 50-60k sf left at the top of the building (3.5 floors). PWC took down the base. VNO is asking for mid-\$80s to mid-\$90s rent for this space.
- 280 Park: VNO is seeing good activity for the 150k sf it has available in both the East and West towers in the building its own with SL Green.
- 888 Seventh Avenue: 2 of the remaining 5 floors from Soros are available (60k sf). VNO will split up the floors and is aiming for low \$100psf rents. Some space on the base of the building will come up soon.

## CBD Office REITs – stacking their Big Apple exposures

Today, we provide an update on our analysis of the NYC office exposures of the CBD Office REITs:

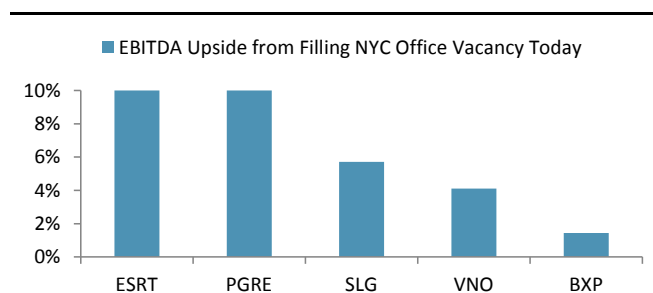
- We measured cumulative 2016-2019 office leasing expirations for the companies' NYC office segments and applied the geographic mixes to determine relative exposures to the NYC office market.
- **PGRE has the largest NYC rollover exposure in coming years**, we estimate, with 21% of its total company NOI expiring in NYC during the 2016-2019 period. ESRT is next at 19%, with SLG at 17%, VNO at 10% and BXP at 6%.
- While **VNO has a compelling opportunity** to capture increased rents in the Penn Plaza area (25% of the VNO's NYC office pool), we continue to view this as a longer-term impact for the stock. Further redevelopment of the pedestrian plaza outside would be an incremental positive if VNO can navigate through NYC politics.

**Figure 3: PGRE, ESRT, SLG have similar rollover exposure**



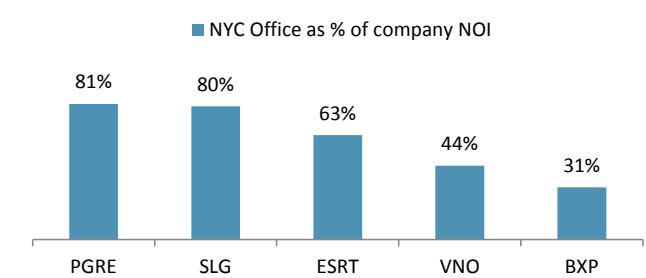
Source: UBS Investment Research estimates

**Figure 4: ESRT and PGRE has most upside from leasing vacant space**



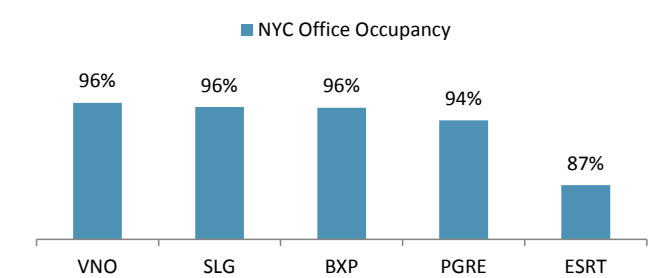
Source: UBS Investment Research estimates

**Figure 5: PGRE and SLG has largest exposure to NYC Office**



Source: UBS Investment Research estimates; ESRT excludes observatory NOI

**Figure 6: NYC Occupancy has minimal room to grow**



Source: UBS Investment Research estimates, company data

**Figure 7: UBS – CBD Office REIT Comps**

		Rating	Target Price	Price 30-Jun	FFO Multiple		AFFO Multiple		Implied Cap Rate	Prem/(Disc) to NAV		Div Yld	Market Cap (\$000)	AFFO Y/Y	
					'16E	'17E	'16E	'17E		Current	Forward			2016E	2017E
BXP	Boston Properties	Buy	\$142.00	\$131.90	22.4x	20.9x	31.0x	27.7x	4.73%	-2.9%	-5.7%	2.0%	\$22,697	27.3%	12.1%
ESRT	Empire State Realty Trust	Not Rated	-	\$18.99	18.9x	17.4x	23.5x	21.3x	-	-	-	2.2%	\$7,809	9.1%	10.5%
PGRE	Paramount Group	Neutral	\$17.50	\$15.94	20.0x	18.8x	81.3x	31.9x	4.96%	1.4%	-17.6%	2.4%	\$4,206	-29.1%	154.5%
SLG	SL Green Realty	Neutral	\$107.00	\$106.47	12.9x	16.0x	25.0x	25.4x	5.15%	-8.9%	-10.8%	2.7%	\$11,526	47.2%	-1.3%
VNO	Vornado Realty	Neutral	\$100.00	\$100.12	19.8x	17.9x	37.0x	29.6x	4.90%	-4.8%	-8.1%	2.5%	\$20,049	9.3%	25.2%
<b>NYC Office REIT Wtd. Average</b>					<b>19.4x</b>	<b>18.6x</b>	<b>34.1x</b>	<b>27.4x</b>	<b>4.88%</b>	<b>-4.4%</b>	<b>-8.4%</b>	<b>2.3%</b>		<b>19.6%</b>	<b>22.6%</b>
DEI	Douglas Emmett	Neutral	\$32.00	\$35.52	20.0x	18.9x	25.1x	23.9x	4.37%	9.4%	10.5%	2.5%	\$6,310	12.7%	4.8%
HPP	Hudson Pacific	Buy	\$35.00	\$29.18	16.9x	15.1x	50.5x	32.6x	6.13%	-17.4%	-21.0%	2.7%	\$4,257	-24.4%	54.7%
KRC	Kilroy Realty	Buy	\$72.00	\$66.29	19.4x	18.3x	28.1x	25.6x	6.15%	-18.4%	-17.5%	2.3%	\$6,322	21.4%	9.7%
<b>Total REIT Industry (all sectors) Wtd. Average</b>					<b>19.5x</b>	<b>18.1x</b>	<b>23.3x</b>	<b>21.0x</b>	<b>5.10%</b>	<b>9.6%</b>	<b>9.0%</b>	<b>3.5%</b>		<b>6.8%</b>	<b>9.3%</b>

Source: UBS Investment Research, FactSet, FactSet consensus estimates for ESRT (not rated)

### Manhattan Office – supply pipeline – does it ruin the party?

According to our proprietary analysis, there is 14.9 million square feet of new office space that either recently delivered in 2015 or will be completed between 2016-2019 in Manhattan. The bulk of this is on the West Side (Related's Hudson Yards and Brookfield's Manhattan West) and Downtown (Three World Trade Center). From utilizing press and brokerage reports, we calculate that nearly 52% of this 14.9 million sf is leased/pending today by tenants, leaving 7.2 million square feet of office space remaining to lease. Several signings in late 2015 boosted this stat: Boston Consulting Group leased ~200k sf at 10 Hudson Yards and Wells Fargo is buying 500k sf at 30 Hudson Yards. Point 72 recently signed a LOI for 175k sf at 55 Hudson Yards.

**Figure 8: Manhattan Office – new supply delivering 2015-2019**

Building	Status	Year Complete	NRA (sf)	Pre-leased/ Pending (%)
7 Bryant Park	Delivered	2015	473,000	76%
860 Washington St	Delivered	2015	114,000	19%
430 W. 15th Street	Delivered	2015	99,000	100%
125 W. 25th Street	Delivered	2015	138,000	30%
One SoHo Square	Delivered	2015	700,000	17%
75 Rockefeller Plaza	Delivered	2015	623,000	59%
10 Hudson Yards	Under Construction	2016	1,800,000	95%
855 Avenue of the Americas	Under Construction	2016	122,000	100%
390 Madison Avenue	Renovation	2016	858,000	
510 W. 22nd Street	Under Construction	2017	163,000	
61 Ninth Avenue	Under Construction	2017	158,000	
Pier 57	Renovation	2017	300,000	83%
540 W. 26th Street	Under Construction	2017	163,000	52%
55 Hudson Yards	Under Construction	2018	1,300,000	37%
Three World Trade Center	Under Construction	2018	2,500,000	27%
425 Park Avenue	Renovation	2018	650,000	31%
1 Manhattan West	Under Construction	2019	2,100,000	25%
<u>30 Hudson Yards</u>	<u>Under Construction</u>	<u>2019</u>	<u>2,600,000</u>	<u>100%</u>
<b>Total</b>			<b>14,861,000</b>	<b>52%</b>

Source: Jones Lang LaSalle, UBS Investment Research

We don't view the new supply as creating a bearish overall NYC office market; instead it likely creates a situation of winners and losers. Large blocks of commodity space (e.g. buildings with lower ceiling heights), such as numerous buildings on Sixth Avenue in Midtown could be losers over time, as tenants flock to the new supply. This concern is one reason why we are Neutral on Paramount Group (the risk we see is that it has larger blocks of space expiring on Broadway and Sixth Avenue in Midtown, some of which feels more commodity-like to us).

However, PGRE has done a good job leasing up expirations in NYC in the past year since the IPO. PGRE has whittled down its major 2016 expirations in NYC to 550K sf remaining today, down from 1.1m sf in 2Q15.

**Figure 9: Paramount Group's major NYC lease expirations in 2016**

Building	Tenant	expiration	sf	rent per sf	current ann. Rent
1633 Broadway	Deloitte	1Q16	212,052	\$79	\$16,735,000
1301 Avenue of Americas	CommerzBank	2Q16	142,823	\$84	\$12,055,689
1325 Avenue of Americas	ING Financial	4Q16	168,917	\$59	\$9,889,560
1325 Avenue of Americas	Crown Media	2Q16	24,278	\$98	\$2,381,450
<b>Total</b>			<b>548,070</b>		<b>\$41,061,699</b>

Source: Company reports

## 2016 YTD office leasing stats

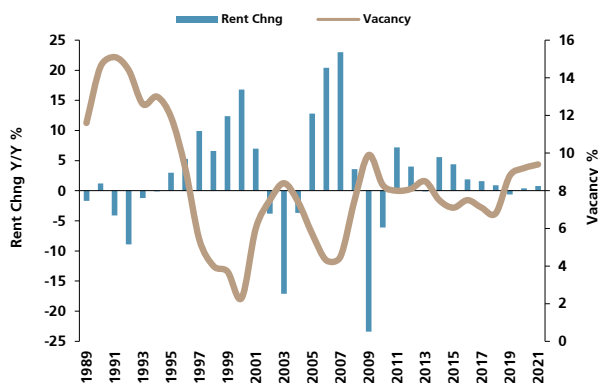
Broker report data shows negative net absorption so far for NYC in 2016 with the current availability rate of 11.6% in Midtown up 80bps from year-end 2015, according to CBRE. Ytd through May, Manhattan posted negative net absorption of 2.4m sf (with Midtown at negative 1.9m sf). Skewing the '16 stats are large blocks of space that entered as vacancy in 2016, including 390 Madison, emptied for a redevelopment.

**Figure 10: Manhattan Office Leasing Stats**

Midtown	1Q15	2Q15	3Q15	4Q15	2015 Total	1Q16	Apr-16	May-16	2016 YTD	2015 YTD
Leasing Activity	4.53 MSF	5.50 MSF	3.64 MSF	4.16 MSF	17.83 MSF	3.19 MSF	1.54 MSF	0.96 MSF	5.69 MSF	8.70 MSF
Absorption	-1.85 MSF	1.04 MSF	0.64 MSF	-0.56 MSF	-0.73 MSF	-1.68 MSF	(0.06) MSF	(0.11) MSF	-1.85 MSF	-0.79 MSF
Availability Rate	11.20%	10.80%	10.50%	10.80%		11.60%	11.60%	11.60%		
Vacancy Rate	7.20%	6.90%	6.90%	7.10%		7.40%	7.50%	7.40%		
Average Asking Rent	\$76.15 PSF	\$77.75 PSF	\$77.89 PSF	\$79.91 PSF		\$81.16 PSF	\$81.52 PSF	\$81.18 PSF		
Taking Rent Index	92.80%	93.80%	96.10%	94.20%		94.50%	95.10%	94.90%		
Midtown South	1Q15	2Q15	3Q15	4Q15	2015 Total	1Q16	Apr-16	May-16	2016 YTD	2015 YTD
Leasing Activity	1.39 MSF	1.66 MSF	1.48 MSF	1.15 MSF	5.68 MSF	1.46 MSF	0.26 MSF	N/A	1.72 MSF	2.34 MSF
Absorption	-0.18 MSF	0.38 MSF	0.21 MSF	0.38 MSF	0.79 MSF	-0.39 MSF	(0.28) MSF	N/A	-0.67 MSF	-0.05 MSF
Availability Rate	8.80%	8.20%	7.90%	7.40%		8.10%	8.50%	N/A		
Vacancy Rate	5.50%	5.00%	5.00%	4.90%		5.00%	5.10%	N/A		
Average Asking Rent	\$66.61 PSF	\$70.09 PSF	\$70.59 PSF	\$70.55 PSF		\$68.73 PSF	\$68.98 PSF	N/A		
Taking Rent Index	95.10%	97.20%	99.10%	101.00%		97.00%	97.70%	N/A		
Downtown	1Q15	2Q15	3Q15	4Q15	2015 Total	1Q16	Apr-16	May-16	2016 YTD	2015 YTD
Leasing Activity	1.15 MSF	0.86 MSF	1.38 MSF	1.21 MSF	4.60 MSF	0.96 MSF	0.24 MSF	0.22 MSF	1.42 MSF	1.62 MSF
Absorption	-1.51 MSF	0.50 MSF	0.15 MSF	-0.03 MSF	-0.89 MSF	0.44 MSF	(0.08) MSF	(0.19) MSF	0.17 MSF	-1.20 MSF
Availability Rate	12.60%	12.00%	11.90%	11.90%		11.70%	11.80%	12.00%		
Vacancy Rate	9.30%	9.40%	9.10%	9.50%		9.10%	9.20%	9.10%		
Average Asking Rent	\$56.94 PSF	\$57.19 PSF	\$56.68 PSF	\$56.57 PSF		\$57.18 PSF	\$57.28 PSF	\$57.55 PSF		
Taking Rent Index	92.70%	91.80%	91.60%	95.50%		96.70%	96.50%	95.30%		
Total Manhattan	1Q15	2Q15	3Q15	4Q15	2015 Total	1Q16	Apr-16	May-16	2016 YTD	2015 YTD
Leasing Activity	7.07 MSF	8.02 MSF	6.50 MSF	6.52 MSF	28.11 MSF	5.61 MSF	2.04 MSF	1.18 MSF	8.83 MSF	12.66 MSF
Absorption	-3.54 MSF	1.92 MSF	1.00 MSF	-0.21 MSF	-0.83 MSF	-1.63 MSF	-0.42 MSF	-0.30 MSF	-2.35 MSF	-2.04 MSF

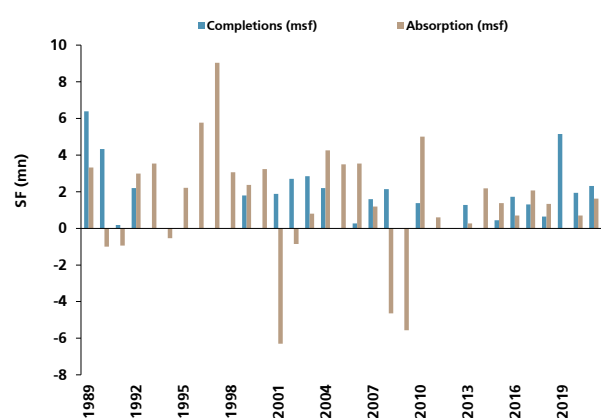
Source: CBRE

**Figure 11: Midtown Office Rent & Vacancy Trends**



Source: CBRE, UBS Investment Research

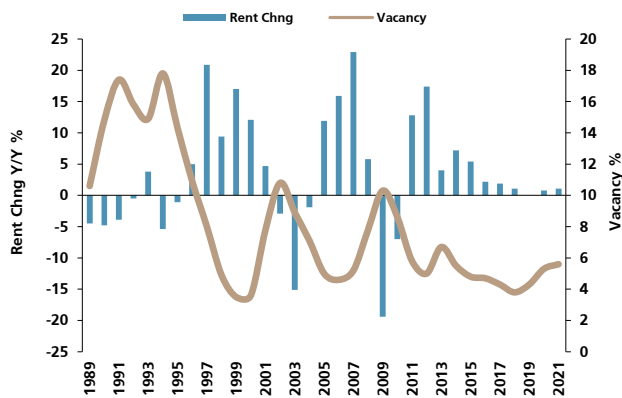
**Figure 12: Midtown Office Supply & Demand Trends**



Source: CBRE, UBS Investment Research

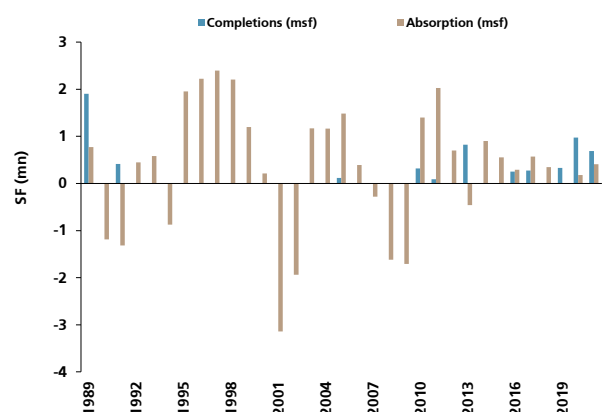


**Figure 13: Midtown South Office Rent & Vacancy Trends**



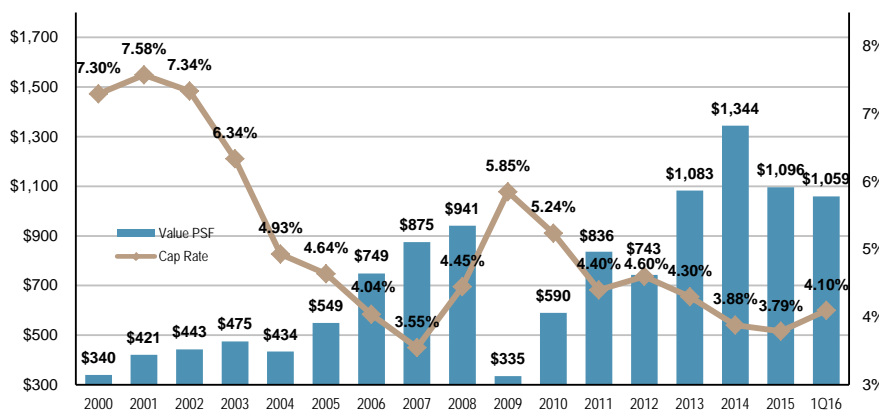
Source: CBRE, UBS Investment Research

**Figure 14: Midtown South Office Supply/ Demand Trends**



Source: CBRE, UBS Investment Research

**Figure 15: Midtown Transaction Cap Rates and Value PSF**



Source: Jones Lang LaSalle, UBS Investment Research

## Valuation Method and Risk Statement

In our view, the single biggest risk to REITs, and real estate as a whole, continues to be the cost and availability of capital. If economic and job growth accelerates faster and/or earlier than expected, property level fundamentals could exceed our forecasts, leading to higher than expected earnings. Conversely, if the economy and the service sector job market continue to deteriorate, earnings could be at risk. Our price targets are based on our forward NAV estimates.

## Required Disclosures

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures). The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission. UBS acts or may act as principal in the debt securities (or in related derivatives) that may be the subject of this report.

**Analyst Certification:** Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

### UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	49%	32%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	38%	26%
<b>Sell</b>	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

**KEY DEFINITIONS:** **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES:** **UK and European Investment Fund ratings and definitions are:** **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with FINRA. Such analysts may not be associated persons of UBS Securities LLC and therefore are not subject to the FINRA restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

**UBS Securities LLC:** Nick Yulico, CFA; Frank Lee, CFA.

#### Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Boston Properties, Inc.</b> <sup>16</sup>	BXP.N	Buy	N/A	US\$131.90	30 Jun 2016
<b>Douglas Emmett, Inc.</b> <sup>16</sup>	DEI.N	Neutral	N/A	US\$35.52	30 Jun 2016
<b>Hudson Pacific Properties Inc</b> <sup>16</sup>	HPP.N	Buy	N/A	US\$29.18	30 Jun 2016
<b>Kilroy Realty Corporation</b> <sup>16</sup>	KRC.N	Buy	N/A	US\$66.29	30 Jun 2016
<b>Paramount Group, Inc.</b> <sup>4, 6, 7, 16</sup>	PGRE.N	Neutral	N/A	US\$15.94	30 Jun 2016
<b>SL Green Realty Corp</b> <sup>4, 6, 7, 16</sup>	SLG.N	Buy	N/A	US\$106.47	30 Jun 2016
<b>Vornado Realty Trust</b> <sup>5, 6, 7, 16</sup>	VNO.N	Neutral	N/A	US\$100.12	30 Jun 2016

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity or one of its affiliates.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
6. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
7. Within the past 12 months, UBS Securities LLC and/or its affiliates have received compensation for products and services other than investment banking services from this company/entity.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

## Global Disclaimer

This document has been prepared by UBS Securities LLC, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

Global Research is provided to our clients through UBS Neo and, in certain instances, UBS.com (each a "System"). It may also be made available through third party vendors and distributed by UBS and/or third parties via e-mail or alternative electronic means. The level and types of services provided by Global Research to a client may vary depending upon various factors such as a client's individual preferences as to the frequency and manner of receiving communications, a client's risk profile and investment focus and perspective (e.g., market wide, sector specific, long-term, short-term, etc.), the size and scope of the overall client relationship with UBS and legal and regulatory constraints.

All Global Research is available on UBS Neo. Please contact your UBS sales representative if you wish to discuss your access to UBS Neo.

When you receive Global Research through a System, your access and/or use of such Global Research is subject to this Global Research Disclaimer and to the terms of use governing the applicable System.

When you receive Global Research via a third party vendor, e-mail or other electronic means, your use shall be subject to this Global Research Disclaimer and to UBS's Terms of Use/Disclaimer (<http://www.ubs.com/global/en/legalinfo2/disclaimer.html>). By accessing and/or using Global Research in this manner, you are indicating that you have read and agree to be bound by our Terms of Use/Disclaimer. In addition, you consent to UBS processing your personal data and using cookies in accordance with our Privacy Statement (<http://www.ubs.com/global/en/legalinfo2/privacy.html>) and cookie notice (<http://www.ubs.com/global/en/homepage/cookies/cookie-management.html>).

**If you receive Global Research, whether through a System or by any other means, you agree that you shall not copy, revise, amend, create a derivative work, transfer to any third party, or in any way commercially exploit any UBS research provided via Global Research or otherwise, and that you shall not extract data from any research or estimates provided to you via Global Research or otherwise, without the prior written consent of UBS.**

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ("the Information"), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

UBS has policies and procedures, which include, without limitation, independence policies and permanent information barriers, that are intended, and upon which UBS relies, to manage potential conflicts of interest and control the flow of information within divisions of UBS and among its subsidiaries, branches and affiliates. For further information on the ways in which UBS manages conflicts and maintains independence of its research products, historical performance information and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures).

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management, which will also have sole discretion on the timing and frequency of any published research product. The analysis contained in this document is based on numerous assumptions. All material information in relation to published research reports, such as valuation methodology, risk statements, underlying assumptions (including sensitivity analysis of those assumptions), ratings history etc. as required by the Market Abuse Regulation, can be found on NEO. Different assumptions could result in materially different results.

The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part, and UBS's subsidiaries, branches and affiliates as a whole.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:**

Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce regulated by the Polish Financial Supervision Authority. Where an analyst of UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce has contributed to this document, the document is also deemed to have been prepared by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Bank (OOO). **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Limited, Italy Branch. Where an analyst of UBS Limited, Italy Branch has contributed to this document, the document is also deemed to have been prepared by UBS Limited, Italy Branch. **South Africa:** Distributed by UBS South Africa (Pty) Limited (Registration No. 1995/011140/07), an authorised user of the JSE and an authorised Financial Services Provider (FSP 7328). **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only to persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **Dubai:** The information distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate") to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. UBS Securities LLC is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule"), and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Mexico:** This report has been distributed and prepared by UBS Casa de Bolsa, S.A. de C.V., UBS Grupo Financiero, an entity that is part of UBS Grupo Financiero, S.A. de C.V. and is an affiliate of UBS AG. This document is intended for distribution to institutional or sophisticated investors only. Research reports only reflect the views of the analysts responsible for the reports. Analysts do not receive any compensation from persons or entities different from UBS Casa de Bolsa, S.A. de C.V., UBS Grupo Financiero, or different from entities belonging to the same financial group or business group of such. For Spanish translations of applicable disclosures, please see [www.ubs.com/disclosures](http://www.ubs.com/disclosures). **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [MCI (P) 018/09/2015 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the Information, consider the appropriateness of the Information, having regard to their objectives, financial situation and needs. If the information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: [www.ubs.com/ecs-research-fsg](http://www.ubs.com/ecs-research-fsg). **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (Capital Markets Services License No.: CMS/A0063/2007). This material is intended for professional/institutional clients only and not for distribution to any retail clients. **India:** Distributed by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000. It provides brokerage services bearing SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, NSE (Currency Derivatives Segment) INE230951431, BSE (Capital Market Segment) INB010951437; merchant banking services bearing SEBI Registration Number: INM000010809 and Research Analyst services bearing SEBI Registration Number: INH000001204. UBS AG, its affiliates or subsidiaries may have debt holdings or positions in the subject Indian company/companies. Within the past 12 months, UBS AG, its affiliates or subsidiaries may have received compensation for non-investment banking securities-related services and/or non-securities services from the subject Indian company/companies. The subject company/companies may have been a client/clients of UBS AG, its affiliates or subsidiaries during the 12 months preceding the date of distribution of the research report with respect to investment banking and/or non-investment banking securities-related services and/or non-securities services. With regard to information on associates, please refer to the Annual Report at: [http://www.ubs.com/global/en/about\\_ubs/investor\\_relations/annualreporting.html](http://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting.html)

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2016. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

