

## Alexandria Real Estate (ARE)

**\$163.81** (As of 01/16/20)

Price Target (6-12 Months): **\$174.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/06/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

### Summary

Shares of Alexandria outperformed its industry in the past year. Further, the trend in estimate revisions for 2019 and 2020 funds from operations (FFO) per share indicates a favorable outlook for the company. Alexandria's properties are located in urban campuses, characterized by high barriers to entry, and limited supply of available space, enabling it to enjoy higher occupancy rate. Also, decent liquidity position, solid external growth and strategic capital allocation to highly leased value-creation pipeline are encouraging. In fact, development and redevelopment of premium properties in AAA locations will drive significant leasing activity and rental-rate growth. Although an active development and redevelopment pipeline bodes well for long-term growth, the same escalates operational risks, exposing Alexandria to rising construction costs.

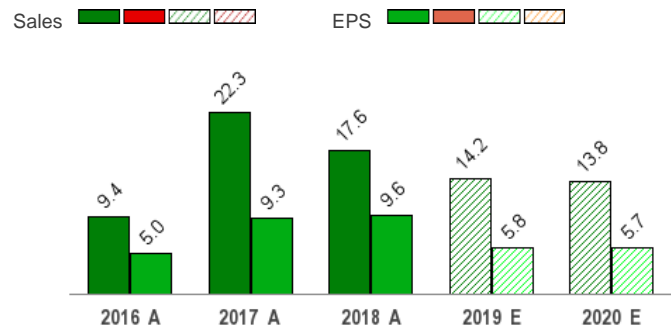
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$164.45 - \$122.89
20 Day Average Volume (sh)	1,088,861
Market Cap	\$20.1 B
YTD Price Change	1.4%
Beta	0.70
Dividend / Div Yld	\$4.12 / 2.5%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 31% (176 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	02/03/2020
Earnings ESP	0.0%
P/E TTM	23.8
P/E F1	22.2
PEG F1	5.2
P/S TTM	13.7

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	403 E	430 E	445 E	447 E	1,725 E
2019	359 A	374 A	390 A	393 E	1,516 E
2018	320 A	325 A	342 A	340 A	1,327 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.79 E	\$1.88 E	\$1.88 E	\$1.84 E	\$7.38 E
2019	\$1.71 A	\$1.73 A	\$1.75 A	\$1.79 E	\$6.98 E
2018	\$1.62 A	\$1.64 A	\$1.66 A	\$1.68 A	\$6.60 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/16/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/17/2020.

## Overview

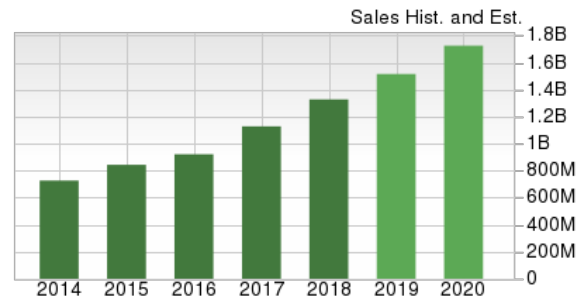
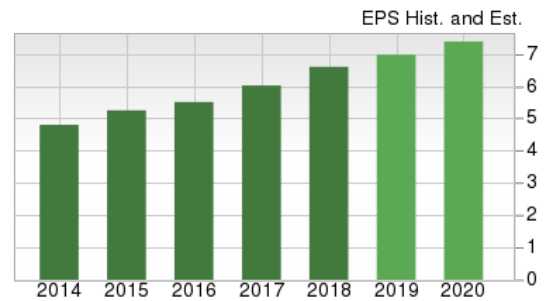
Founded in 1994, Alexandria Real Estate Equities, Inc. is a Pasadena, CA-based urban office real estate investment trust (REIT) with particular focus on collaborative life science and technology campuses. The company's assets are located in the AAA innovation cluster locations of North America, with considerable market presence in Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle.

As of Sep 30, 2019, the company held a portfolio of 35.6 million square feet in North America. This included 25.4 million rentable square feet (RSF) of operating properties. Further, the company has 2.5 million RSF of Class A properties going through construction or pre-construction, with estimated initial occupancy in the fourth quarter of 2019 or 2020.

Moreover, the company has 4.9 million RSF of intermediate-term Class A properties undergoing or nearing pre-construction, and 2.8 million SF of future development projects.

The company also provides strategic capital to transformative life science and technology companies through its venture capital arm. In April 2019, Alexandria announced seed funding investment in Cambridge-based Holobiome, Inc., under the company's recently-launched Alexandria Seed Capital Platform.

*Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*



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## Reasons To Buy:

- ▲ Alexandria focuses on Class A properties concentrated in urban campuses, primarily for the life science and technology entities. These locations are characterized by high barriers to entry and exit, and a limited supply of available space. This highly dynamic setting adds to the productivity and efficiency of the tenants, which in turn, ensures steady rental revenues for the company. In fact, as of third-quarter 2019, investment-grade or publicly-traded large-cap tenants accounted for 53% of annual rental revenues in effect. Furthermore, 78% of the annual rental revenues are from Class A properties in AAA locations. Weighted-average remaining lease term of all tenants is 8.3 years. For its top 20 tenants, it is 11.8 years. During the July-September period, the company acquired 11 properties for a total of \$459.2 million. Furthermore, third-quarter commencements of development and redevelopment projects aggregated 447,998 RSF and involved three projects.
- ▲ High demand for Class A properties in AAA locations is boosting the level of occupancy. The company is witnessing strong demand for space in key life science markets. In fact, the company enjoys a solid 10-year historical occupancy rate of 96%. Such high level of occupancy is anticipated to continue in the upcoming quarters as well.
- ▲ Alexandria continues to execute and deliver strong internal growth. During the September-end quarter, the company's total leasing activity aggregated to 1.2 RSF of space. Lease renewals and re-leasing of space amounted to 758,113 RSF. On a year-over-year basis, same-property net operating income (NOI) grew 2.5%. It climbed 5.7% on a cash basis. The company registered decent rental rate growth of 27.9% in the reported quarter. On a cash-basis, rental rate increased 11.2%. In addition, development and redevelopment of new Class A properties in AAA locations will likely boost the company's operating performance.
- ▲ Alexandria has adequate financial flexibility to cushion and enhance its market position. The company had \$3.5 billion of liquidity as of the end of the reported quarter. Its weighted average remaining term of debt is now 10.7 years, which marks a significant increase from 5.9 years at the beginning of this year, as well as exceeds the weighted average remaining term of its leases of 8.3 years. Also, the company has no consolidated debt maturities until 2023. Further, the company generates 95% unencumbered NOI, which is encouraging.
- ▲ The company follows the strategy of sharing growth in cash flows from operating activities with the stockholders, while also retaining a significant portion for reinvestment. In June 2019, the company announced a 3% sequential hike in Q2 dividends to \$1. Further, in December, 2019 Alexandria announced a 3% sequential hike in its quarterly cash dividend for the fourth-quarter. Solid dividend payouts are arguably the biggest enticement for REIT shareholders, and given the company's financial position and lower payout ratio compared to that of the industry, this dividend rate is likely to be sustainable.
- ▲ Shares of Alexandria have outperformed the industry it belongs to over the past year. The company's shares have jumped 31.8%, while the industry has gained 17.6% during the time frame. Further, the trend in estimate revisions for 2019 and 2020 FFO per share indicates a favorable outlook for the company. Over the past month, its 2019 and 2020 estimates witnessed marginal upward revisions. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has decent upside potential.

High demand for Alexandria's Class A properties in AAA locations is driving its occupancy. Also, strong internal and external growth, robust cash flow and solid balance sheet are its strengths.

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## Reasons To Sell:

- ▼ Alexandria has an active development and redevelopment pipeline. Further, the company has 2.5 million RSF of Class A properties going through construction or pre-construction, with estimated initial occupancy in the fourth quarter of 2019 or 2020. The company also has 4.9 million RSF of intermediate-term Class A properties undergoing or nearing pre-construction, and 2.8 million square feet of future development projects. This increases operational risks, and exposes the company to the risk of rising construction costs and lease-up concern.
- ▼ Alexandria has exposure to Canada and Asia through its subsidiaries, and is thus exposed to currency fluctuation risks. Moreover, uneasiness in certain global economies remains a concern. Further, the company's tenant roster has a substantial concentration of companies belonging to the life science and technology industries. Therefore, the company's performance remains susceptible to any changes within these industries.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout might become less attractive than the yields on fixed income and money market accounts.

Alexandria has a huge development pipeline. This exposes the company to the risk of rising construction costs and lease-up concern. Also, tenant concentration in its roster adds to its risks.

## Last Earnings Report

### Alexandria Q3 FFO Meets Estimates, Rental Rate Grows

Alexandria reported third-quarter 2019 FFO as adjusted of \$1.75 per share, in line with the Zacks Consensus Estimate. The figure improved 5.4% from the year-ago quarter's reported tally of \$1.66.

This improvement resulted from top-line growth, which jumped 14.2% year over year to \$390.5 million and also outpaced the Zacks Consensus Estimate of \$381.6 million.

Results reflect decent internal and external growth. The company witnessed continued strong leasing activity and rental rate growth in the quarter.

### Behind the Headline Numbers

Alexandria's total leasing activity aggregated to 1.2 RSF of space during the September-end quarter. Lease renewals and re-leasing of space amounted to 758,113 RSF.

On a year-over-year basis, same-property NOI grew 2.5%. It climbed 5.7% on a cash basis. Occupancy of operating properties in North America remained high at 96.6%. The company registered decent rental rate growth of 27.9% in the reported quarter. On a cash-basis, rental rate increased 11.2%.

As of third-quarter 2019, investment-grade or publicly-traded large-cap tenants accounted for 53% of annual rental revenues in effect. Furthermore, 78% of the annual rental revenues are from Class A properties in AAA locations. Weighted-average remaining lease term of all tenants is 8.3 years. For its top 20 tenants, it is 11.8 years.

Notably, during the July-September period, the company acquired 11 properties for a total of \$459.2 million. These acquisitions include operating properties aggregating 546,389 RSF, of which 111,080 RSF are existing vacant space. Moreover, the buyouts include future development and redevelopment opportunities, totaling 537,850 RSF, positioned in multiple markets. Moreover, third-quarter commencements of development and redevelopment projects aggregated 447,998 RSF and involved three projects.

### Liquidity

Alexandria exited third-quarter 2019 with cash and cash equivalents of \$410.7 million, up from the \$198.9 million reported at the end of the previous quarter. The company had \$3.5 billion of liquidity as of the end of the reported quarter. Also, 95% of its net operating income is unencumbered.

### Outlook

Alexandria revised its guidance for adjusted FFO per share for 2019 to \$6.95-\$6.97 from the prior outlook of \$6.92-\$7.00. The company's 2019 guidance is backed by expectations for occupancy in North America (as of Dec 31, 2019) in the band of 96.7-97.3%, rental rate increases for lease renewals, and re-leasing of space of 28-31%, and same-property NOI growth of 1.5-3.5%.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	2.33%
EPS Surprise	0.00%
Quarterly EPS	1.75
Annual EPS (TTM)	6.87

## Recent News

### Alexandria Closes Underwriting of Public Offering of 6.9M Shares – Jan 9, 2020

Alexandria closed a public offering of 6.9 million shares of common stock. This included the 30-day option to the underwriters for purchase of up to 900,000 additional shares that was exercised in full.

For this offering, Alexandria entered into forward sale agreements, per which the forward purchasers are likely to borrow and sell the shares to the underwriters. Subject to its right to elect cash or net share settlement, the company anticipates to deliver the shares no later than Apr 6, 2021, in exchange for cash proceeds amounting to the applicable forward sale price. Nonetheless, the company will not receive any proceeds through forward sales in the initial phase.

Net proceeds from the offering will be used to fund pending/completed acquisition and commence construction of highly-leased development projects in the pipeline. Moreover, the remaining proceeds will be used for general working capital needs and other corporate purposes. This may include reducing any outstanding balance on the company's unsecured senior line of credit and commercial paper program.

### Alexandria Rewards Investors With 3% Sequential Dividend Hike – Dec 5, 2019

Alexandria announced a 3% sequential hike in fourth-quarter 2019 cash dividend. The company will now pay a dividend of \$1.03 per share, up from the \$1 paid for the third quarter. The increased dividend was paid on Jan 15, 2020, to shareholders of record as on Dec 31, 2019.

In fact, solid dividend payouts are arguably the biggest enticement for REIT investors. Alexandria's common stock dividend for 2019 of \$4 per share indicates a rise of 7% over the year ended Dec 31, 2018.

Per management, the hike in dividend is in sync with the company's strategy of sharing growth in cash flows from operating activities with the stockholders, while also retaining a significant portion to reinvest in its strong development and redevelopment pipeline that consists of new Class A properties. Also, as of Sep 30, 2019, the FFO payout ratio remained at 57%, which is encouraging.

### Alexandria Launches Life-Science Consortium in Greater Boston – Nov 25, 2019

Alexandria recently launched a first-of-its-kind life-science consortium to accelerate advanced biological innovation and manufacturing in the Greater Boston region. The consortium consists of top-tier academic institutions, life-science industry partners and research hospitals situated in Massachusetts. As a founding member of the consortium, Alexandria will serve in the board of directors.

The innovative and collaborative center will work on the need for the development of important advanced technologies and address the robust demand for higher access to viral vector manufacturing production and next-generation cell. Further, it will offer a workforce development platform that will accelerate translation of emerging technologies into cost-effective and high-impact medicines aimed at preventing, treating and curing devastating diseases. This will improve patient lives and reduce the cost burden of diseases on society.

Per management, through this partnership, the company will use its expertise to improve human health and nutrition.

Notably, Alexandria has played a pivotal role in developing life-science cluster in the Greater Boston area. It has provided leading life science companies with highly effective, first-in-class infrastructure and strategic venture capital, thereby facilitating innovation, job growth and economic diversity in this significant cluster. In fact, its asset base in Greater Boston spans more than 6.5 million RSF of office/laboratory space that is highly leased. This includes 5 million RSF in the Cambridge submarket.

## Valuation

Alexandria's shares have been up 31.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Finance sector have gained 17.6% and 10.6% over the past year.

The S&P 500 Index is up 22.3% over the past year.

The stock is currently trading at 22.14X forward 12-month FFO, which compares to 18.06X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.97X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.17X and as low as 12.88X, with a 5-year median of 18.15X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$174 price target reflects 23.52X FFO.

The table below shows summary valuation data for ARE

Valuation Multiples - ARE					
		Stock	Sub-Industry	Sector	S&P 500
	Current	22.14	18.06	14.79	18.97
5 Year High	23.17	18.06	14.79	18.97	

P/E F12M	5-Year High	23.17	18.94	16.21	19.34
	5-Year Low	12.88	14.29	12.01	15.17
	5-Year Median	18.15	16.11	13.98	17.44
	Current	13.33	8.2	6.53	3.53
P/S F12M	5-Year High	13.33	8.2	6.61	3.53
	5-Year Low	5.99	5.9	5.2	2.54
	5-Year Median	9.46	6.88	6.04	3
	Current	2.09	2.82	2.83	4.5
P/B TTM	5-Year High	2.24	2.92	2.89	4.5
	5-Year Low	1.33	2.06	1.83	2.85
	5-Year Median	1.95	2.52	2.5	3.61

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



## Top Peers

Boston Properties, Inc. (BXP)	Neutral
Cousins Properties Incorporated (CUZ)	Neutral
Douglas Emmett, Inc. (DEI)	Neutral
Highwoods Properties, Inc. (HIW)	Neutral
Hudson Pacific Properties, Inc. (HPP)	Neutral
Kilroy Realty Corporation (KRC)	Neutral
Piedmont Office Realty Trust, Inc. (PDM)	Neutral
SL Green Realty Corporation (SLG)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	ARE Neutral	X Industry	S&P 500	BXP Neutral	CUZ Neutral	SLG Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Market Cap	20.08 B	3.05 B	24.61 B	21.54 B	6.07 B	7.33 B
# of Analysts	3	4	13	7	3	9
Dividend Yield	2.52%	4.06%	1.74%	2.81%	2.81%	3.87%
<b>Value Score</b>	<b>F</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.02	0.03	0.04	0.04	0.00	0.03
EV/EBITDA	26.03	17.73	14.24	18.87	27.61	18.61
PEG Ratio	5.15	3.67	2.07	2.69	3.06	3.28
Price/Book (P/B)	2.09	1.72	3.38	2.76	1.40	1.27
Price/Cash Flow (P/CF)	20.90	14.87	13.75	17.51	16.53	10.08
P/E (F1)	22.19	15.63	19.09	18.49	14.74	12.75
Price/Sales (P/S)	13.72	6.99	2.68	7.41	10.36	5.88
Earnings Yield	4.51%	6.40%	5.24%	5.41%	6.80%	7.84%
Debt/Equity	0.76	0.88	0.72	1.52	0.43	0.99
Cash Flow (\$/share)	7.84	2.27	6.94	7.95	2.50	9.08
<b>Growth Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	7.92%	3.10%	10.56%	5.23%	-7.47%	0.38%
Proj. EPS Growth (F1/F0)	5.83%	4.26%	7.57%	7.76%	-5.45%	2.82%
Curr. Cash Flow Growth	46.47%	13.18%	14.73%	13.75%	-36.00%	9.58%
Hist. Cash Flow Growth (3-5 yrs)	20.39%	18.05%	9.00%	0.61%	7.39%	9.89%
Current Ratio	0.37	1.27	1.24	3.98	0.64	1.65
Debt/Capital	42.99%	46.68%	42.99%	59.69%	29.85%	47.68%
Net Margin	9.29%	13.72%	11.14%	18.20%	9.50%	15.37%
Return on Equity	1.63%	4.54%	17.16%	6.70%	1.55%	3.18%
Sales/Assets	0.09	0.13	0.55	0.14	0.11	0.09
Proj. Sales Growth (F1/F0)	%	4.82%	4.16%	3.21%	18.22%	-1.31%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>F</b>	<b>C</b>	<b>A</b>
Daily Price Chg	0.94%	0.86%	0.89%	1.42%	0.27%	0.87%
1 Week Price Chg	-1.29%	-0.04%	0.39%	-1.14%	-0.98%	2.06%
4 Week Price Chg	2.50%	2.59%	2.65%	2.65%	2.53%	1.10%
12 Week Price Chg	2.92%	0.51%	7.55%	5.22%	5.43%	8.10%
52 Week Price Chg	33.45%	14.29%	22.12%	15.66%	22.05%	2.88%
20 Day Average Volume	1,088,861	497,680	1,536,375	461,307	668,242	640,575
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.73%
(F1) EPS Est 4 week change	0.45%	0.00%	0.00%	0.00%	-0.44%	1.56%
(F1) EPS Est 12 week change	-0.49%	-0.34%	-0.40%	1.01%	-0.06%	3.13%
(Q1) EPS Est Mthly Chg	2.87%	0.00%	0.00%	0.00%	-0.49%	0.47%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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