

Alexandria Real Estate (ARE)

\$141.80 (As of 03/26/20)

Price Target (6-12 Months): **\$150.00**

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: B

Momentum: B

Summary

Alexandria's properties are located in markets, characterized by high barriers to entry, and a 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. Development and redevelopment of premium properties in high-quality locations will drive significant leasing activity and rental rate growth. Also, the company's fourth-quarter performance mirrored decent internal and external expansion. The company witnessed continued strong leasing activity and rental rate growth during the quarter. Its shares have outperformed the industry over the past year. However, a significant development pipeline escalates operational risks and exposes it to construction cost overruns.

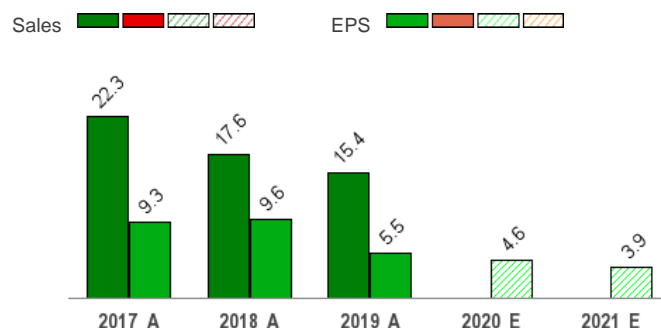
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$175.74 - \$109.22
20 Day Average Volume (sh)	1,388,029
Market Cap	\$17.4 B
YTD Price Change	-12.2%
Beta	0.82
Dividend / Div Yld	\$4.12 / 2.9%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 38% (96 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.6%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	04/27/2020
Earnings ESP	-1.9%
P/E TTM	20.4
P/E F1	19.5
PEG F1	4.5
P/S TTM	11.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					
2020					
2019	359 A	374 A	390 A	408 A	1,531 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.90 E	\$1.93 E	\$1.96 E	\$1.96 E	\$7.56 E
2020	\$1.82 E	\$1.85 E	\$1.86 E	\$1.86 E	\$7.28 E
2019	\$1.71 A	\$1.73 A	\$1.75 A	\$1.77 A	\$6.96 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

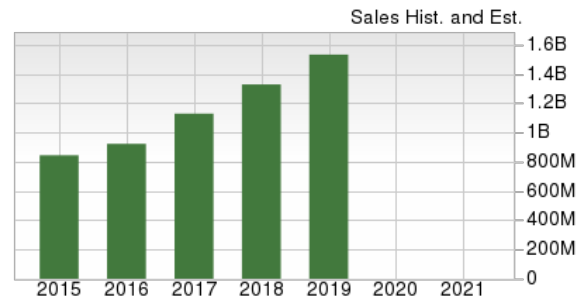
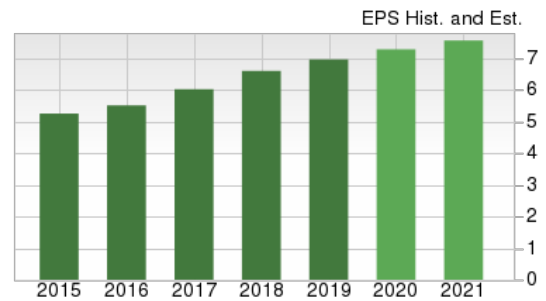
Overview

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 Dec 31, 2019, the company held a portfolio of 39.2 million square feet in North America. This included 27 million rentable square feet (RSF) of operating properties. Further, the company has 2.1 million RSF of Class A properties going through construction.

Moreover, the company has 6.3 million RSF of near-term and intermediate-term development and redevelopment projects, and 3.8 million SF of future development projects. Alexandria also provides strategic capital to transformative life science and technology companies through its venture capital arm.

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.



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 fourth-quarter 2019, investment-grade or publicly-traded large-cap tenants accounted for 50% of annual rental revenues in effect. Furthermore, 76% of the annual rental revenues are from Class A properties in AAA locations. Weighted-average remaining lease term of all tenants is 8.1 years. For its top 20 tenants, it is 11.6 years. Moreover, during the October-December period, the company completed acquisitions of 23 properties for a total of \$956.5 million. These acquisitions comprise 3.3 million RSF, including 2.1 million RSF of current and future value-creation opportunities.
- ▲ 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 December-end quarter, the company's total leasing activity aggregated to 1.75 million rentable square feet (RSF) of space during the December-end quarter. Lease renewals and re-leasing of space amounted to 571,650 RSF. On a year-over-year basis, same-property NOI grew 2%. It climbed 4% on a cash basis. Occupancy of operating properties in North America remained high at 96.8%. The company registered decent rental rate growth of 37% in the reported quarter. On a cash basis, rental rate increased 21.7%. 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 \$2.4 billion of liquidity as of the end of the reported quarter. Its weighted average remaining term on outstanding debt is 10.4 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.

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.

Reasons To Sell:

- ▼ Alexandria has an active development and redevelopment pipeline. As of Dec 31, 2019, the company has 2.1 million RSF of Class A properties going through construction. Moreover, it has 6.3 million RSF of near-term and intermediate-term development and redevelopment projects, and 3.8 million SF of future development projects. This increases operational risks, and exposes the company to the risk of rising construction costs and lease-up concerns.
- ▼ 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.
- ▼ Shares of Alexandria have declined 1.1% over the past year, while the industry plunged 21.9%. The trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company. Over the past month, its 2020 estimates witnessed marginal downward revision. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

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's Q4 FFO Up Y/Y, Rental Rate Increases

Alexandria Real Estate Equities, Inc. reported fourth-quarter 2019 FFO as adjusted of \$1.77 per share, up 5.4% from the year-ago quarter's \$1.68. However, the figure missed the Zacks Consensus Estimate of \$1.78.

This year-over-year improvement resulted from top-line growth, which jumped 19.9% year over year to \$408.1 million. Results reflect decent internal and external growth. The company witnessed continued strong leasing activity and rental rate growth during the quarter.

For full-year 2019, adjusted FFO per share came in at \$6.96, higher than the prior-year tally of \$6.60. Total revenues of \$1.5 billion increased 15.4% year over year.

Behind the Headline Numbers

Alexandria's total leasing activity aggregated to 1.75 million RSF of space during the December-end quarter. Lease renewals and re-leasing of space amounted to 571,650 RSF.

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As of fourth-quarter 2019, investment-grade or publicly-traded large-cap tenants accounted for 50% of annual rental revenues in effect. Furthermore, 76% of the annual rental revenues are from Class A properties in AAA locations. Weighted-average remaining lease term of all tenants is 8.1 years. For its top 20 tenants, it is 11.6 years.

During the October-December period, the company completed acquisitions of 23 properties for a total of \$956.5 million. These acquisitions comprise 3.3 million RSF, including 2.1 million RSF of current and future value-creation opportunities.

Liquidity

Alexandria exited fourth-quarter 2019 with cash and cash equivalents of \$189.7 million, down from the \$410.7 million reported at the end of the previous quarter. The company had \$2.4 billion of liquidity as of the end of the reported quarter.

Outlook

Alexandria issued its guidance for 2020 FFO per share in the range of \$7.28-\$7.48. The company's current-year guidance is backed by expectations for occupancy in North America (as of Dec 31, 2020) in the band of 95.4-96%, 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 **12/2019**

Report Date	Feb 03, 2020
Sales Surprise	NA
EPS Surprise	-0.56%
Quarterly EPS	1.77
Annual EPS (TTM)	6.96

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.

Dividend Update

On Mar 2, 2020, Alexandria announced a quarterly cash dividend of \$1.03 per common share for the first quarter of 2020. The dividend will be paid on Apr 15, 2020, to shareholders as on Mar 31, 2020.

Valuation

Alexandria's shares have been down 1.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 21.9% and 24% over the past year.

The S&P 500 Index is down 12.8% over the past year.

The stock is currently trading at 19.06X forward 12-month FFO, which compares to 13.41X for the Zacks sub-industry, 10.66X for the Zacks sector and 14.92X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.53X and as low as 12.88X, with a 5-year median of 18.56X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$150 price target reflects 20.16X FFO.

The table below shows summary valuation data for ARE.

Valuation Multiples - ARE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.06	13.41	10.66	14.92
	5-Year High	23.53	18.7	16.21	19.34
	5-Year Low	12.88	13.41	10.66	14.92
	5-Year Median	18.56	16.08	13.97	17.42
P/S F12M	Current	11.4	5.96	5.99	2.68
	5-Year High	11.81	8.14	6.64	3.43
	5-Year Low	5.99	5.91	5.39	2.54
	5-Year Median	9.52	6.87	6.04	3
P/B TTM	Current	1.71	2.06	1.92	3.33
	5-Year High	2.24	3.01	2.89	4.56
	5-Year Low	1.33	1.8	1.68	2.85
	5-Year Median	1.95	2.52	2.52	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



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
VGM Score	D	-	-	C	D	D
Market Cap	17.40 B	1.88 B	18.50 B	14.41 B	4.04 B	3.80 B
# of Analysts	3	4	13	9	5	7
Dividend Yield	2.91%	5.80%	2.35%	4.22%	4.21%	7.27%
Value Score	F	-	-	D	F	C
Cash/Price	0.02	0.04	0.07	0.05	0.01	0.07
EV/EBITDA	21.81	12.85	11.16	14.75	18.28	13.60
PEG Ratio	4.50	3.07	1.74	3.67	4.05	2.48
Price/Book (P/B)	1.71	1.13	2.44	1.84	0.91	0.68
Price/Cash Flow (P/CF)	19.70	9.51	9.87	11.95	9.88	7.04
P/E (F1)	19.41	11.00	15.29	12.44	9.84	6.65
Price/Sales (P/S)	11.36	4.14	1.93	4.87	6.15	3.06
Earnings Yield	5.13%	9.09%	6.47%	8.04%	10.17%	15.03%
Debt/Equity	0.67	0.87	0.70	1.51	0.50	0.97
Cash Flow (\$/share)	7.20	2.02	7.01	7.77	2.79	6.92
Growth Score	B	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	7.84%	2.75%	10.85%	5.43%	-7.00%	-0.14%
Proj. EPS Growth (F1/F0)	4.60%	2.19%	2.89%	6.58%	-4.83%	4.55%
Curr. Cash Flow Growth	4.79%	4.13%	5.93%	-2.18%	55.56%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	23.85%	12.64%	8.55%	2.31%	18.86%	-0.78%
Current Ratio	0.19	1.26	1.23	4.15	0.68	1.62
Debt/Capital	40.07%	46.57%	42.57%	59.58%	33.42%	47.20%
Net Margin	23.72%	13.67%	11.64%	17.62%	22.88%	21.83%
Return on Equity	4.07%	4.42%	16.74%	6.64%	3.77%	4.56%
Sales/Assets	0.09	0.13	0.54	0.14	0.11	0.09
Proj. Sales Growth (F1/F0)	0.00%	3.41%	2.37%	3.48%	21.39%	0.08%
Momentum Score	B	-	-	B	D	A
Daily Price Chg	6.30%	6.00%	6.21%	2.25%	4.32%	1.59%
1 Week Price Chg	-16.54%	-21.66%	-16.96%	-29.95%	-27.64%	-30.46%
4 Week Price Chg	-8.33%	-25.00%	-15.70%	-27.56%	-25.08%	-39.46%
12 Week Price Chg	-11.23%	-27.79%	-23.67%	-31.48%	-31.88%	-45.23%
52 Week Price Chg	-1.00%	-28.29%	-13.99%	-30.46%	-29.02%	-45.77%
20 Day Average Volume	1,388,029	1,233,460	4,286,768	1,624,426	1,528,990	1,529,863
(F1) EPS Est 1 week change	-0.95%	0.00%	-0.15%	-0.52%	-0.29%	0.19%
(F1) EPS Est 4 week change	-1.49%	-0.81%	-2.28%	-1.54%	-0.71%	1.13%
(F1) EPS Est 12 week change	-1.04%	-1.30%	-3.22%	-1.03%	-0.69%	3.03%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-1.60%	-0.70%	-0.35%	1.69%

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	B
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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