

Alexandria Real Estate (ARE)

\$151.45 (As of 05/27/20)

Price Target (6-12 Months): **\$161.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/06/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

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 a higher occupancy rate. Development and redevelopment of premium properties will drive significant leasing activity and rental rate growth. The company has been witnessing strong leasing activity and rental rate growth. Its diverse tenant base ensures steady rental revenues. Moreover, the company's in-line earnings in first-quarter 2020 were driven by revenue improvement and strong rental rate growth. Furthermore, shares of Alexandria have outperformed its industry over the past year. However, the company revised its full-year outlook in the wake of the coronavirus pandemic. Also, a significant development pipeline escalates operational risks and exposes it to construction cost overruns.

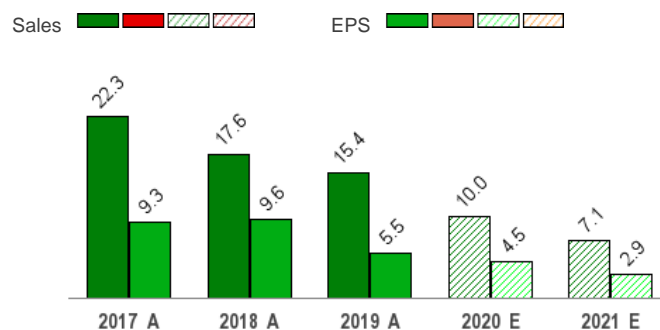
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$175.74 - \$109.22
20 Day Average Volume (sh)	757,207
Market Cap	\$19.1 B
YTD Price Change	-6.3%
Beta	0.86
Dividend / Div Yld	\$4.12 / 2.7%
Industry	<u>REIT and Equity Trust - Other</u>
Zacks Industry Rank	Bottom 48% (125 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/27/2020
Earnings ESP	0.0%
P/E TTM	21.4
P/E F1	20.8
PEG F1	4.8
P/S TTM	11.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,803 E
2020	440 A				1,684 E
2019	359 A	374 A	390 A	408 A	1,531 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.79 E	\$1.86 E	\$1.90 E	\$1.92 E	\$7.48 E
2020	\$1.82 A	\$1.79 E	\$1.82 E	\$1.83 E	\$7.27 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, except sales and EPS estimates, is as of 05/27/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/28/2020.

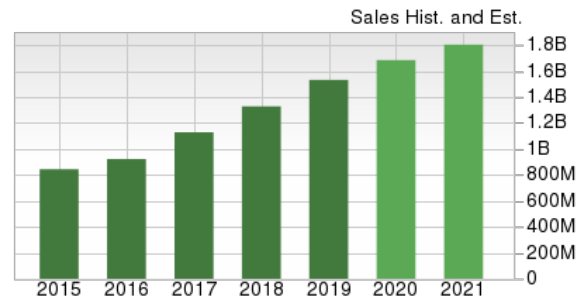
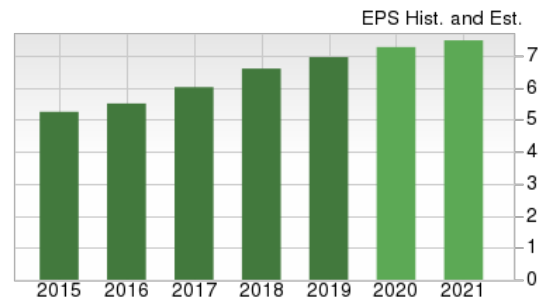
Overview

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 Mar 31, 2020, the company held a portfolio of 41.5 million square feet in North America. This included 28.8 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 6.5 million RSF of near-term and intermediate-term development and redevelopment projects, and 4.1 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 first-quarter 2020, investment-grade or publicly-traded large-cap tenants accounted for 51% of annual rental revenues in effect. Furthermore, 74% of the annual rental revenues are from Class A properties in AAA locations. Weighted-average remaining lease term of all tenants is 7.8 years. For its top 20 tenants, it is 11.4 years. Moreover, during first-quarter 2020, the company completed acquisitions of 11 properties for a total of \$484.6 million.
- ▲ 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% at operating properties in North America. 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 March-end quarter, the company's total leasing activity aggregated to 703,355 RSF of space. Lease renewals and re-leasing of space amounted to 557,367 RSF. On a year-over-year basis, same-property NOI was up 2.4%. It climbed 6.1% on a cash basis. Occupancy of operating properties in North America remained high at 97.5%. The company registered strong rental rate growth of 46.3% in the reported quarter, denoting the highest quarterly rental rate growth over the past decade. On a cash basis, rental rate increased 22.3%. 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 \$3.3 billion of liquidity as of the end of the reported quarter that was increased to \$4 billion in April with an additional unsecured senior line worth \$750 million. Also, the company has no debt maturities until 2023 and has weighted average debt maturity of 10.3 years. Finally, as of the first-quarter end, the company enjoyed investment-grade credit rating of BBB+ and Baa1 as well as a stable outlook from S&P Global Ratings and Moody's, respectively.
- ▲ 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 to \$1.03 per share for the fourth-quarter. Solid dividend payouts are arguably the biggest enticement for REIT shareholders, and given the company's lower payout ratio compared to that of the industry, this dividend rate is likely to be sustainable.
- ▲ Shares of Alexandria have increased 4.5% over the trailing 12-month period, while the industry has lost 8.2%. Moreover, the trend in estimate revisions for current-year FFO per share indicates a favorable outlook for the company. Over the past month, its 2020 estimates witnessed 1.7% upward revision. Therefore, given the strong fundamentals and upward 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.

Reasons To Sell:

- ▼ Alexandria has an active development and redevelopment pipeline. As of Mar 31, 2020, the company has 2.1 million RSF of Class A properties going through construction. Moreover, it has 6.5 million RSF of near-term and intermediate-term development and redevelopment projects and 4.1 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. Further, Alexandria's construction activity was impacted in the first quarter due to the pandemic.
- ▼ In the wake of the coronavirus pandemic, the company projects a decline in revenues from its retail tenancy and transient/short-term parking business. The company has also revised its full-year FFO per share guidance to \$7.25-\$7.35 from \$7.28-\$7.48. Further, it has reduced its construction-spend forecast for 2020 from \$1.6 billion to \$960 million.
- ▼ 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.

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 Q1 FFO In Line, Rental Rates Rise Y/Y

Alexandria delivered first-quarter 2020 FFO as adjusted of \$1.82 per share, up 6.4% from the year-ago quarter's \$1.71. The reported figure came in line with the Zacks Consensus Estimate.

This year-over-year improvement resulted from top-line growth, which jumped 22.6% year over year to \$439.9 million. The company witnessed continued strong leasing activity and rental rate growth during the quarter. It witnessed the highest quarterly rental rate growth over the past 10 years.

Nonetheless, the company revised its full-year outlook in the wake of the coronavirus pandemic and the prevailing market conditions.

It also apprised of its accounts receivable balance as of Apr 24, 2020 with 98.4% of April 2020 rent collected. Alexandria's tenant receivables balance stands at \$7.3 million, the lowest since 2012.

With the prevailing uncertain situation due to the coronavirus pandemic, the company has reduced its construction-spend forecast for 2020 from \$1.6 billion to \$960 million. The expected acquisitions for 2020 have also been reduced from \$950 million to \$650 million.

Behind the Headline Numbers

Alexandria's total leasing activity aggregated to 703,355 RSF of space during the March-end quarter. Lease renewals and re-leasing of space amounted to 557,367 RSF.

On a year-over-year basis, same-property NOI was up 2.4%. It climbed 6.1% on a cash basis. Occupancy of operating properties in North America remained high at 97.5%. The company registered strong rental rate growth of 46.3% in the reported quarter, denoting the highest quarterly rental rate growth over the past decade. On a cash basis, rental rate increased 22.3%.

As of first-quarter 2020, investment-grade or publicly-traded large-cap tenants accounted for 51% of annual rental revenues in effect. Furthermore, 74% of the annual rental revenues are from Class A properties in AAA locations. Weighted-average remaining lease term of all tenants is 7.8 years. For its top 20 tenants, it is 11.4 years.

During the January-March period, the company completed acquisitions of 11 properties for a total of \$484.6 million.

Liquidity

Alexandria exited first-quarter 2020 with cash and cash equivalents of \$445.3 million, up from the \$189.7 million reported at the end of the previous quarter. The company had \$4 billion of liquidity as of the end of the first quarter. Also, it has no debt maturities until 2023.

Guidance

In light of the coronavirus pandemic and the choppy market conditions, the company has revised its FFO per share guidance to \$7.25-\$7.35 from \$7.28-\$7.48.

The revision is based on a reduction of eight cents in projected revenues from its retail tenancy and transient/short-term parking business, higher interest costs and updated timing of deliveries, offset by an improvement in EBITDA from its core operations.

The company also anticipates a reduction in its projected remaining required sources of capital.

The company's current-year guidance is backed by expectations for occupancy in North America (as of Apr 27, 2020) in the band of 94.8-95.4%, rental rate increases for lease renewals, and re-leasing of space of 28-31%, and same-property NOI growth of 1-3%.

Quarter Ending **03/2020**

Report Date	Apr 27, 2020
Sales Surprise	NA
EPS Surprise	0.00%
Quarterly EPS	1.82
Annual EPS (TTM)	7.07

Recent News

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 was paid on Apr 15, 2020, to shareholders as on Mar 31, 2020.

Valuation

Alexandria's shares have increased 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 8.2% and 15.2% over the past year.

The S&P 500 Index is up 6.5% over the past year.

The stock is currently trading at 20.58X forward 12-month FFO, which compares to 17.79X for the Zacks sub-industry, 15.98X for the Zacks sector and 21.75X 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 18.65X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$161 price target reflects 21.88X 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	20.58	17.79	15.98	21.75
	5-Year High	23.53	18.1	16.18	21.75
	5-Year Low	12.88	14.32	11.58	15.23
	5-Year Median	18.65	16.08	13.94	17.49
P/S F12M	Current	12.38	7.76	5.81	3.37
	5-Year High	12.38	8.14	6.7	3.44
	5-Year Low	5.99	5.91	4.99	2.53
	5-Year Median	9.58	6.88	6.05	3.01
P/B TTM	Current	1.75	2.23	2.21	4.09
	5-Year High	2.24	3.01	2.9	4.56
	5-Year Low	1.33	1.8	1.71	2.83
	5-Year Median	1.94	2.5	2.53	3.65

As of 05/27/2020

Industry Analysis Zacks Industry Rank: Bottom 48% (125 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Boston Properties, Inc. (BXP)	Neutral	3
Cousins Properties Incorporated (CUZ)	Neutral	3
Douglas Emmett, Inc. (DEI)	Neutral	3
Highwoods Properties, Inc. (HIW)	Neutral	3
Hudson Pacific Properties, Inc. (HPP)	Neutral	3
Kilroy Realty Corporation (KRC)	Neutral	4
Piedmont Office Realty Trust, Inc. (PDM)	Neutral	4
SL Green Realty Corporation (SLG)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	ARE	X Industry	S&P 500	BXP	CUZ	SLG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	C	-	-	D	F	C
Market Cap	19.11 B	1.98 B	21.39 B	13.80 B	4.59 B	3.37 B
# of Analysts	3	4	14	10	5	6
Dividend Yield	2.72%	4.41%	1.97%	4.41%	3.88%	8.04%
Value Score	D	-	-	C	D	C
Cash/Price	0.03	0.07	0.06	0.07	0.03	0.22
EV/EBITDA	23.63	14.10	12.63	14.44	18.74	13.25
PEG Ratio	4.83	3.62	2.91	2.51	4.20	2.41
Price/Book (P/B)	1.75	1.25	2.99	1.68	1.01	0.62
Price/Cash Flow (P/CF)	21.04	10.59	11.80	11.43	11.08	6.36
P/E (F1)	20.83	14.89	21.42	12.32	11.33	6.47
Price/Sales (P/S)	11.85	4.65	2.29	4.62	6.38	2.70
Earnings Yield	4.80%	6.51%	4.44%	8.12%	8.84%	15.46%
Debt/Equity	0.67	0.92	0.76	1.47	0.43	1.12
Cash Flow (\$/share)	7.20	2.03	6.96	7.77	2.79	6.92
Growth Score	B	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	7.76%	2.02%	10.87%	5.66%	-6.41%	-0.46%
Proj. EPS Growth (F1/F0)	4.50%	-2.93%	-10.41%	2.82%	-7.28%	-2.69%
Curr. Cash Flow Growth	4.79%	3.36%	5.46%	-2.18%	55.56%	3.22%
Hist. Cash Flow Growth (3-5 yrs)	23.85%	12.74%	8.55%	2.31%	18.86%	-0.78%
Current Ratio	0.37	1.80	1.29	5.59	1.82	3.97
Debt/Capital	40.16%	48.50%	44.54%	58.89%	29.89%	50.64%
Net Margin	15.68%	12.85%	10.59%	30.83%	40.35%	27.34%
Return on Equity	2.64%	3.98%	16.29%	11.64%	6.55%	5.89%
Sales/Assets	0.09	0.13	0.55	0.14	0.10	0.09
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-2.34%	1.61%	14.88%	-10.67%
Momentum Score	C	-	-	B	C	C
Daily Price Chg	0.62%	2.04%	2.29%	5.08%	3.87%	6.76%
1 Week Price Chg	3.93%	8.36%	4.99%	4.08%	11.04%	-3.00%
4 Week Price Chg	-3.15%	0.00%	2.47%	-9.61%	-0.61%	-19.24%
12 Week Price Chg	-7.34%	-21.04%	-6.13%	-35.70%	-21.04%	-47.94%
52 Week Price Chg	5.06%	-18.98%	0.67%	-32.49%	-14.29%	-48.98%
20 Day Average Volume	757,207	781,172	2,423,651	1,991,510	1,321,554	1,894,183
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.35%	-2.07%	-0.66%	-0.58%	0.02%
(F1) EPS Est 12 week change	-1.22%	-5.26%	-16.07%	-5.01%	-3.26%	-6.22%
(Q1) EPS Est Mthly Chg	0.28%	-1.65%	-3.59%	-1.31%	-3.65%	-3.05%

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.

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	D
Growth Score	B
Momentum Score	C
VGM Score	C

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.

Disclosures

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