

Alexandria Real Estate (ARE)

\$176.13 (As of 07/30/20)

Price Target (6-12 Months): **\$187.00**

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:F

Value: D

Growth: C

Momentum: F

Summary

Alexandria's second-quarter 2020 funds from operations (FFO) as adjusted of \$1.81 per share were up 4.6% year on year backed by 16.9% growth in revenues. The company witnessed continued strong leasing activity and rental rate growth during the quarter. As of Jul 24, 2020, it also collected 99% of July 2020 rents and tenant recoveries. Alexandria's premium 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. It has been witnessing strong leasing activity and rental rate growth. Also, its shares have outperformed the industry over the past year. However, Alexandria's significant development pipeline escalates operational risks and exposes it to construction cost overruns. Also, rent collection from retail tenants is a woe.

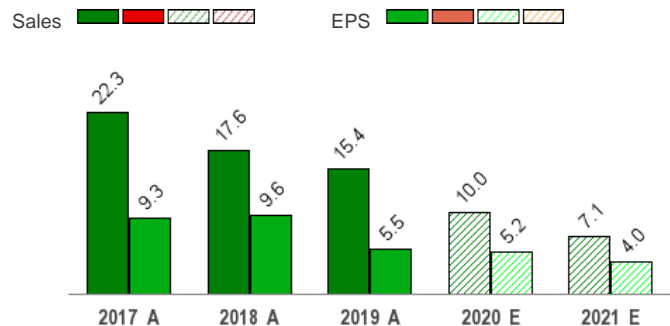
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$177.64 - \$109.22
20 Day Average Volume (sh)	885,741
Market Cap	\$22.2 B
YTD Price Change	9.0%
Beta	0.83
Dividend / Div Yld	\$4.24 / 2.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	10/26/2020
Earnings ESP	-0.8%
P/E TTM	24.6
P/E F1	24.1
PEG F1	5.6
P/S TTM	13.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,803 E
2020	440 A	437 A			1,684 E
2019	359 A	374 A	390 A	408 A	1,531 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.77 E	\$1.90 E	\$1.96 E	\$1.97 E	\$7.61 E
2020	\$1.82 A	\$1.81 A	\$1.84 E	\$1.84 E	\$7.32 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 07/30/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/31/2020.

Overview

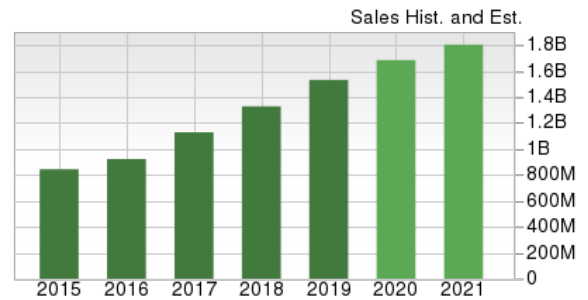
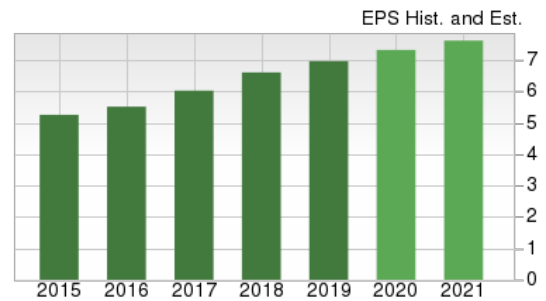
Founded in 1994, Alexandria Real Estate Equities, Inc. is a Pasadena, CA-based urban office real estate investment trust (REIT) with particular focus on collaborative life science, agtech and technology campuses. The company's assets are located in the AAA innovation cluster locations of North America, with considerable market presence in Greater Boston, San Francisco, New York City, San Diego, Seattle, Maryland, and Research Triangle. The company enjoys a solid 10-year historical occupancy rate of 96% at operating properties in North America.

As of Jun 30, 2020, the company held a portfolio of 43 million square feet in North America. This included 28.8 million rentable square feet (RSF) of operating properties. Further, the company has 2.3 million RSF of Class A properties going through construction.

Moreover, the company has 6.6 million RSF of near-term and intermediate-term development and redevelopment projects, and 5.3 million SF of future development projects. Alexandria also provides strategic capital to transformative life science and technology companies through its venture capital arm.

Alexandria's total leasing activity aggregated to 1.1 million rentable square feet (RSF) of space during the June-end quarter. Lease renewals and re-leasing of space amounted to 699,130 RSF. Occupancy of operating properties in North America remained high at 97.1%.

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. As of second-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. Encouragingly, for the company's top 20 tenants, it is 11.2 years. Moreover, the company noted that as of Jul 24, 2020, it collected 99% of July 2020 rents and tenant recoveries and 99.4% of June 2020 rents and tenant recoveries. Also, Alexandria's tenant receivables balance stands at \$7.2 million as of Jun 30, 2020, marking the lowest since 2012.
- ▲ 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 June-end quarter, the company's total leasing activity aggregated to 1.1 million rentable square feet (RSF) of space. Lease renewals and re-leasing of space amounted to 699,130 RSF. Occupancy of operating properties in North America remained high at 97.1%. The company registered decent rental rate growth of 37.2% in the reported quarter. On a cash basis, rental rate increased 15%.
- ▲ In addition, acquisition, development and redevelopment of new Class A properties in AAA locations will likely boost the company's operating performance over the long term. During the April-June period, the company completed the acquisitions of four properties for a total of \$215.3 million. These acquisitions comprise 1.6 million RSF, including 1.4 million RSF of future value-creation opportunities.
- ▲ Alexandria has adequate financial flexibility to cushion and enhance its market position. The company had \$4.2 billion of liquidity as of Jun 30, 2020. Also, the company has no debt maturities until 2023 and has weighted average debt maturity of 9.9 years. Finally, as of the second-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. This June, the company announced a 3% sequential hike in second-quarter dividends to \$1.06. Earlier, 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 gained 19% in the trailing 12 months against the industry's decline of 2.9%. Moreover, the trend in estimate revisions for current-year FFO per share indicates a favorable outlook for the company as estimates has been revised marginally upward over the past month. Therefore, given the robust 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.

Reasons To Sell:

- ▼ Alexandria has an active development and redevelopment pipeline. As of Jun 30, 2020, the company held a portfolio of 43 million square feet in North America. This included 28.8 million rentable square feet (RSF) of operating properties. Further, the company has 2.3 million RSF of Class A properties going through construction. Moreover, the company has 6.6 million RSF of near-term and intermediate-term development and redevelopment projects, and 5.3 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.
- ▼ Amid the coronavirus pandemic, the company is likely to continue experience decline in revenues from its retail tenancy and transient/short-term parking business. A notable part of these tenants are not paying rents currently and this is a 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.

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 Q2 FFO In Line, Rental Rates Rise Y/Y

Alexandria delivered second-quarter 2020 FFO as adjusted of \$1.81 per share, up 4.6% from the year-ago quarter's \$1.73. The reported figure came in line with the Zacks Consensus Estimate.

This improvement resulted from year-over-year top-line growth of 16.9% to \$437 million. The company witnessed continued strong leasing activity and rental rate growth during the quarter.

The company noted that as of Jul 24, 2020, it collected 99% of July 2020 rents and tenant recoveries and 99.4% of June 2020 rents and tenant recoveries. Moreover, Alexandria's tenant receivables balance stands at \$7.2 million as of Jun 30, 2020, marking the lowest since 2012.

Behind the Headline Numbers

Alexandria's total leasing activity aggregated to 1.1 million rentable square feet (RSF) of space during the June-end quarter. Lease renewals and re-leasing of space amounted to 699,130 RSF.

On a year-over-year basis, same-property NOI was up 0.6%. It climbed 2.5% on a cash basis. Occupancy of operating properties in North America remained high at 97.1%. The company registered decent rental rate growth of 37.2% in the reported quarter. On a cash basis, rental rate increased 15%.

As of second-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 the company's top 20 tenants, it is 11.2 years.

During the April-June period, the company completed the acquisitions of four properties for a total of \$215.3 million. These acquisitions comprise 1.6 million RSF, including 1.4 million RSF of future value-creation opportunities.

Liquidity

Alexandria exited the second quarter with cash and cash equivalents of \$206.9 million, down from the \$445.3 million reported at the end of the previous quarter. The company had \$4.2 billion of liquidity as of the end of the reported quarter. Also, it has zero debt maturing until 2023.

Guidance

The company has revised its FFO per share guidance for 2020 to \$7.26-\$7.34 from \$7.25-\$7.35.

The company's current-year guidance is backed by expectations for occupancy in North America (as of Jul 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%.

The company has increased its construction-spend forecast for 2020 from \$960 million to \$1.35 billion. Further, it projected an additional \$900 million to \$1.3 billion of real estate acquisitions in the second half of 2020, including acquisitions completed in July 2020.

Quarter Ending	06/2020
Report Date	Jul 27, 2020
Sales Surprise	NA
EPS Surprise	0.00%
Quarterly EPS	1.81
Annual EPS (TTM)	7.15

Recent News

Alexandria Rewards Investors With 3% Sequential Dividend Hike - Jun 1, 2020

Alexandria announced a quarterly dividend of \$1.06 per share, reflecting an increase of about 3% from its earlier payment of \$1.03 per share on Mar 31, 2020. The increased dividend was paid out on Jul 15 to shareholders of record as of Jun 30, 2020.

The company's low dividend payout ratio of 58% (as of the first-quarter end) along with strong net cash flow from high-quality assets aided hike in the dividend.

Valuation

Alexandria's shares have increased 19% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 2.9% and 12.9% over the past year.

The S&P 500 Index has been up 9.5% over the trailing 12-month period.

The stock is currently trading at 23.52X forward 12-month FFO, which compares to 19.33X for the Zacks sub-industry, 16.35X for the Zacks sector and 22.59X 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 18.73X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$187 price target reflects 24.97X FFO.

The table below shows summary valuation data for ARE.

Valuation Multiples - ARE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.52	19.33	16.35	22.59
	5-Year High	23.53	19.33	16.35	2.59
	5-Year Low	12.88	14.32	11.59	15.25
	5-Year Median	18.73	16.09	14.16	17.52
P/S F12M	Current	14.22	8.36	6.04	3.58
	5-Year High	14.22	8.36	6.66	3.58
	5-Year Low	5.99	5.97	4.96	2.53
	5-Year Median	9.63	6.97	6.06	3.02
P/B TTM	Current	2.04	2.44	2.39	4.44
	5-Year High	2.24	3.03	2.91	4.56
	5-Year Low	1.33	1.81	1.72	2.83
	5-Year Median	1.94	2.51	2.53	3.72

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Boston Properties, Inc. (BXP)	Neutral	4
Cousins Properties Incorporated (CUZ)	Neutral	2
Douglas Emmett, Inc. (DEI)	Neutral	3
Highwoods Properties, Inc. (HIW)	Neutral	3
Hudson Pacific Properties, Inc. (HPP)	Neutral	4
Kilroy Realty Corporation (KRC)	Neutral	4
Piedmont Office Realty Trust, Inc. (PDM)	Neutral	2
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	-	-	4	2	3
VGM Score	F	-	-	D	F	D
Market Cap	22.21 B	1.95 B	22.57 B	13.71 B	4.53 B	3.62 B
# of Analysts	3	4	14	9	4	8
Dividend Yield	2.41%	4.17%	1.83%	4.44%	3.94%	7.48%
Value Score	D	-	-	C	D	C
Cash/Price	0.02	0.07	0.07	0.06	0.03	0.31
EV/EBITDA	26.65	14.22	12.96	14.96	18.56	13.15
PEG Ratio	5.53	3.87	3.04	2.53	4.13	5.15
Price/Book (P/B)	2.01	1.27	3.13	1.64	0.99	0.68
Price/Cash Flow (P/CF)	24.47	10.94	12.61	11.36	10.94	6.84
P/E (F1)	23.83	15.48	22.06	12.40	11.15	6.90
Price/Sales (P/S)	13.26	4.79	2.42	4.72	5.99	3.04
Earnings Yield	4.16%	5.84%	4.31%	8.07%	8.95%	14.50%
Debt/Equity	0.68	0.91	0.75	1.56	0.43	1.18
Cash Flow (\$/share)	7.20	2.05	6.94	7.77	2.79	6.92
Growth Score	C	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	7.76%	1.92%	10.85%	5.66%	-6.41%	-0.94%
Proj. EPS Growth (F1/F0)	5.12%	-2.70%	-7.75%	1.54%	-6.97%	-2.02%
Curr. Cash Flow Growth	4.79%	3.36%	5.39%	-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	0.19	1.74	1.31	7.67	1.82	6.70
Debt/Capital	40.53%	47.99%	44.32%	60.42%	29.89%	52.21%
Net Margin	24.09%	12.77%	10.44%	35.18%	44.35%	19.90%
Return on Equity	3.94%	3.58%	14.73%	12.72%	7.55%	4.21%
Sales/Assets	0.09	0.13	0.52	0.13	0.11	0.09
Proj. Sales Growth (F1/F0)	0.00%	0.00%	-1.95%	1.95%	13.61%	-17.52%
Momentum Score	F	-	-	B	F	C
Daily Price Chg	0.04%	-0.60%	-0.92%	-2.56%	-0.23%	-2.87%
1 Week Price Chg	1.08%	-1.98%	0.37%	-2.58%	-2.57%	-4.93%
4 Week Price Chg	6.72%	-0.06%	4.14%	-3.58%	1.40%	-5.23%
12 Week Price Chg	16.26%	10.27%	12.21%	2.82%	7.97%	1.22%
52 Week Price Chg	21.02%	-20.43%	-1.73%	-32.28%	-11.80%	-40.78%
20 Day Average Volume	885,741	612,531	1,887,986	1,327,013	677,490	1,170,648
(F1) EPS Est 1 week change	-0.30%	0.00%	0.00%	0.00%	0.00%	0.57%
(F1) EPS Est 4 week change	-0.07%	0.00%	0.38%	-0.45%	-0.11%	1.05%
(F1) EPS Est 12 week change	-0.61%	-1.68%	-0.07%	-1.60%	0.63%	1.05%
(Q1) EPS Est Mthly Chg	0.82%	0.00%	0.16%	-0.61%	0.37%	-1.20%

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	C
Momentum Score	F
VGM Score	F

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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