What Investors Want to Know: U.S. REITs

Accelerated Growth Needed to Offset Trump Policy Headwinds

Special Report

Policies Focused on Accelerating Growth: The administration of President Donald Trump is focused on accelerating U.S. economic growth through infrastructure spending and tax and regulatory reform that would benefit all types of commercial real estate (CRE), but could be undermined by restrictive trade and immigration policies. Shorter lease tenor property types, such as hotels, self-storage and apartments, would experience the greatest cash flow growth acceleration, offset by new supply.

Rates Hurt Triple-Nets Most: Long-tenor triple net retail and healthcare properties would see the smallest benefits and could suffer valuation declines if faster economic growth is accompanied by higher inflation and interest rates.

REIT Election Less Appealing: Lower corporate tax rates arguably reduce the appeal of the REIT corporate tax election, particularly if companies can fully expense capital costs. This could enable some growth-focused RIETs to largely replicate the REIT tax election benefits without incurring the mandatory cash distribution requirements.

Possible Liquidity Pressure: REIT liquidity and payout ratios could come under some pressure if required dividends increase to reflect the lack of interest deductibility in calculating taxable REIT net income. The full expensing of capital costs could offset the loss of interest deductions.

Which property types benefit most if economic growth accelerates under the Trump administration?

Are some markets better positioned than others to benefit from increased infrastructure spending?

Does the REIT election make sense if corporate tax rates are lowered?

How could tax reform affect REIT operating models?

Would a border tax pressure retail REITs?

Will financial regulatory relief drive New York office demand higher?

How would government-sponsored entity reform affect multifamily REIT ratings?

Will more restrictive trade policies weaken industrial space demand?

Which retail formats could be hurt by trade restrictions?

How does wage inflation affect CRE?

What markets and property types are most at risk from lower immigration levels?

Could eliminating EB-5 visas lower new supply growth?

Will the travel ban and other immigration restrictions lower hotel demand?

What are Fitch's views on healthcare reform?

How will the healthcare real estate subsectors fare?

Related Research

2017 Outlook: U.S. Equity REITs (Solid Fundamentals and Liquidity Support Positive Sector Outlook) (December 2016)

3Q16 U.S. Equity REIT Liquidity Report (Show of Strength Entering the New Year) (December 2016)

Healthcare REIT Viewpoints — 4Q16 (December 2016)

Industrial REIT Viewpoints — 4Q16 (December 2016)

Multifamily Viewpoints — 4Q16 (December 2016)

U.S. Office REIT Viewpoints — 4Q16 (December 2016)

U.S. Retail REIT Viewpoints — 4Q16 (December 2016)

Analysts

Stephen Boyd, CFA
+1 212 908-9153
stephen.boyd@fitchratings.com

Steven Marks
+1 212 908-9161
steven.marks@fitchratings.com

Britton Costa
+1 212 908-0524
britton.costa@fitchratings.com

Accelerated Economic Growth

Which Property Types Benefit Most if Economic Growth Accelerates Under the Trump Administration?

The Trump administration is focused on re-accelerating U.S. economic growth through a combination of infrastructure spending and tax and regulatory reform. Faster economic growth would benefit all types of CRE, but to varying degrees. More restrictive trade and immigration policies (discussed below) could undermine economic growth, and supply — whether in current development pipelines or initiated in reaction to policy implementation — could offset positive benefits of a more robust economic environment.

Shorter lease tenor property types, such as hotels, self storage and apartments would experience the greatest cash flow growth acceleration, with all things equal. Office, industrial and retail properties should see continued healthy rent spreads for new and renewal leases for the 5%–15% of annual portfolio lease expirations by base rent.

Long-tenor, triple-net retail and healthcare properties would see the smallest benefits and could suffer valuation declines if stronger economic growth is accompanied by higher inflation and interest rates. Most triple-net leases include rent escalations to provide some inflation protection. However, most are fixed bumps that are designed to, but do not necessarily, mirror inflation. Consumer price index based bumps are more common in Europe.

Although investors generally view CRE as an inflation hedge, markets with unusually high vacancy (e.g. select suburban office markets) or weaker fundamentals (e.g. Class B-Malls) will struggle to show rent growth without meaningfully stronger tenant competition for space.

President Trump reiterated his support for legislation that would invest up to $1 trillion in infrastructure during his February 2017 state of the union speech. The president did not commit to direct federal funding, but rather creating a legislative structure to support a mix of public and private investment. As a candidate, Trump unveiled an infrastructure plan in October 2016 that relied on tax credits to stimulate private investment in revenue-generating projects, such as toll roads, airports and utilities. President Trump has also discussed the possibility of an infrastructure bank.

Shortly after taking office, the president signed an executive order advancing completion of the Keystone XL and Dakota Access oil pipelines. Trump also signed executive orders to expedite the environmental review process for infrastructure projects. Fitch believes the executive orders demonstrate the current administration's strong intention to lower Federal hurdles for energy infrastructure projects and promote domestic energy production. Fitch expects Trump to extend this type of support to other industries as opportunities allow.

Are Some Markets Better Positioned than Others to Benefit from Increased Infrastructure Spending?

Fitch expects the Trump administration to target so-called shovel ready projects for infrastructure investments, given their speed to implement. This should provide outsized growth to markets that have infrastructure projects at or near the final planning stages. New York City is one example with a number of large scale projects ready to commence, including the train tunnel projects under the Hudson and East River and airport redevelopments at JFK and LaGuardia.

Tax Reform

Tax reform could yield meaningful changes to CRE values, liquidity and fundamentals across most markets and property types. The details are unknown, but key potential changes that have been discussed that directly affect commercial real estate include eliminating interest as a tax deduction, full expensing of capital costs, a border tax, eliminating 1031 like-kind exchanges and increasing the taxes associated with carried interests.

Does the REIT Election Make Sense if Corporate Tax Rates Are Lowered?

Fitch expects REITs to act in the best interests of shareholders when evaluating and implementing business decisions stemming from tax code changes. It is possible this analysis could result in some REITs electing to be taxed as traditional corporates. IRS rules provide that following termination of REIT status, a company is not eligible to make a REIT election for five years.

Lower corporate tax rates arguably reduce the appeal of the REIT tax election, particularly if companies are allowed to fully expense capital costs during the year of investment. The latter could allow REITs to largely replicate the REIT tax election benefits without incurring the mandatory cash distribution requirements. Full expensing of capital costs could also encourage more corporate real estate ownership, rather than leasing, which would dramatically reduce sale-leaseback transactions and build-to-suit development.

However, the public equity REIT model is cycle tested and has successfully endured since the modern REIT era began in the early 1990s. Therefore, companies are unlikely to make any hasty or cavalier decisions based on tax rules that could conceivably be reversed or repealed in a subsequent presidential administration.

Nevertheless, Fitch generally views the cash retention constraints imposed by the REIT tax election as weakening credit profiles by one notch relative to a traditional corporate owning a similar portfolio with similar capitalization. Therefore, it is possible that equity REIT ratings could migrate higher if companies fail to qualify or do not elect REIT status, assuming issuers do not change their strategic and operational focus and financial policies.

How Could Tax Reform Affect REIT Operating Models?

REIT liquidity and payout ratios could come under some pressure if dividends increase to reflect the lack of interest deductibility in calculating taxable REIT net income. The full expensing of capital costs, for example land, could offset the loss of interest deductions. However, interest expense is more predictably recurring than capital costs, though the latter may generate net operating losses that carry forward.

Preferred stock issuance could become more prevalent if interest deductibility is eliminated, as neither interest expense nor preferred stock dividends would reduce taxable income, and REITs seek to reduce the leverage effects of debt.

REITs do not pay federal corporate tax and, therefore, eliminating the interest deduction could improve their competitive position in the acquisition markets compared with private, often highly levered buyers.

Fitch would view the elimination of tax deferral through 1031 like-kind exchanges as a negative for commercial real estate liquidity that would cut across all market participants, including

REITs. REITs have benefited from 1031 exchanges by minimizing taxable income surrounding their portfolio recycling activities.

There are some alternative strategies to minimize capital gains taxes that could be available to REITs periodically. REITs can declare special dividends to avoid the double taxation. However, less tax efficient reinvestment of sales proceeds will lower the potential rate REITs can grow their net asset values, reducing their marginal investor appeal.

Increasing the taxes associated with carried interests is another potential tax reform aspect that could improve the relative position and capital costs of REITs to private investors. The latter includes merchant developers who could have less marginal incentive to begin new developments if the effective tax rate on carried interests increases, thereby reducing the ratio of new supply to demand.

Multifamily REITs could benefit from stronger demand, given less attractive homeownership economics in a rising interest rate environment. Interest deductibility is not the only reason to buy versus rent, but it is a meaningful benefit that many homeowners enjoy.

Would a Border Tax Pressure Retail REITs?

The controversial border tax contemplated in the house republican tax plan could pressure retailers and retail real estate by extension. Weaker retail formats, those most exposed to on-line competition, such as Class B-Malls and power centers would likely face the most pressure.

The border tax would increase the costs of retailer inventories through a tax on imports. Economists are divided on whether the U.S. dollar would strengthen and offset the impact. President Trump is reportedly lukewarm to the idea of a border tax given its complexity — an aspect of the existing tax code that he campaigned on improving. Senate Republicans have also expressed concerns and have shown little support for the proposal.

Regulatory Reform

President Trump campaigned on the need for financial regulatory reform, promising sweeping changes to Dodd-Frank, but stopping short of advocating for a full repeal. Fitch's financial institutions (FI) group expects congressional republicans to introduce comprehensive re-reform legislation that does not repeal Dodd-Frank, but addresses many of the Republicans' harshest criticisms of the act.

Fitch's FI group expects the Trump administration and republicans to build on previous regulatory reform efforts to craft legislation, rather than starting from scratch. The Financial Choice Act introduced by House Financial Services Committee Chairman Jeb Hensarling in 2016 as the most logical starting point.

Will Financial Regulatory Relief Drive New York Office Demand Higher?

Fitch views New York City real estate, especially office assets, as the primary beneficiary from financial regulatory reform. Lower demand from large financial institutions has weighed on New York office fundamentals during this recovery. Some companies that survived the global financial crisis during 2008 have struggled to regain their former profitability amidst increased regulatory burdens that have raised costs and limited their ability to participate in previously lucrative business activities, including those in proprietary trading, which was deemed too risky for systemically important financial institutions. The finance sector comprises roughly 30% of the New York office market.

How Would Government-Sponsored Entity Reform Affect Multifamily REIT Ratings?

Government-sponsored entity (GSE) reform that weakens the contingent financing advantage (particularly during stress periods) that apartments enjoy would weaken multifamily REIT credit profiles. Multifamily REITs are able to operate with moderately weaker credit metrics than other traditional equity REITs at a given rating due to the government-mandated countercyclical liquidity backstop provided by low cost GSE financing, as well as the basic human need that housing serves.

Fitch's FI group has identified the future of Fannie Mae and Freddie Mac to be among the most complex and politically sensitive public policy questions. This is in part due to the long list of powerful vested interests, which includes current and prospective home owners, large and small banks, holders of Fannie Mae and Freddie Mac equity and debt securities, mortgage brokers, realtors, homebuilders, and affordable housing advocates, among others.

Therefore, while addressing the Fannie Mae and Freddie Mac question may feature in the new administration's agenda, its complexities and the differing desired outcomes suggest it may take a backseat to avoid delaying passage of several of the more pressing deregulation provisions discussed above.

Any reduction in Fannie Mae and Freddie Mac's role would have a significant impact on the U.S. housing market. Fannie Mae and Freddie Mac support the 30-year fixed-rate mortgage, which is a unique and prominent feature of the U.S. mortgage market. Banks are able to underwrite and sell their qualifying 30-year fixed-rate loans to the GSEs, allowing them to transfer the interest rate risk of such loans to the GSEs. Ginnie Mae lacks the capacity or execution ability to absorb their mortgage purchase volumes.

Trade Policy Changes

The Trump administration has taken an aggressive and generally uncompromising approach toward U.S. trade relations. The Administration has abandoned the Trans-Pacific Partnership, confirmed a pending renegotiation of the North American Free Trade Agreement and admonished the international investments of select U.S. companies, while threatening financial penalties for companies that do so.

President Trump has also criticized some countries for manipulating currencies to the country's disadvantage, identifying Canada, China, Germany, Japan and Mexico as having exchange rate policies or trade arrangements that warrant attention. U.S. actions taken that limit trade flows with one country will have cascading effects on others due to the integrative aspects of global supply chains, particularly in manufactured goods.

Will More Restrictive Trade Policies Weaken Industrial Space Demand?

Fitch believes that industrial and retail properties could experience the largest near-term performance and/or value declines from stricter U.S. trade policies. A near-term reduction in U.S. trade would likely reduce industrial space demand. Ultimately, domestic manufacturing would need to satisfy consumer demand for goods if imports fall.

However, increasing the production of U.S. manufacturing would take an extended period and could lead to wholesale changes in location demand as companies reconfigure supply chains and distribution for domestic fulfillment. Fitch also sees supply chain reconfiguration risk from nationalist tendencies in European countries. Many companies relocated their manufacturing to

low-cost Eastern European countries on the premise that goods could flow freely between countries under the common EU structure.

Industrial REITs are conditioned to operating in an environment where supply chains are constantly reconfigured. Existing infrastructure and geographic and physical realities and population densities will support the relevance of the major intermodal industrial hubs, such as Los Angeles, Chicago, Miami, and Northern New Jersey, regardless of what changes may come.

Industrial REITs benefit from operating well located and highly granular portfolios. Moreover, property space demand and value declines in some markets will undoubtedly be offset by gains in others. Strong e-commerce growth is also providing a tailwind to industrial space demand.

Which Retail Formats Could Be Hurt by Trade Restrictions?

Retailers that manufacture or source inventory abroad could also face cost increases and business disruptions based on changes to U.S. trade policies. This could affect retail REIT cash flows through lower space demand and/or tenant failures. Similar to the border tax, weaker retail formats (i.e. those most exposed to online competition) such as B-Malls and power centers would likely face the most pressure.

Immigration Reform

How Does Wage Inflation Affect CRE?

Fitch views higher employment costs as the most immediate risk to CRE from more restrictive immigration policies, particularly for operationally intensive, shorter lease duration property types such as hotels, self-storage and apartments.

Wage inflation would also increase development costs, which is generally positive for CRE given reduced supply. However, construction labor costs will rise, pressuring development returns for selected REITs, particularly if economic growth fails to accelerate and lift rental rates. Many REITs have increased the scope of their development platforms due to better risk adjusted returns given intense competition and low cap rates for core acquisitions.

What Markets and Property Types Are Most at Risk from Lower Immigration Levels?

Immigration supports U.S. household formation growth, which is a key housing demand driver. Select markets have outsized exposure to immigrant renters, such as Boston and New York, which have large international student populations. Changes to H-1B visa policies could also have a pronounced impact in markets with high technology employment concentrations, such as Northern California.

Many tech workers, including a large number of successful entrepreneurs/job creators are living in the U.S. under H-1B visas. The H-1B is a non-immigrant visa program that allows U.S. employers to temporarily employ foreign workers in specialty occupations under the U.S. Immigration and Nationality Act. The U.S. Citizenship and Immigration Services component of the Department of Homeland Security oversees the issuance of up to 85,000 H-1B visas each year. There are over 500,000 workers residing in the U.S. under H-1B visas.

Office space demand could also decline in tech-oriented employment markets due to changes in the H-1B visa program. Examples include Northern California, parts of West Los Angeles, the Midtown South submarket of Manhattan, Seattle and Cambridge, MA. Austin, Denver and Raleigh Durham are smaller regional markets with a sizable and fast growing tech employment base.

Could Eliminating EB-5 Visas Lower New Supply Growth?

Eliminating the EB-5 Immigrant Investor Program could also reduce CRE development, albeit on a small scale that reflects the prevalence of this funding source. EB-5 loans provide visas for foreigners (including spouses and unmarried children under the age of 21) that invest $1,000,000 (or at least $500,000 in rural and/or high unemployment areas), in commercial enterprises that create or preserve at least 10 jobs for U.S. workers. EB-5 development loans work best with operationally intensive property types, such as hotels.

Will the Travel Ban and Other Immigration Restrictions Lower Hotel Demand?

Travel restrictions could lower inbound international visitation to the U.S., which accounts for roughly 10% of U.S. lodging demand, albeit the importance varies widely by market. Although the recently revised travel ban targets a small subset of countries, there is a larger risk that other international travelers vote with their money and boycott the U.S.

Healthcare Reform

What Are Fitch's Views on Healthcare Reform?

The lack of a vote on the American Health Care Act (AHCA), the Republicans' initial effort to repeal and replace the Affordable Care Act (ACA), adds to the uncertainty about topline growth and profitability for some U.S. healthcare industry entities in the medium term. Persistent uncertainty could have negative implications for healthcare providers' access to and cost of capital, particularly for lower rated issuers with debt maturities in 2018–2020. However, Fitch's stable long-term outlook for the healthcare industry remains unchanged.

Demand from an aging population will provide significant volume tailwinds for the industry while managing absolute costs will remain a priority for government and commercial payors and patients. Lowering costs via value-based care — where payments are based on outcomes and episodes of care rather than fee-for-service — will likely continue regardless of what happens legislatively. Providers in particular will increasingly need to demonstrate value, grow their share within core markets and coordinate care across settings through some combination of consolidation, vertical integration and partnering with other systems.

Fitch's expectations for the short term are unchanged since the election. Fitch expects repealing, replacing, or repairing, depending on how it is framed, the ACA to remain a protracted and politically contentious process. As seen with the challenges in advancing the AHCA, many healthcare goals articulated by President Trump do not align particularly well with traditional Republican policies and norms and there is a potential conflict between cutting costs and deregulation, both of which President Trump has supported. For example, Secretary of Health and Human Services Price's efforts to pause expanding bundled payment initiatives and to convert existing bundles to voluntary, achieve the deregulation goal at the expense of containing costs.

These factors, when coupled with the thin majority by which Republicans control Congress and the fact that four of the seven states that swung to Trump in the election expanded Medicaid, narrow the opening for legislation that can appease the various stakeholders. The proposal in the AHCA to delay altering the ACA's Medicaid expansion until 2020 — after the midterm elections — is emblematic of the political risks in rolling back expanded coverage.

The failure of the AHCA to move forward means that the ACA exchanges will be ostensibly functioning in 2018, but we think the industry generally and hospital companies specifically will face higher levels of uncompensated care as fewer individuals enroll in exchange products. The exchanges were not functioning well even with the relatively limited uncertainty the ACA was facing before the election in November. In 2017, exchange enrollment numbers were down about 400,000 versus the 2016 open enrollment period as many health insurers pulled out of the exchanges.

Increasing uncertainty can have meaningful credit implications. Healthcare providers' capital deployment priorities may change when return expectations for capital investments have a wider range of possible outcomes. Similarly, refinancing debt maturities likely becomes more difficult as regulatory uncertainty persists, which is noteworthy given the number of lower-rated healthcare providers with debt maturities between 2018 and 2020.

How Will the Healthcare Real Estate Subsectors Fare?

Healthcare REITs' portfolios have different levels of exposure to government reimbursement payments. Nonetheless, the rankings below are ordinal as even less affected sectors will be indirectly influenced by the number of covered lives in the industry. Fitch advises investors to note how issuers calculate what constitutes private pay exposure. Market convention appears

ACA Reform Considerations by Healthcare Property Type

Sector	How Could it Be Affected?	Noteworthy Issuers
Hospitals	The influence of the ACA (as seen through public hospitals' reported results) has been mixed. Volumes have increased and bad debt has decreased. However, some hospitals have reported low-to-mid single digit benefits to EBITDA, while others have said the effects were negligible with benefits offset by the loss of disproportionate share hospital (DSH) payments. Current legislation proposals may weigh on top-line growth and profitability over the medium term, which will add to the uncertainty surrounding the industry and negatively influence the cost of and access to capital.	Medical Properties Trust, Inc. (bb*); Ventas, Inc. (BBB+)
Post-Acute	Secretary of Health and Human Services Tom Price has intimated the pace of new bundles and mandatory nature of existing bundles may change. Bundled payments are one headwind that skilled nursing operators are facing. The reprieve may be short lived as payors continue to focus on value and cost pressures remain (i.e. labor). Moreover, changing Medicaid funding to block grants may pressure the amount of funding that states allocate to hospitals and skilled nursing in the out years.	Care Capital Properties, Inc. (BBB–); Welltower Inc. (BBB+); Omega Healthcare Investors (BBB–); QCP (b*); Sabra Health Care REIT, Inc. (BB+)
Medical Office Buildings	Medical office buildings (MOBs) typically benefit from higher rent coverage levels and are less exposed to legislative risk (though not unexposed). The trend towards outpatient care should continue to favor MOBs, but volumes may grow at a slower rate if there are fewer covered lives in the industry.	Healthcare Realty Trust, Inc. (BBB); Welltower Inc. (BBB+); HCP, Inc. (BBB); Ventas, Inc. (BBB+); Physicians Realty Trust (NR); Healthcare Trust of America Inc. (NR); New Senior Investment Group Inc. (NR)
Senior Housing	Senior housing has the least reimbursement risk of the core healthcare asset classes. Fitch's expectations for senior housing are mostly focused on supply and labor costs.	Welltower Inc. (BBB+); HCP, Inc. (BBB); Ventas, Inc. (BBB+); Sabra Health Care REIT, Inc. (BB+); New Senior Investment Group Inc. (NR)
Life Sciences	Drug pricing continues to be a topic mentioned by President Trump, and wholesale changes to pricing could have cascading effects on return expectations for new drugs, research and development expenditures and biotech valuations. All of these items could weigh on biotech's confidence and willingness to expand their real estate exposure. With that said, Fitch continues to view this possibility as having populist appeal but its efficacy in cost containment remains unclear. The Part D benefit is administered solely through private insurance companies, in part because the government believed these private sector entities would do a better job negotiating with drug manufactures to keep prices low. We view pharmaceutical prices more as a function of limited supply and competition than as a reflection of whether Medicare negotiates directly or indirectly via private insurance companies.	HCP, Inc. (BBB); Ventas, Inc. (BBB+); Alexandria Real Estate Equities Inc. (NR)

ACA – Patient Protection and Affordable Care Act. NR – Not rated.
Source: Fitch Ratings.

to be considering medical office buildings as 100% private pay with the reasoning that rent coverage is high and the REIT often does not have visibility into the tenants' revenue sources. Intuitively, this understates the government exposure, given some portion of physicians' revenues are derived from government sources.

Though not optimistic, Fitch notes that healthcare REIT ratings should be more stable than the underlying tenants' operating headwinds would otherwise imply. Most healthcare REITs are operating with leverage below their financial policies, providing them significant cushion to withstand an isolated tenant credit issue or provide relief to tenants should that be necessary and they choose to go that route.

In August 2016, Genesis HealthCare announced transactions wherein multiple healthcare REITs (Omega Healthcare Investors, Sabra Health Care REIT and Welltower) agreed to provide support and grant concessions to a sizable common tenant. The multi-faceted transactions included two REITs providing term debt to Genesis to refinance a loan that was at risk of a covenant breach, three REITs resetting operating performance covenants in the master leases to lower levels, and one REIT partnering with Genesis to sell assets and reduce the size of the lease obligation.

The REITs' collective willingness to support a key tenant instead of standing behind the structural protection of the master leases (which, notably, are still covered) reflects the higher degree of interconnectedness of healthcare REITs and their tenants relative to other commercial real estate sectors. While the REITs could have wagered that Genesis would continue to honor its lease obligations, the long-term prospect of having to re-tenant sizable portfolios was likely too costly in the face of generally immaterial net concessions to the REITs' earnings and balance sheets.

As such, the most immediate effect will likely be on healthcare REITs' access to and cost of capital (particularly equity) and Fitch is watching to see how issuers respond. That is, do healthcare REITs continue to provide relief to tenants when necessary and maintain low leverage? Or do healthcare REITs respond by increasing leverage via acquisitions, share repurchases, or some combination thereof? Our stable outlooks across issuers assume the former, but that may change depending upon issuer's actions.

Appendix

CRE Considerations Related to the Trump Administration's Policy Agenda

	Accelerated Economic Growth	Healthcare Reform	Regulatory Reform	Immigration Reform	Trade Restrictions	Tax Reform
Proposals/Focus Areas	Infrastructure Spending, Tax Reform, Regulatory Reform	ACA Repeal, Drug Prices	Dodd-Frank, GSEs	Travel Ban, H1-B Visas, EB-5 Loans	NAFTA, Trans-Pacific Partnership	Eliminating Interest Deduction, Eliminating 1031 Exchanges, Carried Interests, Lower Corporate Rates, Border Tax
Property Types to Watch	Hotels, Apartments, Self-Storage, Industrial	Healthcare, Specialty Office (Lab Space)	Office	Multifamily, Hotels, Office	Industrial, Retail	Multifamily, Office
Market to Watch	Large MSAs with shovel-ready infrastructure projects	Cambridge, MA and San Francisco lab space	New York City, Washington, D.C. office markets	West Coast and other tech employment oriented markets	Los Angeles, Dallas, Houston, Miami and northern New Jersey industrial markets	National

CRE – Commercial real estate. ACA – Patient Protection and Affordable Care Act. GSE – Government-sponsored entity. NAFTA – North American Free Trade Agreement. MSA – Metropolitan Statistical Area.
Source: Fitch Ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.