Deutsche Bank
Research

Rating
Hold

North America
United States

Financial
REITs

Company
Kennedy-Wilson

Reuters	Bloomberg	Exchange	Ticker
KW.N	KW US	NYS	KW

Date
11 July 2018

Company Update

Price at 6 Jul 2018 (USD)	21.65
Price Target	26.00
52-week range	21.65 - 16.15

KW Seattle Property Tour

Valuation & Risks

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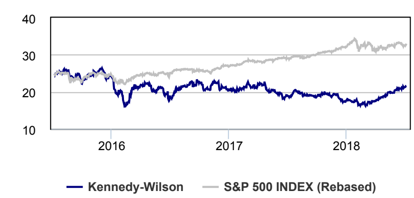
Net positive post tour, but near-term concerns and YTD performance keep us at Hold

On Tuesday, KW hosted a successful investor tour of its Seattle properties including a review of its affordable housing business. Our key takes, which we discuss below, were: 1) the high quality of the Seattle multi-family portfolio 2) the quality and depth of the KW management team which goes beyond the C-suite, 3) a better understanding of the attractive economics of the affordable housing business, and 4) the positive tone regarding 2Q performance including several large expected gains from announced asset sales. While, we were impressed by what we saw, we remain somewhat cautious near-term given the strong YTD performance of the shares and DB's continued call for a 3.5% 10-year by YE18, which, if accurate, would provide a better entry point in the stock down the road in our view. That said, we continue to see long-term value, given our $26 target price that should benefit as development and redevelopment projects commence over the next 18 months. Given our near-term concerns, however, we are not inclined to chase the stock here and we are maintaining our Hold rating for now.

Quality of assets and management team on full display

On Tuesday, KW hosted a well-organized and successful investor tour of its Seattle properties including a review of its affordable housing business. We were pleasantly surprised at the quality of the Seattle assets we visited in the attractive submarkets of Issaquah, Redmond, Mill Creek, Lake Union and South Lake Union. The tour included a mix of garden style and mid-rise market rate properties and a mid-rise senior affordable property, which looked very much like its market rate units. One criticism we hear on the name is the quality of the portfolio, which stems from the generally higher cap rates that they have historically acquired at, but the assets we saw were well-maintained, well amenitized and of high quality with a range of B+ to A assets. The company has also done a good job of driving rent growth via targeted rehab projects and maintaining assets that, in the case of the Onyx, was over 30 years old. At the Onyx, the company has selectively executed on a roughly $11.5K/unit renovation that has increased rents by about $3K annually, while at the Belara, the company has invested $7.6K in rehab costs per unit and has achieved a $2.4K average annual rent uplift. We also heard from a wide range of managers at the regional and property levels and came away impressed by the quality, knowledge and depth of the organization. On the softer side of things, the camaraderie amongst the KW team was also notable and speaks to the positive culture within the organization.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.6	21.6	16.7
S&P 500 INDEX	-0.5	6.0	14.5

Source: Deutsche Bank

Stock option liquidity data

Market Cap (USDm)	3,046.7
Shares outstanding (m)	140.7
Free float (%)	100
Volume (6 Jul 2018)	215,738
Option volume (und. shrs., 1M avg.)	–

Source: Deutsche Bank

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Affordable housing 101

Vintage Housing Holdings President, Ryan Patterson, provided an overview of the somewhat misunderstood affordable housing business. Since KW's investment in Vintage in 2Q15, they have stabilized 4 more properties and 900 units, with KW's equity in the venture down to $14MM from its initial investment of $78MM. The company expects to get all equity back by YE18 and to grow the portfolio by 10 more properties and 7,720 units by the end of 2021. The bulk of Vintage's portfolio is in Washington state (71% of the affordable businesses NOI) where the Low-Income Housing Tax Credit (LIHTC) program is well-established with recent investments being made in Reno. Though rents are limited to metro area household income growth and are typically 25-30% below market rates, the economics of the affordable business remain highly attractive given the availability of tax incentive financing available through LIHTC. The financing for the affordable home developments comes in the form of 15-year federally funded tax-exempt bonds and the sale of tax credits to equity providers, which combined, pay for the entire development. While the tax credit equity investors have over 99% ownership in the deals, the economic benefits from the subsequent cash flows accrue entirely to the developer through various fees, with equity holders making their returns on the dollar-for-dollar tax credit on their investment and the ability to use all of the property depreciation as a tax shield. Additional capital to maintain/update the properties are obtained upon resyndication of existing partnerships that bring in new tax-exempt bonds and new equity partners. Thus far, KW has completed 11 resyndications generating $55MM of funds for rehabs and $44MM of cash to KW. They expect another 11 by 2022.

Seattle remains an attractive market long-term

The strength of the Seattle multi-family market is well-documented, but KW provided some interesting data that supports continued strength long-term at a time when overall market growth is slowing as new supply comes on line. Specifically, KW noted space additions by companies like Facebook, Google, Amazon, and F5 that should support an estimated 48K new jobs by 2020 versus only 21.5K of planned apartment deliveries through 2020. Also, despite strong rent growth over the past few years, Seattle remains an attractive market for workers versus San Francisco given the lack of state income tax in Washington. Finally, with average rents of $1,582/month for its mostly suburban portfolio versus $2,194/month for multi-family peers, ESS, UDR, AVB, and EQR, KW believes they are well-positioned within its Washington portfolio.

Other Tidbits

- Management sounded confident regarding 2Q performance with significant gains on disposition already announced, its announced JV with Axa in Europe, as well as upside from the KWE acquisition.
- KW has historically been an early investor in markets poised for growth and has recently been focusing its capital allocation in Salt Lake, Reno, Portland, and Boise
- KW expects to significantly exceed its $1B third party capital raise target by YE18

Appendix 1

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*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Kennedy-Wilson	KW.N	22.25 (USD) 10 Jul 2018	1, 2, 7, 8, 14, 15

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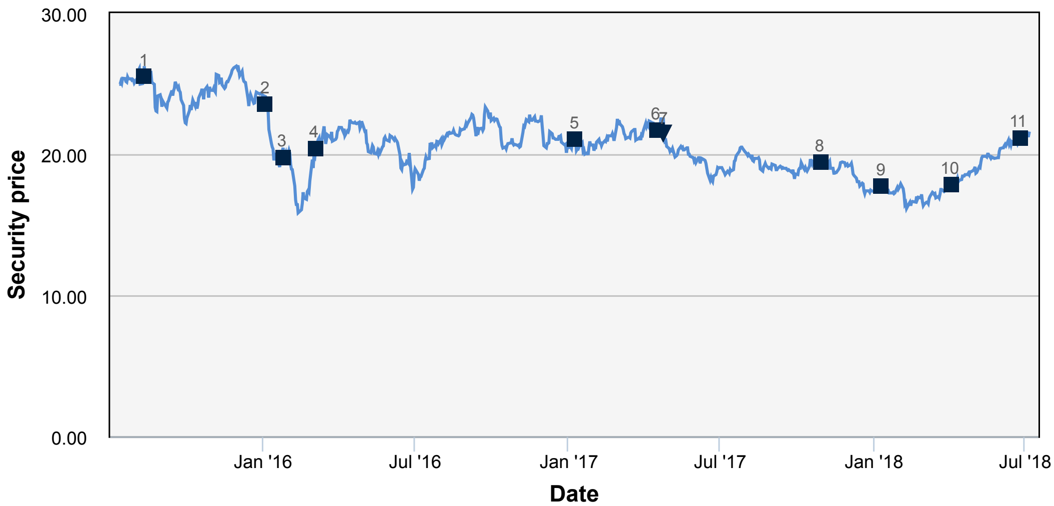
Historical recommendations and target price. Kennedy-Wilson (KW.N)

(as of 07/06/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	08/13/2015	Buy, Target Price Change USD 37.00 Vincent Chao, CFA
2.	01/05/2016	Buy, Target Price Change USD 35.00 Vincent Chao, CFA
3.	01/26/2016	Buy, Target Price Change USD 32.00 Vincent Chao, CFA
4.	03/04/2016	Buy, Target Price Change USD 31.00 Vincent Chao, CFA
5.	01/09/2017	Buy, Target Price Change USD 29.00 Vincent Chao, CFA
6.	04/17/2017	Buy, Target Price Change USD 27.00 Vincent Chao, CFA
7.	04/25/2017	Downgraded to Hold, Target Price Change USD 27.00 Vincent Chao, CFA
8.	10/30/2017	Hold, Target Price Change USD 23.00 Vincent Chao, CFA
9.	01/10/2018	Hold, Target Price Change USD 24.00 Vincent Chao, CFA
10.	04/04/2018	Hold, Target Price Change USD 22.00 Vincent Chao, CFA
11.	06/25/2018	Hold, Target Price Change USD 26.00 Vincent Chao, CFA

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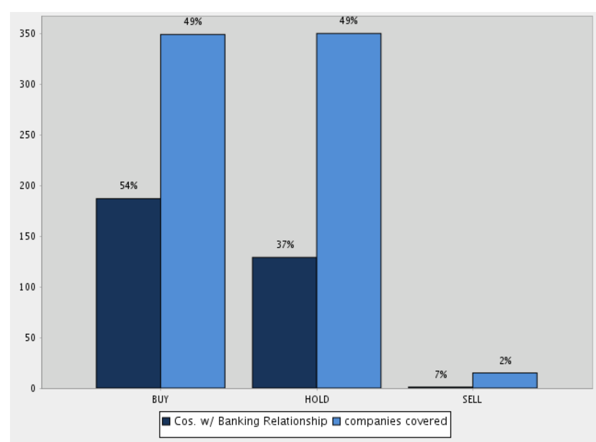

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