

# Financial Institutions Group

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## New York REIT (NYSE:NYRT)

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# Stock Pitch: New York REIT

## Table of Contents

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- I. Investment Thesis**
- II. Company Overview**
  - Public Market Overview
  - Lease Portfolio
  - Properties
  - Tenants
- III. Macroeconomic Environment**
- IV. Growth Opportunities**
  - Internal Opportunities
  - External Opportunities
- V. Valuation**
  - Comparable Company Analysis
  - NAV Model
  - DCF Model
- VI. Catalysts & Risks**
- VII. Allocation Discussion**

# Stock Pitch: New York REIT

## Summarized Thesis

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### ✓ **Quality Lease Portfolio & Experienced Management**

- NYC REIT has the highest direct exposure to Manhattan of any public REIT
- High quality assets in key areas, credit worthy tenants, and no near term lease expirations or debt maturities
- Quality management with a proven track record in acquiring high quality assets

### ✓ **Significant Room For Growth**

- Internal growth projected at ~15% over 2014-2015, and ~5% long-term
- External growth opportunities include concrete M&A alternatives and the Worldwide Plaza option

### ✓ **Extremely Attractive Valuation With Low Downside Risk**

- Discounted based on 2015E P/FFO and P/AFFO, NAV, and DCF models by ~25%
- Under bullish scenarios (i.e. all mentioned growth opportunities come to fruition) upside stands ~60%
- Even with no growth, NYRT's high dividend yield of 4% amongst peers and REIT industry averages is attractive

### ✓ **Supported by Strong Near-Term Catalysts**

- Expected entry in the MSCI REIT Index as early as November 2014 should garner equity research and institutional interest in the stock, leading to share appreciation as in Case Study I
- The Company is “evaluating its strategic alternatives” with Empire State Realty reportedly in talks of merger as of October 2014 and ARC New York REIT as another viable M&A candidate

***Bonus: Balances-out the bank weight in the FIG portfolio***

# Section I

## Company Overview

# Company Overview

## Introduction: The Messiah of High Yield

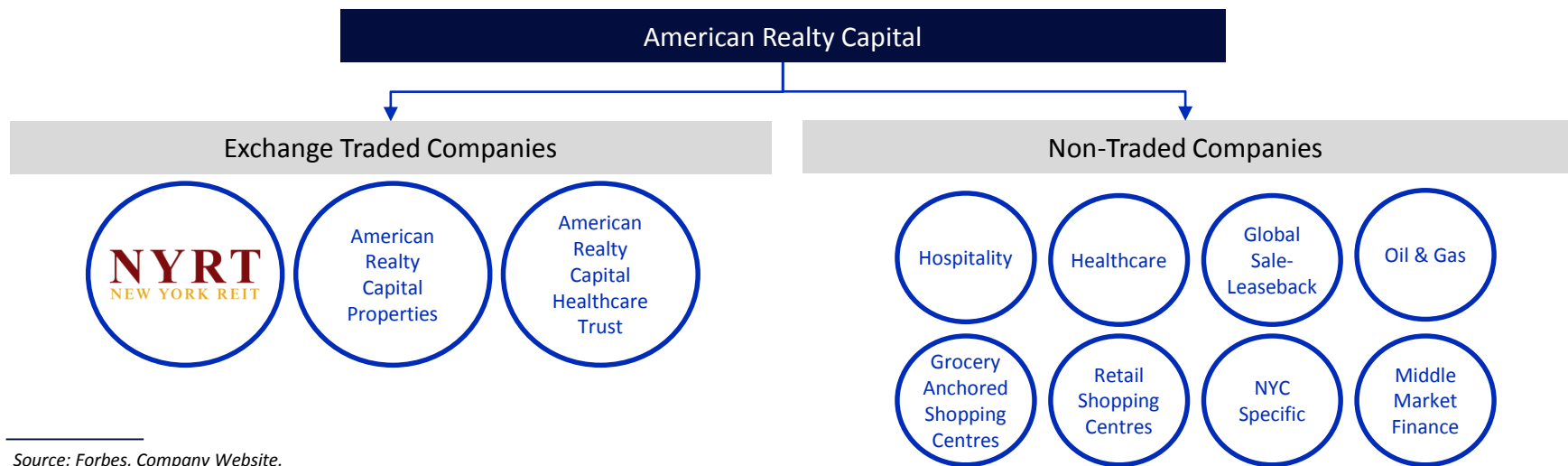


### Nicolas Schorsch



### Profile

- Manages American Realty Capital, a fully integrated firm that manufactures nontraded, high-yielding REITs, and provides research and advisory services
- Went on a buying spree between 2008 and 2012, buying quality assets at low prices to build the nation's second largest financial advisory firm
- In the last 15 months alone, ARC companies have engaged in 12 transactions amounting to more than \$35 billion worth of mergers and acquisitions



Source: Forbes, Company Website.

# Company Overview

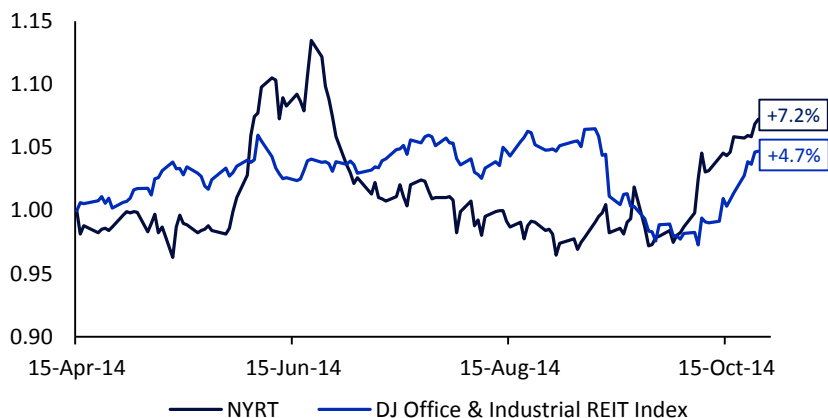
## Manhattan REIT



### Pure-Play NYC REIT

- \$1.8 Billion Market Cap
- Newly public REIT (IPO in April 2014 on the NYSE) that is geographically focused on the New York City metropolitan area and owns a majority of office real estate
- The company was formed as a non-trading REIT in 2010, and since then has deployed over \$2 billion since inception
  - Of the \$2 billion, \$1.8 billion was deployed in 2013

### Performance since IPO



Source: Bloomberg; company website.

### Public Market Overview

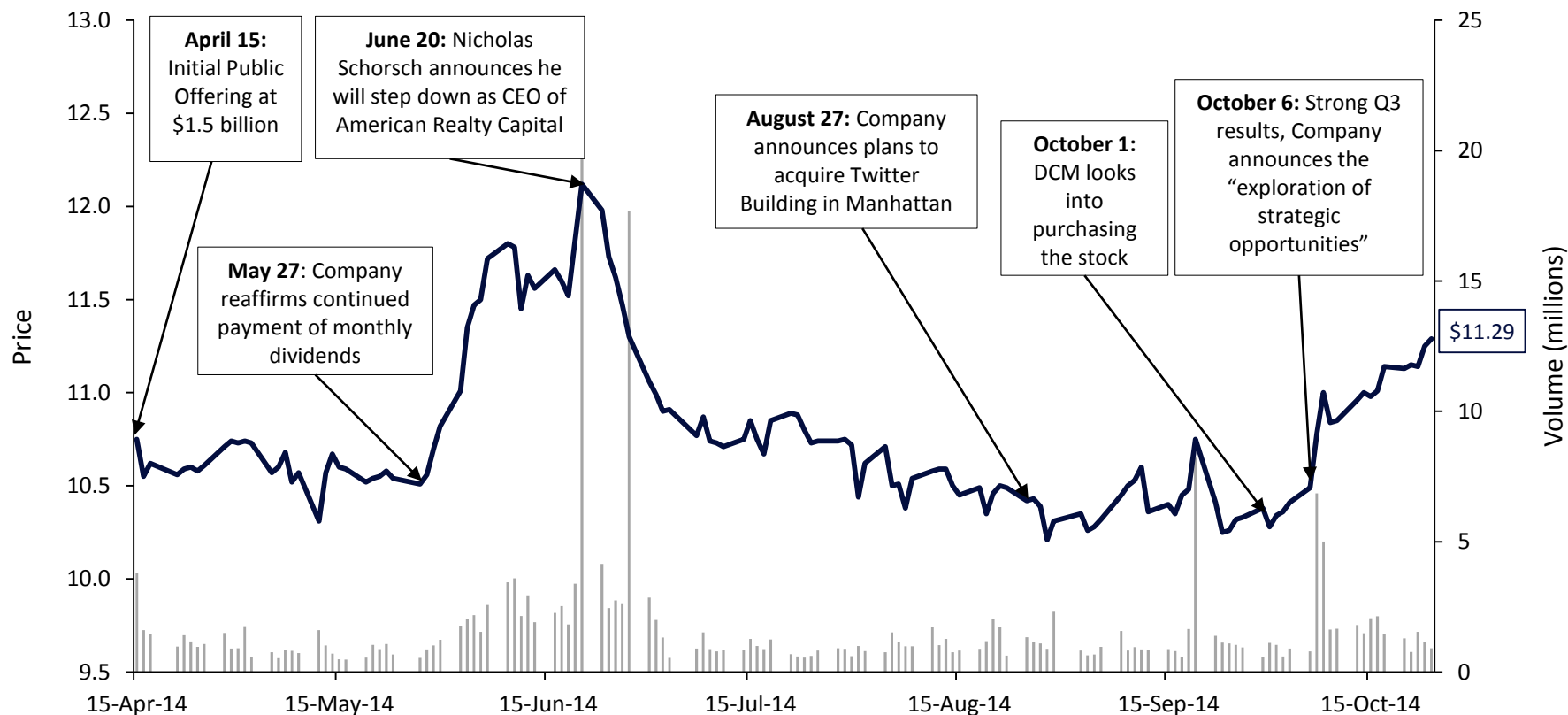
Public Market Overview		
New York REIT (\$US)		
C\$ in Millions		
<b>Current Market Price as of 14/10/14</b>		\$11.13
52-Week High	\$12.32	90%
52-Week Low	\$9.51	117%
Diluted Shares Outstanding (mm)		162.18
<b>Equity Value</b>		<b>1,805</b>
Add: Total Debt		905
Add: Non-Controlling Interest		14
Less: Cash		(51)
Less: Equity in Unconsolidated Affiliates		(229)
<b>Enterprise Value</b>		<b>2,445</b>

Trading Multiples			
	NAVPS	Price/	
		FFO	AFFO
2014E	86%	13.88x	22.85x
2015E	86%	12.48x	20.25x
Financial Metrics			
	NAVPS	FFO	AFFO
2014E	12.99	0.80	0.49
2015E	12.91	0.89	0.55

# Company Overview

## Annotated Price Chart

### Price Performance Since IPO in April 2014



Source: Bloomberg.

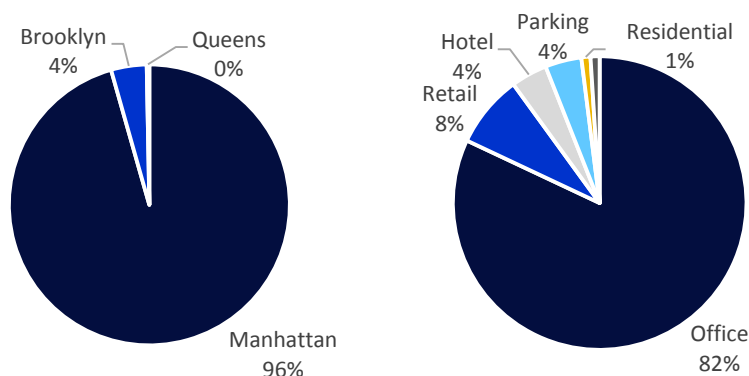


# Company Overview

Appealing Lease Portfolio Managed by an Experienced Team

**NYRT**  
NEW YORK REIT

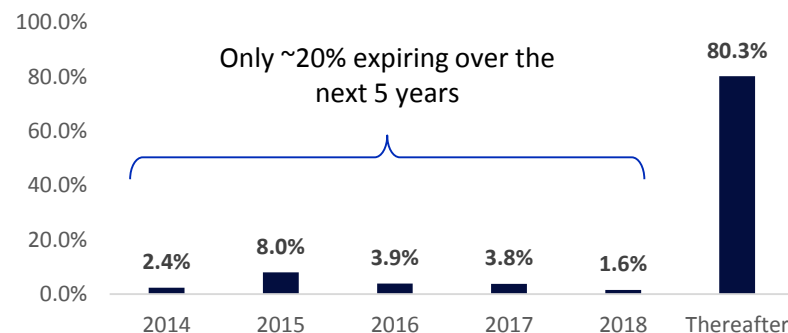
## Portfolio Segmentation



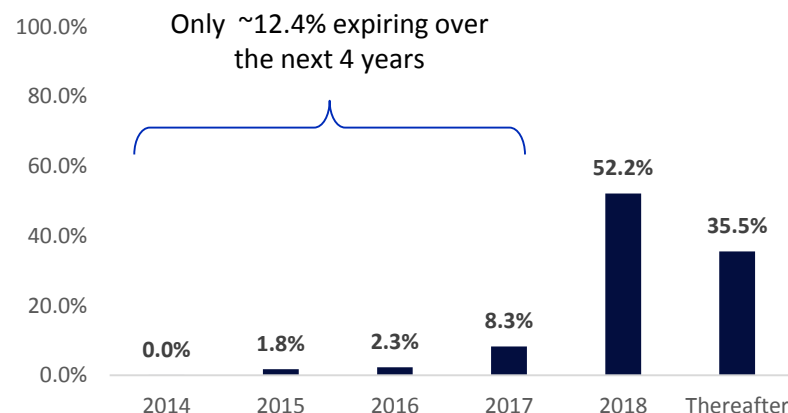
## Experienced Management Team

- NYRT's experienced management team is unusual for a recent IPO REIT, and includes seasoned and cycle-tested players from the industry:
  - Michael Happel, President** has over 20 years experience, including at Morgan Stanley Real Estate (MSREF), where he served as co-head of acquisitions
  - Gregory Sullivan, CFO & COO** has over 30 years experience, including as CFO of Stag Industrial and Trizec Hahn, both publicly traded real-estate companies

## No Near-Term Lease Expirations...



## ... or Debt Maturities



Source: Valuation Model, Company Investor Presentation, August 2014.

# Main Properties & Tenants

## Quality Properties in High Rent Neighbourhoods...

	NYRT Asking Rent	Asking Rent p.s.f.
<b>Midtown</b>		
Columbus Circle	33.60	67.96
Grand Central	N/A	61.91
Penn Plaza	39.87	50.74
Plaza District	N/A	84.94
Times Square	53.91	74.18
<b>Average</b>	<b>42.46</b>	<b>70.19</b>
<b>Midtown South</b>		
Chelsea	N/A	54.62
Gramercy Park	56.70	64.03
Greenwich Village	104.93	68.95
Hudson Square	N/A	50.41
SoHo	38.24	54.16
<b>Average</b>	<b>66.62</b>	<b>58.85</b>
<b>Downtown</b>		
Financial District	N/A	43.86
Tribeca/City Hall	N/A	43.11
Water Street Corridor	N/A	45.77
World Trade Center	N/A	73.51
<b>Average</b>	-	<b>53.25</b>

- Worldwide Plaza
- 90% office space
  - Main tenants: Cravath, Swaine & Moore and Nomura Holdings
  - Embedded growth opportunity to purchase remaining 51.1% stake in 3 years at a fixed price

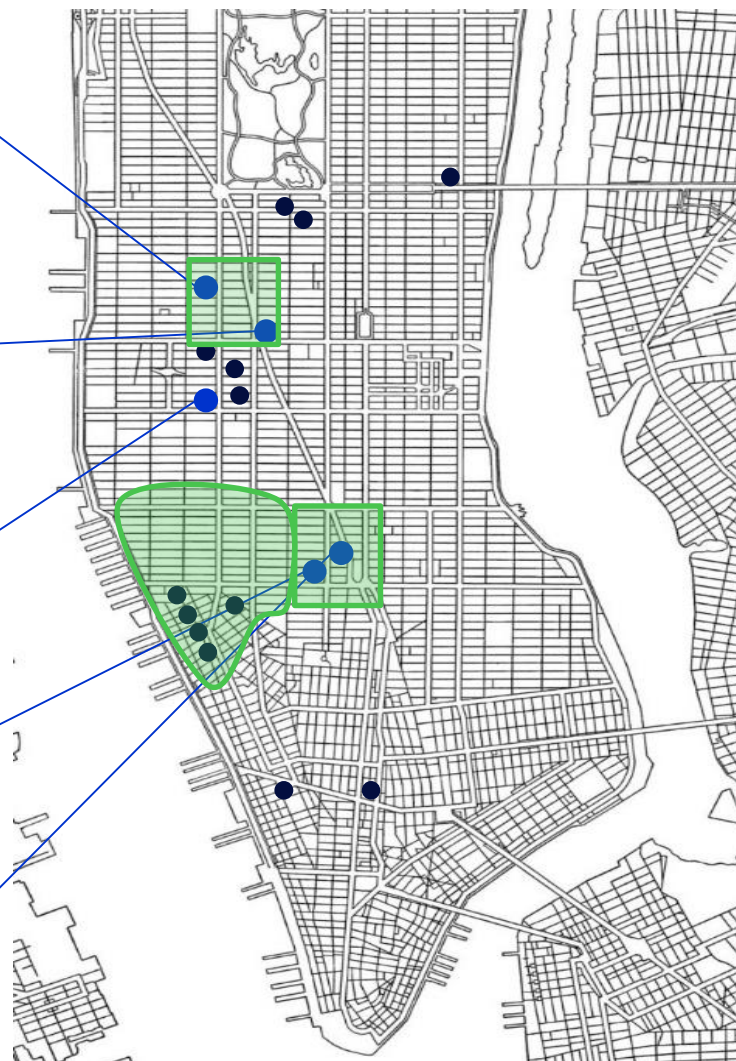
- 1440 Broadway
- 94% occupied, no outstanding debt on property
  - Value creation opportunity in 2015 when existing below-market retail leases expire
  - Acquired below replacement cost at \$699 per square foot

- 333 West 34<sup>th</sup> St.
- 100% occupied
  - No outstanding debt on property
  - 3 tenants occupy 91% of building
  - No lease expiration until 2021

- Red Bull Building
- Located in "Silicon Alley", one of the most supply constrained submarkets in Manhattan
  - Value creation opportunity in 2015 through vacant lease up of ~27,000 sq. feet

- Twitter Building
- 99% occupancy
  - Three tenants: Twitter, Room & Board, Flywheel Sports

~80% of Cash NOI

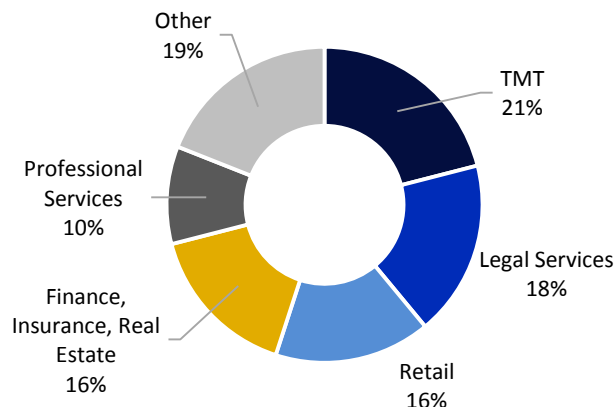


Source: Evercore research report; JLL research report.

# Main Properties & Tenants

## ...With High Quality Tenants

### Tenant Industry Breakdown



### Nomura Holding America Inc.

- Occupies 20 full floors (~900,000 sq. feet), with lease beginning in May 2013, and running through to 2033
- Credit Ratings: S&P's - BBB+, Moody's - Baa1
- Represents 11.9% of NYRT's income on an annualized basis

#### Atsushi Yoshikawa, President & CEO, Nomura Holdings:

*"We are excited about the building which will provide a world-class headquarters to continue to grow our US presence. This demonstrates our long-term commitment to build a top-tier investment bank in the US."*

### Tenant Breakdown by Cash Rent

Top Ten Office Tenants		
Tenant	Property	% of Annualized Cash Rent
Cravath Swaine & Moore LLP	One Worldwide Plaza	17.6%
Nomura Holding America Inc.	One Worldwide Plaza	11.9%
Macy's Inc.	1440 Broadway	7.7%
Rentpath Inc.	1440 Broadway	7.5%
The Segal Company	333 West 34th St.	5.5%
Spring Studios New York	50 Varick St.	4.0%
Advance Magazine	1440 Broadway	2.7%
MTA	333 West 34th St.	2.3%
Liz Claiborne, Inc.	1440 Broadway	2.0%
American Language Comm. Center	229 West 36th St.	1.90%
Top 10 office tenants		63.1%

### Cravath, Swaine & Moore

- Third most profitable law firm in the United States
- Renewed its lease of ~600,000 sq. feet in 2009, for a 15 year leasing term, costing the firm approximately \$900 million
- Represents 17.6% of NYRT's income on an annual basis

#### William Macklowe, President, Macklowe Properties

*"This new lease is a long-term satisfactory solution for both landlord and tenant, and provides Cravath with a permanent home."*

Source: Company 14Q1 & 14Q2 Earnings Releases.

# Section II

## Macroeconomic Overview

# Macroeconomic Overview

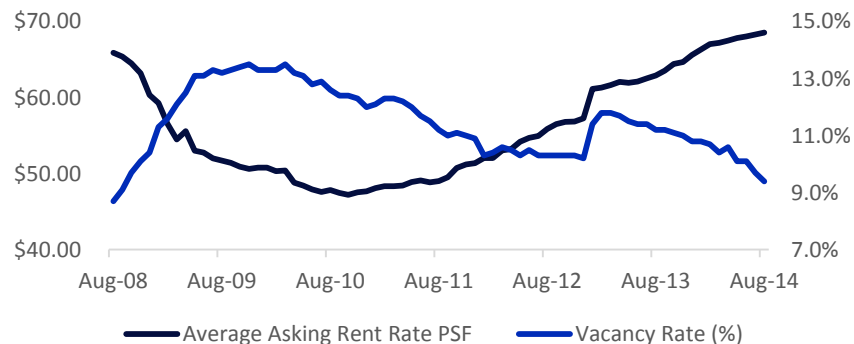
## High Demand for New York Office Space

### Strong Supply/Demand Dynamics

- 5.2 million sq. ft. leased in Manhattan commercial space by Q2, compared to 5.7 million sq. ft. leased in all of 2013
- Foreign investors push office values to highs
  - Spent \$17.4B on office properties in 2013, up 47% YoY, with 31% of those purchases in Manhattan
- Limited speculative development
- Jones Lang LaSalle predicts 10 million sq. ft. of offices to be built in 5 years, vs 23 million sq. ft. needed

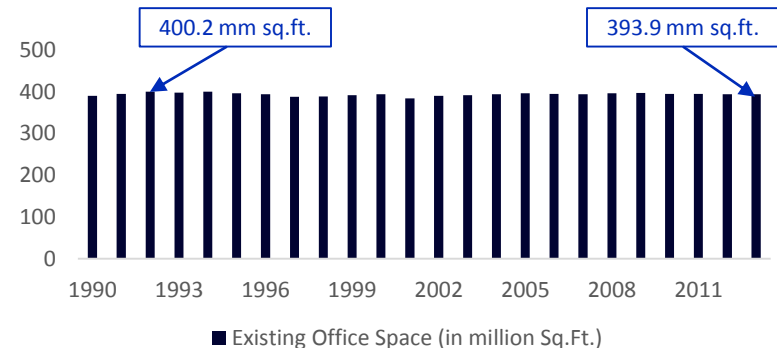
### Rental Prices up as Vacancy Decreases

- Vacancy rate lowest in 2 years –esp. for spaces 100,000+ sq. ft.

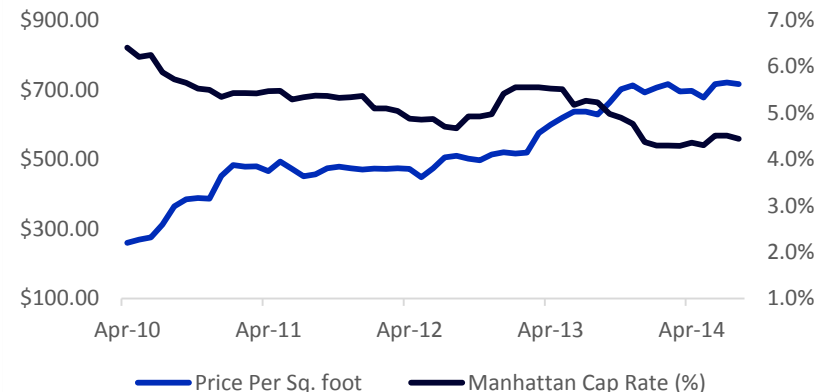


Source: Jones Lang LaSalle Office Outlook Manhattan, September 2014. Bloomberg as of 10/25/2014.

### No New Supply



### Purchase Prices Up as Cap Rates Decrease



# Section III

## Growth Opportunities

# Growth Opportunities

## Overview of NYRT's Growth Potential

### Internal: Stabilization of the Portfolio

- **Three of the 23 properties have not yet stabilized**
- **Management targets over 15% growth in same property cash NOI during 2014-2015, mainly through:**
  - Elimination of “free rent” at 50 Varick Street
  - Ramp-up of newly opened Viceroy Hotel
  - Lease-up of 138,000 square feet at Worldwide Plaza
- **Management expects 4-5% long term growth in same property cash NOI once the portfolio stabilizes**
  - In-place portfolio rents are 10-15% below market
  - Average remaining lease term of ~10 years

### External: M&A, Worldwide Plaza Option

- **M&A a distinct possibility as conservative balance sheet metrics provide ample liquidity for inorganic growth**
  - ~41% combined debt/enterprise value
  - The Company is currently “evaluating its strategic alternatives” with Empire State Realty reportedly in talks of merger as of October 2014
  - ARC New York REIT is also a viable M&A candidate
- **Fixed price option to acquire remaining interest in Worldwide Plaza at \$669 per square foot, expiring January 1, 2017**
  - Management believes option prices represents a substantial discount to estimated FMV of asset
  - Management values the option at \$1 per share (although highly speculative)
  - Represents a 33% increase in square footage from current portfolio

*Source: Company investor presentation, August 2014.*

# Internal Growth Opportunities

Management Targets +15% Growth in 2014-2015 Same Property Cash NOI

## 50 Varick Street

- 15-year lease term free rent elimination
  - Rental escalations equal to CPI increase every three years (6% at minimum, not to exceed 15%)
  - Free rent to burn-off by 4Q14 October
  - Represents \$6 million of incremental rental revenue, or a 4% increase

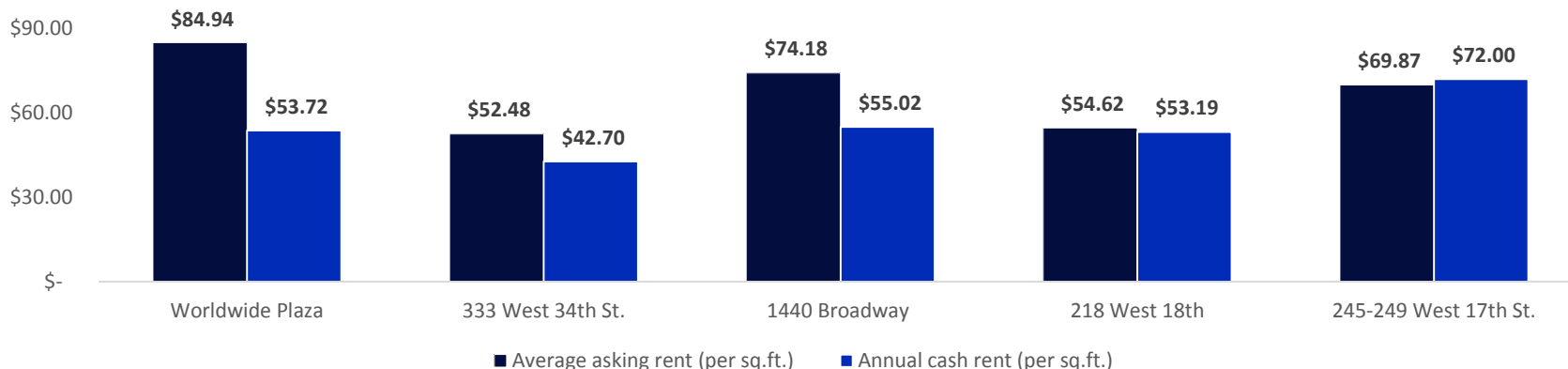
## Viceroy Hotel

- Acquired 241 room hotel in Sept 2013 for \$148,500,000
- Opened to guests in October 2013
- Occupancy to stabilize within two to three years
  - First quarter saw an average occupancy of 42.1% vs. average Manhattan occupancy was 86.7% in 2013

## World Wide Plaza

- Lease-up of 138,000 square feet at Worldwide Plaza

## Current Rent Should Expand to Market Rent Over Time



**Rental prices have room for growth as they are currently below market prices by 10-15%, and Management expects 4-5% long term growth in same property cash NOI once the portfolio stabilizes**

Source: NYRT 8-K 7/5/2013. Jones Lang LaSalle Office Outlook Manhattan, September 2014.

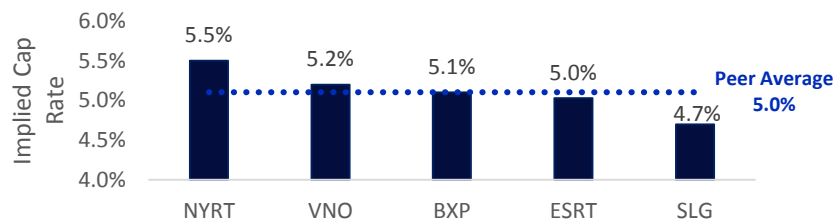


# External Growth Opportunities

## Concrete M&A Scenarios and Significant Option Value on the Horizon

### NYRT is “Evaluating Strategic Alternatives”

- NYRT stands to gain from a merger through:
  - Increase bargaining power, lower cost of equity, funding for further growth, access to larger transactions, internalization of management becomes more cost effective



### Potential M&A Parties

#### 1) New York City REIT

- Non-traded REIT formed by American Realty Capital through \$750 Million offering in April 2014
- Has same investment strategy and overlapping management team as NYRT

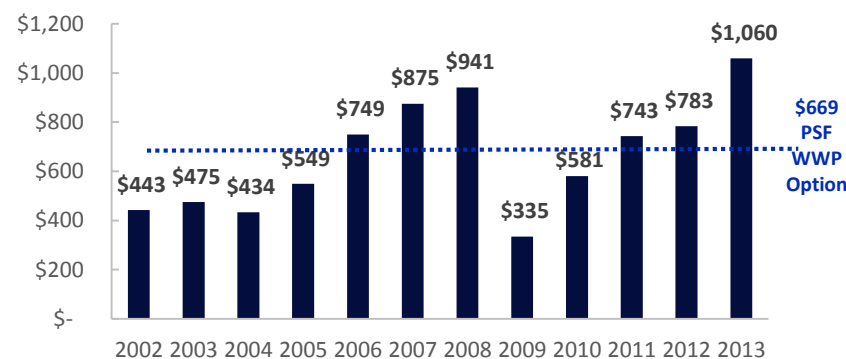
#### 2) Empire State Realty Trust Inc. (NYSE: ESRT)

- Manhattan and greater NYC-focused office and retail REIT
- \$1.54B market cap
- Reportedly in talks as of early October 2014

### Worldwide Plaza Option

- NYRT acquired 48.9% equity interest in One Worldwide Plaza October 2013
- Option to acquire rest of 51.1% stake in 2016 for a fixed price of \$669 psf., or a total consideration of \$270 million
- 4 vacant floors gives them further opportunity to increase cash-on-cash return
- 84% occupied by credit-worthy tenants, Nomura and CS&M
  - 10+ year lease terms with contractual rent bumps
  - Rents are still roughly 10% below market, offering further NOI upside when leases expire

### Worldwide Plaza Option Value



Source: Wall Street Journal: Empire State Realty Trust Interested in Acquiring New York REIT, 10/7/2014

# Case Studies: American Realty Capital M&A

## ARC Property's Tried and True Model of Delivering Shareholder Value

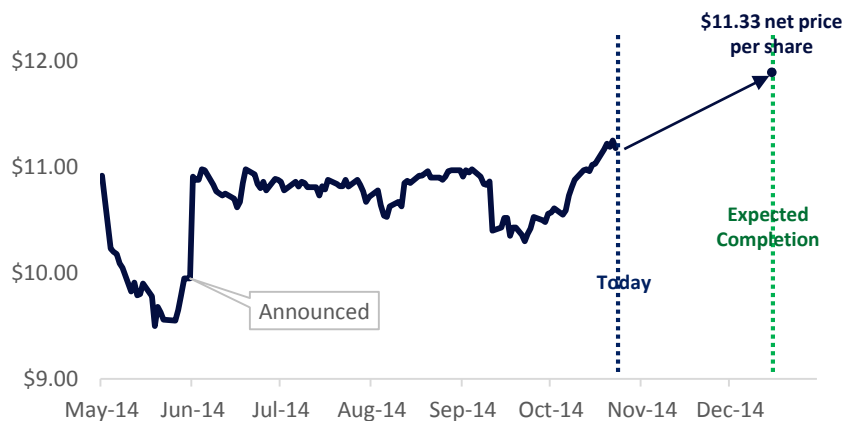
### How ARC Property Creates Value

- IPO of non-traded REITs generates more interest in portfolio
  - Company is restructured so there is higher oversight; market gets better visibility
- By using an external management team, company avoids change of control costs and board conflicts associated with M&A
  - However, external management usually trades at 5-10% discount as per Street estimates

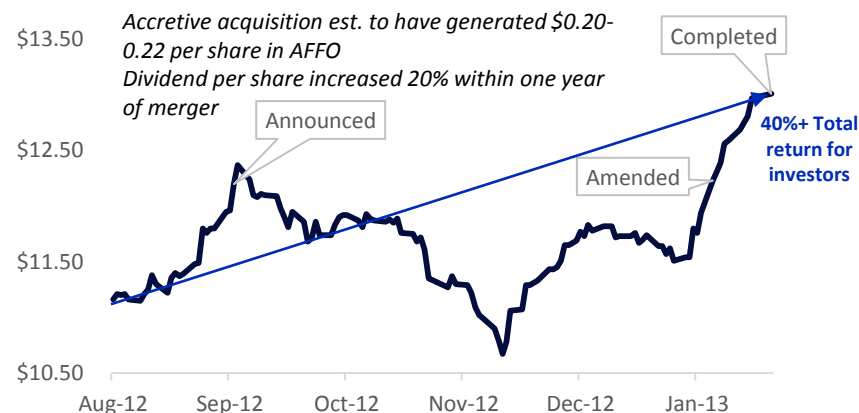
### ARC Recent M&A Transactions

Deal	HCT and VTR	ARCT and O
Target Market Cap (M)	\$1,893.00	\$1,933.00
Acquirer Market Cap (M)	\$19,111.31	\$5,632.65
Date Announced	6/2/2014	9/6/2012
Status	Pending (12/31/14)	Completed (1/23/13)
Transaction Value (M)	\$2,305.39	\$2,961.60
<b>Premium</b>	<b>14.45%</b>	<b>5.17%</b>

### M&A I: Ventas & ARC Healthcare Trust



### M&A II: Realty Income & ARC Trust



# Section IV

## Valuation

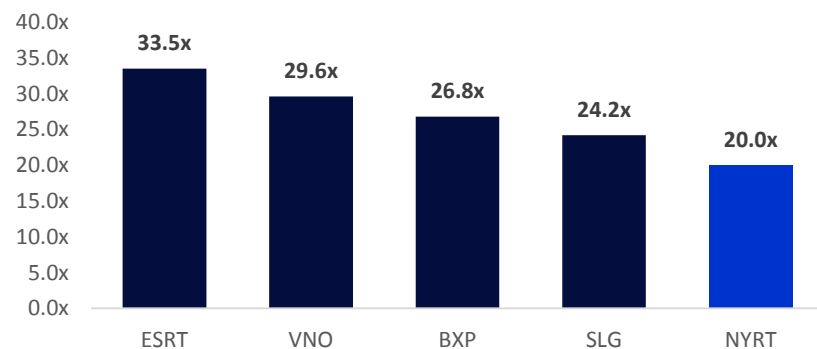
# Valuation

## Comparable Company Analysis

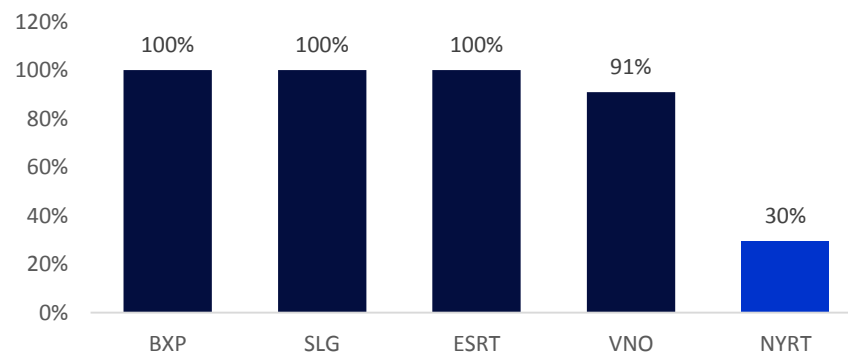
### Comparables Show Deep Discounts and Attractive Dividend Yields

Ticker	Company	Price	EV	Div Yield	% Properties in Manhattan	Institutional Ownership	Prem./ (Disc.) to NAV	P/FFO		P/AFFO		Debt / Gross Assets
								2014E	2015E	2014E	2015E	
BXP	Boston Properties Inc.	117.21	29,291	2.22%	20%	100%	1.20%	22.6x	20.9x	29.7x	26.8x	48%
SLG	SL Green Realty Corp.	105.25	19,103	1.90%	81%	100%	8.50%	18.5x	17.6x	27.8x	24.2x	44%
VNO	Vornado Realty Trust	102.17	31,999	2.86%	39%	91%	5.00%	22.1x	20.6x	31.8x	29.6x	44%
ESRT	Empire State Realty Trust	15.67	3,302	2.17%	78%	100%	0.20%	20.9x	19.9x	37.7x	33.5x	61%
Select Comp Average			20,924	2.29%	55%	98%	3.73%	21.0x	19.8x	31.8x	28.5x	49%
Select Comp Median			24,197	2.19%	59%	100%	3.10%	21.5x	20.3x	30.8x	28.2x	46%
NYRT	New York REIT	11.00	2,186	4.28%	96%	30%	(15.34%)	13.7x	12.3x	22.6x	20.0x	41%
Premium / (Discount) to comparable company average							(19.1%)	(34.8%)	(37.6%)	(28.9%)	(29.8%)	

### Particularly Based on 2015E P/AFFO...



### ... With Differences in Institutional Own.



Source: Valuation Model, Street Research, S&P Capital IQ as of 10/20/2014.

# Valuation

## Operating Model Assumptions

### Bear Case

**Purpose:** Effect of a recession/drop in real estate prices on NYRT

#### Rent Revenue Growth

- (20%) in 2015, and slowly increasing thereafter
- Not a reasonable assumption due to leases contracts

#### Margins

- Steady throughout at 2013 levels

#### Maintenance Capex

- Increase to 25% of Rent Income due to unexpected renovations

#### Dividends

- Sustainable, but cuts into dry powder

Price Target: **\$8.70**

Downside: **(22%)**

### Base Case

**Purpose:** Low revenue growth case, steady margins, constant dividends

#### Rent Revenue Growth

- 1% Rent Revenue CAGR, because lease contracts track inflation

#### Margins

- Steady throughout at 2013 levels

#### Maintenance Capex

- Constant at 2013 levels

#### Dividends

- \$0.46 per share, as per management guidance

Price Target: **\$13.68**

Upside: **+23%**

### Bull Case

**Purpose:** Effect of most internal growth opportunities coming to fruition

#### Rent Revenue Growth

- 10-15% increase in Rent Revenue to match market rent rate
- Not a reasonable assumption due to lease contracts

#### Margins

- Steady throughout at 2013 levels

#### Maintenance Capex

- Decreases to 15% of Rent Income

#### Dividends

- \$0.46 per share, with increase possible/likely

Price Target: **\$17.87**

Upside: **+61%**

# Valuation

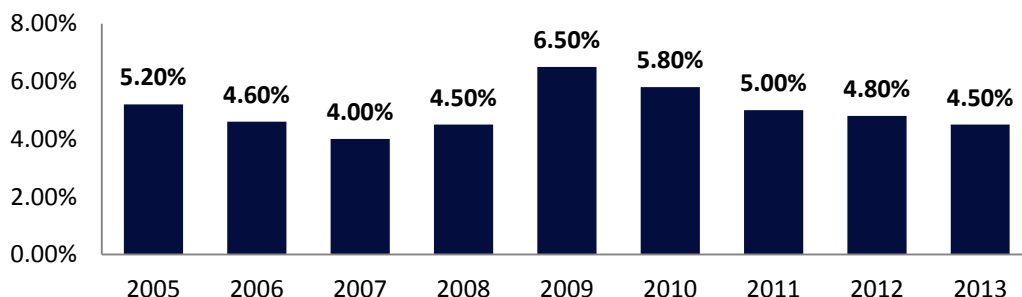
## Net Asset Value Model

### Model Output

	Cap Rate	2014E	2015E
<b>Net Asset Value Per Share</b>	<b>4.8%</b>	<b>13.03</b>	<b>12.99</b>
<i>Current as Premium (Discount)</i>		<i>(15.6%)</i>	<i>(15.3%)</i>
<b>Evercore NAVPS Discount</b>	<b>4.8%</b>	<i>(7.0%)</i>	
<b>JMP Research NAVPS Discount</b>	<b>5.1%</b>	<i>(4.0%)</i>	

Scenario	Cap Rate					
		5.60%	5.20%	4.80%	4.40%	4.00%
Bear		8.16	8.35	8.57	8.83	9.14
Base		13.10	13.33	13.61	13.93	14.32
Bull		16.63	16.87	17.15	17.48	17.88

### NYC Cap Rate Survey



Source: CBRE Cap Rate Survey, Street Research.

### Main Assumptions

- NAV models are assumed to be the most accurate REIT Valuation tools, as valuations should rarely diverge significantly from the intrinsic NAVPS value
- The main disadvantage of the NAV model is the over-reliance on one main assumption: the cap rate
- The model is useful because of the visibility on rent revenue
  - Forecasted based on annual rent per building (as disclosed in the rent contract) and occupancy rates
  - Occupancy rates currently stand at 94.3%, and forecasted as constant
- Property value is then forecasted based on NOI and the cap rate

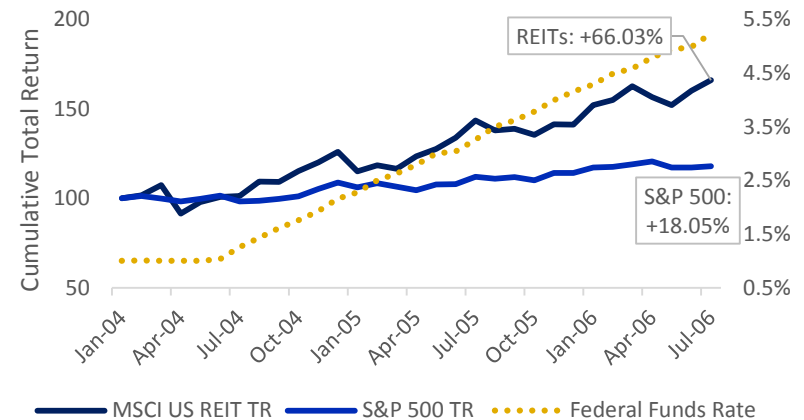
# Valuation

## REITs vs. Interest Rates: Not as Correlated as You Might Think

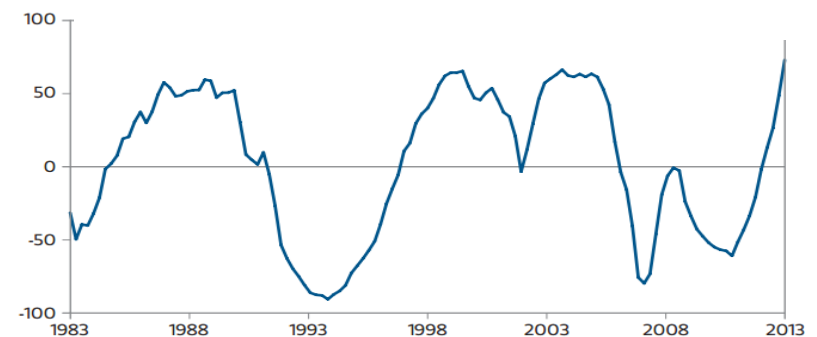
### Should We Fear Higher Interest Rates?

- New York office demand should be more closely correlated with the economic cycle –price effect of rising demand should offset cap rate and interest expense increases in from rising interest rates
- REITs are priced like a real assets – they tend to be able to grow dividends at the same pace as inflation
  - REITs have performed well in periods of high inflation
- Correlation between capitalization rates and the 10 year U.S. Treasury Yield depends on time horizon
  - In the short-term, REIT performance is negative as investors “over-correct” for rising interest rates
  - In mid to long-term, cap rates and real estate values are more closely tied to economic growth

### 2004-06 Rate Hike Case Study



### 5-Yr Corr. of 10Y Yield and Cap Rates



Periods of Rising U.S. Treasury Yields	Cumulative Change (bps)	
	10Y Treasury Yield	Cap Rate
Aug 1986 - Oct 1987	193	0
Oct 1993 - Nov 1994	248	-40
Oct 1998 - Jan 2000	204	-10
June 2003 - June 2007	149	-260
July 2012 - June 2014	110	-60

Source: Bloomberg, Green Street Advisors, Morgan Stanley Real Estate Investing; Cohen & Steers July 2014

# Valuation

## Discounted Cash Flow Model

### Model Output

Scenario	Terminal Growth					
		2.00%	2.50%	3.00%	3.50%	4.00%
	Bear	8.44	8.50	8.57	8.66	8.77
	Base	13.26	13.42	13.61	13.85	14.16
	Bull	16.60	16.85	17.15	17.53	18.03

Scenario	Terminal AFFO Multiple					
		23.50x	26.00x	28.50x	31.00x	33.50x
	Bear	8.43	8.50	8.57	8.64	8.71
	Base	13.23	13.42	13.61	13.80	13.98
	Bull	16.55	16.85	17.15	17.45	17.75

	Method	Rate	Calculation
Sum of PV of FCFE			448,017
PV Terminal Value	<i>Gordon Growth</i>	3.00%	1,443,319
Equity Value			1,891,336
Diluted Shares Outstanding			162,185
<b>Price Target</b>			<b>\$ 11.66</b>
PV Terminal Value	<i>Terminal AFFO Multiple</i>	28.5x	1,741,970
Equity Value			2,189,987
Diluted Shares Outstanding			162,185
<b>Price Target</b>			<b>\$ 13.50</b>

Source: Street Research, Bloomberg, S&P Capital IQ as of 10/20/2014.

### Main Assumptions

- Used Levered Free Cash Flow because we wanted to see “how much future cash flow can potentially be used in dividends and share buybacks”
- REITs have a large debt and interest components, and our AFFO estimates already proxy a cash flow to equity
- Cost of Equity estimated through average unlevered peer group beta
  - Risk-free used: U.S. 10-year
  - Market Risk Premium used: Damodaran U.S. Estimate
- Because NYRT has only been public for less than 1 year, Bloomberg Adjusted Beta would be inadequate

Method	Rate
U.S. 10-year Yield	2.27%
Damodaran Estimate	5.00%
Re-levered Comparable Avg.	1.02
<b>Cost of Equity</b>	<b>7.36%</b>



# Valuation

## Operating Model: How Conservative Are Our Estimates?

### AFFO Estimates in line with both Street Research and Management Guidance

	Forecasted					
	2014E	2015E	2016E	2017E	2018E	2019E
<b>Levered Free Cash Flow</b>						
Net Income	48,811	48,553	52,619	56,560	60,383	64,095
Plus: Depreciation & Amortization	75,081	89,948	87,538	85,269	83,135	81,129
Plus: Proportionate share of JV Depreciation & Amortization	6,176	6,176	6,176	6,176	6,176	6,176
<b>FFO</b>	<b>130,068</b>	<b>144,677</b>	<b>146,332</b>	<b>148,004</b>	<b>149,693</b>	<b>151,399</b>
Less: Maintenance Capex	(37,410)	(41,748)	(42,166)	(42,587)	(43,013)	(43,443)
Less: Proportionate share of JV Maintenance Capex	(13,655)	(13,791)	(13,929)	(14,069)	(14,209)	(14,351)
<b>Adjusted FFO</b>	<b>79,003</b>	<b>89,137</b>	<b>90,237</b>	<b>91,348</b>	<b>92,471</b>	<b>93,604</b>
Less: Net Change in Working Capital	19,581	2,451	236	238	241	243
Plus: Additional Debt Borrowings	-	-	-	-	-	-
Less: Mandatory Debt Repayments	-	-	-	-	-	-
<b>FCFE</b>	<b>98,583</b>	<b>91,587</b>	<b>90,473</b>	<b>91,587</b>	<b>92,711</b>	<b>93,847</b>
<b>Adjusted FFO</b>	<b>79,003</b>	<b>89,137</b>	<b>90,237</b>	<b>91,348</b>	<b>92,471</b>	<b>93,604</b>
Diluted Shares Outstanding	162,185	162,185	162,185	162,185	162,185	162,185
<b>AFFO Per Share</b>	<b>0.49</b>	<b>0.55</b>	<b>0.56</b>	<b>0.56</b>	<b>0.57</b>	<b>0.58</b>
<b>Evercore AFFO Per Share Estimate</b>	<b>0.49</b>	<b>0.63</b>	<b>0.66</b>			
<b>Management Guidance</b>		<b>0.54<sup>(1)</sup></b>				

*DCM estimates fall slightly below both Street Research and Management Guidance*

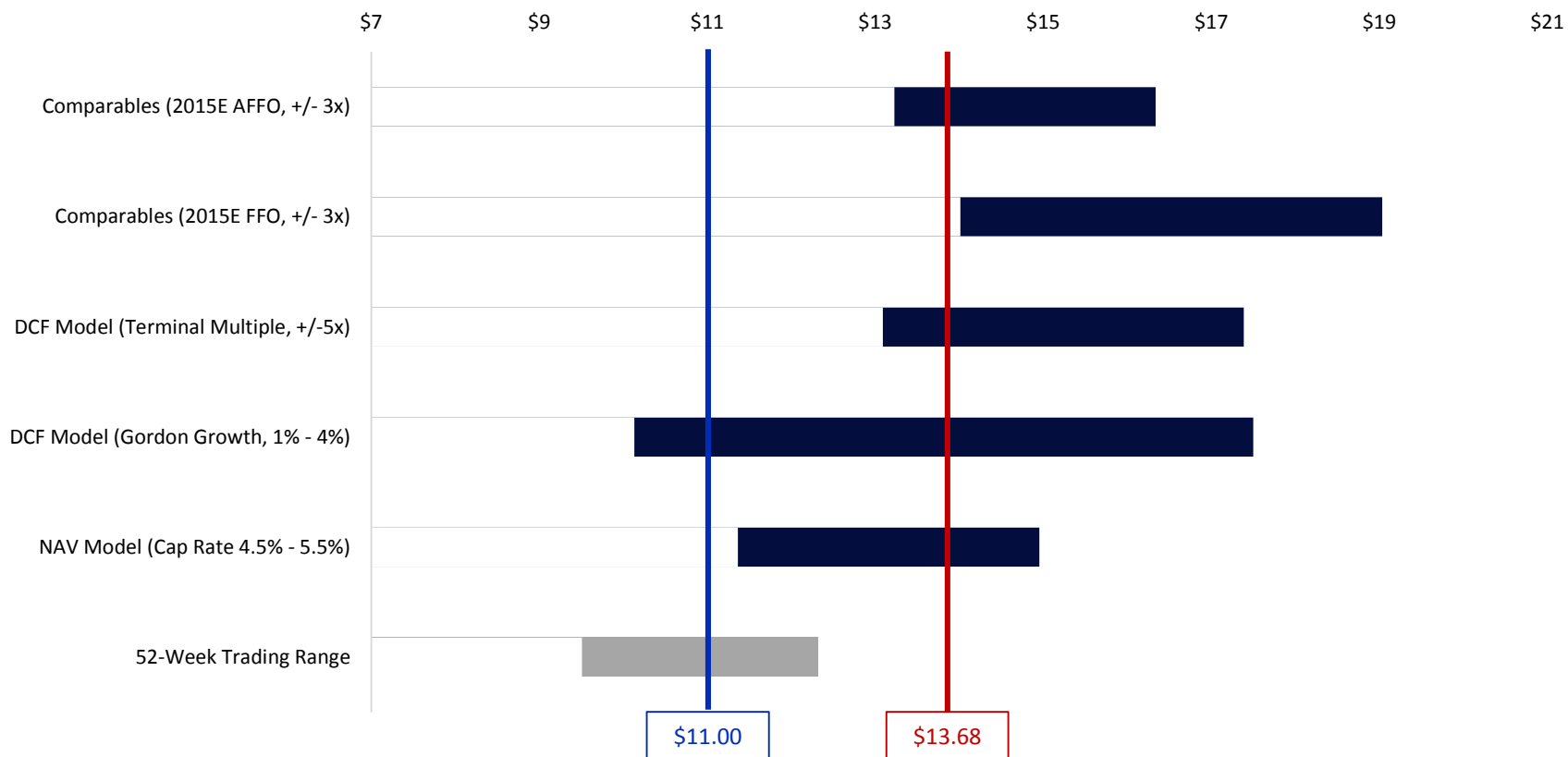
Source: Street Research, Company Documents, S&P Capital IQ as of 10/20/2014.

(1) Management guidance estimate does not include AFFO from the Twitter Building Acquisition, which should boost the forecast to ~0.58 AFFO per share.

# Valuation

## Football Field Analysis

### Adjusted Trading Multiples<sup>(1)</sup>



Source: Street Research, S&P Capital IQ as of 10/20/2014.

(1) Adjusted for estimated 10% discount applied to externally managed REITs, as per equity research estimates.

# Dividends

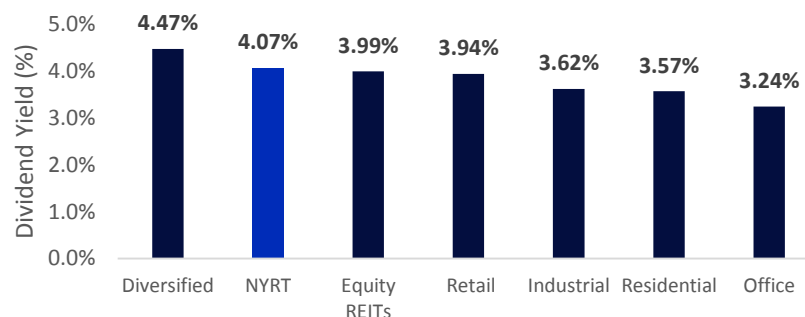
## NYRT Offers Attractive Dividend Yield Compared to Industry and Peers



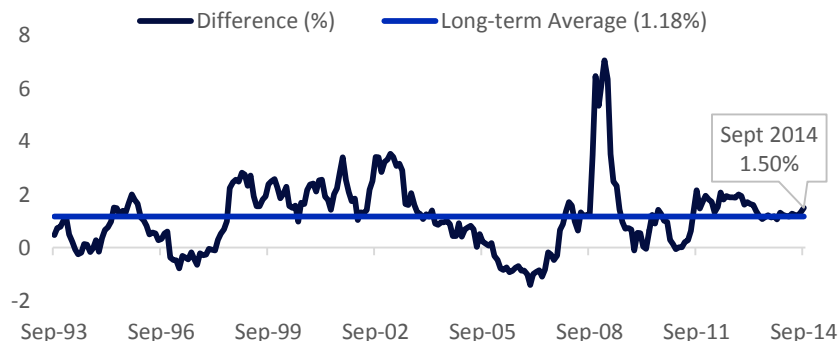
### Dividend Tax Efficiency

- REITs are required to payout at least 90% of taxable earnings as dividends to shareholders
  - REITs are allowed to deduct dividends paid to shareholders from their taxable income
  - i.e. paying out 100% of taxable earnings allows REITs to avoid all corporate taxes
- Average dividend yield for equity REITs is at 3.99%

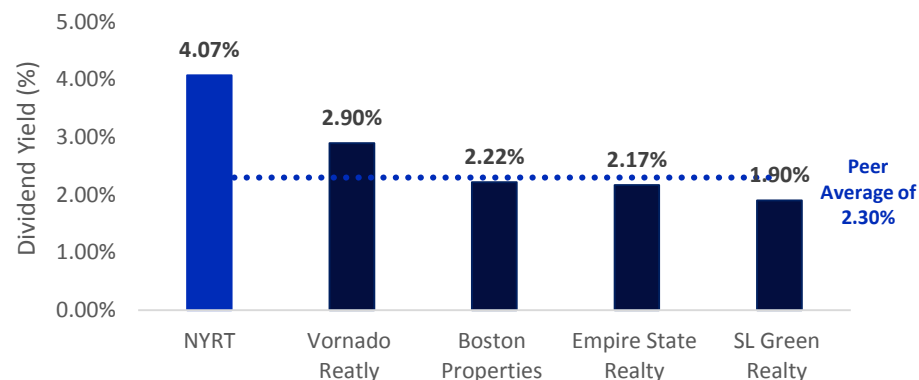
### Dividend Yield By Property Sector



### Dividend-10Y Spread Room to Narrow



### Attractive Yield Relative to Peers



Source: FTSETM, NAREIT®, As of Sept 30<sup>th</sup>, 2014. S&P NetAdvantage REIT Industry Surveys May 2014; JNP Equity Research

# Section V

## Catalysts & Risks

# Catalysts & Risks

## What Isn't the Market Seeing?

### Street View

*"NYRT currently trades at a 20.2x 2015 AFFO multiple – a 12% discount to the office sector and a 30% discount to the select NY office REITs. [...] In our view, NYRT should trade at a substantial discount to the NY office REIT peers given its external management structure, smaller market cap, more limited liquidity and track record in the public markets."*

*- Evercore Partners, August 2014*

1

### Track Record ("IPO Discount")

- REITs, as a general rule, tend to have a very high percentage of institutional ownership in their shares
  - Large REITs usually have institutional ownership of ~90%, leading us to believe garnering institutional interest is key is creating demand for shares: It is not unusual to see institutional investors wait for REITs to build-up a dividend track record and further research coverage before investing
  - This process is referred to as the "IPO Discount"
  - Current Institutional ownership stands at ~30% of float as compared to a NYC peer average of ~98%
- **Catalyst: Street expects NYRT shares to be a part of the MSCI REIT Index as early as November 2014, likely resulting in greater equity research coverage (currently only 2) and eventual institutional interest**

2

### Size & Liquidity

- Tangible merger opportunities would give NYRT ability to grow size; high likelihood given American Realty Capital Property's track record
  - Larger size would then increase NYRT's ability to make transactions, lower cost of equity, and justify an internalized management structure
- October 7<sup>th</sup> 2014: Barclays Capital Inc. and RCS Capital, the capital markets division of Realty Capital Securities, have been hired as *"financial advisors to assist the board of NYRT in evaluating strategic options to enhance long-term shareholder value"*
- **Catalyst: A merger/acquisition from another REIT seems likely as NYRT is reportedly engaged in merger talks with Empire State Realty as of October 2014, and continues to see ARC New York REIT as another viable M&A candidate**

Source: Street research, company investor presentation August 2014.


(1) Including the current contract to purchase the Twitter building.

# Catalysts & Risks

## Case Study: Select Non-Traded REIT Post-IPO Performance (2010-2014)

### “IPO Discount” Seems to Last 6+ Months, With Numerous Precedents of Consolidation

Ticker	Company	Sector	Institutional Ownership	Listing Date	Performance Since Listing					
					1-day	1-Week	1-Month	3-Month	6-Month	Since Listing
2014										
HCT	American Realty Capital Healthcare Trust, Inc.	Healthcare	NA	4/7/2014	-2.9%	-2.0%	-3.0%	3.8%	NA	3.8%
NYRT	New York REIT, Inc.	Office	NA	4/15/2014	-1.9%	-1.5%	-1.0%	1.1%	NA	2.6%
2013										
COLE	Cole Real Estate	Triple-Net	NA	6/20/2013	-0.9%	3.9%	0.9%	12.2%	30.6%	35.0%
CXP	Columbia Property Trust, Inc.	Office	22.55%	10/10/2013	-0.7%	1.5%	-0.4%	8.3%	21.7%	17.8%
CSG	Chambers Street Properties	Triple-Net	42.97%	5/21/2013	0.0%	-1.1%	-8.1%	-23.2%	-12.6%	-13.4%
2010-2012										
ARCP	American Realty Capital Properties, Inc.	Triple-Net	59.33%	9/7/2011	-2.0%	-1.3%	-6.8%	-17.9%	-6.3%	20.5%
HTA	Healthcare Trust of America, Inc.	Healthcare	66.00%	6/6/2012	-0.3%	0.3%	0.1%	-4.2%	9.8%	34.2%
PDM	Piedmont Office Realty Trust Inc.	Office	79.68%	2/9/2010	-1.0%	4.1%	13.4%	28.0%	17.5%	52.0%
RPAI	Retail Properties of America, Inc.	Shopping Center	56.44%	4/5/2012	0.0%	4.6%	2.5%	13.6%	36.6%	96.5%
ARCT	American Realty Capital Trust	Triple-Net	NA	3/1/2012	-0.2%	-0.1%	-2.0%	2.4%	12.7%	30.9%
Average Non-Traded REIT Post-Listing Performance					-1.0%	0.8%	-0.4%	2.4%	13.8%	28.0%

 Green in “Since Listing” represents outperformance vs. MSCI REIT index

ACRT acquired by O – Closed 1/22/2013 (less than 11-months from original listing date)

COLE acquired by ARCP – Closed 2/7/2014 (just over 4-months since listing date)

HCT acquired by VTR – Transaction not closed yet (announced in less than 2-months since listing date)

Source: Company investor presentation, August 2014.

(1) Including the current contract to purchase the Twitter building.

# Catalysts & Risks

## NYRT Only Faces Mostly-Mitigated Risks



### Susceptible to Falling Rent Prices

- Severe drop in Manhattan office rent prices (i.e. a recession) is a considerable risk for a REIT
  - Rent prices and property values are generally more susceptible to declines during a recessionary period, as can be seen by the ~(100%) correlation between interest rates and cap rates
  - In other words, during recessionary periods property values tend to decrease significantly, which may translate into lower rent revenue if leases expire during that period
- J.P. Morgan's proposed headquarters relocation has the potential to increase NYC office property industry vacancy rates by ~100bps in Midtown
  - May translate into lower market rent prices for the industry as a whole given the supply increase

**Mitigant:** NYRT average remaining lease term of ~10 years gives us confidence that they should be “more” protected from declines in rent prices than their peers

### New ARC NYC REIT a Drag on Share Price

- NYRT's parent company, American Realty Capital (“ARC”) established a new non-traded REIT almost identical to NYRT following the success of NYRT's IPO
- The new ARC NYC REIT is essentially identical in strategy to NYRT, is targeting the same size and capital structure, and shares 2/5 board members with NYRT
- Market suspects that most of the private investors in NYRT utilized the 5-month window following the IPO to unload their shares and buy the new ARC NYC privately
  - Non-traded REITs are usually bought and sold by brokers for wealthy individuals: these brokers usually make a “finders fee” on purchase, supporting this theory
- The new ARC NYC REIT may compete on bids for possible property acquisitions given similar size and strategy

**Mitigant:** NYRT is approaching its target portfolio size of ~\$2.5 billion of gross assets (currently ~\$2.3 billion) and will likely not exceed \$3 billion as that would result in a reduced management fee (from 50bps of Gross Assets to 40bps)

# Stock Pitch: New York REIT

## Summarized Thesis

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### ✓ **Quality Lease Portfolio & Experienced Management**

- NYC REIT has the highest direct exposure to Manhattan of any public REIT
- High quality assets in key areas, credit worthy tenants, and no near term lease expirations or debt maturities
- Quality management with a proven track record in acquiring high quality assets

### ✓ **Significant Room For Growth**

- Internal growth projected at ~15% over 2014-2015, and ~5% long-term
- External growth opportunities include concrete M&A alternatives and the Worldwide Plaza option

### ✓ **Extremely Attractive Valuation With Low Downside Risk**

- Discounted based on 2015E P/FFO and P/AFFO, NAV, and DCF models by ~25%
- Under bullish scenarios (i.e. all mentioned growth opportunities come to fruition) upside stands ~60%
- Even with no growth, NYRT's high dividend yield of 4% amongst peers and REIT industry averages is attractive

### ✓ **Supported by Strong Near-Term Catalysts**

- Expected entry in the MSCI REIT Index as early as November 2014 should garner equity research and institutional interest in the stock, leading to share appreciation as in Case Study I
- The Company is “evaluating its strategic alternatives” with Empire State Realty reportedly in talks of merger as of October 2014 and ARC New York REIT as another viable M&A candidate

***Bonus: Balances-out the bank weight in the FIG portfolio***



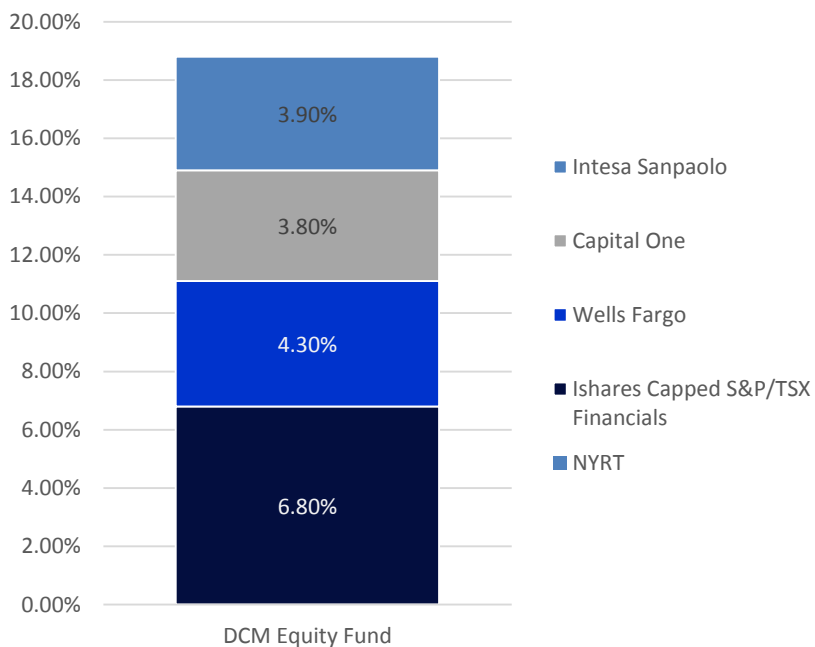
# Section VI

## Allocation Discussion

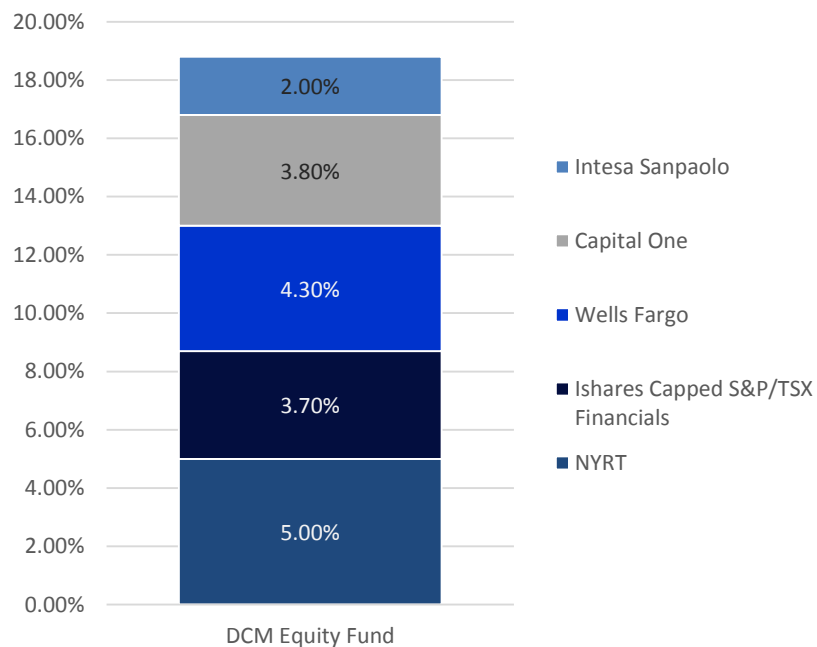
# Allocation Discussion

## A Good Diversification for the Current FIG Portfolio

### Current Allocation



### Suggested Allocation



***Strong growth opportunities, significant value proposition, near-term catalysts and low downside risk reaffirm a conviction buy in NYRT – DCM suggests initiating a 5% position in the stock***

Source: Equity Strategist Performance Template.

# Bonus Section

ECB Comprehensive Assessment

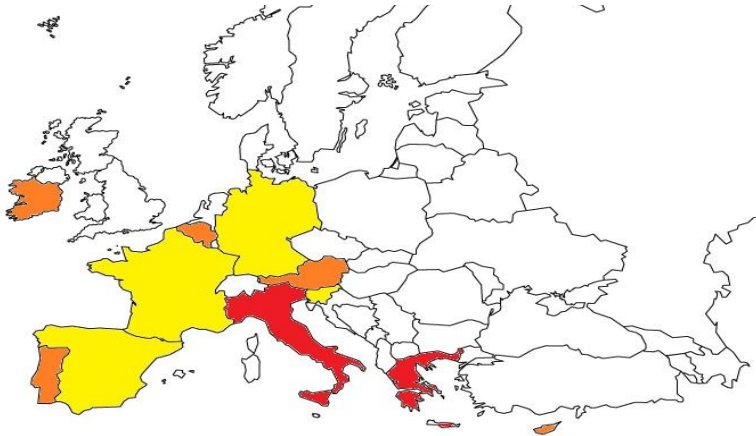
# ECB Comprehensive Assessment

## The Bigger Picture

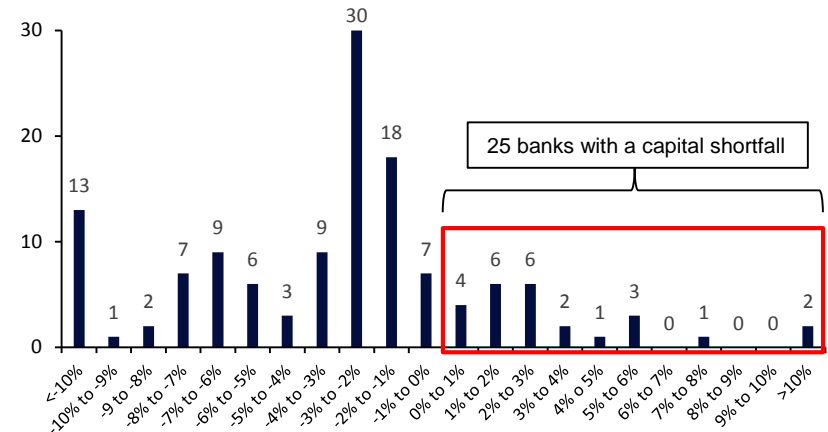
### The Assessment

- The Comprehensive Assessment was a two-stage test carried out over 9 months:
  - **Asset Quality Review:** Reviewed that carrying value of assets on the banks' balance sheets as of 31 December 2013, resulting in AQR-adjusted capital ratios
  - **The Stress Test:** Examined the resilience of banks against a baseline scenario and an adverse scenario. Solvency ratios were used to understand bank sensitivities given prescribed stressed economic conditions

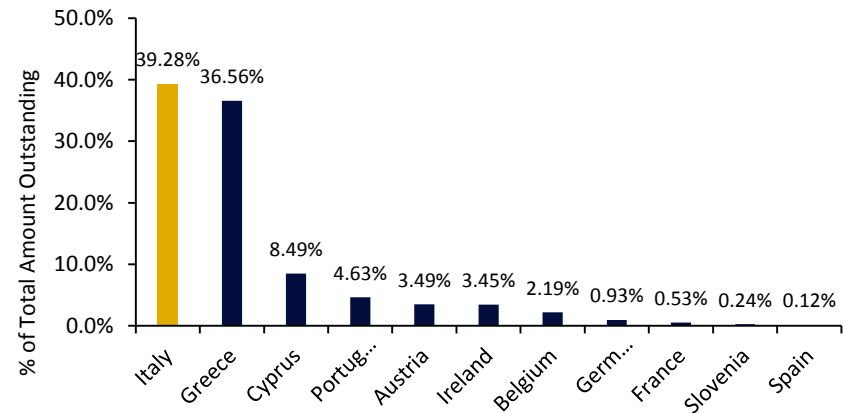
### Bank failures by Country



### The Results



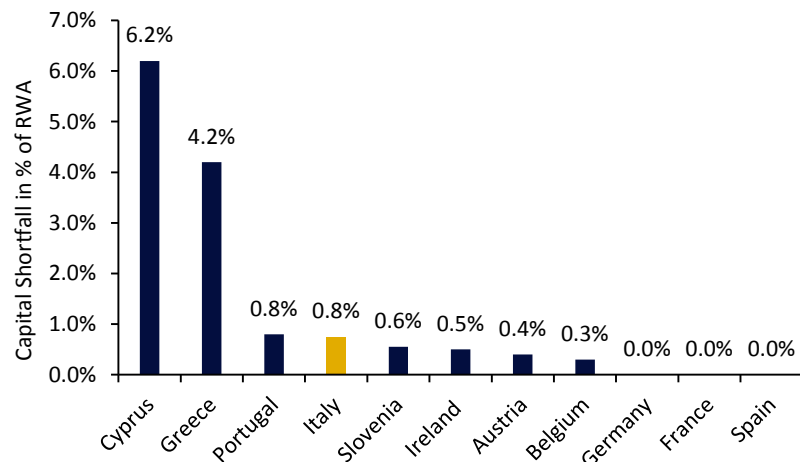
### The Problem Children



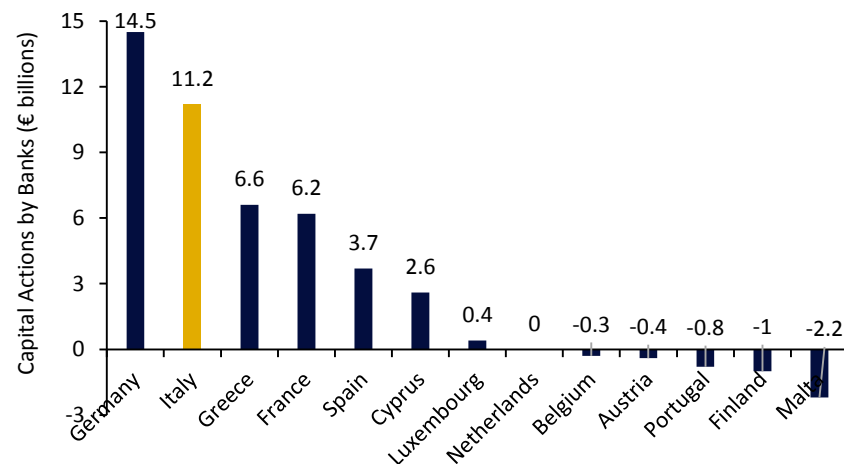
# ECB Comprehensive Assessment

## A Closer Look at Italy

Not as Bad on a Relative Basis...



...With Improvements Already Happening



Intesa Continues to Outshine Italian Peers

Italian Banks	Non-Derivative Revaluations	Derivative Models Pricing Review	Core Process Review	CETI Ratios (%)		
				Bank 2013 Reported	AQR adj. 2013	Difference
Unione Di Banche Italiane Societa...	Yes	No	No	12.3	11.8	-0.5
<b>Intesa Sanpaolo</b>	Yes	Yes	Yes	<b>12</b>	<b>11.7</b>	<b>-0.3</b>
Credito Emiliano	No	No	No	11.1	10.9	-0.2
Iccrea Holding	No	No	No	11.1	10.6	-0.5
Banca Monte dei Paschi di Siena	Yes	No	Yes	10.2	7	-3.2
Banco Popolare	Yes	No	No	10.1	7.9	-2.2
<b>UniCredit</b>	Yes	Yes	Yes	<b>9.8</b>	<b>9.6</b>	<b>-0.2</b>
Banca Popolare di Vicenza	Yes	No	No	9.4	7.6	-1.8
Medibanca	Yes	Yes	Yes	9.3	8.4	-0.9
Banca Popolare Dell'Emilia Romagna	Yes	No	No	9.2	8.4	-0.8
Banca Poccoleto Credito Valtellinese	No	No	No	8.8	7.5	-1.3
Banca Popolare di Sondrio	Yes	No	No	8.2	7.4	-0.8
Banca Popolare Di Milano	Yes	No	No	7.3	6.9	-0.4
Veneto Banca	Yes	No	No	7.3	5.7	-1.6
Banca Carige SPA	Yes	No	No	5.2	3.9	-1.3

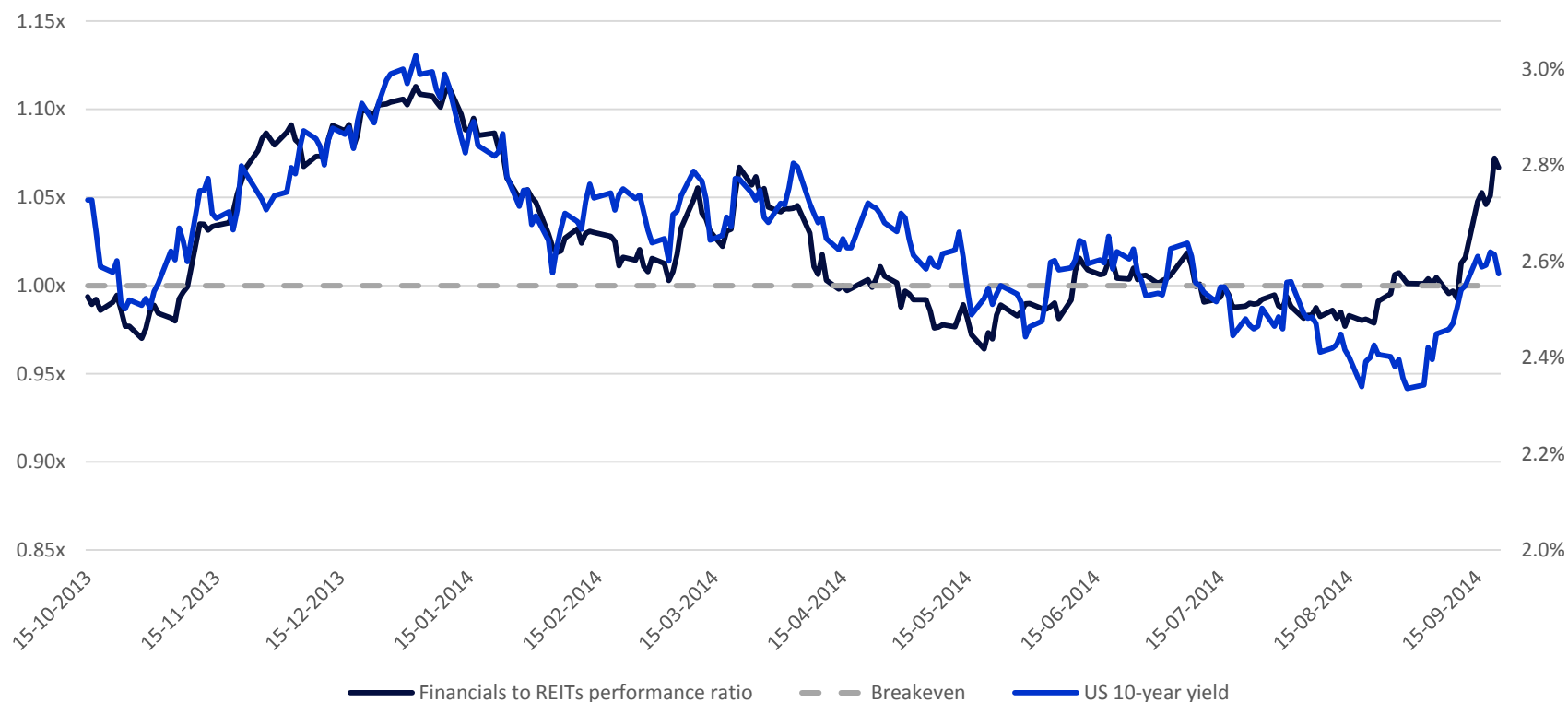
# Section VII

## Appendix

# Allocation Discussion

## Bonus: Relationship Between Banks & REITs Performance<sup>(1)</sup>

### REITs: A natural hedging investment option?

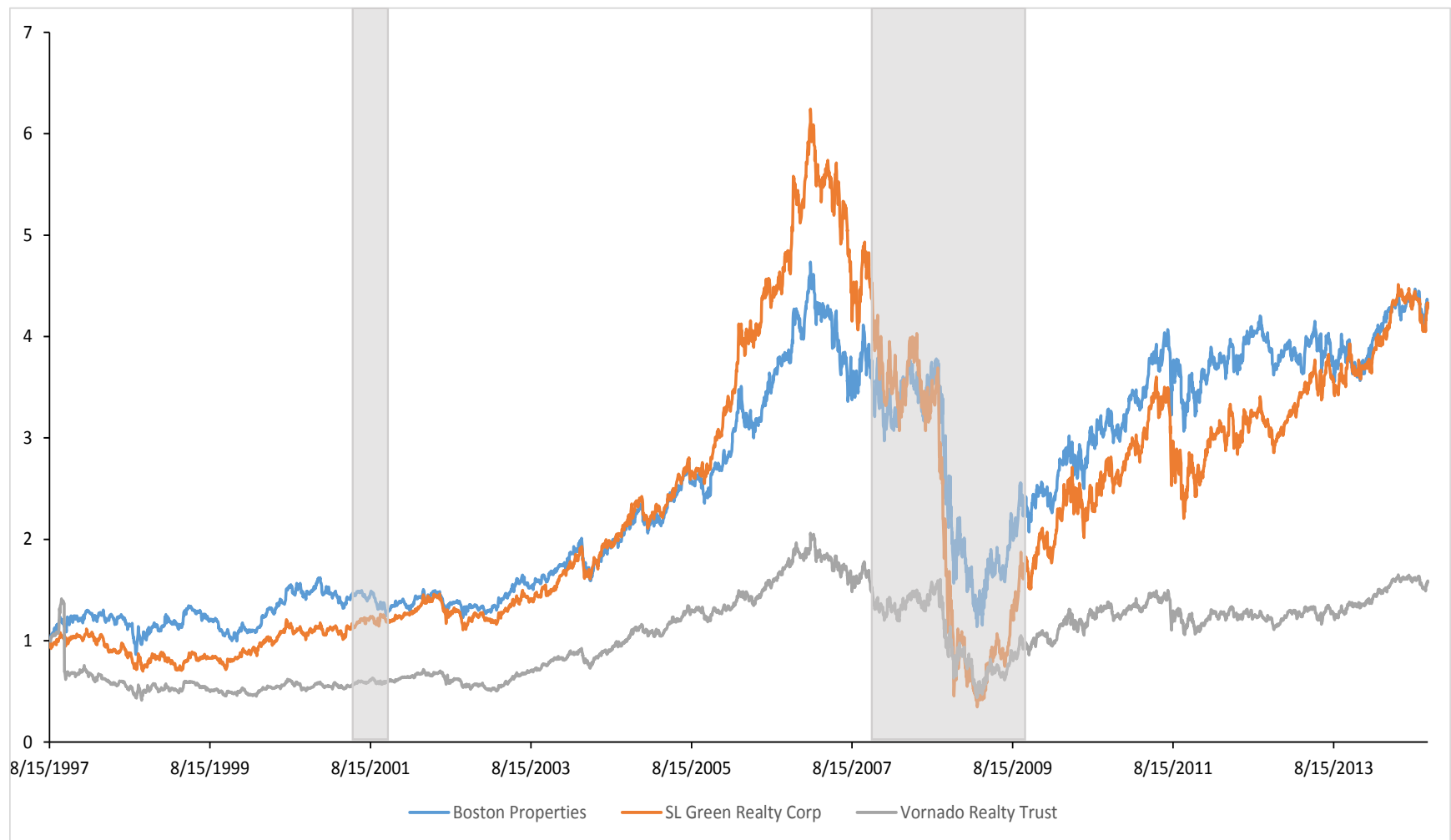


Source: Bloomberg as of 9/20/2014.

(1) Financial performance defined as the performance of the S&P500 Financials Index, and REITs performance defined as the performance of the MSCI US REIT Index.

# Allocation Discussion

## Downside Risk: REITs Performance in a Recession





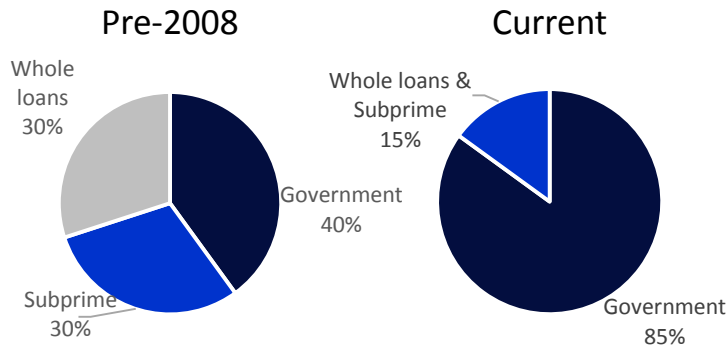
# Residential Real Estate Overview

## A Change in the Market since 2008

### Shift in the Mortgage Market

- The U.S. mortgage market has undergone a dramatic transformation over the past several years: the bursting of the housing bubble effectively shut down the securitization market, resulting in the government stepping up as prime mortgage lender
- In this model, lending standards are historically very tight, restricting credit to a portion of the U.S. population and limiting the recovery in home sales

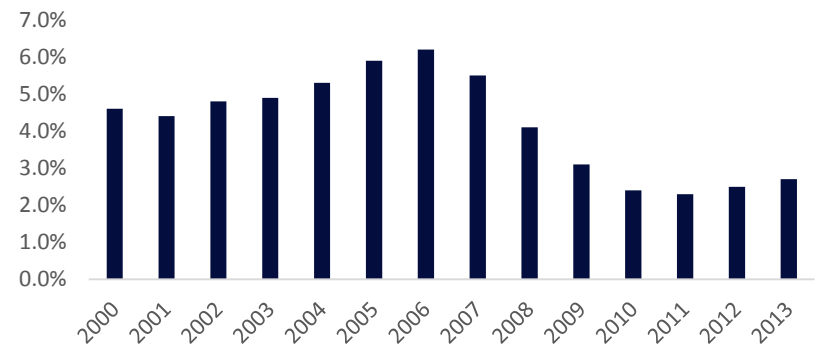
### Composition of Mortgage Originations



Source: Bank of America Merrill Lynch Equity Research.

(1) Affordability Index as defined as average house prices divided by average household income.

### Private Residential Investment (% of GDP)



### Select Analyst Commentary

"The rebound in housing construction is only one outcome of the recovery. Home prices are increasing notably. **The three factors boosting home prices have been shrinking share of distressed properties, low monthly supply and an increase in demand momentum**, with the latter the most powerful, in our view. **We Forecast an 11.8% gain in home prices this year.**"

"We maintain our forecast that home price appreciation will slow to 6.5% next year with a risk of annual price declines within the next five years."

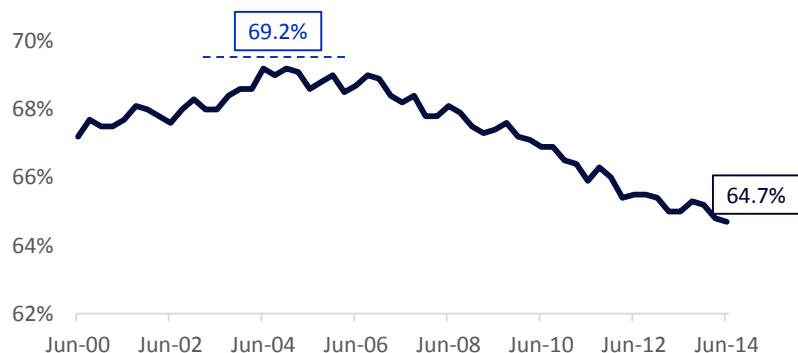
# Residential Real Estate Overview

## U.S. Housing: Room for Growth?

### Summary

- U.S. housing has slowly, but steadily, rebounded off its 2008-recession lows. It appears there is still plenty of room for growth in both construction and prices
  - Home construction still represents just 3% of GDP compared to a historically normalized 5% of GDP
  - Home prices are still down just over 20% from their peak
  - Currently, housing adds about 0.6% to US GDP growth, with ~0.3% coming from construction and ~0.3% coming from the impact of rising home prices on consumer spending

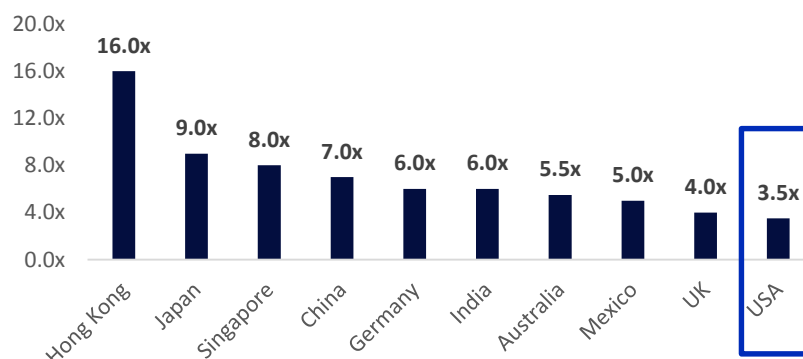
### Home Ownership Continues to Drop



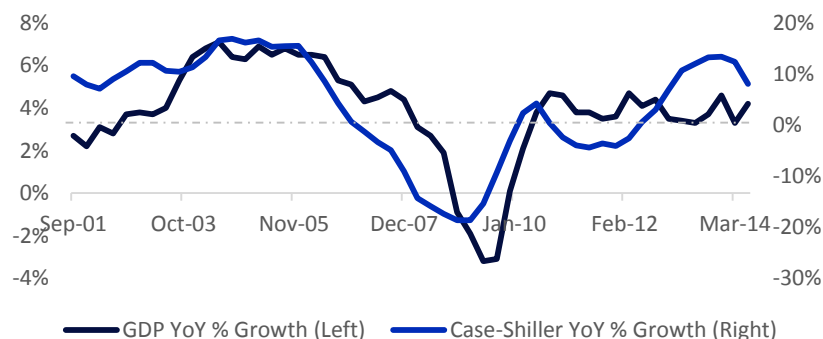
Source: Bank of America Merrill Lynch Equity Research, U.S. Government Census.

(1) Affordability Index as defined as average house prices divided by average household income.

### Affordability Index<sup>(1)</sup> Comparison



### Home Prices Move with GDP Growth



### ARC HAS HISTORY OF CREATING VALUE FOR SHAREHOLDERS IN ITS NON-TRADED PROGRAMS



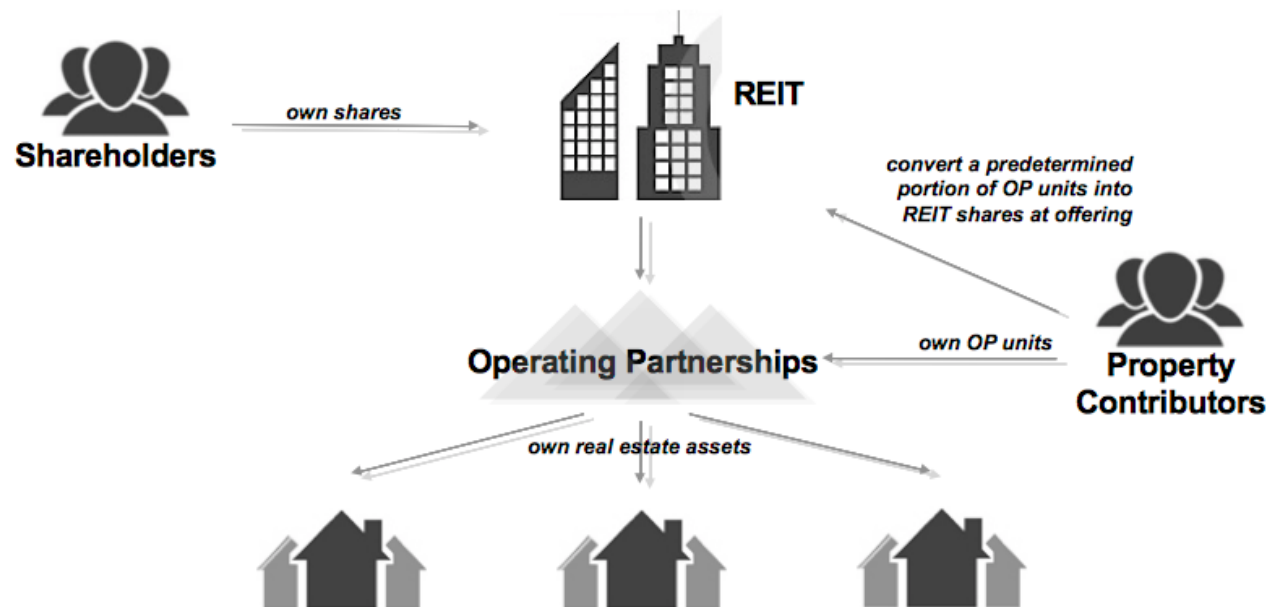
#### Performance of Offerings that Delivered Full Cycle Liquidity to Investors

	NYRT <sup>1</sup>	HCT
Total Cash + Stock Consideration	\$1,887,304,490 (175.6mm shares x \$10.75/share <sup>(2)</sup> )	\$1,981,553,661 (174.9mm shares x \$11.33/share <sup>(3)</sup> )
- Return of Gross Equity <i>(including commissions paid or initial shares purchased)</i>	(1,728,564,215)	(1,812,781,412)
<b>Profit</b>	<b><u>158,740,274</u></b>	<b><u>168,752,249</u></b>
+ Distributions <sup>(4)</sup>	79,202,343	151,769,796
<b>Total Value</b>	<b>\$237,942,618</b>	<b>\$320,522,045</b>
<b>Total Return</b>	<b>114%</b>	<b>118%</b>
<b>IRR</b>	<b>20%</b>	<b>20%</b>

Source: Street Research, S&P Capital IQ as of 10/20/2014.

(1) Pro forma for the purchase of the Twitter building.

## Umbrella Partnership REITs (UPREITs)



Source: S&P NetAdvantage; <http://www.presrealty.com/img/upreit-structure.png>

# Interest Rates vs Cap Rates

**Exhibit 3: U.S. Cap Rates Not Linked to Risk-Free Rates<sup>(a)</sup>**

		Cumulative Changes (bps <sup>(b)</sup> )	
	Periods of Fed Fund Rate Hikes	Fed Funds Rate	Capitalization Rate <sup>(c)</sup>
<b>Cap rates declined during Fed tightening periods</b>	9/4/87–2/29/89	214	-20
	2/4/94–2/1/95	267	-10
	6/30/99–5/16/00	128	0
	6/30/04–6/30/06	373	-140
		Cumulative Changes (bps <sup>(b)</sup> )	
	Periods of Rising U.S. Treasury Yields	10-Yr. Treasury Yield	Capitalization Rate <sup>(c)</sup>
<b>Cap rates declined during rising yield periods</b>	8/29/86–10/16/87	193	0
	10/15/93–11/7/94	248	-40
	10/5/98–1/20/00	204	-10
	6/13/03–6/12/07	149	-260
	7/25/12–6/30/14	110	-60

**At June 30, 2014.** Source: Ned Davis Research, Inc. and Green Street Advisors.

*Performance data quoted represents past performance. Past performance is no guarantee of future results.*

(a) Risk-free rates are represented by 10-year U.S. Treasury notes, which are backed by the full faith and credit of the U.S. government. (b) Bps refer to basis points, or 1/100 of 1%. (c) Capitalization rates are represented by the weighted average of the five major property sectors—apartments, industrial, mall, office and strip center. Month-end data were used.

Source: S&P NetAdvantage; <http://www.presrealty.com/img/upreit-structure.png>

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