

## **Cousins Properties (CUZ - \$9.11)**

If Amazon picks Atlanta for its second headquarters, Cousins Properties, an ignored \$4 billion office REIT would benefit greatly. Cousins generates 36% of its Net Operating Income (NOI) from Atlanta. Cousins has quietly transformed its portfolio into a concentrated office portfolio of great assets in great sunbelt markets such as Austin (21% of NOI), Charlotte, NC (21% of NOI) and Tampa (10% of NOI), that have higher than average rent growth, less than average new office supply and great long-term demographic trends.

Even if Amazon doesn't pick Atlanta or Austin, Cousins is worth \$11-\$12 per share. But if Amazon does pick Atlanta, Cousins would become an instant takeover candidate and could be worth more than \$17 per share. With few public options to bet on for Amazon's new headquarters, Cousins stock could be in high demand in the event of an Atlanta decision.

### **Cousins Quietly Has Transformed Itself**

Cousins became distressed in the financial crisis. In 2011 the company brought in a new management team to overhaul the company and reduce the company's debt load. In 2009, net debt to EBITDA was 14 to 1, net debt to market cap was almost 70% and 63% of the assets were encumbered by debt.

Adding to the troubles, was that the company had projects and assets in many places and there appeared to be no rhyme or reason to how the company was run. In 2009, 56% of Cousins' properties was non-urban and 44% were urban. Only 62% of the assets were office, the rest split between retail and industrial.

Fast forward to today and the company's net debt to EBITDA is 4.3 times, net debt to market cap is 23% and only 30% of the company's assets are encumbered by debt.

But more importantly, the company has a clear focus on class A Office properties in sunbelt markets. 100% of the company's assets are office, they have completely shed industrial and retail, and 80% of the portfolio is urban.

### **Wonderful focus on high growth, supply limited Sunbelt markets**

Cousins is now a focused office REIT in several key cities: Atlanta, Charlotte, Austin, Tampa and Phoenix. These markets share strong demographics, business and employment growth and long-term fundamentals that are unlikely to change in the next decade.

Consider that in Cousins' markets, office employment growth is averaging 2.8%, compared to gateway cities average of 1.1%. And supply growth has been challenged in Cousins' market as well with supply growing 1.8% compared to gateway cities of 2.6%. Net absorption is twice other gateway cities' average. Finally, rent growth is averaging 4.3% compared to gateway cities' average of 0.8%.

Cousins has also started to turn their focus towards development of Class A trophy assets such as two new buildings the company is bringing on midtown Atlanta for NCR (NYSE: NCR), that will be 100% leased and come online in Q1 of 2018.

## **Great Financial Profile**

The company's debt has gotten so low, that Cousins is significantly under-levered compared to its peer group. Peers average 800 basis points more leverage compared to Cousins.

This wonderful financial profile allows Cousins to be aggressive with development. Cousins also upsized their credit facility from \$500 million to \$1 billion. In addition, they just announced the development of a new 309,000 square foot building in Austin, that is already 100% pre-leased. The company's financial profile allows lots of opportunity for them to grow in the future.

## **Odds are Amazon will pick Atlanta to be its HQ2**

Amazon launched a national search to open a second headquarter that will eventually house 50,000 employees and will involve a direct investment of \$5 billion. A lot of speculation have been made as to which city Amazon will pick.

I believe the front runner is Atlanta and estimate their odds at around 25-30%. Why?

The city of Atlanta and the state of Georgia are simply great places to do business. According to CNBC, Georgia is the second-best state to do business in. The government is very pro-business and very job friendly.

Atlanta has very quietly become the #5 tech city according to CBRE. It is the #1 city for logistics with the #1 airport in the country. Georgia has become the #1 state for entertainment and film thanks to lucrative tax subsidies. Finally, Atlanta has one of the lowest cost of housing in the country of any major city, an important component of wages required by employees.

In Atlanta, Amazon gets wonderful long-term demographics with a steady flow of talent, especially in logistics, which is a key competitive advantage for the company. Amazon is also making a big push into entertainment, which Georgia now dominates. Housing is very inexpensive, so wages are much less than other cities. Finally, the state and the city will do simply everything in their power to bend over backwards for Amazon.

## **Cousins is undervalued even if Amazon doesn't come to Atlanta, but if it does...**

My estimate of NAV is approximately \$11-12 per share. Analysts estimate that the company sells for a discount to replacement cost of about 35%. With the long-term fundamentals of its markets and its assets, the company has a bright future, albeit it might be boring. I don't believe the company has gotten the credit that it deserves for the transformation it has taken.

However, the reason Cousins is interesting is because of Amazon. I believe that with almost 40% of its NOI in Atlanta, Cousins would be re-rated significantly higher if Amazon came to Atlanta. It is not hard to think the cap rate would fall, rents would rise as would occupancy. But also, I believe Cousins would immediately become a takeover target as it would be the simplest way to get exposure to Amazon's growth.

## **New Tax Law Benefits REITs**

The new tax plan that was just passed is quite positive for REITs and REIT investors, but there has been little reaction in the market, and this normally spells opportunity. The plan allows investors to deduct 20% of the income. The rest of the dividend would be taxed at marginal income tax rates. In the case that the top income tax rate is 39.6%, taxes would now drop to 29.6% for REIT investors. The effect is that the after-tax yield on REITs just went up, but share prices have stayed flat.

## **Risks**

Risks to this idea is that Amazon picks another city, but little or no speculation is built into the share price, so I doubt the company moves much if another city is picked. Another positive, is that the company would also benefit if Austin or Charlotte are picked as they are also good candidates for the next HQ2.

Another risk is if interest rates rise which would drive cap rates higher. It is easy to hedge this out by either shorting interest rates or shorting another office REIT.

## **Summary**

With a focused, great portfolio, Cousins is a well-run company that may significantly benefit if Amazon comes to Atlanta. With little speculation built into the share price and few ways publicly to trade on the news, Cousins represents a low-risk way to bet on Amazon's HQ2 announcement with 50%-100% upside.