Before any analysis: five facts and a reading order

Chapters 1 to 3. Each fact takes minutes and each changes the framework. Then read the package in the order below, and only then the income statement.

Company		**Analyst**	
Sector / regime		**Date**	

Fact	Answer	Source (note, page)	Why it matters
Regime it qualifies under; in compliance?			
Equity, mortgage or hybrid			
Internally or externally managed			
Sectors, by share of NOI (not assets, not square feet)			
Operating partnership: exchangeable units outstanding			

Share count	Meridian (Ch. 19)	Your company
Listed shares	171.6	
+ exchangeable partnership units	8.4	
+ dilutive convertibles and unvested awards	in the 180.0	
= fully diluted count, used everywhere	180.0	
Error if the listed count is used for NAV per share	+4.9 percent	

Item	Answer	Evidence / note
Reading order (about two hours)		
1. Sector split and structure from the segment note		
2. The net income to FFO reconciliation, line by line		
3. The same-store table: pool size and cash versus accrual		
4. The debt maturity schedule		
5. The leasing statistics		
6. The property schedule		
7. The development pipeline		
8. Only then: the income statement in full		
Flags while reading		
Thin or missing supplemental: disclosure quality tracks governance		
Straight-line rent receivable growing steadily and materially		
Repeated impairments with stable FFO		
"Additions to real estate" mixing new buildings with roof replacements		

FFO and AFFO, rebuilt on one definition

Chapter 4. Twenty minutes per company from the supplemental. Never compare two companies' reported AFFO without rebuilding both.

Company		**Analyst**	
Sector / regime		**Date**	

Line (millions)	Meridian	Your company	Source / comment
Net income	210.0		
+ real estate depreciation and amortization	395.0		
– gains on sale of depreciable property	(85.0)		
+ impairments	—		
± joint venture adjustments	12.0		
= funds from operations	532.0		
– preferred dividends	(14.0)		
= FFO to common	518.0		
– straight-line rent	(38.0)		
– above/below-market lease amortization, net	(6.0)		
– recurring maintenance capital expenditure	(52.0)		
– recurring tenant improvements and leasing commissions	(46.0)		
+ amortization of debt issuance costs	5.0		
Stock-based compensation: NOT added back	—		
= adjusted funds from operations	381.0		
Fully diluted shares	180.0		
FFO / AFFO per share	$2.878 / $2.117		
AFFO below FFO	26.4%		
P/FFO and P/AFFO at the price	12.0x / 16.3x		

Item	Answer	Evidence / note
Diagnosing the gap		
Sector: wide is normal for office, a question for net lease		
Age and quality: wider than sector peers = worse portfolio than occupancy suggests		
Composition: a large straight-line deduction = recent escalating leases		
Trend: widening with capex rising as a share of NOI = ageing into obsolescence		
"Core" items adjusted out: did the same items appear last year and the year before?		

Same-store NOI and the operating page

Chapter 5. Three lines for the front page: cash same-store growth, its decomposition, and loss to lease with the share rolling in 24 months.

Company		**Analyst**	
Sector / regime		**Date**	

Pool definition	Answer	Comment
Minimum ownership period to enter the pool		
Share of the portfolio in the pool (often 60 to 80 percent)		
Redevelopment: when do assets leave and re-enter?		
Cash or accrual basis? Gap between the two over four quarters		

Quarter	Same-store NOI growth, cash	Rate (points)	Occupancy (points)	Other income (points)	Expenses (points)	Maintenance capex trend

Alongside it	Now	A year ago	Reading
Same-store NOI margin			
Retention rate			
Loss to lease (market ÷ in-place – 1)			
Turnover (residential, storage)			
Bad debt reserve			
Growth against inflation and against the sector			

The dispersion: best third against worst third of the portfolio (by market, asset class or vintage). If management cannot give it, note that it cannot.

Falling operating costs alongside falling maintenance spend is a warning, not an achievement.

Occupancy, leasing and the expiry profile

Chapter 6. One page. It carries more forward information than any earnings guidance, and every element is in the supplemental.

Company		**Analyst**	
Sector / regime		**Date**	

Occupancy	Percent	Gap	What the gap means
Physical			
Leased (signed, not commenced)			
Economic (rent actually received)			

Leasing	Value	Test
Cash spread (starting cash rent ÷ final cash rent − 1)		
Straight-line spread		
Net effective rent change, after all concessions		
Capital (TI + LC) per square foot of the space leased		
Years of uplift the capital consumed (capital ÷ incremental annual rent)		
Portfolio effect (spread × share of rent re-leased)		

Year	Area expiring	Rent expiring, % of total	Expiring rent per sq ft	Market rent per sq ft	Capital to re-let (area × (1 − retention) × cost, plus renewals)

Term and concentration	Value	Comment
WALT to expiry, weighted by rent		
WALT to first break		
Top tenant / top five / top ten, share of rent		
Largest industry, share of rent		
Rent coverage at property level (net lease, healthcare; below 1.5x is fragile)		

Compare the annual capital of the roll with the cash retained after the dividend. If it is larger, the equity issuance is necessity, not ambition.

Net asset value, built line by line

Chapter 7. Forward, stabilized, property-level NOI; a cap rate per sector from transactions; debt at fair value; a range, never a point.

Company		**Analyst**	
Sector / regime		**Date**	

Line (millions)	Meridian	Your company	Basis / source
Forward stabilized NOI (by sector below)	520.0		
÷ cap rate (from transactions, dated)	5.25%		
= gross operating real estate value	9,904.8		
+ development in progress (cost / cost + profit / completed – to complete)	380.0		
+ land and non-income real estate	120.0		
+ cash	95.0		
+ other assets (straight-line receivable EXCLUDED)	60.0		
– debt at FAIR value	(2,435.0)		
– preferred at liquidation value + accrued	(250.0)		
– other liabilities, incl. guarantees, earn-outs, manager termination fee	(140.0)		
= net asset value	7,734.8		
÷ fully diluted shares	180.0		
= NAV per share	$42.97		
Capitalized overhead (G&A; ÷ cap rate), shown separately	800.0 = $4.44		
Premium / discount at the price	–19.7%		

Sector	Forward NOI	Cap rate	Value	Transaction evidence (date, asset)

Cap rate	Meridian NAV per share	Your NAV per share	Discount at the price
5.00%	$45.72		
5.25%	$42.97		
5.50%	$40.47		

Corrected figures: the book prints $45.86 and $40.36. A quarter point moves Meridian's answer by about six percent.

The discount: implied cap rate and six explanations

Chapter 8. Compute the implied cap rate before forming any view, then work through the six explanations in order.

Company		**Analyst**	
Sector / regime		**Date**	

Implied cap rate	Meridian	Your company
Market capitalization (fully diluted × price)	6,210.0	
+ debt + preferred + other liabilities	2,825.0	
– cash – other assets – development – land	(655.0)	
= implied gross real estate value	8,380.0	
Implied cap rate = forward NOI ÷ that	6.21%	
Against transaction evidence, bp	+96	
The same, NOI net of G&A; (overhead removed), bp	+45	

Explanation	Evidence for / against	Share of the gap
1. The market disagrees with the appraisals (test: is the implied rate inside recent trades?)		
2. Corporate overhead, capitalized		
3. Latent tax on a wind-up		
4. Governance and management quality		
5. Portfolio quality below the appraised average		
6. Liquidity and index effects		

Item	Answer	Evidence / note
Is it opportunity?		
Implied rate against the last two quarters of trades in the same sector and market		
Discount against the company's own five-year range and against peers today		
Who can close it: disposals at appraisal, a bid, new management, or appraisals falling to the price?		
Is management selling at appraisal and buying back, or issuing equity at a discount?		
For the current share price to be correct, the market must believe ...		

The comparison that survives scrutiny

Chapter 9. Six columns and no fewer, with AFFO rebuilt on one definition. Lead with the implied cap rate, not P/FFO.

Company		**Analyst**	
Sector / regime		**Date**	

Company	P/AFFO (rebuilt)	Implied cap rate	Net debt / EBITDA	Same-store NOI, cash, 4 quarters	AFFO payout	Premium / discount to your NAV

Leverage-neutral measures	Meridian	Your company
EV = market cap + net debt + preferred	8,800.0	
EBITDA = NOI – G&A; ± joint venture EBITDA	492.0	
EV / EBITDA	17.9x	
Implied cap rate	6.21%	

Item	Answer	Evidence / note
The traps, named		
Comparing multiples across sectors without adjusting for capital intensity		
Ignoring the preferred stack (per-share earnings AND enterprise value)		
Using the listed share count		
Trusting a company-defined "core" measure		
Trailing figures in a turning market		
A low multiple on a melting portfolio		
Growth behind the multiple		
Contractual escalations: ____ %		
Market (loss to lease, expiry schedule): ____ %		
Acquired, and how funded: ____ %		

The dividend, on one line

Chapter 10. Coverage by AFFO is the only test that matters. Always quote the yield with the payout ratio.

Company		**Analyst**	
Sector / regime		**Date**	

Line	Meridian	Your company
Dividend per share	$1.72	
Yield at the price	4.99%	
Payout on FFO (the flattering one)	59.8%	
Payout on AFFO (the test)	81.3%	
Retained cash per share / total	$0.397 / 71.4	
Annual capital cost of the roll (Chapter 6)	≤ 35.0 against 46.0 deducted	
Dividend growth against AFFO growth, three years	—	

Payout on AFFO	Reading
Below 70%	Comfortable: meaningful retained cash
70 to 85%	Normal: little room for a bad year
85 to 100%	Tight: a choice between the dividend and the portfolio
Above 100%	Funded by sales, borrowing or issuance: a return of capital with a misleading label

Item	Answer	Evidence / note
Leading indicators of a cut, in order		
AFFO payout above 90 percent		
Same-store NOI turning negative		
Occupancy falling while leasing spreads turn negative		
Maturities approaching into more expensive debt		
Dividend maintained while shares are issued below NAV		
Composition		
Return-of-capital component and its trend		
Is the payout above AFFO at the same time?		
Dividend $____ · yield ____% · payout ____% of AFFO · retained $____ a share · covered / not covered, with ____ room.		

The balance sheet page

Chapter 11. It answers the question the valuation chapters do not: can this company survive a bad three years without a forced sale or a dividend cut?

Company		**Analyst**	
Sector / regime		**Date**	

Measure	Meridian	Your company
Net debt / EBITDA	4.76x	
Net debt / gross asset value	22.5%	
Net debt / enterprise value	26.6%	
Interest coverage (EBITDA ÷ interest)	5.02x	
Fixed charge coverage (÷ interest + preferred + amortization)	4.39x	
Weighted average maturity / percent fixed	6.2 yrs / 88%	

Year	Maturing	% of debt	Rate on maturing debt	Rate today	Annual cost of refinancing	Per share

Covenant	Level	Today	Headroom: EBITDA fall	Headroom: value fall
Total debt / total assets				
Secured debt / total assets				
Fixed charge coverage				
Unencumbered assets / unsecured debt				

Also	Answer
Hedges: expiry dates and the exposure the day after	
Unencumbered pool as a share of total assets	
Preferred: size against common, cumulative?, redeemable at?	
Foreign assets financed in the currency of the asset?	

Refinancing impact = maturing balance × (market rate – rate on maturing debt) ÷ fully diluted shares. Consensus usually rolls the old interest line forward.

Cost of capital: the line for every note, and the four ways out

Chapter 12 and Appendix F. State the funding assumption beside the answer and do not change it between companies.

Company		**Analyst**	
Sector / regime		**Date**	

Line	Meridian	Your company
Cost of equity = AFFO per share ÷ price	6.14%	
Acquisition cap rate available	5.25%	
Accretion, all-equity	–89 bp	
Accretion, blended at the target mix (30% debt at 4.5%)	–40 bp	
Frontier price, all-equity (AFFO ÷ cap rate)	$40.32 = 6.2% discount	
Frontier price, blended	$38.00 = 11.6% discount	
Direction of the loop (upward / downward)	downward	

Way out (on a programme of ____)	Meridian, 500	Effect on NAV / AFFO per share (yours)
Sell at appraisal, buy back shares	+1.7% / +1.3%	
Sell, repay debt	0 / –1.0% (leverage 4.76x to 3.95x)	
Sell the company at NAV	+24.6% on the price	
Do nothing	the loop: –24.2% over three years (convention)	

Item	Answer	Evidence / note
What management is doing		
Issuing equity at a discount to acquire?		
Selling into strength, or only when forced?		
Buying back when the discount is wide and the balance sheet permits?		
Presentations lead with per-share metrics, or with size?		
Debt-funded growth followed by a discounted equity raise?		
Cost of equity ___% against an acquisition cap rate of ___% (funding: ___) — external growth is accretive / dilutive by ___ bp. Frontier: $___, a ___% discount to NAV.		

Management, structure and governance

Chapter 13. The structure imposes a cost that must be quantified; the burden of proof sits with the company.

Company		**Analyst**	
Sector / regime		**Date**	

Calculation	Meridian (internal)	Your company
G&A; (or fees + residual costs) ÷ NOI	8.1%	
Capitalized value of overhead or fee stream (÷ cap rate)	800.0	
Effective fee on equity (fees ÷ market cap)	—	
Termination cost, total and per share	—	
Termination fee deducted from NAV?	n/a	

Item	Answer	Evidence / note
Governance questions		
Compensation tied to per-share metrics or to totals? (the most informative paragraph in the proxy)		
Board ownership, bought rather than granted		
Chair independent of the chief executive		
Defensive provisions: staggered board, pill, supermajority, ownership caps		
Related-party transactions		
External manager: other vehicles buying the same assets; allocation policy		
Operating partnership		
Units counted as shares everywhere		
Insiders with low-basis units: are the oldest assets the ones never sold?		
Unit-holder consent rights over sales		
What good looks like		
Overhead below 10 percent of NOI and falling		
Equity issued only at a premium; buybacks at a discount		
Willingness to shrink the company when shrinking is right		

Development pipeline and capital recycling

Chapter 14. Value is created only when yield on cost beats the exit cap rate by enough to pay for the risk.

Company		**Analyst**	
Sector / regime		**Date**	

Project	Total cost (land at market, interest capitalized)	Incurred	Yield on cost	Pre-let %	Delivery	Competing supply

Pipeline	Meridian	Your company
Stabilized NOI = cost × yield on cost	380.0 × 6.6% = 25.1	
Value at the market cap rate	477.7	
Value created / per share / share of NAV	97.7 / $0.54 / 1.3%	
Development spread (usual requirement 100 to 200 bp)	135 bp	
Exit cap rate at which value creation is zero = yield on cost	6.60% (135 bp wider)	
Value still created at the market-implied cap rate	24.2 at 6.21%	
Cost to complete ÷ market cap (above 15%: in the funding analysis)	—	

Corrected: the book prints "about 70 basis points" of widening; the whole spread has to go before the value created is zero.

Year	Sold: cap rate, growth	Bought: cap rate, growth	Proceeds used for	Better portfolio?

The note, the break-evens and the habit

Chapters 17 and 18. Two pages, five questions, in this order. Each threshold is a number a portfolio manager can argue with.

Company		**Analyst**	
Sector / regime		**Date**	

Question	Your answer
1. What is it? Sector split, size, structure, management	
2. What does the price imply? Implied cap rate against transactions; premium or discount; P/AFFO	
3. What do you think it is worth, and why is that different? NAV with the cap rate and a range; the same-store decomposition	
4. What would make you wrong? Observables, with thresholds	
5. The recommendation, and the catalyst	

Break-even	Meridian	Your company
Cap rate at which the shares are worth today's price	6.21% (NAV = $34.50)	
Same-store growth at which the dividend is no longer covered	see Case 1	
Refinancing rate at which interest coverage breaches the covenant	see Case 1	
Fall in EBITDA that breaches the leverage covenant	see Case 1	

Check	Done	Note
The eleven recurring errors, ticked off		
FFO used where AFFO is required · the wrong share count · no implied cap rate · interest rolled forward		
Discount treated as a reason to buy · accretion test ignored · company-defined figures trusted		
Sector comparison on FFO multiples · capitalized overhead ignored · occupancy without expiries · a downside as one input		
For the current share price to be correct, the market must believe ...		