

AvalonBay Communities (AVB)

\$222.88 (As of 02/11/20)

Price Target (6-12 Months): **\$236.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

AvalonBay Communities' fourth-quarter 2019 core funds from operations (FFO) per share of \$2.43 increased 5.2% year over year and also surpassed the Zacks Consensus Estimate. Results mirrored increase in average rental rates and economic occupancy. The residential REIT also announced a 4.6% increase in its quarterly dividend payout, which is encouraging. AvalonBay is anticipated to benefit from its high-quality assets in premium locations, favorable demographics, household formation and job-market growth. The company has a healthy balance sheet to support its growth endeavors. However, its shares have underperformed its industry over the past year. Importantly, new apartment deliveries are likely to remain elevated in its markets in the near-to-mid term, curtailing growth in rent and occupancy level. Also, rent-regulations add to its woes.

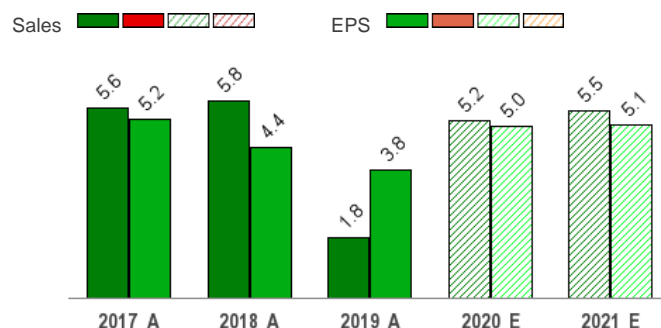
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$224.07 - \$191.42
20 Day Average Volume (sh)	633,413
Market Cap	\$31.1 B
YTD Price Change	6.3%
Beta	0.48
Dividend / Div Yld	\$6.36 / 2.7%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 41% (103 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.3%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	04/22/2020
Earnings ESP	0.2%
P/E TTM	23.9
P/E F1	22.7
PEG F1	4.0
P/S TTM	14.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	623 E	631 E	637 E	643 E	2,580 E
2020	596 E	603 E	608 E	614 E	2,445 E
2019	460 A	577 A	588 A	594 A	2,325 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.52 E	\$2.50 E	\$2.55 E	\$2.62 E	\$10.31 E
2020	\$2.40 E	\$2.40 E	\$2.46 E	\$2.51 E	\$9.81 E
2019	\$2.30 A	\$2.27 A	\$2.34 A	\$2.43 A	\$9.34 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

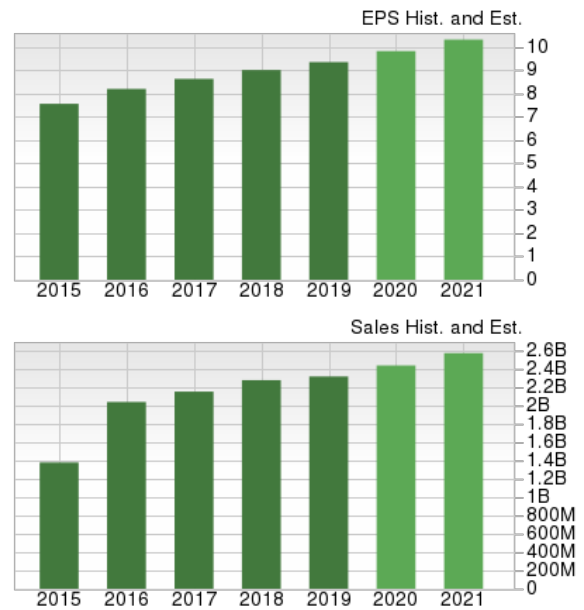
Overview

AvalonBay Communities, Inc. is a real estate investment trust (REIT) primarily focusing on developing multifamily apartment communities for higher-income clients in high barrier-to-entry regions of the U.S.

These markets include the New England, the New York/New Jersey Metro area, the Mid-Atlantic, the Pacific Northwest, and the Northern and Southern California regions of the United States typically characterized by dense population, low supply of zoned apartment land, and lengthy, contentious entitlement processes. The company has a principal executive office in Arlington, VA, and a number of regional offices, administrative offices or specialty offices in its markets.

AvalonBay owned or held direct or indirect ownership stake in 297 apartment communities as of Dec 31, 2019. These communities included 86,846 apartment homes in 11 states and the District of Columbia. Of the total communities, 22 were under construction and two were under re-development as of that date.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ AvalonBay has high quality assets located in some of the premium markets of the country, which enable the company to generate steady rental revenues. Moreover, a stable economic growth is likely to support the industry. High consumer confidence on the back of a healthy labor market is expected to spur demand for the company's properties. Amid these, lease ups are performing well and are likely to contribute considerably to core FFO per share growth. Moreover, AvalonBay's current development activity is expected to contribute significantly to its NOI growth.
- ▲ Demographic growth continues to be strong in the young-adult age cohort, which has a higher propensity to rent. In fact, a significant change in lifestyle has taken place and life cycle events are getting delayed. This is leading to an extension of the average age of first-time homeownership. This age cohort has also experienced a considerable part of the net job growth and is helping to grow primary renter demand. Household formation is also picking up pace, which is encouraging.
- ▲ AvalonBay is also leveraging technology, scale and organizational capabilities to drive innovation and margin expansion in its portfolio. In addition, easy availability of capital and comparatively lower levels of interest rates keep the momentum upbeat.
- ▲ AvalonBay has a healthy balance sheet and ample liquidity to support its growth needs. As of Dec 31, 2019, the company did not have any borrowings outstanding under its \$1.75-billion unsecured credit facility. It had around \$127.6 million in unrestricted cash and cash in escrow as of the same date. In addition, the company's annualized net debt-to-core EBITDAre for the October-December period was 4.6 times. That apart, during the fourth quarter, the company issued 947,868 shares of common stock at a settlement price of \$207.96 per share, generating net proceeds of \$197.1 million. This was pursuant to the forward equity sale contract entered in September 2019. Further, it generates 93% unencumbered NOI, which is encouraging.
- ▲ Also, solid dividend payouts are arguably the biggest enticement for REIT investors and AvalonBay has consistently paid dividends each year since it went public in 1994. In fact, concurrent with its fourth-quarter 2019 earnings release, AvalonBay announced a 4.6% hike in its quarterly dividend rate, which continued the more than 20-year history of solid dividend growth. Since its IPO, the company has achieved annualized dividend growth of 5.2%. Along with a healthy balance sheet, such efforts boost investors' confidence in the stock.

Amid favorable demographics and healthy demand in its markets, AvalonBay is well poised to grow given its portfolio of high-quality assets in premium locations. It also has a healthy balance sheet.

Reasons To Sell:

- ▼ New apartment deliveries are anticipated to remain elevated in a number of the company's markets in the near-to-mid term. This high supply is likely to put pressure on rental rates. Hence, growth in its stabilized portfolio is likely to remain modest in the upcoming period. Furthermore, there is high concession activity amid higher supply, which remains a concern. Furthermore, new rent-control regulations have been introduced in some of the major markets in recent times, while a number of other markets are being considered for establishing such regulations in future. This is likely to curb any significant growth in the top line.
- ▼ Although interest-rate levels are low, presently, any hike in future will likely be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. In addition, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ The company also faces stiff competition from other housing alternatives such as rental apartments, condominiums and single-family homes. Such a competitive landscape limits the company's ability to increase rent, thereby restricting its growth momentum to some extent.
- ▼ Shares of AvalonBay have gained 13.7% over the past year, underperforming its industry's rally of 18.5%. Also, the trend in estimate revisions of current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share witnessed marginal downward revision over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Apartment deliveries are likely to remain high in a number of its markets in the near future. Aggressive rental concessions and moderate pricing power amid high supply are concerns.

Last Earnings Report

AvalonBay Tops Q4 FFO Estimates, Hikes Dividend Rate

AvalonBay Communities' fourth-quarter 2019 core FFO per share of \$2.43 increased 5.2% year over year. The figure also surpassed the Zacks Consensus Estimate of \$2.40.

Results reflected increase in average rental rates and economic occupancy. The residential REIT also announced a 4.6% increase in its quarterly dividend payout.

Total revenues of \$593.6 million were up 2.6% year over year. However, the figure narrowly missed the Zacks Consensus Estimate of \$594.1 million.

For 2019, the company's reported core FFO per share of \$9.34 increased 3.8% from \$9.00 in the prior year and also beat the Zacks Consensus Estimate of \$9.31. Total revenues of \$2.3 billion rose 1.8% year on year.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-0.08%
EPS Surprise	1.25%
Quarterly EPS	2.43
Annual EPS (TTM)	9.34

Quarter in Detail

In the reported quarter, revenues from established communities improved 2.5% year over year to \$463.3 million. Results reflect a 2.4% increase in average rental rates and 0.1% growth in economic occupancy.

Operating expenses for established communities rose 2.6% on a year-over-year basis. Consequently, NOI from established communities increased 2.5% year on year to around \$335.5 million.

During the fourth quarter, the company acquired Avalon Toscana in Margate, FL, comprising 240 apartment homes for \$60.25 million. The company also acquired an unencumbered 265 apartment home community located in Cambridge, MA — AVA North Point. This property was previously held in an unconsolidated joint venture, in which the company had a 55% ownership stake. Thus, the company paid \$71.28 million for its venture partner's 45% interest in the community.

Further, during the quarter, the company completed the development of three apartment communities — Avalon Boonton, in Boonton, NJ; Avalon Belltown Towers, in Seattle, WA; and Avalon Saugus, in Saugus, MA — comprising a total of 904 apartment homes and 34,000 square feet of retail space, for a total capital cost of \$333 million.

As of Dec 31, 2019, AvalonBay had 22 development communities under construction (expected to contain 6,960 apartment homes and 64,000 square feet of retail space). The estimated total capital cost at completion for these development communities is \$2.54 billion at share.

Balance Sheet Position

As of Dec 31, 2019, AvalonBay did not have any borrowings outstanding under its \$1.75-billion unsecured credit facility. The company had around \$127.6 million in unrestricted cash and cash in escrow as of the same date. In addition, the company's annualized net debt-to-core EBITDAre for the October-December quarter was 4.6 times.

Moreover, during the fourth quarter, the company issued 947,868 shares of common stock at a settlement price of \$207.96 per share, generating net proceeds of \$197.1 million. This was pursuant to the forward equity sale contract entered in September 2019.

Outlook

For 2020, the company expects core FFO per share of \$9.62-\$10.02. The outlook is based on assumption for established communities' revenue growth of 2.2-3.2%, operating expense rise of 1.3-2.3% and NOI expansion of 2.5-3.5%.

Dividend Hike

On Feb 5, AvalonBay's board of directors announced the first-quarter 2020 dividend of \$1.59 per share. This marks a 4.6% increase from the prior quarterly dividend payout of \$1.52 per share. The raised dividend will be paid on Apr 15, to common stockholders of record as of Mar 31, 2020.

Recent News

Dividend Update

On Nov 20, AvalonBay's board of directors announced fourth-quarter 2019 dividend of \$1.52 per share. This dividend was paid on Jan 15, to common stockholders of record as of Dec 31, 2019.

Valuation

AvalonBay's shares are up 13.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 18.5% and 9.4% over the past year.

The S&P 500 Index is up 20.9% over the past year.

The stock is currently trading at 22.59X forward 12-month FFO, which compares to 21.76X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.27X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.00X and as low as 17.02X, with a 5-year median of 20.94X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$236 price target reflects 23.92X FFO.

The table below shows summary valuation data for AVB.

Valuation Multiples - AVB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.59	21.76	14.92	19.27
	5-Year High	24	22.21	16.21	19.34
	5-Year Low	17.02	16.2	12.01	15.18
	5-Year Median	20.94	18.54	14.15	17.47
P/S F12M	Current	12.65	10.91	6.55	3.55
	5-Year High	12.99	11.05	6.65	3.55
	5-Year Low	9.37	7.42	5.39	2.54
	5-Year Median	11.71	8.94	6.04	3
P/B TTM	Current	2.83	3.11	2.84	4.32
	5-Year High	2.87	3.12	2.89	4.42
	5-Year Low	2.05	2.06	1.83	2.85
	5-Year Median	2.47	2.39	2.51	3.62

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Top 41% (103 out of 254)



Top Peers

Apartment Investment and Management Company (AIV)	Neutral
Camden Property Trust (CPT)	Neutral
Equity Residential (EQR)	Neutral
Essex Property Trust, Inc. (ESS)	Neutral
Investors Real Estate Trust (IRET)	Neutral
Mid-America Apartment Communities, Inc. (MAA)	Neutral
NexPoint Residential Trust, Inc. (NXRT)	Neutral
United Dominion Realty Trust, Inc. (UDR)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	AVB Neutral	X Industry	S&P 500	EQR Neutral	ESS Neutral	MAA Neutral
VGM Score	F	-	-	D	F	F
Market Cap	31.13 B	1.64 B	24.31 B	31.49 B	21.00 B	16.19 B
# of Analysts	11	5	13	12	10	8
Dividend Yield	2.73%	2.88%	1.78%	2.68%	2.45%	2.82%
Value Score	F	-	-	F	F	D
Cash/Price	0.00	0.02	0.04	0.00	0.00	0.00
EV/EBITDA	23.42	22.30	13.97	23.84	24.44	23.08
PEG Ratio	4.04	3.72	2.06	3.73	3.78	5.56
Price/Book (P/B)	2.83	2.44	3.24	3.00	3.28	2.57
Price/Cash Flow (P/CF)	21.50	17.48	13.65	17.48	22.75	19.03
P/E (F1)	22.85	19.84	19.12	23.38	22.66	21.67
Price/Sales (P/S)	14.03	7.48	2.67	11.66	14.38	9.87
Earnings Yield	4.40%	5.04%	5.23%	4.28%	4.41%	4.61%
Debt/Equity	0.66	0.91	0.70	0.86	0.91	0.71
Cash Flow (\$/share)	10.36	2.38	6.94	4.85	13.97	7.46
Growth Score	D	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	4.05%	3.77%	10.85%	0.29%	8.62%	3.64%
Proj. EPS Growth (F1/F0)	5.05%	5.68%	7.30%	3.92%	4.82%	0.00%
Curr. Cash Flow Growth	-11.50%	11.10%	8.92%	20.08%	8.62%	20.00%
Hist. Cash Flow Growth (3-5 yrs)	6.16%	15.09%	8.36%	5.09%	13.18%	15.09%
Current Ratio	0.89	1.01	1.22	0.28	1.59	0.15
Debt/Capital	39.91%	47.43%	42.90%	47.40%	47.73%	41.46%
Net Margin	35.42%	12.03%	11.81%	35.93%	30.08%	21.50%
Return on Equity	7.26%	5.28%	16.98%	9.36%	6.90%	5.28%
Sales/Assets	0.12	0.13	0.54	0.13	0.11	0.15
Proj. Sales Growth (F1/F0)	10.20%	6.47%	3.90%	2.82%	6.49%	3.66%
Momentum Score	D	-	-	A	D	D
Daily Price Chg	0.51%	0.34%	0.65%	-0.18%	0.15%	-0.28%
1 Week Price Chg	1.14%	1.40%	2.47%	1.35%	1.62%	2.90%
4 Week Price Chg	6.38%	4.32%	1.35%	4.47%	5.30%	7.70%
12 Week Price Chg	2.68%	2.79%	5.63%	-2.62%	-1.45%	3.31%
52 Week Price Chg	15.21%	16.99%	16.19%	16.89%	14.91%	37.70%
20 Day Average Volume	633,413	413,826	1,995,746	1,327,516	516,117	510,117
(F1) EPS Est 1 week change	-0.18%	0.00%	0.00%	-0.02%	-0.01%	-0.13%
(F1) EPS Est 4 week change	-0.24%	0.00%	0.00%	0.13%	-0.23%	-0.25%
(F1) EPS Est 12 week change	0.11%	0.06%	-0.19%	0.36%	-0.68%	-0.12%
(Q1) EPS Est Mthly Chg	-0.35%	0.00%	0.00%	0.31%	0.12%	-0.46%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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