

Equity Residential(EQR)

\$80.92 (As of 12/31/19)

Price Target (6-12 Months): **\$86.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Shares of Equity Residential have outperformed its industry over the past six months. In November, the company fortified its financial position by entering into a \$2.5-billion multi-currency revolving credit facility, replacing the prior \$2-billion credit agreement. It also raised the maximum size for its unsecured commercial paper note program from \$500 million to \$1 billion. Equity Residential is poised for growth amid job-market gains, favorable demographics, lifestyle transformation, and creation of households. Furthermore, it is anticipated to benefit from its portfolio-repositioning efforts in high barrier-to-entry/core markets. However, new apartment supply across its markets might partly impede the company's growth momentum in the future, straining lease rates, occupancy and retention, and lead to use of high concessions.

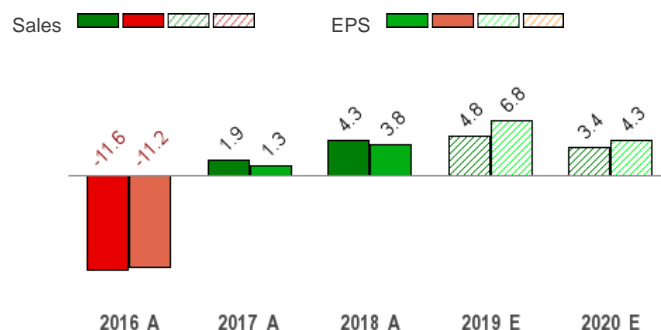
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$89.55 - \$63.41
20 Day Average Volume (sh)	1,602,628
Market Cap	\$30.1 B
YTD Price Change	22.6%
Beta	0.41
Dividend / Div Yld	\$2.27 / 2.8%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 19% (47 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.4%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/28/2020
Earnings ESP	0.0%
P/E TTM	23.6
P/E F1	23.3
PEG F1	3.9
P/S TTM	11.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	690 E	698 E	706 E	707 E	2,793 E
2019	662 A	670 A	685 A	685 E	2,702 E
2018	633 A	640 A	653 A	653 A	2,578 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.86 E	\$0.90 E	\$0.92 E	\$0.93 E	\$3.62 E
2019	\$0.82 A	\$0.86 A	\$0.91 A	\$0.89 E	\$3.47 E
2018	\$0.77 A	\$0.81 A	\$0.83 A	\$0.84 A	\$3.25 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 12/31/2019. The reports text is as of 01/02/2020.

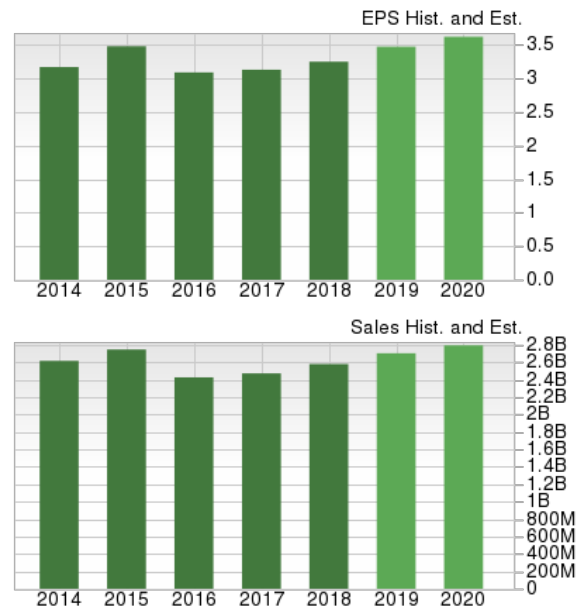
Overview

Based in Chicago, IL, Equity Residential is one of the leading, fully integrated, publicly traded multi-family real estate investment trusts (REITs) in the United States. The company has a portfolio of high-quality apartment properties in some of the most desirable markets across the country – Boston, New York, Washington, D.C., Seattle, San Francisco, Southern California and Denver. At present, Equity Residential owns or has investments in 308 properties, comprising 80,299 apartment units.

Equity Residential opted for substantial sale out of its portfolio in recent years. In fact, its sale of the Starwood portfolio, together with the other 2016 dispositions, has resulted in the company's exit from the South Florida, Denver and New England (excluding Boston) markets. In addition, the efforts marked a significant completion of its portfolio transformation initiated around ten year before.

However, Equity Residential made a re-entry into the Denver market in 2018 and as of Jun 30, 2019, the company owns four apartment properties in the area. The company expects to enhance its Denver portfolio as properties in right location are likely to produce decent long-term returns amid high-wage job growth, high single family home prices, and growing demography of renters.

Note: All EPS numbers presented in this report represent funds from operation ("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:

- ▲ Equity Residential's current focus is on the acquisition and development of assets primarily in six core coastal metropolitan areas — Boston, New York, Washington D.C., Southern California (including Los Angeles, Orange County and San Diego), San Francisco, Seattle and Denver. Specifically, the emphasis on the acquisition, development and management of rental apartment properties in urban and high-density suburban coastal gateway markets in close proximity to public transportation, dining, culture, education and nightlife offers solid scope for greater demand.
- ▲ Moreover, though economic growth is likely to be less robust this year, the level will remain stable, supporting the industry. Decent consumer confidence on the back of a healthy labor market is likely to drive demand for the company's properties. With a healthy job market, household formation and high home-ownership costs in several markets hindering transition from renter to homeowner, demand for rental housing units will likely be decent, promising solid prospects for Equity Residential.
- ▲ Demographic growth also continues to be strong in the young-adult age cohort, which has a higher propensity to rent. In fact, people in the age bracket of 20-34 are the main cohort for formation of the new households and majority of them prefer to remain renters and enjoy locational advantage as well as flexibility that rental apartments offer. Further, 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. Moreover, there is a rising trend among aging Baby Boomers toward apartment rentals. Therefore, such favorable demographics are likely to result in higher demand to absorb the new supply of rental units in the core markets of Equity Residential.
- ▲ The company has made concerted efforts toward repositioning its portfolio from low barrier-to-entry/non-core markets to high barrier-to-entry/core markets. The company has a proven track record of opportunistic acquisitions, timely dispositions and focused development. In recent years, the company has opted for substantial sale out of its portfolio. Such efforts are likely to drive the company's growth over the long term.
- ▲ On the capital front, the company is actively taking advantage of the favorable environment. During the third quarter, it issued \$600 million of unsecured notes at a coupon rate of 2.5% and a yield of 2.56%. This marked the lowest ten-year yield in the company's as well as the REIT industry's histories. Moreover, in November, Equity Residential fortified its financial position by entering into a \$2.5-billion multi-currency revolving credit facility, replacing its prior \$2-billion credit agreement. The company has also raised the maximum size for its unsecured commercial paper note program from \$500 million to \$1 billion. Such strategic measures are aimed at strengthening the company's outstanding balance sheet, liquidity and financial flexibility. This will help it enjoy greater liquidity for day-to-day operations and support its growth endeavors.
- ▲ Solid dividend payouts remain arguably the biggest attraction for REIT investors and Equity Residential remains committed to this purpose. During the fourth-quarter 2017 earnings release, the company announced its decision to no longer fix the common share dividend as a fixed percentage of estimated Normalized FFO. Rather, the company disclosed embracing a more conventional policy that is based on actual and projected financial conditions, actual and projected liquidity and operating results, projected cash needs for capital expenditures and other investment activities. For the first, second and third quarters of 2019, the company announced a dividend of 56.75 cents per share in each quarter. The current amount reflects an annualized increase of 5.1% from the amount paid in 2018. This is backed by the company's solid growth in property operations following the recent economic downturn and a substantial reduction in its development activity, which led to a material upsurge in its available cash flows. Such trends are likely to continue and support the company's dividend payouts.
- ▲ Shares of the company have gained 3.3% over the past six months, outperforming the industry's rise of 2.6%. Additionally, the trend in estimate revisions of 2020 FFO per share indicates an upbeat outlook. The Zacks Consensus Estimate for 2020 FFO per share has been revised marginally upward over the past two months. Consequently, given the progress on fundamentals and positive estimate revisions, the stock has a decent upside potential.

Equity Residential is expected to benefit from portfolio-repositioning moves in core markets, growth in millennial population, job-market gains, lifestyle changes and new households' creation.

Reasons To Sell:

- ▼ Equity Residential has been experiencing high new supply across a number of its markets. This elevated supply level is likely to continue to put pressure on new lease rates, occupancy as well as retention, and adversely affect revenue growth this year. Furthermore, concession activity remains high amid higher supply, which remains another concern.
- ▼ Equity Residential is repositioning its portfolio to focus on high-barrier markets. In fact, the company opted for substantial sale out of its portfolio in earlier. Its sale of the Starwood portfolio, together with the other 2016 dispositions, has resulted in the company's exit from South Florida and New England (excluding Boston) markets. The company has continued with its asset sale-out efforts and guided for \$1 billion of dispositions in 2019. While we believe that the sale of assets would assist the company to focus exclusively on its core, urban and high-density suburban coastal gateway markets, the dilutive impact on earnings from such a move would be impossible to avoid in the near term.
- ▼ Although interest rate levels are low presently, any hike in future is likely to 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. Furthermore, the dividend payout might become less attractive than the yields on fixed income and money market accounts.

Equity Residential is likely to witness high deliveries of new units across a number of its markets. Aggressive rental concessions and moderate pricing power amid high supply are major concerns.

Last Earnings Report

Equity Residential Q3 FFO and Revenues Beat Estimates

Equity Residential reported third-quarter 2019 normalized FFO per share of 91 cents, surpassing the Zacks Consensus Estimate of 88 cents. Moreover, normalized FFO per share figure comes in 9.6% higher than the 83 cents reported in the year-ago quarter.

Results mirror improved same-store NOI and lease-up NOI, and other non-same store NOI. Further, its transaction activities in 2018 and 2019 had a positive impact on the company's NOI.

Total revenues in the reported quarter came in at \$685.1 million, up 4.9% from the prior-year reported figure. In addition, the revenue figure comfortably outpaced the Zacks Consensus Estimate of \$678.1 million.

Quarter in Detail

Same-store revenues (includes 75,290 apartment units) were up 3.4% year over year to \$649.7 million, while expenses flared up 3.7% year over year to \$196.5 million. As a result, same-store NOI climbed 3.3% year over year to \$453.2 million.

The company recorded 3.2% growth in average rental rate to \$2,870. Physical occupancy expanded 20 basis points year over year to 96.5% for same-store portfolio. Turnover edged down to 15.9% from the year-ago period's 16.2%.

The company exited third-quarter 2019 with cash and cash equivalents of around \$28.8 million, down from the \$251.3 million recorded at the end of the previous quarter. Moreover, the company issued \$600 million of unsecured notes at a coupon rate of 2.5% and a yield of 2.56%.

Portfolio Activity

During the reported quarter, Equity Residential acquired four apartment properties in Los Angeles, the San Francisco Bay Area and suburban Denver, aggregating 1,084 apartment units. This purchase was made for around \$489.9 million at a weighted average Acquisition Capitalization Rate of 4.4%. Further, during the quarter, the company completed a 137 apartment unit property in Seattle as well as an 84 apartment unit property in Cambridge, MA.

The company also sold seven properties for around \$303.9 million at a weighted average Disposition Yield of 4.7%. One of the properties is located in Arlington, VA, while the other six are in Berkeley, CA. These properties had 641 apartment units in total.

Outlook

For fourth-quarter 2019, Equity Residential projects normalized FFO per share at 87-89 cents.

The company has revised its outlook for the ongoing year and now expects normalized FFO per share of \$3.46-\$3.48 compared with the \$3.43-\$3.49 guided earlier. The company's full-year outlook is backed by same-store portfolio revenue growth of 3.3%, physical occupancy of 96.4%, and NOI change of 3.1%.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	1.04%
EPS Surprise	3.41%
Quarterly EPS	0.91
Annual EPS (TTM)	3.43

Recent News

Equity Residential Boosts Flexibility With New Credit Facility – Nov 4, 2019

Equity Residential fortified its financial position by entering into a \$2.5-billion multi-currency revolving credit facility, replacing its prior \$2-billion credit agreement. The company has also raised the maximum size for its unsecured commercial paper note program from \$500 million to \$1 billion.

Notably, a total of 22 lenders participated in this \$2.5-billion revolving credit facility, indicating their confidence in this residential REIT's business strength. The latest facility will mature on Nov 1, 2024, and there are provisions to extend or increase it, subject to consent from lenders and customary conditions.

The interest and facility fees will depend on the long-term unsecured credit ratings of the operating partnership. However, the commercial paper notes will rank pari passu with all of the other unsecured senior indebtedness of the operating partnership.

Notably, on the capital front, the company is actively taking advantage of the favorable environment. During the third quarter, it issued \$600 million of unsecured notes at a coupon rate of 2.5% and a yield of 2.56%. This marked the lowest 10-year yield in the company's as well as the REIT industry's histories.

Such strategic measures are aimed at strengthening the company's outstanding balance sheet, liquidity and financial flexibility. This will help it enjoy greater liquidity for day-to-day operations and support its growth endeavors.

Dividend Update

On Dec 19, Equity Residential announced fourth-quarter 2019 dividend of 56.75 cents per share. The dividend will be paid out on Jan 10, to shareholders of record on Jan 2, 2020.

Valuation

Equity Residential's shares have surged 22.6% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 28.3% and 20.3% in the past year, respectively.

The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at 23.29X forward 12-month FFO, which compares to 21.77X for the Zacks sub-industry, 15.56X for the Zacks sector and 20.30X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.85X and as low as 16.93X, with a 5-year median of 20.94X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$86 price target reflects 24.75X FFO per share.

The table below shows summary valuation data for EQR.

Valuation Multiples - EQR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.29	21.77	15.56	20.3
	5-Year High	24.85	21.89	16.21	20.3
	5-Year Low	16.93	16.2	12.01	15.17
	5-Year Median	20.94	18.48	13.98	17.44
P/S F 12M	Current	11.12	10.79	6.56	3.51
	5-Year High	11.94	10.79	6.61	3.51
	5-Year Low	7.96	7.42	5.2	2.54
	5-Year Median	9.75	8.84	6.04	3
P/B TTM	Current	2.9	2.92	2.83	4.41
	5-Year High	3.18	3.09	2.89	4.42
	5-Year Low	1.95	2.06	1.83	2.85
	5-Year Median	2.38	2.38	2.5	3.6

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 253)



Top Peers

Apartment Investment and Management Company (AIV)	Neutral
AvalonBay Communities, Inc. (AVB)	Neutral
Camden Property Trust (CPT)	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		
	EQR Neutral	X Industry	S&P 500	AVB Neutral	ESS Neutral	UDR Neutral
VGM Score	D	-	-	F	D	D
Market Cap	30.05 B	1.60 B	23.93 B	29.29 B	19.88 B	13.69 B
# of Analysts	11	4.5	13	10	10	9
Dividend Yield	2.81%	3.51%	1.78%	2.90%	2.59%	2.93%
Value Score	D	-	-	F	F	D
Cash/Price	0.00	0.03	0.04	0.01	0.00	0.06
EV/EBITDA	22.98	21.56	13.95	22.29	23.62	21.28
PEG Ratio	3.94	3.65	2.12	3.65	3.60	3.99
Price/Book (P/B)	2.90	2.45	3.33	2.71	3.10	4.24
Price/Cash Flow (P/CF)	19.87	17.52	13.67	17.72	23.39	19.62
P/E (F1)	23.32	20.69	19.66	22.56	22.55	22.42
Price/Sales (P/S)	11.26	6.96	2.69	13.29	13.83	12.27
Earnings Yield	4.29%	4.84%	5.08%	4.43%	4.44%	4.45%
Debt/Equity	0.87	0.92	0.72	0.69	0.94	1.22
Cash Flow (\$/share)	4.07	2.27	6.94	11.83	12.86	2.38
Growth Score	D	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	0.01%	3.96%	10.56%	4.40%	9.23%	5.87%
Proj. EPS Growth (F1/F0)	6.37%	0.00%	0.00%	3.16%	6.19%	7.29%
Curr. Cash Flow Growth	8.80%	8.69%	14.83%	10.46%	-3.53%	14.47%
Hist. Cash Flow Growth (3-5 yrs)	17.96%	20.40%	9.00%	21.78%	21.31%	12.84%
Current Ratio	0.13	1.04	1.23	0.89	1.59	5.99
Debt/Capital	47.69%	47.56%	42.92%	40.95%	48.69%	60.49%
Net Margin	29.88%	12.78%	11.08%	45.56%	29.78%	15.20%
Return on Equity	7.73%	4.39%	17.10%	9.35%	6.73%	5.51%
Sales/Assets	0.13	0.13	0.55	0.12	0.11	0.14
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Momentum Score	B	-	-	D	B	B
Daily Price Chg	0.25%	0.94%	0.33%	1.00%	0.38%	0.80%
1 Week Price Chg	0.81%	-0.22%	0.13%	0.40%	0.80%	0.04%
4 Week Price Chg	-3.49%	-2.27%	3.67%	-1.78%	-1.74%	-0.89%
12 Week Price Chg	-7.57%	-0.34%	10.64%	-3.69%	-8.19%	-4.48%
52 Week Price Chg	22.59%	27.89%	27.46%	20.48%	22.69%	17.87%
20 Day Average Volume	1,602,628	492,173	1,693,267	540,031	341,936	1,438,356
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.02%	0.00%	0.00%	-0.06%	0.08%	0.02%
(F1) EPS Est 12 week change	0.61%	0.21%	0.14%	-0.17%	0.11%	0.45%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.05%	0.14%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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.

Disclosures

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