

Equity Residential(EQR)

\$53.63 (As of 07/31/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Equity Residential's better-than-expected second-quarter 2020 normalized funds from operations (FFO) per share reflected a decline in same-store expenses on impressive expense control and continued enhancements in its operating platform. Resident retention was the highest for the second quarter in its history. Yet, total revenues declined and management revealed witnessing increased customer price sensitivity, especially in the urban core markets. Equity Residential is well poised to benefit from its high-quality rental properties, a healthy balance sheet, and technological initiatives. However, with the pandemic's adverse impact on economy and jobs, the rent-paying capability of tenants will likely bear the brunt, adversely impacting rental rates and occupancy. Also, its shares have underperformed its industry over the past year.

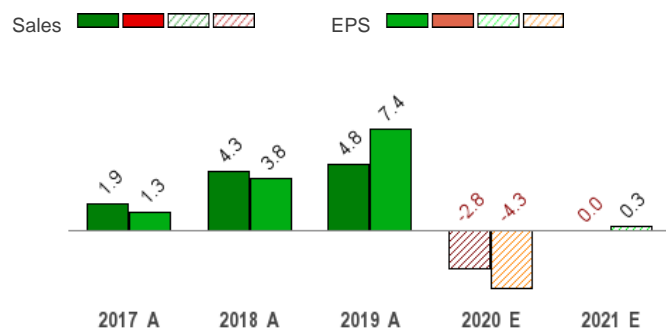
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$89.55 - \$49.62
20 Day Average Volume (sh)	2,435,814
Market Cap	\$20.0 B
YTD Price Change	-33.7%
Beta	0.62
Dividend / Div Yld	\$2.41 / 4.5%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Bottom 10% (227 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	NA
Earnings ESP	1.5%
P/E TTM	15.1
P/E F1	16.1
PEG F1	2.7
P/S TTM	7.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	654 E	658 E	664 E	667 E	2,625 E
2020	682 A	654 A	645 E	644 E	2,626 E
2019	662 A	670 A	685 A	684 A	2,701 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.79 E	\$0.82 E	\$0.84 E	\$0.85 E	\$3.35 E
2020	\$0.87 A	\$0.86 A	\$0.82 E	\$0.81 E	\$3.34 E
2019	\$0.82 A	\$0.86 A	\$0.91 A	\$0.91 A	\$3.49 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 07/31/2020. The reports text is as of 08/03/2020.

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. This S&P 500 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 304 properties, comprising 78,410 apartment units.

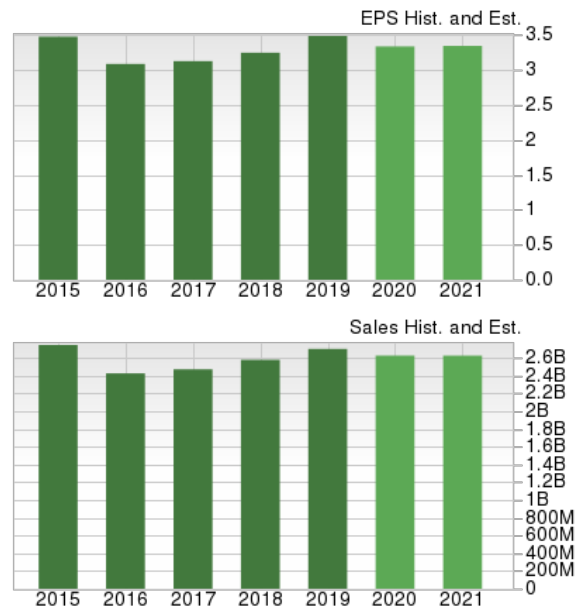
The company divides same-store performance between residential (96% of revenues) and non-residential operations (4%). Non-residential operations consist of ground-floor retail at Equity Residential's apartment buildings and public garage parking.

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 Mar 31, 2020, the company owns five 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*: Certain information will be updated once the company files its latest 10-Q

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. Further, with a financially-resilient tenant base the residential REIT has collected an average 97% of its total monthly residential rental income in the second quarter, while July collections are trending at a similar pace to previous months.
- ▲ 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.
- ▲ Equity Residential is also banking on technology and organizational capabilities to drive innovation, rent growth and improve efficiency of its operating platform. This includes installation of smart home technology, sales-focused improvements like complete deployment of an AI-enabled sales tool, a new mobile customer relationship-management platform and self-guided tours as well as deployment of service mobility. Also, such technological enhancements have become all the more essential in this social-distancing era, as the virus outbreak required a quick shift to virtual operations for the continuity of normal business operations. This is likely to provide Equity Residential a competitive edge over others.
- ▲ 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 2019, the company was a net acquirer with acquisitions and dispositions amounting to around \$1.49 billion and \$1.08 billion, respectively. Such efforts are likely to drive the company's growth over the long term.
- ▲ The company has a strong balance sheet, ample liquidity and financial flexibility. This will help it sail through these uncertain times and enjoy greater liquidity for the day-to-day operations. The company exited second-quarter 2020 with cash and cash equivalents of \$187.4 million strong net debt to normalized EBITDA of 4.71 times. Moreover, it boosted its balance-sheet strength through refinancing activity and incremental debt reduction from disposition proceeds. As of Jul 28, 2020, the company had no outstanding balances under its revolving credit facility or commercial paper program and had \$2.4 billion in available liquidity. Also, 85.8% of the company's total net operating income (NOI) is unencumbered. Hence, it has sufficient funds to address its modest anticipated development spend and minimal near-term debt maturities.
- ▲ 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. The company announced a dividend of 56.75 cents per share in each quarter of 2019. The amount reflected an annualized increase of 5.1% from the amount paid in 2018. This was 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. In fact, the company intends to reward its shareholder with growing cash flows and in March announced a 6.2% sequential hike in its first-quarter 2020 dividends to 60.25 cents per share.

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

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. This, along with the implementation of new rent-control regulations in New York and California, is anticipated to impede same-store revenue growth in 2020.
- ▼ The coronavirus pandemic, which has been wreaking havoc and resulting in macroeconomic uncertainties, is expected to impact the rent-paying capability of residential tenants. Equity Residential's top line is likely to bear the brunt in the near term, with adverse impact on rental rates and occupancy as well as high concession activity. In fact, due to the several restrictions and shelter-in-place orders in the company's markets, it witnessed reduced foot traffic and applications, resulting in significant declines in leasing activity in late March. The decline in leasing activity continued in the second quarter, which normally happens to be the peak leasing session. The New York continues to be one of the most challenging markets with reduced rental rates and higher levels of concessions.
- ▼ 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 years. Its sale of the Starwood portfolio, together with the other 2016 dispositions, 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 in 2020 and during the reported quarter, it sold two apartment properties for \$384.2 million. 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.
- ▼ Shares of the company have depreciated 31.4% over the past year compared with the industry's decline of 13.9%. Moreover, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook as the estimate moved marginally downward over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the upcoming period.

Adverse impacts of the coronavirus outbreak will likely impact demand and hurt the rent-paying capability of tenants, resulting in rental concessions. Rent control in urban markets is also a concern.

Last Earnings Report

Equity Residential Q2 FFO Tops, Revenues Miss Estimates

Equity Residential's second-quarter 2020 normalized FFO per share of 86 cents surpassed the Zacks Consensus Estimate of 83 cents. The reported figure remained flat, year over year.

Results reflect a decline in same-store expenses on impressive expense control and continued enhancements in its operating platform. Moreover, resident retention was the highest for the second quarter in Equity Residential's history.

However, total revenues in the second quarter came in at \$653.5 million, down about 2.4% year on year. The revenue figure also missed the Zacks Consensus Estimate of \$656.7 million.

Management noted, "We see good demand for our apartments, both urban and suburban, but with increased customer price sensitivity, especially in the urban cores of New York, San Francisco and Boston."

The company also stated that it started witnessing a recovery in demand in late May, while initial leads, traffic and applications continue to be in line with the prior-year period. Further, the residential REIT collected an average 97% of its total monthly residential rental income in the second quarter, while July collections are trending at a similar pace to previous months.

Quarter in Detail

Same-store revenues (includes 74,843 apartment units) edged down 0.9% year over year to \$608.7 million, while expenses slipped 0.1% to \$184.8 million. As a result, same-store net operating income (NOI) declined 1.2% to \$423.9 million, year on year.

Average rental rate inched up 0.8% year on year to \$2,860 during the June-end quarter, while physical occupancy contracted 160 basis points to 94.9% for the same-store portfolio.

Balance Sheet

Equity Residential exited second-quarter 2020 with cash and cash equivalents of \$187.4 million, up from the \$82.3 million recorded at the end of the first quarter. As of Jul 28, 2020, the company had no outstanding balances under its revolving credit facility or commercial paper program and had \$2.4 billion in available liquidity.

Portfolio Activity

During the reported quarter, the company sold two apartment properties for \$384.2 million at a weighted average Disposition Yield of 4.4%. The properties are located in the San Francisco Bay Area and the Washington, DC area. These properties had 655 apartment units in total.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	-0.48%
EPS Surprise	3.61%
Quarterly EPS	0.86
Annual EPS (TTM)	3.55

Recent News

Dividend Update

On Jun 10, 2020, Equity Residential announced quarterly cash dividend on common stock of 60.25 cents per share. The dividend for the second quarter was paid out on Jul 10 to shareholders of record as of Jun 22, 2020.

Valuation

Equity Residential's shares have declined 31.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 13.9% and 9.1%, over the past year, respectively.

The S&P 500 Index has been up 15.4% over the past year.

The stock is currently trading at 16.04X forward 12-month FFO, which compares to 18.13X for the Zacks sub-industry, 16.27X for the Zacks sector and 22.64X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.85X and as low as 14.06X, with a 5-year median of 20.70X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$57 price target reflects 17.05X FFO.

The table below shows summary valuation data for EQR.

Valuation Multiples - EQR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.04	18.13	16.27	22.64
	5-Year High	24.85	22.36	16.27	22.64
	5-Year Low	14.06	15.54	11.59	15.25
	5-Year Median	20.70	18.55	14.21	17.55
P/S F12M	Current	7.60	9.52	6.04	3.59
	5-Year High	11.94	12.16	6.66	3.59
	5-Year Low	6.83	7.58	4.96	2.53
	5-Year Median	9.68	9.28	6.06	3.04
P/B TTM	Current	1.85	2.47	2.39	4.47
	5-Year High	3.18	3.30	2.91	4.56
	5-Year Low	1.82	1.82	1.72	2.83
	5-Year Median	2.35	2.42	2.53	3.72

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (227 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Apartment Investment and Management Company (AIV)	Neutral	4
Essex Property Trust, Inc. (ESS)	Neutral	3
MidAmerica Apartment Communities, Inc. (MAA)	Neutral	4
United Dominion Realty Trust, Inc. (UDR)	Neutral	4
AvalonBay Communities, Inc. (AVB)	Underperform	4
Camden Property Trust (CPT)	Underperform	4
Investors Real Estate Trust (IRET)	Underperform	4
NexPoint Residential Trust, Inc. (NXRT)	Underperform	3

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	EQR	X Industry	S&P 500	AVB	ESS	UDR
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	4
VGM Score	D	-	-	D	D	D
Market Cap	19.96 B	1.21 B	22.59 B	21.55 B	14.44 B	10.68 B
# of Analysts	11	5	14	7	10	10
Dividend Yield	4.49%	4.16%	1.83%	4.15%	3.76%	3.98%
Value Score	D	-	-	D	D	C
Cash/Price	0.00	0.04	0.07	0.04	0.02	0.00
EV/EBITDA	12.71	17.16	12.94	18.93	18.07	17.54
PEG Ratio	2.66	4.14	3.04	6.54	6.08	3.48
Price/Book (P/B)	1.85	1.85	3.17	1.98	2.28	3.17
Price/Cash Flow (P/CF)	10.72	13.30	12.51	14.43	16.20	15.31
P/E (F1)	15.75	16.69	21.87	16.88	16.60	17.36
Price/Sales (P/S)	7.38	6.36	2.44	9.13	9.65	8.69
Earnings Yield	6.23%	5.99%	4.31%	5.92%	6.02%	5.77%
Debt/Equity	0.78	1.01	0.75	0.70	1.01	1.41
Cash Flow (\$/share)	5.00	2.46	6.94	10.61	13.62	2.36
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	0.75%	3.28%	10.85%	3.83%	8.04%	5.63%
Proj. EPS Growth (F1/F0)	-4.30%	-2.46%	-7.75%	-2.86%	-0.64%	0.24%
Curr. Cash Flow Growth	23.84%	7.20%	5.39%	-9.39%	5.93%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	5.74%	15.38%	8.55%	6.67%	12.62%	5.98%
Current Ratio	1.06	1.46	1.31	2.72	1.64	4.08
Debt/Capital	44.70%	45.55%	44.32%	41.25%	50.43%	62.12%
Net Margin	41.64%	14.71%	10.44%	33.32%	42.47%	15.31%
Return on Equity	10.62%	4.71%	14.73%	7.21%	9.94%	5.63%
Sales/Assets	0.13	0.12	0.52	0.12	0.12	0.13
Proj. Sales Growth (F1/F0)	-2.78%	2.15%	-1.95%	6.23%	4.43%	9.92%
Momentum Score	F	-	-	B	D	D
Daily Price Chg	0.67%	0.16%	-0.92%	-0.25%	0.67%	2.41%
1 Week Price Chg	-4.63%	-1.69%	0.37%	-4.57%	-4.06%	-2.71%
4 Week Price Chg	-11.49%	-1.16%	3.81%	-4.25%	-6.88%	-6.14%
12 Week Price Chg	-14.94%	10.49%	11.93%	-4.56%	-11.37%	-4.33%
52 Week Price Chg	-32.61%	-21.67%	-1.92%	-24.62%	-27.60%	-21.42%
20 Day Average Volume	2,435,814	369,041	1,887,986	933,252	369,041	1,539,358
(F1) EPS Est 1 week change	-0.27%	0.00%	0.00%	0.00%	0.00%	-0.43%
(F1) EPS Est 4 week change	-0.22%	0.00%	0.38%	0.70%	-0.22%	0.00%
(F1) EPS Est 12 week change	-4.55%	-3.69%	-0.07%	-2.83%	-2.41%	-3.02%
(Q1) EPS Est Mthly Chg	0.84%	0.00%	0.16%	-0.79%	-0.33%	-0.05%

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	C
Momentum Score	F
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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