Equity Residential(EQR)

$57.48 (As of 07/08/20)

Price Target (6-12 Months): **$49.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/07/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: C | Momentum: A	

Summary

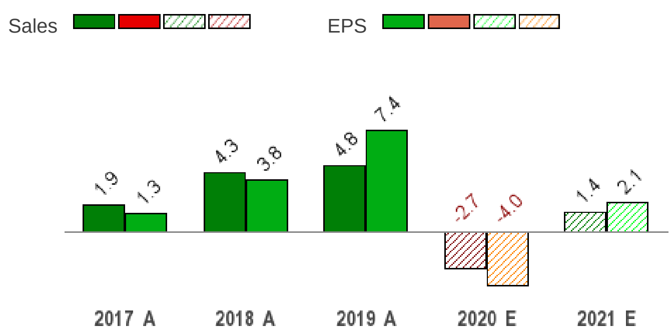
Equity Residential is well-poised to benefit from its rental properties focused in urban and high-density suburban coastal gateway markets, a healthy balance sheet, and technological initiatives. However, amid the pandemic, and its adverse impacts on economy and jobs, the rent-paying capability of tenants will likely bear the brunt, adversely impacting rental rates and occupancy. Particularly, leasing activity has significantly suffered in the second quarter, which normally happens to be the peak leasing session. Moreover, Equity Residential has been experiencing high new supply across a number of its markets. This along with the implementation of new rent-control regulations in urban markets is anticipated to impede same-store revenue growth in 2020. Also, shares of the company have underperformed the industry it belongs to over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$89.55 - $49.62
20 Day Average Volume (sh)	2,997,447
Market Cap	$21.4 B
YTD Price Change	-29.0%
Beta	0.62
Dividend / Div Yld	$2.41 / 4.2%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Bottom 26% (185 out of 251)
Last EPS Surprise	0.0%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	16.2
P/E F1	17.2
PEG F1	2.9
P/S TTM	7.9

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	666 E	671 E	678 E	682 E	2,664 E
2020	682 A	660 E	653 E	652 E	2,628 E
2019	662 A	670 A	685 A	684 A	2,701 A

EPS Estimates

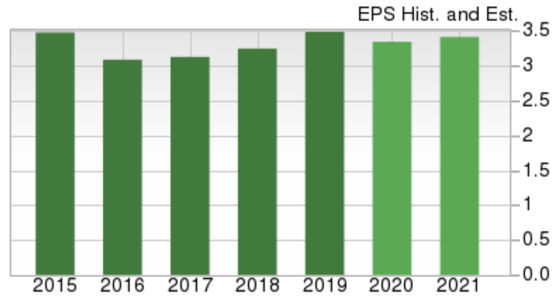
	Q1	Q2	Q3	Q4	Annual*
2021	$0.80 E	$0.84 E	$0.86 E	$0.87 E	$3.42 E
2020	$0.87 A	$0.83 E	$0.81 E	$0.81 E	$3.35 E
2019	$0.82 A	$0.86 A	$0.91 A	$0.91 A	$3.49 A

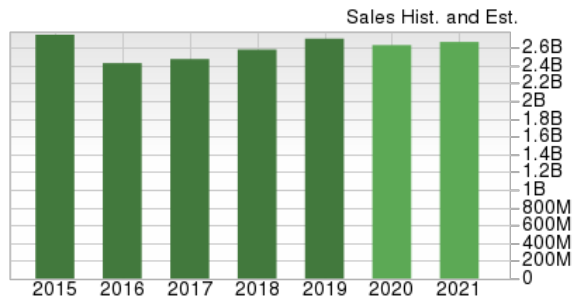
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/08/2020. The reports text is as of 07/09/2020.

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 306 properties, comprising 79,065 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: *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 Sell:

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.

- Equity Residential has been experiencing high new supply across a number of its markets, particularly Los Angeles. 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. As such, Equity Residential's top line is likely to bear the brunt in the near term, with adverse impacts on rental rates and occupancy. 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. Further, as of April end, same-store Residential Delinquency increased to 5.4%. In fact, New York, where the company has significant asset concentration, is currently the epicenter of the pandemic in the United States and hence is more susceptible to the impact of COVID-19. Amid these, the company expects second-quarter occupancy impact to be the most pronounced. In fact, residential same-store occupancy for April slipped 130 basis points as compared to the March end.

- 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 has sold three properties for aggregate $478.2 million through May 7. 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 27.8% over the past year compared with the industry's decline of 19.1%. 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 month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the upcoming period.

Risks

- 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, a financially-resilient tenant base has enabled the company to collect 97% of April residential rents due.

- 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. Additionally, the company expects to spend approximately $250 million on developments in 2020, of which around $50 million was spent in first-quarter 2020. 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. In fact, the company exited first-quarter 2020 with cash and cash equivalents of $82.3 million and strong net debt to normalized EBITDA of 4.9 times. Moreover, it boosted its liquidity and financial flexibility by closing a $495-million secured loan. As of May 4, 2020, Equity Residential had $2.2 billion available under its unsecured revolving credit facility. Moreover, 84% 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.

Last Earnings Report

Equity Residential Meets Q1 FFO Estimates, Scraps View

Quarter Ending	03/2020
Report Date	May 05, 2020
Sales Surprise	-0.21%
EPS Surprise	0.00%
Quarterly EPS	0.87
Annual EPS (TTM)	3.55

Equity Residential reported first-quarter 2020 normalized FFO per share of 87 cents, up 6.1% from the year-ago quarter's 82 cents. The reported figure comes in line with the Zacks Consensus Estimate.

Results reflect improved same-store NOI and growth in average rental rate.
Total revenues in the first quarter came in at $682.3 million, up about 3% from the prior-year reported figure. However, the revenue figure missed the Zacks Consensus Estimate of $683.7 million.

The company's rent collections were strong in April with receipts being approximately 97% of residential cash collections in March. Residential same-store physical occupancy at the end of April stood at 94.7% (compared with 96% at first-quarter end), with a renewal rate of 2.8%. The company witnessed a dip of 1.9% in its new lease change.

In light of the coronavirus pandemic and related uncertainties, the company has withdrawn its current-year guidance.

Quarter in Detail

Same-store revenues (includes 74,919 apartment units) were up 2.7% year over year to $648.4 million, while expenses flared up 2.4% year over year to $199.9 million. As a result, same-store NOI climbed 2.9% year over year to $448.4 million.

Physical occupancy improved 20 basis points year over year to 96.5% for the total same-store portfolio at the end of the first quarter.

Balance Sheet

The company exited first-quarter 2020 with cash and cash equivalents of $82.3 million, up from the $45.8 million recorded at the end of 2019. Moreover, the company boosted its liquidity and financial flexibility by closing a $495-million secured loan. The tenure of the loan is 10 years and has a fixed interest rate of 2.6%. As of May 4, 2020, the company had $2.2 billion available under its unsecured revolving credit facility.

Portfolio Activity

During the reported quarter, the company also sold two properties for $370.2 million at a weighted average Disposition Yield of 5%. The properties are located in San Francisco Bay Area and one partly-owned property in Phoenix. These properties had 897 apartment units in total.

After the end of the quarter, the company sold one wholly-owned property located in the San Francisco Bay Area for $108 million at a Disposition Yield of 4.5%.

Outlook

Equity Residential has withdrawn its 2020 guidance due to the current volatile situation. It shall not issue any guidance until there is certainty about the impact of the pandemic on its operations.

The company had earlier projected normalized FFO per share of $3.59-$3.69 for the ongoing year. The full-year outlook was backed by same-store portfolio revenue growth of 2.3-3.3%, physical occupancy of 96.4%, and NOI change of 1.5-3.5%.

Recent News

Equity Residential Issues Q2 Updates & May Rent Collections – Jun 1, 2020

Equity Residential is witnessing a recovery in demand with initial leads, traffic and applications now coming in line with the same period last year. The company also noted that it has witnessed improvements in physical occupancy reaching 94.9% quarter to date, with increased activities, while residential cash collections were strong in May and consistent with April.

However, for its same-store operating properties, quarter-to-date new lease change was down 4.8% compared with the first-quarter decline of 0.7%, while renewal rate came in at 1.5% down from the prior quarter's 4.2%. Blended rate too was -0.7% as against the first quarter's 1.8%.

Equity Residential had witnessed significant declines in leasing activity earlier, with the company's markets becoming subject to shelter-in-place orders amid the coronavirus pandemic. Traffic, initial leads and applications slumped 50% or more in the third week of March 2020 compared with prior-year period.

Nevertheless, in April, the company witnessed a recovery in demand, with traffic, initial leads and applications improving.

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 will be paid out on Jul 10 to shareholders of record as of Jun 22.

Valuation

Equity Residential's shares have declined 27.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 19.1% and 16.6%, over the past year, respectively.

The S&P 500 Index has been up 6.1% over the past year.

The stock is currently trading at 16.99X forward 12-month FFO, which compares to 17.72X for the Zacks sub-industry, 16.02X for the Zacks sector and 22.46X 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 20.77X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $49 price target reflects 14.48X FFO.

The table below shows summary valuation data for EQR.

Valuation Multiples - EQR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.99	17.72	16.02	22.46
	5-Year High	24.85	22.35	16.27	22.46
	5-Year Low	14.06	15.54	11.59	15.27
	5-Year Median	20.77	18.47	14.18	17.59
P/S F12M	Current	8.08	9.33	6.04	3.50
	5-Year High	11.94	12.14	6.70	3.50
	5-Year Low	6.83	7.58	4.96	2.52
	5-Year Median	9.69	9.29	6.07	3.04
P/B TTM	Current	1.99	2.42	2.31	4.31
	5-Year High	3.18	3.34	2.98	4.65
	5-Year Low	1.82	1.85	1.78	2.81
	5-Year Median	2.35	2.44	2.51	3.69

As of 07/08/2020

Industry Analysis **Zacks Industry Rank:** Bottom 26% (185 out of 251)

Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Residential

Industry Peers

	EQR	X Industry	S&P 500	AVB	ESS	UDR
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	C	-	-	D	D	C
Market Cap	21.39 B	1.18 B	21.57 B	21.57 B	14.84 B	10.77 B
# of Analysts	11	5.5	14	7	11	10
Dividend Yield	4.19%	4.17%	1.94%	4.15%	3.66%	3.94%
Value Score	D	-	-	D	D	D
Cash/Price	0.00	0.04	0.07	0.04	0.02	0.00
EV/EBITDA	13.45	16.58	12.68	19.38	18.43	17.77
PEG Ratio	2.86	3.88	2.88	4.96	4.74	2.92
Price/Book (P/B)	1.99	1.74	3.03	1.98	2.34	3.14
Price/Cash Flow (P/CF)	11.49	12.62	11.62	14.45	16.66	15.45
P/E (F1)	16.90	16.53	21.12	16.91	17.03	17.52
Price/Sales (P/S)	7.86	6.13	2.27	9.14	9.92	8.95
Earnings Yield	5.83%	6.05%	4.44%	5.91%	5.87%	5.72%
Debt/Equity	0.80	1.01	0.76	0.76	1.01	1.42
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%	10.90%	3.83%	8.04%	5.63%
Proj. EPS Growth (F1/F0)	-4.09%	-3.38%	-9.99%	-2.95%	-0.42%	0.24%
Curr. Cash Flow Growth	23.84%	7.20%	5.51%	-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	0.36	1.55	1.30	2.72	1.64	1.19
Debt/Capital	45.48%	50.43%	44.46%	43.14%	50.43%	62.12%
Net Margin	43.16%	17.00%	10.62%	33.20%	42.47%	13.80%
Return on Equity	11.20%	4.98%	15.75%	7.21%	9.94%	4.98%
Sales/Assets	0.13	0.13	0.55	0.12	0.12	0.13
Proj. Sales Growth (F1/F0)	-2.70%	1.61%	-2.57%	5.29%	5.06%	10.38%
Momentum Score	A	-	-	C	D	C
Daily Price Chg	-0.19%	-0.48%	0.23%	-0.92%	-0.53%	-1.00%
1 Week Price Chg	6.30%	3.92%	3.66%	5.64%	5.45%	5.99%
4 Week Price Chg	-11.05%	-6.33%	-4.65%	-10.53%	-12.82%	-9.38%
12 Week Price Chg	-12.90%	3.69%	11.62%	-4.83%	-7.53%	-1.27%
52 Week Price Chg	-27.76%	-25.65%	-7.46%	-28.29%	-26.37%	-22.14%
20 Day Average Volume	2,997,447	640,744	2,368,260	1,188,970	503,691	2,053,180
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.51%	-0.32%	0.00%	-1.30%	-0.20%	-0.71%
(F1) EPS Est 12 week change	-6.04%	-6.28%	-7.67%	-6.37%	-2.55%	-3.43%
(Q1) EPS Est Mthly Chg	-1.10%	0.00%	0.00%	-1.46%	-0.73%	-1.51%

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	A
VGM Score	C

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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