

## Equity Residential(EQR)

**\$87.01** (As of 02/21/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 04/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: B

## Summary

Equity Residential is poised for growth amid resilient economy and job-market gains, favorable demographics, lifestyle transformation, and creation of households. Furthermore, the company is anticipated to benefit from its portfolio-repositioning efforts in high barrier-to-entry/core markets. This residential REIT's better-than-anticipated fourth-quarter results mirrored improved same-store net operating income (NOI) and growth in average rental rate. Moreover, the recent trend in estimate revisions of 2020 funds from operations (FFO) per share indicates an upbeat outlook. 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. Also, its shares have underperformed the industry over the past year.

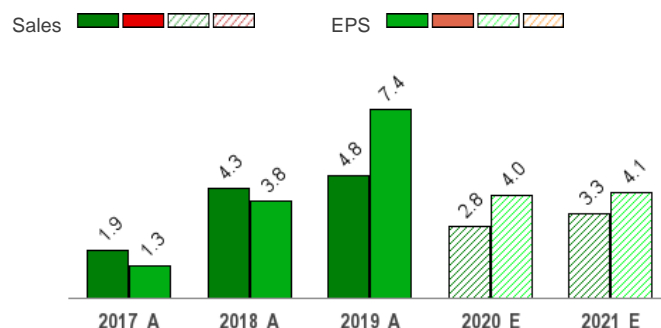
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$89.55 - \$72.64
20 Day Average Volume (sh)	1,236,107
Market Cap	\$32.3 B
YTD Price Change	7.5%
Beta	0.45
Dividend / Div Yld	\$2.27 / 2.6%
Industry	<a href="#">REIT and Equity Trust - Residential</a>
Zacks Industry Rank	Top 44% (111 out of 255)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.3%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	NA
Earnings ESP	0.6%
P/E TTM	24.9
P/E F1	24.0
PEG F1	4.1
P/S TTM	12.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	706 E	714 E	724 E	728 E	2,870 E
2020	684 E	693 E	701 E	704 E	2,777 E
2019	662 A	670 A	685 A	684 A	2,701 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.90 E	\$0.95 E	\$0.96 E	\$0.97 E	\$3.78 E
2020	\$0.87 E	\$0.90 E	\$0.92 E	\$0.93 E	\$3.63 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 02/21/2020. The reports text is as of 02/24/2020.

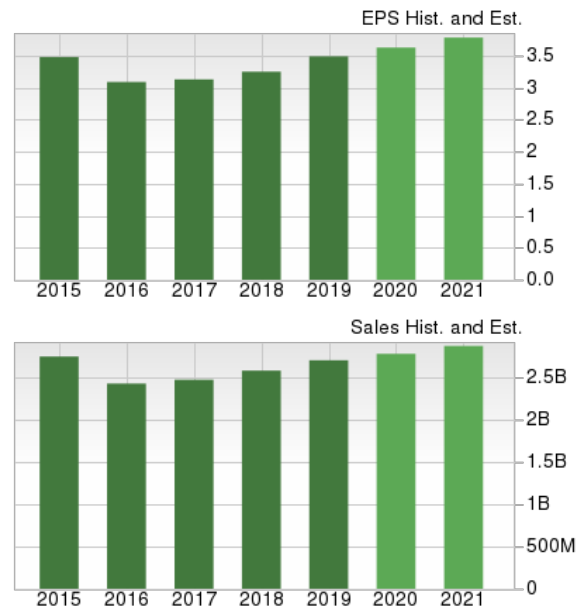
## Overview

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 309 properties, comprising 79,962 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 Dec 31, 2019, 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 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, the level of economic growth is likely to be steady this year, 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.
- ▲ 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. These initiatives are expected to deliver around \$15 million in annual NOI improvements when fully deployed and nearly \$5 million of this NOI benefit is expected to be realized in 2020.
- ▲ 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. 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. 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. The company announced a dividend of 56.75 cents per share in each quarter of 2019. 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. In fact, the company intends to reward its shareholder with growing cash flows and expects to announce 6.2% sequential hike in its first-quarter 2020 dividends to 60.25 cents per share.
- ▲ Shares of the company have gained 18.3% over the past year, underperforming the industry's growth of 24.2%. However, the trend in estimate revisions of 2020 FFO per share indicates a favorable outlook as the estimate moved marginally north over the past month. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has decent upside potential in the upcoming period.

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.

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## 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.
- ▼ 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 and guided for \$1 billion of dispositions in 2020. 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 Tops Q4 FFO Estimate, Misses on Revenues

Equity Residential reported fourth-quarter 2019 normalized FFO per share of 91 cents, surpassing the Zacks Consensus Estimate of 89 cents. Moreover, normalized FFO per share figure came in 8.3% higher than the 84 cents reported in the year-ago quarter.

Results mirrored improved same-store NOI and growth in average rental rate. The company has also provided its guidance for the ongoing year.

Total revenues in the reported quarter came in at \$683.9 million, up 4.8% from the prior-year reported figure. However, the revenue figure missed the Zacks Consensus Estimate of \$685 million.

For full-year 2019, normalized FFO per share came in at \$3.49, ahead of the Zacks Consensus Estimate of \$3.47 and the prior-year tally of \$3.25. This was supported by 4.8% year-over-year growth in total revenues of \$2.7 billion.

#### Quarter in Detail

Same-store revenues (includes 75,816 apartment units) were up 3.2% year over year to \$652.4 million, while expenses flared up 3% year over year to \$193.5 million. As a result, same-store NOI climbed 3.2% year over year to \$458.9 million.

The company recorded 3.1% growth in average rental rate to \$2,875. Physical occupancy contracted 10 basis points year over year to 96.1% for same-store portfolio. Turnover edged down to 10.6% from the year-ago period's 10.8%.

The company exited 2019 with cash and cash equivalents of around \$45.7 million, down from the \$47.4 million recorded at the end of 2018. Moreover, the company boosted its liquidity and financial flexibility by upsizing its revolving credit facility to \$2.5 billion from \$2 billion and increasing the maximum size of the unsecured commercial-paper program to \$1 billion from \$500 million.

#### Portfolio Activity

During the reported quarter, Equity Residential acquired three apartment properties, aggregating 812 apartment units. These purchases were made for aggregate of \$370.1 million at a weighted average Acquisition Capitalization Rate of 4.8%.

The company also sold two properties for around \$374 million at a weighted average Disposition Yield of 4.8%. The properties are located in suburban Washington, D.C. These properties had 1,159 apartment units in total.

#### Outlook

For first-quarter 2020, Equity Residential projects normalized FFO per share at 84-88 cents.

The company also issued its outlook for the ongoing year and expects normalized FFO per share of \$3.59-\$3.69. This is backed by same-store portfolio revenue growth projections of 2.3-3.3%, physical occupancy of 96.4%, and NOI growth of 1.5-3.5%.

Quarter Ending **12/2019**

Report Date	<b>Jan 28, 2020</b>
Sales Surprise	<b>-0.16%</b>
EPS Surprise	<b>2.25%</b>
Quarterly EPS	<b>0.91</b>
Annual EPS (TTM)	<b>3.50</b>

## 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 was paid out on Jan 10, to shareholders of record on Jan 2, 2020.

## Valuation

Equity Residential's shares have gained 18.3% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 24.2% and 7.9% in the past year, respectively.

The S&P 500 index is up 18.5% in the past year.

The stock is currently trading at 23.84X forward 12-month FFO, which compares to 22.62X for the Zacks sub-industry, 14.89X for the Zacks sector and 19.09X 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 \$92 price target reflects 25.21X FFO.

The table below shows summary valuation data for EQR.

Valuation Multiples - EQR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.84	22.62	14.89	19.09
	5-Year High	24.85	22.62	16.21	19.34
	5-Year Low	16.93	16.32	12.01	15.18
	5-Year Median	20.94	18.64	14.15	17.47
P/S F12M	Current	11.6	12.39	6.55	3.51
	5-Year High	11.94	12.39	6.65	3.51
	5-Year Low	7.96	7.42	5.39	2.54
	5-Year Median	9.76	9.24	6.04	3
P/B TTM	Current	3.08	2.87	2.84	4.83
	5-Year High	3.18	3.24	2.89	4.9
	5-Year Low	1.95	2.09	1.83	2.85
	5-Year Median	2.38	2.41	2.51	3.62

As of 02/21/2020

## Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



## 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
<b>VGM Score</b>	<b>C</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Market Cap	32.31 B	1.75 B	24.03 B	31.85 B	21.74 B	15.01 B
# of Analysts	12	3.5	13	11	10	10
Dividend Yield	2.61%	2.83%	1.76%	2.67%	2.37%	2.69%
<b>Value Score</b>	<b>F</b>	-	-	<b>D</b>	<b>F</b>	<b>F</b>
Cash/Price	0.00	0.02	0.04	0.00	0.00	0.04
EV/EBITDA	24.33	23.84	14.08	23.86	25.12	24.16
PEG Ratio	4.05	3.78	2.08	3.72	3.91	4.14
Price/Book (P/B)	3.08	2.34	3.29	2.90	3.40	4.49
Price/Cash Flow (P/CF)	17.94	15.98	13.42	22.00	23.56	21.54
P/E (F1)	23.95	20.72	19.00	23.25	23.46	23.08
Price/Sales (P/S)	11.96	7.66	2.64	14.35	14.89	13.02
Earnings Yield	4.17%	4.83%	5.26%	4.30%	4.26%	4.34%
Debt/Equity	0.86	0.96	0.70	0.66	0.91	1.41
Cash Flow (\$/share)	4.85	2.44	7.03	10.36	13.97	2.36
<b>Growth Score</b>	<b>B</b>	-	-	<b>D</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	0.29%	3.77%	10.84%	4.05%	8.62%	5.67%
Proj. EPS Growth (F1/F0)	3.92%	5.50%	7.09%	5.02%	4.82%	6.11%
Curr. Cash Flow Growth	20.08%	14.16%	6.72%	-11.50%	8.62%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	5.09%	15.09%	8.25%	6.16%	13.18%	5.98%
Current Ratio	0.28	1.04	1.22	0.89	1.59	4.71
Debt/Capital	47.40%	47.58%	42.37%	39.91%	47.73%	58.14%
Net Margin	35.93%	14.56%	11.56%	35.42%	30.08%	16.08%
Return on Equity	9.36%	5.55%	16.80%	7.26%	6.90%	5.81%
Sales/Assets	0.13	0.12	0.55	0.12	0.11	0.13
Proj. Sales Growth (F1/F0)	2.82%	6.17%	3.90%	10.21%	6.49%	9.18%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>A</b>	<b>D</b>	<b>F</b>
Daily Price Chg	0.71%	0.16%	-0.83%	0.38%	0.90%	0.39%
1 Week Price Chg	2.68%	3.06%	1.65%	3.81%	2.98%	3.05%
4 Week Price Chg	4.73%	4.22%	-0.37%	4.36%	5.29%	5.71%
12 Week Price Chg	1.61%	4.15%	3.74%	5.78%	5.13%	6.04%
52 Week Price Chg	17.80%	21.05%	14.14%	16.39%	17.51%	13.84%
20 Day Average Volume	1,236,107	499,695	1,992,841	603,198	505,224	1,341,093
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.09%	0.00%	0.00%
(F1) EPS Est 4 week change	0.13%	0.00%	-0.02%	-0.27%	0.08%	-0.14%
(F1) EPS Est 12 week change	0.23%	-0.06%	-0.17%	-0.26%	-0.66%	0.14%
(Q1) EPS Est Mthly Chg	0.31%	0.00%	-0.48%	-0.22%	0.40%	-0.26%

## 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	B
Momentum Score	B
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.

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