

Essex Property Trust (ESS)

\$300.86 (As of 12/31/19)

Price Target (6-12 Months): **\$319.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/18/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

With a solid balance sheet, Essex Property is likely to leverage on favorable demographic trends, household formation and job-market growth in its markets. Substantial exposure to the West Coast market, which is home to several innovation and technology companies, offers ample scope to bolster its top line. Moreover, transition from renter to homeowner is difficult in its markets due to high cost of homeownership. Also, management noted that decrease in cost of capital since last January has helped it exceed high-end of its acquisition targets and it is seeking out accretive opportunities. However, apartment deliveries are projected to remain elevated in a number of its markets in the near term, which might fuel competition and curb its pricing power. Also, shares of Essex Property have underperformed its industry over the past year.

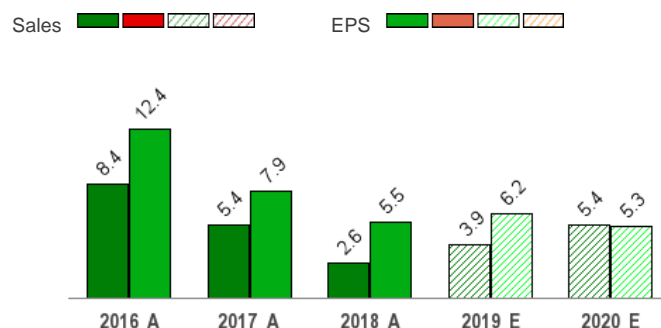
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$334.17 - \$235.51 |
| 20 Day Average Volume (sh) | 341,936 |
| Market Cap | \$19.9 B |
| YTD Price Change | 22.7% |
| Beta | 0.27 |
| Dividend / Div Yld | \$7.80 / 2.6% |
| 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 | -0.3% |
| Last Sales Surprise | 0.4% |
| EPS F1 Est- 4 week change | 0.1% |
| Expected Report Date | 01/29/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 23.0 |
| P/E F1 | 22.5 |
| PEG F1 | 4.0 |
| P/S TTM | 13.8 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2020 | 375 E | 380 E | 384 E | 388 E | 1,532 E |
| 2019 | 356 A | 362 A | 367 A | 373 E | 1,454 E |
| 2018 | 347 A | 349 A | 351 A | 353 A | 1,400 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|-----------|
| 2020 | \$3.39 E | \$3.50 E | \$3.54 E | \$3.61 E | \$14.06 E |
| 2019 | \$3.23 A | \$3.33 A | \$3.35 A | \$3.42 E | \$13.35 E |
| 2018 | \$3.09 A | \$3.14 A | \$3.15 A | \$3.19 A | \$12.57 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.

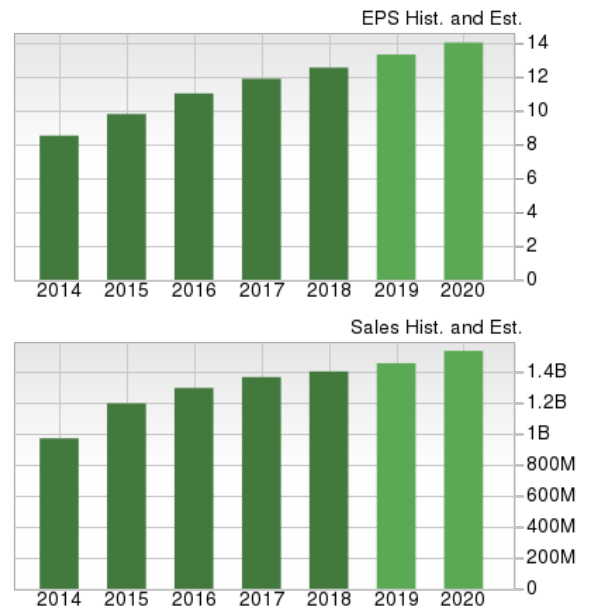
Overview

Headquartered in San Mateo, CA, Essex Property Trust, Inc. is a real estate investment trust (REIT) engaged in the acquisition, development, redevelopment and management of multifamily residential properties in supply constrained markets.

Specifically, the company enjoys concentration of assets in select coastal submarkets along the West Coast, including Southern California (Los Angeles, Orange, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan areas. Notably, in April 2014, Essex Property completed the merger with BRE Properties which led to the creation of a premium West Coast pure play multifamily REIT.

As of Sep 30, 2019, Essex Property has ownership stake in 249 apartment communities providing around 60,620 apartment homes. Additionally, the company enjoys ownership stake in preferred equity co-investments and loan investments and one operating commercial building as well as and seven active developments.

In addition, as of the same date, Essex Property's development pipeline included five consolidated projects under development, two unconsolidated joint-venture projects under development, and several consolidated predevelopment projects totaling 1,960 apartment homes, with total incurred costs of \$1 billion, as well as estimated residual project costs of \$0.3 billion.



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:

- ▲ Essex Property enjoys a sturdy property base and strong management team. Importantly, the company's merger with BRE Properties in 2014 led to the creation of a premium West Coast pure-play multifamily REIT. The company is focused on the acquisition and development of West Coast properties near transportation nodes in submarkets with highest-expected rent growth. This, in turn, augurs well for its growth.
- ▲ Essex Property's substantial exposure to the West Coast market offers the company ample scope to enhance its top line over the long term. Notably, the West Coast is home to several innovation and technology companies. The region is witnessing solid job growth, higher wages, increased percentage of renters than owners, and favorable migration trends with the influx of workers to its markets, mainly from major East Coast markets. Moreover, due to high cost of homeownership, transition from renter to homeowner is difficult in its markets. In fact, as a result of for-sale housing shortages and tax reform, the premium to own a home versus rent an apartment has increased significantly from the historical average, thereby favorably impacting rental housing demand. Moreover during the third-quarter earnings release, management noted that the West Coast markets remain supply constrained, and keep on adding jobs and growing incomes. This, in turn, is expected to help maintain market rent growth close to their long-term averages.
- ▲ Apart from this, 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 also experiences a considerable part of the net job growth and provides a significant source of pent-up demand.
- ▲ Moreover, management noted that decrease in the cost of capital since January has helped the company exceed the high-end of its acquisition targets and Essex Property is seeking out accretive opportunities. In fact, from being a net seller of property in 2018 the company has turned to a net buyer in 2019 because of capital cost improvement. The company closed \$660 million of acquisition deals through Sep 30 and plans to remain active in the rest of the year. Such efforts are likely to boost its top line growth over the long term.
- ▲ Essex Property leases all of its apartments on a short-term basis, i.e. for one year or less. We believe that such short-term nature of leases would allow the company to adjust its rents quickly to rate hikes.
- ▲ Essex Property maintains a solid balance sheet and enjoys financial flexibility. In fact, the company exited the third quarter with cash and cash equivalents, including restricted cash, of \$91.7 million, down from the \$151.4 million recorded at the end of 2018. As of Oct 22, the company had \$1 billion in undrawn capacity on its unsecured credit facilities. This healthy financial position is likely to help the company strengthen and expand its business.
- ▲ Solid dividend payouts are arguably the biggest attraction for REIT investors and Essex Property has been steadily raising its payout. In February, the company announced a 4.8% hike in its quarterly dividend. The company has raised its dividend every year since the IPO in 1994 and the latest hike marked the company's 25th consecutive annual dividend increase. This also means Essex Property qualifies to become a "Dividend Aristocrat". In fact, since its IPO, the company has generated compound annual dividend per share growth of 6.4%. Additionally, the company has opted for strategic share buybacks and as of Sep 30, 2019, the company had \$250 million of purchase authority remaining under its stock-repurchase plan. Such shareholder-friendly efforts are encouraging.

With a strong property base and a solid balance sheet, Essex is poised to benefit from favorable demographics, job-market gains, lifestyle changes and new households' creation in its markets.

Reasons To Sell:

- ▼ Apartment deliveries are expected to remain elevated in a number of the company's markets in the near term. This high supply is a concern because it curtails landlords' ability to command more rent and result in lesser absorption. Moreover, periodic disruptions to pricing takes place with multiple apartment lease-ups occurring within a submarket. Such environments are predicted to continue in the near term, and result in aggressive rental concessions and moderate pricing power of the company.
- ▼ 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. Moreover, the dividend payout might become less attractive than the yields on fixed income and money market accounts.
- ▼ Essex Property has a significant concentration of assets in Southern California, Northern California, and the Seattle metropolitan area. Specifically, 83% of the company's rental revenues were generated from communities located in California for the year ended Dec 31, 2018. This makes the company's operating results and financial conditions susceptible to any unfavorable fluctuations in local markets.
- ▼ Shares of Essex Property have gained 22.7% in the past year, underperforming the industry's growth of 28.3%. Moreover, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for this year's FFO per share has been revised marginally downward in a month's time. Therefore, given the above-mentioned concerns and negative estimate revision, the stock has limited upside potential for the near term.

High apartment deliveries in some of its markets are a major concern as it results in aggressive rental concessions and pricing-power moderation. Also, it has significant concentration of assets.

Last Earnings Report

Essex Property Q3 FFO & Revenues Rise Y/Y, Outlook Up

Essex Property Trust reported third-quarter 2019 core FFO per share of \$3.35. Though the figure improved 6.3% from the year-ago quarter tally of \$3.15, it narrowly missed the Zacks Consensus Estimate of \$3.36.

Results of this residential REIT reflect improved net operating income from its communities, while occupancy level moderated sequentially and year over year.

Total revenues of \$366.9 million were up 4.6% year over year in the reported quarter. The figure, in addition, outpaced the Zacks Consensus Estimate of \$365.5 million. The company has also increased its full-year core FFO per share guidance mid-point for the third time this year.

According to management, the West Coast markets remain supply constrained, and keep on adding jobs and growing incomes. This, in turn, is expected to help maintain market rent growth close to their long-term averages. Moreover, management noted that decrease in the cost of capital since January has helped the company exceed the high-end of its acquisition targets and Essex Property is seeking out accretive opportunities.

Quarter in Detail

During the third quarter, Essex Property's same-property gross revenues grew 3.1% from the prior-year quarter. Same-property NOI too improved 3.1% year over year. However, financial occupancies of 96% shrunk 60 basis points (bps) sequentially and 40 bps year over year.

Essex Property exited the third quarter with cash and cash equivalents, including restricted cash, of \$91.7 million, down from the \$151.4 million recorded at the end of 2018. As of Oct 22, the company had \$1 billion in undrawn capacity on its unsecured credit facilities.

These apart, the company issued 228,271 shares of its common stock at an average price per share of \$321.56, generating \$73.4 million in gross proceeds, through its equity distribution program.

Moreover, during the reported quarter, Essex Property acquired three apartment communities for a total contract price of \$414.7 million.

Outlook

For 2019, the company raised its core FFO per share projections by 5 cents at the mid-point to \$13.28-\$13.38. The full-year outlook is backed by same-property gross revenue growth guidance of 3.1-3.4%, and NOI increase of 3.4-3.9%

For fourth-quarter 2019, the company projects core FFO per share at \$3.36-\$3.46.

Quarter Ending **09/2019**

| | |
|------------------|---------------------|
| Report Date | Oct 23, 2019 |
| Sales Surprise | 0.40% |
| EPS Surprise | -0.30% |
| Quarterly EPS | 3.35 |
| Annual EPS (TTM) | 13.10 |

Recent News

Dividend Update

On Dec 16, 2019, Essex Property announced a regular quarterly cash dividend of \$1.95 per share. The dividend will be paid out on Jan 15, to shareholders of record as of Jan 2, 2020.

Valuation

Essex Property's shares have surged 22.7% 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 22.54X 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 25.14X and as low as 17.47X, with a 5-year median of 20.56X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$319 price target reflects 23.90X FFO.

The table below shows summary valuation data for ESS.

| Valuation Multiples - ESS | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M | Current | 22.54 | 21.77 | 15.56 | 20.3 |
| | 5-Year High | 25.14 | 21.89 | 16.21 | 20.3 |
| | 5-Year Low | 17.47 | 16.2 | 12.01 | 15.17 |
| | 5-Year Median | 20.56 | 18.48 | 13.98 | 17.44 |
| P/S F12M | Current | 13.68 | 10.79 | 6.56 | 3.51 |
| | 5-Year High | 14.5 | 10.79 | 6.61 | 3.51 |
| | 5-Year Low | 9.8 | 7.42 | 5.2 | 2.54 |
| | 5-Year Median | 11.65 | 8.84 | 6.04 | 3 |
| P/B TTM | Current | 3.1 | 2.92 | 2.83 | 4.41 |
| | 5-Year High | 3.43 | 3.09 | 2.89 | 4.42 |
| | 5-Year Low | 2.03 | 2.06 | 1.83 | 2.85 |
| | 5-Year Median | 2.44 | 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 |
| Equity Residential (EQR) | 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 | | |
|---|-------------|------------|-----------|----------------|-------------|-------------|
| | ESS Neutral | X Industry | S&P 500 | AVB Neutral | EQR Neutral | UDR Neutral |
| VGM Score | D | - | - | F | D | D |
| Market Cap | 19.88 B | 1.60 B | 23.93 B | 29.29 B | 30.05 B | 13.69 B |
| # of Analysts | 10 | 4.5 | 13 | 10 | 11 | 9 |
| Dividend Yield | 2.59% | 3.51% | 1.78% | 2.90% | 2.81% | 2.93% |
| Value Score | F | - | - | F | D | D |
| Cash/Price | 0.00 | 0.03 | 0.04 | 0.01 | 0.00 | 0.06 |
| EV/EBITDA | 23.62 | 21.56 | 13.95 | 22.29 | 22.98 | 21.28 |
| PEG Ratio | 3.97 | 3.65 | 2.12 | 3.65 | 3.77 | 3.99 |
| Price/Book (P/B) | 3.10 | 2.45 | 3.33 | 2.71 | 2.90 | 4.24 |
| Price/Cash Flow (P/CF) | 23.39 | 17.52 | 13.67 | 17.72 | 19.87 | 19.62 |
| P/E (F1) | 22.54 | 20.69 | 19.66 | 22.56 | 23.30 | 22.42 |
| Price/Sales (P/S) | 13.83 | 6.96 | 2.69 | 13.29 | 11.26 | 12.27 |
| Earnings Yield | 4.44% | 4.84% | 5.08% | 4.43% | 4.29% | 4.45% |
| Debt/Equity | 0.94 | 0.92 | 0.72 | 0.69 | 0.87 | 1.22 |
| Cash Flow (\$/share) | 12.86 | 2.27 | 6.94 | 11.83 | 4.07 | 2.38 |
| Growth Score | C | - | - | D | D | C |
| Hist. EPS Growth (3-5 yrs) | 9.23% | 3.96% | 10.56% | 4.40% | 0.01% | 5.87% |
| Proj. EPS Growth (F1/F0) | 6.19% | 0.00% | 0.00% | 3.16% | 6.37% | 7.29% |
| Curr. Cash Flow Growth | -3.53% | 8.69% | 14.83% | 10.46% | 8.80% | 14.47% |
| Hist. Cash Flow Growth (3-5 yrs) | 21.31% | 20.40% | 9.00% | 21.78% | 17.96% | 12.84% |
| Current Ratio | 1.59 | 1.04 | 1.23 | 0.89 | 0.13 | 5.99 |
| Debt/Capital | 48.69% | 47.56% | 42.92% | 40.95% | 47.69% | 60.49% |
| Net Margin | 29.78% | 12.78% | 11.08% | 45.56% | 29.88% | 15.20% |
| Return on Equity | 6.73% | 4.39% | 17.10% | 9.35% | 7.73% | 5.51% |
| Sales/Assets | 0.11 | 0.13 | 0.55 | 0.12 | 0.13 | 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 | 0.38% | 0.94% | 0.33% | 1.00% | 0.25% | 0.80% |
| 1 Week Price Chg | 0.80% | -0.22% | 0.13% | 0.40% | 0.81% | 0.04% |
| 4 Week Price Chg | -1.74% | -2.27% | 3.67% | -1.78% | -3.49% | -0.89% |
| 12 Week Price Chg | -8.19% | -0.34% | 10.64% | -3.69% | -7.57% | -4.48% |
| 52 Week Price Chg | 22.69% | 27.89% | 27.46% | 20.48% | 22.59% | 17.87% |
| 20 Day Average Volume | 341,936 | 492,173 | 1,693,267 | 540,031 | 1,602,628 | 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 | 0.08% | 0.00% | 0.00% | -0.06% | 0.02% | 0.02% |
| (F1) EPS Est 12 week change | 0.11% | 0.21% | 0.14% | -0.17% | 0.61% | 0.45% |
| (Q1) EPS Est Mthly Chg | 0.05% | 0.00% | 0.00% | 0.00% | 0.00% | 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 | F |
| Growth Score | C |
| 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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