

Essex Property Trust (ESS)

\$206.25 (As of 03/18/20)

Price Target (6-12 Months): **\$219.00**

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: B

Momentum: C

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. The company's substantial exposure to the West Coast market, which is home to several innovation and technology companies, offers ample scope to bolster top line. Also, transition from renter to homeowner is difficult in its markets due to high cost of homeownership. The company's fourth-quarter performance reflected high occupancy level. In February, Essex Property announced a 6.5% hike in quarterly dividend, marking the 26th consecutive annual dividend increase. However, apartment deliveries are projected to remain elevated in a number of its markets in near term, fueling competition and curbing its pricing power. Essex shares have underperformed its industry over the past year.

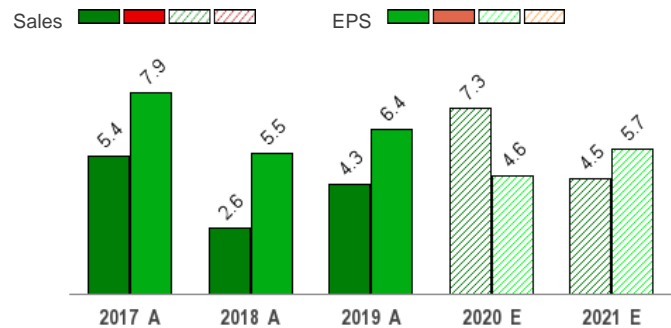
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$334.17 - \$201.17
20 Day Average Volume (sh)	651,858
Market Cap	\$13.6 B
YTD Price Change	-31.5%
Beta	0.43
Dividend / Div Yld	\$8.31 / 3.8%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 42% (107 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.9%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/22/2020
Earnings ESP	1.1%
P/E TTM	15.4
P/E F1	14.7
PEG F1	2.6
P/S TTM	9.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	401 E	405 E	410 E	413 E	1,636 E
2020	383 E	390 E	395 E	400 E	1,566 E
2019	356 A	362 A	367 A	375 A	1,460 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.61 E	\$3.70 E	\$3.72 E	\$3.75 E	\$14.80 E
2020	\$3.42 E	\$3.48 E	\$3.51 E	\$3.58 E	\$14.00 E
2019	\$3.23 A	\$3.33 A	\$3.35 A	\$3.45 A	\$13.38 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 03/18/2020. The reports text is as of 03/19/2020.

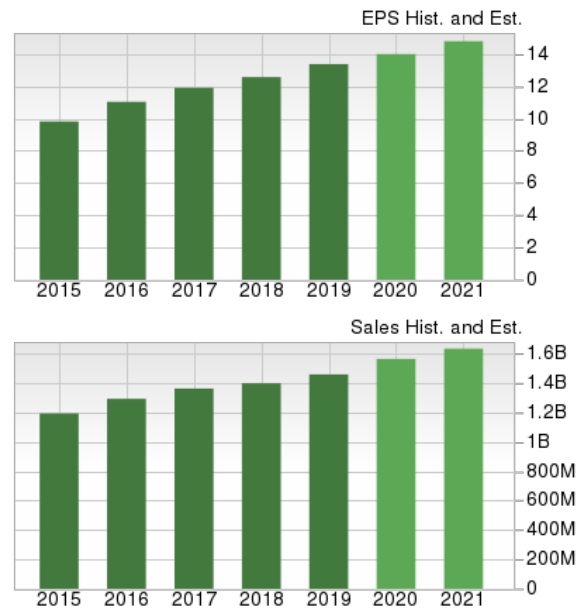
Overview

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 Dec 31, 2019, Essex Property has ownership stake in 250 apartment communities providing around 60,570 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 predevelopment projects totaling 1,960 apartment homes, with total incurred costs of \$1 billion, as well as estimated residual project costs of \$222 million.



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. 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.
- ▲ Additionally, substantial improvement in cost of capital since last January has helped Essex Property exceed high-end of its initial 2019 acquisition targets and preferred equity investments and the company is seeking out accretive opportunities. During the final quarter of 2019, the company acquired a 105-unit apartment home community — Pure Redmond — in Redmond, WA, for a total contract price of \$39.1 million. Moreover, Wesco V, LLC, a joint venture in which the company owns a 50% stake, acquired a 308-unit apartment home community — Velo and Ray — in the Fremont neighborhood of Seattle, WA, for a total contract price of \$133 million. The company also disposed one joint venture community during this period for a contract price of \$311 million. Further, in January 2020, the company acquired its joint-venture partner's 45% stake in a land parcel and six communities representing 2,020 apartment homes. Together these are valued at around \$1 billion on a gross basis. 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 fourth quarter with cash and cash equivalents, including restricted cash, of \$ 81.1 million. As of Jan 27, 2020, the company had \$725 million 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. This February, the company announced a 6.5% hike in its quarterly dividend. The company has raised its dividend every year since the IPO in 1994 and the latest hike marks the company's 26th consecutive annual dividend increase. In fact, since its IPO, the company has generated compound annual dividend per share growth of 6.4%. 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. 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, 82% of the company's rental revenues were generated from communities located in California for the year ended Dec 31, 2019. This makes the company's operating results and financial conditions susceptible to any unfavorable fluctuations in local markets.
- ▼ Shares of Essex Property have depreciated 27.7% over the past year, compared with the industry's decline of 21.2%. 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 revisions, the stock has limited upside potential in the upcoming period.

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 Q4 FFO & Revenues Surpass Estimates

Essex Property Trust reported fourth-quarter 2019 core FFO per share of \$3.45, surpassing the Zacks Consensus Estimate of \$3.42. The figure also improved 8.2% from the year-ago quarter tally of \$3.19.

Results of this residential REIT reflect improved net operating income from its communities, backed by high occupancy level.

Total revenues of \$375.4 million were up 6.3% year over year in the reported quarter. The figure, in addition, outpaced the Zacks Consensus Estimate of \$373.6 million.

For full-year 2019, core FFO per share came in at \$13.38, ahead of the Zacks Consensus Estimate of \$13.35 and 6.4% higher than the prior-year's \$12.57. Total revenues of \$1.46 billion increased 4.3% year over year.

Quarter in Detail

During the fourth quarter, Essex Property's same-property gross revenues grew 4% from the prior-year quarter. Same-property NOI too improved 5.5% year over year. Moreover, financial occupancies of 97.1% expanded 110 basis points (bps) sequentially and 30 bps year over year.

Essex Property exited the fourth quarter with cash and cash equivalents, including restricted cash, of \$ 81.1 million, down from the \$151.4 million recorded at the end of 2018. As of Jan 27, 2020, the company had \$725 million in undrawn capacity on its unsecured credit facilities.

During the reported quarter, the company did not issue any shares of common stock through its equity distribution program.

During the final quarter of 2019, the company acquired a 105-unit apartment home community — Pure Redmond — in Redmond, WA, for a total contract price of \$39.1 million. Moreover, Wesco V, LLC, a joint venture in which the company owns a 50% stake, acquired a 308-unit apartment home community — Velo and Ray — in the Fremont neighborhood of Seattle, WA, for a total contract price of \$133 million. The company also disposed one joint venture community during this period for a contract price of \$311 million.

Outlook

For 2020, the company expects core FFO per share of \$13.74-\$14.14. The full-year outlook is backed by same-property gross revenue growth guidance of 2.6-3.6%, operating expense rise of 2.5-3.5% and NOI expansion of 2.2- 4.0%. In addition, the company projects acquisitions of \$375-\$575 million, excluding the CPP transaction which closed this January, dispositions worth \$100-\$300 million, and preferred equity investments of \$50-\$100 million.

For first-quarter 2020, the company projects core FFO per share at \$3.36-\$3.46.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	0.46%
EPS Surprise	0.88%
Quarterly EPS	3.45
Annual EPS (TTM)	13.36

Recent News

Essex Property Hikes Dividend by 6.5% - Feb 21, 2020

Ushering in good news for its shareholders, Essex Property has announced a 6.5% hike to its prior quarterly cash dividend. The company will now pay a dividend of \$2.0775 per share, up from \$1.95 paid earlier. The increased dividend will be paid on Apr 15, to shareholders of record as of Mar 31, 2020. On an annualized basis, the new dividend represents a distribution of \$8.31 per common share.

Solid dividend payouts are arguably the biggest attraction for REIT investors and the latest dividend hike by Essex Property marks the company's 26th consecutive annual dividend increase.

Valuation

Essex Property's shares have been down 27.7% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 21.2% and 30% in the past year, respectively.

The S&P 500 index is down 15.8% in the past year.

The stock is currently trading at 14.55X forward 12-month FFO, which compares to 14.55X for the Zacks sub-industry, 9.85X for the Zacks sector and 14.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.14X and as low as 14.55X, with a 5-year median of 20.52X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$219 price target reflects 15.45X 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	14.55	14.55	9.85	14.12
	5-Year High	25.14	22.36	16.21	19.34
	5-Year Low	14.55	14.55	9.85	14.12
	5-Year Median	20.52	18.64	13.97	17.42
P/S F12M	Current	8.64	7.94	5.99	2.58
	5-Year High	14.5	12.16	6.64	3.43
	5-Year Low	8.64	7.42	5.39	2.54
	5-Year Median	11.63	9.24	6.04	3
P/B TTM	Current	2.13	2.11	1.83	3.23
	5-Year High	3.43	3.28	2.89	4.55
	5-Year Low	2.03	2.09	1.83	2.85
	5-Year Median	2.46	2.41	2.52	3.63

As of 03/18/2020

Industry Analysis Zacks Industry Rank: Top 42% (107 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	13.65 B	993.43 M	16.02 B	21.64 B	22.64 B	10.47 B
# of Analysts	11	4	13	11	12	11
Dividend Yield	3.78%	5.68%	2.66%	3.95%	3.73%	3.86%
Value Score	F	-	-	F	F	F
Cash/Price	0.00	0.02	0.06	0.00	0.00	0.05
EV/EBITDA	16.96	13.88	10.21	19.36	14.21	16.55
PEG Ratio	2.64	2.79	1.46	3.02	3.00	3.55
Price/Book (P/B)	2.13	1.34	2.18	1.96	2.15	3.11
Price/Cash Flow (P/CF)	15.14	8.87	8.79	14.50	12.17	15.03
P/E (F1)	14.95	13.19	12.92	15.76	16.82	16.15
Price/Sales (P/S)	9.35	4.71	1.74	9.75	8.38	9.09
Earnings Yield	6.79%	7.54%	7.70%	6.35%	5.95%	6.19%
Debt/Equity	0.91	0.96	0.70	0.68	0.86	1.41
Cash Flow (\$/share)	13.62	2.78	7.01	10.61	5.00	2.36
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	8.62%	3.82%	10.85%	4.05%	0.29%	5.67%
Proj. EPS Growth (F1/F0)	4.65%	5.26%	5.12%	4.57%	3.68%	5.77%
Curr. Cash Flow Growth	5.93%	15.08%	6.03%	-9.39%	23.84%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	12.62%	17.18%	8.55%	6.67%	5.74%	5.98%
Current Ratio	1.36	0.92	1.23	0.40	0.28	4.71
Debt/Capital	47.73%	47.56%	42.57%	40.37%	47.40%	58.14%
Net Margin	30.08%	13.61%	11.57%	35.42%	35.93%	16.08%
Return on Equity	6.90%	5.74%	16.74%	7.26%	9.36%	5.81%
Sales/Assets	0.11	0.12	0.54	0.12	0.13	0.13
Proj. Sales Growth (F1/F0)	7.24%	5.53%	3.22%	10.28%	2.82%	9.91%
Momentum Score	C	-	-	D	C	D
Daily Price Chg	-12.63%	-12.67%	-6.77%	-15.26%	-8.41%	-8.52%
1 Week Price Chg	-6.42%	-13.73%	-11.01%	-7.61%	-5.19%	-7.56%
4 Week Price Chg	-35.87%	-38.92%	-34.65%	-31.85%	-28.67%	-29.20%
12 Week Price Chg	-30.89%	-33.90%	-32.08%	-26.00%	-24.27%	-22.85%
52 Week Price Chg	-27.70%	-27.70%	-23.52%	-21.75%	-17.32%	-20.16%
20 Day Average Volume	651,858	889,980	3,834,688	1,194,077	2,792,779	2,859,322
(F1) EPS Est 1 week change	-0.11%	-0.03%	-0.06%	-0.18%	-0.03%	-0.05%
(F1) EPS Est 4 week change	-0.14%	-0.56%	-0.74%	-0.44%	-0.25%	-0.56%
(F1) EPS Est 12 week change	-0.35%	-0.96%	-1.38%	-0.70%	0.05%	-0.72%
(Q1) EPS Est Mthly Chg	0.74%	-0.05%	-0.85%	-0.05%	0.00%	-0.42%

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	C
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.

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