

Essex Property Trust (ESS)

\$215.24 (As of 07/20/20)

Price Target (6-12 Months): **\$228.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/15/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: D

Momentum: A

Summary

Essex Property has a sturdy property base and a strong management team. The company's substantial exposure to the West Coast market, which has several technology companies, offers ample scope to bolster top-line growth over the long term. It has a healthy balance sheet and is leveraging technology, scale and organizational capabilities to drive growth. However, the coronavirus pandemic has affected the economy and the job market. Amid this, demand for U.S. apartments and rent-paying capability of tenants are bearing the brunt. Leasing activity has significantly suffered in the second quarter which normally happens to be the peak leasing session. Essex Property's top line is also likely to suffer with adverse impact on rental rates, occupancy as well as rent collections. Its shares have underperformed the industry over the past year.

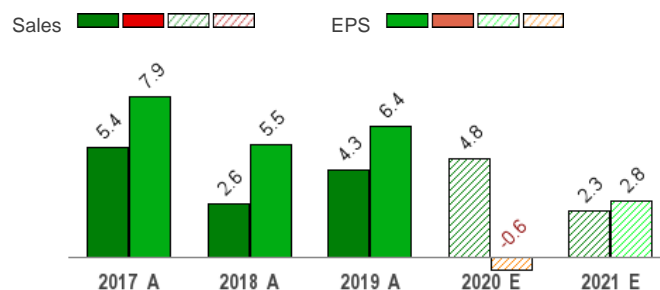
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$334.17 - \$175.81
20 Day Average Volume (sh)	392,641
Market Cap	\$14.1 B
YTD Price Change	-28.5%
Beta	0.67
Dividend / Div Yld	\$8.31 / 3.9%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Bottom 10% (226 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	08/03/2020
Earnings ESP	-0.3%
P/E TTM	15.8
P/E F1	16.2
PEG F1	2.9
P/S TTM	9.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	386 E	392 E	398 E	403 E	1,565 E
2020	392 A	383 E	381 E	382 E	1,530 E
2019	356 A	362 A	367 A	375 A	1,460 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.30 E	\$3.40 E	\$3.46 E	\$3.51 E	\$13.67 E
2020	\$3.48 A	\$3.31 E	\$3.25 E	\$3.26 E	\$13.30 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 07/20/2020. The reports text is as of 07/21/2020.

Overview

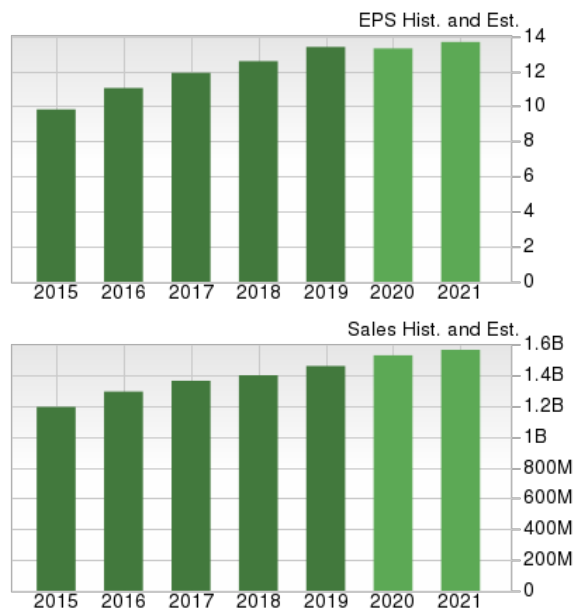
Headquartered in San Mateo, CA, Essex Property Trust, Inc. is a real estate investment trust (REIT) engaged in the acquisition, development, redevelopment and management of multifamily residential properties in supply constrained markets.

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 Mar 31, 2020, Essex Property has ownership stake in 250 apartment communities providing around 60,770 apartment homes. Additionally, the company enjoys ownership stake in preferred interest co-investments and loan investments and one operating commercial building as well as six active developments.

Particularly, as of the same date, Essex Property's development pipeline included four consolidated projects and two unconsolidated joint-venture projects.

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. This residential REIT's substantial exposure to the West Coast market offers ample scope to enhance its top line over the long term. The West Coast is home to several innovation and technology companies. The region has been witnessing solid job growth, higher median household incomes, increased percentage of renters than owners, and favorable migration trends with the influx of workers to its markets. Moreover, due to high cost of homeownership, transition from renter to homeowner is difficult in its markets. Chronic housing shortage and tax law changes have pushed the cost to own a median priced home to 74% above the average cost to rent in Essex metros, thereby favorably impacting rental housing demand.
- ▲ 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.
- ▲ In light of the coronavirus pandemic and related uncertainties, Essex Property has withdrawn its current-year guidance. However, with the relaxation of the shelter-in-place orders in the upcoming period and resumption of the economy, this residential REIT with superior assets is poised to benefit. Also, the federal stimulus is lessening the income impact of unemployment. Apart from these, a decline in new supply arriving at the market will boost the market fundamentals.
- ▲ The company is also banking on its technology, scale and organizational capabilities to drive innovation and margin expansion in its portfolio. This has become all the more essential in this social-distancing era, as the virus outbreak needed a quick shift to virtual operations for the continuity of normal business operations.
- ▲ Essex Property maintains a solid balance sheet and enjoys financial flexibility. The company exited first-quarter 2020 with cash and cash equivalents, including restricted cash, of \$282.3 million, up from the \$81.1 million recorded at the end of 2019. As of May 4, the company had \$885 million in undrawn capacity in its unsecured credit facilities and the available liquidity surpassed \$1 billion for the company. Moreover, over the years, the company made concerted efforts to increase its unencumbered NOI to total NOI, which stood at 90% in first-quarter 2020, substantially up from 28% in first-quarter 2008. With a high percentage of such assets, the company can enjoy accessibility to secured and unsecured debt markets, and maintain availability on the line. Additionally, Essex Property currently enjoys Baa1/BBB+ credit rating, with stable outlook from Moody's and S&P Global, respectively. Therefore, with more than \$1 billion in liquidity, no debt maturities in 2020 and funding commitments well covered, and investment grade ratings, the company remains well poised to navigate through current challenging times.
- ▲ 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 marked the company's 26th consecutive annual dividend increase. Since its IPO, the company has generated compound annual dividend per share growth of 6.4%. Such shareholder-friendly efforts are encouraging.
- ▲ Shares of Essex Property have depreciated 26.3% over the past year compared with the industry's decline of 15.9%. However, the trend in estimate revisions of 2020 FFO per share indicates a favorable outlook for the company. The Zacks Consensus Estimate for this year's FFO per share has been revised marginally upward in a week's time. Therefore, given the progress on fundamentals and upward estimate revisions, the stock has decent upside potential in the upcoming period.

Essex Property is poised to gain from strong property base in the West Coast market. It has a healthy balance sheet and is leveraging technology, scale and organizational capabilities to drive growth.

Reasons To Sell:

- ▼ The coronavirus pandemic has been wreaking havoc, and resulting in macroeconomic uncertainty and a tepid job-market environment. This is likely to affect demand in the prime leasing season. Moreover, amid this situation, the rent-paying capability of tenants is likely to get maimed. The company has adopted a number of measures, including halting evictions and creating payment plans for its tenants affected by the pandemic. Also, the company began offering lease renewals with no rent increases to all residents. As such, the top line is likely to bear the brunt in the near term, with adverse impact on rental rates and occupancy.
- ▼ Furthermore, amid the slowdown in demand, concession activity is likely to be high despite a decline in new apartment deliveries. Moreover, new rent-control regulations have been introduced in some of the major markets in recent times, while a number of other markets are being considered for establishing such regulations in future. This is likely to curb any significant growth in the top line.
- ▼ 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.

Adverse impacts of coronavirus pandemic on economy and job market will likely affect demand and hurt the rent-paying capability of tenants, leading to rental concessions and pricing-power moderation.

Last Earnings Report

Essex Property Beats on Q1 FFO, Suspends 2020 View

Essex Property reported first-quarter 2020 core FFO per share of \$3.48, surpassing the Zacks Consensus Estimate of \$3.40. The figure also improved 7.7% from the year-ago quarter's \$3.23.

Results reflect improved same-property gross revenues and net operating income.

Total revenues of \$392.4 million were up 10.1% year over year in the reported quarter. The figure, in addition, outpaced the Zacks Consensus Estimate of \$383.2 million.

In light of the coronavirus pandemic and related uncertainties, Essex Property has withdrawn its current-year guidance. The company also recently announced halting evictions and creating payment plans for its tenants affected by the pandemic. Also, the company began offering lease renewals with no rent increases to all residents.

Quarter in Detail

During the first quarter, Essex Property's same-property gross revenues grew 3.2% from the prior-year period. Also, same-property NOI improved 3.9% year over year. However, financial occupancies of 96.8% contracted 30 basis points (bps) sequentially and 10 bps year over year.

During the reported quarter, the company acquired a 45% stake in a land parcel and six communities having 2,020 apartment homes valued at about \$1 billion on a gross basis from Canada Pension Plan Investment Board. As a result of this, the company had a remeasurement gain of \$234.7 million, and a promote income of \$6.5 million in the first quarter. Both of these transactions are excluded from the core FFO.

Balance Sheet

Essex Property exited the first quarter with cash and cash equivalents, including restricted cash, of \$282.3 million, up from the \$81.1 million recorded at the end of 2019.

During the reported quarter, the company repurchased 776,261 shares of its common stock amounting to \$176.3 million at an average price of \$227.13 per share. As of May 6, the company had \$73.7 million of purchase authority remaining under the stock-repurchase plan.

As of May 4, Essex Property had \$885 million in undrawn capacity on its unsecured credit facilities and the available liquidity surpassed \$1 billion for the company. In January 2020, the company extended the maturity date of its \$1.2-billion unsecured line of credit facility to mature in December 2023. Also, in February, it issued \$500 million of 12-year senior unsecured notes due in 2032 at an interest rate of 2.65% per annum. Post the quarter's end, the company obtained a \$200-million unsecured term loan. This was priced at LIBOR + 1.20%.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	2.38%
EPS Surprise	2.35%
Quarterly EPS	3.48
Annual EPS (TTM)	13.61

Recent News

Dividend Update

On May 14, Essex Property announced a regular quarterly cash dividend of \$2.0775 per share. The dividend was paid out on Jul 15, to shareholders of record as of Jun 30, 2020.

Valuation

Essex Property's shares have been down 26.3% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 15.9% and 13.6%, over the past year, respectively.

The S&P 500 Index has been up 8.7% over the past year.

The stock is currently trading at 15.94X forward 12-month FFO, which compares to 17.71X for the Zacks sub-industry, 16.38X for the Zacks sector and 22.83X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.75X and as low as 12.85X, with a 5-year median of 20.03X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$228 price target reflects 16.88X 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	15.94	17.71	16.38	22.83
	5-Year High	23.75	22.36	16.38	22.83
	5-Year Low	12.85	15.54	11.59	15.25
	5-Year Median	20.03	18.47	14.16	17.52
P/S F12M	Current	9.09	9.32	6.04	3.58
	5-Year High	14.5	12.16	6.66	3.58
	5-Year Low	7.62	7.58	4.96	2.53
	5-Year Median	11.39	9.28	6.06	3.02
P/B TTM	Current	2.19	2.42	2.37	4.41
	5-Year High	3.43	3.30	2.91	4.56
	5-Year Low	1.88	1.82	1.72	2.83
	5-Year Median	2.47	2.42	2.53	3.71

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (226 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Apartment Investment and Management Company (AIV)	Neutral	4
MidAmerica Apartment Communities, Inc. (MAA)	Neutral	4
United Dominion Realty Trust, Inc. (UDR)	Neutral	4
AvalonBay Communities, Inc. (AVB)	Underperform	5
Camden Property Trust (CPT)	Underperform	5
Equity Residential (EQR)	Underperform	5
Investors Real Estate Trust (IRET)	Underperform	5
NexPoint Residential Trust, Inc. (NXRT)	Underperform	3

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	ESS	X Industry	S&P 500	AVB	EQR	UDR
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	5	5	4
VGM Score	C	-	-	C	C	B
Market Cap	14.08 B	1.19 B	22.29 B	21.05 B	20.53 B	10.55 B
# of Analysts	10	5	14	8	11	10
Dividend Yield	3.86%	4.29%	1.85%	4.25%	4.37%	4.03%
Value Score	D	-	-	D	D	D
Cash/Price	0.02	0.04	0.06	0.04	0.00	0.00
EV/EBITDA	17.76	16.28	13.06	19.03	13.07	17.52
PEG Ratio	2.89	4.05	2.98	6.36	4.06	3.42
Price/Book (P/B)	2.22	1.75	3.12	1.93	1.91	3.07
Price/Cash Flow (P/CF)	15.80	12.60	12.03	14.09	11.03	15.13
P/E (F1)	16.38	15.92	22.15	16.41	16.47	17.08
Price/Sales (P/S)	9.41	5.89	2.35	8.92	7.55	8.77
Earnings Yield	6.18%	6.29%	4.30%	6.09%	6.07%	5.84%
Debt/Equity	1.01	1.01	0.75	0.76	0.80	1.42
Cash Flow (\$/share)	13.62	2.46	6.94	10.61	5.00	2.36
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	8.04%	3.28%	10.82%	3.83%	0.75%	5.63%
Proj. EPS Growth (F1/F0)	-0.63%	-2.40%	-9.08%	-2.44%	-4.04%	0.67%
Curr. Cash Flow Growth	5.93%	7.20%	5.51%	-9.39%	23.84%	8.47%
Hist. Cash Flow Growth (3-5 yrs)	12.62%	15.38%	8.55%	6.67%	5.74%	5.98%
Current Ratio	1.64	1.55	1.30	2.72	0.36	1.19
Debt/Capital	50.43%	50.43%	44.41%	43.14%	45.48%	62.12%
Net Margin	42.47%	16.73%	10.54%	33.20%	43.16%	13.80%
Return on Equity	9.94%	4.98%	15.74%	7.21%	11.20%	4.98%
Sales/Assets	0.12	0.12	0.54	0.12	0.13	0.13
Proj. Sales Growth (F1/F0)	4.76%	1.70%	-2.36%	6.77%	-2.62%	10.15%
Momentum Score	A	-	-	A	A	A
Daily Price Chg	-3.55%	-2.29%	-0.77%	-2.81%	-3.18%	-1.97%
1 Week Price Chg	-0.96%	2.12%	3.82%	0.75%	0.49%	0.83%
4 Week Price Chg	-7.85%	-4.27%	2.71%	-4.27%	-6.95%	-5.27%
12 Week Price Chg	-14.61%	1.64%	9.79%	-6.96%	-15.51%	-4.94%
52 Week Price Chg	-26.30%	-24.16%	-3.79%	-27.10%	-28.24%	-21.06%
20 Day Average Volume	392,641	509,543	2,095,914	872,126	2,570,497	1,546,762
(F1) EPS Est 1 week change	0.08%	0.00%	0.00%	0.00%	0.05%	0.28%
(F1) EPS Est 4 week change	-0.21%	0.00%	0.09%	0.70%	0.05%	0.43%
(F1) EPS Est 12 week change	-2.55%	-4.05%	-4.60%	-3.51%	-4.47%	-2.74%
(Q1) EPS Est Mthly Chg	0.29%	0.00%	0.00%	-1.03%	1.52%	0.68%

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	D
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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