UDR Inc. (UDR)

$35.98 (As of 07/09/20)

Price Target (6-12 Months): **$42.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/21/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C | Momentum: D	

Summary

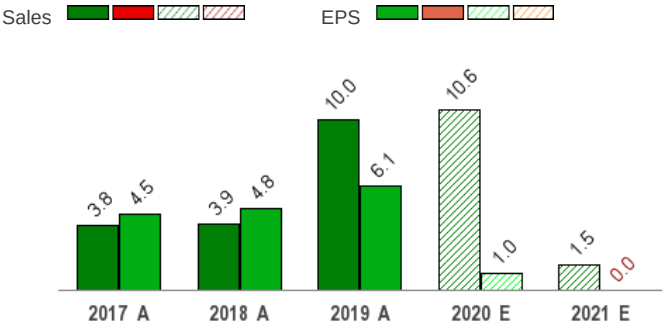
UDR is poised to benefit from its diverse portfolio, with superior product-mix of A/B quality properties in the urban/suburban markets. Further, favorable demographics and household formation trends are likely to spur demand for rental-housing units. To capitalize on this trend, UDR is focusing on expansion in strategic markets through acquisitions and development. Also, technological and process initiatives implemented by UDR have become essential in this social-distancing era to quickly shift to virtual operations for the continuity of normal business operations. However, amid the pandemic and its adverse impacts on the economy and jobs, demand for apartments and rent-paying capability of tenants will likely bear the brunt, adversely impacting rental rates and occupancy. Also, UDR's shares have underperformed its industry over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$51.25 - $29.20**
20 Day Average Volume (sh)	**1,998,327**
Market Cap	**$10.6 B**
YTD Price Change	**-23.0%**
Beta	**0.62**
Dividend / Div Yld	**$1.44 / 4.0%**
Industry	**REIT and Equity Trust - Residential**
Zacks Industry Rank	**Bottom 25% (189 out of 252)**
Last EPS Surprise	**-1.9%**
Last Sales Surprise	**3.1%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**07/28/2020**
Earnings ESP	**1.2%**
P/E TTM	**17.1**
P/E F1	**17.1**
PEG F1	**3.0**
P/S TTM	**8.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	321 E	324 E	328 E	330 E	1,278 E
2020	320 A	316 E	314 E	313 E	1,259 E
2019	268 A	281 A	289 A	303 A	1,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.51 E	$0.53 E	$0.53 E	$0.54 E	$2.10 E
2020	$0.53 A	$0.52 E	$0.51 E	$0.51 E	$2.10 E
2019	$0.51 A	$0.52 A	$0.52 A	$0.54 A	$2.08 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 07/09/2020. The reports text is as of 07/10/2020.

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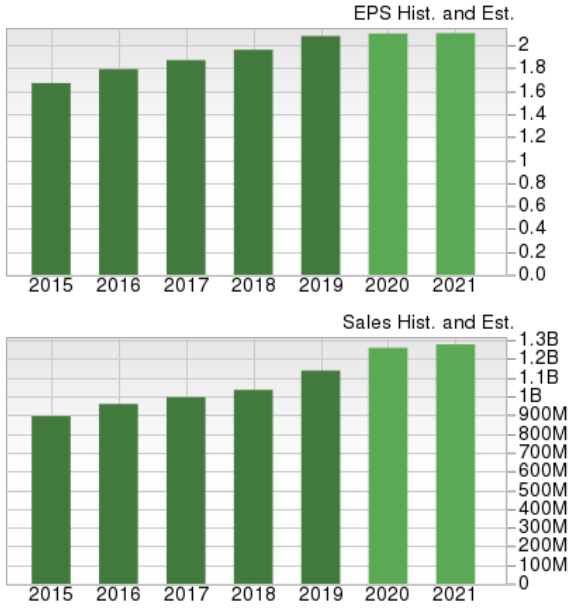
Overview

Established in 1972, UDR Inc. is one of the most favorably-positioned multi-family apartment real estate investment trusts (REITs) in the United States. It owns, operates, acquires, develops and renovates apartment communities in high barrier-to-entry markets in the nation. For more than 47 years, the company has delivered long-term value to its shareholders by expanding its presence in markets with low housing affordability, favorable demand/supply conditions for multifamily housing as well as job environment.

The company reports under the following geographic segments:

i) West Region — Orange County, San Francisco, Seattle, Los Angeles, Monterey Peninsula, Other Southern California and Portland
ii) Mid-Atlantic Region — Metropolitan D.C., Richmond and Baltimore
iii) Southeast Region — Orlando, Tampa, Nashville and Other Florida
iv) Northeast Region — New York and Boston
v) Southwest Region — Dallas, Austin and Denver.

As of Mar 31, 2020, UDR had the ownership of or had ownership stakes in 51,587 apartment homes, including 878 homes under development. The company's development pipeline aggregated $278.5 million at the end of the first quarter and was 34% funded. At the end of the second quarter, the company's Developer Capital Program investment, including accrued return, totaled $409.1 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:

UDR’s diverse portfolio with a superior product-mix of A/B quality properties in urban/suburban markets, healthy balance sheet and technological moves and process enhancements will drive growth.

- UDR has a geographically-diverse portfolio with superior product-mix of A/B quality properties in urban and suburban markets. The company’s portfolio includes properties throughout the United States, including both coastal and sunbelt locations, with mix of urban/suburban communities being roughly 43%/57% and mix of A/B quality properties approximately 57%/43% as of Dec 31, 2019. This strategy of maintaining a diversified portfolio helps the company generate steady operating cash flows.

- Demographic growth also continues to be strong in the young-adult age cohort, which has a higher propensity to rent. This age cohort has also witnessed considerable part of net job growth which has helped spur primary renter demand. Also, 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. Moreover, transition from renter to homeowner is difficult in its markets due to high cost of homeownership. Also, several millennials have high student debt, which makes it difficult for them to save for the down payment in order to purchase a house.

- Moreover, the company is focused on curbing future expenses through technological initiatives and process enhancements. Such efforts to find efficiencies throughout its operating platform are likely to improve workforce productivity and residents’ experience. Adoption of technology is also expected to drive margin expansion and long-term profitability. The company’ Next Generation Operating Platform allows it to electronically interact with, and provide service to, residents and prospects throughout the company’s diversified portfolio. Also, 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. This is likely to UDR a competitive edge over others. UDR continued to implement its Next Generation Operating Platform strategy during the reported quarter. This facilitated year-over-year combined same-store controllable operating margin expansion of 60 bps to 84.7% and lowered combined same-store controllable expenses by 1.1%, year on year.

- UDR continues to focus on its strategic priorities such as disciplined capital allocation, maintaining an investment-grade balance sheet, as well as cash flows enhancement to support operational efficiency and dividend growth. This places the company well to sail through these uncertain times. As of Apr 30, 2020, the company had $399.8 million outstanding under its revolving credit facility. This leaves $775.2 million of liquidity through a combination of cash and undrawn capacity on its credit facilities. Supporting its balance-sheet strength, 83.4% of the company’s real estate owned based on gross book value is unencumbered as of Mar 31, 2020. Regarding its debt position, UDR noted that its total debt was $4.9 billion as of the same date, with maturities through 2022 aggregating approximately $106 million or roughly 2% of total consolidated debt outstanding, excluding principal amortization and amounts on its working capital credit facility, which seems manageable. Its debt maturity schedule is well laddered with weighted average years to maturity of 7.1 years. Also, as of quarter end, the company’s consolidated financial leverage was 35% on undepreciated book value and 31.5% on enterprise value, inclusive of joint ventures. The company’s current development and redevelopment pipeline aggregates $304 million at cost or less than 2% of enterprise value and is nearly 40% funded with about $191 million of remaining capital to spend over the next two years. Furthermore, UDR has a credit rating of BBB+ from Standard & Poor’s and Baa1from Moody’s, enabling it to procure debt financing at attractive cost.

- Moreover, the company rewarded investors with a 5.1% annualized common dividend hike for 2020. For first-quarter 2020, the company paid 36 cents per share, higher than the prior dividend of 34.25 cents. This marked UDR’s 190th consecutive quarterly dividend distribution on its common stock. Notably, solid dividend payouts are arguably the biggest enticement for REIT investors and given the company’s financial position and dividend seems sustainable and well covered by cash flow from operations. Such efforts boost investors’ confidence in the stock.

Reasons To Sell:

- Demand in the prime leasing season is likely to be affected because of the coronavirus pandemic that has been wreaking havoc and resulting in macroeconomic uncertainty and choppy job-market environment. Amid this situation, the rent-paying capability of tenants is likely to get hurt. As such, the company's top line is likely to bear the brunt in the near term, with adverse impact on rental rates and occupancy. Particularly, the company noted that in class A quality portfolio, though occupancy averaged 96% in April, this assets has and will likely continue to be pressured because of corporate lease exposure and lower traffic due to shelter-in-place orders in key markets. Moreover, though traffic and turnover have been slightly better at the company's class B communities due to the more suburban nature, UDR has witnessed lower collections across its B quality communities.

> Adverse impact of coronavirus outbreak on economy and job market will likely impact demand and hurt the rent-paying capability of tenants, resulting in rental concessions and pricing-power moderation.

- Furthermore, amid a slowdown in demand, concession activity is likely to be high despite a decline in new apartment deliveries. Also, 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. Such regulations add to the company's woes.

- In addition, at the end of the first quarter, the company's development pipeline aggregated $278.5 million and was 34% funded. Although a decent development pipeline is encouraging for the long term, it also increases the company's operational risks by exposing it to rising construction costs, entitlement delays, lease-up risks and funding risks. Further, new properties usually take time to generate revenues and tend to drag margins till their completion.

- Shares of UDR have depreciated 23.3% over the past year compared with the industry's decline of 19.3%. Moreover, the trend in estimate revisions for the current-year FFO per share does not indicate an upbeat outlook for the company as estimates have remained unchanged over the past month. Hence, given the above-mentioned concerns and lack of any positive estimate revisions, the stock has limited upside potential in the upcoming period.

Last Earnings Report

UDR Misses Q1 FFO Estimates, Suspends Guidance for 2020

Quarter Ending	03/2020
Report Date	**May 06, 2020**
Sales Surprise	**3.14%**
EPS Surprise	**-1.85%**
Quarterly EPS	**0.53**
Annual EPS (TTM)	**2.11**

UDR's first-quarter 2020 FFO per share of 53 cents increased 3.9% year over year. However, the figure narrowly missed the Zacks Consensus Estimate of 54 cents. Results reflect year-over-year growth in same-store net operating income (NOI) and weighted average same-store physical occupancy.

First-quarter revenues from rental income climbed 19.5% year over year to $320.1 million. Further, the revenues surpassed the Zacks Consensus Estimate of $310.3 million. The increase reflects growth in revenues from operating and acquisition communities.

UDR has withdrawn its guidance for the ongoing year in light of the coronavirus pandemic. The company also apprised about its April operations. It noted that 98% of residents paid at least a portion of monthly rent, while cash rents received (as a percentage of billed rent) was 95.5%. Moreover, weighted average occupancy in April was 96.6% and effective blended lease rate growth was 2%.

Inside the Headlines

During the first quarter, combined same-store (include the impact of the 11 Joint Venture communities aggregating 3,619 homes that were acquired in 2019) revenues increased 3% year over year. However, same-store expenses flared up 1.7%. Consequently, same-store NOI improved 3.5%. The residential REIT's weighted average combined same-store physical occupancy expanded 30 basis points (bps), year over year, to 97%. First-quarter annualized-rate of turnover decreased 30 bps to 38.2%.

UDR continued to implement its Next Generation Operating Platform strategy during the reported quarter. This facilitated year-over-year combined same-store controllable operating margin expansion of 60 bps to 84.7% and lowered combined same-store controllable expenses by 1.1% year on year.

Portfolio Activity

During the March-end quarter, the company acquired a 294-home community in Tampa, FL —The Slade at Channelside — for $85.2 million. This 11 year-old community had average monthly revenue per occupied home of $1,898 and occupancy of 92% at the time of the acquisition. Moreover, the company bought a 276-home Developer Capital Program community in suburban Portland, OR — The Arbory — pursuant to its option, for a cash outlay of $53.9 million.

The company's development pipeline aggregated $278.5 million at the end of the first quarter and was 34% funded. The active pipeline includes three development communities (1 each in Addison, TX, Denver, CO, and Dublin, CA) for a combined total of 878 homes. Currently, the development pipeline is projected to produce a weighted average spread between stabilized yields and current market cap rates of 150-200 bps.

At the end of the reported quarter, the company's Developer Capital Program investment, including accrued return, totaled $409.1 million.

Balance Sheet Position

As of Apr 30, 2020, the company had $399.8 million outstanding under its revolving credit facility. This leaves $775.2 million of liquidity through a combination of cash and undrawn capacity on its credit facilities. Additionally, its total debt was $4.9 billion as of the same date, with maturities through 2022, aggregating approximately $106 million.

UDR ended the January-March quarter with fixed-rate debt representing 92.8% of its total debt, a total blended interest rate of 3.28% and weighted average years to maturity of 7.1 years.

Recent News

Dividend Update

On Jun 18, 2020, UDR announced a quarterly dividend of 36 cents per share on common stock. The dividend will be paid out on Jul 31 to shareholders of record as of Jul 10. This marked UDR's 191st consecutive quarterly dividend distribution on its common stock.

Valuation

UDR's shares have declined 23.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 19.3% and 15.9% in the past year, respectively.

The S&P 500 Index is up 6.4% in the past year.

The stock is currently trading at 17.15X forward 12-month FFO, which compares to 17.67X for the Zacks sub-industry, 15.90X for the Zacks sector and 22.52X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.17X and as low as 13.57X, with a 5-year median of 19.90X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $42 price target reflects 18.20X FFO.

The table below shows summary valuation data for UDR.

Valuation Multiples - UDR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.15	17.67	15.90	22.52
	5-Year High	23.17	22.35	16.27	22.52
	5-Year Low	13.57	15.54	11.59	15.27
	5-Year Median	19.90	18.47	14.18	17.59
P/S F12M	Current	8.36	9.21	6.04	3.51
	5-Year High	12.52	12.14	6.70	3.51
	5-Year Low	6.97	7.58	4.96	2.52
	5-Year Median	10.03	9.29	6.07	3.04
P/B TTM	Current	3.09	2.39	2.29	4.34
	5-Year High	4.78	3.34	2.98	4.65
	5-Year Low	2.63	1.85	1.78	2.81
	5-Year Median	3.46	2.44	2.51	3.69

As of 07/09/2020

Industry Analysis **Zacks Industry Rank:** Bottom 25% (189 out of 252)

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
AvalonBay Communities, Inc. **(AVB)**	Underperform	4
Equity Residential **(EQR)**	Underperform	4
NexPoint Residential Trust, Inc. **(NXRT)**	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Residential

Industry Peers

	UDR	X Industry	S&P 500	AVB	EQR	MAA
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	D	-	-	C	C	F
Market Cap	10.61 B	1.15 B	21.19 B	21.34 B	21.10 B	12.87 B
# of Analysts	11	5.5	14	8	11	7
Dividend Yield	4.00%	4.22%	1.96%	4.19%	4.25%	3.55%
Value Score	D	-	-	D	D	D
Cash/Price	0.00	0.04	0.07	0.04	0.00	0.00
EV/EBITDA	17.59	16.38	12.56	19.23	13.32	16.45
PEG Ratio	3.03	3.84	2.85	4.85	3.76	NA
Price/Book (P/B)	3.09	1.72	3.00	1.96	1.97	2.07
Price/Cash Flow (P/CF)	15.22	12.44	11.41	14.29	11.34	14.98
P/E (F1)	17.19	16.20	20.79	16.55	16.94	18.36
Price/Sales (P/S)	8.82	6.02	2.19	9.04	7.76	7.76
Earnings Yield	5.84%	6.18%	4.52%	6.04%	5.91%	5.45%
Debt/Equity	1.42	1.01	0.76	0.76	0.80	0.72
Cash Flow ($/share)	2.36	2.46	6.94	10.61	5.00	7.52
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	5.63%	3.28%	10.90%	3.83%	0.75%	3.28%
Proj. EPS Growth (F1/F0)	1.00%	-3.38%	-9.99%	-1.87%	-4.09%	-6.41%
Curr. Cash Flow Growth	8.47%	7.20%	5.51%	-9.39%	23.84%	20.94%
Hist. Cash Flow Growth (3-5 yrs)	5.98%	15.38%	8.55%	6.67%	5.74%	15.27%
Current Ratio	1.19	1.55	1.30	2.72	0.36	0.11
Debt/Capital	62.12%	50.43%	44.46%	43.14%	45.48%	41.91%
Net Margin	13.80%	17.00%	10.62%	33.20%	43.16%	19.66%
Return on Equity	4.98%	4.98%	15.75%	7.21%	11.20%	5.33%
Sales/Assets	0.13	0.13	0.55	0.12	0.13	0.15
Proj. Sales Growth (F1/F0)	10.38%	1.50%	-2.52%	5.29%	-2.70%	0.29%
Momentum Score	D	-	-	B	B	F
Daily Price Chg	-1.51%	-1.51%	-1.52%	-1.08%	-1.34%	-1.11%
1 Week Price Chg	5.99%	3.92%	3.66%	5.64%	6.30%	6.58%
4 Week Price Chg	-4.81%	-3.33%	0.36%	-6.32%	-8.03%	-2.51%
12 Week Price Chg	-1.77%	5.75%	10.41%	-5.96%	-13.06%	3.92%
52 Week Price Chg	-22.62%	-26.82%	-8.70%	-28.27%	-28.48%	-7.71%
20 Day Average Volume	1,998,327	617,333	2,339,510	1,194,983	2,981,371	753,463
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.67%
(F1) EPS Est 4 week change	-0.10%	-0.10%	0.00%	0.00%	-0.35%	-0.99%
(F1) EPS Est 12 week change	-3.43%	-6.28%	-7.77%	-6.37%	-6.04%	-4.22%
(Q1) EPS Est Mthly Chg	-0.44%	0.00%	0.00%	0.00%	-0.61%	-0.58%

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	D
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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