

UDR Inc. (UDR)

\$50.32 (As of 02/14/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: D

Summary

UDR's fourth-quarter 2019 funds from operations as adjusted (FFOA) per share of 54 cents came in line with the Zacks Consensus Estimate and higher than the prior-year quarter. Results reflect growth in revenues from operating and acquisition communities. Favorable demographics, household formation, resilient economy and stable job-market conditions are anticipated to spur demand for rental-housing units. To capitalize on this trend, UDR is focusing on expansion in strategic markets through acquisitions and development as well as undertaking technological and process initiatives aimed at improving efficiencies. However, elevated supply in some markets and rent regulations remain concerns, while a significant development pipeline escalates its exposure to operational risks. Its shares too have underperformed its industry over the past year.

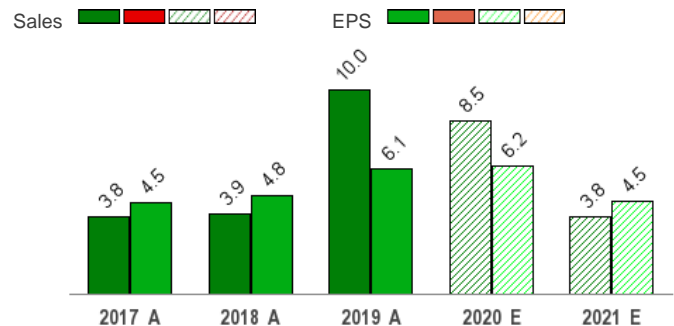
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.61 - \$43.04
20 Day Average Volume (sh)	1,312,533
Market Cap	\$14.7 B
YTD Price Change	7.8%
Beta	0.42
Dividend / Div Yld	\$1.37 / 2.7%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 38% (96 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	NA
Earnings ESP	0.7%
P/E TTM	24.1
P/E F1	22.8
PEG F1	4.0
P/S TTM	12.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	321 E	326 E	330 E	331 E	1,282 E
2020	305 E	308 E	312 E	314 E	1,235 E
2019	268 A	281 A	289 A	303 A	1,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.56 E	\$0.57 E	\$0.57 E	\$0.58 E	\$2.31 E
2020	\$0.54 E	\$0.55 E	\$0.55 E	\$0.56 E	\$2.21 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 02/14/2020. The reports text is as of 02/17/2020.

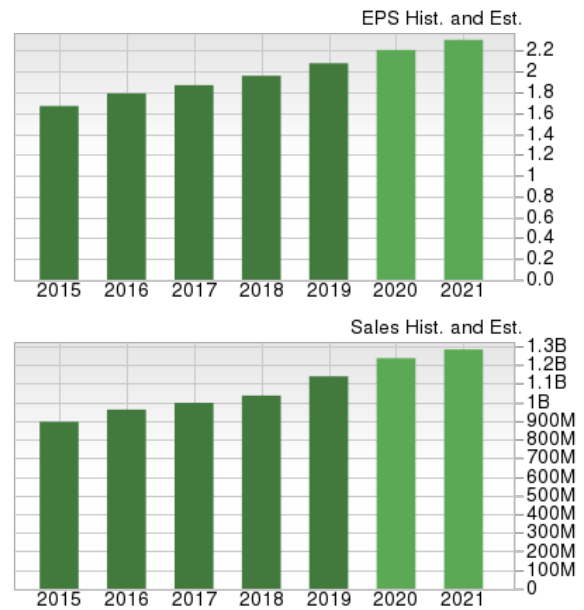
Overview

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 Dec 31, 2019, UDR enjoyed the ownership of or had ownership stakes in 51,294 apartment homes, including 878 homes under development.

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 high-quality properties located in some affluent regions of the United States have ensured steady rental income generation over the past few years. The company's superior product-mix of A/B quality properties and strategic submarket locations is anticipated to boost growth in combined new and renewal lease over the upcoming quarters. Further, this strategy of maintaining a diversified portfolio reduces the volatility of its same-store growth.
- ▲ Consumer confidence is at decent level, fueled by a resilient economy, job growth and rising wages. This, in turn, is supporting an increase in household formation, which is expected to further spur demand for rental housing in UDR's markets.
- ▲ Demographic growth 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 is helping spur primary renter demand. 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. Therefore, as housing affordability will likely become more challenging in the upcoming period, demand for UDR's properties will likely witness an uptrend.
- ▲ Furthermore, UDR has been continuously enhancing the overall quality of its portfolio by acquiring, developing and redeveloping properties in core operating markets. In 2019, the company grew through \$1.8 billion of acquisitions. This has provided notable operational and investment upsides in targeted markets. Moreover, following the quarter end, the company acquired The Slade at Channelside, a 294-home community in Tampa, FL, for \$85.2 million. The community had average monthly revenue per occupied home of \$1,898 and occupancy of 92% at the time of acquisition and was 11 years old. Also, at the end of the fourth quarter, UDR's development pipeline aggregated \$278.5 million at its pro-rata ownership interest. Execution of these value creation capabilities will likely drive long-term growth.
- ▲ 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. Particularly, UDR continued to implement its Next Generation Operating Platform strategy during the reported quarter. This facilitated year-over-year same-store controllable operating margin expansion of 60 bps to 84.8%. Additionally, it completed nearly 30,370 SmartHome installations or 60% of total homes in 2019.
- ▲ 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, along with the company's robust operating platform and efficient management team, will likely help it execute strategic priorities and drive net asset value and dividend growth. In fact, as of Dec 31, 2019, the company had around \$866.5 million of liquidity through a combination of cash and undrawn capacity on its credit facilities. The company also remains focused on increasing the size of its unencumbered NOI pool that currently stands at 87.5%. Moreover, in conjunction with the company's fourth-quarter 2019 earnings release, the company's board of directors announced a 2020 annualized dividend per share of \$1.44, a 5.1% increase over 2019. Notably, solid dividend payouts are arguably the biggest enticement for REIT investors and such efforts boost investors' confidence in the stock.

Superior portfolio and strategic submarket locations, rise in apartment demand and focus on enhancing portfolio through expansion in core markets and sale of non-core ones should support momentum.

Reasons To Sell:

- ▼ There is new supply of apartment properties in a number of the company's markets. For the upcoming period too, we remain apprehensive about UDR's performance as the company is likely to continue to deal with high deliveries in a number of its markets. This remains a concern as elevated levels of supply limits a landlord's ability to demand more rents, results in lesser absorption and leads to increased concession activity. Furthermore, 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.
- ▼ Moreover, at the end of the fourth quarter, UDR's development pipeline aggregated \$278.5 million at its pro-rata ownership interest, out of which, 25% has already been 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.
- ▼ Although interest rates are low currently, any hike may pose a challenge to UDR. This is because the company's ability to refinance existing debt would be restricted while the interest cost on new debt would increase. This could adversely affect the company's financial results and consequently dent its dividend payout. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ Shares of UDR have underperformed its industry over the past year. During this time frame, shares of the company have gained 12.9%, compared with the industry's growth of 21%. Moreover, the trend in estimate revisions for the current year FFO per share does not indicate an upbeat outlook for the company. In fact, the 2020 FFO per share estimate remained unchanged over the past month. Hence, given the above-mentioned concerns and lack of positive estimate revisions, the stock has limited upside potential in the upcoming period.

Increase in apartment supply in a number of the company's markets, stiff competition from other housing alternatives and risks associated with a significant development pipeline remain concerns.

Last Earnings Report

UDR Q4 FFOA Meets, Revenues Beat Estimates, Occupancy Rises

UDR's fourth-quarter 2019 FFOA per share of 54 cents came in line with the Zacks Consensus Estimate. The bottom line was higher than the prior-year quarter's reported figure of 50 cents.

Fourth-quarter revenues from rental income climbed 9.8% year over year to \$302.75 million. Further, the figure surpassed the Zacks Consensus Estimate of \$298.49 million.

Results reflect year-over-year growth in same-store NOI and weighted average same-store physical occupancy.

In full-year 2019, FFOA per share came in at \$2.08, up 6.1% year over year. It also matched the Zacks Consensus Estimate. Rental income of \$1.14 billion, which jumped 10%, backed this upside.

Inside the Headlines

During the fourth quarter, same-store revenues increased 3.3% year over year. However, same-store expenses jumped 1.3%. Consequently, same-store NOI improved 4.1%. The residential REIT's weighted average same-store physical occupancy expanded 10 basis points (bps), year over year, but remained flat sequentially at 96.9%. Fourth-quarter annualized-rate of turnover decreased 60 bps to 40.2%.

UDR's wholly owned acquisition activity for the quarter included the buyout of one community — The Slade at Channelside — for an aggregate of \$85.2 million.

At the end of the reported quarter, the company's Developer Capital Program investment, including accrued return, totaled \$405.3 million.

At the end of the fourth quarter, UDR's development pipeline aggregated \$278.5 million at its pro-rata ownership interest, out of which, 25% has already been funded.

As of Dec 31, 2019, the company had around \$866.5 million of liquidity through a combination of cash and undrawn capacity on its credit facilities. Additionally, its total debt was \$4.7 billion as of the same date.

Guidance

The company has issued projections for first-quarter 2020. For the quarter, UDR projects FFOA per share in the 53-55 cents range.

Further, the company expects 2020 FFOA per share in the range of \$2.18-\$2.22. The consensus estimate for the same is \$2.21. Moreover, it anticipates same-store NOI growth of 2.9-3.9% for the ongoing year.

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	1.43%
EPS Surprise	0.00%
Quarterly EPS	0.54
Annual EPS (TTM)	2.09

Recent News

UDR Closes \$1.76B Transaction With MetLife, Reduces Size of JV – Dec 12, 2019

UDR closed a \$1.76-billion transaction with MetLife Investment Management. The move, which lowers the size of the UDR/MetLife Investment Management JV, is projected to be 1-2 cents accretive to the company's 2020 FFO as adjusted per share.

As part of the transaction, the company has acquired roughly 50% stake in 10 JV operating communities, comprising 3,321 apartment homes in total, one community under development and four accretive development land sites. These acquisitions were valued at an aggregate of \$1.1 billion, or \$557 million at UDR's share.

Additionally, the company sold nearly 50% of its ownership stake in five communities owned under the JV to MetLife. These communities included 1,001 apartment homes in total and the transaction was valued at \$645 million, or \$323 million at UDR's share.

After taking into account the agreed-upon fair market value (FMV) of the in-place debt related to the acquired properties aggregating \$540 million, UDR's net cash outflow in the swap transaction amounted to around \$109 million. Following the transaction completion, the UDR/MetLife JV consists of 13 properties.

The acquisition is a strategic fit for UDR and has helped gain assets in markets aimed for expansion and enhanced portfolio diversification. Moreover, per the company's press release, the move replaces lower-multiple management fee income with higher-multiple real estate income. In addition, full ownership offers potential for operational upside and capital improvement opportunities.

The transaction will be accretive to earnings. Particularly, the company estimated the move to be 0-1 cent accretive to 2020 net income per share and 1-2 cents accretive to 2020 FFO as adjusted per share. This is inclusive of agreed-upon FMV debt adjustments.

Dividend Update

On Dec 12, 2019, UDR announced its quarterly common stock cash dividend of 34.25 cents per share. This represents 189th consecutive quarterly dividend payout. The dividend was paid on Jan 31, to shareholders on record as of Jan 10, 2020.

Valuation

UDR's shares are up 12.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 21% and 9.3% over the past year.

The S&P 500 Index is up 21% over the past year.

The stock is currently trading at 22.68X forward 12-month FFO, which compares to 22.28X for the Zacks sub-industry, 15.03X for the Zacks sector and 19.36X for the S&P 500 Index.

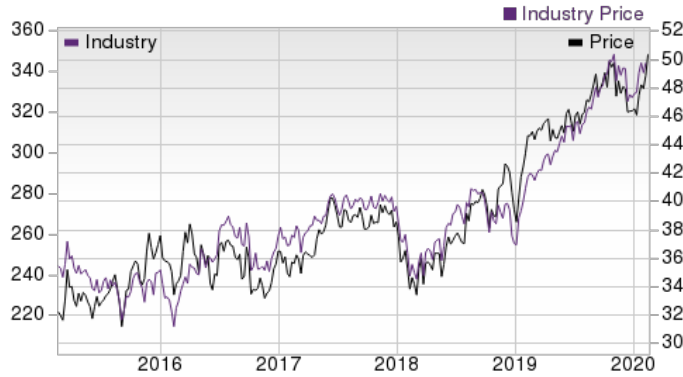
Over the past five years, the stock has traded as high as 23.17X and as low as 16.77X, with a 5-year median of 19.91X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$53 price target reflects 23.89X FFO.

The table below shows summary valuation data for UDR.

Valuation Multiples - UDR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.68	22.28	15.03	19.36
	5-Year High	23.17	22.28	16.21	19.36
	5-Year Low	16.77	16.2	12.01	15.18
	5-Year Median	19.91	18.54	14.15	17.47
P/S F12M	Current	11.89	11.17	6.55	3.58
	5-Year High	12.52	11.17	6.65	3.58
	5-Year Low	8.51	7.42	5.39	2.54
	5-Year Median	10.03	8.94	6.04	3
P/B TTM	Current	4.41	3.18	2.86	4.36
	5-Year High	4.78	3.18	2.89	4.42
	5-Year Low	2.87	2.06	1.83	2.85
	5-Year Median	3.44	2.39	2.51	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 255)



Top Peers

Apartment Investment and Management Company (AIV)	Neutral
AvalonBay Communities, Inc. (AVB)	Neutral
Camden Property Trust (CPT)	Neutral
Equity Residential (EQR)	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

Industry Comparison Industry: Reit And Equity Trust - Residential				Industry Peers		
	UDR Neutral	X Industry	S&P 500	AVB Neutral	EQR Neutral	MAA Neutral
VGM Score	D	-	-	F	D	F
Market Cap	14.75 B	1.66 B	24.61 B	31.78 B	32.11 B	16.60 B
# of Analysts	10	6	13	11	12	8
Dividend Yield	2.72%	2.99%	1.78%	2.67%	2.63%	2.75%
Value Score	F	-	-	F	F	D
Cash/Price	0.06	0.02	0.04	0.00	0.00	0.00
EV/EBITDA	23.59	23.54	14.06	23.82	24.21	23.54
PEG Ratio	4.02	3.79	2.09	3.78	3.81	5.70
Price/Book (P/B)	4.41	2.47	3.29	2.89	3.06	2.64
Price/Cash Flow (P/CF)	21.28	17.82	13.65	21.95	17.82	19.51
P/E (F1)	22.77	20.28	19.21	23.20	23.84	22.22
Price/Sales (P/S)	12.80	7.74	2.70	14.32	11.89	10.11
Earnings Yield	4.39%	4.94%	5.19%	4.31%	4.20%	4.50%
Debt/Equity	1.41	0.91	0.71	0.66	0.86	0.71
Cash Flow (\$/share)	2.36	2.36	6.92	10.36	4.85	7.46
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	5.87%	3.77%	10.85%	4.05%	0.29%	3.64%
Proj. EPS Growth (F1/F0)	6.15%	5.70%	7.17%	5.00%	3.92%	0.00%
Curr. Cash Flow Growth	8.47%	10.03%	8.56%	-11.50%	20.08%	20.00%
Hist. Cash Flow Growth (3-5 yrs)	12.84%	15.09%	8.36%	6.16%	5.09%	15.09%
Current Ratio	4.71	1.01	1.23	0.89	0.28	0.15
Debt/Capital	62.82%	47.43%	42.91%	39.91%	47.40%	41.46%
Net Margin	16.08%	12.03%	11.81%	35.42%	35.93%	21.50%
Return on Equity	5.81%	5.50%	16.86%	7.26%	9.36%	5.28%
Sales/Assets	0.13	0.13	0.54	0.12	0.13	0.15
Proj. Sales Growth (F1/F0)	8.26%	6.49%	3.85%	9.93%	2.82%	3.66%
Momentum Score	D	-	-	D	C	D
Daily Price Chg	1.43%	0.97%	0.06%	0.86%	1.46%	0.95%
1 Week Price Chg	1.92%	1.40%	2.47%	1.14%	1.35%	2.90%
4 Week Price Chg	6.32%	4.14%	0.59%	5.88%	4.79%	8.84%
12 Week Price Chg	5.16%	6.62%	6.98%	6.98%	1.66%	7.48%
52 Week Price Chg	12.72%	19.37%	16.62%	16.25%	18.24%	40.41%
20 Day Average Volume	1,312,533	424,072	2,020,569	645,424	1,346,068	497,948
(F1) EPS Est 1 week change	-0.23%	0.00%	0.00%	0.06%	0.02%	-0.20%
(F1) EPS Est 4 week change	-0.28%	0.00%	-0.05%	-0.17%	0.13%	-0.25%
(F1) EPS Est 12 week change	0.22%	-0.04%	-0.17%	-0.08%	0.36%	-0.12%
(Q1) EPS Est Mthly Chg	-0.26%	0.00%	-0.24%	-0.35%	0.31%	-0.46%

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	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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