UDR Inc. (UDR)

$35.02 (As of 08/14/20)

Price Target (6-12 Months): **$37.00**

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:C
	Value: D | Growth: C | Momentum: B	

Summary

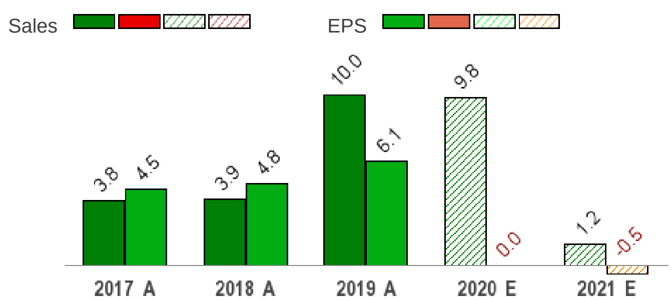
UDR's disappointing second-quarter performance reflects the adverse impact of the pandemic and related economic challenges as well as government actions and regulations on the company's business. Yet, it benefited from growth in revenues from acquisition communities. UDR is poised to gain from its diverse portfolio, with superior product-mix of A/B quality properties in key markets and focus on expansion in strategic markets through acquisitions and development. It is also leveraging technology and scale and organizational capabilities to drive growth and margin. However, with the pandemic's adverse impact on economy and jobs, demand for apartments and rent-paying capability of tenants will likely bear the brunt, hurting rental rates and occupancy. Furthermore, UDR's shares have underperformed the industry over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$51.25 - $29.20**
20 Day Average Volume (sh)	**1,506,464**
Market Cap	**$10.3 B**
YTD Price Change	**-25.0%**
Beta	**0.59**
Dividend / Div Yld	**$1.44 / 4.1%**
Industry	**REIT and Equity Trust - Residential**
Zacks Industry Rank	**Bottom 17% (208 out of 252)**
Last EPS Surprise	**-3.8%**
Last Sales Surprise	**-3.1%**
EPS F1 Est- 4 week change	**-0.5%**
Expected Report Date	**NA**
Earnings ESP	**0.4%**
P/E TTM	**16.7**
P/E F1	**16.8**
PEG F1	**3.0**
P/S TTM	**8.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	316 E	318 E	323 E	325 E	1,264 E
2020	320 A	306 A	311 E	310 E	1,249 E
2019	268 A	281 A	289 A	303 A	1,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.50 E	$0.52 E	$0.53 E	$0.53 E	$2.07 E
2020	$0.53 A	$0.51 A	$0.51 E	$0.51 E	$2.08 E
2019	$0.51 A	$0.52 A	$0.52 A	$0.54 A	$2.08 A

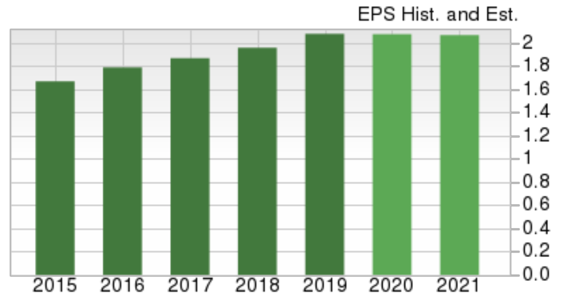
*Quarterly figures may not add up to annual.

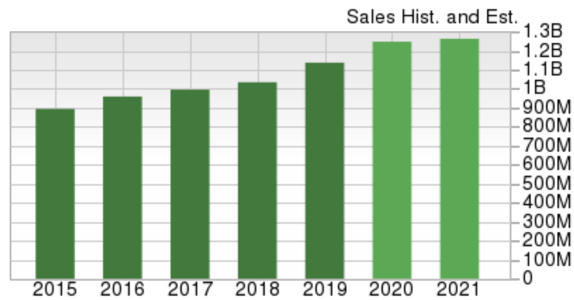
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

© 2020 Zacks Investment Research, All Rights Reserved

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 48 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) Northeast Region — New York and Boston

iv) Southeast Region — Orlando, Tampa, Nashville and Other Florida

v) Southwest Region — Dallas, Austin and Denver

As of Jun 30, 2020, UDR had the ownership of or had ownership stakes in 51,320 apartment homes, including 819 homes under development. The company's development pipeline aggregated $278.5 million at the end of the second quarter, and 47% of this cost had been incurred. At the end of the June-end quarter, the company's Developer Capital Program investment, including accrued return, totaled $419.6 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 across various geographies and price points helps the company generate steady operating cash flows. The company's suburban community outperformed urban communities in terms of occupancy, new lease rate growth, renewal rate growth and traffic. Moreover, cash collections as a percentage of billed revenue are decent.

- 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, 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 first half of the current year. This aided the year-over-year decline in combined same-store controllable expenses by 2% and helped maintain controllable operating margin of 84.3%, stable year on year, despite a decline in combined same-store revenues.

- 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 Jun 30, 2020, UDR had $973.7 million of liquidity through a combination of cash and undrawn capacity on its credit facilities, along with roughly $105 million of incremental capital sources from potential settlement of forward equity sales agreements.Supporting its balance-sheet strength, 84% of the company's real estate owned based on gross book value is unencumbered as of Jun 30, 2020. Regarding its debt position, UDR noted that its total debt was $4.8 billion as of the same date. Moreover, with completion of the secured debt refinancing, the company will have no remaining consolidated maturities through 2022, excluding principal amortization and amounts on its commercial paper program and working capital credit facility, which seems manageable. Its debt maturity schedule is well laddered, with a weighted average years to maturity of 7.0 years. Further, the company's development pipeline aggregated $278.5 million at the end of the second quarter and 47% of this cost had been incurred. 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 the dividend seems sustainable and well covered by cash flow from operations. Such efforts boost investors' confidence in the stock.

Reasons To Sell:

> 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.

- The coronavirus pandemic has been wreaking havoc, and resulting in macroeconomic uncertainty and choppy job-market environment, resulting in household contraction and consolidation. Apart from these, a number of factors are affecting rental demand, including pandemic and work-from-home flexibility that is resulting in a shift of some renter demand away from higher cost and urban/infill markets. In addition, record-low mortgage rates and the desire for space are driving homes sales. In addition, there is a decline in demand from two categories of renters — corporate and students — since most temporary corporate assignments have been canceled, while higher education is adopting remote learning models and limiting on-campus activities for the fall. Management also pointed out that occupancy in certain urban areas of coastal markets experienced the most pressure due to corporate lease exposure and short-term mobility trends because of work-from-homemandate. Though operations in certain areas have been allowed to fully or partially re-open, many areas are experiencing newclosures subsequent to re-opening. Thus, the choppy environment is expected to prevail in the near term and affect demand in many urban submarkets.

- Moreover, amid this situation, there is a pressure on occupancy and rent change, while rent-paying capability of tenants has been affected. Furthermore, amid a slowdown in demand, concession activity is likely to be high. Given the magnitude of the downturn, as well as extended eviction moratoriums, additional rent deferrals, payment plans, lease concessions, waiving late payment fees, the company's cash flows will be affected and considering the magnitude of uncertainty in the economy and about reopening, any turnaround is unlikely in the near term.

- In addition, at the end of the second quarter, the company's development pipeline aggregated $278.5 million at the end of the reported quarter and 47% of this cost had been incurred. 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 26.6% over the past year compared with the industry's decline of 20.1%. Also, the trend in estimate revisions for the current-year FFO per share does not indicate a favorable outlook for the company as estimates have moved marginally southward over the past month. Hence, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the upcoming period.

Last Earnings Report

UDR's FFO & Revenues Miss Estimates in Q2, NOI Declines

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	-3.14%
EPS Surprise	-3.77%
Quarterly EPS	0.51
Annual EPS (TTM)	2.10

UDR reported second-quarter 2020 FFO as adjusted per share of 51 cents. The figure missed the Zacks Consensus Estimate of 53 cents as well as came in lower than the prior-year's 52 cents.

Results reflect the adverse impact of the coronavirus pandemic and related economic challenges as well as government actions and regulations on the company's business.

Second-quarter revenues from rental income climbed 9.9% year over year to nearly $306 million. However, the revenue figure missed the Zacks Consensus Estimate of $315.9 million. This year-over-year upside reflects growth in revenues from acquisition communities.

Revenues recognized for the second quarter were 98.3% of total billed revenues and cash revenues collected were 97.5%. Moreover, the company noted that July cash revenues received as a percentage of billed revenues are consistent with April, May, and June at the corresponding periods of the months.

Moreover, weighted average occupancy in the June-end quarter was 96.3% compared with the year-ago period's 96.9%, while effective blended lease rate growth was 0.8% compared with the prior-year quarter's 4.4%.

Inside the Headlines

During the reported quarter, combined same-store revenues decreased 2.1% year over year. Same-store expenses flared up 2.5%. Consequently, same-store net operating income (NOI) declined 4%. Notably, the company's second-quarter combined same-store bad debt reserve aggregated $4.5 million.

The residential REIT's weighted average combined same-store physical occupancy contracted 50 basis points (bps), year over year, to 96.3%. Second-quarter annualized-rate of turnover shrunk 620 bps to 48.9%.

UDR continues to implement its Next Generation Operating Platform strategy. This facilitated year-over-year decline in combined same-store controllable expenses by 2% and helped maintain controllable operating margin of 84.3%, stable year on year, despite a decline in combined same-store revenues.

Portfolio Activity

During the June-end quarter, the company sold Waterscape — a 196-home community in Kirkland, WA — for $92.9 million and Borgata Apartment Homes — a 71-home community in Bellevue, WA — for $49.7 million.

The company's development pipeline aggregated $278.5 million at the end of the reported quarter and 47% of this cost had been incurred. The active pipeline includes three development communities (one each in Addison, TX, Denver, CO, and Dublin, CA) for a combined total of 878 homes.

At the end of the June-end quarter, the company's Developer Capital Program investment, including accrued return, totaled $419.6 million. The weighted average return rate is 9.8%, while the weighted average expected remaining term is 2.5 years.

Balance Sheet Position

As of Jun 30, 2020, UDR had $973.7 million of liquidity through a combination of cash and undrawn capacity on its credit facilities, along with roughly $105 million of incremental capital sources from potential settlement of forward equity sales agreements. Additionally, its total debt was $4.8 billion as of the same date.

Notably, during the reported quarter, the company executed a rate lock agreement to refinance its only remaining 2020 maturity, a $79.5 million, 4.35% fixed rate loan due in 2020, with a $160.9 million, 2.62% fixed rate secured loan due in 2031. The refinancing transaction is likely to close in the third quarter and UDR anticipates using the incremental proceeds to lower its borrowings under its unsecured commercial paper program.

UDR ended the April-June quarter with fixed-rate debt representing 94.4% of its total debt, a total blended interest rate of 3.24% and weighted average years to maturity of 7 years.

Recent News

Dividend Update

On Jun 18, 2020, UDR announced a quarterly dividend of 36 cents per share on common stock. The dividend was 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 26.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 20.1% and 6.5% in the past year, respectively.

The S&P 500 Index is up 15.5% in the past year.

The stock is currently trading at 16.90X forward 12-month FFO, which compares to 17.85X for the Zacks sub-industry, 16.82X for the Zacks sector and 22.87X 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 19.89X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $37 price target reflects 17.86X FFO.

The table below shows summary valuation data for UDR.

Valuation Multiples - UDR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.90	17.85	16.82	22.87
	5-Year High	23.17	22.36	16.82	22.87
	5-Year Low	13.57	15.54	11.6	15.25
	5-Year Median	19.89	18.47	14.26	17.58
P/S F12M	Current	8.21	9.49	6.22	3.7
	5-Year High	12.52	12.16	6.67	3.7
	5-Year Low	6.97	7.58	4.97	2.53
	5-Year Median	10.03	9.28	6.06	3.05
P/B TTM	Current	3.07	2.42	2.49	4.52
	5-Year High	4.78	3.30	2.91	4.56
	5-Year Low	2.63	1.82	1.72	2.83
	5-Year Median	3.46	2.42	2.53	3.74

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (208 out of 252)

Top Peers

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

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	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	C	-	-	D	D	C
Market Cap	10.33 B	1.19 B	23.68 B	21.54 B	20.24 B	13.14 B
# of Analysts	10	5	14	7	11	6
Dividend Yield	4.11%	4.11%	1.68%	4.16%	4.43%	3.48%
Value Score	D	-	-	D	D	D
Cash/Price	0.06	0.03	0.07	0.02	0.01	0.00
EV/EBITDA	16.46	16.70	13.36	19.35	12.80	16.70
PEG Ratio	2.97	4.43	2.99	10.25	4.24	NA
Price/Book (P/B)	3.07	1.80	3.22	1.98	1.87	2.13
Price/Cash Flow (P/CF)	14.81	13.55	12.82	14.42	10.87	15.28
P/E (F1)	16.84	16.58	22.06	16.91	16.23	18.49
Price/Sales (P/S)	8.41	6.03	2.51	9.13	7.48	7.90
Earnings Yield	5.94%	6.03%	4.30%	5.91%	6.16%	5.41%
Debt/Equity	1.41	0.99	0.77	0.72	0.78	0.72
Cash Flow ($/share)	2.36	2.46	6.94	10.61	5.00	7.52
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	5.46%	2.81%	10.41%	3.84%	1.29%	3.03%
Proj. EPS Growth (F1/F0)	-0.14%	-2.58%	-6.32%	-3.09%	-3.99%	-5.16%
Curr. Cash Flow Growth	8.47%	7.20%	5.20%	-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	4.08	1.42	1.33	1.40	1.06	0.08
Debt/Capital	62.12%	47.18%	44.59%	41.83%	44.70%	42.02%
Net Margin	15.31%	13.64%	10.13%	33.32%	41.64%	20.38%
Return on Equity	5.63%	4.71%	14.51%	7.21%	10.62%	5.57%
Sales/Assets	0.13	0.12	0.51	0.12	0.13	0.15
Proj. Sales Growth (F1/F0)	9.43%	2.42%	-1.43%	5.93%	-2.83%	0.44%
Momentum Score	B	-	-	B	B	B
Daily Price Chg	0.89%	0.00%	0.12%	1.56%	1.64%	-0.72%
1 Week Price Chg	-0.86%	1.27%	2.30%	0.48%	2.91%	-2.27%
4 Week Price Chg	-4.73%	1.25%	4.41%	-0.86%	-4.95%	2.54%
12 Week Price Chg	-2.37%	8.71%	13.66%	-0.73%	-6.11%	0.91%
52 Week Price Chg	-24.80%	-23.10%	5.80%	-25.13%	-32.98%	-7.02%
20 Day Average Volume	1,506,464	439,023	1,984,154	954,076	2,604,706	515,836
(F1) EPS Est 1 week change	-0.14%	0.00%	0.00%	-0.24%	0.11%	0.00%
(F1) EPS Est 4 week change	-0.54%	0.00%	2.08%	-0.23%	0.11%	1.33%
(F1) EPS Est 12 week change	-1.94%	-2.78%	2.66%	-4.05%	-3.18%	-0.77%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.94%	-0.67%	1.48%	2.08%

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	B
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.