

UDR Inc. (UDR)

\$47.45 (As of 01/17/20)

Price Target (6-12 Months): **\$50.00**

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:F

Value: F

Growth: C

Momentum: F

Summary

UDR owns a vast portfolio of residential properties, located in the targeted U.S. markets, that has a superior product mix. This enables the company to enjoy steady rental income. Further, 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. Moreover, it is continuously enhancing the overall quality of its portfolio on back of development and redevelopment efforts. However, elevated supply in a number of its markets is likely to impact the company's new lease rate growth. Additionally, a significant development pipeline escalates the REIT's exposure to operational risks. Also, shares of UDR have underperformed its industry over the past year.

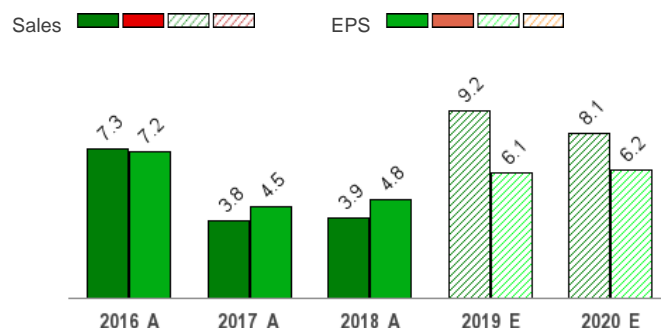
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.61 - \$41.31
20 Day Average Volume (sh)	1,302,018
Market Cap	\$13.9 B
YTD Price Change	1.6%
Beta	0.37
Dividend / Div Yld	\$1.37 / 2.9%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 45% (114 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	23.2
P/E F1	21.5
PEG F1	3.8
P/S TTM	12.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	301 E	304 E	308 E	310 E	1,221 E
2019	268 A	281 A	289 A	297 E	1,130 E
2018	253 A	257 A	266 A	265 A	1,035 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
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 E	\$2.08 E
2018	\$0.47 A	\$0.49 A	\$0.49 A	\$0.50 A	\$1.96 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 01/17/2020. The reports text is as of 01/20/2020.

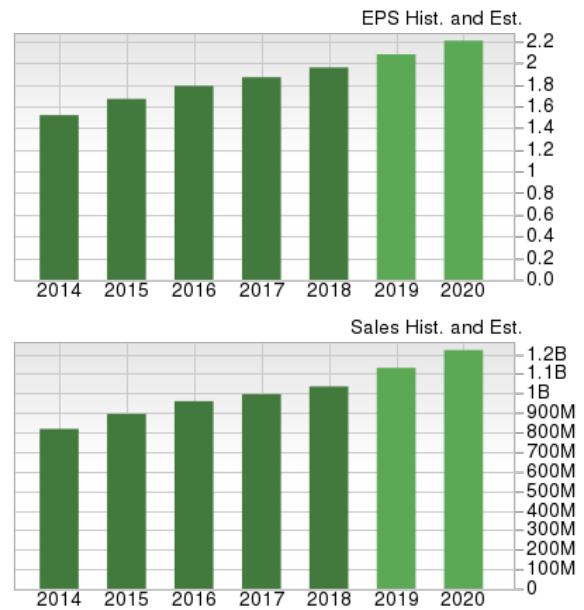
Overview

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 Sep 30, 2019, UDR enjoyed the ownership of or had ownership stakes in 52,070 apartment homes, including 658 homes under development or in its Developer Capital Program (DCP)—West Coast Development Joint Venture (JV).

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. Since the beginning of 2019 through October, the company expanded its business, with \$1.8 billion in completed or announced acquisitions. This has provided notable operational and investment upsides in targeted markets. Additionally, by winding down the UDR/Kuwait Finance House JV and reducing the size of the UDR/MetLife JV, the company has simplified its structure and reduced dependence on JV sources for NOI growth. Also, at the end of the September 2019, UDR's development pipeline aggregated \$129.5 million at its pro-rata ownership interest. Execution of these value creation capabilities are likely to 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.
- ▲ 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 Sep 30, 2019, the company had \$1.1 billion 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 89.9%. Moreover, the company announced a 6.2% increase in its first-quarter 2019 dividend. Subsequently, UDR has maintained the same dividend rate. 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 high-rent markets. In fact, elevated supply levels in San Francisco, Los Angeles, Orange County, Orlando, New York and Dallas continues to impact the company's new lease rate growth. 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.
- ▼ Moreover, at the end of the third quarter of 2019, UDR's development pipeline aggregated \$129.5 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. In fact, the company has been witnessing a rise in construction cost in many of its markets. 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 in the past year. During this time frame, shares of the company have gained 13.8%, compared with the industry's growth of 17.8%. 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's Q3 FFO & Revenues Beat Estimates, Occupancy Increases

UDR's third-quarter 2019 funds from operations as adjusted per share of 52 cents surpassed the Zacks Consensus Estimate of 49 cents. The figure also came in 6.1% higher than the prior-year quarter tally.

Moreover, third-quarter 2019 revenues from rental income climbed 9.8% year over year to \$289.01 million. Further, the figure surpassed the Zacks Consensus Estimate of nearly \$284.4 million.

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

Inside the Headlines

During the third quarter, same-store revenues increased 3.7% year over year. However, same-store expenses flared up 3.1%. Consequently, same-store NOI improved 3.9% year over year. This residential REIT's weighted average same-store physical occupancy expanded 10 basis points (bps), year over year, but remained flat sequentially at 96.9%. The third-quarter annualized-rate of turnover remained flat, year on year, at 63.8%.

UDR's wholly-owned acquisition activity for the quarter included the buyout of two communities — The Commons at Windsor Gardens in Norwood, MA and One William, in Englewood, NJ — for an aggregate amount of \$353.8 million.

At the end of the reported quarter, the company's DCP investment, including accrued return, totaled \$264.4 million.

As of Sep 30, 2019, UDR's development pipeline aggregated \$129.5 million at its pro-rata ownership interest, out of which, 25% has already been funded.

As of the same date, the company had around \$1.1 billion of liquidity through a combination of cash and undrawn capacity on its credit facilities. Additionally, its total debt was \$3.94 billion as of the same date.

Guidance

The company has issued its projections for fourth-quarter 2019. For the current quarter, UDR projects funds from operations as adjusted per share to be in the 53-55 cents range.

Further, the company marginally raised its forecast for 2019 FFOA per share to \$2.07-\$2.09, from the previous outlook of \$2.06-\$2.09. Moreover, it anticipates same-store NOI growth of 4-4.4% for the ongoing year.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	1.64%
EPS Surprise	0.00%
Quarterly EPS	0.52
Annual EPS (TTM)	2.05

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.

UDR Prices Senior Notes Offerings, To Redeem 4.625% Notes - Oct 2, 2019

UDR priced a public offering of two series of senior unsecured notes. The company also announced the redemption of its outstanding 4.625% senior unsecured notes maturing on Jan 10, 2022.

Specifically, the 3.2% senior unsecured notes were priced at 103.319% of the principal amount (aggregating \$100 million), plus accrued interest from Jul 2, 2019 to yield 2.817% at maturity. The securities are due on Jan 15, 2030.

The debt obligations will pay semi-annual interest on Jan 15 and Jul 15, with the first interest payment scheduled for Jan 15, 2020. This issuance will be combined to form a single series with the \$300-million aggregate principal amount of senior unsecured issued on Jul 2, 2019. When the offering closes, principal amount of outstanding 2030 notes will total \$400 million.

Additionally, 3.1% senior unsecured notes were priced at 99.557% of the principal amount, aggregating to \$300 million. These notes will mature on Nov 1, 2034 and will also pay accrued interest from Oct 11, 2019 resulting in YTM of 3.137%. These securities too will pay semi-annual interest on May 1 and Nov 1 with the first payment on May 1, 2020.

The company intends to channelize net proceeds from the 2034 notes to fund green projects. Further, net proceeds from the 2034 notes and 2030 notes will be utilized to redeem outstanding 4.625% senior notes.

Along with this note offering, the company also announced plans to redeem all of its \$400-million principal amount of outstanding 4.625% senior unsecured notes. These notes have a maturity date of Jan 10, 2022.

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 will be paid on Jan 31, to shareholders on record as of Jan 10, 2020.

Valuation

UDR's shares are up 13.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 17.8% and 11.7%, over the past year, respectively.

The S&P 500 Index is up 23.8% over the past year.

The stock is currently trading at 21.45X forward 12-month FFO, which compares to 20.91X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X 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 19.90X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$50 price target reflects 22.60X FFO.

The table below shows summary valuation data for UDR.

Valuation Multiples - UDR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.45	20.91	14.73	19.2
	5-Year High	23.17	21.89	16.21	19.34
	5-Year Low	16.77	16.2	12.01	15.17

P/S F12M	5-Year Median	19.9	18.54	13.98	17.44
	Current	11.36	10.4	6.53	3.57
	5-Year High	12.52	10.76	6.61	3.57
	5-Year Low	8.51	7.42	5.2	2.54
	5-Year Median	10.02	8.86	6.04	3
P/B TTM	Current	4.31	2.89	2.86	4.55
	5-Year High	4.78	3.09	2.89	4.55
	5-Year Low	2.87	2.06	1.83	2.85
	5-Year Median	3.42	2.38	2.51	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



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	F	-	-	D	D	D
Market Cap	13.91 B	1.63 B	24.65 B	30.18 B	30.64 B	15.28 B
# of Analysts	10	5	13	9	11	8
Dividend Yield	2.89%	3.52%	1.73%	2.81%	2.75%	2.99%
Value Score	F	-	-	F	F	D
Cash/Price	0.06	0.03	0.04	0.01	0.00	0.00
EV/EBITDA	21.55	21.84	14.11	22.84	23.33	22.12
PEG Ratio	3.79	3.52	2.08	3.55	3.68	5.24
Price/Book (P/B)	4.31	2.48	3.39	2.79	2.95	2.45
Price/Cash Flow (P/CF)	19.94	18.15	13.81	18.26	20.26	21.52
P/E (F1)	21.47	19.25	19.19	21.97	22.78	20.42
Price/Sales (P/S)	12.47	7.05	2.69	13.69	11.47	9.42
Earnings Yield	4.66%	5.21%	5.21%	4.55%	4.39%	4.90%
Debt/Equity	1.22	0.92	0.72	0.69	0.87	0.72
Cash Flow (\$/share)	2.38	2.27	6.94	11.83	4.07	6.23
Growth Score	C	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	5.87%	3.96%	10.56%	4.40%	0.01%	4.03%
Proj. EPS Growth (F1/F0)	6.05%	5.99%	7.57%	5.64%	4.24%	0.85%
Curr. Cash Flow Growth	14.47%	8.69%	14.73%	10.46%	8.80%	-12.82%
Hist. Cash Flow Growth (3-5 yrs)	12.84%	21.31%	9.00%	21.78%	17.96%	26.71%
Current Ratio	5.99	1.04	1.24	0.89	0.13	0.08
Debt/Capital	60.49%	47.56%	42.99%	40.95%	47.69%	41.78%
Net Margin	15.20%	12.78%	11.14%	45.56%	29.88%	16.25%
Return on Equity	5.51%	4.39%	17.16%	9.35%	7.73%	3.84%
Sales/Assets	0.14	0.13	0.55	0.12	0.13	0.14
Proj. Sales Growth (F1/F0)	8.06%	6.40%	4.16%	5.30%	3.34%	3.84%
Momentum Score	F	-	-	A	C	A
Daily Price Chg	0.25%	0.17%	0.27%	0.55%	-0.01%	0.22%
1 Week Price Chg	-0.95%	0.17%	0.39%	-0.37%	0.57%	0.98%
4 Week Price Chg	2.75%	3.41%	2.95%	4.01%	2.66%	3.61%
12 Week Price Chg	-4.03%	-1.47%	7.76%	-1.89%	-5.80%	-1.59%
52 Week Price Chg	14.25%	19.63%	22.29%	17.85%	18.01%	33.99%
20 Day Average Volume	1,302,018	385,615	1,536,375	568,982	1,338,854	430,518
(F1) EPS Est 1 week change	-0.09%	0.00%	0.00%	-0.06%	0.00%	0.08%
(F1) EPS Est 4 week change	-0.09%	0.00%	0.00%	-0.06%	0.00%	0.08%
(F1) EPS Est 12 week change	0.64%	0.14%	-0.40%	0.22%	0.63%	1.14%
(Q1) EPS Est Mthly Chg	-0.20%	0.00%	0.00%	0.00%	0.00%	0.00%

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	F
Growth Score	C
Momentum Score	F
VGM Score	F

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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