

UDR Inc. (UDR)

\$38.94 (As of 04/17/20)

Price Target (6-12 Months): **\$41.00**

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: F

Growth: B

Momentum: B

Summary

UDR announced that it expects its first-quarter results to be in line with the previously-issued guidance. However, the company will address its full-year guidance during the first-quarter earnings conference call. The company has also apprised about its liquidity and debt position. UDR owns a vast portfolio of residential properties, located in the targeted U.S. markets, with a superior product mix. This enables the company to enjoy steady rental income. Favorable demographics and household formation are anticipated to spur demand for rental-housing units. But, new apartment deliveries are likely to remain high in the near-term, curtailing its pricing power. Also, there is likely to be an adverse impact on the rent-paying capability due to the coronavirus pandemic. Moreover, its shares have underperformed its industry over the past year.

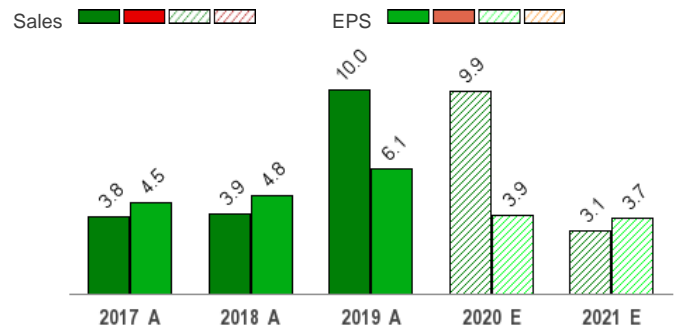
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.25 - \$29.20
20 Day Average Volume (sh)	2,595,415
Market Cap	\$11.5 B
YTD Price Change	-16.6%
Beta	0.70
Dividend / Div Yld	\$1.44 / 3.7%
Industry	REIT and Equity Trust - Residential
Zacks Industry Rank	Top 34% (86 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	18.6
P/E F1	18.0
PEG F1	3.2
P/S TTM	10.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	317 E	320 E	323 E	324 E	1,290 E
2020	310 E	312 E	315 E	315 E	1,251 E
2019	268 A	281 A	289 A	303 A	1,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.54 E	\$0.56 E	\$0.56 E	\$0.57 E	\$2.24 E
2020	\$0.54 E	\$0.54 E	\$0.54 E	\$0.54 E	\$2.16 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 04/17/2020. The reports text is as of 04/20/2020.

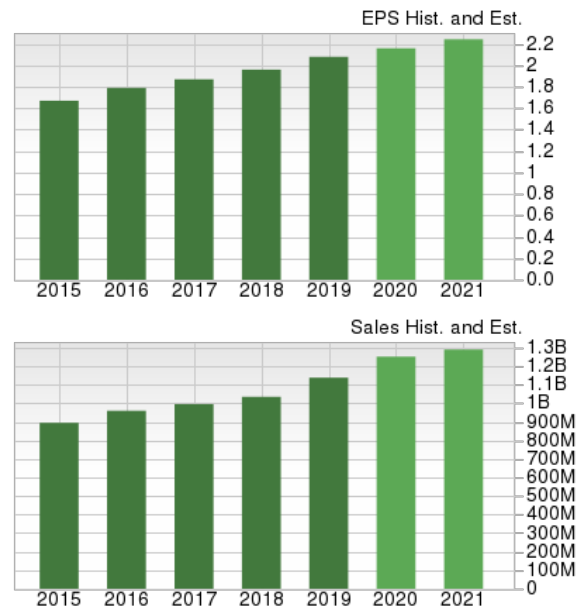
Overview

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 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. Particularly, given the current capital-market conditions and the uncertain environment in light of the coronavirus pandemic, UDR updated on its liquidity and debt position on Mar 26, 2020. The company said that it had a combined \$1.175-billion revolving credit facility and working capital credit facility, with roughly \$900 million in available capacity currently. Regarding its debt position, UDR noted that through 2022, just 2%, or \$105 million, of its consolidated debt outstanding is slated to mature. Supporting its balance-sheet strength, the company's unencumbered asset pool comprised 87.5% of total net operating income and as of Mar 25, 2020, the company had minimal external growth funding commitments with a development pipeline comprising less than 2% of enterprise value.
- ▲ Moreover, the company rewarded investors with a 5.1% annualized common dividend hike for 2020. For first-quarter 2020, the company will now pay 36 cents per share, higher than the prior dividend of 34.25 cents. This marks UDR's 190th consecutive quarterly dividend distribution on its common stock. 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. Also, the rent-paying capability of tenants is expected to be affected due to the coronavirus pandemic.
- ▼ 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.
- ▼ Shares of UDR have depreciated 10.5% over the past year compared with the industry's decline of 6.6%. 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 moved 1.4% downward over the past month. Hence, given the above-mentioned concerns and downward 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 Sees Q1 Results In Line With Prior View, Updates on Liquidity – Mar 26, 2020

UDR announced that it expects its first-quarter results to be in line with the previously-issued guidance. However, the company will address its full-year guidance during the first-quarter earnings conference call.

The move comes in the wake of the coronavirus outbreak wreaking havoc on the global economy, with the number of infected patients in the United States skyrocketing. The crisis has battered most industries, the residential REIT sector being no exception.

Moreover, UDR's measures include aligning of its operational policies with state and local regulations and this comprised eviction moratoriums in many markets. The company is making efforts in accommodating residents, commercial tenants and associates affected by the outbreak as required.

Given the current capital-market conditions and the uncertain environment, UDR has updated on its liquidity and debt position. The company said that it has a combined \$1.175-billion revolving credit facility and working capital credit facility, with roughly \$900 million in available capacity currently. While the revolving credit facility is scheduled to mature in 2023, there are options to extend the maturity to 2024.

Further, the company noted that with hard money deposits, it is under contract to vend two wholly-owned operating communities in Greater Seattle, WA, for \$142 million in aggregate and the transactions are expected to close during the second quarter, assuring about the company's liquidity position.

Regarding its debt position, UDR noted that through 2022, just 2%, or \$105 million, of its consolidated debt outstanding is slated to mature. The figure, however, excludes commercial paper and amounts due under its \$75-million working capital credit facility. Supporting its balance-sheet strength, the company's unencumbered asset pool comprises 87.5% of total net operating income and as of Mar 25, 2020, the company has minimal external growth funding commitments with a development pipeline comprising less than 2% of enterprise value.

In addition to the above-mentioned financial updates, UDR announced certain additional steps to deal with this pandemic. These include practicing "social distancing" through reduction of on-site-leasing office staff, closure of leasing offices to only UDR Associates, closing all amenity spaces and several others. The company's Next Generation Operating Platform also helped shift all property/home tours to virtual.

UDR Rewards Investors With 5.1% Hike in Common Stock Dividend – Mar 19, 2020

UDR rewarded investors with a 5.1% annualized common dividend increase for 2020. For first-quarter 2020, the company will now pay 36 cents per share, higher than the prior dividend of 34.25 cents. This marks UDR's 190th consecutive quarterly dividend distribution on its common stock.

Based on the hiked rate of 36 cents for the quarter, the annual dividend comes to \$1.44 per share. This new dividend will be paid on Apr 30, to shareholders of record on Apr 10, 2020. At this new rate, annualized yield comes at roughly 4.27%, based on the stock's closing price of \$33.76 on Mar 19.

Valuation

UDR's shares are down 10.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 6.6% and 19.8% over the past year.

The S&P 500 Index is down 1.7% over the past year.

The stock is currently trading at 17.83X forward 12-month FFO, which compares to 17.52X for the Zacks sub-industry, 13.96X for the Zacks sector and 19.53X 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 19.91X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 18.77X FFO.

The table below shows summary valuation data for UDR.

Valuation Multiples - UDR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.83	17.52	13.96	19.53
	5-Year High	23.17	22.36	16.16	19.53
	5-Year Low	13.57	15.54	11.2	15.19
	5-Year Median	19.91	18.47	13.92	17.45
P/S F12M	Current	9.09	9.43	4.93	3.2
	5-Year High	12.52	12.16	6.64	3.44
	5-Year Low	6.97	7.42	4.93	2.54
	5-Year Median	10.03	9.25	6.01	3.01
P/B TTM	Current	3.43	2.49	2.1	3.8
	5-Year High	4.78	3.28	2.9	4.55
	5-Year Low	2.63	1.81	1.71	2.84
	5-Year Median	3.45	2.41	2.52	3.64

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 253)



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	C	-	-	F	D	D
Market Cap	11.48 B	1.24 B	19.60 B	23.98 B	25.96 B	12.97 B
# of Analysts	10	5	14	10	12	8
Dividend Yield	3.70%	4.34%	2.17%	3.73%	3.45%	3.52%
Value Score	F	-	-	F	F	F
Cash/Price	0.05	0.03	0.06	0.01	0.00	0.01
EV/EBITDA	17.70	15.86	11.73	20.92	15.70	16.50
PEG Ratio	3.09	3.54	2.19	3.92	3.66	4.56
Price/Book (P/B)	3.41	1.55	2.67	2.17	2.47	2.06
Price/Cash Flow (P/CF)	16.47	12.44	10.55	16.05	13.95	15.10
P/E (F1)	17.50	14.89	18.18	18.12	19.91	17.79
Price/Sales (P/S)	9.97	5.30	2.08	10.81	9.61	7.90
Earnings Yield	5.55%	6.72%	5.38%	5.52%	5.03%	5.62%
Debt/Equity	1.41	1.02	0.70	0.68	0.86	0.71
Cash Flow (\$/share)	2.36	2.46	7.01	10.61	5.00	7.52
Growth Score	B	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	5.67%	3.64%	10.92%	4.05%	0.29%	3.64%
Proj. EPS Growth (F1/F0)	3.80%	3.50%	-3.36%	0.67%	0.45%	-2.61%
Curr. Cash Flow Growth	8.47%	8.85%	5.93%	-9.39%	23.84%	20.94%
Hist. Cash Flow Growth (3-5 yrs)	5.98%	17.18%	8.55%	6.67%	5.74%	15.27%
Current Ratio	4.71	1.04	1.24	0.40	0.28	0.15
Debt/Capital	58.14%	47.73%	42.78%	40.37%	47.40%	41.46%
Net Margin	16.08%	14.18%	11.64%	35.42%	35.93%	21.50%
Return on Equity	5.81%	5.81%	16.74%	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)	9.69%	5.09%	-0.14%	8.38%	1.30%	3.17%
Momentum Score	B	-	-	F	F	F
Daily Price Chg	6.31%	4.22%	4.04%	5.66%	6.99%	4.79%
1 Week Price Chg	30.04%	24.81%	16.01%	26.58%	27.94%	23.69%
4 Week Price Chg	15.34%	14.99%	18.93%	16.24%	15.15%	14.10%
12 Week Price Chg	-19.18%	-27.24%	-19.39%	-22.02%	-16.00%	-16.80%
52 Week Price Chg	-11.96%	-13.14%	-11.34%	-13.14%	-7.03%	6.51%
20 Day Average Volume	2,595,415	895,834	3,220,598	1,442,074	2,926,559	1,167,392
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.60%	-1.60%	-7.09%	-1.48%	-1.69%	-1.69%
(F1) EPS Est 12 week change	-2.22%	-2.30%	-9.32%	-2.17%	-1.64%	-2.42%
(Q1) EPS Est Mthly Chg	-1.81%	-1.01%	-10.68%	-2.06%	-1.73%	-2.48%

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	B
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

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