



Equity Residential (EQR)

Updated February 22nd, 2019 by Samuel Smith

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	3.1%	Volatility Percentile:	18.6%
Fair Value Price:	\$63	5 Year Growth Estimate:	3.5%	Momentum Percentile:	94.3%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.3%	Growth Percentile:	18.6%
Dividend Yield:	2.9%	5 Year Price Target	\$75	Valuation Percentile:	25.9%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	11.9%

Overview & Current Events

Equity Residential (EQR) is a \$27.5 billion multifamily REIT that owns a portfolio of 303 apartment communities with over 78,300 units and is developing 3 additional properties with 443 units. The company's strategy consists of owning large, high-quality properties in the urban and suburban submarkets of Southern California, San Francisco, Washington, D.C., New York, Seattle, and Boston. It was formed 50 years ago (1969) as a property management partnership between two individuals and has grown into a large multifamily equity business today.

EQR reported solid Q4 results, FY18 results, and FY19 guidance on 1/29/19. Core portfolio occupancy remained unchanged at 96.2% while FFO and NOI growth came in at 1.2% and 1.9% respectively for the quarter. This fairly lethargic growth rate was due to payroll and repair expenses surging by 8% during the quarter, illustrating the negative impacts of inflation on the company's margins. Management expects the strength on the West Coast and developments/acquisitions to bolster that rate slightly in 2019, guiding for NOI growth of 2.25% at mid-point, while expense growth should only rise 4%. EQR's normalized FFO/share growth is expected to be 4.3%, showing that they expect strong rental growth and accretive acquisitions to boost growth from the 2018 FY FFO/share growth rate of 3.8%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO	\$2.41	\$2.41	\$2.58	\$2.76	\$2.99	\$3.17	\$3.46	\$3.09	\$3.13	\$3.25	\$3.39	\$4.03
DPS	\$1.64	\$1.47	\$1.58	\$1.78	\$1.85	\$2.00	\$2.21	\$2.02	\$2.02	\$2.16	\$2.16	\$2.63
Shares	274	283	295	320	354	378	381	382	383	384	384	387

Over the past decade, EQR has generated a solid ~3.4% Core FFO/share growth rate. This is even more impressive when you consider that the company downsized and deleveraged which led to a decline in FFO/share between 2015 and 2016. Since the deleveraging, the growth rate has gradually accelerated, coming in at just over 1% in 2017, 3.8% in 2018, and is forecast to be 4.3% this year. This shows that the company continues to deploy capital effectively while manage its costs, despite rising margin pressures from inflation and plenty of competing new supply hitting key markets. These positive trends are due to the fact that when the company downsized several years ago, it sold out of its inland markets that have very low barriers to entry in order to concentrate on coastal markets which possess greater development challenges due to regulatory and land restrictions. Additionally, these coastal markets have strong economic fundamentals thanks to strong jobs growth in high-paying sectors. At the same time, the multifamily cycle is a bit long in the tooth and cap rate spreads are increasingly compressed due to inflation and rising interest rates. As a result, we are projecting a 3.5% growth rate over the next five years. We expect the dividend to slightly outgrow FFO/share during this time span due to the low 65% payout ratio and management's trend for doing so in recent years as well. As a result, we think the dividend will grow at about a 4% clip.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	14.1	21.7	22.4	20.8	17.3	22.8	23.3	21.0	20.4	20.1	21.8	18.5
Avg. Yld.	4.3%	3.2%	2.2%	3.1%	3.2%	3.9%	3.1%	2.5%	3.1%	3.4%	2.9%	3.5%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Equity Residential (EQR)

Updated February 22nd, 2019 by Samuel Smith

The recent valuation multiple has hovered around 20x FFO/share and the dividend yield has ranged between 2.5% and 3.9%. However, due to the aforementioned flattening growth trend that we project for EQR, the stock will warrant a lower valuation multiple and a higher dividend yield. Therefore, we expect a fairly steep contraction in the valuation multiple towards 18.5x FFO. This number is not without precedent either as it fell to ~17x FFO back in 2013 during a general period of public market weakness in the multifamily sector.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	68.0%	61.0%	61.2%	64.5%	61.9%	63.1%	63.9%	65.4%	64.5%	66.5%	63.7%	65.3%

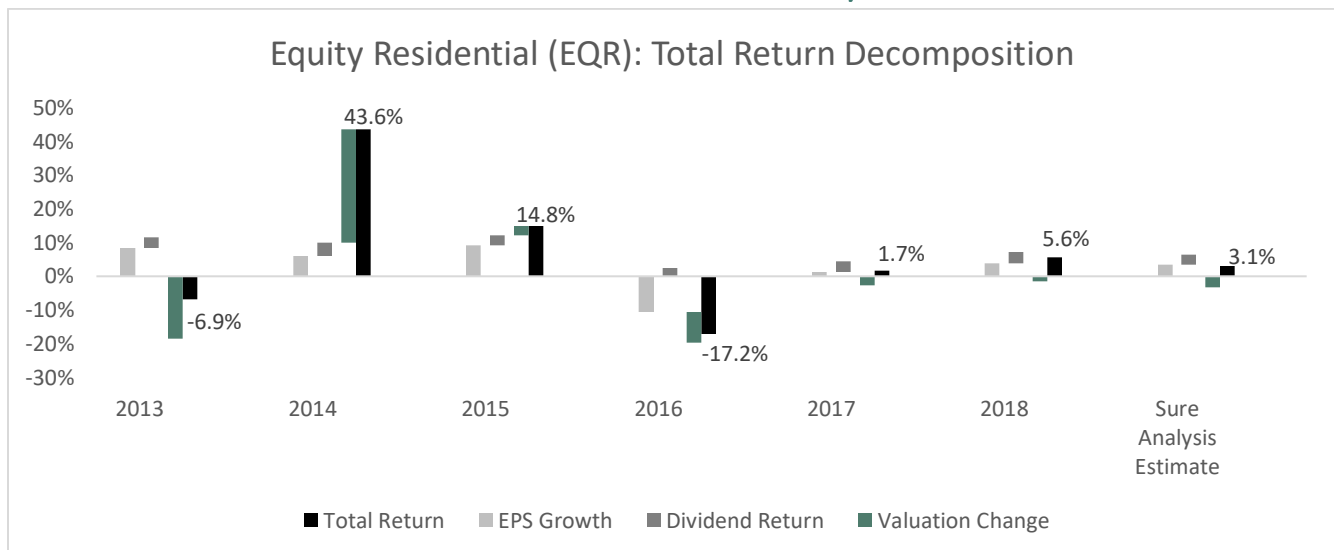
EQR experienced a lot of market volatility during the stock market crash but rebounded quickly from the Great Recession due to the defensive nature of the multifamily sector. However, it still experienced a sizable decline in FFO/share and a dividend cut during the recession. While multifamily apartments lack a strong competitive advantage due to the ease of creating new supply as well as the alternative sources of affordable housing in the large metropolitan areas in which EQR operates, the REIT does have the advantage of scale, low cost of capital, operational and marketing expertise, and a brand name advantage in markets that benefit from higher than average barriers to entry. A risk during a recession will be that the company's properties are mostly "A" quality which tend to outperform during economic expansions, but underperform during contractions.

The company's balance sheet is also very strong, as its sector-leading A- credit rating makes clear. After issuing \$400 million of 10-year unsecured notes at a coupon of 4.15%, executing an accretive capital recycling program, and carrying a mid-60% payout ratio, EQR has plenty of resources to invest in its growth projects and sustain the dividend during a downturn while also reacting opportunistically to opportunities that may become available.

Final Thoughts & Recommendation

EQR has an strong track record and a stellar balance sheet. That being said, its dividend yield is low and its growth potential remains limited. While it has carved out a competitive position for itself in a few strong markets, without a strong moat protecting its earnings power and the economy appearing poised for a general slowdown, EQR appears overpriced at this time and likely to deliver underwhelming total returns over the next several years, making it a sell.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Equity Residential (EQR)

Updated February 22nd, 2019 by Samuel Smith

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1640	1675	1525	1748	2388	2615	2745	2426	2471	2578
Gross Profit	1001	1015	956	1122	1553	1731	1840	1620	1645	1699
Gross Margin	61.1%	60.6%	62.7%	64.2%	65.1%	66.2%	67.0%	66.8%	66.6%	65.9%
SG&A Exp.	39	40	44	47	62	51	65	58	52	54
D&A Exp.	600	673	664	685	1013	759	766	706	744	786
Operating Profit	444	394	407	514	512	922	1009	856	849	859
Operating Margin	27.1%	23.5%	26.7%	29.4%	21.5%	35.2%	36.8%	35.3%	34.4%	33.3%
Net Profit	362	284	894	842	1831	631	870	4292	603	658
Net Margin	22.1%	16.9%	58.6%	48.2%	76.7%	24.1%	31.7%	177%	24.4%	25.5%
Free Cash Flow	4	723	793	885	729	1133	1171	1036	1062	1163
Income Tax	3	0	1	1	1	1	1	2	0	1

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	15418	16184	16659	17201	22835	22951	23110	20704	20571	20394
Cash & Equivalents	193	431	384	613	54	40	42	77	51	47
Total Liabilities	9985	10592	10796	9674	11989	12243	12414	10243	10097	9995
Accounts Payable	59	39	35	38	119	154	187	147	115	102
Long-Term Debt	9393	9948	9721	8529	10766	10845	10921	8987	8957	8818
Total Equity	4839	4890	5469	7240	10457	10318	10433	10192	10205	10136
D/E Ratio	1.86	1.95	1.71	1.17	1.02	1.05	1.04	0.88	0.87	0.87

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.3%	1.8%	5.4%	5.0%	9.1%	2.8%	3.8%	19.6%	2.9%	3.2%
Return on Equity	7.6%	5.8%	17.3%	13.2%	20.7%	6.1%	8.4%	41.6%	5.9%	6.5%
ROIC	2.4%	1.9%	5.7%	5.3%	9.7%	2.9%	4.0%	20.9%	3.1%	3.4%
Shares Out.	274	283	295	320	354	378	381	382	383	384
Revenue/Share	5.99	5.92	5.17	5.46	6.74	6.92	7.21	6.35	6.46	6.72
FCF/Share	0.01	2.56	2.69	2.77	2.06	3.00	3.08	2.71	2.77	3.03

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.