Equity Residential (EQR)

Updated November 10th, 2022 by Samuel Smith

Key Metrics

Current Price:	$63.9	**5 Year CAGR Estimate:**	12.2%	**Market Cap:**	$24 B
Fair Value Price:	$77.7	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/23/2022[1]
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.0%	**Dividend Payment Date:**	01/14/2023[2]
Dividend Yield:	3.9%	**5 Year Price Target**	$99	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Equity Residential is one of the largest U.S. publicly-traded owners and operators of high-quality rental apartment properties with a portfolio primarily located in urban and dense suburban communities. The trust's properties are located in affluent areas around Boston, New York, Washington, D.C., Southern California, San Francisco, Seattle, and Denver. Equity Residential generates around $2.5 billion in annual revenues and is headquartered in Chicago, Illinois.

On October 25th, 2022 Equity Residential reported an 11.8% increase in same store revenue for the third quarter of 2022 compared to the same period of 2021, driven by healthy demand during the primary leasing season. Moderate same store expense growth of 3.5% continued to be driven by favorable real estate tax and payroll expenses. The company now expects its full year 2022 same store revenue growth to be approximately 10.6%. EQR sold two properties during the quarter for a total sale price of $480.5 million and used the proceeds to pay down $500.0 million in debt due in 2023.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	$3.28	$2.46	$3.15	$3.64	$3.09	$3.28	$3.27	$3.53	$3.33	$2.99	***$3.53***	***$4.50***
DPS	$1.78	$1.85	$2.00	$2.21	$10.02[3]	$2.02	$2.16	$2.27	$2.15	$2.41	***$2.50***	***$3.20***
Shares[4]	325.5	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	***377.9***	***380.0***

Equity residential properties are located in some of America's most affluent markets, which results in relatively robust rental collections due to the high quality of the trust's tenants. Additionally, these locations have consistently seen increasing pricing trends. We forecast FFO/share CAGR of 5.0% in the medium-term, following the strong rebound in residential occupancy and overall pricing. The trust had slashed its dividend back in the great financial crisis.

In 2016, the base rate dividend was "cut" again due to the trust divesting some of its non-core assets and paying shareholders a massive dividend with the proceeds. Since then, the dividend has grown annually before suffering a slight cut in 2020 due to uncertainty surrounding COVID-19. Moving forward, we expect solid dividend per share growth to resume.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	18.3	24.4	20	20.6	21.7	19.8	19.3	23.8	16.8	29.5	***18.1***	***22.0***
Avg. Yld.	3.0%	3.1%	3.2%	2.9%	19.4%	3.1%	3.4%	2.7%	4.3%	2.8%	***3.9%***	***3.2%***

Due to the stable performance of Equity Residential over the past decade, its shares have traded at a consistent valuation multiple around 20 times the underlying FFO. While the trust's performance has recovered in the wake of

---

[1] Estimated dates based on past dividend dates

[2] Estimated dates based on past dividend dates

[3] Includes $8.00 of special dividends amid sale of non-core assets.

[4] Share count is in millions.

Equity Residential (EQR)

Updated November 10th, 2022 by Samuel Smith

COVID-19, the stock price remains somewhat undervalued, trading at 18.1 times its forward FFO. As a result, we expect some valuation multiple expansion over the next half decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	54%	75%	63%	61%	-	62%	66%	64%	65%	81%	***71%***	***71%***

Considering that the trust had cut its dividend during the Great Financial Crisis, the fact that its payout ratio approaches higher levels than its historical ones, and the trust not increasing its DPS moving into 2021 as it usually does, the dividend cannot be blindly trusted. On the other hand, the trust enjoys several qualities, such as having its properties located in an attractive job market, translating into strong pricing. The trust has also showcased average rental collections of 97% throughout the pandemic. Still, its financials have yet to fully recover to their pre-COVID levels, as the trust was forced to reduce its rents to maintain said high occupancy.

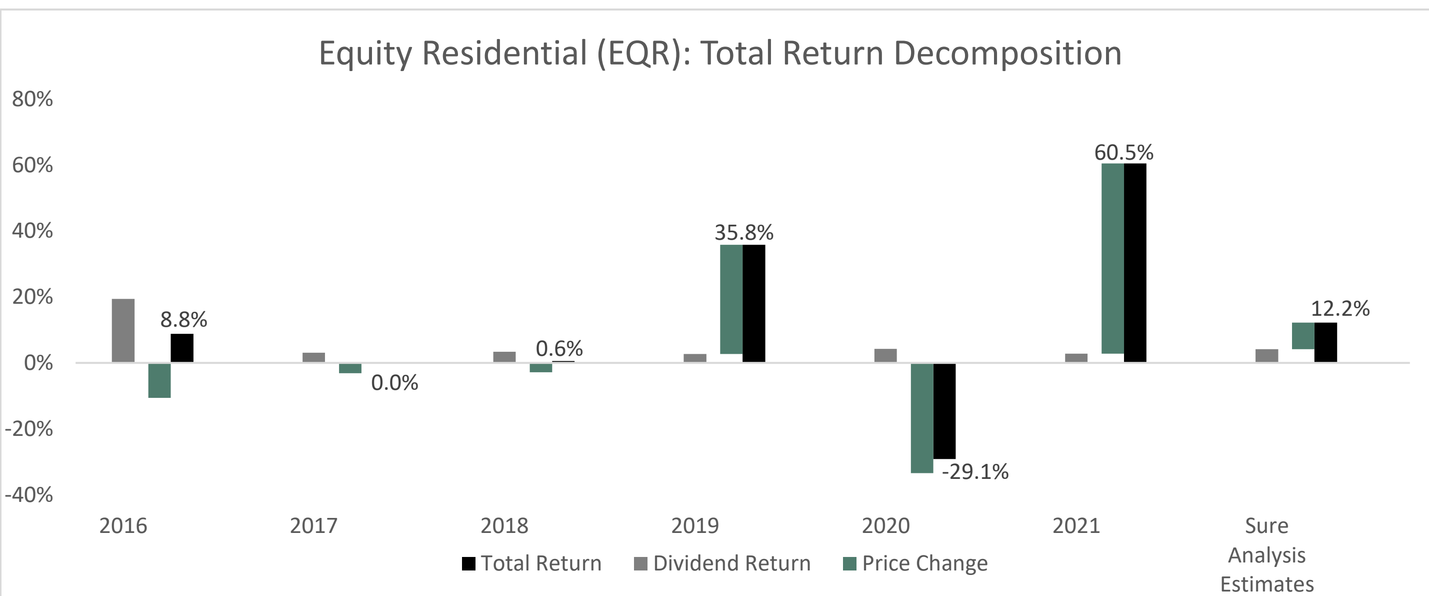
Overall, the trust operates in a highly competitive market. However, management's proven expertise should partially offset this risk. A prolonged recession in which individuals see their salaries declining could easily damage the trust's performance following reduced rents, poor rental collections, and possible move-outs to cheaper areas.

Final Thoughts & Recommendation

Equity Residential has produced strong returns over the years and its multifamily real estate portfolio is high quality and well-managed.

Overall, we expect annualized returns of around 12.2% in the medium-term, powered by our estimated growth, valuation multiple expansion, and the 3.9% dividend yield.

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 November 10th, 2022 by Samuel Smith

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,748	2,388	2,615	2,745	2,426	2,471	2,578	2,701	2,572	2,464
Gross Profit	1,122	1,553	1,731	1,840	1,620	1,645	1,698	1,792	1,655	1,515
Gross Margin	64.2%	65.1%	66.2%	67.0%	66.8%	66.6%	65.9%	66.4%	64.4%	61.5%
SG&A Exp.	47	62	51	65	58	52	54	53	48	57
D&A Exp.	685	1,014	762	769	709	748	790	843	832	851
Operating Profit	514	512	922	1,009	856	849	859	909	786	620
Operating Margin	29.4%	21.5%	35.2%	36.8%	35.3%	34.4%	33.3%	33.6%	30.6%	25.2%
Net Profit	842	1,831	631	870	4,292	603	658	970	914	1,333
Net Margin	48.2%	76.7%	24.1%	31.7%	177%	24.4%	25.5%	35.9%	35.5%	54.1%
Free Cash Flow	885	729	1,133	1,171	1,036	1,062	1,163	1,274	1,109	1,107
Income Tax	1	1	1	1	2	0	1	(2)	1	1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	17,201	22,835	22,951	23,110	20,704	20,571	20,394	21,173	20,287	21,169
Cash & Equivalents	613	54	40	42	77	51	47	46	43	124
Total Liabilities	9,674	11,989	12,243	12,414	10,243	10,097	9,995	10,628	9,523	9,982
Accounts Payable	38	119	154	187	147	115	102	94	107	107
Long-Term Debt	8,529	10,766	10,845	10,921	8,987	8,957	8,818	9,037	8,044	8,341
Shareholder’s Equity	7,240	10,457	10,318	10,433	10,192	10,205	10,136	10,278	10,488	10,918
LTD/E Ratio	1.17	1.02	1.05	1.04	0.88	0.87	0.87	0.88	0.76	0.76

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.0%	9.1%	2.8%	3.8%	19.6%	2.9%	3.2%	4.7%	4.4%	6.4%
Return on Equity	13.2%	20.7%	6.1%	8.4%	41.6%	5.9%	6.5%	9.5%	8.8%	12.5%
ROIC	5.3%	9.7%	2.9%	4.0%	20.9%	3.1%	3.4%	5.0%	4.8%	7.0%
Shares Out.	325.5	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9
Revenue/Share	5.46	6.74	6.92	7.21	6.35	6.46	6.72	6.99	6.66	6.35
FCF/Share	2.77	2.06	3.00	3.08	2.71	2.77	3.03	3.30	2.88	2.85

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