



Essex Property Trust Inc. (ESS)

Updated February 9th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$235	5 Year CAGR Estimate:	10.5%	Market Cap:	\$15.4 B
Fair Value Price:	\$271	5 Year Growth Estimate:	4.4%	Ex-Dividend Date:	03/30/23 ¹
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	04/13/23 ²
Dividend Yield:	3.7%	5 Year Price Target	\$336	Years Of Dividend Growth:	28
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Essex Property Trust Inc. (ESS) was founded in 1971 and became a publicly traded real estate investment trust (REIT) in 1994. The trust invests in west coast multifamily residential properties where it engages in development, redevelopment, management and acquisition of apartment communities and a few other select properties. Essex has ownership interests in several hundred apartment communities consisting of over 60,000 apartment homes. The trust has about 1,800 employees and produces approximately \$1.7 billion in annual revenue.

On February 7th, 2023 Essex announced its fourth quarter and full-year 2022 earnings results. Q4 FFO of \$3.77 beat analyst estimates by \$0.04. The trust achieved same-property revenue and net operating income growth of 10.5% and 13.3%, respectively, compared to the fourth quarter of 2021. As of February 6, 2023, the Company had approximately \$1.3 billion in liquidity via undrawn capacity on its unsecured credit facilities, cash, and marketable securities.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$7.59	\$7.89	\$9.72	\$11.04	\$11.91	\$12.57	\$13.38	\$12.82	\$12.49	\$14.51	\$15.08	\$18.66
DPS	\$4.84	\$5.11	\$5.76	\$6.40	\$7.00	\$7.44	\$7.80	\$8.31	\$7.48	\$8.80	\$8.80	\$11.32
Shares³	38.6	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.2	64.7	64.7	66.0

Essex Property Trust has achieved impressive growth for several decades on the back of the strong west coast property market, but growth has been slowing in the past few years. Like many REITs, the trust historically has issued new shares to fund rapid growth. In 2014, the trust merged with BRE Properties, which drastically increased the trust's size and shares outstanding. Since then, the trust's rate of growth has slowed, and they have maintained a more static number of shares outstanding. Consensus analyst expectations prior to the COVID-19 outbreak were for mid-single digit growth in FFO per share between in the coming years. We estimate mid-single-digit growth over the next half decade, following the recent trend of slowing growth and because several major west coast cities have seen a recent dip or flattening out of property values, which could put pressure on rent prices.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	20.4	23.1	23.1	19.4	20.5	18.9	22.1	19.8	27.5	14.9	15.6	18.0
Avg. Yld.	3.1%	2.8%	2.6%	3.0%	2.9%	3.1%	2.6%	3.3%	2.4%	4.1%	3.7%	3.4%

Essex Property Trust currently trades for 15.6x FFO, which is below its recent historical average. As a result, we expect multiple expansion in the coming years to provide a meaningful tailwind to total returns. While we expect the dividend

¹ Estimate

² Estimate

³ Share count is in millions.

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.



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to continue growing, the yield will likely decline a little bit moving forward as interest rates normalize and the valuation multiple expands.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	64%	65%	59%	58%	59%	59%	58%	65%	60%	61%	58%	61%

Essex Property Trust is a high-quality apartment REIT that has raised its dividend for 28 consecutive years from the time it first became a publicly traded trust. Real estate has a natural moat and Essex's exposure to high-value cities with strong technology cultures further widens that moat. However, apartments generally have a more elastic supply than single family homes, which offsets some of that protection. This was shown during the previous recession, when the trust's FFO fell, but not by an extreme amount, and Essex was able to continue raising its dividend.

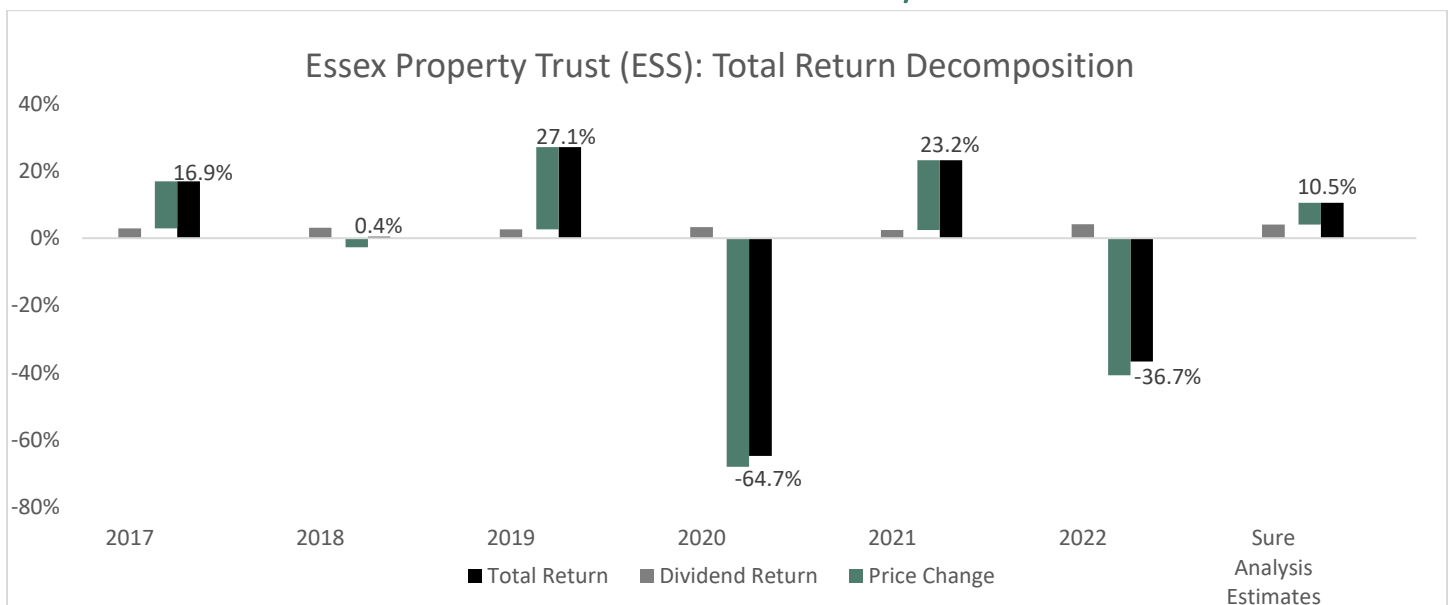
The trust has a solid BBB+ credit rating and currently has a very healthy interest coverage ratio and Net debt to adjusted EBITDA ratio. Like many real estate businesses, Essex Property Trust uses a substantial but fair amount of leverage and maintains a relatively safe balance sheet. Its weighted average interest rate is quite low, reflecting the trust's strong credit metrics.

Final Thoughts & Recommendation

Essex Property Trust has been a strong outperformer in terms of total returns since it went public in 1994 due to a combination of good management and a tailwind from the fast-growing west coast property market on the back of a strong technology industry in the region. However, property values in popular west coast cities are now some of the highest in the country and are showing some signs of peaking, or at least slowing growth. The growth rate of Essex Property Trust has been slowing lately, and the trust has at least moderate downside risk as the country is grappling with runaway inflation.

With 10.5% expected annualized total returns over the next half decade, we rate shares as a Buy. Essex Property Trust remains a very high-quality REIT and offers conservative dividend growth investors a solid yield, impressive dividend growth track record, strong balance sheet, and sustainable payout ratio.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	611	971	1,194	1,294	1,364	1,400	1,460	1,496	1,441	1,607
Gross Profit	413	658	831	905	958	984	1,030	1,021	959	1,099
Gross Margin	67.7%	67.8%	69.6%	69.9%	70.3%	70.3%	70.5%	68.2%	66.6%	68.4%
SG&A Exp.	27	41	40	41	41	53	54	65	52	57
D&A Exp.	194	361	453	442	469	480	484	525	520	
Operating Profit	194	257	337	423	448	450	492	430	387	503
Operating Margin	31.8%	26.5%	28.2%	32.7%	32.9%	32.2%	33.7%	28.7%	26.9%	31.3%
Net Profit	156	122	232	415	433	390	439	569	489	408
Net Margin	25.6%	12.6%	19.4%	32.1%	31.8%	27.9%	30.1%	38.0%	33.9%	25.4%
Free Cash Flow	248	414	561	652	697	745	817	713	784	

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5187	11527	12008	12217	12496	12384	12705	12936	12998	12373
Cash & Equivalents	18	26	30	65	45	134	70	74	48	43
Total Liabilities	3,184	5,367	5,626	5,880	6,060	5,954	6,264	6,721	6,787	
Accounts Payable	67	135	131	138	128	127	158	153	181	
Long-Term Debt	3,034	5,081	5,319	5,563	5,689	5,606	5,809	6,252	6,287	6,451
Shareholder's Equity	1,811	5,949	6,164	6,192	6,277	6,267	6,220	6,000	5,994	
LTD/E Ratio	1.61	0.84	0.85	0.90	0.91	0.89	0.93	1.04	1.05	5,958

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.1%	1.5%	2.0%	3.4%	3.5%	3.1%	3.5%	4.4%	3.8%	3.2%
Return on Equity	8.9%	3.1%	3.8%	6.7%	6.9%	6.2%	7.0%	9.3%	8.1%	7.0%
ROIC	3.2%	1.5%	2.0%	3.5%	3.6%	3.2%	3.6%	4.6%	3.9%	3.3%
Shares Out.	38.6	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.2	64.7
Revenue/Share	16.35	17.13	18.36	19.73	20.70	21.19	22.14	22.81	22.13	24.68
FCF/Share	6.64	7.31	8.62	9.94	10.57	11.27	12.40	10.88	12.05	3.2%

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

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