



# Essex Property Trust Inc. (ESS)

Updated May 13<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$215	<b>5 Year CAGR Estimate:</b>	12.5%	<b>Market Cap:</b>	\$13.9 B
<b>Fair Value Price:</b>	\$271	<b>5 Year Growth Estimate:</b>	4.4%	<b>Ex-Dividend Date:</b>	06/30/23 <sup>1</sup>
<b>% Fair Value:</b>	79%	<b>5 Year Valuation Multiple Estimate:</b>	4.8%	<b>Dividend Payment Date:</b>	07/14/23 <sup>2</sup>
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$336	<b>Years Of Dividend Growth:</b>	29
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 April 27th, 2023 Essex announced its first quarter earnings results. The company reported Funds From Operations (FFO) of \$3.65 per share, surpassing expectations by \$0.04. They achieved strong same-property revenue and net operating income (NOI) growth of 7.6% and 9.2%, respectively, compared to the first quarter of the previous year. The company increased its dividend by 5.0%, resulting in an annual distribution of \$9.24 per common share. This marks the 29th consecutive annual increase in dividends.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO</b>	\$7.59	\$7.89	\$9.72	\$11.04	\$11.91	\$12.57	\$13.38	\$12.82	\$12.49	\$14.51	<b>\$15.08</b>	<b>\$18.66</b>
<b>DPS</b>	\$4.84	\$5.11	\$5.76	\$6.40	\$7.00	\$7.44	\$7.80	\$8.31	\$7.48	\$8.80	<b>\$9.24</b>	<b>\$11.32</b>
<b>Shares<sup>3</sup></b>	38.6	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	<b>64.2</b>	<b>66.0</b>

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
<b>Avg. P/FFO</b>	20.4	23.1	23.1	19.4	20.5	18.9	22.1	19.8	27.5	14.9	<b>14.3</b>	<b>18.0</b>
<b>Avg. Yld.</b>	3.1%	2.8%	2.6%	3.0%	2.9%	3.1%	2.6%	3.3%	2.4%	4.1%	<b>4.3%</b>	<b>3.4%</b>

Essex Property Trust currently trades for 14.3x 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

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> Share count is in millions.

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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%	<b>61%</b>	<b>61%</b>

Essex Property Trust is a high-quality apartment REIT that has raised its dividend for 29 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.

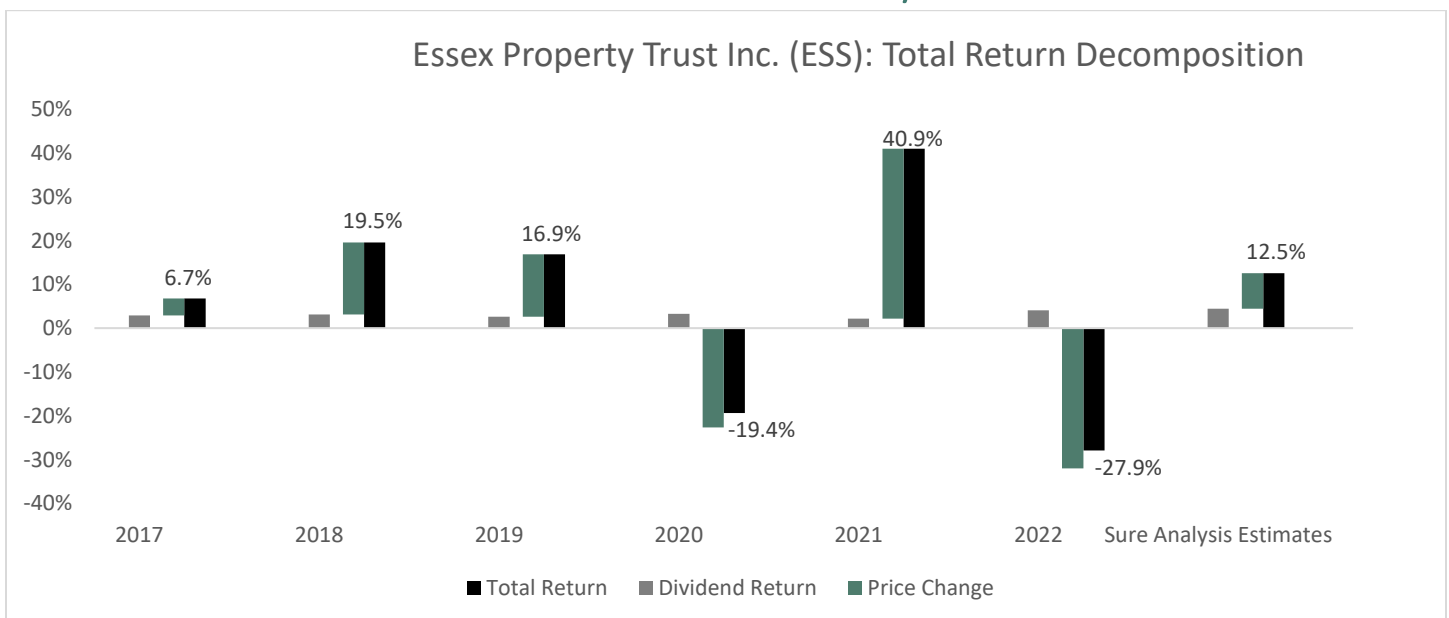
The trust has a solid BBB+ credit rating and currently has a very healthy interest coverage ratio and Net debt to adjusted EBITDA ratio. Like many real estate businesses, Essex Property Trust uses a substantial but fair amount of leverage and maintains a relatively safe balance sheet. Its weighted average 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 high inflation.

With 12.5% 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
<b>Revenue</b>	611	971	1,194	1,294	1,364	1,400	1,460	1,496	1,441	1,607
<b>Gross Profit</b>	413	658	831	905	958	984	1,030	1,021	959	1,099
<b>Gross Margin</b>	67.7%	67.8%	69.6%	69.9%	70.3%	70.3%	70.5%	68.2%	66.6%	68.4%
<b>SG&amp;A Exp.</b>	27	41	40	41	41	53	54	65	52	57
<b>D&amp;A Exp.</b>	194	361	453	442	469	480	484	525	520	
<b>Operating Profit</b>	194	257	337	423	448	450	492	430	387	503
<b>Operating Margin</b>	31.8%	26.5%	28.2%	32.7%	32.9%	32.2%	33.7%	28.7%	26.9%	31.3%
<b>Net Profit</b>	156	122	232	415	433	390	439	569	489	408
<b>Net Margin</b>	25.6%	12.6%	19.4%	32.1%	31.8%	27.9%	30.1%	38.0%	33.9%	25.4%
<b>Free Cash Flow</b>	248	414	561	652	697	745	817	713	784	

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	5187	11527	12008	12217	12496	12384	12705	12936	12998	12373
<b>Cash &amp; Equivalents</b>	18	26	30	65	45	134	70	74	48	43
<b>Total Liabilities</b>	3,184	5,367	5,626	5,880	6,060	5,954	6,264	6,721	6,787	
<b>Accounts Payable</b>	67	135	131	138	128	127	158	153	181	
<b>Long-Term Debt</b>	3,034	5,081	5,319	5,563	5,689	5,606	5,809	6,252	6,287	6,451
<b>Shareholder's Equity</b>	1,811	5,949	6,164	6,192	6,277	6,267	6,220	6,000	5,994	
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	3.1%	1.5%	2.0%	3.4%	3.5%	3.1%	3.5%	4.4%	3.8%	3.2%
<b>Return on Equity</b>	8.9%	3.1%	3.8%	6.7%	6.9%	6.2%	7.0%	9.3%	8.1%	7.0%
<b>ROIC</b>	3.2%	1.5%	2.0%	3.5%	3.6%	3.2%	3.6%	4.6%	3.9%	3.3%
<b>Shares Out.</b>	38.6	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.2	64.7
<b>Revenue/Share</b>	16.35	17.13	18.36	19.73	20.70	21.19	22.14	22.81	22.13	24.68
<b>FCF/Share</b>	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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