



# UDR, Inc. (UDR)

Updated April 30<sup>th</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$41	<b>5 Year CAGR Estimate:</b>	11.2%	<b>Market Cap:</b>	\$14.5 B
<b>Fair Value Price:</b>	\$47	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	04/07/2023
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.8%	<b>Dividend Payment Date<sup>2</sup>:</b>	05/01/2023
<b>Dividend Yield:</b>	4.1%	<b>5 Year Price Target:</b>	\$61	<b>Years of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## Overview & Current Events

UDR, Inc., also known as United Dominion Realty Trust, is a luxury apartment REIT. The trust owns, operates, acquires, renovates, and develops multifamily apartment communities in high barrier-to-entry markets in the US. A high barrier-to-entry market consists of limited land for new construction, complicated entitlement processes, low single-family home affordability and strong employment growth potential. The majority of UDR's real estate property value is established in Washington D.C., New York City, Orange County, California, and San Francisco. UDR was formed in 1972 as a Virginia corporation, and today is headquartered in Denver, Colorado. The trust employs roughly 1,200 full-time associates. As of March 31<sup>st</sup>, 2023, UDR owned or had an ownership interest in 58,411 apartment homes, 415 of which are homes under development.

On February 6<sup>th</sup>, 2023, UDR announced its intention to declare a \$0.42 quarterly dividend, which represents a 10.5% increase and marks the company's 12<sup>th</sup> consecutive annual dividend increase.

UDR reported first quarter 2023 results on April 26<sup>th</sup>, 2023. The company announced adjusted funds from operations of \$0.57 in the first quarter, up 12% year-over-year compared to \$0.51. The AFFO payout ratio for the quarter of 74% is quite safe for an REIT which must pay out the majority of its earnings to shareholders. Physical occupancy of the real estate portfolio was down by 0.5% compared to the prior year period, to 96.6%.

The trust reaffirmed guidance for 2023 and is estimating AFFO of \$2.22 to \$2.30, for a midpoint of \$2.26. The company also anticipates 6.75% growth in same-store revenue, 4.75% growth in same-store expenses, and 7.5% growth in same-store net operating income over 2022.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFO</b>	\$1.23	\$1.35	\$1.51	\$1.63	\$1.72	\$1.80	\$1.92	\$1.86	\$1.82	\$2.11	<b>\$2.26</b>	<b>\$2.88</b>
<b>DPS</b>	\$0.93	\$1.02	\$1.09	\$1.16	\$1.23	\$1.28	\$1.35	\$1.42	\$1.45	\$1.52	<b>\$1.68</b>	<b>\$2.14</b>
<b>Shares<sup>3</sup></b>	250.0	253.4	263.8	267.3	268.8	269.5	286.0	294.9	301.7	322.7	<b>330.0</b>	<b>375.0</b>

UDR has grown adjusted funds from operations steadily in the last 5 and 9 years, at 4.2% and 6.2%, respectively. AFFO failed to grow during the pandemic, but we see steady growth continuing after the 2022 recovery, at around 5% to reach \$2.88 in 2028. As is evident by the ballooning share count, UDR's strategy focuses on raising capital by issuing equity and we see this continuing into the future.

The trust has a lot going for it, and it aims to grow AFFO by maximizing revenue by balancing blended lease rate growth against active occupancy management, improving cost controls through their Next Generation Operating Platform (NGOP). Additionally, UDR targets generating 10% to 15% higher NOI growth than the market over the first three years of ownership following its acquisitions. Management is putting a lot of focus on the NGOP and is expecting it to provide strong results in the years ahead. The NGOP is the self-service technology component unique to this apartment REIT and has already contributed to controllable margin expansion. It has improved the resident and prospective resident

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In thousands

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.



# UDR, Inc. (UDR)

Updated April 30<sup>th</sup>, 2023 by Quinn Mohammed

experiences; a massive portion of prospect tours were self-guided or touchless. Site-level headcount has been reduced by more than 31% since mid-2018. As a result, less employees are able to manage more units, leading to efficiencies.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	19.8	20.6	22.4	21.8	22.0	20.9	23.9	20.7	27.3	22.8	18.3	21.0
Avg. Yld.	4.4%	3.5%	3.2%	3.2%	3.2%	3.4%	2.9%	3.7%	2.8%	3.0%	4.1%	3.5%

The current P/AFFO of 18.3 based on 2023's estimated AFFO represents a discount to the 5-year average of 23.2. We find the valuation to be undervalued compared to our fair value estimate of 21X, as UDR's multiple has always trended a bit high due to the safety and outperformance of the apartment space in the REIT business. Housing is a necessary, non-discretionary expense.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

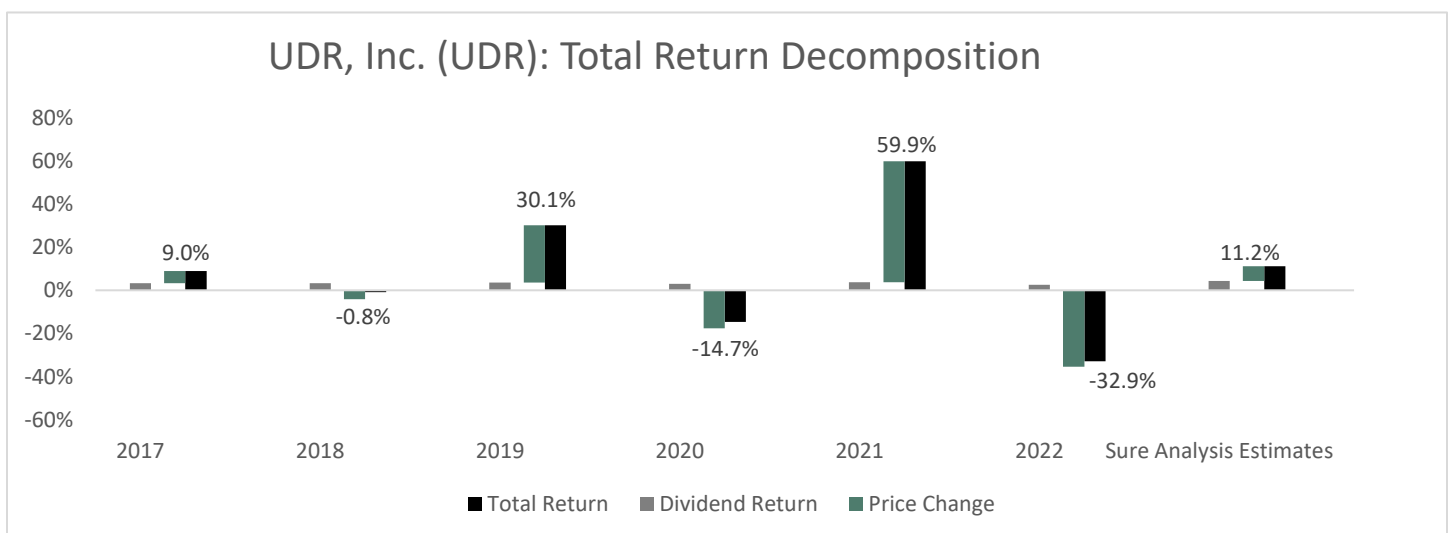
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	75%	72%	71%	71%	71%	70%	76%	80%	72%	74%	74%

The payout ratio for UDR is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 74% is well covered, especially within REIT space, as this sector is known for its high payout ratios. The trust has a distinct competitive advantage as it is implementing advanced technological solutions to the apartment rental business, which they believe will help to outperform peers. The company has an S&P Unsecured Rating of BBB+, and a consolidated net debt-to-EBITDA of 5.7X, which has been on a downtrend and should further come down from here. UDR was negatively affected by the Great Recession as funds from operations dipped, and so did the trust's dividend. The share price cratered, but the company has become strong since, and has so far weathered the COVID storm without too many difficulties.

## Final Thoughts & Recommendation

UDR has demonstrated consistent results in the past decade even throughout the pandemic, with a fairly safe payout ratio in the REIT space, however they did suffer a dividend cut in the great financial crisis. We believe shares are undervalued. We also estimate UDR will produce total returns of 11.2% in the coming years, stemming from growth of 5.0% and a 4.1% yield, plus a valuation tailwind. We reiterate our buy rating.

## 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.



# UDR, Inc. (UDR)

Updated April 30<sup>th</sup>, 2023 by Quinn Mohammed

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	759	818	895	960	996	1,047	1,152	1,241	1,291	1,517
<b>Gross Profit</b>	161	189	238	239	253	286	288	215	873	331
<b>Gross Margin</b>	21.2%	23.1%	26.6%	24.9%	25.4%	27.4%	25.0%	17.3%	67.7%	21.8%
<b>SG&amp;A Exp.</b>	42	48	60	50	49	47	52	50	96	64
<b>D&amp;A Exp.</b>	348	364	381	426	436	436	508	619		
<b>Operating Profit</b>	105	127	162	175	189	221	216	132	136	235
<b>Op. Margin</b>	13.8%	15.6%	18.1%	18.3%	19.0%	21.1%	18.8%	10.6%	10.5%	15.5%
<b>Net Profit</b>	45	154	340	293	122	203	185	64	150	87
<b>Net Margin</b>	5.9%	18.9%	38.0%	30.5%	12.2%	19.4%	16.1%	5.2%	11.6%	5.7%
<b>Free Cash Flow</b>	179	295	341	440	393	443	446	430		

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	6,808	6,829	7664	7,680	7,733	7,712	9,636	9,638	10,775	11,038
<b>Cash &amp; Equivalents</b>	30	15	7	2	2	185	8	1	1	1.193
<b>Total Liabilities</b>	3,995	4,093	4,763	4,583	4,898	4,789	6,247	6,379	7,301	6,100
<b>Accounts Payable</b>	119	91	81	104	103	76	90	111	137	153
<b>Long-Term Debt</b>	3,524	3,565	3,571	3,401	3,672	3,548	4,708	4,977	5,413	5,487
<b>Total Equity</b>	2,765	2,689	2,853	3,047	2,780	2,859	3,312	3,189	3,398	4,053
<b>LTD/E Ratio</b>	1.3	1.3	1.2	1.1	1.3	1.2	1.4	1.5	1.57	1.34

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	0.7%	2.3%	4.7%	3.8%	1.6%	2.6%	2.1%	0.7%	1.5%	0.8%
<b>Return on Equity</b>	1.6%	5.7%	12.3%	9.9%	4.2%	7.2%	6.0%	2.0%	4.6%	2.3%
<b>ROIC</b>	0.7%	2.4%	5.3%	4.5%	1.9%	3.1%	2.5%	0.8%	1.8%	0.8%
<b>Shares Out.</b>	250.0	253.4	263.8	267.3	268.8	269.5	286.0	294.9	301.7	322.7
<b>Revenue/Share</b>	3.04	3.23	3.39	3.59	3.70	3.88	4.03	4.21	4.28	4.70
<b>FCF/Share</b>	0.71	1.16	1.29	1.65	1.46	1.65	1.56	1.46		

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.