Equity Residential (EQR)

Updated July 31st, 2023 by Samuel Smith

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	10.4%	**Market Cap:**	$25 B
Fair Value Price:	$83	**5 Year Growth Estimate:**	2.6%	**Ex-Dividend Date:**	9/24/2023[1]
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.7%	**Dividend Payment Date:**	10/14/2023[2]
Dividend Yield:	4.0%	**5 Year Price Target**	$94	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 announced its financial results for the second quarter on July 27th, 2023. The company reported FFO of $0.94, in line with expectations, and revenue of $717.31 million, also in line with expectations. The company revised its FY23 Normalized FFO per share guidance to a range of $3.77 to $3.83 from the previous range of $3.73 to $3.83. This revised guidance matches the consensus forecast of $3.77. For the second quarter of 2023, same store revenue increased by 5.5% compared to the same quarter in 2022. The company had previously increased its 2023 annual same store revenue growth guidance midpoint to 5.875% in May 2023. The same store expense growth in the second quarter of 2023 compared to the same quarter in 2022 was also 5.5%. However, the company expects lower same store expense growth in the second half of the year and has adjusted its full-year same store expense guidance midpoint down to 4.25% from the previous 4.5%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/S	$2.46	$3.15	$3.64	$3.09	$3.28	$3.27	$3.53	$3.33	$2.99	$3.52	***$3.77***	***$4.28***
DPS	$1.85	$2.00	$2.21	$10.02[3]	$2.02	$2.16	$2.27	$2.15	$2.41	$2.50	***$2.65***	***$3.00***
Shares[4]	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	378.6	***379.0***	***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 2.6% in the medium-term, following the strong rebound in residential occupancy and overall pricing. The trust had slashed its dividend back during 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.

[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.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
P/FFO	24.4	20	20.6	21.7	19.8	19.3	23.8	16.8	29.5	18.1	***17.5***	***22.0***
Avg. Yld.	3.1%	3.2%	2.9%	19.4%	3.1%	3.4%	2.7%	4.3%	2.8%	3.9%	***4.0%***	***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 COVID-19, the stock price remains somewhat undervalued, trading at 17.5 times its forward FFO. As a result, we expect meaningful valuation multiple expansion over the next half decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	63%	61%	-	62%	66%	64%	65%	81%	71%	**70%**	**70%**

The business is quite defensive against recessions given that residential real estate is an essential service and moving from one residence to another is generally viewed as highly inconvenient. As a result, tenants tend to prioritize paying their rent over non-essential spending during an economic downturn.

Moreover, EQR's balance sheet is quite strong and its payout ratio is quite conservative at current levels. As a result, its dividend should be sustainable through an economic downturn and the REIT will likely be able to continue growing its dividend for the foreseeable future.

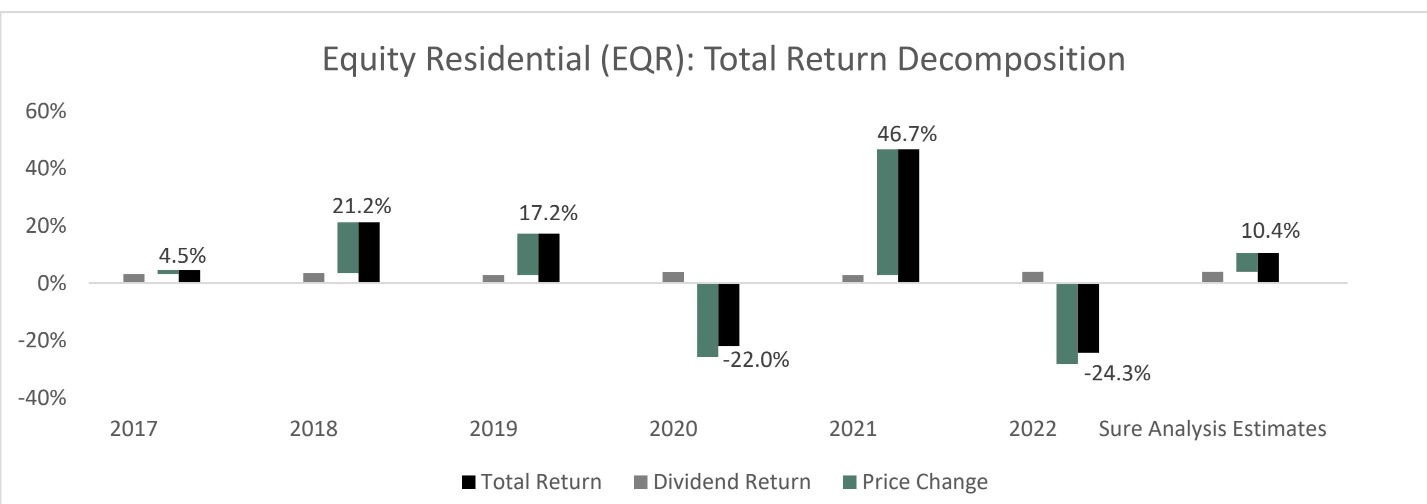
Overall, the trust operates in a highly competitive market. However, management's proven expertise should partially offset this risk. A prolonged recession in which individuals see their salaries declining could easily damage the trust's performance following reduced rents, poor rental collections, and 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 total returns of around 10.4% over the next half decade, powered by our estimated growth, valuation multiple expansion, and the 4.0% dividend yield. As a result, we rate EQR a Buy.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,388	2,615	2,745	2,426	2,471	2,578	2,701	2,572	2,464	2,735
Gross Profit	1,553	1,731	1,840	1,620	1,645	1,698	1,792	1,655	1,515	1,753
Gross Margin	65.1%	66.2%	67.0%	66.8%	66.6%	65.9%	66.4%	64.4%	61.5%	64.1%
SG&A Exp.	62	51	65	58	52	54	53	48	57	59
D&A Exp.	1,014	762	769	709	748	790	843	832	851	894
Operating Profit	512	922	1,009	856	849	859	909	786	620	812
Operating Margin	21.5%	35.2%	36.8%	35.3%	34.4%	33.3%	33.6%	30.6%	25.2%	29.7%
Net Profit	1,831	631	870	4,292	603	658	970	914	1,333	777
Net Margin	76.7%	24.1%	31.7%	177%	24.4%	25.5%	35.9%	35.5%	54.1%	28.4%
Free Cash Flow	729	1,133	1,171	1,036	1,062	1,163	1,274	1,109	1,107	1,223
Income Tax	1	1	1	2	0	1	(2)	1	1	1

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	22,835	22,951	23,110	20,704	20,571	20,394	21,173	20,287	21,169	20,218
Cash & Equivalents	54	40	42	77	51	47	46	43	124	54
Total Liabilities	11,989	12,243	12,414	10,243	10,097	9,995	10,628	9,523	9,982	8,517
Accounts Payable	119	154	187	147	115	102	94	107	107	96
Long-Term Debt	10,766	10,845	10,921	8,987	8,957	8,818	9,037	8,044	8,341	7,426
Shareholder's Equity	10,457	10,318	10,433	10,192	10,205	10,136	10,278	10,488	10,918	11,136
LTD/E Ratio	1.02	1.05	1.04	0.88	0.87	0.87	0.88	0.76	0.76	0.66

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.1%	2.8%	3.8%	19.6%	2.9%	3.2%	4.7%	4.4%	6.4%	3.8%
Return on Equity	20.7%	6.1%	8.4%	41.6%	5.9%	6.5%	9.5%	8.8%	12.5%	7.0%
ROIC	9.7%	2.9%	4.0%	20.9%	3.1%	3.4%	5.0%	4.8%	7.0%	4.0%
Shares Out.	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	378.6
Revenue/Share	6.74	6.92	7.21	6.35	6.46	6.72	6.99	6.66	6.35	7.02
FCF/Share	2.06	3.00	3.08	2.71	2.77	3.03	3.30	2.88	2.85	3.14

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