



Equity Residential (EQR)

Updated November 1st, 2023 by Samuel Smith

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	11.5%	Market Cap:	\$21.7B
Fair Value Price:	\$68	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	12/24/2023 ¹
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.2%	Dividend Payment Date:	1/14/2024 ²
Dividend Yield:	5.0%	5 Year Price Target	\$77	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.

On October 31, 2023, Equity Residential released its third-quarter results for the period ending September 30, 2023. Earnings Per Share (EPS) for the quarter was \$0.45, down 47.7% from \$0.86 in the same quarter of 2022. However, Funds from Operations (FFO) per share increased by 6.7% to \$0.96, and Normalized FFO (NFFO) per share also rose by 4.3% to \$0.96. The quarter's same-store revenue grew by 4.1% year-over-year but faced headwinds from weaker performance in the San Francisco and Seattle markets and a non-cash write-off due to Rite Aid's bankruptcy. As a result, the annual same-store revenue growth guidance was revised to 5.5%. Same-store expense growth was reported at 3.1% for the quarter. Notably, the company made significant acquisitions, including two suburban Atlanta apartment properties, for approximately \$179.7 million and sold several properties for a substantial sum.

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	\$3.79	\$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
Shares⁴	361.1	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	378.6	379.7	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 2.5% 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.

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	14.0	18.0
Avg. Yld.	3.1%	3.2%	2.9%	19.4%	3.1%	3.4%	2.7%	4.3%	2.8%	3.9%	5.0%	3.9%

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.

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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Due to the stable performance of Equity Residential over the past decade, its shares have traded at a consistent valuation multiple of around 20 times the underlying FFO. However, we have reduced our fair value multiple to 18 times FFO due to rising interest rates. While the trust's performance has recovered in the wake of COVID-19, the stock price remains somewhat undervalued, trading at 14 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.

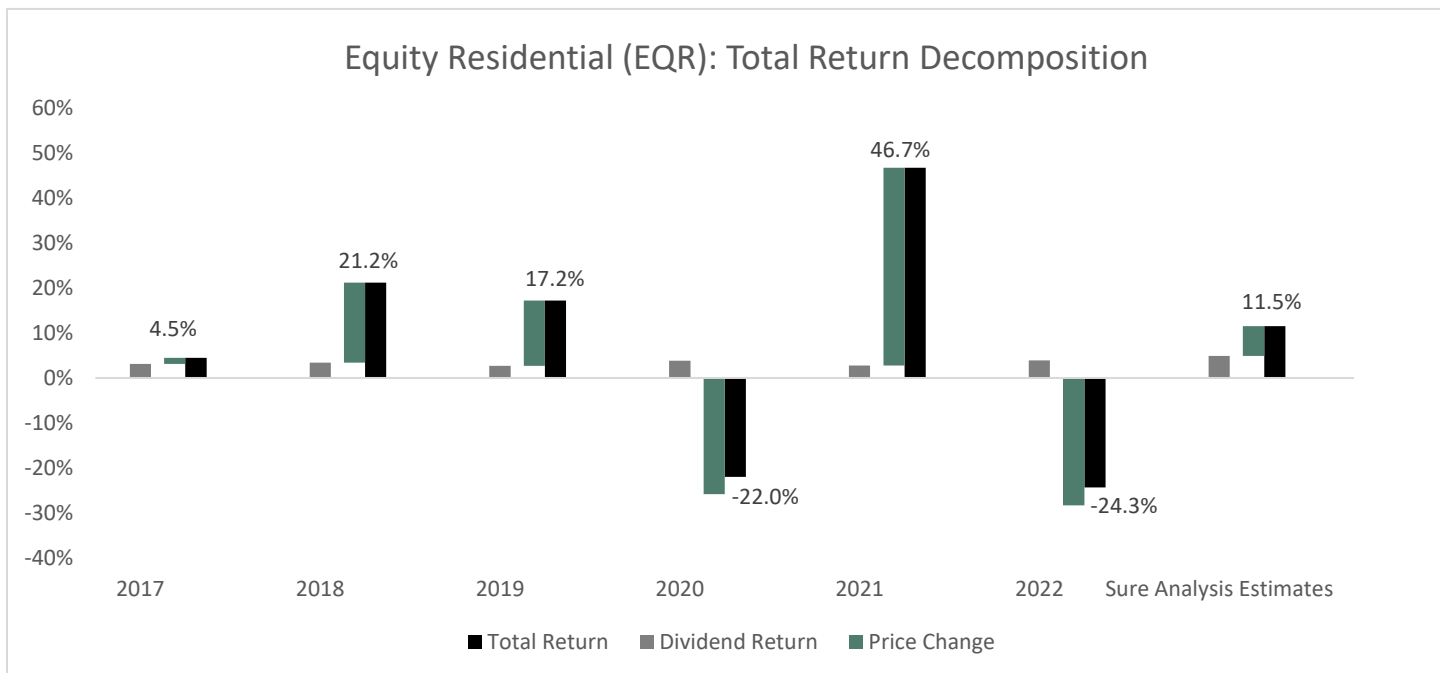
Overall, the trust operates in a highly competitive market. However, management's proven expertise should partially offset this risk. A prolonged recession in which individuals see their salaries declining could easily damage the trust's performance following reduced rents, poor rental collections, and 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 11.5% over the next half-decade, powered by our estimated growth, valuation multiple expansion, and the 5.0% dividend yield. As a result, we rate EQR a Buy.

Total Return Breakdown by Year



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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.

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