



# Clipper Properties (CLPR)

Updated March 26<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$4.5	<b>5 Year CAGR Estimate:</b>	25.1%	<b>Market Cap:</b>	\$195 M
<b>Fair Value Price:</b>	\$9.9	<b>5 Year Growth Estimate:</b>	3.5%	<b>Ex-Dividend Date:</b>	6/26/24 <sup>1</sup>
<b>% Fair Value:</b>	46%	<b>5 Year Valuation Multiple Estimate:</b>	17.0%	<b>Dividend Payment Date:</b>	7/4/24 <sup>2</sup>
<b>Dividend Yield:</b>	8.4%	<b>5 Year Price Target</b>	\$12	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Buy

## Overview & Current Events

Clipper Properties is a Real Estate Investment Trust, or REIT, that was founded by the merger of four pre-existing real estate companies. The founders retain about 2/3 of the ownership and votes today as they have never sold a share, thereby causing some corporate governance concerns but also giving investors knowledge that the insiders are heavily incentivized to look out for shareholder interests. Clipper Properties owns commercial (primarily multifamily and office with a small sliver of retail) real estate across New York City.

On March 14, 2024, Clipper Realty Inc. (CLPR) reported their financial results for the fourth quarter of 2023. For the fourth quarter of 2023, the Company reported quarterly revenues of \$34.9 million, marking a \$1.9 million increase compared to the same period in 2022. Quarterly income from operations stood at \$9.0 million, with net operating income (NOI) reaching \$20.0 million. However, a net loss of \$2.9 million was reported for the quarter, despite achieving record adjusted funds from operations (AFFO) of \$6.3 million. Occupancy rates and rents remained strong across the Company's properties, with new leases renting at over 7% higher rates and renewals at almost 6% higher rates.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>AFFO/S</b>	---	---	---	\$0.38	\$0.45	\$0.50	\$0.38	\$0.37	\$0.45	\$0.53	<b>\$0.73</b>	<b>\$0.80</b>
<b>NAV/S</b>	---	---	---	NA	NA	\$18.12	\$15.39	\$12.85	\$13.20	\$10.95	<b>\$10.95</b>	<b>\$13.00</b>
<b>DPS</b>	---	---	---	\$0.38	\$0.38	\$0.38	\$0.38	\$0.38	\$0.38	\$0.38	<b>\$0.38</b>	<b>\$0.40</b>
<b>Shares<sup>3</sup></b>	---	---	---	17.8	17.8	17.8	16.1	16.1	16.1	16.1	<b>16.1</b>	<b>16.1</b>

Over the course of its relatively young history, Clipper Properties has struggled to generate adjusted funds from operation (AFFO) per share growth, though this is largely due to COVID-19 headwinds in 2020 that carried over to 2021. Prior to COVID-19 breaking out, AFFO per share had increased from \$0.38 in 2017 to \$0.50 in 2019, reflecting impressive 14.7% annualized growth over a two-year period. COVID-19 also decimated Clipper Properties' net asset value (NAV) per share as the appraised value of commercial real estate in New York City plummeted due to falling demand. We expect this to bounce back significantly over the next half-decade as COVID-19 headwinds lift and New York City regains much of its pre-COVID-19 luster as one of the greatest cities in the world. AFFO per share and NAV per share began to rebound in 2022 and we expect that to continue moving forward though the trust is currently facing headwinds from rising interest rates. As a result, we project 3.5% annualized NAV per share growth over the next half decade. Given that the dividend was barely covered by cash flows in 2020 and 2021 and that shares currently trade at a steep discount to NAV, we do not expect management to raise the dividend for the foreseeable future. Instead, they will likely use any extra cash flows for strengthening the balance sheet and other equity purposes given that the REIT's cost of capital is high.

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> 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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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/NAV	---	---	---	---	---	0.72	0.45	0.77	0.57	0.41	<b>0.41</b>	<b>0.90</b>
Avg. Yld.	---	---	---	3.80%	3.80%	2.00%	5.5%	3.8%	5.1%	8.5%	<b>8.4%</b>	<b>3.4%</b>

Clipper Properties has not traded at a premium to NAV in its recent history, has a concentrated ownership structure that renders the investing public powerless, and is entirely concentrated in New York City which continues to face headwinds. Therefore, we believe the shares should trade at a slight discount to NAV and assign it a fair value multiple of 0.9. Given that shares currently trade at just ~41% of NAV, we expect the REIT to enjoy very strong multiple expansion as a boost to total returns for the foreseeable future.

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

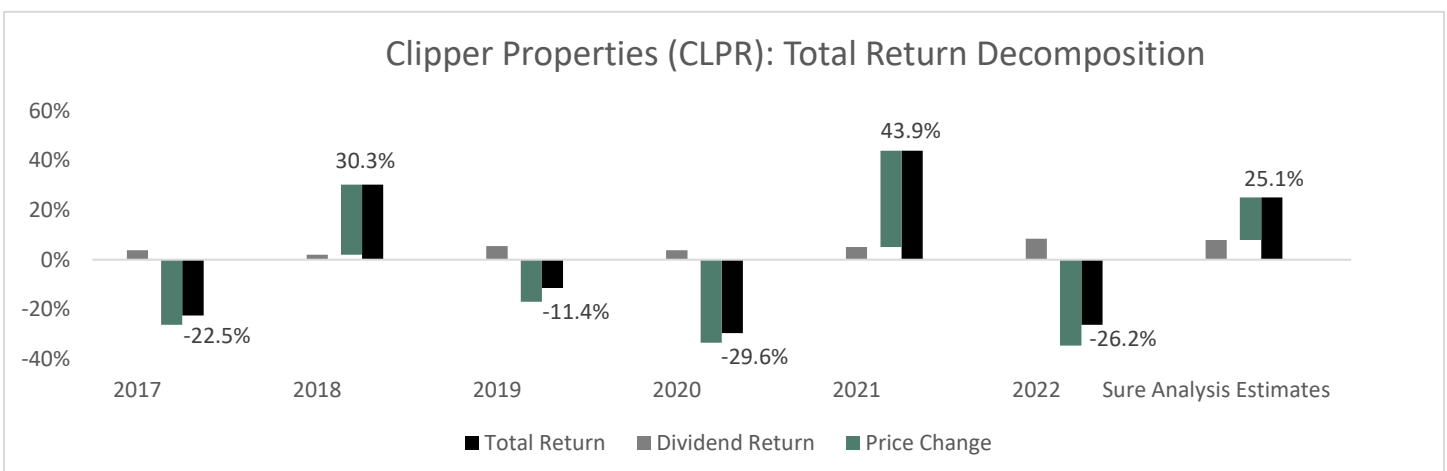
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	100%	84%	76%	100%	103%	84%	72%	<b>52%</b>	<b>50%</b>

Clipper Properties looks attractive at first glance due to owning a portfolio of quality multifamily and office real estate in one of the world's greatest cities. However, it also has several risks to its investment thesis that investors should be aware of. First and foremost, the concentration in New York City brings substantial geographic, political, and COVID-19 headwind risk to the table. Furthermore, office and retail real estate are under threat from the accelerating work from home and ecommerce trends. Last, but not least, a sizable percentage of its portfolio faces occupancy and/or rent stabilization issues, though this is improving as COVID-19 headwinds continue to subside. Investors should keep in mind that the cash flow will likely take a hit during a recession and that Clipper Properties' portfolio is quite small compared to other REITs, so it faces asset concentration risk in addition to geographic concentration risk.

## Final Thoughts & Recommendation

Clipper Properties is essentially a deep-value investment opportunity for people who are bullish on New York City's prospects for recovering from COVID-19 headwinds and regaining much of its former luster. In addition, investors should have confidence in management to be prudent managers of their capital as insiders completely control the company's voting power and must exercise skill in handling a highly concentrated and partially troubled portfolio of assets. As a result, while Clipper Properties earns a Buy rating from us based on valuation and a 25.1% annualized total return proposition, investors should view it as a somewhat high-risk investment.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	48	85	93	104	110	116	123	123	130	138
<b>Gross Profit</b>	22	46	50	56	60	62	65	63	68	76
<b>Gross Margin</b>	45.1%	54.8%	53.6%	54.1%	54.9%	53.6%	52.6%	51.6%	52.3%	54.7%
<b>SG&amp;A Exp.</b>	2	5	8	10	10	9	10	11	13	13
<b>D&amp;A Exp.</b>	3	10	12	14	15	18	23	25	27	29
<b>Operating Profit</b>	15	29	26	30	33	33	31	27	28	34
<b>Operating Margin</b>	30.8%	33.8%	28.1%	28.4%	29.6%	28.8%	25.5%	22.0%	21.7%	24.3%
<b>Net Profit</b>	5	(5)	(4)	(2)	(4)	(2)	(5)	(8)	(5)	(6)
<b>Net Margin</b>	11.0%	-6.0%	-4.0%	-2.3%	-3.3%	-1.4%	-4.0%	-6.2%	-3.7%	-4.3%
<b>Free Cash Flow</b>	7	9	9	13	22	24	16	11	20	26

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	767	881	905	1,052	1,101	1,166	1,208	1,234	1,230	1,249
<b>Cash &amp; Equivalents</b>	9	125	38	8	37	43	72	35	18	22
<b>Accounts Receivable</b>	4	1	4	7	4	4	7	10	5	5
<b>Goodwill &amp; Int. Ass.</b>	7	5	14	12	10	8	7	7	6	6
<b>Total Liabilities</b>	730	735	779	866	940	1,024	1,104	1,164	1,192	1,242
<b>Long-Term Debt</b>	708	713	754	844	914	998	1,079	1,131	1,162	1,206
<b>Shareholder's Equity</b>	37	44	38	75	65	57	39	27	14	3
<b>LTD/E Ratio</b>	19.04	16.10	19.75	11.27	14.02	17.44	27.35	42.66	82.42	439.37

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>		-0.6%	-0.4%	-0.2%	-0.3%	-0.1%	-0.4%	-0.6%	-0.4%	-0.5%
<b>Return on Equity</b>		-5.5%	-2.7%	-1.5%	-2.1%	-1.1%	-4.0%	-8.7%	-8.9%	-26.6%
<b>ROIC</b>		-0.6%	-0.4%	-0.2%	-0.3%	-0.2%	-0.4%	-0.6%	-0.4%	-0.5%
<b>Shares Out.</b>	---	---	---	17.8	17.8	17.8	16.1	16.1	16.1	16.1
<b>Revenue/Share</b>	2.59	4.59	5.05	6.11	6.18	6.52	6.97	7.64	8.08	8.60
<b>FCF/Share</b>	0.41	0.51	0.51	0.77	1.26	1.33	0.91	0.67	1.25	1.63

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

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