



Essex Property Trust Inc. (ESS)

Updated May 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$259	5 Year CAGR Estimate:	6.8%	Market Cap:	\$17.3B
Fair Value Price:	\$244	5 Year Growth Estimate:	4.7%	Ex-Dividend Date:	6/28/24 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	7/12/24 ²
Dividend Yield:	3.8%	5 Year Price Target	\$306	Years Of Dividend Growth:	30
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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.

On May 1, 2024, Essex Property Trust, Inc. (ESS) reported strong first quarter results, reflecting significant growth and strategic advancements. The company announced a notable increase in core Funds from Operations (FFO) per share by 4.9%, which exceeded the initial guidance expectations. This performance was bolstered by a growth in blended lease rates of 2.2%, with renewal leases rising by 3.9% and new leases by 10 basis points. Regionally, Seattle experienced a 3.6% increase in blended rates, while Northern California saw a 2.1% rise, and Southern California reported a 1.7% increase. The company's occupancy rate stood strong at 96% as of the end of April, and the same-property revenue growth forecast was revised upward by 55 basis points to 2.25% for the full year. Essex also improved its delinquency rate projection to 1.1% of scheduled rent for the year, showcasing faster than expected improvements. Furthermore, the company made a significant \$505 million investment in a joint venture portfolio which is expected to contribute nearly \$2 million to FFO in 2024. On the financial management side, Essex issued \$350 million in 10-year unsecured bonds at a fixed rate of 5.5%. This strategic financial maneuver contributes to a robust liquidity position with over \$1 billion available, supporting ongoing and future projects. The company's net debt-to-EBITDA ratio was reported at 5.4x, maintaining a strong leverage position.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$7.89	\$9.72	\$11.04	\$11.91	\$12.57	\$13.38	\$12.82	\$12.49	\$14.51	\$15.03	\$15.22	\$19.15
DPS	\$5.11	\$5.76	\$6.40	\$7.00	\$7.44	\$7.80	\$8.31	\$7.48	\$8.80	\$9.24	\$9.80	\$11.32
Shares³	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	64.2	64.2	66.0

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.

¹ Estimate

² Estimate

³ 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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	23.1	23.1	19.4	20.5	18.9	22.1	19.8	27.5	14.9	13.8	17.0	16.0
Avg. Yld.	2.8%	2.6%	3.0%	2.9%	3.1%	2.6%	3.3%	2.4%	4.1%	4.5%	3.8%	3.7%

Essex Property Trust currently trades for 17x FFO, which is below its recent historical average but above our fair value estimate of 16x FFO, which was recently reduced to this level to account for rising interest rates. As a result, we expect multiple contraction in the coming years to provide a modest headwind to total returns. While we expect the dividend 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

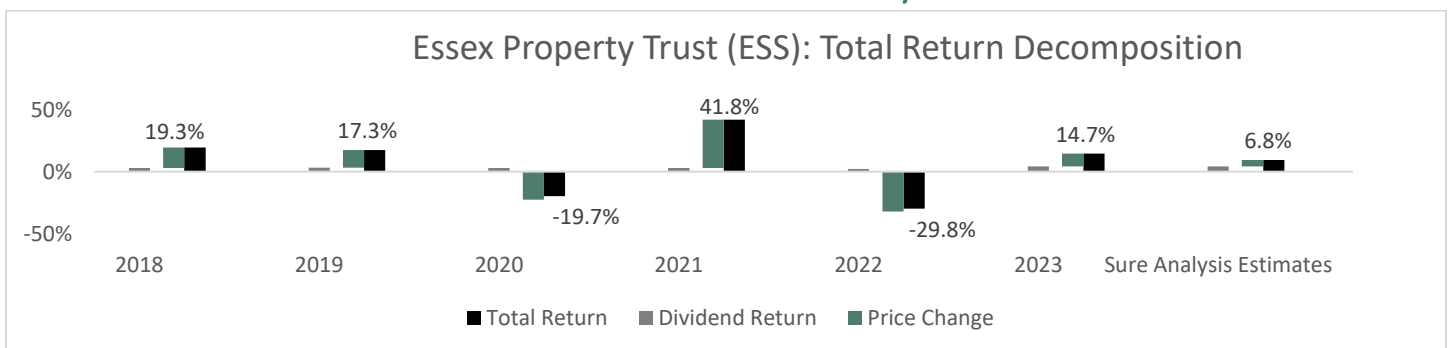
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65%	59%	58%	59%	59%	58%	65%	60%	61%	61%	64%	59%

Essex Property Trust is a high-quality apartment REIT that has raised its dividend for 30 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 persistently elevated inflation and high interest rates. With 6.8% expected annualized total returns over the next half decade, we rate shares as a Hold. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	971	1,194	1,294	1,364	1,400	1,460	1,496	1,441	1,607	1,669
Gross Profit	658	831	905	958	984	1,030	1,021	959	1,099	1,138
Gross Margin	67.8%	69.6%	69.9%	70.3%	70.3%	70.5%	68.2%	66.6%	68.4%	68.2%
SG&A Exp.	41	40	41	41	53	54	65	52	57	63
D&A Exp.	361	453	442	469	480	484	525	520	539	548
Operating Profit	257	337	423	448	450	492	430	372	513	525
Operating Margin	26.5%	28.2%	32.7%	32.9%	32.2%	33.7%	28.7%	25.8%	31.9%	31.5%
Net Profit	122	232	415	433	390	439	569	489	408	406
Net Margin	12.6%	19.4%	32.1%	31.8%	27.9%	30.1%	38.0%	33.9%	25.4%	24.3%
Free Cash Flow	414	561	652	697	745	817	713	784	812	840

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,527	12,008	12,217	12,496	12,384	12,705	12,936	12,998	12,373	12,361
Cash & Equivalents	26	30	65	45	134	70	74	48	33	392
Total Liabilities	5,367	5,626	5,880	6,060	5,954	6,264	6,721	6,787	6,451	6,735
Accounts Payable	135	131	138	128	127	158	153	181	165	176
Long-Term Debt	5,081	5,319	5,563	5,689	5,606	5,809	6,252	6,287	5,958	6,206
Shareholder's Equity	5,949	6,164	6,192	6,277	6,267	6,220	6,000	5,994	5,716	5,423
LTD/E Ratio	0.84	0.85	0.90	0.91	0.89	0.93	1.04	1.05	1.04	1.14

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.5%	2.0%	3.4%	3.5%	3.1%	3.5%	4.4%	3.8%	3.2%	3.3%
Return on Equity	3.0%	3.7%	6.5%	6.8%	6.1%	6.8%	9.0%	7.9%	6.7%	7.0%
ROIC	1.5%	2.0%	3.5%	3.6%	3.2%	3.6%	4.6%	3.9%	3.3%	3.4%
Shares Out.	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	64.2
Revenue/Share	17.13	18.36	19.73	20.70	21.19	22.14	22.81	22.13	24.68	25.98
FCF/Share	7.31	8.62	9.94	10.57	11.27	12.40	10.88	12.05	12.48	13.07

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

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