



Equity Residential (EQR)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	7.2%	Market Cap:	\$28.7 B
Fair Value Price:	\$70	5 Year Growth Estimate:	5.2%	Ex-Dividend Date:	12/24/2024 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	1/12/2025 ²
Dividend Yield:	3.6%	5 Year Price Target	\$90	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

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 (EQR) reported its third-quarter 2024 results, highlighting an earnings per share (EPS) of \$0.38, which fell short of expectations by \$0.03. However, revenue increased by 3.35% year-over-year to \$748.35 million, beating estimates by \$4.65 million. The company noted a decrease in EPS from \$0.45 in the same quarter last year, a decline of 15.6%, attributed primarily to lower property sale gains and higher depreciation expenses. Equity Residential's funds from operations (FFO) per share rose to \$0.99, marking a 3.1% increase from the prior year's \$0.96. Normalized FFO also showed growth, reaching \$0.98 per share, up 2.1% from \$0.96 a year earlier.

During the third quarter, Equity Residential made significant acquisitions, purchasing fourteen properties with a combined total of 4,418 apartment units for approximately \$1.26 billion. These acquisitions, located in the company's expansion markets of Atlanta, Dallas/Fort Worth, and Denver, were secured at an acquisition cap rate of 5.1%. Additionally, in September, the company issued \$600 million in unsecured 10-year notes at a coupon rate of 4.65%, marking the lowest 10-year coupon rate issued by a REIT since 2022. The proceeds from this issuance were partially used to fund the recent acquisitions.

Equity Residential reported a same-store revenue increase of 2.7% for the quarter compared to the same period in 2023, driven by strong demand and modest supply across most markets. Same-store expenses rose by 3.2%, contributing to a same-store net operating income (NOI) increase of 2.5%. The portfolio's physical occupancy rate was 96.1%, up slightly from 96.0% in the previous quarter. Leasing activity remained strong, with 56.7% of residents renewing leases, though new lease change softened, particularly in Los Angeles and certain expansion markets.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	\$3.15	\$3.64	\$3.09	\$3.28	\$3.27	\$3.53	\$3.33	\$2.99	\$3.52	\$3.78	\$3.87	\$4.98
DPS	\$2.00	\$2.21	\$10.02 ³	\$2.02	\$2.16	\$2.27	\$2.15	\$2.41	\$2.50	\$2.65	\$2.70	\$3.22
Shares⁴	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	378.6	379.6	379.4	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 5.2% 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

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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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 continue.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	20	20.6	21.7	19.8	19.3	23.8	16.8	29.5	18.1	15.8	19.1	18.0
Avg. Yld.	3.2%	2.9%	14.9%	3.1%	3.4%	2.7%	3.8%	2.7%	3.9%	4.4%	3.6%	3.6%

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 overvalued, trading at 19.1 times its forward FFO. As a result, we expect slight valuation multiple contraction over the next half-decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

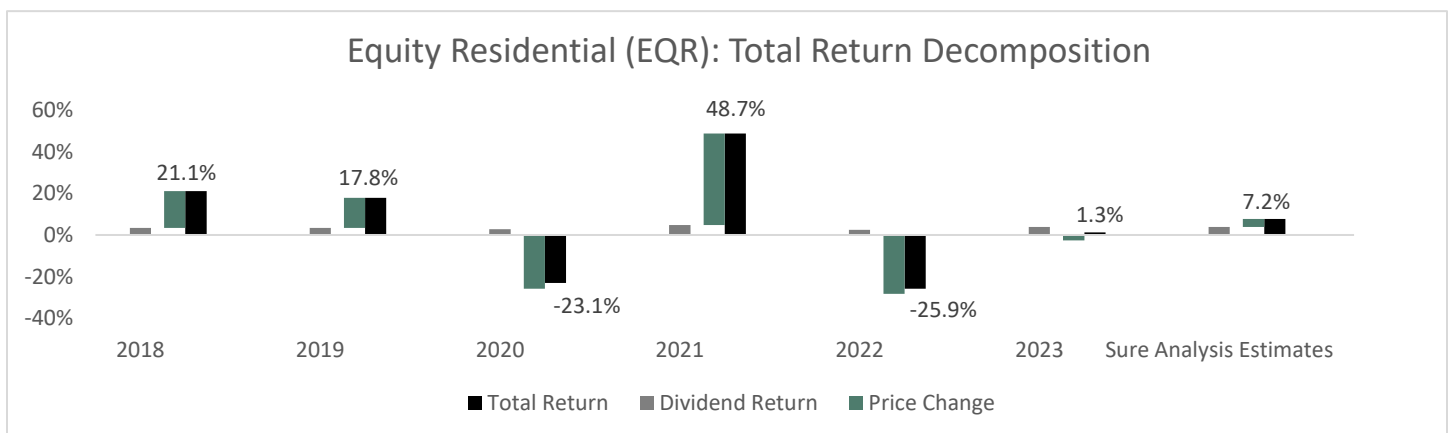
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	63%	61%	324%	62%	66%	64%	65%	81%	71%	70%	70%	65%

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 7.2% over the next half-decade, powered by its estimated growth and the 3.8% dividend yield offset by expected valuation multiple compression. As a result, we rate EQR a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,615	2,745	2,426	2,471	2,578	2,701	2,572	2,464	2,735	2,874
Gross Profit	1,731	1,840	1,620	1,645	1,698	1,792	1,655	1,515	1,753	1,827
Gross Margin	66.2%	67.0%	66.8%	66.6%	65.9%	66.4%	64.4%	61.5%	64.1%	63.6%
SG&A Exp.	51	65	58	52	54	53	48	57	59	61
D&A Exp.	762	769	709	748	790	843	832	851	894	902
Operating Profit	922	1,009	856	849	859	909	786	620	812	878
Operating Margin	35.2%	36.8%	35.3%	34.4%	33.3%	33.6%	30.6%	25.2%	29.7%	30.6%
Net Profit	631	870	4,292	603	658	970	914	1,333	777	835
Net Margin	24.1%	31.7%	177%	24.4%	25.5%	35.9%	35.5%	54.1%	28.4%	29.1%
Free Cash Flow	1,080	1,111	985	1,035	1,157	1,267	1,099	1,092	1,223	1,199
Income Tax	1	1	2	0	1	(2)	1	1	1	1

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	22,951	23,110	20,704	20,571	20,394	21,173	20,287	21,169	20,218	20,035
Cash & Equivalents	40	42	77	51	47	46	43	124	54	51
Total Liabilities	11,742	11,847	9,801	9,730	9,615	10,165	9,184	9,483	8,517	8,456
Accounts Payable	154	187	147	115	102	94	107	107	96	104
Long-Term Debt	10,845	10,921	8,987	8,957	8,818	9,037	8,044	8,341	7,426	7,390
Shareholder's Equity	10,318	10,433	10,192	10,205	10,136	10,278	10,488	10,918	11,136	11,049
LTD/E Ratio	1.05	1.04	0.88	0.87	0.87	0.88	0.76	0.76	0.66	0.67

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.8%	3.8%	19.6%	2.9%	3.2%	4.7%	4.4%	6.4%	3.8%	4.2%
Return on Equity	5.6%	7.7%	38.7%	5.6%	6.1%	8.9%	8.3%	11.7%	6.6%	7.2%
ROIC	2.9%	3.9%	20.4%	3.0%	3.3%	4.9%	4.7%	6.8%	4.0%	4.4%
Shares Out.	363.8	365.1	367.1	368.2	369.9	372.0	372.7	375.9	378.6	379.3
Revenue/Share	6.92	7.21	6.35	6.46	6.72	6.99	6.66	6.35	7.02	7.35
FCF/Share	2.86	2.92	2.58	2.71	3.02	3.28	2.85	2.81	3.14	3.07

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

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