



# Essex Property Trust Inc. (ESS)

Updated December 27<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$284	<b>5 Year CAGR Estimate:</b>	4.8%	<b>Market Cap:</b>	\$19.2 B
<b>Fair Value Price:</b>	\$249	<b>5 Year Growth Estimate:</b>	4.2%	<b>Ex-Dividend Date:</b>	1/2/25
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.6%	<b>Dividend Payment Date:</b>	1/15/25
<b>Dividend Yield:</b>	3.5%	<b>5 Year Price Target</b>	\$306	<b>Years Of Dividend Growth:</b>	30
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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.

Essex Property Trust (ESS) delivered another strong quarter, exceeding the midpoint of its core funds from operations (FFO) guidance and raising guidance for the third time this year. For Q3, core FFO per share was \$3.91, outperforming expectations by \$0.04, driven by higher same-property revenues. The company now anticipates full-year core FFO of \$15.56 per share, reflecting a 3.5% year-over-year growth. Same-property revenue growth is forecasted at 3.25% for the year, an increase of 25 basis points, fueled by lower delinquency rates and improved other income. Seattle emerged as a top performing region for the company, posting 3.8% blended lease rate growth in Q3, with Eastside markets achieving 4.7% growth. Northern California saw 2.3% blended growth, led by Santa Clara County's 3.6%. However, Essex plans to offer concessions to address short-term impacts from new supply in San Jose during Q4. Southern California's 2.1% blended lease rate growth was tempered by delinquency recovery challenges in Los Angeles, although excluding LA, the region achieved 3.5% growth. Financial occupancy for October was 96.1%, with easing year-over-year comparisons expected in November and December. The balance sheet remains strong, with net debt to EBITDA at 5.5x and over \$1 billion in liquidity. Essex issued \$200 million in 10-year unsecured bonds at an effective rate of 5.1% during Q3, further enhancing financial flexibility. Looking forward, Essex is well-positioned to navigate potential macroeconomic headwinds, benefit from improving demand fundamentals, and sustain growth in core FFO and net asset value (NAV).

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$7.89	\$9.72	\$11.04	\$11.91	\$12.57	\$13.38	\$12.82	\$12.49	\$14.51	\$15.03	<b>\$15.56</b>	<b>\$19.15</b>
<b>DPS</b>	\$5.11	\$5.76	\$6.40	\$7.00	\$7.44	\$7.80	\$8.31	\$7.48	\$8.80	\$9.24	<b>\$9.80</b>	<b>\$11.32</b>
<b>Shares<sup>1</sup></b>	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	64.2	<b>64.3</b>	<b>66.0</b>

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.

<sup>1</sup> 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.



# Essex Property Trust Inc. (ESS)

Updated December 27<sup>th</sup>, 2024 by Samuel Smith

## 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	<b>18.3</b>	<b>16.0</b>
Avg. Yld.	2.8%	2.6%	3.0%	2.9%	3.1%	2.6%	3.3%	2.4%	4.1%	4.5%	<b>3.5%</b>	<b>3.7%</b>

Essex Property Trust currently trades for 18.3x 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

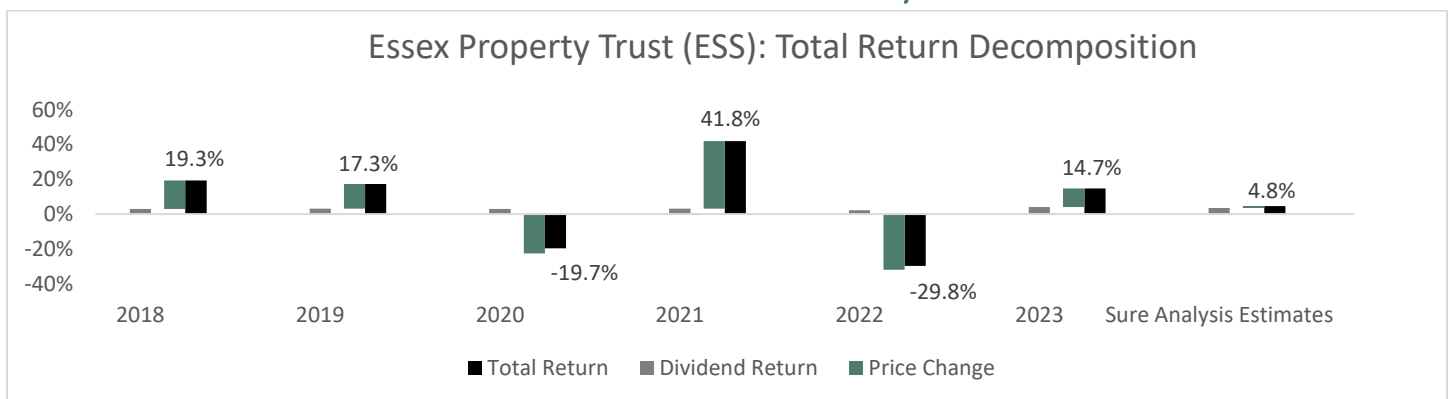
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65%	59%	58%	59%	59%	58%	65%	60%	61%	61%	<b>63%</b>	<b>59%</b>

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 4.8% 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



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.



# Essex Property Trust Inc. (ESS)

Updated December 27<sup>th</sup>, 2024 by Samuel Smith

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	971	1,194	1,294	1,364	1,400	1,460	1,496	1,441	1,607	1,669
<b>Gross Profit</b>	658	831	905	958	984	1,030	1,021	959	1,099	1,138
<b>Gross Margin</b>	67.8%	69.6%	69.9%	70.3%	70.3%	70.5%	68.2%	66.6%	68.4%	68.2%
<b>SG&amp;A Exp.</b>	41	40	41	41	53	54	65	52	57	63
<b>D&amp;A Exp.</b>	361	453	442	469	480	484	525	520	539	548
<b>Operating Profit</b>	257	337	423	448	450	492	430	372	513	525
<b>Operating Margin</b>	26.5%	28.2%	32.7%	32.9%	32.2%	33.7%	28.7%	25.8%	31.9%	31.5%
<b>Net Profit</b>	122	232	415	433	390	439	569	489	408	406
<b>Net Margin</b>	12.6%	19.4%	32.1%	31.8%	27.9%	30.1%	38.0%	33.9%	25.4%	24.3%
<b>Free Cash Flow</b>	414	561	652	697	745	817	713	784	812	840

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	11,527	12,008	12,217	12,496	12,384	12,705	12,936	12,998	12,373	12,361
<b>Cash &amp; Equivalents</b>	26	30	65	45	134	70	74	48	33	392
<b>Total Liabilities</b>	5,367	5,626	5,880	6,060	5,954	6,264	6,721	6,787	6,451	6,735
<b>Accounts Payable</b>	135	131	138	128	127	158	153	181	165	176
<b>Long-Term Debt</b>	5,081	5,319	5,563	5,689	5,606	5,809	6,252	6,287	5,958	6,206
<b>Shareholder's Equity</b>	5,949	6,164	6,192	6,277	6,267	6,220	6,000	5,994	5,716	5,423
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	1.5%	2.0%	3.4%	3.5%	3.1%	3.5%	4.4%	3.8%	3.2%	3.3%
<b>Return on Equity</b>	3.0%	3.7%	6.5%	6.8%	6.1%	6.8%	9.0%	7.9%	6.7%	7.0%
<b>ROIC</b>	1.5%	2.0%	3.5%	3.6%	3.2%	3.6%	4.6%	3.9%	3.3%	3.4%
<b>Shares Out.</b>	65.1	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	64.2
<b>Revenue/Share</b>	17.13	18.36	19.73	20.70	21.19	22.14	22.81	22.13	24.68	25.98
<b>FCF/Share</b>	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.

## Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.