



AvalonBay Communities Inc. (AVB)

Updated February 10th, 2025 by Samuel Smith

Key Metrics

Current Price:	\$220	5 Year CAGR Estimate:	5.8%	Market Cap:	\$31.0 B
Fair Value Price:	\$207	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/27/25 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	4/15/25 ²
Dividend Yield:	3.2%	5 Year Price Target	\$252	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

AvalonBay Communities (AVB) is a \$31 billion multifamily REIT that owns a portfolio of several hundred apartment communities and is also an active developer of apartment communities. The trust's strategy consists of owning top-tier properties in the major metropolitan areas of New England, New York/New Jersey, Washington D.C., California, and the Pacific Northwest. It was formed by the 1998 merger of Avalon Properties with Bay Apartment Communities.

AvalonBay Communities reported strong fourth-quarter and full-year 2024 results, delivering 3.4% revenue growth and 3.6% core FFO growth, driven by steady demand in its suburban coastal portfolio and operational efficiencies. The company continued executing on its strategic focus areas, including operational transformation, portfolio optimization, and development expansion. Its operating model transformation initiatives generated an incremental \$39 million of NOI in 2024, with expectations of an additional \$9 million in 2025 and a long-term goal of \$80 million in annual NOI improvements. AvalonBay is shifting its portfolio composition, increasing suburban exposure to 73% with a target of 80%, while also expanding into Sunbelt markets to reduce regulatory risk and enhance growth prospects. The company increased its presence in expansion markets to 10% from 8% and plans to reach 25% over time. The firm believes the current environment provides attractive acquisition and development opportunities in these regions at favorable cost bases. The company plans to ramp up its development pipeline, expecting to start \$1.6 billion in projects in 2025, significantly increasing its development pipeline to \$3.5 billion by year-end. This comes as broader industry development starts are expected to decline, creating an advantageous window for AvalonBay.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
FFO/S	\$7.55	\$8.19	\$8.62	\$9.00	\$9.34	\$8.69	\$8.26	\$9.79	\$10.63	\$11.01	\$11.50	\$14.00
DPS	\$5.00	\$5.40	\$5.68	\$5.88	\$6.08	\$6.36	\$6.36	\$6.36	\$6.60	\$6.80	\$7.00	\$8.80
Shares³	137.0	137.0	137.7	138.1	140.3	139.2	139.5	139.7	141.9	142.1	142.1	140

Over the past decade, AvalonBay generated very impressive annualized Core FFO/share growth thanks to its growing scale and strong rental rate growth. However, this growth rate has slowed dramatically in recent years, coming in at 5.5% in 2017, 4.4% in 2018, and just 3.8% in 2019 before declining in 2020 and 2021 due to COVID-19. In 2022 FFO per share resumed growth as COVID-19 headwinds dissipated and 2025 is expected to see continued growth. Additional potential headwinds for AvalonBay are the threat of future rent control legislation in its West Coast markets (this has already been on the ballot in recent elections) as well as the uncertain economic climate in AvalonBay's target markets as a result of the fallout from COVID-19, including the growing work from home trend. Overall, we are projecting a 4.0% annualized growth rate over the next five years.

¹ Estimated

² Estimated

³ 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
P/FFO	24.2	21.8	20.7	19.2	23.3	19.0	29.2	17.2	16.8	21.5	19.1	18.0
Avg. Yld.	2.7%	3.0%	3.2%	3.4%	2.8%	3.9%	2.6%	3.8%	3.7%	2.9%	3.2%	3.5%

The P/FFO valuation multiple has varied between the high teens and the low 20s over the past decade, and the dividend yield has ranged between 2.6% and 3.9%. However, the abundant new supply reaching markets combined with increasing inflationary and rising interest rate pressures on margins - not to mention a challenging acquisition climate due to compressed cap rates – will lead to continued slowing growth relative to pre-COVID-19 levels. Therefore, the stock will warrant a lower valuation multiple and a higher dividend yield. We think the stock is somewhat overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

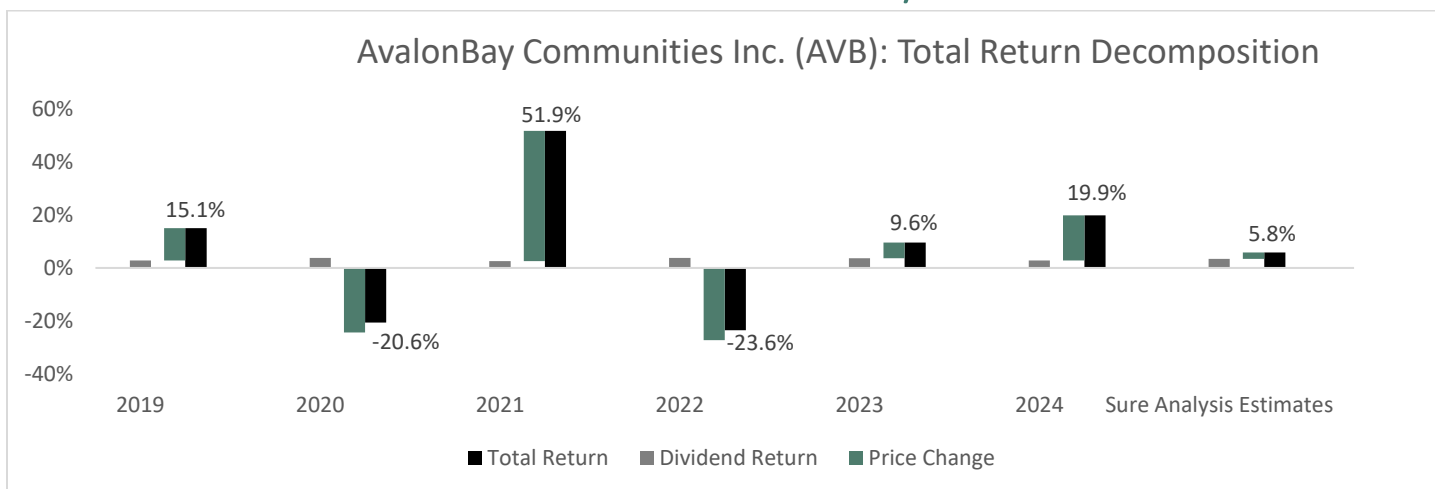
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	66%	66%	66%	65%	65%	73%	77%	65%	62%	62%	61%	63%

AvalonBay significantly outperformed the S&P 500 during the Great Recession due to the defensive nature of the multifamily sector. However, it still experienced a sizable decline in FFO/share (from \$4.61 in 2007 down to a low of \$3.89 in 2009). Additionally, multifamily apartments lack a strong competitive advantage due to the ease of creating new supply, as well as the alternative sources of affordable housing in large metropolitan areas in which AvalonBay operates. Given that fact, AvalonBay's investments are essentially a bet on the economic strength of its core markets. Furthermore, the fact that most of its assets are high-quality "A" apartment units makes it even more levered to the state of the economy, as these apartments are in high demand during strong economic conditions but are less affordable during a recession. AVB does have considerable economies of scale, low cost of capital, operational and marketing expertise, and a brand name advantage, which enable it to compete effectively against competitors. The trust's balance sheet is also very strong, as its sector-leading A- credit rating makes clear. AvalonBay has plenty of resources to invest in its development projects and sustain the dividend during a downturn, while also reacting opportunistically to opportunities that may become available.

Final Thoughts & Recommendation

AvalonBay has an excellent track record and a stellar balance sheet. AvalonBay appears slightly overvalued at the moment and is likely to deliver 5.8% annualized total returns moving forward. As a result, we rate it a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,856	2,045	2,159	2,285	2,325	2,301	2,295	2,593	2,768	2,914
Gross Profit	1,214	1,362	1,436	1,518	1,557	1,478	1,441	1,674	1,780	1,840
Gross Margin	65.4%	66.6%	66.5%	66.4%	67.0%	64.2%	62.8%	64.6%	64.3%	63.2%
SG&A Exp.	43	46	54	60	58	60	70	74	77	78
D&A Exp.	478	531	584	631	662	707	759	815	817	
Operating Profit	693	785	798	826	837	710	613	785	886	916
Operating Margin	37.3%	38.4%	37.0%	36.2%	36.0%	30.9%	26.7%	30.3%	32.0%	31.4%
Net Profit	742	1,034	877	975	786	828	1,004	1,137	929	1,082
Net Margin	40.0%	50.6%	40.6%	42.7%	33.8%	36.0%	43.8%	43.8%	33.6%	37.1%
Free Cash Flow	1,019	1,087	1,182	1,214	1,181	1,083	1,050	1,247	1,363	

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	16,931	17,867	18,415	18,380	19,121	19,199	19,902	20,458	20,678	21,001
Cash & Equivalents	401	215	67	92	40	217	420	613	398	109
Total Liabilities	7,081	7,688	8,021	7,744	8,128	8,444	8,966	9,202	8,893	9,060
Accounts Payable	99	101	85	97	92	94	64	73	88	
Long-Term Debt	6,457	7,031	7,329	7,040	7,296	7,564	8,104	8,316	7,982	8,077
Shareholder's Equity	9,841	10,171	10,388	10,633	10,990	10,752	10,933	11,253	11,783	11,941
LTD/E Ratio	0.66	0.69	0.71	0.66	0.66	0.70	0.74	0.74	0.68	0.68

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.5%	5.9%	4.8%	5.3%	4.2%	4.3%	5.1%	5.6%	4.5%	5.2%
Return on Equity	7.8%	10.3%	8.5%	9.3%	7.3%	7.6%	9.3%	10.2%	8.1%	9.1%
ROIC	4.7%	6.2%	5.0%	5.5%	4.4%	4.5%	5.4%	5.9%	4.7%	5.4%
Shares Out.	137.0	137.0	137.7	138.1	140.3	139.2	139.5	139.7	141.9	142.1
Revenue/Share	13.79	14.88	15.63	16.52	16.66	16.39	16.42	18.53	19.54	20.45
FCF/Share	7.57	7.91	8.56	8.78	8.46	7.71	7.51	8.91	9.62	

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

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