



Essex Property Trust Inc. (ESS)

Updated February 10th, 2025 by Samuel Smith

Key Metrics

Current Price:	\$292	5 Year CAGR Estimate:	4.2%	Market Cap:	\$19.5 B
Fair Value Price:	\$256	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	4/2/25 ¹
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	4/15/25 ²
Dividend Yield:	3.4%	5 Year Price Target	\$304	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 just under 1,800 employees.

Essex Property Trust reported strong fourth-quarter and full-year 2024 results, exceeding the high end of its original guidance with same-property revenue growth of 3.3% and core FFO growth of 3.8%. The company attributed its performance to improving demand driven by return-to-office trends, migration patterns, and affordability relative to homeownership. Additionally, Essex made significant progress in reducing delinquencies, cutting bad debt by over 50% year-over-year. In Q4, blended lease rate growth was 1.6%, with Orange County and Santa Clara leading the portfolio at 2.7%, while Los Angeles and Alameda Counties posted minimal growth. January occupancy increased by 40 basis points to 96.3%, and concessions improved to less than half a week.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
FFO	\$9.72	\$11.04	\$11.91	\$12.57	\$13.38	\$12.82	\$12.49	\$14.51	\$15.03	\$15.60	\$16.00	\$19.00
DPS	\$5.76	\$6.40	\$7.00	\$7.44	\$7.80	\$8.31	\$7.48	\$8.80	\$9.24	\$9.80	\$9.80	\$11.60
Shares³	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	64.2	64.3	64.3	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.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/FFO	23.1	19.4	20.5	18.9	22.1	19.8	27.5	14.9	13.8	18.3	18.3	16.0
Avg. Yld.	2.6%	3.0%	2.9%	3.1%	2.6%	3.3%	2.2%	4.1%	4.5%	3.4%	3.4%	3.8%

¹ Estimate

² Estimate

³ Share count is in millions.

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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. As a result, we also expect the dividend yield to rise.

Safety, Quality, Competitive Advantage, & Recession Resiliency

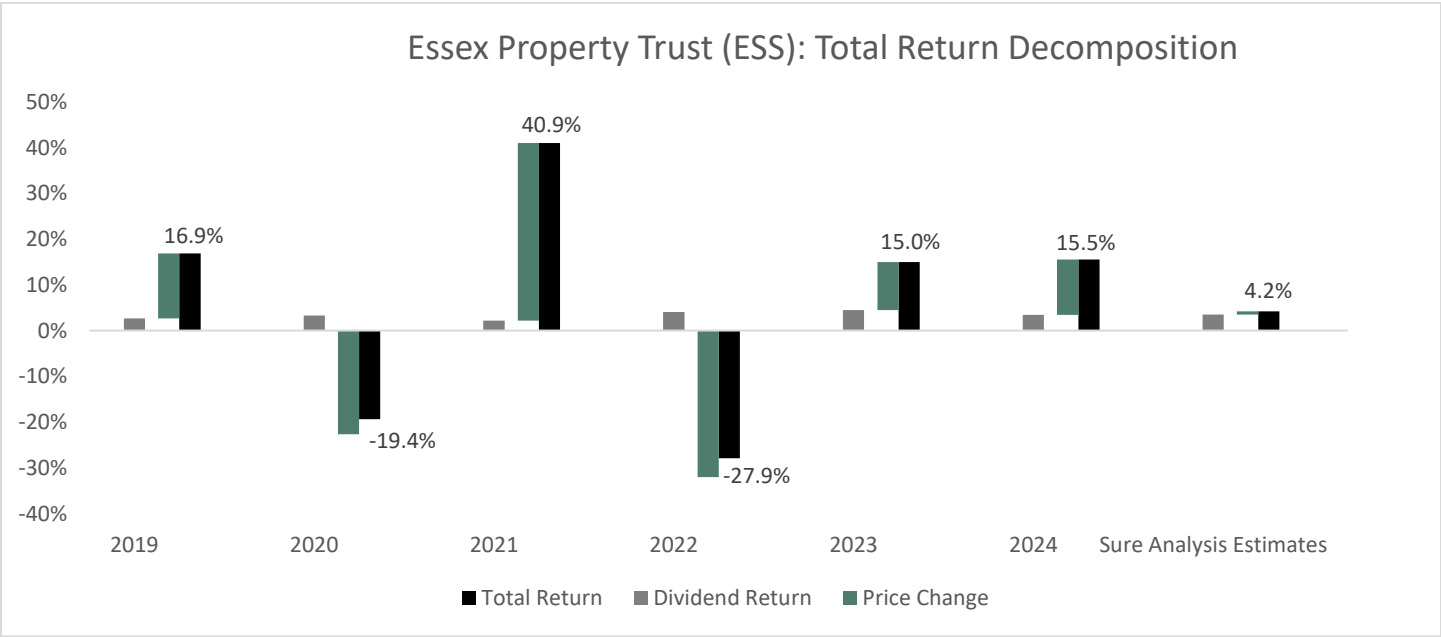
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	59%	58%	59%	59%	58%	65%	60%	61%	61%	63%	61%	61%

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 4.2% 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,194	1,294	1,364	1,400	1,460	1,496	1,441	1,607	1,669	1,774
Gross Profit	831	1,125	1,187	1,216	1,271	1,284	1,224	1,382	1,438	1,207
Gross Margin	69.6%	86.9%	87.1%	86.9%	87.0%	85.9%	85.0%	86.0%	86.1%	68.0%
SG&A Exp.	40	41	41	53	54	65	52	57	63	99
D&A Exp.	453	442	469	480	484	525	520	539	548	
Operating Profit	337	642	677	683	733	693	636	797	825	529
Operating Margin	28.2%	49.6%	49.6%	48.8%	50.2%	46.3%	44.2%	49.6%	49.4%	29.8%
Net Profit	232	415	433	390	439	569	489	408	406	742
Net Margin	19.4%	32.1%	31.8%	27.9%	30.1%	38.0%	33.9%	25.4%	24.3%	41.8%
Free Cash Flow	561	652	697	745	817	713	784	812	840	

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	12,008	12,217	12,496	12,384	12,705	12,936	12,998	12,373	12,361	12,927
Cash & Equivalents	30	65	45	134	70	74	48	33	392	76
Total Liabilities	5,626	5,880	6,060	5,954	6,264	6,721	6,787	6,451	6,735	7,176
Accounts Payable	131	138	128	127	158	153	181	165	176	
Long-Term Debt	5,319	5,563	5,689	5,606	5,809	6,252	6,287	5,958	6,206	6,602
Shareholder's Equity	6,164	6,192	6,277	6,267	6,220	6,000	5,994	5,716	5,423	5,537
LTD/E Ratio	0.85	0.90	0.91	0.89	0.93	1.04	1.05	1.04	1.14	1.19

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.0%	3.4%	3.5%	3.1%	3.5%	4.4%	3.8%	3.2%	3.3%	5.9%
Return on Equity	3.7%	6.5%	6.8%	6.1%	6.8%	9.0%	7.9%	6.7%	7.0%	13.0%
ROIC	2.0%	3.5%	3.6%	3.2%	3.6%	4.6%	3.9%	3.3%	3.4%	6.1%
Shares Out.	65.4	65.5	66.0	65.7	66.2	65.0	65.3	64.5	64.2	64.3
Revenue/Share	18.36	19.73	20.70	21.19	22.14	22.81	22.13	24.68	25.98	27.62
FCF/Share	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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