



Centerspace (CSR)

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Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	10.5%	Market Cap:	\$1.1 B
Fair Value Price:	\$75	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	03/28/2025
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	04/08/2025
Dividend Yield:	4.7%	5 Year Price Target	\$91	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Centerspace owns and operates 71 apartment communities comprised of 13,012 homes in Colorado, Minnesota, Montana, Nebraska, North Dakota and South Dakota. The company was founded in 1970, was formerly known as Investor Real Estate Trust (IRET) until December 2020, and trades with a market capitalization of \$1.1 billion.

On December 31, 2018, the company underwent a 1-for-10 reverse stock split. Every ten shares of the company was converted into one, and its quarterly dividend of \$0.07 at the time became \$0.70.

On February 18th, 2025, Centerspace published its Q4 results for the period ending December 31st, 2024. Same-store revenues increased 3.1% year-over-year. Core FFO declined by one penny to \$1.21, but beat analyst estimates by two cents. Centerspace's same-store weighted average occupancy was 95.5%, a 70 basis point year-over-year improvement. For the full year, core FFO rose 2.1% to \$4.88.

In 2024, Centerspace expanded in Colorado by acquiring The Lydian, a 129-home apartment community, for \$54 million. It also sold two non-core apartment communities for \$19 million. The company ended the year with nearly \$225 million in total available liquidity.

Management provided 2025 guidance, expecting core FFO for the year between \$4.86 to \$5.10, which represents a 2% increase at the midpoint. This guidance assumes same-store capex of \$1,125 to \$1,175 per home, and value-add expenditures of approximately \$17 million.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
FFOPS	\$6.40	\$7.60	\$4.00	\$3.29	\$4.05	\$3.78	\$3.99	\$4.43	\$4.78	\$4.88	\$4.98	\$6.06
DPS	\$5.20	\$5.20	\$3.40	\$2.80	\$2.80	\$2.80	\$2.82	\$2.91	\$2.92	\$2.98	\$3.08	\$3.24
Shares¹	13.5	13.7	13.7	13.3	13.2	13.6	13.8	15.2	17.1	15.5	15.5	20.0

From 2020 and beyond, when IRET became Centerspace, it began reporting core FFO – which is what we have elected to display. Since the company became Centerspace, its core FFO per share has improved at a 6.6% CAGR.

The REIT has transformed its portfolio since 2017, selling off 66 of its communities in lower-growth markets for \$599 million, and acquiring 35 communities for \$1.6 billion. As of Q4 2024, its multifamily portfolio comprised 71 communities with 13,012 homes. Through this transformation, Centerspace now operates less communities but more homes; homes per community rose from 132 to 183 in this period, thus its portfolio has become more efficient. Average monthly rent has also soared, and is now \$1,577 vs \$980 in 2017.

New families and households are forming faster than new houses are being built in the US, and by a wide margin. Since 2011, new household formations outpaced new homes supply by more than 5 million. As a result of the limited supply, Centerspace is in a good position to benefit from the high demand.

¹ Share count is in millions.

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The company's dividend has increased at a 1.6% CAGR since 2020, which we expect will continue into 2030.

Management appears committed to continually raising the dividend, and so far has produced a 5-year increase streak.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	11.7	8.5	15.3	16.3	16.0	18.3	21.4	18.5	12.4	13.5	13.1	15.0
Avg. Yld.	7.0%	8.1%	5.9%	5.2%	4.4%	4.1%	3.4%	3.6%	5.0%	4.5%	4.7%	3.6%

Centerspace trades at 13.1 times this year's expected FFO per share, which is lower than the 5-year average of 16.8. The current valuation is well below our fair value estimate of 15.0 times expected earnings. As a result, we forecast the potential for a valuation tailwind over the intermediate term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	81%	68%	85%	85%	69%	74%	71%	66%	61%	61%	62%	53%

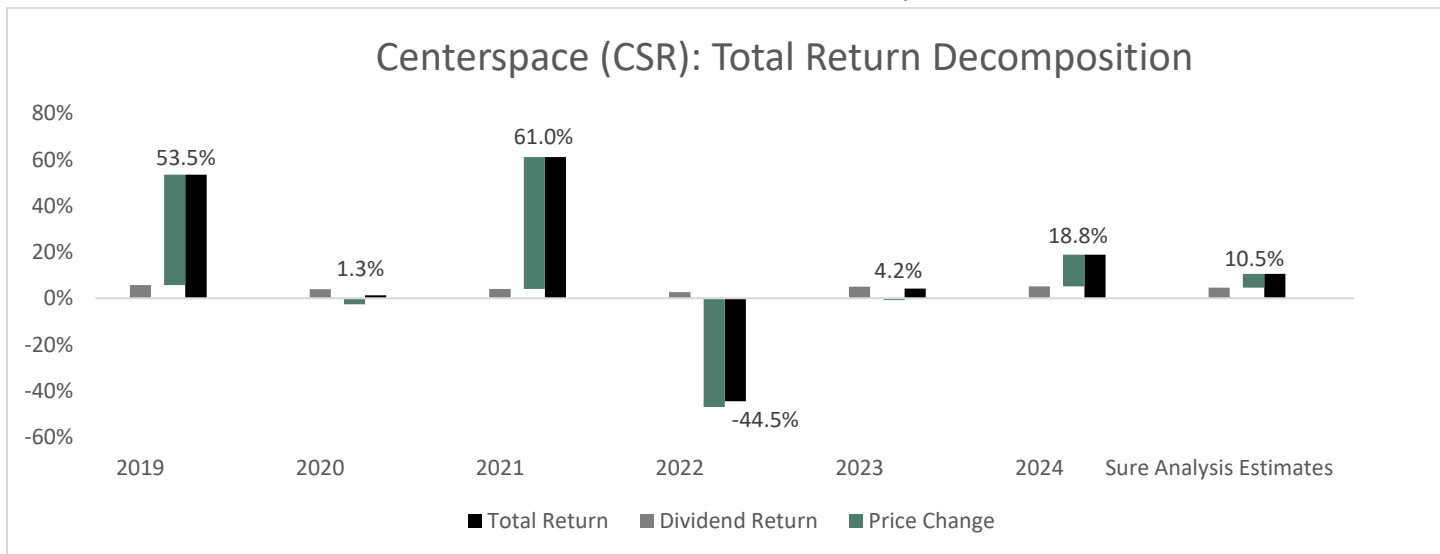
Centerspace claims that its unique deal structures offer it a competitive advantage. For example, in its major portfolio restructuring, which began in 2017, a little over 30% of its acquisition structure has comprised OP units, with the remainder primarily consisting of cash. Also, its largest geographical exposure is to Minneapolis (~30% of NOI), which is the 16th largest MSA, and boasts a population of 3.7 million and a median household income 22% above that of the U.S.

Centerspace benefits from the defensive nature of its residential multi-family property portfolio, lending it a high level of recession resiliency. Furthermore, its demographic possesses high creditworthiness and low unemployment, protecting Centerspace's rent collection rates. This can be seen in 2020, when FFO fell by just 7% while many other real estate companies suffered severely. The company's dividend was well-covered during the pandemic and remains so today, clearing the way for further dividend growth in the years to come.

Final Thoughts & Recommendation

Through the major transformation of its residential multi-family portfolio in recent years, Centerspace now operates a more concentrated and efficient portfolio of apartment communities. Through the calculated expansion of its property portfolio, we expect that Centerspace has the potential to generate annualized returns of 10.5% through 2030. We initiate our coverage of Centerspace at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	179	146	160	122	186	178	202	257	261	261
Gross Profit	106	84	91	67	101	99	111	138	146	149
Gross Margin	59.2%	57.5%	56.7%	55.4%	54.5%	55.6%	55.1%	53.8%	55.9%	56.9%
SG&A Exp.	12	13	16	10	14	13	16	18	20	18
D&A Exp.	72	65	57	51	75	77	93	106	103	108
Operating Profit	50	31	31	7	13	10	3	15	24	24
Operating Margin	27.8%	21.2%	19.1%	5.9%	6.7%	5.6%	1.3%	6.0%	9.3%	9.3%
Net Profit	24	72	43	(4)	79	5	1	(13)	42	(11)
Net Margin	13.4%	49.5%	27.1%	-3.6%	42.6%	2.9%	0.3%	-5.2%	16.1%	-4.1%
Free Cash Flow	114	72	79	40	70	61	84	92	90	98

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,998	1,755	1,475	1,336	1,392	1,464	1,940	2,033	1,926	1,914
Cash & Equivalents	49	67	29	14	27	0	31	10	9	12
Accounts Receivable	9	9	3	1	1	1	1	1	1	1
Goodwill & Int. Ass.	3	4	2	2	2	2	8	3	3	2
Total Liabilities	1,257	1,037	838	693	696	775	918	1,066	979	1,015
Long-Term Debt	794	912	665	646	649	719	856	1,008	916	955
Shareholder's Equity	513	480	442	469	520	525	679	636	616	654
LTD/E Ratio	1.22	1.47	1.20	1.14	1.02	1.13	1.07	1.35	1.26	1.43

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.2%	3.8%	2.7%	-0.3%	5.8%	0.4%	0.0%	-0.7%	2.1%	-0.6%
Return on Equity	3.3%	9.9%	6.4%	-0.7%	11.8%	0.7%	0.1%	-1.4%	4.4%	-1.2%
ROIC	1.4%	4.6%	3.0%	-0.3%	6.0%	0.4%	0.0%	-0.7%	2.2%	-0.6%
Shares Out.	13.5	13.7	13.7	13.3	13.2	13.6	13.8	15.2	17.1	15.5
Revenue/Share	13.32	1.06	11.66	9.15	14.09	13.09	14.61	16.87	15.27	16.83
FCF/Share	8.48	0.53	5.76	3.00	5.28	4.50	6.09	6.05	5.23	6.34

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

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