



# AvalonBay Communities Inc. (AVB)

Updated November 8<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$234	<b>5 Year CAGR Estimate:</b>	4.8%	<b>Market Cap:</b>	\$33.2B
<b>Fair Value Price:</b>	\$196	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	12/27/24 <sup>1</sup>
<b>% Fair Value:</b>	119%	<b>5 Year Valuation Multiple Estimate:</b>	-3.5%	<b>Dividend Payment Date:</b>	1/15/25 <sup>2</sup>
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$257	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

AvalonBay Communities (AVB) is a \$33.2 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, Inc. (AVB) reported strong third-quarter 2024 results, with EPS reaching \$2.61, a 115.7% increase from Q3 2023, and exceeding projections by \$1.16. Revenue was \$732.59 million, marking a 5.3% year-over-year growth. The company's Funds from Operations (FFO) per share rose to \$2.88, a 16.1% increase, while Core FFO per share was \$2.74, up by 3.0%. Same Store Residential revenue and operating expenses increased by 3.1% and 5.4%, respectively, resulting in a 2.0% growth in net operating income (NOI).

Development activity saw two new communities completed, adding 629 apartment units and 9,200 square feet of commercial space. AvalonBay began construction on four new communities, projected to add 1,418 units with a total cost of \$450 million. During the quarter, AvalonBay acquired three communities and sold two, netting \$332 million from dispositions. The company's liquidity remains strong with \$552.4 million in unrestricted cash, no outstanding credit facility borrowings, and an annualized net debt-to-Core EBITDAre of 4.2x.

For Q4 2024, AvalonBay projects EPS between \$1.61 and \$1.71 and Core FFO per share between \$2.78 and \$2.88, reflecting steady growth across the portfolio.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO/S</b>	\$6.78	\$7.55	\$8.19	\$8.62	\$9.00	\$9.34	\$8.69	\$8.26	\$9.79	\$10.63	<b>\$10.90</b>	<b>\$14.25</b>
<b>DPS</b>	\$4.64	\$5.00	\$5.40	\$5.68	\$5.88	\$6.08	\$6.36	\$6.36	\$6.36	\$6.60	<b>\$6.80</b>	<b>\$8.55</b>
<b>Shares<sup>3</sup></b>	132.0	137.0	137.0	137.7	138.1	140.3	139.2	139.5	139.7	141.9	<b>142.0</b>	<b>140</b>

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 2023 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 5.5% annualized growth rate over the next five years.

<sup>1</sup> Estimated

<sup>2</sup> Estimated

<sup>3</sup> In millions

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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>P/FFO</b>	19	24.2	21.8	20.7	19.2	23.3	19.0	29.2	17.2	16.8	<b>21.5</b>	<b>18.0</b>
<b>Avg. Yld.</b>	3.6%	2.7%	3.0%	3.2%	3.4%	2.8%	3.9%	2.6%	3.8%	3.7%	<b>2.9%</b>	<b>3.3%</b>

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

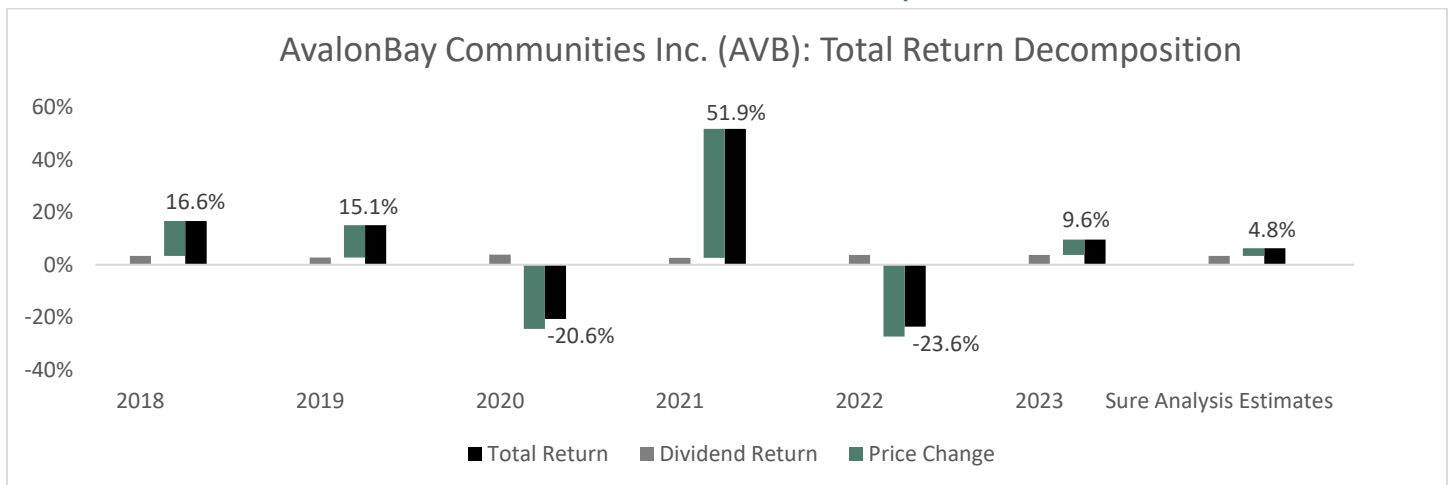
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	68%	66%	66%	66%	65%	65%	73%	77%	65%	62%	<b>62.4%</b>	<b>60%</b>

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 4.8% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	1,685	1,856	2,045	2,159	2,285	2,325	2,301	2,295	2,593	2,768
<b>Gross Profit</b>	1,096	1,214	1,362	1,436	1,518	1,557	1,478	1,441	1,674	1,780
<b>Gross Margin</b>	65.0%	65.4%	66.6%	66.5%	66.4%	67.0%	64.2%	62.8%	64.6%	64.3%
<b>SG&amp;A Exp.</b>	41	43	46	54	60	58	60	70	74	77
<b>D&amp;A Exp.</b>	443	478	531	584	631	662	707	759	815	
<b>Operating Profit</b>	612	693	785	798	826	837	710	613	785	886
<b>Operating Margin</b>	36.3%	37.3%	38.4%	37.0%	36.2%	36.0%	30.9%	26.7%	30.3%	32.0%
<b>Net Profit</b>	684	742	1,034	877	975	786	828	1,004	1,137	929
<b>Net Margin</b>	40.6%	40.0%	50.6%	40.6%	42.7%	33.8%	36.0%	43.8%	43.8%	33.6%
<b>Free Cash Flow</b>	834	1,019	1,087	1,182	1,214	1,181	1,083	1,050	1,247	

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	16,141	16,931	17,867	18,415	18,380	19,121	19,199	19,902	20,458	20,678
<b>Cash &amp; Equivalents</b>	509	401	215	67	92	40	217	420	613	398
<b>Total Liabilities</b>	7,081	7,081	7,688	8,021	7,744	8,128	8,444	8,966	9,202	8,893
<b>Accounts Payable</b>	102	99	101	85	97	92	94	64	73	
<b>Long-Term Debt</b>	6,490	6,457	7,031	7,329	7,040	7,296	7,564	8,104	8,316	7,982
<b>Shareholder's Equity</b>	9,046	9,841	10,171	10,388	10,633	10,990	10,752	10,933	11,253	11,783
<b>LTD/E Ratio</b>	0.72	0.66	0.69	0.71	0.66	0.66	0.70	0.74	0.74	0.68

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	4.3%	4.5%	5.9%	4.8%	5.3%	4.2%	4.3%	5.1%	5.6%	4.5%
<b>Return on Equity</b>	7.7%	7.8%	10.3%	8.5%	9.3%	7.3%	7.6%	9.3%	10.2%	8.1%
<b>ROIC</b>	4.5%	4.7%	6.2%	5.0%	5.5%	4.4%	4.5%	5.4%	5.9%	4.7%
<b>Shares Out.</b>	132.0	137.0	137.0	137.7	138.1	140.3	139.2	139.5	139.7	141.9
<b>Revenue/Share</b>	12.84	13.79	14.88	15.63	16.52	16.66	16.39	16.42	18.53	19.54
<b>FCF/Share</b>	6.35	7.57	7.91	8.56	8.78	8.46	7.71	7.51	8.91	

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

### Disclaimer

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