



UDR, Inc. (UDR)

Updated November 6th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	9.4%	Market Cap:	\$16 B
Fair Value Price:	\$43	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	01/09/2025
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date²:	01/31/2025
Dividend Yield:	3.9%	5 Year Price Target:	\$58	Years of Dividend Growth:	13
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

UDR, Inc., also known as United Dominion Realty Trust, is a luxury apartment REIT. The trust owns, operates, acquires, renovates, and develops multifamily apartment communities in high barrier-to-entry markets in the US. A high barrier-to-entry market consists of limited land for new construction, complicated entitlement processes, low single-family home affordability and strong employment growth potential. The majority of UDR's real estate property value is established in Washington D.C., New York City, Orange County, California, and San Francisco. UDR was formed in 1972 as a Virginia corporation, and today is headquartered in Denver, Colorado. The trust employs approximately 1,400 full-time associates. As of September 30th, 2024, UDR owned or had an ownership interest in 60,123 apartment homes.

On February 6th, 2024, UDR announced its 2024 dividend will be \$1.70 per share, which represents a 1.2% increase and marks the company's 13th consecutive annual dividend increase.

UDR reported third quarter 2024 results on October 30th, 2024. The company's adjusted funds from operations declined 2% year-over-year to \$0.54 per share in the third quarter. The quarterly AFFO payout ratio of 79% is relatively safe for a REIT that must pay out the majority of its earnings to shareholders. Physical occupancy of the real estate portfolio declined 40 basis points compared to the prior year period to 96.3%.

The trust narrowed its guidance for 2024 and now forecasts AFFO per share of \$2.21 to \$2.23 (from \$2.16 to \$2.24 previously), for a midpoint of \$2.22. The company also anticipates 2.0% to 2.4% growth in same-store revenue, 4.0% to 4.8% growth in same-store expenses, and 1.0% to 1.4% growth of same-store net operating income over 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$1.35	\$1.51	\$1.63	\$1.72	\$1.80	\$1.92	\$1.86	\$1.82	\$2.11	\$2.21	\$2.22	\$2.97
DPS	\$1.02	\$1.09	\$1.16	\$1.23	\$1.28	\$1.35	\$1.42	\$1.45	\$1.52	\$1.64	\$1.70	\$2.17
Shares³	253.4	263.8	267.3	268.8	269.5	286.0	294.9	301.7	322.7	328.8	335.0	375.0

UDR has grown adjusted funds from operations steadily in the last five and nine years, at 4.2% and 5.6%, respectively. AFFO failed to grow during the pandemic, but we see steady growth continuing following its recovery in 2022. Beyond 2024, we believe UDR can grow its AFFO per share by 6.0% to reach \$2.97 in 2029. As is evident by the ballooning share count, UDR's strategy focuses on raising capital by issuing equity and we see this continuing into the future.

The trust has plenty going for it, and it aims to grow AFFO by maximizing revenue by balancing blended lease rate growth against active occupancy management, and improving cost controls through its Next Generation Operating Platform (NGOP). Additionally, UDR targets generating 10% to 15% higher NOI growth than the market over the first three years of ownership following its acquisitions. Management is placing emphasis on the NGOP, expecting it to produce strong results in the years ahead. The NGOP is the self-service technology component unique to UDR and has already contributed to controllable margin expansion. It has improved the resident and prospective resident

¹ Estimate

² Estimate

³ In thousands

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experiences; a massive portion of prospect tours were self-guided or touchless. Site-level headcount has been reduced by more than 31% since mid-2018. As a result, less employees are able to manage more units, leading to efficiencies.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	20.6	22.4	21.8	22.0	20.9	23.9	20.7	27.3	22.8	17.8	19.5	19.5
Avg. Yld.	3.5%	3.2%	3.2%	3.2%	3.4%	2.9%	3.7%	2.8%	3.0%	4.1%	3.9%	3.7%

The current P/AFFO of 19.5 based on 2024's estimated AFFO represents a discount to the 5-year average of 22.5. We find the valuation to be in-line with our fair value estimate of 19.5X, as UDR's multiple has always trended on the higher end due to the safety and outperformance of the apartment space in the REIT business. Housing is a necessary, non-discretionary expense.

Safety, Quality, Competitive Advantage, & Recession Resiliency

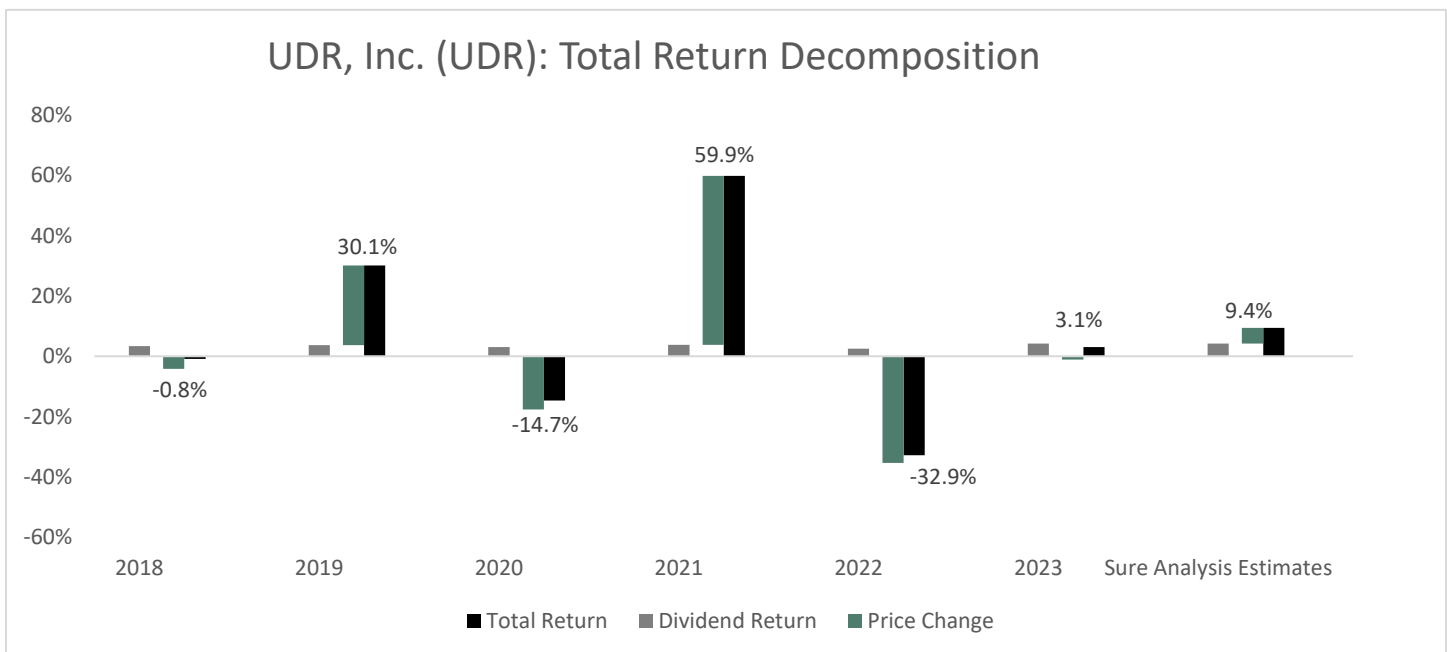
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	75%	72%	71%	71%	71%	70%	76%	80%	72%	74%	77%	73%

UDR's average 5-year payout ratio of 75% is well covered, especially within REIT space, as this sector is known for its high payout ratios. The trust has a distinct competitive advantage as it is implementing advanced technological solutions to the apartment rental business, which they believe will help to outperform peers. The company has an S&P Unsecured Rating of BBB+, and a consolidated net debt-to-EBITDA of 5.6X. UDR was negatively affected by the Great Recession as funds from operations dipped, and so did the trust's dividend. The share price cratered, but the company has become stronger since, and weathered the pandemic storm without too much difficulty.

Final Thoughts & Recommendation

UDR has demonstrated consistent results in the past decade even throughout the pandemic, with a fairly safe payout ratio in the REIT space, however it did suffer a dividend cut during the great financial crisis. We forecast UDR will produce annualized total returns of 9.4% in the next five years, stemming from 6.0% FFO per share growth and a 3.9% dividend yield. UDR earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	818	895	960	996	1,047	1,152	1,241	1,291	1,517	1,628
Gross Profit	189	238	239	253	286	288	215	873	331	393
Gross Margin	23.1%	26.6%	24.9%	25.4%	27.4%	25.0%	17.3%	67.7%	21.8%	24.1%
SG&A Exp.	48	60	50	49	47	52	50	96	64	70
D&A Exp.	364	381	426	436	436	508	619			
Operating Profit	127	162	175	189	221	216	132	136	235	287
Op. Margin	15.6%	18.1%	18.3%	19.0%	21.1%	18.8%	10.6%	10.5%	15.5%	17.6%
Net Profit	154	340	293	122	203	185	64	150	87	444
Net Margin	18.9%	38.0%	30.5%	12.2%	19.4%	16.1%	5.2%	11.6%	5.7%	27.3%
Free Cash Flow	295	341	440	393	443	446	430			

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,829	7664	7,680	7,733	7,712	9,636	9,638	10,775	11,038	11,370
Cash & Equivalents	15	7	2	2	185	8	1	1	1	3
Total Liabilities	4,093	4,763	4,583	4,898	4,789	6,247	6,379	7,301	6,100	6,421
Accounts Payable	91	81	104	103	76	90	111	137	153	141
Long-Term Debt	3,565	3,571	3,401	3,672	3,548	4,708	4,977	5,413	5,487	5,799
Total Equity	2,689	2,853	3,047	2,780	2,859	3,312	3,189	3,398	4,053	3,947
LTD/E Ratio	1.3	1.2	1.1	1.3	1.2	1.4	1.5	1.57	1.34	1.45

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.3%	4.7%	3.8%	1.6%	2.6%	2.1%	0.7%	1.5%	0.8%	4.0%
Return on Equity	5.7%	12.3%	9.9%	4.2%	7.2%	6.0%	2.0%	4.6%	2.3%	9.0%
ROIC	2.4%	5.3%	4.5%	1.9%	3.1%	2.5%	0.8%	1.8%	0.8%	4.2%
Shares Out.	253.4	263.8	267.3	268.8	269.5	286.0	294.9	301.7	322.7	329.1
Revenue/Share	3.23	3.39	3.59	3.70	3.88	4.03	4.21	4.28	4.70	4.95
FCF/Share	1.16	1.29	1.65	1.46	1.65	1.56	1.46			

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

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