

13 August 2014 | 9 pages

REITs  
North America | United States

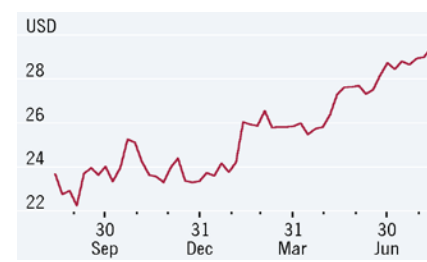
# UDR, Inc (UDR)

## Executing on the Right Plan; NDR Takeaways

- **Staying the Course** — We came away from our management meetings with apartment owner UDR (UDR) incrementally more positive on the company and of the merit and execution of its three-year plan. We believe that UDR is well positioned to drive growth through both operations and development. Furthermore, UDR's focus on operations, capital allocation, and balance sheet management should drive cash flow growth. Across our meetings, 4 main topics were discussed – the three-year plan, operations, development, and the transaction market. Overall, we continue to maintain our overweight position in UDR in our model portfolio given valuation and positive fundamentals.
- **Three-Year Plan on Track** — UDR is on track in terms of its updated three-year plan and continues to believe it is the correct course of action. Equity issuance was a large topic in the meetings, with UDR adamant that they will only issue equity if the stock is trading at or above consensus NAV and there is an accretive use of the capital. It is important to note that UDR does not consider development or paying down debt as an adequate use of equity capital, despite it being accretive. Although the stock is trading slightly above consensus NAV today, we do not think an equity issuance is imminent as we do not see a current need for capital. The three-year plan is completely self-funded and does not require equity. UDR will benefit from favorable debt maturing in 2015 (~\$520m at a blended 5.5%), and plans to issue debt to refinance. ~\$325m of that debt matures in January 2015, which when refinanced at a lower rate should benefit earnings. Balance sheet metrics are trending as expected. In addition to core growth, development will be the main external driver, funded with proceeds from dispositions (see page 3).
- **Operations Trending Well** — Operations are trending well and UDR is positioning itself for a strong 2015. We believe that UDR is trending ahead of the midpoint of updated same store guidance. Given current occupancy is ahead of target (~97%), UDR is pushing new lease rates in 2H14, which should benefit 2015 same store revenue growth. *(Continued on page 3)*

Neutral	2
Price (13 Aug 14)	US\$29.74
Target price	US\$30.00
Expected share price return	0.9%
Expected dividend yield	3.6%
Expected total return	4.4%
Market Cap	US\$7,486M

### Price Performance (RIC: UDR.N, BB: UDR US)



FFOPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	0.35A	0.37A	0.37A	0.36A	1.44A	1.44A
2014E	0.36A	0.39A	0.41E	0.40E	1.55E	1.53E
Previous	0.36A	0.39A	0.41E	0.40E	1.55E	na
2015E	0.39E	0.41E	0.41E	0.43E	1.64E	1.62E
Previous	0.39E	0.41E	0.41E	0.43E	1.64E	na
2016E	na	na	na	na	1.71E	1.72E
Previous	na	na	na	na	1.71E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
<b>Valuation Ratios</b>					
P/FFO (x)	22.6	20.6	19.2	18.1	17.4
P/AFFO (x)	28.0	25.7	22.8	21.2	20.4
Dividend yield (%)	2.9	3.1	3.5	3.7	4.0
<b>Per Share Data (US\$)</b>					
FFO	1.32	1.44	1.55	1.64	1.71
AFFO	1.06	1.16	1.31	1.41	1.46
NAVps diluted	na	na	na	na	na
DPS	0.88	0.93	1.04	1.11	1.20
<b>Profit &amp; Loss (US\$M)</b>					
Net operating income (NOI)	459	485	524	559	580
G&A expenses	-32	-32	-38	-38	-39
Other Operating items	283	82	131	81	81
<b>EBITDA including</b>	<b>710</b>	<b>535</b>	<b>617</b>	<b>602</b>	<b>621</b>
Net Interest Expense	-139	-126	-132	-139	-140
Depreciation and Amortization	-387	-381	-397	-399	-400
Preferred Dividends	-6	-4	-4	-4	-4
Other Non-operating items	25	17	3	-4	-4
<b>Net Income</b>	<b>203</b>	<b>41</b>	<b>87</b>	<b>56</b>	<b>73</b>
Funds from Operations (FFO)	333	381	410	434	451
Adjusted FFO (AFFO)	268	305	345	372	386
<b>Growth Rates (%)</b>					
NOI	2.0	5.6	8.1	6.6	3.7
EBITDA including associates	28.2	-24.7	15.3	-2.4	3.3
FFOPS	3.1	9.5	7.5	5.6	4.1
AFFOPS	2.9	9.2	12.8	7.7	3.9
<b>External Growth</b>					
Acquisitions (pro-rata share)	679	0	125	150	150
Yield (%)	na	na	na	na	na
Dispositions (pro-rata share)	609	275	400	250	250
Yield (%)	na	na	na	na	na
Re/devel (pro-rata share)	69	437	574	218	162
Yield (%)	0.0	0.0	0.0	0.0	0.0
<b>Balance Sheet (US\$M)</b>					
Gross Real Estate	7,565	7,734	7,888	7,836	7,787
Construction-in-Progress (CIP)	490	466	276	276	276
Cash & cash equivalent	12	30	27	27	27
<b>Total assets</b>	<b>6,889</b>	<b>6,808</b>	<b>6,648</b>	<b>6,227</b>	<b>5,811</b>
Total Debt	3,409	3,524	3,562	3,379	3,209
<b>Total liabilities</b>	<b>3,671</b>	<b>3,778</b>	<b>3,795</b>	<b>3,611</b>	<b>3,440</b>
<b>Shareholders' funds</b>	<b>3,217</b>	<b>3,030</b>	<b>2,853</b>	<b>2,616</b>	<b>2,371</b>
<b>Profitability/Solvency Ratios</b>					
Gross Margin (%)	64.3	64.3	65.4	66.3	66.4
Fixed Charge coverage (x)	2.7	3.1	3.5	3.6	3.6
FFO Payout (%)	66.4	64.1	67.0	67.7	70.4
AFFO Payout (%)	82.5	79.9	79.6	79.0	82.3
<b>Operations</b>					
Occupancy (%)	95.7	96.0	96.5	96.5	96.5
Same-store NOI (%)	6.6	6.0	4.8	3.7	3.3

## Executing on the Right Plan; NDR Takeaways

- **Operations Trending Well (*continued*)** — UDR is driving margin expansion through its use of an outbound call center to resurrect leads, investing in technology, and expense control initiatives. UDR is also focusing on reducing the number of days a unit is vacant from move out to move in. For 2014, UDR expects the number to be ~22 days, which is an improvement of ~5 days over the past 2 years. This is a large opportunity for UDR, as improving the metric by 1 day is ~\$1m to the bottom line.
- **Market Update** — Supply and demand dynamics across the majority of the markets are favorable – with DC, downtown Seattle, and downtown Austin as the exception. However, UDR is well positioned in those markets relative to peers given their submarket allocation and mix of A/B assets. DC is seeing the impact of new supply, but UDR expects 2014 same store revenue to be ~1% (potentially slightly lower), which is above peers. Orange County should stop being a drag on results in 4Q14. San Francisco continues to be strong and is ahead of expectations. Boston is slightly below expectations. Seattle continues to hold up well, with the B assets outperforming A assets. UDR believes that it is good to be a B class operator in NYC.
- **Development Will Drive Growth** — The majority of UDR's non-core growth will be from development. Going forward, UDR expects the size of its development pipeline to be \$1.0-\$1.4bn (~10% of GAV). The current \$1.1bn development pipeline is expected to stabilize at a yield ~180bps above transaction cap rates. While the average spread is within UDR's target of 150-200bps over transaction cap rates, a few of the assets are performing ahead of expectations (Channel @ Mission Bay, Pier 4, 399 Fremont), a few are in-line (13<sup>th</sup> & Market, Beach & Ocean), and a few are below expectations (Fiori, Los Alisos, Domain College Park, DelRay Tower). UDR plans to start 2-3 projects in 2H14 (all in CA), which will likely be part of the 50/50 JV with MetLife. In 2015, UDR plans to start 5-6 projects. Overall, fewer deals are penciling at this point in the cycle, but UDR is looking for land that makes sense to backfill the pipeline. Land costs have been pretty stable year-over-year, except in NYC and SF where land has been bid up by condo developers. Labor costs have seen some pressure (5-10% year-over-year) – mostly on stick construction and not as much with high rise. UDR continued to redevelop select assets, but it is becoming more difficult to get the desired IRR.
- **Dispositions a Source of Proceeds** — UDR plans to fund its development spend with proceeds from the sale of assets in non-core markets and capital warehouse markets. UDR could also look to sell non-core assets in core markets. Thus far, the pricing on the dispositions has been ahead of expectations, with multiple offers on each sale. UDR is seeing condo pricing in SF and NYC, but it is still more chatter than trading. UDR is not interested in growing to grow, and thus is not interested in major acquisitions or portfolios.

## UDR, Inc

### Company description

UDR is a multifamily REIT focused on managing, buying, selling, developing and redeveloping apartment communities. UDR owns ~52k apartment units and has ~1.3k units under development. Recently, UDR has been increasing its presence in the Northeast, acquiring assets in New York and Boston. UDR is a member of the S&P 400 Index.

### Investment strategy

We rate UDR shares Neutral (2). UDR owns a well-diversified apartment portfolio, with assets located throughout the country. Over two thirds of NOI is generated from areas of California, Florida, DC Metro and Seattle, which we believe will rebound stronger than most markets.

### Valuation

We value UDR by triangulating between NAV, AFFO and FFO multiple valuation. We believe that UDR's high asset quality should result in a strong overall growth profile. Our TP is \$30 based on an assumed 5.3% applied cap rate on 1-year forward NOI.

### Risks

Risks to UDR achieving our target price:

If private market cap rates expand more than we anticipate, the stock could underperform our target price.

If there is a repeal or modification of Proposition 13 — which has suppressed real estate taxes for properties in California — there could be a sharp increase in expenses and the stock could underperform our target price.

If private market cap rates compress more than we anticipate, the stock could outperform our target price.

If economic activity increases more than expected and there is increased job growth, the stock could outperform our target price.

## Appendix A-1

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Analyst: Michael Bilerman



	Date	Rating	Target Price	Closing Price
1	4-Oct-11	2H	*22.00	21.91
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*2	22.00	21.61

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Nov-11	2	*26.00	24.11
5	16-Dec-13	2	*25.00	23.42
6	1-May-14	2	*27.00	25.95

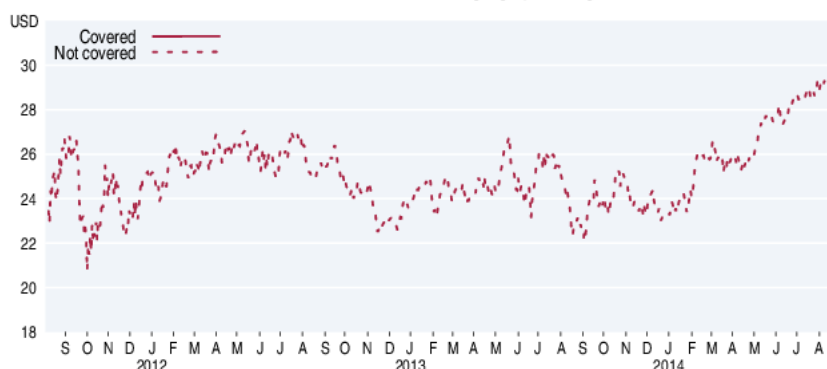
	Date	Rating	Target Price	Closing Price
7	31-Jul-14	2	*30.00	29.08

Rating/target price changes above reflect Eastern Standard Time

### UDR, Inc (UDR)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Michael Bilerman



\* Indicates change

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Data current as of 30 Jun 2014

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
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49%	40%	12%	0%	100%	0%
55%	53%	46%	0%	54%	0%

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