

## Residential REITs

## Residential earnings recap week 3: AMH, INVH, KW, SUI, VRE

Price Objective Change

**SFR is our top sub-sector in Resi; AMH has better growth**

Within Residential REITs, we are most positive on the single family rental REIT sub-sector given (1) lack of existing inventory for sale, (2) depressed housing starts and (3) relative affordability favors rentals over purchasing. The initial guides from AMH and INVH support this view. That said, we believe AMH is better positioned than INVH going forward. Our thesis is driven by AMH's development platform and its ability to improve its portfolio as internally developed properties become a growing share of the overall portfolio. We expect AMH to deliver an AFFO CAGR of 7.7% (2028 vs 2023) vs INVH's 6.5%. We lower AMH PO to \$42 from \$44, update estimates for AMH & INVH, and reiterate Buys on AMH & INVH. AMH is on Spector's Top pick list and the bank's [2024 SMID Cap Ideas list \(see note\)](#).

**SUI: taking down our 2025 growth estimates**

We remain very positive on the outlook for MH, RV and Marinas. SUI's 2024 core guide is consistent with our thesis on these asset classes. We [moved SUI to Neutral \(see note\)](#) last Summer given our concern that this core growth would not flow to the bottom line in 2024. SUI's initial outlook confirmed our concern. After updating our model, we lowered our 2025 FFO growth to 6.0% from 9.7%. Reiterate Neutral.

**SUI's simplification plan is a step in the right direction**

The biggest negative surprise from SUI was that it reported a "material weakness over financial reporting". On the call SUI noted that it is "specific to the design of accounting controls over assessing goodwill at Park Holidays as a result of the material weakness in the design of this control". SUI became twice as complex in a short period of time via the entry into the Marina sector and also the UK. The concern we have is that SUI's internal operational controls have not kept pace with this increased complexity. We will be looking for signs that SUI's efforts to "getting back to the basics to focus on core growth" includes improving internal systems.

**KW: we are concerned about the dividend sustainability**

We update estimates and reiterate our Underperform on KW as the quarter came in below our expectations. We remain highly focused on the dividend which [our analysis \(see note\)](#) found to not be 100% covered by reoccurring cash flows and instead by asset sales. The unrealized decline in the real estate value of KW's co-investment portfolio (non-cash charge but impacts their adjusted EBITDA) points to higher cap rates that likely will reduce proceeds on future sales.

**VRE continues to execute on its value creation plan**

VRE's initial 2024 outlook came in below our expectations. We note that management was extremely conservative with their limited initial guide for 2023. Positively, VRE completed its transition to a 100% multifamily portfolio and continues to look at ways to optimize the portfolio. Management continues to position the company for a potential sale. Timing remains uncertain given the capital markets backdrop. We update estimates and reiterate Neutral.

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See Team Page for List of Analysts

See inside for Key comments from the earnings calls

See page 11 for Key terms

**Exhibit 1: Summary of PO changes**

Updated price objective after review of models

Ticker	Old PO	New PO
AMH	\$44.00	\$42.00

**Source:** BofA Global Research, prices as of 2/23/2024

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[BofA's Residential REITs earnings update](#)

See inside for more details on PO &amp; estimate changes

## Key metrics

### Exhibit 2: Lease rate growth: BofA estimates before and after 4Q23 earnings

We modified our assumptions for lease rate growth post earnings.

	FY2024				FY2025			
	New		Renewal		New		Renewal	
	Before	Post	Before	Post	Before	Post	Before	Post
<b>Apartment</b>								
AVB	1.1%	0.1%	4.1%	4.0%	1.4%	1.5%	4.5%	4.5%
CPT	-2.4%	-2.0%	4.4%	3.5%	1.3%	0.0%	4.9%	3.4%
EQR	0.0%	-0.4%	5.5%	4.0%	1.3%	1.0%	5.3%	4.3%
ESS	1.3%	1.2%	4.8%	1.8%	3.0%	2.1%	4.5%	3.5%
MAA	-2.4%	-3.3%	4.9%	4.6%	1.1%	0.0%	4.8%	4.8%
UDR	-1.4%	-1.5%	3.5%	3.1%	1.9%	1.0%	5.5%	3.9%
<b>SFR</b>								
AMH	4.3%	4.4%	6.0%	5.8%	4.3%	4.1%	5.3%	5.0%
INVH	2.0%	1.4%	6.0%	6.2%	3.8%	2.5%	4.6%	4.6%

Source: BofA Global Research

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### Exhibit 3: Lease rate growth: company guidance for FY24

Companies provided guidance for FY24 lease rate growth.

	New	Renewal	Blended
<b>Apartment</b>			
AVB	0.0%	4.0%	2.0%
CPT	-0.6%	3.6%	1.2%
EQR	0.0%	4.0%	2.0%
ESS	1.3%	1.8%	n.a.
MAA	-3.1%	4.8%	1.0%
UDR	-1.5%	3.0%	0.7%
<b>SFR</b>			
AMH	Low 4%	5% area	High 4%
INVH	n.a.	n.a.	High 4% to low 5%

Source: company filings, conference calls

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### Exhibit 4: Same store occupancy: actual vs. company guidance for FY24

Companies provided guidance for FY24 occupancy.

	4Q23 actual	2023 actual	January	FY24 guidance
<b>Apartment</b>				
AVB	95.6%	95.8%	n.a.	95.8%
CPT	94.9%	95.3%	95.0%	95.3%
EQR	95.8%	95.9%	96.2%	95.9%
ESS	96.2%	96.5%	96.2%	96.2%
MAA	95.5%	95.6%	96.2%	95.7%
UDR	96.9%	96.7%	97.2%	96.7%
<b>SFR</b>				
AMH	96.2%	96.7%	96.0%	Low 96%
INVH	97.1%	97.4%	97.5%	97.4%

Source: company filings, conference calls

Note: UDR did not provide separate occupancy guidance but commented "we expect the combination of occupancy and bad debt to be roughly flat in 2024." in 4Q23 earnings call.

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**Exhibit 5: FY24 same store revenue growth guidance vs. our assumption**

Companies provided guidance range for FY24 same store revenue growth.

	Guidance		BofA assumption
	Low	High	
<b>Apartment</b>			
AVB	1.6%	3.6%	3.1%
CPT	0.5%	2.5%	1.5%
EQR	2.0%	3.0%	2.6%
ESS	0.7%	2.7%	1.9%
MAA	0.2%	1.7%	0.9%
UDR	0.0%	3.0%	1.8%
<b>SFR</b>			
AMH	3.8%	5.8%	5.1%
INVH	4.5%	5.5%	5.1%

Source: company filings, conference calls

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**Exhibit 6: FY24 market rent growth assumption**

Companies provided assumptions for FY24 market rent rate growth.

	Company assumption
<b>Apartment</b>	
AVB	2.4%
CPT	1.4%
EQR	n.a.
ESS	1.3%
MAA	0.0%
UDR	1.0%
<b>SFR</b>	
AMH	n.a.
INVH	n.a.

Source: company filings, conference calls

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# Key comments from the earnings calls

## AMH - key quotes from the earnings call on 2/23

- **Guidance / building blocks for 2024:**
  - **Earn in:** approximately 3%
  - **Loss to lease:** low 3% range today
  - **January occupancy:** “For the month of January, same home average occupied days was 96%.”
  - **January leasing rates:** “new and renewal spreads were 4.3% and 5.7%, respectively. This resulted in blended rate growth of 5.3% for the month.”
  - **February performance so far:** “February is off to a fantastic start. I would expect new and renewal leases to be a tick better in terms of rate growth over January”
  - **New / renewal lease rate guide:** “for the full year, our expectation on new lease rate growth will be in the low 4% and renewal rate growth to be in the 5% area”
  - **New / renewal dynamics:** “On the renewal side, there's going to be an expectation that it returns to kind of normal seasonality where the renewal strength is relative to news is strong in Q1 and Q4, with news outpacing renewals during the spring leasing season. And that's our expectation for this year.”
  - **Renewal notice:** “February and March, we've gotten many of those results back already, and those are trending slightly better than January. We're sending out renewals in the 5% to 6% range into April.”
  - **Blended lease rate guide:** “2024 spread in the high 4% area”
  - **Occupancy guide:** low 96% area
  - **Bad debt:** “our outlook contemplates that bad debt remains in the low 1% area or so over the course of this year.” “hypothetically, if our bad debt returned to normal on a full-year calendar basis, that would translate into about, call it, 30 basis points to 40 basis points of additional same-home revenue contribution.” “long-term run-rate of 80 basis points to 100 basis-points or so.”
  - **Expense:**
    - **Property tax:** “property tax growth in the low 7% area”
    - **Insurance:** “high single digits based on a successful renewal campaign that becomes effective at the end of this month.”
    - **Other expenses:** “5.25% growth on all other expenses reflecting the general inflationary environment”
- **Disposition cap rate:** “an average disposition cap rate in the mid-3% area”
- **Payoff maturing debt in 2024:** “we recently gave notice to pay off one of our upcoming maturities by the end of the first quart” “With respect to our remaining

2024 maturity, we expect to opportunistically monitor the market for refinancing windows and have contemplated a midyear payoff in guidance.”

- **Development yield:** “last year, we delivered in the high 5%’s as we underwrite. That’s still 100 basis points higher than anything that we are seeing today from National Builders or MLS” “Probably high 5%’s, maybe a little bit at 6%, but let’s keep ourselves in the high 5%’s at this point for deliveries in 2024.”
- **Long term run rate for property tax growth:** “4% to 5%”

## VRE - key quotes from the earnings call on 2/22

- **Guidance for 2024:**
  - **Rental revenue:** “At the midpoint, the growth is comprised of approximately 350 basis points of rental revenue growth, primarily driven by recapture of loss to lease, and 100 basis points from Haus25 due to the impact of retail leasing and concessions burning off as a result of the lease-up.” “rental revenue growth will be higher than our annual projection in the first quarter as a result of Haus’s relative performance this year versus last, before returning to a more normal seasonal bell curve.”
  - **Occupancy:** “In terms of occupancy, it’s not really the primary metric that I would say we target, I would say that we do try to maintain that around the 95% understanding that it may fluctuate from time to time by the slightly above or below that”
  - **Expense:** “At the midpoint, we see 160 basis points related to increases in insurance, as we believe premiums will continue realizing double-digit increases, and about 175 basis points related to expense inflation, which is offset by anticipated savings from various operational initiatives.” “We will also have about 215 basis points of expense growth, primarily in the second quarter, when we lap the recognition of the credits received last year on the tax appeals on the two Jersey City assets.”
  - **Property management expense and G&A:** “we expect overhead costs of real estate services, which is where we record our property management expenses, and G&A to remain relatively flat”
- **Strategy going forward:** “First, continued operational art performance through a number of platform and portfolio optimization strategies. Second, capital allocation initiatives focused on generating earnings and value creation to further boost the positive baseline performance from our multi-family portfolio. And third, further strengthening of our balance sheet.”
- **Supply:** “Almost half of our properties are located along the Jersey City waterfront, with very limited supply as virtually no new projects were completed last year, and approximately 1,200 units expected to be completed within the next two years.”
- **Guidance low / high end assumption:** “Our guidance at the low end is assuming that the macroeconomic headwinds discussed by Mahbod result in a decline in job and wage growth in our market, thus slowing the pace of rent growth coupled with elevated expenses. On the high end of our range, we’ve assumed higher rental revenue growth given the low supply in our market, albeit below 2022 and 2023 levels, but still with elevated expense growth due to insurance and real estate taxes, which are difficult to predict from largely outside of the company’s control.”



## KW - key quotes from the earnings call on 2/22

- **Updates on cost reduction and asset sales:** “Thus far, two months into this year, we have either implemented or identified approximately 70% of the cost cuts and have either completed or are under contract in over half of the asset sales, which would generate cash to KW of \$320 million and GAAP gains on sale in excess of \$100 million.”
- **NOI growth from multifamily stabilization:** “we look to find new opportunities to grow our stabilized multifamily portfolio. A large part of this growth will be driven by the near-term stabilization of the approximately 4,000 units that is expected to add \$43 million of estimated annual NOI to KW.”
- **Fair value depreciation in co-investment:** “our unconsolidated investments, which are largely held at fair value, were impacted by non-cash adjustments. In Q4, we saw valuations depreciate by 4%, resulting in \$176 million of fair value reductions, with estimated values being impacted by higher implied cap rates as a result of the overall interest rate environment.”
- **Loss to lease for US multifamily assets:** “In the U.S., we saw seasonal leasing trends pick up in the fourth quarter, with renewal leasing spreads totaling 3.3% and loss to lease totaling approximately 2% at quarter end.”
- **January multifamily leasing:** “renewal spreads increasing to 3.8% and asking rents up 2%”

## SUI - key quotes from the earnings call on 2/21

- **Guidance for 2024:**
  - **Acquisition / disposition:** “our guidance includes acquisitions and dispositions and capital markets activity through February 20, but it does not include the impact of prospective acquisitions, dispositions or capital markets activities”
  - **Transient revenue expectation:** “transient revenue expectations in total for RV are expected to be down 2.75%. In Marina, we are expecting an increase or underwriting, an increase in Marina transient revenue of about 10% for the year. And in the U.K., we are expecting transient revenue to increase just about 2.5% for the year.”
  - **UK home sale margin:** “For 2024, our margin expectations are higher than in 2023, given the contribution to overall margin from home sales at Sandy Bay.”
  - **Operating expense:** “in supply and repair, we saw a decrease year-over-year, for example, in '23, and we are growing off of that base north of 10% from an expectation standpoint.”
  - **Interest expense:** “there were increases to underlying rates over the course of 2023. So there is a full year of that impact at the higher rates than where they started in 2023, which should help bridge that gap.” “Given that we are spending less on the ground-up development and expansion side, there is a reduction year-over-year in capitalized interest.”
- **Goodwill impairment:** “Based on the macroeconomic dynamics in the U.K., we have recognized total non-cash impairments of approximately \$370 million related to the goodwill associated with the Park Holidays platform acquisition. As part of our year-end audit process, it was determined that the impairments should have

been recognized in earlier periods, resulting in a material weakness and internal control over financial reporting.”

- **UK loan resolution:** “Separate from Park Holidays and as previously disclosed, in late December, we obtained title to three real estate assets securing the U.K. note. Additionally, we recently completed the receivership and disposition processes related to the manufacturing businesses that represented the remaining collateral on the U.K. note. As we previously have stated, because we did not wish to operate the manufacturing businesses, we moved expeditiously to dispose of them. As of this month, the U.K. note has been completely resolved.”
- **Business simplification:** “in this effort to get back to basics and focus on this strong growth in our core businesses and translate that directly to per share growth, we’re looking to simplify our business, to remove complexities, both from a modeling standpoint, but also from an investment standpoint”
  - **Non-strategic assets:** “To simplify our business and reduce exposure to variable rate debt, in the fourth quarter, we made strong progress toward monetizing assets no longer deemed to be strategic.”
  - **JVs:** “Given our focus on simplifying how we own properties, we sold our majority equity interest in three joint venture properties and acquired their minority interest in 14 joint venture properties so that we now own 100% of them.”
  - **Rezplot:** “we also sold our ownership interest in Rezplot, whose Campspot software is a valuable tool that we continue to use for managing our RV bookings. Given the strong position we helped Campspot achieve over the past several years, it was an opportune time to divest our interest.”
  - **Consumer loan portfolio:** “During the quarter, we recycled capital from a \$53 million portfolio of Manufactured Housing consumer loans held on our balance sheet and used the net proceeds to pay down debt.”

## INVH - key quotes from the earnings call on 2/14

- **Building blocks / guidance for 2024:**
  - **Earn in:** 2.5-3%
  - **Loss to lease:** “high single-digit”
  - **January lease rate growth:** “January blended rent growth was 3.5%, comprised of renewal rent growth of 5.9% and a negative new lease growth of 1.5%. Early indications lead us to believe that new lease rates have already begun to turn positive again in February’s activity to date.”
  - **Blended lease rate growth assumption:** “guidance assumes same store blended rent growth in the high 4% to low 5% range” “there could be some upside to those numbers throughout the year. We’re certainly not baking that into our guidance.”
  - **Renewal notice:** “As you look forward now, we went out in February in the low eights, in April and May in the high sevens.”
  - **January occupancy:** 97.5%



- **Occupancy:** “assumes 2024 average occupancy will be similar to our full year 2023 result”
- **Bad debt:** “continued improvement in our bad debt as a percentage of rental revenue to an expected range of 65 basis points to 95 basis points.” “steady improvements over the course of this year”
- **Expenses:** “property tax expense growth in a range of 8% to 10%, and insurance expense growth in the mid-to-high teens.”
- **SS NOI cadence:** “we anticipate same store NOI growth will be higher in the second half of the year than in the first half.”
- **Capex growth:** “With respect to CapEx, I think that that is going to continue to grow at sort of an inflationary rate.”
- **Occupancy strategy in 4Q:** “As we typically do in the slower winter leasing season, we prioritized higher occupancy in the fourth quarter to better position the portfolio as we head into our upcoming peak leasing season.”
- **Property tax expectation:** “we are not assuming any improvement in millage rates. I think we are taking a somewhat more conservative approach, as I think our experience over the last couple of years warrant.”
- **Impact from property/asset management business:** “the \$0.02 that we outlined in the bridge, just to be clear, that is the net contribution based on the property management and asset management fees that we will earn, net of the incremental cost that we expect to incur to manage those additional 14,000 homes. As far as what the opportunity could be over time and distance, yes, as we talked about, we believe that this will allow us to enhance the efficiency with which we manage our owned portfolio. I would say that those efficiency gains are not factored into our guidance.”
- **Disposition cap rates:** “it certainly feels like we can continue to sell our dispositions back into the MLS kind of in the mid-to-high threes, low fours, depending on the marketplace.”
- **Acquisition cap rates:** “we just have a growing backlog of opportunities to work with them on buying partial and full community deals. And I think we feel good about where the spread is on potential cap rates for us. And I think it's consistent with what we're -- it's clearly, call it, in the high fives, low sixes in terms of where we think there are opportunities for that.”

Please see below to find comments from companies that reported in previous weeks:

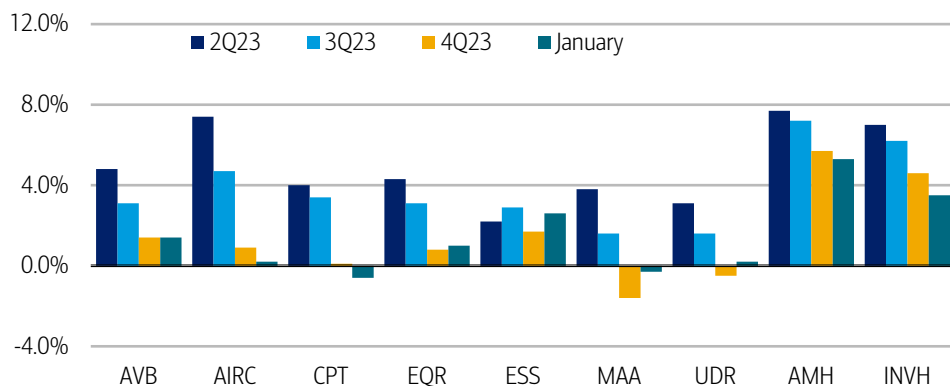
- [Residential REITs: Residential earnings recap week 1: AVB, CPT, ELS, EOR](#)
- [Residential REITs: Residential earnings recap week 2: ESS, MAA, UDR](#)



# Leasing rates

## Exhibit 7: Residential REITs blended lease rate growth Y/Y

Last 3 quarters' blended lease growth have been trending down

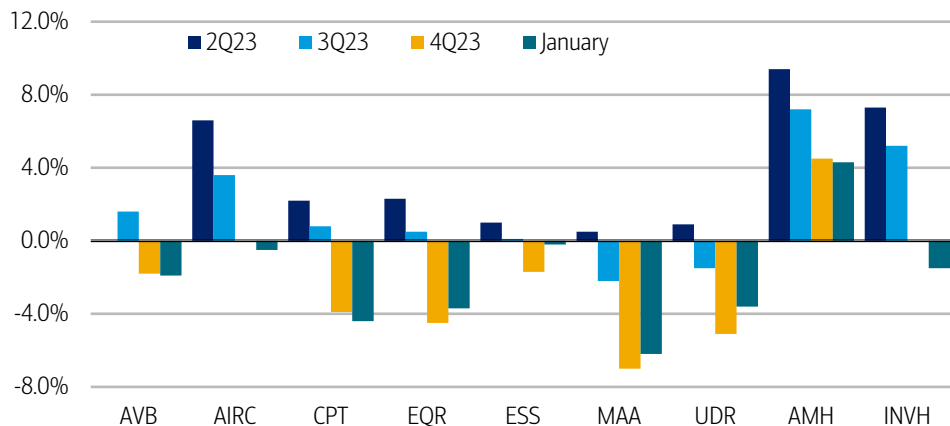


Source: Company filings

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## Exhibit 8: Residential REITs new lease rate growth Y/Y

Last 3 quarters' new lease growth have been trending down

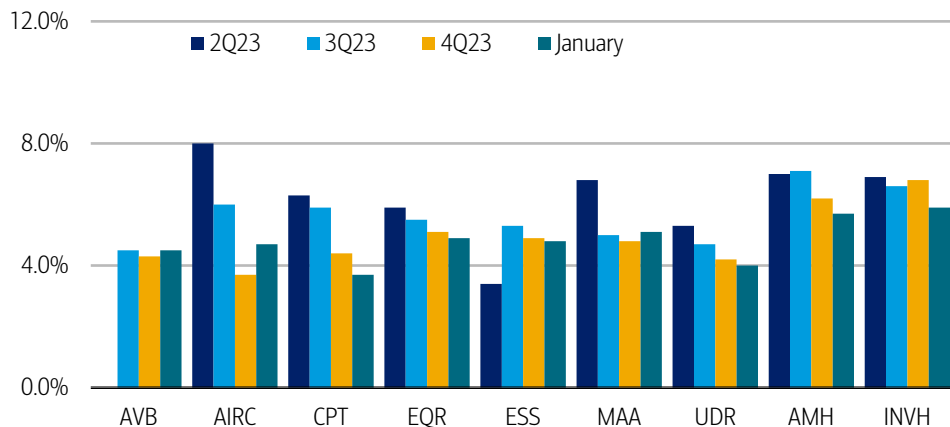


Source: Company filings

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## Exhibit 9: Residential REITs renewal lease rate growth Y/Y

Last 3 quarters' renewal lease growth have been trending down



Source: Company filings

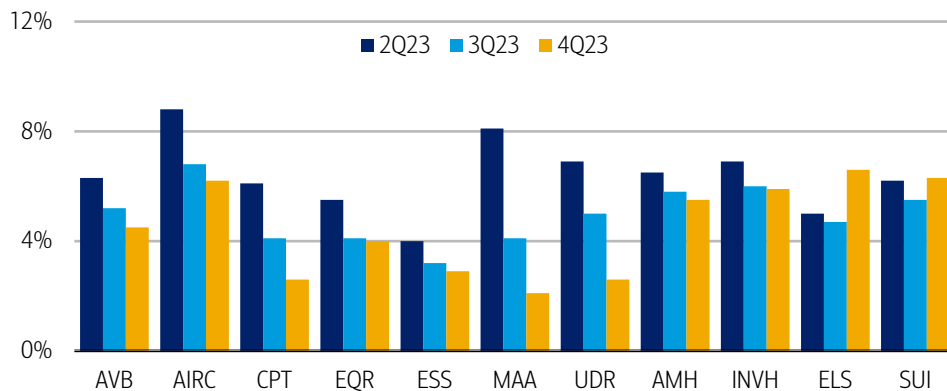
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## Same store

### Exhibit 10: Residential REITs SS revenue growth Y/Y

Last 3 quarters' same store revenue growth have been trending down

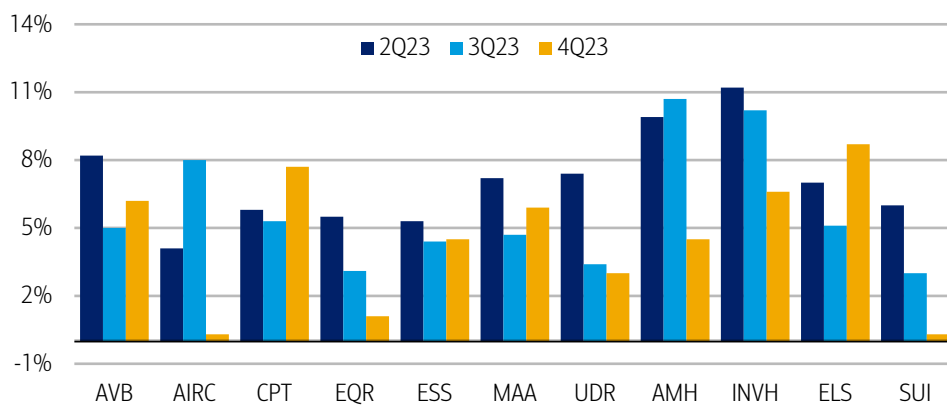


Source: Company filings

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### Exhibit 11: Residential REITs SS expense growth Y/Y

Last 3 quarters' same store expense growth have been trending down

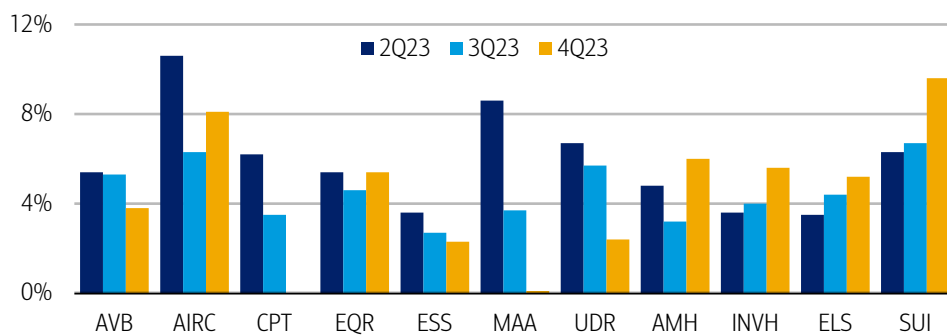


Source: Company filings

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### Exhibit 12: Residential REITs SS NOI growth Y/Y

Last 3 quarters' same store NOI growth have been trending down for Apartment REITs



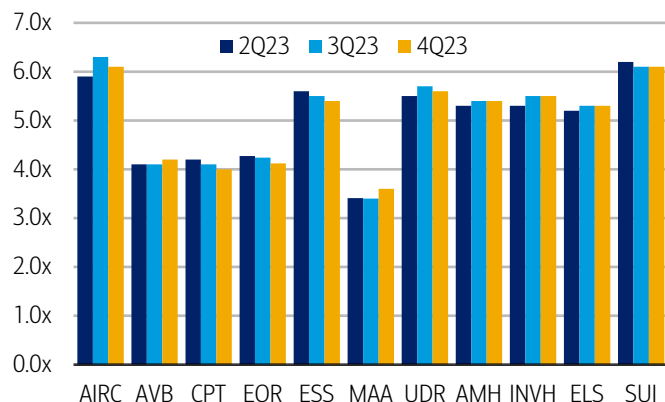
Source: Company filings

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# Leverage & annualized turnover

## Exhibit 13: Residential REITs leverage

Last 3 quarters' Net debt / EBITDA is trending steady

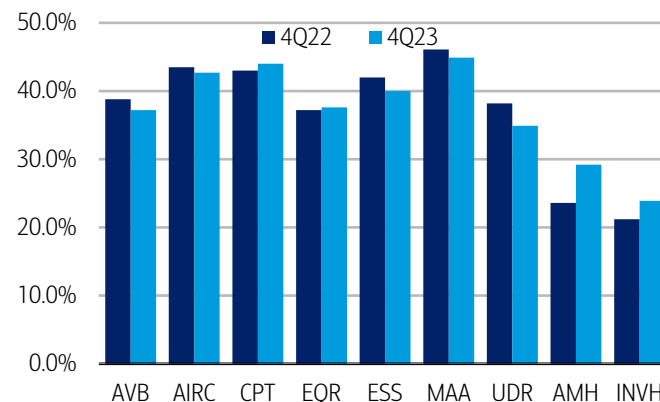


Source: Company filings

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## Exhibit 14: Residential REITs annualized turnover

Apartments have higher turnover than SFR



Source: Company filings

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## Key terms

Apts: Apartments

Avg.: average

bp: basis point

CA: California

Cap rate: capitalization rate

FY: full year

IRR: internal rate of return

MH: manufactured housing

Nareit: National Association of Real Estate Investment Trusts

NOI: net operating income

PO: price objective

QTD: quarter to date

RV: recreational vehicle

SE: southeast

SFR: single family rental

SS: same store

Y/Y: year over year

YE: year end

AIRC: Apartment Income REIT Corp

AVB: AvalonBay Communities Inc

CPT: Camden Property Trust

EQR: Equity Residential

ESS: Essex Property Trust Inc

MAA: Mid-America Apartment Communities Inc

UDR: UDR, Inc.

AMH: American Homes 4 Rent

INVH: Invitation Homes Inc

ELS: Equity LifeStyle Properties Inc

SUI: Sun Communities Inc



## PO & estimate changes

### Exhibit 15: Summary of PO changes

Updated price objective after review of models

Ticker	Old PO	New PO	QRQ	Price
AMH	\$44.00	\$42.00	B-1-7	\$35.24

Source: BofA Global Research, prices as of 2/23/2024

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### Exhibit 16: Summary of estimate changes

Updated published estimates after review of models

Ticker	2024		2025		2026		2027		2028	
	Old	New	Old	New	Old	New	Old	New	Old	New
AMH	\$1.77	\$1.74	\$1.89	\$1.87	\$2.01	\$2.02	\$2.15	\$2.19		\$2.38
INVH	\$1.88	\$1.87	\$1.96	\$1.99	\$1.92	\$2.11	\$1.92	\$2.24		\$2.38
KW	(\$0.02)	(\$1.36)	(\$0.03)	(\$0.06)	\$0.07	\$0.00	\$0.23	\$0.02		\$0.13
SUI	\$7.15	\$7.12	\$7.84	\$7.55	\$8.36	\$7.96	\$8.75	\$8.25		\$8.57
VRE	\$0.58	\$0.52	\$0.54	\$0.59	\$0.58	\$0.64	\$0.58	\$0.69		\$0.71

Source: BofA Global Research

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AMH (B-1-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and lowering our PO to \$42 from \$44. Our \$42 price objective for AMH trades in line (previously 10% premium) with our new forward NAV estimate of \$42. The macro backdrop no longer supports our premium. We derive our NAV estimate by applying a 5.0% cap rate (unchanged) to our forward NOI estimate of \$987.7mn. We use a 5.0% cap rate based on our outlook for interest rates and current market/transaction comps.

INVH (B-1-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and maintaining our PO of \$38. Our \$38 price objective for INVH trades at a 5% discount to our new forward NAV estimate of \$40. We derive our NAV estimate by applying a 5.1% cap rate (previously 5.0%) to our forward NOI estimate of \$1.6bn. We use a 5.1% cap rate based on our outlook for interest rates and current market/transaction comps.

KW (B-3-8): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and maintaining our PO of \$7.2. Our \$7.2 price objective for KW trades in line with our new forward NAV estimate of \$7.2. We derive our NAV estimate by applying a 6.5% (unchanged) blended cap rate to our forward NOI estimate of \$437.9mn. We use a 6.5% cap rate based on our outlook for interest rates and current market/transaction comps.

SUI (B-2-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and maintaining our PO of \$147. Our \$147 price objective for SUI trades in line with our new forward NAV estimate of \$147. We derive our NAV estimate by applying a 5.0% cap rate (previously 4.9%) to our forward NOI estimate of \$1.3bn. We use a 5.0% cap rate based on our outlook for interest rates and current market/transaction comps.

VRE (B-2-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and maintaining our PO of \$17. Our \$17 price objective for VRE trades in line (previously 10% discount) with our new forward NAV estimate of \$17. We remove the discount given that VRE has completed its office assets sales. We derive our NAV estimate by applying a 6.2% cap rate (unchanged) to our forward NOI estimate of \$192.4mn. We use a 6.2% cap rate based on our outlook for interest rates and current market/transaction comps.

**Exhibit 17: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
AMH	AMH US	American Homes 4Rent	US\$ 35.24	B-1-7
AVB	AVB US	AvalonBay	US\$ 175.4	B-1-7
CPT	CPT US	Camden Property	US\$ 94.85	B-3-7
ELS	ELS US	Equity Lifestyle	US\$ 66.82	A-2-7
EQR	EQR US	Equity Residential	US\$ 60.2	B-1-7
ESS	ESS US	Essex Property	US\$ 229.34	B-2-7
INVH	INVH US	Invitation Homes	US\$ 33.28	B-1-7
KW	KW US	Kennedy Wilson	US\$ 9.34	B-3-8
MAA	MAA US	Mid-America Ap	US\$ 126.32	B-3-7
SUI	SUI US	Sun Communities	US\$ 131.39	B-2-7
UDR	UDR US	UDR, Inc.	US\$ 35.85	B-2-7
VRE	VRE US	Veris Residential	US\$ 14.85	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Price objective basis & risk****American Homes 4 Rent (AMH)**

Our \$42 PO for AMH trades in line with our forward NAV estimate. We now apply a 5.0% cap rate to our forward stabilized NOI estimate. We use 5.0% cap rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of AMH. Upside and downside risks to our PO are: inability to obtain financing for further acquisitions, acquisition pace of homes faster/slower than expected, home price appreciation faster/slower than expected (impacting the number of homes that can be acquired), transaction cap rates in its markets are higher/lower than what we're applying in the NAV, and stabilized NOI generated from its homes is higher/lower than expected.

**AvalonBay Communities Inc (AVB)**

Our \$206 price objective for AVB trades in line with its forward NAV estimate. We apply a 5.7% cap rate to our forward NOI estimate to derive our NAV estimate. We use 5.7% cap rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of AVB. The upside risks to our price objective are better-than-expected employment and operating conditions in AVB's markets and lower interest rates. The downside risks to our price objective are employment and operating conditions in AVB's markets deteriorating beyond our expectations and higher interest rates. The development pipeline also exposes AVB to project execution and lease-up risk. In addition, a reduction in GSE lending to the multifamily sector could weigh on AVB's access to capital, borrowing costs and direct real estate values.

**Camden Property Trust (CPT)**

Our price objective for CPT of \$97 trades at a 10% discount to our forward NAV estimate. We derive our NAV estimate from applying a 6.4% cap rate to our forward NOI estimate. We use a 6.4% cap rate for CPT based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of CPT. The upside risks to our price objective are better-than-expected job growth and operating conditions in CPT's markets and lower interest rates. The downside risks to our price objective are unemployment and operating conditions in CPT's markets deteriorating beyond our expectations and higher interest rates. In addition, a reduction in GSE (government sponsored enterprise) lending to the multifamily sector could weigh on CPT's access to capital, borrowing costs, and direct real estate values.

**Equity LifeStyle Properties (ELS)**

Our \$72 price objective for ELS trades at a 20% premium to our forward NAV estimate. We derive our NAV estimate by applying a 4.7% cap rate to our forward NOI estimate. We use a 4.7% rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of ELS. Downside risks to our PO are declining affordable manufactured housing and RV fundamentals as well as higher interest rates, while upside risks are better than expected fundamentals and accretive acquisition opportunities as well as lower interest rates.

### **Equity Residential (EQR)**

Our \$73 PO for EQR trades in line with our forward NAV. We derive our NAV estimate by applying a 5.9% cap rate to our forward NOI estimate. We use a 5.9% cap rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of EQR. The upside risks to our price objective are better-than-expected employment and operating conditions in EQR's markets and lower interest rates. The downside risks to our price objective are employment and operating conditions in EQR's markets deteriorating beyond our expectations and higher interest rates. The development pipeline also exposes EQR to project execution and lease-up risk. In addition, a reduction in GSE (government-sponsored enterprise) lending to the multifamily sector could weigh on EQR's access to capital, borrowing costs and direct real estate values.

### **Essex Property Trust, Inc. (ESS)**

Our \$250 price objective trades in line with our forward NAV estimate. We derive our one year forward NAV estimate by applying a 5.6% cap rate to our forward NOI estimate. We use 5.6% cap rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of ESS. We like the high quality nature of ESS' West Coast markets that are expected to see above average job and wage growth. The upside risks to our price objective are better than expected employment and operating conditions in ESS's markets and lower interest rates. The downside risks to our price objective are employment and operating conditions in ESS's markets deteriorating beyond our expectations and higher interest rates. Also, developments expose ESS to project execution and lease-up risk. In addition, a reduction in GSE lending to the multifamily sector could weigh on ESS's access to capital, borrowing costs, and direct real estate values.

### **Invitation Homes Inc (INVH)**

Our \$38 PO for INVH trades at a 5% discount to our forward NAV estimate. We apply a 5.1% cap rate to our forward stabilized NOI estimate. We derived current cap rates based on our view of interest rates over the next year, current private market/transaction comps, and INVH's current market exposure. Upside and downside risks to our PO are: access to financing, lower/higher interest rates, high/lower macro growth, lower/higher mortgage availability for homeowners, home price appreciation faster/slower than expected (impacting the number of homes that can be acquired and/or NAV), acquisition pace of homes faster/slower than expected, transaction cap rates in its markets are lower/higher than what we're applying in the NAV, and stabilized NOI generated from its homes is higher/lower than expected.

### **Kennedy Wilson (KW)**

Our \$7.20 price objective for KW is in line with our forward 12-month NAV. We apply a 6.5% cap rate to our forward NOI estimate of \$438mn to calculate our NAV. We use a 6.5% cap rate for KW based on our view of interest rates over the next year, comparable transaction comps, and the market exposure of KW. Based on asset management peers and perceived stickiness of KW's investment management fees, we apply a 15x multiple to the annualized EBITDA from this business. Our NOI growth estimate is +2.0% for the commercial portfolio and +4.4% for the multifamily portfolio. We also apply a 11.5x multiple to Hotel EBITDA to arrive at a market value for these assets.

Upside risks to our PO are capital raises, operating conditions and development yields above our expectations.

Downside risks are operating conditions and yields below our expectations. KW is also exposed to global shocks and changes to monetary policy by the ECB. Further, a prolonged period of tight credit market conditions could weigh on access to capital, borrowing costs, and direct real estate values.

#### **Mid-America Apartment Communities, Inc. (MAA)**

Our \$132 price objective implies a 10% discount to our forward NAV estimate. We derive our one year forward NAV estimate by applying a 6.3% cap rate to our forward NOI estimate. We use a 6.3% cap rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of MAA.

Downside risks to our PO are the company's high exposure to rising levels of supply, increasing tax and insurance expenses, and slowing inbound migration.

Upside risks to our PO are positive suburban trends, less of an impact from supply on fundamentals, and long-term demand in the Sunbelt.

#### **Sun Communities (SUI)**

Our \$147 price objective for SUI trades in line with our forward NAV estimate. We derive our NAV estimate by applying a 5.0% cap rate to our forward NOI estimate. We use a 5.0% rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of SUI. Downside risks to our PO are declining affordable manufactured housing and RV fundamentals as well as higher interest rates, while upside risks are better than expected fundamentals and accretive acquisition opportunities as well as lower interest rates.

#### **UDR, Inc. (UDR)**

Our \$40 price objective for UDR assumes the stock trades in line with our forward NAV estimate. We apply a 6.0% cap rate to our forward NOI estimate to derive our NAV. We use a 6.0% cap rate based on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of UDR. The downside risks are operating conditions in UDR's markets deteriorating beyond our expectations, increased project execution and lease-up risk from development projects, timing risk from JVs, and higher interest rates. A reduction in GSE lending to the multifamily sector could weigh on UDR's access to capital, borrowing costs and direct real estate values. The upside risks to our price objective are better-than-expected employment and operating conditions in UDR's markets, and lower interest rates.

#### **Veris Residential Inc (VRE)**

Our price objective of \$17.00 for VRE is in line with our forward NAV estimate. We apply a 6.2% blended cap rate to our forward NOI estimate. We base our cap rates on our view of interest rates over the next year, current private market/transaction comps, and the market exposure of VRE. Upside risks to our PO are plan execution, operating conditions and investment yields above our expectations, and capital focused on VRE's markets driving asset values higher. Downside risks to our PO are plan execution, operating conditions, investment yields and disposition cap rates below our expectations. Further, a prolonged period of tight credit market conditions could weigh on the shares.

## **Analyst Certification**

We, Joshua Dennerlein and Jeffrey Spector, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective

compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



## US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Agree Realty Corp	ADC	ADC US	Joshua Dennerlein
	Alexandria Real Estate Equities	ARE	ARE US	Joshua Dennerlein
	American Homes 4 Rent	AMH	AMH US	Jeffrey Spector
	Americold Realty Trust	COLD	COLD US	Joshua Dennerlein
	AvalonBay Communities Inc	AVB	AVB US	Joshua Dennerlein
	Boston Properties	BXP	BXP US	Jeffrey Spector
	Brixmor Property Group	BRX	BRX US	Jeffrey Spector
	COPT Defense Properties	CDP	CDP US	Camille Bonnel
	Cousins Properties Inc.	CUZ	CUZ US	Camille Bonnel
	EastGroup Properties	EGP	EGP US	Jeffrey Spector
	Empire State Realty Trust	ESRT	ESRT US	Camille Bonnel
	Equity Residential	EQR	EQR US	Jeffrey Spector
	Essential Properties	EPRT	EPRT US	Joshua Dennerlein
	Federal Realty	FRT	FRT US	Jeffrey Spector
	Invitation Homes Inc	INVH	INVH US	Joshua Dennerlein
	Kimco Realty	KIM	KIM US	Jeffrey Spector
	Kite Realty Group	KRG	KRG US	Jeffrey Spector
	Phillips Edison & Company	PECO	PECO US	Jeffrey Spector
	Prologis, Inc.	PLD	PLD US	Camille Bonnel
	Public Storage, Inc.	PSA	PSA US	Jeffrey Spector
	Regency	REG	REG US	Jeffrey Spector
	Rexford Industrial Realty	REXR	REXR US	Camille Bonnel
	Sabra Health Care	SBRA	SBRA US	Joshua Dennerlein
	Simon Property	SPG	SPG US	Jeffrey Spector
	Ventas, Inc.	VTR	VTR US	Jeffrey Spector
	Welltower	WELL	WELL US	Joshua Dennerlein
<b>NEUTRAL</b>				
	Acadia Realty Trust	AKR	AKR US	Jeffrey Spector
	CubeSmart	CUBE	CUBE US	Jeffrey Spector
	EPR Properties	EPR	EPR US	Joshua Dennerlein
	Equity LifeStyle Properties	ELS	ELS US	Jeffrey Spector
	Essex Property Trust, Inc.	ESS	ESS US	Joshua Dennerlein
	Extra Space Storage, Inc.	EXR	EXR US	Jeffrey Spector
	Getty Realty Corp.	GTY	GTY US	Joshua Dennerlein
	Highwoods Properties	HIW	HIW US	Camille Bonnel
	InvenTrust Properties	IVT	IVT US	Jeffrey Spector
	Kilroy Realty Corporation	KRC	KRC US	Camille Bonnel
	Macerich	MAC	MAC US	Jeffrey Spector
	OMEGA Healthcare	OHI	OHI US	Joshua Dennerlein
	Realty Income	O	O US	Jeffrey Spector
	Retail Opportunity Investments Corp.	ROIC	ROIC US	Jeffrey Spector
	SL Green Realty	SLG	SLG US	Camille Bonnel
	Sun Communities	SUI	SUI US	Joshua Dennerlein
	UDR, Inc.	UDR	UDR US	Joshua Dennerlein
	Veris Residential Inc	VRE	VRE US	Joshua Dennerlein
	Vornado Realty	VNO	VNO US	Camille Bonnel
<b>UNDERPERFORM</b>				
	American Assets Trust	AAT	AAT US	Camille Bonnel
	Armada Hoffer Properties	AHH	AHH US	Camille Bonnel
	Camden Property Trust	CPT	CPT US	Joshua Dennerlein
	Douglas Emmett	DEI	DEI US	Camille Bonnel
	Healthpeak Properties, Inc.	PEAK	PEAK US	Joshua Dennerlein
	Hudson Pacific Properties, Inc.	HPP	HPP US	Camille Bonnel
	Kennedy Wilson	KW	KW US	Joshua Dennerlein
	LXP Industrial Trust	LXP	LXP US	Camille Bonnel
	Medical Properties Trust, Inc.	MPW	MPW US	Joshua Dennerlein
	Mid-America Apartment Communities, Inc.	MAA	MAA US	Joshua Dennerlein
	National Storage Affiliates Trust	NSA	NSA US	Jeffrey Spector
	NetSTREIT	NTST	NTST US	Joshua Dennerlein
	NNN REIT Inc	NNN	NNN US	Joshua Dennerlein
	Paramount Group	PGRE	PGRE US	Camille Bonnel
	Peakstone Realty Trust	PKST	PKST US	Joshua Dennerlein
	STAG Industrial	STAG	STAG US	Camille Bonnel



## US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tanger Inc	SKT	SKT US	Jeffrey Spector
	WP Carey	WPC	WPC US	Joshua Dennerlein

## Disclosures

## Important Disclosures

## Equity Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

## Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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