

Residential REITs

Residential earnings recap week 1: AVB, CPT, ELS, EQR

Price Objective Change

Apt guidance ranges from conservative to optimistic

AVB, CPT and EQR provided their initial takes on 2024. Our initial assessment is that management teams have divergence views on the economy and their level of conservatism built into their initial guides. Our initial assessments: (1) AVB built in the most conservatism, (2) EQR provided a realistic outlook and (3) CPT provided the most optimistic outlook on 2024. We revise estimates/POs for our coverage.

AVB's conservatism sets it up for beats & bumps again

We see three sources of conservatism in AVB's initial guide: (1) AVB lowered its earn in for 2024 to 1.0% from 1.5%. Management flagged that this was from a roll forward from 9/30 to YE23. However, our model suggests the earn in only fell to 1.4%. (2) AVB's guide assumes flat 2024 new lease rate growth. Given AVB's tilt to the suburbs and our view that the suburbs are the tightest Apartment markets, we believe the risks are skewed towards better-than-expected new lease rate growth. (3) AVB's SS revenue growth only includes an 80bp bump from the ongoing roll out of Avalon Connect. History appears to be repeating itself. In 2023, AVB raised guidance 3 times. Reiterate Buy.

Our view on Sunbelt is more downbeat than CPT

We believe CPT provided the most optimistic view on the 2024 outlook. As a result, we believe they have the biggest risk of misses as the year progresses. CPT's 2024 guide assumes new lease rate growth of -0.6% and renewal rate growth of 3.6%. We are taking a more pessimistic approach on new lease rate growth (BofAe: -2.0%). Deliveries are expected to peak this year. However, peak deliveries hit in 3Q (after peak leasing) raising the risk that pricing pressure lingers well into 2025. As a result, our updated model includes revised 2025 new and renewal leasing spreads of 0.0% and 3.4% (previously: 1.3% and 4.9%). Reiterate Underperform.

EQR's outlook is balanced; hinge on NoCal & Seattle

EQR provided the most balanced outlook in our view. We believe flat new lease rate growth and 4% renewals are achievable. The biggest risk in our view hinges on EQR's NoCal & Seattle exposure (25.8% of NOI). Management flagged that their 2024 guide assumes little to no pricing power which is consistent with their 2023 experience. Seattle in particular saw unexpected weakness in the Fall. At this point it is unclear to us if this was normal seasonality or the start of a new trend. We are watching both markets closely given EQR has seen "periods of stability and then pullbacks" in these markets. Reiterate Buy.

ELS: core business strength offset by valuation

Adjusting for the accounting changes related to the Thousand Trials membership upgrade sales, ELS's 4Q results and the 2024 outlook are largely in line with our expectations. The core business remains very healthy. The key debate is whether or not this is fully reflected in ELS's valuation. We believe it does and reiterate our Neutral. We expect SUI to report similar strength in its core MH, RV and Marina businesses on 2/20.

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Key terms:

Apt: apartment

bp: basis point

FY: full year

MH: manufactured housing

NoCal: Northern California

Resi: residential

RV: recreational vehicle

SS: same store

Y/Y: year over year

Y/E: year end

AVB: AvalonBay Communities

CPT: Camden Property Trust

ELS: Equity LifeStyle Properties

EQR: Equity Residential

SUI: Sun Communities

Exhibit 1: Summary of PO changes

Updated price objective after review of models

Ticker	Old PO	New PO
AVB	\$209.00	\$206.00
CPT	\$99.00	\$97.00
EQR	\$71.00	\$73.00
ELS	\$78.00	\$72.00

Source: BofA Global Research, prices as of 2/2/2024
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Lease rate growth

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
Apartment								
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%	n.a	4.8%	n.a	3.0%	n.a	4.5%	n.a
MAA	-2.4%	n.a	4.9%	n.a	1.1%	n.a	4.8%	n.a
UDR	-1.4%	n.a	3.5%	n.a	1.9%	n.a	5.5%	n.a
SFR								
AMH	4.3%	n.a	6.0%	n.a	4.3%	n.a	5.3%	n.a
INVH	2.0%	n.a	6.0%	n.a	3.8%	n.a	4.6%	n.a

Source: BofA Global Research

Note: AVB, CPT and EQR reported 4Q23 earnings so far.

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Exhibit 3: Lease rate growth: company guidance for FY24

Companies provided guidance for FY24 lease rate growth.

	New	Renewal	Blended
Apartment			
AVB	0.0%	4.0%	2.0%
CPT	-0.6%	3.6%	1.2%
EQR	0.0%	4.0%	2.0%
ESS	n.a.	n.a.	n.a.
MAA	n.a.	n.a.	n.a.
UDR	n.a.	n.a.	n.a.
SFR			
AMH	n.a.	n.a.	n.a.
INVH	n.a.	n.a.	n.a.

Source: company filings, conference calls

Note: AVB, CPT and EQR reported 4Q23 earnings so far.

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Key comments from the earnings calls

ELS - key quotes from the earnings call on 1/30

- **Mark to market:** "In 2023, the mark-to-market rent increase for new homeowners has been approximately 13%."
- **Real estate taxes in Florida:** "Several counties in Florida increased assessed values and millage rates. We have filed appeals and noticed residents of pass-throughs have increased real-estate taxes were at lease terms allow it. The pass-throughs will be recognized as revenue in 2024." "Yes. So the lease provisions in primarily the MH properties, which had a disproportionately large exposure to the increases that we experienced allow us to pass through more than 95% of the increase that we experienced."
- **MH occupancy in FY24:** "We assume occupancy in our stabilized MH portfolio will be flat during 2024."
- **Seasonal and transient RV:** "Our guidance assumes first quarter seasonal and transient RV revenues performed in line with our current reservation pacing." "And then for the second, third and fourth quarters, our assumption is closer to flat on a combined basis for the seasonal and transient." "And with respect to the seasonal, the first quarter is the lion's share of the seasonal rent. So the remainder of the year, again, the second, third and fourth quarters are closer to flat than we've had historically."
- **Current financing market:** "Current secured debt terms are 10 years of coupons between 5.5% and 6.25%, 60% to 75% loan-to-value, and 1.4X times to 1.6X times, debt service coverage." "Generally, a sponsor like ELS does command preferred pricing. So I would peg at probably 5.5%, 5.75%."
- **MH rent rate in 2024:** "We do notice decelerating rate throughout the course of 2024, primarily as a result of increases that we noticed later in '23. And then an assumption for just following CPI, which is not going to increase as it did last year."
- **Plan for term loan swap expiration:** "the assumption is that we float."
- **Home sales from residents:** "it's between 20% and 25% of our home sales are to current residents. Now that typically is a renter. But it can also include existing homeowners who are either looking to scale up to a more highly amenitized house or maybe they're looking for a more manageable space and moving down to a smaller home."
- **Marina:** "the performance of the marina portfolio for us has been very consistent. It's overwhelmingly annual for our slip revenue. It's almost 100%. And those are long-term customers that are typically with us in very similar trends to what we see on annual RV. Our boat launches for the full year have been consistent." "And then our rate growth has been reflective of the market and consistent." "It's, essentially, right in line with our expectations for the annual RV. There's not much differential between the rate increase in the RV or the marina space from what we see."



EQR - key quotes from the earnings call on 1/31

- **Building blocks / guidance for 2024:**
 - **Earn in:** "embedded growth of 1.4%"
 - **Occupancy:** "a midpoint assumption that both physical occupancy and cash concessions remain consistent with that of 2023."
 - **Lease rate growth:** "Our midpoint assumes renewals for the year average just over 4%. New lease change is relatively flat, which together produces blended rate growth of about 2%."
 - **SS revenue expectation for different markets:** "Orange County, San Diego, Boston and Washington D.C. will lead the pack with expected revenue growth of approximately 4%. New York and LA will follow closely behind. At the moment, we expect slightly positive same-store revenue growth in San Francisco and Seattle. And in our expansion markets, which reflect only about 5.5% of the total company NOI, we expect to produce negative same-store revenue growth given the unprecedented levels of supply being delivered."
 - **Bad debt:** "our guidance midpoint assumes that full year bad debt as a percentage of same store residential revenue is slightly above 1% or a 30 basis point contribution to 2024 growth overall." "So our expectations and guidance is that Q1, which we're in right now, is more flattish and that you start to see improvement later in Q2, Q3 and Q4 because of that kind of pace of the court system."
 - **SS expense expectations:** "In 2024, we expect real estate taxes and utilities to grow faster than they did in 2023, in part due to some 421-a step ups and commodity prices, while payroll and repairs and maintenance should be slower due to various initiatives and an expected normalization of inflationary pressures. Insurance, a small category at less than 5% of total expenses, but a topic often discussed, should grow more slowly than last year, but remain above the long-term trend with growth in the low double digits." "real estate taxes around, call it a 3%, and utilities more around a 6% growth" "we expect R&M to grow something more like 4%."
 - **Timing for acquisition / disposition:** "our assumption that our acquisition activity mostly occurs later in the year than our dispositions."
- **Rate fatigue in New York:** "New York should continue to perform well this year, but won't reach the high rate growth achieved over the last few years. Occupancies remain high and competitive new supply is limited which led to record high market rents causing some rate fatigue to be observed in late '23."
- **Softness in San Francisco and Seattle:**
 - "In San Francisco and Seattle, we had little to no pricing power throughout 2023 and our base case expectations for this year assume that situation continues."
 - "As Mark mentioned, the downtown areas of both markets continue to see an improvement in the quality of life, but are still lacking the catalyst of return to office and/or job growth."

- "The lack of expected job growth combined with this new supply have driven our low expectations in Seattle for 2024. Both Seattle and San Francisco continue to see less than normal inbound migration."
- **New lease change:** "so both of those markets reported in December about a negative 8% new lease change. When you look at the January results, they're now both at about a negative 3.5%"
- **Cap rate:** "a standoff between buyers and sellers. Buyers generally looking for a 5.5-ish cap and sellers generally looking for something closer to the five."

- **Supply:**

- **Seattle:** "the peak is what we expect to experience is going to be somewhere in that back half of this year."
- **Sunbelt:**
 - "And the supply that we look at is fairly constant across many of the Sunbelt markets all year long by quarter."
 - "If you look at '25 expected deliveries and some stuff from '24 will definitely slip. I mean, it's about as big as '23's deliveries, so it's not like '25 is an incredible decline. But same-store revenue growth in our experience will be worse in '25, not in '24, because all those leases that are being rewritten will go through the rent roll. And so you may be more optimistic in '25, but your numbers actually likely will be worse."
 - "But the idea that '24 is the only oversupplied year is kind of a tough one for us to accept."
 - "these are historic amounts where concession levels start to get more than two months, really excessive, I think everyone gets impacted. Whether you're a B property or an A property, I can't see how you're immune from some of that pressure."
- **Renewal notice:** "quotes for the next 90 days have already been issued. We do expect to continue to renew about 55% to 60% of our residents and achieve approximately anywhere between a 4% and 4.5% growth off of about 6% quotes that are out in the marketplace." "but we have modeled for further deceleration like later in the year."



AVB - key quotes from the earnings call on 2/1

• Building blocks / guidance for 2024:

- **Job growth assumption:** "our baseline expectation is for a slowing economic environment this year. As we have in the past, we start with consensus estimates from the National Association for Business Economics or NABE, which forecasts positive, but very modest job growth in 2024 of 55,000 jobs per month."
- **New capital:** "to source \$850 million in new capital, which we currently assume will be unsecured debt issued later this year." "we enjoy attractively priced debt today at around 5% on a 10-year unsecured debt"
- **Earn in:** "embedded rent roll growth of 1%, down approximately 50 basis points from where it was at the end of Q3 2023, which is consistent with historical trends, plus incremental lease rate growth throughout the year."
- **Other rental revenue:** "roughly 80 basis points from the projected 13% increase in other rental revenue, which is derived from our operating initiatives."
- **Bad debt:** "60 basis point improvement in underlying bad debt from residents from 2.4% in 2023 to an expected 1.8% in 2024." "Our forecast reflects an underlying bad debt rate of roughly 1.6% at year-end 2024" "offset by a 30 basis point headwind from the projected \$6 million year-over-year reduction in rent relief and a modest drag from net concessions and economic occupancy."
- **Avalon Connect driving expense increase:** "170 basis from our Avalon Connect offering" "the cost associated with those programs are essentially 100% expense." "We expect to be fully deployed by the end of 2024, so the operating expense impact will diminish materially as we move into 2025."
- **Lease rate growth assumption:** "our expectation is to deliver rent change of roughly 2% in 2024, which would reflect renewals at roughly 4%, and new move-ins essentially flat." "we do expect to see some acceleration in rent change, all else being equal in the second half of 2024 relative to the first half"
- **Expense expectations:**
 - **Property taxes:** "Property taxes, overall, we're expecting year-over-year growth sort of in the mid-4% range. A substantial portion of that is being driven by the phase-out of property tax abatement program"
 - **Insurance:** "we are expecting another year of kind of double-digit growth"
 - **Utilities:** "we're expecting utilities as a category to be a sort of in a low double-digit range and again almost all of that is related to Avalon Connect."
 - **Payroll:** "we've essentially got a merit increase of 4% that's about 90% of payroll. Benefits are going up about 6%. So

those two combined are 4 and 20 basis points, but we're picking up about 100 basis points from our payroll reductions. So that'll net out in the low-3s."

- **Office operations:** "it's accounting for 20, 25 basis points of total expense growth, really related to legal and eviction costs that were somewhat elevated last year. We expect them to be elevated a little bit more this year as we continue to process people who are non-paying residents."
- **January lease rate growth in Sunbelt:** "new move-ins are negative in the expansion regions, down about 150 basis points, as compared to kind of low to mid-3% sort of renewals."
- **Northern California and Seattle:**
 - **Northern California recovery:** "I would say Northern California is still a long ways to go. We have rents that are essentially asking rents today that are down roughly 10% from sort of pre-COVID peak levels. That's primarily driven by San Francisco being 12%, 13% below peak, which is a pretty significant number."
 - **Bifurcation in Seattle:** "In terms of Seattle, I think a couple of things to think about as it relates to Seattle. Seattle rent levels for us are up about 8% from pre-COVID peak levels, but it is a very bifurcated market. The urban core of Seattle, whether it's right downtown, South Lake Union, Cap Hill, et cetera, are much more challenged because of not only the quality of life issues that I mentioned that you have in San Francisco, also in play there, but there is a meaningful amount of supply being delivered more in '24 than was delivered in 2023, which will compound the issue versus if you're a mainly suburban North and East side, you're much more well-positioned. That's where the majority of our assets are in Seattle."
- **Development starts:** "As it relates to the pace of development starts across the year, it is more back half loaded."
- **Current development yield:** "\$300 million of starts in the fourth quarter at an initial projected yield of 6.7%." "We expect to break ground on seven new developments representing \$870 million of investment at a weighted average yield in the mid-6% range"
- **Supply expectation in Sunbelt:**
 - "this elevated supply dynamic in the Sunbelt is expected to continue at least through 2025, simply a function of the reality that it generally takes two-plus years to complete and stabilize a new development project."
 - "the most significant impact on both revenue and NOI would likely be, all else being equal, 2025 as you roll all those leases through the rent roll to that lower market rent. That's probably when you're going to see the most pronounced impact would be our view."
- **Transaction assumption:** "We expect this activity to be roughly neutral on both a volume and return basis, buying and selling in equal amounts and at equivalent yields."



CPT - key quotes from the earnings call on 2/2

- **Supply:**
 - **Outlook for 2024:** "2024 should be a transition year from peak new apartment deliveries to a more constructive market after supply is absorbed. 2025 starts are projected to plummet to a low in the 200,000 range due to difficult market conditions."
 - **Supply in CPT's markets:** "We reviewed 2024 supply forecasts from several third-party data providers, and their projections ranged from 230,000 to 330,000 completions across our 15 markets over the course of the year. After analyzing the submarket locations and price points for these new deliveries, we expect that roughly 20% of those deliveries, or between 50,000 and 70,000 new units, may be competitive to our existing portfolio."
- **Building blocks / guidance for 2024:**
 - **Lease rate growth:** "When we look at new lease and renewals and the trade-out for the full year, what we're anticipating is new leases to be down 0.6%, renewals up 3.6% for blended increase of 1.2%. And that is going to sort of follow what you would think be typical seasonal patterns." "What we are anticipating that we're going to have blended trade outs in the first quarter of about 0.2%."
 - **Occupancy:** "So we're assuming that occupancy is going to be flat in 2024 as compared to 2023, and that number is 95.3%. And we are driving towards that number."
 - **Revenue expectation for different markets:** "Our top six markets should achieve 2024 revenue growth between 2% and 4% and include San Diego/Inland Empire, Southeast Florida, Washington DC Metro, LA/Orange County, Houston and Charlotte. Our next five markets are budgeted for revenue growth between 1% and 2% and include Denver, Tampa, Atlanta, Raleigh and Phoenix. Our remaining four markets of Dallas, Orlando, Nashville and Austin are expected to have revenue growth of plus or minus 1%."
 - **Renewal notice:** "February and March renewal offers were sent out with an average increase of 4.1%." "the first quarter that we're going to get right around 3.9%, so fairly close to what we're sending out."
 - **Market rent growth:** "We also expect a 1.4% increase in market rental rates from December 31, 2023, to December 31, 2024."
 - **Bad debt:** "We are assuming that bad debt continues to moderate through the year, reaching 1% by the fourth quarter and averaging 1.1% for the full year, a 30 basis point improvement over 2023." "And so at this point, what we're assuming is that the first and second quarter look a lot like the fourth quarter, and then we have some slight improvements as we go into the latter part of the year."
 - **Other rental revenue:** "The remaining 11% of our property revenues is primarily comprised of utility rebilling and other fees and is anticipated to grow at a similar level to our rental income due to decreased pricing power and increased regulatory constraints."
 - **SS expense expectations:**

- Insurance: "anticipated to increase by 18%"
- RE taxes and others: "Our remaining operating expenses are anticipated to grow at approximately 3.4% in the aggregate, including property taxes, which represent approximately 36% of our total operating expenses and are projected to increase approximately 3% in 2024." "And so (real estate taxes) seems that we are reverting back to the long-term mean, which is in that sort of three to 3% and 3.5% range.
- **Transaction market:** "Excluding our planned disposition next week, the midpoint of our guidance range assumes \$250 million of acquisitions, offset by an additional \$250 million of dispositions with no net accretion or dilution from these matching transactions."
- **Development:** "the plan for up to \$300 million of development starts in the second half of the year and approximately \$175 million of total 2024 development spend." "And the yields are anywhere from in the mid-5s to low 6s, in terms of stabilized yields."
- **1Q24 occupancy guidance:** "We are anticipating occupancy will remain effectively flat quarter-to-quarter"
- **Bad debt:** "September appears to have been an anomaly, and bad debt for the fourth quarter averaged 1.1% as compared to our forecast of 1.5%."
- **Debt assumption:** "For 2024, we are anticipating \$41 million on average outstanding under our line of credit, with an average rate of approximately 5.5% and an average rate of approximately 5.8% on our \$500 million floating rate unsecured bond. We are not anticipating any additional unsecured bond offerings in 2024."
- **Earn in and loss to lease:** "0.5% earning at the end of 2023 and an effectively flat loss to lease"
- **Demand drivers:** "When you're thinking about what's really driving demand in 2024 and 2025, we don't think it was increased job growth driving that demand. What's been happening is multifamily has been taking market share from single family. As I said in the beginning of the call, we've gone from a historic average of 20% multifamily demand in total household formations to 40%"
- **In-migration:** "So if you look at those who have moved from non-Sunbelt to Sunbelt, for us, in the fourth quarter, it was about 17.5% of our total move-ins. By the way, that's fairly consistent with what we've seen over the past couple of years. So that remains really strong."
- **Concessions in the market:** "The toughest markets like -- would be Austin, Texas and Nashville. And there the concessions are significant anywhere from two months to three months free. Generally, merchant builders don't go beyond three months free, but you're seeing that in the most supply constraint or supply markets."

PO & estimate changes

Exhibit 4: Summary of PO changes

Updated price objective after review of models

Ticker	Old PO	New PO	QRQ	Price
AVB	\$209.00	\$206.00	B-1-7	\$175.06
CPT	\$99.00	\$97.00	B-3-7	\$96.57
EQR	\$71.00	\$73.00	B-1-7	\$60.17
ELS	\$78.00	\$72.00	A-2-7	\$68.62

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

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Exhibit 5: 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
AVB	\$11.30	\$10.89	\$11.99	\$11.57	\$12.60	\$12.34	\$13.07	\$13.05	n.a.	\$13.78
CPT	\$6.72	\$6.71	\$6.97	\$6.86	\$7.10	\$7.21	\$7.27	\$7.59	n.a.	\$7.65
EQR	\$3.96	\$3.85	\$4.19	\$3.99	\$4.31	\$4.12	\$4.44	\$4.27	n.a.	\$4.38
ELS	\$2.92	\$2.88	\$3.04	\$3.03	\$3.14	\$3.17	\$3.20	\$3.26	n.a.	\$3.43

Source: BofA Global Research

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AVB (B-1-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and lowering our PO to \$206 from \$209. Our \$206 price objective for AVB trades in line with our new forward NAV estimate of \$206. We derive our NAV estimate by applying a 5.7% cap rate (unchanged) to our forward NOI estimate of \$1.9bn. We use a 5.7% cap rate based on our outlook for interest rates and current market/transaction comps.

CPT (B-3-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and lowering our PO to \$97 from \$99. Our \$97 price objective for CPT trades at a 10% discount to our new forward NAV estimate of \$107. We derive our NAV estimate by applying a 6.4% cap rate (unchanged) to our forward NOI estimate of \$982.4mn. We use a 6.4% cap rate based on our outlook for interest rates and current market/transaction comps.

EQR (B-1-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and raising our PO to \$73 from \$71. Our \$73 price objective for EQR trades in line with our new forward NAV estimate of \$73. We derive our NAV estimate by applying a 5.9% cap rate (unchanged) to our forward NOI estimate of \$2.1bn. We use a 5.9% cap rate based on our outlook for interest rates and current market/transaction comps.

ELS (A-2-7): After updating our model for 4Q23 earnings, we are modifying our estimates (see table above) and lowering our PO to \$72 from \$78. Our \$72 price objective for ELS trades at a 20% premium (previously 30%) to our new forward NAV estimate of \$60. We derive our NAV estimate by applying a 4.7% cap rate (unchanged) to our forward NOI estimate of \$626.0mn. We use a 4.7% cap rate based on our outlook for interest rates and current market/transaction comps.

Exhibit 6: Stocks mentioned

Rating and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AMH	AMH US	American Homes 4Rent	US\$ 35.42	B-1-7
AVB	AVB US	AvalonBay	US\$ 175.06	B-1-7
CPT	CPT US	Camden Property	US\$ 96.57	B-3-7
ELS	ELS US	Equity Lifestyle	US\$ 68.62	A-2-7
EQR	EQR US	Equity Residential	US\$ 60.17	B-1-7
ESS	ESS US	Essex Property	US\$ 236.02	B-2-7
INVH	INVH US	Invitation Homes	US\$ 33.02	B-1-7
MAA	MAA US	Mid-America Ap	US\$ 128	B-3-7
SUI	SUI US	Sun Communities	US\$ 127.14	B-2-7
UDR	UDR US	UDR, Inc.	US\$ 36.31	B-2-7

Source: BofA Global Research

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

Our \$44 PO for AMH trades at a 10% premium to our forward NAV estimate. We now apply a 5.0% cap rate to our forward stabilized NOI estimate. We derive current cap rates from Zillow based on median home prices and rents per MSA. 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 \$257 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 5.0% 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.

Mid-America Apartment Communities, Inc. (MAA)

Our \$133 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 4.9% cap rate to our forward NOI estimate. We use a 4.9% 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 \$39 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.

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US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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 Factory	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 ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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