

# ESSEX

PROPERTY TRUST, INC.

## ESSEX ANNOUNCES FOURTH QUARTER 2017 RESULTS AND 2018 GUIDANCE

San Mateo, California—February 7, 2018—Essex Property Trust, Inc. (NYSE:ESS) announced today its fourth quarter 2017 earnings results and related business activities.

Net Income and Funds from Operations (“FFO”) per diluted share for the quarter ended December 31, 2017 are detailed below. Core FFO excludes acquisition and investment related costs and certain non-routine items.

	Three Months Ended December 31,			Year Ended December 31,		
	2017	2016	% Change	2017	2016	% Change
<u>Per Diluted Share</u>						
Net Income	<b>\$1.57</b>	\$2.98	-47.3%	<b>\$6.57</b>	\$6.27	4.8%
Total FFO	<b>\$3.01</b>	\$2.85	5.6%	<b>\$11.91</b>	\$11.12	7.1%
Core FFO	<b>\$3.01</b>	\$2.81	7.1%	<b>\$11.91</b>	\$11.04	7.9%

### Fourth Quarter and Full-Year Highlights:

- Reported Net Income per diluted share for the fourth quarter of 2017 of \$1.57, compared to \$2.98 in the fourth quarter of 2016. The decrease is primarily due to gains on sale of real estate that occurred in the fourth quarter of 2016.
- Grew Core FFO per diluted share by 7.1% compared to the fourth quarter of 2016 and 7.9% for the full-year 2017.
- Achieved same-property gross revenue and net operating income (“NOI”) growth of 3.0% and 3.4%, respectively, compared to the fourth quarter of 2016. For the full-year, achieved same-property gross revenue and NOI growth near the high-end of the guidance range of 3.7% and 4.2%, respectively.
- Sold two communities during the fourth quarter of 2017 for a total contract price of \$160.3 million. For the full-year, the Company sold four communities for a total contract price of \$375.8 million.
- Acquired one community during the fourth quarter of 2017 for a total contract price of \$59.0 million. For the full-year, the Company acquired five communities for a total contract price of \$566.8 million, near the high-end of the guidance range.
- Originated \$64.5 million in three preferred equity developments during the fourth quarter of 2017. For the full-year, the Company committed \$167.0 million in nine preferred equity and subordinated debt investments, exceeding the original guidance range for the year.

“Essex delivered another year of solid growth in 2017 with Core FFO growth of 7.9%, which exceeded the high-end of our initial guidance range for the year. The Essex team responded skillfully to challenging market conditions by focusing on occupancy, other income, expense management and investment transactions. Looking forward to 2018, we expect demand for housing will outpace supply in our coastal markets of California and Washington which will lead to market rent growth near long-term averages. We believe the West Coast will continue to outperform the nation in both rent growth and job growth in 2018,” commented Michael Schall, President and CEO of the Company.

## SAME-PROPERTY OPERATIONS

Same-property operating results exclude any properties that are not comparable for the periods presented. The table below illustrates the percentage change in same-property gross revenues for the quarter ended December 31, 2017 compared to the quarter ended December 31, 2016, and the sequential percentage change for the quarter ended December 31, 2017 compared to the quarter ended September 30, 2017, by submarket for the Company:

	Q4 2017 vs. Q4 2016	Q4 2017 vs. Q3 2017	% of Total Q4 2017 Revenues
<b>Southern California</b>			
Los Angeles County	1.8%	-0.1%	19.9%
Orange County	3.8%	0.5%	11.6%
San Diego County	3.7%	0.3%	9.2%
Ventura County	4.4%	0.4%	4.5%
Other Southern California	2.3%	0.7%	0.5%
<b>Total Southern California</b>	<b>2.9%</b>	<b>0.2%</b>	<b>45.7%</b>
<b>Northern California</b>			
Santa Clara County	2.0%	0.1%	15.7%
Alameda County	4.8%	0.1%	7.3%
San Mateo County	0.7%	-0.3%	5.1%
Contra Costa County	2.4%	0.9%	5.1%
San Francisco	2.1%	-0.5%	2.0%
Other Northern California	6.7%	6.6%	0.3%
<b>Total Northern California</b>	<b>2.5%</b>	<b>0.2%</b>	<b>35.5%</b>
<b>Seattle Metro</b>	<b>4.0%</b>	<b>0.0%</b>	<b>18.8%</b>
<b>Same-Property Portfolio</b>	<b>3.0%</b>	<b>0.1%</b>	<b>100.0%</b>

	Year-Over-Year Growth Q4 2017 compared to Q4 2016			Year-Over-Year Growth YTD 2017 compared to YTD 2016		
	Gross Revenues	Operating Expenses	NOI	Gross Revenues	Operating Expenses	NOI
Southern California	2.9%	1.4%	3.7%	3.8%	1.9%	4.6%
Northern California	2.5%	-0.8%	3.8%	2.6%	1.5%	3.0%
Seattle Metro	4.0%	8.7%	1.9%	5.8%	6.5%	5.5%
<b>Same-Property Portfolio</b>	<b>3.0%</b>	<b>2.0%</b>	<b>3.4%</b>	<b>3.7%</b>	<b>2.7%</b>	<b>4.2%</b>

	Sequential Growth Q4 2017 compared to Q3 2017		
	Gross Revenues	Operating Expenses	NOI
Southern California	0.2%	0.1%	0.2%
Northern California	0.2%	-2.3%	1.1%
Seattle Metro	0.0%	0.1%	0.0%
<b>Same-Property Portfolio</b>	<b>0.1%</b>	<b>-0.7%</b>	<b>0.5%</b>

	<b>Financial Occupancies</b>		
	<b>Quarter Ended</b>		
	<b>12/31/2017</b>	<b>9/30/2017</b>	<b>12/31/2016</b>
Southern California	96.9%	96.8%	96.7%
Northern California	96.9%	96.9%	96.5%
Seattle Metro	96.4%	96.2%	96.7%
<b>Same-Property Portfolio</b>	<b>96.8%</b>	<b>96.7%</b>	<b>96.6%</b>

#### **INVESTMENT ACTIVITY**

In October 2017, the Wesco I, LLC (“Wesco I”) joint venture operating agreement was amended to extend the venture. As part of the amendment, the Company and joint venture partner agreed that the Company earned a promote interest of \$38.0 million. The Company agreed to contribute the earned promote interest to the joint venture, resulting in an increase in the Company’s ownership interest in Wesco I to approximately 58%. The promote income has been excluded from Net Income, Total FFO and Core FFO.

During the fourth quarter of 2017, the Company formed a new joint venture entity, BEX III, LLC (“BEX III”), in which the Company has a 50% ownership interest. In November 2017, BEX III acquired The Village at Toluca Lake for a total contract price of \$59.0 million. The community contains 145 apartment homes in Burbank, CA. The Village at Toluca Lake offers convenient access to employment opportunities in Burbank, Studio City, Glendale, and Hollywood.

#### **DISPOSITIONS**

In December 2017, the Company sold two communities, which were owned by BEXAEW, LLC, in which the Company has a 50% interest. The communities contained 587 apartment homes in Seattle, WA. The total contract price of the sales was \$160.3 million. The Company’s share of the total gain on the sale was \$34.8 million, which has been excluded from the calculation of Total FFO and Core FFO.

#### **OTHER INVESTMENTS**

During the fourth quarter of 2017, the Company originated \$64.5 million in three preferred equity investments in multifamily developments located in Los Angeles, CA, San Diego, CA, and Bellevue, WA. The total investment has an average preferred return of 11.1% and all of the investments mature in 2021.

#### **DEVELOPMENT ACTIVITY**

During the fourth quarter of 2017, the Company began construction on a new development in Hollywood, CA. The project is estimated to have 200 apartment homes and up to 4,700 square feet of ground-floor retail space. The community is centrally located in the heart of Hollywood and less than a quarter mile from the Hollywood/Vine Metro Station, which provides convenient access to Downtown Los Angeles. The development is expected to cost approximately \$105.0 million and open in the first quarter of 2020.

The following table represents the development community in lease-up and the current leasing status as of February 2, 2018.

<b>Project Name</b>	<b>Location</b>	<b>Total Apartment Homes</b>	<b>ESS Ownership</b>	<b>% Pre-Leased as of 2/2/18</b>	<b>Status</b>
Station Park Green – Phase I	San Mateo, CA	121	100%	4.2%	Pre-Leasing

## LIQUIDITY AND BALANCE SHEET

### *Common Stock*

During the fourth quarter of 2017, the Company issued 33,571 shares of common stock through its equity distribution program at an average price per share of \$261.19 for net proceeds of \$8.7 million. For the full-year 2017, the Company issued 345,444 shares of common stock at an average price per share of \$260.38 for net proceeds of \$89.1 million. Subsequent to year-end through February 2, 2018, the Company did not issue any common stock through its equity distribution program.

### *Balance Sheet*

During the fourth quarter of 2017, the Company prepaid \$91.9 million of secured mortgages with an effective interest rate of 5.7%. The Company incurred approximately \$1.8 million of prepayment penalties and related costs, which are excluded from the calculation of Core FFO.

In January 2018, the Company amended its unsecured line of credit facility, increasing the maximum amount available for borrowing from \$1.0 billion to \$1.2 billion and extending the maturity to December 2021.

As of February 2, 2018, the Company had approximately \$891.0 million in undrawn capacity on its unsecured credit facilities.

### *2018 Full-Year Guidance and Assumptions*

<u>Per Diluted Share</u>	<u>Range</u>
Net Income	\$4.42 - \$4.81
Total FFO	\$12.23 - \$12.62
Core FFO	\$12.24 - \$12.64
<u>U.S. Economic Assumptions</u>	
GDP Growth	2.7%
Job Growth	1.4%
<u>ESS Markets Economic Assumptions</u>	
Job Growth	1.6%
Market Rent Growth	3.0%
<u>Estimated Same-Property Portfolio Growth based on 47,242 Apartment Homes</u>	
Southern California	1.9% to 2.9%
Northern California	2.0% to 3.0%
Seattle	2.4% to 3.4%
<b>Gross Revenue</b>	<b>2.0% to 3.0%</b>
<b>Operating Expense</b>	<b>2.1% to 3.1%</b>
<b>Net Operating Income</b>	<b>1.6% to 3.4%</b>

## **OTHER KEY ASSUMPTIONS**

- Acquisitions of \$400-\$525 million to be financed with proceeds from a combination of dispositions, joint venture capital, or common stock, depending on cost of capital.
- Dispositions of \$550-\$750 million, subject to cost of capital.
- Preferred equity investments of \$100 million.
- Total development spending in 2018 for existing projects under construction is expected to be \$250 million at the Company's pro rata share. The Company does not currently plan to start any new developments during 2018.
- Revenue generating capital expenditures are expected to be \$83 million at the Company's pro rata share.

For additional details regarding the 2018 assumptions, please see page S-14 of the accompanying supplemental financial information. For the first quarter of 2018, the Company has established a range of Core FFO per diluted share of \$2.99 to \$3.09.

## **CONFERENCE CALL WITH MANAGEMENT**

The Company will host an earnings conference call with management to discuss its quarterly results on Thursday, February 8, 2018 at 9 a.m. PT (12 p.m. ET), which will be broadcast live via the Internet at [www.essex.com](http://www.essex.com), and accessible via phone by dialing toll-free, (877) 407-0784, or toll/international, (201) 689-8560. No passcode is necessary.

A rebroadcast of the call will be available online for 30 days and digitally for 7 days. To access the replay online, go to [www.essex.com](http://www.essex.com) and select the fourth quarter 2017 earnings link. To access the replay digitally, dial (844) 512-2921 using the replay pin number 13675031. If you are unable to access the information via the Company's website, please contact the Investor Relations Department at [investors@essex.com](mailto:investors@essex.com) or by calling (650) 655-7800.

## **CORPORATE PROFILE**

Essex Property Trust, Inc., an S&P 500 company, is a fully integrated real estate investment trust (REIT) that acquires, develops, redevelops, and manages multifamily residential properties in selected West Coast markets. Essex currently has ownership interests in 247 apartment communities with an additional 7 properties in various stages of active development. Additional information about Essex can be found on the Company's website at [www.essex.com](http://www.essex.com).

This press release and accompanying supplemental financial information will be furnished to the Securities and Exchange Commission electronically on Form 8-K and can be accessed from the Company's website at [www.essex.com](http://www.essex.com). If you are unable to obtain the information via the Web, please contact the Investor Relations Department at (650) 655-7800.

## **FUNDS FROM OPERATIONS ("FFO") RECONCILIATION**

FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT"), is generally considered by industry analysts as an appropriate measure of performance of an equity REIT. Generally, FFO adjusts the net income of equity REITs for non-cash charges such as depreciation and amortization of rental properties, impairment charges, gains on sales of real estate and extraordinary items. Management considers FFO and FFO which excludes merger, integration and acquisition costs and items that are not routine or not

related to the Company's core business activities, which is referred to as "Core FFO", to be useful financial performance measures of an equity REIT because, together with net income and cash flows, FFO and Core FFO provide investors with additional bases to evaluate the operating performance and ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures and the ability to pay dividends.

FFO and Core FFO do not represent net income or cash flows from operations as defined by U.S. generally accepted accounting principles ("GAAP") and are not intended to indicate whether cash flows will be sufficient to fund cash needs. These measures should not be considered as an alternative to net income as an indicator of the REIT's operating performance or to cash flows as a measure of liquidity. FFO and Core FFO do not measure whether cash flow is sufficient to fund all cash needs including principal amortization, capital improvements and distributions to stockholders. FFO and Core FFO also do not represent cash flows generated from operating, investing or financing activities as defined under GAAP. Management has consistently applied the NAREIT definition of FFO to all periods presented. However, there is judgment involved and other REITs' calculation of FFO may vary from the NAREIT definition for this measure, and thus their disclosures of FFO may not be comparable to the Company's calculation.

The following table sets forth the Company's calculation of diluted FFO and Core FFO for the three months and year ended December 31, 2017 and 2016 (in thousands, except for share and per share amounts):

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
<b>Funds from Operations attributable to common stockholders and unitholders</b>				
Net income available to common stockholders	\$ 103,613	\$ 195,569	\$ 433,059	\$ 411,124
Adjustments:				
Depreciation and amortization	117,988	111,835	468,881	441,682
Gains not included in FFO	(34,779)	(134,303)	(159,901)	(167,607)
Deferred tax expense on gain on sale of real estate and land – Taxable REIT Subsidiary activity	-	131	-	4,410
Depreciation and amortization add back from unconsolidated co-investments	15,196	13,619	55,531	50,956
Noncontrolling interest related to Operating Partnership units	3,536	6,632	14,825	14,089
Depreciation attributable to third party ownership and other	(212)	(6)	(286)	(9)
<b>Funds from Operations attributable to common stockholders and unitholders</b>	<b>\$ 205,342</b>	<b>\$ 193,477</b>	<b>\$ 812,109</b>	<b>\$ 754,645</b>
<b>FFO per share – diluted</b>	<b>\$ 3.01</b>	<b>\$ 2.85</b>	<b>\$ 11.91</b>	<b>\$ 11.12</b>
Acquisition and investment related costs	\$ 415	\$ 462	\$ 1,569	\$ 1,841
Gain on sale of marketable securities and other investments	(259)	(2,843)	(1,909)	(5,719)
Interest rate hedge ineffectiveness <sup>(1)</sup>	(59)	(250)	(78)	(250)
Loss on early retirement of debt	1,796	395	1,796	606
Income from early redemption of preferred equity investments	(100)	-	(356)	-
Excess of redemption value of preferred stock over the carrying value	-	-	-	2,541
Insurance reimbursements, legal settlements and other, net	(1,418)	(429)	(1,108)	(4,470)
<b>Core Funds from Operations attributable to common stockholders and unitholders</b>	<b>\$ 205,717</b>	<b>\$ 190,812</b>	<b>\$ 812,023</b>	<b>\$ 749,194</b>
<b>Core FFO per share – diluted</b>	<b>\$ 3.01</b>	<b>\$ 2.81</b>	<b>\$ 11.91</b>	<b>\$ 11.04</b>
Weighted average number of shares outstanding diluted <sup>(2)</sup>	<b>68,321,214</b>	<b>67,915,332</b>	<b>68,194,472</b>	<b>67,889,505</b>

- (1) Interest rate swaps are generally adjusted to fair value through other comprehensive income (loss). However, because certain of our interest rate swaps do not have a 0% LIBOR floor, while related hedged debt in these cases is subject to a 0% LIBOR floor, the portion of the change in fair value of these interest rate swaps attributable to this mismatch is recorded as noncash interest rate hedge ineffectiveness through interest expense.
- (2) Assumes conversion of all outstanding limited partnership units in Essex Portfolio, L.P. (the "Operating Partnership") into shares of the Company's common stock and excludes all DownREIT limited partnership units for which the Operating Partnership has the ability and intention to redeem the units for cash and does not consider them to be common stock equivalents.

### NET OPERATING INCOME ("NOI") AND SAME-PROPERTY NOI RECONCILIATIONS

Net Operating Income ("NOI") and Same-Property NOI are considered by management to be important supplemental performance measures to earnings from operations included in the Company's condensed consolidated statements of income. The presentation of same-property NOI assists with the presentation of the Company's operations prior to the allocation of depreciation and any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual communities or groups of communities. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. The Company defines same-property NOI as same-property revenue less same-property operating expenses, including property taxes. Please see the reconciliation of earnings from operations to NOI and same-property NOI, which in the table below is the NOI for stabilized properties consolidated by the Company for the periods presented (dollars in thousands):

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Earnings from operations	\$ 112,375	\$ 105,520	\$ 446,522	\$ 420,800
Adjustments:				
Depreciation and amortization	117,988	111,835	468,881	441,682
Management and other fees from affiliates	(2,647)	(2,133)	(9,574)	(8,278)
General and administrative	10,659	12,224	41,385	40,751
Acquisition and investment related costs	415	462	1,569	1,841
NOI	238,790	227,908	948,783	896,796
Less: Non-same property NOI	(22,414)	(18,622)	(91,096)	(73,549)
Same-Property NOI	<u>\$ 216,376</u>	<u>\$ 209,286</u>	<u>\$ 857,687</u>	<u>\$ 823,247</u>

### SAFE HARBOR STATEMENT UNDER THE PRIVATE LITIGATION REFORM ACT OF 1995:

This press release includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements which are not historical facts, including statements regarding the Company's expectations, estimates, assumptions, hopes, intentions, beliefs and strategies regarding the future. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. In this press release and related materials, forward-looking statements include, among other things, statements relating to the Company's financial guidance for the first quarter and full-year 2018, including guidance relating to same-property portfolio growth, funds from operations, gross revenues, operating

expenses, and net operating income; estimated costs of property development and redevelopment, the anticipated timing of completion of current development and redevelopment projects and the stabilization of such projects; financial projections and assumptions; financing and investment activities; forecasts of residential supply, jobs, and rent growth in various areas; and other information that is not historical information. The Company's actual results may differ materially from those projected in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the failure of the Company to achieve its business objectives, changes in market demand for rental units and the impact of competition and competitive pricing, unforeseen consequences from cyber-intrusion, changes in economic conditions, unexpected delays or cost increases in the development and stabilization of development projects, unexpected difficulties in leasing of development projects, total costs of development investments exceeding the Company's projections, and other risks detailed in the Company's filings with the Securities and Exchange Commission (SEC). All forward-looking statements are made as of the date hereof, and the Company assumes no obligation to update or supplement this information for any reason. For more details relating to risks and uncertainties that could cause actual results to differ materially from those anticipated in our forward-looking statements, and risks relating to our business in general, please refer to our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other filings with the SEC.

#### **DEFINITIONS AND RECONCILIATIONS**

Non-GAAP financial measures and certain other capitalized terms, as used in this earnings release, are defined and further explained on pages S-17.1 through S-17.4, "Reconciliations of Non-GAAP Financial Measures and Other Terms," of the accompanying supplemental financial information. The supplemental financial information is available on the Company's website at [www.essex.com](http://www.essex.com).

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