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EDITED TRANSCRIPT

ESS - Essex Property Trust Inc at Citi Global Property CEO Conference

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Michael Bilerman *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Nicholas Gregory Joseph *Citigroup Inc, Research Division - VP and Senior Analyst*

PRESENTATION

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

All right. Welcome to the 3:40 p.m. session at Citi's 2018 Global Properties CEO Conference. This session is for investing clients only. And if media or other individuals are on the line, please disconnect now. Disclosures are available up here and on the webcast, under the Disclosures tab.

For those in the room or the webcast, you can sign on to veracast.com/ask and enter code citi18 to submit any questions if you do not want to raise your hand.

We're pleased to have with us Essex and CEO Mike Schall. Mike, I'll turn it over to you to introduce the company and the management team and provide the audience 3 reasons why investors should buy Essex today. And then we'll get into Q&A.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Other than Citi said so.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Oh, did Citi say so? Thank you, Michael. I appreciate that. I'm Mike Schall. Thank you so much for joining us today, and we thank Citi for having us here. I'm joined by John Burkart, who runs Asset Management and Operations within Essex; and Angela Kleiman, our Chief Financial Officer; and Barb Pak is also here.

So again, so going to the 3 reasons to buy Essex. Is that what I'm going to do? Okay. Three reasons to buy Essex: significant discount to asset value or the value of the portfolio, a strong track record among the best in the REIT industry and portfolio position in markets that provide the best long-term CAGRs of rent growth over long periods of time.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

I didn't know if you had any opening company comments that you wanted to make.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Oh, I do.

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Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

I didn't want cut you off.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

No, no, no. That's okay. So quick intro, a couple of minutes perhaps. So Essex, for those of you that don't know us, is an S&P 500 company that owns and operates over 60,000 units along the West Coast. These are the urban coastal markets of California and Washington. There's some unique things about these markets. Generally, job growth exceeds the U.S. average over long periods of time. And there are a number of factors that limit the production of housing on the West Coast, which keeps a favorable supply-demand relationship, and again, leads to the long-term CAGRs of rent growth, being among the best in the United States.

Proof of all this is our track record. We just announced our 24th consecutive dividend increase to $7.44 a share, positioning us nicely to become a dividend aristocrat next year. In total, we paid $85 in dividends since our IPO in 1994. That's roughly 4x the IPO price. And since the Great Recession, we have generated about a 270% total return to shareholders.

We have provided 2018 guidance, which was discussed on the conference call. It's on Page 28 of our presentation that we -- it's on our website. Generally, we expect improved economic conditions in 2018; slightly lower multifamily supply overall, which varies a little bit by region; and solid income growth, which is helping improve rental affordability, especially on the West Coast, one of the key issues that we face.

We expect market rents to grow about 3% in 2018, driving same-store revenue at around 2.5% and core FFO about 4.5%.

And that's the quick update on California and the West Coast.

QUESTIONS AND ANSWERS

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

All right. Mike, the question we've been opening each of the sessions, in addition to the 3 reasons to buy your stock, is what do you think is the single most important thing that investors get wrong about Essex?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

I think the single thing they get wrong about the company or partially wrong is just the strength, resiliency and diversity of the company, given that we operate in the best markets in terms of overall rent growth over long periods of time. We operate from B- to A quality properties and at a variety of different price points. And it's an area -- California and Washington combined is the fifth or sixth largest economy in the world. So there's a lot of good features to the West Coast. And again, the importance of supply constraints and limited supply of housing along with some of the best job growth and the most dynamic companies that are headquartered there.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

The first thing you mentioned for why somebody should buy Essex is significant discount to NAV. You're one of the few, I guess, apartment stocks who's actually bought back some level of shares. I think you've done $4 million as of the call about a month ago. Have you done any share repurchases since then?

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Angela L. Kleiman - *Essex Property Trust, Inc. - Executive VP & CFO*

We have not done any share repurchase yet. We are trying to be opportunistic. And so the price really hasn't moved a whole lot, and so we just want to make sure that they settle at a more attractive rate.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

And then in terms of that discount, I think you referenced NAV. Do you find NAV still a relevant metric in terms of value in Essex and multi-family more broadly?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

We -- yes, we make an affirmative decision to look at the investment options on the one hand in the private markets and what we think the company is worth. We spend a lot of time and effort actually on our internal NAV analysis. And if we decide that we would prefer owning the basket of properties, which is represented by the company's stock, then we will potentially sell assets and buy stock. And if the opposite is true, we will issue stock and buy assets. So in terms of which direction we go, we're pretty ambivalent.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

Great. You put out an operating update this morning. Occupancy was up 60 bps year-over-year. How does that update -- I think total same store was up 3.1%. How does that compare to expectations year-to-date?

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Sure, this is John. It's important to realize when we look at that, that we're right on plan. So the 60 basis points in occupancy, if you make an adjustment to the 3.1%, gets you -- subtract that, gets you to the 2.5% midpoint of our guidance. And really what's going on is we strategically positioned the portfolio at the end of last year to have high occupancy during the low-demand period. And then as we move forward and we get into the peak leasing season as demand picks up, we're now emphasizing rate over occupancy. And so you'll see us start to allow the occupancy to decline over the next several months, and as we try to achieve the top of the market rents. But bottom line, we're right on our plan.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

How about from an individual market perspective? I think you provided updates for the 3 regions. Are those all on plan? Or any tracking above or below expectations so far?

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Big picture, they're all on plan. L.A. is a little bit stronger and Seattle might be a little bit weaker. But Seattle is an incredibly seasonal market. Seattle's rents can move as much as 12% from December to the peak, usually mid-July. And so to make a judgment call on that right now is kind of premature. They're really all on plan. Our occupancies, again, strong in each of the markets and we're doing well.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Nick, as you know, there's a certain seasonality to the apartment business. And so it's still a little bit too early to tell exactly what the trajectory of the peak leasing season is going to be. So just agreeing with what John said. It's not unusual that at this point in time, that we'll have great visibility as to pricing and what's going to happen during the peak leasing season. The assumption is that it's a more traditional revenue path for this year. And again, that's supported by the fact that last year, we had some job difficulties. As you'll recall, in Q3 and Q4, jobs were significantly less than

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what we expected. We think the economy is better this year, which leads us to believe that this is going to be a more ordinary or more typical seasonal flow when it comes to pricing.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

So last year, peak leasing occurred a little earlier, I think, to your, job point. I think the year before, it also occurred a little earlier than kind of the longer-term averages. Why will this year be different? How do you know kind of if peaking earlier is not the new normal?

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Actually last year, they peaked earlier, basically end of May. And that actually wasn't true in the prior year. So what happened is we ended up with really challenged comps on a year-over-year basis in July, August, September. And that's part of why we get to the 2.5% year-over-year revenue growth guidance because what happened is we locked in leases during a high-volume period, July, August, September, at low or no gains. What we look at on -- we have a presentation out there. It's published up on the web. And on Page 11, we have a chart, which is the same chart we had in our Q, S-16.1. And what that shows is relative job growth of the Western markets -- of our Essex markets. And we had dipped down and there was kind of an air pocket. We talked about it on the calls how we didn't have job growth in the third quarter. We felt that dip in demand, and that's what caused us to peak early. We are now back up. And so as we look forward, we don't see that happening. Now we don't know exactly what drove that dip. We have a view, and our view is, I don't think the employers were meeting the market as far as price goes. And so it really wasn't that the businesses weren't ready, willing and able to hire. It was that they weren't paying enough. So that's really ultimately a decision to weigh. I think that decision was made by numerous executive staff, including at Essex. We experienced that ourselves. And so there was certainly wage pressure. We've talked about that. I think they moved wages enough to begin hiring at the rate that they need to hire at, and that's what we're seeing in this chart that we have on Page 11. And that's why we see going forward, we think it will be a normal leasing season.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

At this point in the economic cycle, just reaching more full employment, do you think job growth or wage growth is more important to drive your results?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

We think that if you look at supply and demand, just using normal metrics of, let's say, 2 jobs will form one household, most of the West Coast we covered on a 3-to-1 basis, so in other words, there are 3 jobs created for every -- this is at a job growth of 1.6%. That would mean we'd have 3 jobs for every house that is being produced in California. That would indicate that supply and demand will remain very tight in the West Coast, and therefore, we would -- we think that affordability is a bigger issue. And on many of our conference calls in the past, we focused pretty significant amount of attention on what's going on with median household incomes and personal income growth. And again, the West Coast is leading in a lot of those categories as well because we think that supply and demand is great with respect to setting price in the marketplace. But you still come back to affordability and what people can afford to actually pay in rent. And this is what forces people out to the hinterlands, I'd say, of the different markets in which we operate because they are in search of more affordable housing. They're willing to commute or they must commute longer distances. So essentially, we are focused on wages and wage growth. We think that's an important driver of better rent growth down the road. And again, the West Coast is one of the leading areas when it comes to wage growth because there's an incredible shortage of skilled workers and the unemployment rate is very low, in the 2% to 3% range in several of our metros. And given those numbers, we think that's going to force wage growth, fixes the affordability issue and allows us to grow rents more rapidly.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

What do you think the impact of HQ2 will be on Seattle's medium and longer-term demand?

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John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Say that one more time?

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

The impact of HQ2.

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Oh, HQ2.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

The audience thought there was a 45% chance going -- having greater (inaudible) time to rebuy town and country.

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

I think that all companies tend to have offices, as they get as large as Amazon is, that they're going to be outside the core area. I personally think the Seattle area will continue to grow with high-income earners, and that in the end, they won't be literally separate and equal. They will be something less than that. And so people will still strive to be in the Seattle area because it will be the headquarters, the main headquarters that everyone looks for, and that will be where the highest comp is. And that wage growth will continue to propel the rents there. At the same time clearly, wherever they expanded to, it will be a very positive thing for that location, too. I just don't think it that it will be equal. I think it will be just like most companies, you'll move a certain portion of your business that's lower wage out to another location that's lower cost, and then you'll focus the higher paid people at the headquarters.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

And by the way, I don't think Amazon is alone. I think when we look at Apple, Google and the rest of them, they're starting to diversify the job base and move to some other locations. And I think Southern California is actually the beneficiary of some of that. And I think that, that will continue. That's just the ordinary process I think that corporations go through, wanting to have access to the broadest base of skilled workers that they can find. If they find that some people don't want to move from L.A. to Seattle, they'll open an office in L.A. So we're certainly seeing some of that happening. And we think it's just a normal process. It also gives you the ability to negotiate with local governments that we saw go and do this for many years, where they didn't want to be reliant on one geography, and they wanted to essentially have some negotiating position, so they had multiple locations. And we think that, that is just normal and a healthy functioning part of the economy and the decisions that good businesses make.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

And do you think supply will adjust in the out years in Seattle? You've seen outside supply growth over the last few years.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Yes, I mean outsized, we have supply in Seattle, overall. Again, looking at both apartments and for-sale housing of 1.4% in Seattle. So it's not like they have an enormous amount of supply and they have 2.1% job growth there. The ratio of jobs to new supply is about to 2:1. So that doesn't

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appear to be out of whack as far as we're concerned. But we'd say we put Seattle into a little bit higher risk just because of the amount of supply that is coming into the market exceeds the California markets. The California markets are at about 0.6% of stock being produced. And so Seattle, we'd say it's a little bit higher risk. We've been too conservative over the last several years on Seattle. We expected lower rent growth, and it's pretty dramatically outperformed our expectation over that period of time. And so we have Seattle this year at 3.2% expected rent growth in the marketplace versus 3% Northern California and 3% Southern California. Certainly, so we brought our expectations for Seattle down quite a bit given the relationship between jobs and supply. And we think that's about right, but obviously we'll see what happens this year.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

Would you expect downtown L.A. and West L.A. to reach a stabilization point just given the amount of supply there currently?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

It's a good question. And we can look into 2019 and there will be a small drop-off of supply in downtown L.A. and West L.A. So it appears that we may have hit a peak, but we're going to remain near that peak level for a couple of years in both downtown L.A. and West L.A. And therefore, you have a pretty big divergence between some of the L.A. markets, L.A. being a very large area going from Long Beach in the South to San Fernando Valley and even beyond that in the north. And we're getting 4% to 5% rent growth in some of those submarkets, and the downtown is pretty flat, and West L.A. is pretty flat as well. So overall, we're doing reasonably well, but -- and we're trying to remain focused on the long-term picture of the downtown has -- is really the embodiment of what California wants to be. In other words, it wants to transition from a suburban sprawl type of area with very little mass transit to being an area where there's high-density residential surrounding the office and retail venues and all connected by public transportation. Now that dream of what California wants to be is going to take a long time to come to fruition. In the meantime, I think that more and more people will gravitate toward the downtown because there's just massive infrastructure projects and other things that are going to drive that growth going long term. So we are an absolute strong believer in Downtown L.A. longer term, I think the next couple of years will be pretty tough in the downtown, '18, '19.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do we have any questions from the audience?

Unidentified Analyst

Just looking at your same-property NOI growth for the last 5 years, you've outperformed your peer group by more than 3% per annum. Can you maybe...

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Thank you.

Unidentified Analyst

Can you maybe just...

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Do you want to come up here and join our team?

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Unidentified Analyst

Can you just maybe highlight the key drivers that were there? And what would be different in the next 5 years in terms of those key drivers? And how difficult would it be to maintain them?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Yes. And it really goes back to the basic strategy of the company and its founding, which were, let's identify areas where we can certainly predict the level of supply of housing both on the for-sale and the rental side. Because they both compete with one another, it's a matter of price. And then on the demand side, let's try to identify areas that are going to have strong demand growth over long periods of time. And really it ends up giving you -- when you solve for that equation, you're going to look to the markets that have produced the highest CAGRs of rent growth over very long periods of time, 25, 30-year periods. And Northern California is in the 3-plus range when it comes to long-term CAGRs over very long periods of time. And really good markets in America are in the 2% to 2.5% CAGRs of rent growth over long periods of time. And so we think that what Essex is really comprised of is the big chunk of Northern California being the highest. It used to be New York City was in that 3% range until really the Great Recession. And essentially, restructuring and disintermediation of the financial services industries. So we're in some 3% markets; long-term CAGRs in 2% to 2.5%, which would be all of the Southern California markets that we're in plus Seattle. And there are a lot of markets in America that do far worse than 2%. And we're not in them. And there are some others that do between 2% and 2.5% as long-term CAGRs of rent growth. Most of them are on the East Coast. And we've decided to remain a West Coast company given that we believe that we're sort of the local sharpshooter on the West Coast. So when it comes to the transactional side of the business development, and different investment options, we think that we do that as well as anyone does.

Angela L. Kleiman - *Essex Property Trust, Inc. - Executive VP & CFO*

Can I add one?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Yes, of course.

Angela L. Kleiman - *Essex Property Trust, Inc. - Executive VP & CFO*

And I just want to add one point on your question on the sustainability of our outperformance looking forward. And one of the things that we consider is that one of the reasons for our outperformance in the past 5, 6 years, aside from of course, the demand-supply, the demand piece is driven by having the key centers of innovation, so the technology sector. And that has created this tremendous shift of wealth to the West Coast and that concentration of that innovation. And so if we look forward, we will need to have a view on the tech sector, right? Where is that going? And where we sit on the ground is that with the Internet of Things, robotics and all these other technology-focused businesses, that industry is still at the beginning or at its infancy. And so for us to believe that it has a long leg to run is consistent with our expectation that the West Coast should continue to outperform.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

We've got a question over the Veracast. The local California media continues to report on the middle-class outmigration. If this trend accelerates, how does it inform Essex's investment strategy?

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Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

We look at all these numbers, and we publish our S-16 to our supplement every quarter that gives you the breakdown of how many units of supply, how many new jobs and all those other things. So somewhere embedded in that are transitions of people going from a single-family home or a for-sale house to a rental and back and forth and in and out of the state. We've tracked more recently the cost of moving vans, U-Haul trucks going in and out of the state. There's a variety of measures. But keep in mind, when we have these job growth numbers, these are net jobs, so we feel pretty comfortable about this. So this is the net of new jobs coming into the area net of jobs that have left the area. And that remains a pretty significant positive. In addition to that, you've got very low unemployment. So I'm not sure, Michael, who we're losing exactly, but what we know is that the area continues to perform well in terms of jobs, and the demand for skilled labor, I think, is an incredible shortage. And again, go back to unemployment rates in the 2% to 3% in California. In addition to that, there's a pretty significant positive demographic consideration here as well, and that is that when people retire, their preference has been to age in place, and a lot of people in California want to use the equity in their home either as a rental to bring in income and/or to sell and move to a less expensive place. So the portion of the people that actually stay if they can afford to stay, that don't need to use their home for their retirement, will consume a house without a job. And we know that that's a very significant number. I don't know exactly what it is, but it's a significant number. So you have a demographic tailwind of people living longer, consuming a house without a job. You still have very positive job growth. And again, we just don't produce enough housing. So I think it's already netted out of all of these numbers that we're talking about, Michael, net-net.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do you expect Costa-Hawkins to be repealed in November?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

We don't know for sure. Obviously, I can't. I'm trying to predict what's going to happen. We know that there is a pretty big battle being waged. The pro-repeal effort, which is a referendum that is going to be on the ballot, we know that, that is well financed and it's a formidable opponent. But at the same time, the apartment industry is 100% focused and pretty capable financially as well. And so I think that those forces are impossible to predict at this point in time and will be ongoing. But I want to note that as I said on the conference call, there were 2 legislative occurrences in California. One was there were the 15 bills that were signed into law by Governor Brown in California, dealing with housing back in September, none of which dealt with the rent control subject nor Costa-Hawkins. They dealt with how do we get more housing built in California and providing some financial resources to build more affordable housing? And then the other piece of it is that there was Assembly Bill 1506, which I also talked about on the conference call, which has been in legislature for the last couple of years and has not moved out of committee to be voted on by the legislators. So you have to interpret that to indicate that there is -- that the legislature is not fully supportive of the repeal of Costa-Hawkins effort because they could have done it themselves, obviously. And there's a wide body of academic and other information that is out there that talks about the unintended consequences of rent control, which of course, are greater shortages of housing and actually reducing availability in the marketplace and causing actually more pressure on rents and exacerbating the problem.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do you expect those bills to spur new development?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Do I expect...

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

The bills you talked about, Governor Brown signing the 15 bills. Do you think they will actually produce additional housing?

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Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

I think it will produce some, but I think it's been estimated that, that would translate the amount of money from the bond that was approved, and there's a parcel tax. I think that it's been estimated that, that's probably somewhere between 14,000 homes that could be produced with those funds, and the need is much, much bigger than that, like in the hundreds of thousands of units. So again, what is happening, and everyone you know that there's large concessions as multifamily properties are being delivered into the marketplace. These are vacant properties. And the owners of the vacant property want to generate cash flow more quickly, and therefore, they're focused on absorption rates. They're not focused on rent dollars. And so they're willing to give away 2 months free, which of course, on the stabilized communities, reduces our pricing power. So that's the dynamic there. When development deliveries slow down, I think that, that pricing dynamic is going to go away. It has the appearance that supply and demand is fine given the concessionary environment. But again, when that dries up, I think you're going to see pricing come back much better on the West Coast.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

On the call last month, you talked about cap rates remaining stable but the rising interest rate is creating some noise at least within negotiations. Do you expect cap rates to expand from here? Or do you think there's enough capital that will keep them near their current levels?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

No, I think cap rates are pretty sticky. And I think that they've been within a pretty tight band over, I'd say, the last 6 years since the Great Recession let's say. And they came down -- they went up in the Great Recession, came back down and have been more or less in the same zone for the last 5 or 6 years. And I want to note that the 10-year treasury has been, has had quite a bit of volatility within that period of time and, I think, hit a low of, what, 1.6 or 1.7, somewhere in that zone during that period of time. And note that cap rates didn't decline to 3.5% during that period. In other words, I think the real estate -- the private real estate markets take a longer view of what the returns are from real estate. And that means that they don't get totally fixated on what the interest rate is. I think there's a band of interest rates that will be considered appropriate and attractive to finance multifamily properties. And as long as you're within that band, I think that the cap rates can remain pretty steady. And I would guess that, that band has something to do when you hit positive versus negative leverage. But exactly how that works out, I'm not sure. But I would say that probably that band, when 5 to 7-year mortgage rates rise above the 4% to 4.5% cap rate, that would be an indicator that maybe there'll be a little bit more pressure.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

What's the best use of your free cash flow today?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Let's see. I would say it's a combination of -- actually, it's a CFO question. Okay, I'll answer.

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

She already said we weren't buying back that stock.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

I'm trying...

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Angela L. Kleiman - *Essex Property Trust, Inc. - Executive VP & CFO*

Well, look, there's a reason behind that. It's not that I don't think it's a compelling purchase. It's that during our earnings call, the stock price dipped down to our 52-week low or pretty close thereof. And it's been bouncing around. And so I don't just want to buy haphazardly. I want to make sure that I'm optimizing the buyback.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

But at a certain point, you have an idea of -- you have an internal NAV. And if it's a 12% or 14% discount or 17%, right, it's hard to time. The point is that there is a substantial discount that's been there for a little while. How do you think about actually executing on that going forward?

Angela L. Kleiman - *Essex Property Trust, Inc. - Executive VP & CFO*

Yes. And that's a good point. I think what we would do is we're not going to just hold out, and we don't need to wait for an asset sale even though the plan is to have the buyback on a leverage-neutral basis. We would just use our revolver for example to bridge those acquisitions. But in terms of free cash flow, internal growth is still very compelling. Redevelopment deals are quite attractive. And so there is competition for that capital.

John F. Burkart - *Essex Property Trust, Inc. - Senior EVP of Asset Management*

Good thing they didn't say executive pay.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - VP and Senior Analyst*

Acquisitions. I know it doesn't make any sense right now, but historically, as we get later in the cycle, you've tended to move a little more towards Southern California. It sounds more recently that Northern California may be interesting. Is that calling the cycle being longer? Or is it something unique that you're seeing today versus other cycles?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Well, I think it was pretty dramatically different when you go back to the last tech boom period because you had at that point in time Dreams going public, raising a couple of hundred of million dollars. And as soon as that money was gone, they were gone too. So I think it's a very, very different scenario this time than last time. You also had Southern California rents looking very inexpensive relative to Northern California. And so by way of background, we had -- I'd say, 70% of Essex's portfolio in Northern California in the late '90s, and then we switched. By 2000, mid-2000s, we were about 30% Northern California and about 60% Southern California. So we made a pretty dramatic move in the portfolio and then it moved more into Northern California over the -- since the Great Recession. So I would say that we like each of our markets about the same. So we don't have a compelling trade, let's say, between any of the 3 markets. So we like our portfolio allocations as they are. We think that Southern California adds a little bit of diversity too, and it's a bigger economy, more like the U.S. economy. And we don't think that we should be exclusively in the tech markets. And so we want to continue to have that diversity within the portfolio. So we're pretty happy with the portfolio allocation as it exists today.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Are you doing anything on the short-term rental side, shorter duration, given some of the tenancy that you have?

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Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

We have had -- we had a corporate lease to a short-term provider for a while. And California tends to be very protective of its rental stock. And the city, in this case, essentially in working with the city, we decided to disband that activity. And again, I think that there's a number of issues with respect to short-term rentals that are pretty important, both the protection that the cities have over the rental stock, and that's more of a hotel type of a function. But also, the disruption.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Oh, we've got to wrap it up.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Also, the disruption that is represented by that business, which can be pretty substantial because you have people that are on vacation mixed in with people that are working.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Do you expect public-to-public or public-to-private M&A in the apartment sector in 2018? And if so, which one is more likely?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

I would say I can barely hear that, but I think it's -- we'd say public-to-private would be more common or would be the #1 answer.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Same-store NOI growth for multifamily in 2019? This year it's 2%.

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Around 3%.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

10-year treasury a year from now?

Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

3.25%.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Thank you.

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Michael J. Schall - *Essex Property Trust, Inc. - President & CEO*

Thank you.

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