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PRESENTATION

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

For those of you who don't know me, I'm Juan Sanabria from Bank of America. I cover resi, storage and the healthcare REITs. Today, we've got Essex closing off today's session, Mike Schall, CEO; and Angela Kleiman, CFO.

I'll hand it off to Mike to give some prepared remarks, and then we'll go into Q&A, but it's meant to be interactive. So if you have any questions, please raise your hand.

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

Great, Juan. Thank you. Thanks for having us, and it's great to be here. It's an honor for us to be here. Thanks for joining our session. I'm accompanied by Angela Kleiman, our Chief Financial Officer.

So I'll start with just a quick intro, background of Essex. We're an S&P 500 company. We own over 65,000 units, all on the West Coast of the United States. We're dedicated to these markets and have been since our IPO in 1994, specifically the coastal urban markets in California and Washington. These are unique markets in that they generally outperform the U.S. when it comes to job growth. And recently, for example, trailing 3-month job growth was 2% in the Essex markets versus 1.7% for the U.S. Number of factors is probably more important. Number of factors limit housing supply leading to a severe housing shortage in mainly the California markets. And that, we don't expect to be resolved anytime soon. For example, looking at our expectation for our economic outlook for 2018, we predicted that roughly 180,000 jobs would be created in coastal California. And at the same time, we would produce around 48,000 homes. These are all homes, rental and for sale. That relationship will intensify, not solve the housing shortage in California. And so we think that, that is a really key concept for an investor in Essex's stock.

I guess a proof of concept for Essex is in the track record. We have, for example, increased our dividend each of the last 24 years since the IPO, which means we expect to be a dividend aristocrat next year. And since the Great Recession, we generated about a 277% total return to shareholders and about 3,000% since our IPO in 1994.

Turning to 2018. It's proceeded mostly ahead of our plan. And in fact, we've raised our guidance 2 times this year so far.

And with that, I will turn it over to Angela for a update on operations. Angela?

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

Great. Thank you, Mike. We provided our preliminary July, August results in our investor presentation. It's on Page 27, and the presentation is posted on our website.

So consistent with what we discussed on our second quarter earnings call, the third quarter will be the trough of our rent growth. And we had guided to a low 2% for Q3 and high 2% for Q4 as we favor rent growth over occupancy. So consistent with our plan of preliminary July, August result of 2.1% is impacted by 2 key factors. First, occupancy. So last quarter -- or last year in Q3, our occupancy was at 96.6%. This year, it's currently running at about 96.3%. So there's a 30 basis points headwind. In addition, last year, in the third quarter, we had a delinquency collection from a corporate housing operator. So if we adjust for this onetime impact, our portfolio will be about 25 basis points higher. So if you adjust for both of these items, our preliminary July, August would be around 2.65%. Compare that to second quarter of this year of 2.5% if we adjust for occupancy as well. So generally, our markets are performing slightly better, as expected. And year-to-date, we are at 2.8%, which is in line with our full year guidance range of between 2.6% to 3%.

Back to you, Mike.

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

Yes. Which leads us to believe that, overall, our 2018 results are pretty consistent with rent growth over the next couple of years being somewhere in the long-term historical average rent growth for the company.

And now I'll turn it back over to Juan for Q&A.

QUESTIONS AND ANSWERS

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Great. Thank you. Angela, maybe if I could just hit on that point about the delinquency. What was the dollar amount of that delinquency? Or is it more of a way to think about it on an occupancy impact?

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

It was actually a dollar amount, and it was a delinquency dollar amount that was -- that reflected several months of delinquency. And I don't remember the exact number, but it was somewhere around $1.5 million to $2 million in total. And it all occurred in third quarter last year.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Great. So as we sit here today, you talked about the fact that you're willing to kind of give up some occupancy as you push rate, and you feel you're kind of at the right time in the market to do so. Are you confident that you can begin to drive rates here and that revenue growth and rate growth should accelerate into 2019 with the markets where they are?

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

I think that's a great question. I think that as I look at 2017, it was an anomaly year in that as we talked about a year ago, rents peaked early in the West Coast market, sometime in June, versus the typical leasing season where we peak sometime in July. So rents peaked early, so we reacted to last year by pushing occupancy. As we go through 2018, we are adopting a more normal strategy since we've had a normal peak leasing season. And so really, all these occupancy adjustments are really eliminating the anomaly of 2017 into a more normal 2018. So as we look at things right now, we're much better off in August 2018 looking forward versus August 2017 at that point in time. And let me give you a statistic that will help support that. Our month-over-month rents for -- this is market rents for August 2018 are up 3.4% from August 2017, whereas our August 2017 rents were up 1% month-over-month from August 2016. So we're in a much better position to push rent as opposed to having higher occupancy. And this is going to be very important as we push into 2019 because we entered 2018 on a relatively weak footing. We're going to enter 2019 at a much stronger position.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then your 3% market rent growth forecast, I mean, do you see upside or downside risk? Clearly, I think Seattle has maybe been a little bit softer than at least we expected, but Northern California seems pretty robust. How are you thinking about that? And is that kind of a good expectation, in your mind, given it has been a normal peak leasing season to think about 2019?

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

Yes. I think that you said it well. I think that the weakness in Seattle, which, candidly, we expected years ago and we kept pushing a weaker Seattle, and so therefore we have invested less in Seattle than we have in California, expecting the supply to be a greater impact. Now I think Seattle has done really well, primarily because their job growth has been so good. It's been at 3-plus percent, and we had a more muted outlook for jobs in Seattle. And I think that that's proving to be better than we expected. And then in San Jose, I think we've turned the corner there in terms of rent growth. We had too much supply '16 moving into 2017. And that condition has now been, I guess, rectified, and we're in a much better position to push rents there. So I think 3% is still about the right number for 2018 market rent growth. It could be a little bit off here and there, but I think, for the most part, it will be in that range.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then could you just give us an update on where you stand on loss to lease and maybe help us contextualize that relative to this point last year?

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

Yes. I think the loss to lease will -- it follows largely the numbers that I just gave you about August '18 versus August '17. And the recent loss to lease, most recent I have here is back in July, so I'm just going to refer back to the conference call where loss to lease in the portfolio was 3.6% in July 2018 versus I think it was 3.4% in 2017. So I think we're in good shape generally, loss to lease. But the -- again, the shape of the curve is different over the 2 years. In 2017, we had a very weak second half. So what's happening now as we go through 2018, we're actually picking up that spread between -- the year-over-year spread. It was very small at the beginning of the year, and it's growing as we go through 2018, again to the benefit of 2019.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then on the supply front, any updated expectations? I think you previously articulated that you expected flattish numbers versus '18, particularly across, I think, the major markets. San Jose seems to be the one were kind of -- or Northern California, particularly San Jose, we're getting a bit of mixed messages.

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

Yes. I think San Jose and Oakland are going to have -- actually have significantly more supply in 2019 versus 2018. Our overall expectation is that supply declines modestly in 2019 versus '18. Again, there are some areas where supply goes down and other areas where it increases. And so Oakland and San Jose would be the places that they're increasing. And the 50% range would sound like a scary number. But when you look at that as a percentage of stock, it's still around 1% apartments and amid a, I guess, the broader housing markets, which include for sale and rental housing, which is in the 0.7% to 0.8% of stock. So none of these numbers concern us. So just going back to what I said previously, so 180,000 jobs produced -- are expected to be produced in coastal California and only 48,000 homes. So even though they increased a little bit, the shortage, the severe housing shortage that we have on the West Coast is not going away anytime soon.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Any thoughts on L.A., particularly downtown? It still seems like there's a lot of potential deliveries to be coming there.

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

Yes. I guess, I mean, as I think -- as we think about supply and permit. So permitting continues to be pretty robust on the West Coast, but we're also seeing some of these transactions get pushed off. So -- and I guess we see that most directly in our preferred equity program. So rather than increasing our allocation to direct development, we've chosen to direct our investment dollars into preferred equity where we will fund someone else's development deals. So if a construction lender on a nonrecourse basis, typically 55% loan-to-cost, we will go from 55% to 70% to 85%. We'll take that piece, and then they will provide the last bit of equity to get the deal done. And we will charge them somewhere between 10% and 12% for that position. And we think that's a better position than being a direct developer, primarily because there's just -- construction costs are going up much faster than rents, which is compressing yields. And you don't have the certainty because the cities are very difficult to deal with in California generally. And in many cases, it can take 4 or 5 years to get a building permit and so trying to stay away from that risk given where we are on this -- the economic cycle.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

So do you think that there'll be a greater fallout rate? Or it's just being delayed in terms of deliveries if you're looking at permits versus what's actually going to get built?

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

Delays have been a theme for the last couple of years. In prior cycles, I don't remember nearly the extent of delays that we've seen this -- in this more recent cycle, and I suspect that, that won't go away. So again, we expect pretty significant deliveries, for example, in Downtown L.A. in late 2018. I imagine some of that will drift into '19, I'm guessing. So it will probably be more the same. So some of this supply delivery will be pushed into '19. Keep in mind that we can't tell exactly, despite our best efforts to interview owners and try to figure out what's going to come when. It's very difficult to look inside these buildings. The exterior of the building is completely done, and you're trying to figure out how many of those are going to be completed during any one period and then how many of those will be coming to market. It's almost impossible to do that. And it's been one of the most challenging parts of this business, predicting supply, and then given supply, predicting what's going to happen in the concession, in the concession world.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then just generally speaking, thinking about your capital allocation. Where do you see the best opportunities? You kind of touched on some preferred acquisitions, development, redevelopments, buyback, deleveraging. Where do you sit at this point? And maybe contextualize that, where you think we are in the market as a whole and kind of why that's the best opportunity.

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

Sure. In terms of capital allocation, where we see the most value that we can create in terms of just order of priority is really the preferred equity business that Mike just described and then follow by a stock repurchase given where stock is trading. And then thereafter, it's probably acquisition via a joint venture depending on the entry price level and the expected growth rates.

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

Yes. Maybe to add some context to that. So we started the year with a $400 million to $500 million acquisition target and $100 million in preferred equity. We revised the $400 million to $500 million to $100 million to $300 million last quarter, primarily because looking at the way we look at the world is, hey, would we rather invest in our stock or would we rather invest in a transaction that is before us. And we concluded that basically, based on the transactions, given the cap rates have stayed flat to even down a little bit, a lot of money chasing deals out there, it's prevented us from doing much in terms of acquisitions. I commented on the call that we had one deal in contract to purchase in a joint venture, what Angela was just describing, for $107 million. And that's been delayed a little bit, but it's likely to close here in the near future. And so I think as to acquisitions, we're likely to be, I don't know, somewhere within the revised range but probably not significantly above it. In terms of preferred equity, we -- and I commented on this on the call as well, where we had a pretty robust pipeline coming into 2018 and again against a target of $100 million. I think we're going to be challenged to get to $100 million. We'll be somewhere close to that, but challenge to get to the $100 million, again because we see -- we're seeing transactions that are not being funded. And we had a transaction actually that we approved. And then when it came to actually funding the deal, construction costs have blipped up, and we were unable to fund that deal. So we're seeing some very significant headwinds there. And the third piece is the -- just looking at the stock, we have a great portfolio. And so buying our own stock is certainly an attractive option for us, and so it becomes -- we don't want to shoot all our bullets too soon and not have any left if there's a better opportunity down the road because we're trying to be pretty careful about when we pull the trigger on a share buyback. But it's definitely part of our thinking and part of our hope that we're able to execute.

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

And then just to follow up on your question on leverage. We would execute a stock buyback on a leverage-neutral basis. But currently, where our balance sheet is, we don't see the need to delever. We're at 25% leveraged, about 5.7, 5.6x debt to EBITDA, and we are at a better position now than we were heading into the '08 recession. We have a $1.2 billion line of credit that has 0 outstanding. We have 60% unencumbered assets versus prior to the '08 recession we were reversed. We have 40% unencumbered. So we view that our balance sheet is well positioned to be opportunistic but also safe enough that it could weather any meaningful market dislocation.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then on the development front, can you touch on what you're seeing in construction costs? Seems like obviously there's been an increase that's caused some problems with projects. And just on the financing side as well, any loosening or other sources that have stepped up that have either created competition for your preferred lending and/or just generally loosened maybe at the banks or at other sources?

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

Well, I think -- actually I think I made this comment on the conference call that the Prop 10 vote could have an impact on transactions in that owners and potential purchasers or developers of property are likely to wait until the reality of Prop 10 is known after the election. So I think you have some freezing of activity in the meantime as those details become better known. I think construction costs, again that's been part of a longer-term trend, where construction costs started going up at around 10%, and they probably have, for at least 2 to 3 years, having some of the tariff action that I talked about on the conference call. Steel and lumber certainly have not helped. And so there's a number of pressures that are pushing construction costs up. And again, when construction costs grow faster than rents, it compresses yields, and that makes it more difficult to get these things done. In terms of actually identifying sources of money to fund development deals, at the 55% loan-to-cost level, I think there are plenty of banks that are willing to do that on a -- essentially a nonrecourse basis. And if you go back throughout most of my career, I've been here for 32 years, I've seen construction loans typically in the 75% loan-to-value range, projected value range. So this is a sea change in terms of how apartment financing is underwritten and is certainly, I would say, probably part of the problem in producing housing more generally. It's just the availability of higher leverages are just not there. And a number of companies like Essex have stepped into that breach and said, "Hey, this is a great opportunity for this preferred equity platform because we can take a relatively safe position on property we otherwise we would want to own and fund that." And so I'd say availability of that mezzanine or preferred equity type financing has improved over the last year or 2, and I think there are plenty of players there. So within those constraints, I think that the money is available. But I guess I would make one other point, and that is pretty much all of the development that is delivered is at the luxury segment, whereas a demand for housing is in a variety of price points, as you can imagine. So what we have is we produced housing at the luxury segment that doesn't necessarily match the demand. And I think as a consequence of that, what happens is you take a B+ renter, let's say, and you make the A-level property available to them because there's too much A. And so you dilute the premium, the normal premium of the A and you make a B+ renter, a renter on the luxury property. And then someone else backfills behind the B+. So that process is ratcheting through the markets and takes some time for the markets to adjust to that. So bottom -- but the bottom line, I guess, is, and according to one study, we've underproduced in California housing from 2000 to 2015 somewhere around 3.5 million units. This is a NMHC, National Multi Housing Council, and Up for Growth Coalition entity that produce that. Again, California, we think has an acute housing shortage, and it doesn't end anytime soon.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Since you brought it up, Costa-Hawkins.

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

Do you think we could have avoided it, had I not said that.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

No, no. I didn't think so. What's your updated expectation? It seems like the local papers across the state are kind of mixed in what side they're backing, and the Democrats have come out for it at least at the state level. Who is outspending, who at this point and by how much? And what is the key message you're trying to educate voters on in that 30-second TV spot to try to sway their opinion when they enter that booth?

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

Okay. So there is a lot of pieces to that question, so please help me stay on track. So Essex is part of a broad coalition, along with other multi-family REITs, other significant owners of property in California and a variety of other groups, unions, senior or veteran groups, et cetera to oppose Costa-Hawkins. In terms of what Juan said, I agree with him. When you look at op-eds from the major newspapers, I say most of them have been opposed to Prop 10, have been on our side of don't repeal Costa-Hawkins. So -- but the other side has several as well. And I think if I -- as we look at things with the legislature of California and the local governments I think are pretty sensitive. In fact, John Eudy, who is our Head of Development, made some comments about whether the city -- the cities are very sensitive to this issue because they're concerned about the amount of housing and having more impediments to housing going forward. And so what we've seen is a lot of the advocacy groups for tenants be the sponsors of these various proposals, including Prop 10. And the cities, I think, are somewhat concerned about it as are the politicians. I think the politicians break down, mostly the 2 governor candidates, to replace Jerry Brown against Prop 10, and there's a number of similar conditions at the local level. In terms of spending, I'm not going to get into too much detail. I think that we will have a spending advantage, pretty significant. We've been -- this coalition has spent a lot of time and effort fundraising, so far, for the upcoming battle. We've started running ads. You can see some on the No on Prop 10 website, and I think we're pretty focused on -- I think we have a campaign team that is driving that strategy, and you can see what they believe. And their research resonates with the voters, and so you can see those on the No on Prop 10 website.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

What is the basic pitches? Because -- does the point about this is, in the end, going to lead to a greater housing storage. Do you think that actually resonates and people think that far ahead? Or is it more if they rent control us, you're fooling yourselves and there'll be rent control on residential and your own home if you choose to rent it out or what have you?

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

Yes. That -- I mean, it's both of those things. So we think that repealing Costa-Hawkins will make a bad problem worse, so that's a key message. We think that homeowners may be significantly affected because Costa-Hawkins prohibits rent control on single-family homes. So if you repeal Costa-Hawkins, then that opens the door to rent control on single-family homes. And that could affect an estimated $60,000 of value that your single-family home may have, if it's subject to rent control. And so there is a number of things. We also think that there is a better option on the ballot, and that is Prop 1, which is the affordable housing bond, and Essex and several others are a supporter of that initiative as well. So we think it's -- you have to attack the supply at some level. You have to produce more affordable housing. This mismatch between producing luxury housing and producing just more affordable housing is critical, and there's certainly a better answer than repealing Costa-Hawkins.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Any other questions from the audience on Costa-Hawkins?

Unidentified Analyst

So at the core of it, how do you do that? How do you produce more housing that lower-wage folks can afford? I mean, how -- it's an age old problem. How do you do that?

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

Well, I think it's -- I really think it's 2 things. I think that wages are going to be pressured upward, and they have to be pressured upward. In fact, we've produced these migration studies that have been part of our earnings supplement. So if you go back last couple of quarters and look at them, we've tried to study these things. And what we found is essentially the people that are coming into California have higher incomes, and they're coming typically from the Eastern metros that are high-cost metros. And then we are losing people to other Western cities that are much more affordable. So I think that, that trend continues. I think there is no question about that. But so further, I think that there is going to be pressure on wages and for all levels because I think that California has pretty high incomes, and the high-income people want to consume services. And so the services will be there at a price. And so wages will have to go up in order to make this workable for people that are essentially in the low, middle group of the income earners of California. So I think that's a key part of it. I think that building more affordable housing is a key part of it. Again Prop 1 is a good start to that. There were 15 bills that were signed into law by Jerry Brown in September of 2017, and all of them essentially dealt with this issue: trying to get more affordable housing built, trying to streamline permit processes, trying to penalize cities that refuse to produce their housing element and all of these things. So essentially, we haven't given the legislatures action the chance to be helpful to the housing crisis. There hasn't been enough time. These were 15 bills. This is on the conference call for Q3 '17, where I was talking about the 15 bills that were signed into law. So I don't think there's any one solution here. I think it's going to be a variety of different things that are going to come together, hopefully, to solve this problem. And I think that a lot of this has been acted upon, but we need time to actually make that happen.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And if Costa-Hawkins does get repealed, you've mentioned condos. Is it opportunity to -- is a lever you can pull to minimize some of the pain of -- how should we think about that from like an earnings perspective? And is that a taxable event like a bad REIT income, so to speak? Or if you could just give us some general parameters, that would be great.

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

Yes. I mean, Essex has somewhere around 8,500 apartments that are condo maps, so condo convertible in California. Generally, the cities are not willing to -- they're protective of their housing stock, and so they're not willing to allow you to take an apartment building and convert it to condos, unless you have this map in place, which -- when there's a housing shortage are reluctant to give you. So it's important that you get that mapping process done upfront, which we do pretty much across the board with our development deals, unless there's some reason why we can't do it. So we have been through a few cycles where we've done condo conversions. And typically, Juan, to answer your question, what we've done is sold to a conversion entity, and we may actually participate as a part of the conversion entity, and then let that conversion entity actually do the conversion as opposed to doing it ourselves. So I think that, that would be our likely strategy if we have to go that direction. We hope that we don't, and -- but if we own, to the extent we own properties in areas with very significant rent control, then potentially we'd be basically forced into pursuing that as an exit strategy. I also want to actually comment that there's a big difference between cities with moderate rent control and cities with severe rent control. We are in some cities that have moderate forms of rent control. San Jose and Los Angeles will be examples of that, where they have a vacancy decontrol and they have reasonable increases that are allowed. In San Jose, currently the cap is 5% on renewals, and L.A. is from 3% to 8%. And so those cities, we think, are not dramatically impacted by Costa-Hawkins, whereas some of the other cities would be, I think, directly impacted.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

I know it's somewhat still early but for Prop 13 could be on the ballot for 2020. Any thoughts there? And do you have a sense of what percentage of the portfolio was mark-to-market with the BRE transaction?

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

Yes, sure. In terms of the prop -- for Prop 13, we are expecting this rule to get on to the 2020 ballot. What that means is that it's going to impact commercial properties. We are considered residential. We have a very small commercial portfolio, so the impact really shouldn't be significant. As far as the BRE transaction, when we acquired BRE, all of the BRE assets will mark-to-market from a property tax perspective. So there shouldn't be additional risk from that perspective.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

So apartment landlords would not be commercial under the proposal?

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

As it's currently proposed, the split rule, yes.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then on the transactions market, you kind of I think hit on this at the beginning. Excuse me, it's the last presentation of the day. Any change in the depth of the buyer pool, foreign capital that would lead you to believe that the cap rates are at an inflection point or otherwise? Any comments there?

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

So far, looking at the transaction activity, I actually have made the comment on the call that we had sat down with our acquisition folks, our investment folks, and we reviewed all the transaction activity in connection with our Q2 call in the second quarter being concerned about this. And we found no evidence that the transaction market had changed materially. There are still a lot of buyers. We've had some foreign buyers that have expressed interest in properties in the past. And then sometimes they remain there. Sometimes they don't. So they're an -- I'd say a more elusive buyer, maybe. But still, there's a lot of money out there. I mean, this is typical, I think, of where we are in the economic cycle where there's a lot of money-chasing deals. And so we don't see any near-term change in that, unless I guess you really see these interest rates change materially, which we don't expect either.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then just back on the operations side. One of the things we've been surprised at this cycle is just the turnover and how that's come down and continue to kind of impress on the upside. Do you think there's room to continue to see turnover come down? And what would see that recent trend change? Is it just you pushing rents harder once you feel you've got a bit more pricing power? Or how are you thinking about that?

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

Yes. It's just one of the items that is a variable in the equation in terms of pricing and availability. All things being equal, our preference is to, let's say, when we give someone a renewal, we stay closer to the current market than I think some other operators do because we're somewhat sensitive to overcharging maybe our existing customer. And that leads to maybe a little bit lower turnover. And so -- but we think that's important, just for the long-term health of our relationship with our customers. So I think that that's part of it. That isn't going to change, and I expect that turnover is going to remain somewhere in that 50% to 55% level. I think also the fires in California had an impact on turnover as well in that there was these emergency orders that came from the governor. The cap rent is at 10% above what they were at the date of the order. And as a result of that, what happened was we were capping -- normally, we'd charge a month-to-month premium that would be higher than 10%, but we capped our month-to-month premium at 10% given the order, and a lot of people stayed. And so we ended up with lower turnover. This is part of the year-to-date numbers, lower turnover as a result of that. So that will obviously normalize as those emergency orders are lifted.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And did you have any impact from the fires this season?

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

Knock on wood, no. We had a couple of buildings that were evacuated. And so I'd say maybe on a very, very short-term basis that we were impacted by them, but we've been fortunate not to have any major damage.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then just lastly on the expense side. Any thoughts about trends in the major line items as you think about where you're running at '18 and how that could trend into 2019?

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

Well, for our '18 numbers, we have guided to a 2.6% expense growth at the midpoint, and we're coming in as planned. And I think we haven't budgeted for '19 yet, and so it's probably a little too early to tell. I do think that we have, just like everybody else, expense pressures, but we've been able to find offsets. And so I don't think it's going to deviate a whole lot from our historical run rate of somewhere kind of between that mid 2s to kind of the low 3s, generally speaking.

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

Yes. I'd make the point that on -- as it relates to wage pressures, certainly our OpEx is impacted by wage pressures. But obviously, the broader company is benefited by higher wages. We need higher incomes in the West Coast. And so our view is that's ultimately, net-net, good for the business and good for housing on the West Coast.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

And then any new initiatives on the technology front? A couple of your peers have talked about spending more money on innovations and kind of using big data to analyze potential opportunities and/or smart home functions. So anything you guys are doing, either to boost the revenues or positively impact expenses that you're thinking about?

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

Yes. Actually, we're a part of a group of apartment REITs and apartment owners that aggregates somewhere around 900,000 apartment units in the U.S. and Canada that has committed close to $100 million to make technology investments that are part of that. And one of the investments that we've made is a smart home type of entity, and so we're active in that area. I think all of us view efficiency as being key to essentially create these offsets that Angela talked about to our operating expense growth and so becomes very important and/or generate other income opportunities. So it's something that we're involved with, that we're excited about. And I think it will be -- it will have some material benefits over time.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Great. And at this point, I think, unless there's any other questions from the audience, we'll finish up with some tough-hitting rapid fire questions. Sorry.

Unidentified Analyst

Yes. Can I ask more of an operational? I'd like to talk about concessions just for a minute.

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

Sure.

Unidentified Analyst

And maybe if you could break it down, say, Seattle, Northern Cal, Southern Cal, or if you want to get more specific, that's fine. But what are you needing to offer for concessions right now? I mean, your occupancy is very strong. If I walk in and do a 1-year lease. Is that it? Do I get no concessions? Are you doing 13 months and 1 month free? What are you doing right now in those markets typically?

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

Literally, concessions change week to week depending upon what happens, the competitive set. And generally speaking, it's the urban areas that have several lease-ups that have been coming to market at the same time that are causing the concessionary environment because if one of them -- they're all seeking somewhere around 30 units a month in lease-up. And based on what their actual activity is, if someone leases a bunch of 2s because it gave away concessions greater than the rest the other competitive set, then everyone catches up the next week because they increased their concessions and give them the same things. So literally, it changes all the time. And so -- but generally speaking, to try to give you a more general answer, stepping away from exactly what's happening today, it's the downtown urban locations and the transit nodes that are getting most of the supply, especially in California. Actually, it's the same thing for Seattle. And the Seattle area is getting most of the supply. And therefore, the intensity of the concessionary activity is really embedded in those areas. And so we commented on the call that Downtown L.A. was 4 to 6 weeks, and that continues to be one of the key concessionary markets. Koreatown is kind of that same -- actually 6 to 8 weeks maybe. And Downtown San Diego, I'd say the San Diego metro is one of our strongest metros. But if you're in the downtown, it's 4 to 8 weeks of concessions. And throughout our portfolio, Downtown Seattle and specifically South Lake Union is 4 to 6 weeks, which actually is an improvement from where it's been. But Seattle -- and Seattle is unique, too, just because the second half of the year is more seasonal in Seattle. And therefore when you get a chunk of deliveries amid a very seasonal period of time, there is no net demand. And so you're trying to draw people out of the stabilized communities, and you do that with concessions. So I think as you get in the second half of this year, you probably have a little bit more concessions which are contemplated in our guidance.

Unidentified Analyst

And in general, would you say concessions are a little bit less than maybe 6 or 12 months ago, roughly the same or a little bit more?

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

Yes. I think they're a little less than they were 6 to 12 months ago. Yes. I think we're in a longer-term trend of small decline in supply of apartments. Again, we said, net-net, this year, we're somewhere around 4% lower and again depends on how many of those units that we have scheduled for deliveries in Q3 and Q4 to push into Q1 '19. So maybe those numbers change a little bit. But I think overall, the trend is down. And especially, again, the macro -- or the key macro issue is construction costs are going up at 10%. Rents are growing at 3%. So you're compressing yields, and that's making fewer and fewer development deals penciling.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Just to close out, 3 rapid fire questions. First one, what's the biggest risk to public REITs? Capital flows into real estate private equity; two, trade wars; three, rising real estate taxes by municipalities to raise money; or lastly, four, Fed missteps.

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

Oh, boy. That's -- you're supposed to leak these to us, so we can give you a thoughtful answer to them. We will say -- I'd say probably it's going to be related to the regulatory risk of the municipalities and what -- how that affects housing supply. Again, I think there's a lot of very well-intended municipalities that will think they're helping the problem by producing more affordable housing but just make it more costly for developers.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Second one, will supply deliveries be higher, equal or lower in '19 versus '18?

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

That's good. I got that one already. Lower, slightly lower.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Are you planning to increase or decrease your capital spending over the next 12 months or no change?

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

By capital spending, you mean investment spending and -- or capital being...

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

It's an open-ended question.

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

Okay, open-ended question. I would say our overall investment activity will be down. In terms of investing in the existing portfolio via capital, I would say it will stay about the same.

Juan Carlos Sanabria - *BofA Merrill Lynch, Research Division - VP*

Great. Thank you.

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

Thank you all.
