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PRESENTATION

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Thank you for attending. Most people in the room have been attending many of the round tables, so we'll continue with our format with a short company presentation, 5 to 10 minutes, a bit of a description of who Essex is for those in the room that don't know the company. And then, I'm Jeff Spector, I'm here with my colleague, Shirley Wu. We will moderate a Q&A and we love participation to make it interactive. So if you have questions, just raise your hand.

And with that, I'll introduce Mike Schall, direct to my left, CEO; and John Burkart, COO. And at this time, I'll pass it on to Mike to talk about the company.

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

Very good. Thank you. I don't know if this thing is -- is this thing working okay? Great. Thanks for being here, we appreciate it. And Jeff, it's once again a great conference, and we really appreciate you guys sponsoring this and bringing this from California out here. I also want to acknowledge that Angela Kleiman, our Chief Financial Officer, is sitting over here; and Adam Berry, the Co-Chief Investment Officer, is sitting next to her.

So with that said, Essex is an S&P 500 company that owns around 60,000 apartment units in the major metros on the West Coast, that is from Seattle to San Diego; coastal metros, throughout the Bay Area, Seattle and Southern California. These are unique markets in that job growth generally exceeds the U.S. average, and certainly, that's especially true of the tech-oriented markets of Seattle and Northern California, which has actually much better job growth than the U.S. in general.

We also have a pretty serious and persistent housing shortage on the West Coast. And Governor Newsom in California acknowledged that he would like to produce 3.5 million homes between now and 2025, and that will be a very large undertaking if he's able to accomplish that. I'd suspect, to give you some idea, over the last 10 years, we've produced about 80,000 homes per year. So 3.5 million by 2025 will be somewhere around 500,000 a year, so a significant ramp up. We don't see that yet, but we'll remain open to see what happens. But again, a serious and chronic housing shortage in California.

We also have strong income levels, and strong income levels are obviously important to support higher rents. And there's essentially a virtuous cycle between rents pushing, putting pressure on incomes to push incomes higher and affordability issues, which then allow bigger rent growth down the road. We are home to many of the very large and very vibrant tech companies on the West Coast, and so that's a big part of our strategy.

Proof of all this is in the track record of over 25 years. We've increased the dividend each year over that period of time. And I think it's still true that we have the highest total return of all the REITs that were in existence 25 years ago.

We have a 2019 update in the -- in Q2, we've raised our FFO, core FFO guidance on our Q2 call by $0.20 at the midpoint. We have an update on July and August in our presentation, which is on our website. The update slide is Page 23. And in there, we had preliminary July-August revenue growth of 3.1%, and that includes a couple of factors that are important: number one, a little bit less occupancy, about 30 basis points of an occupancy drop. And really, that's driven by focusing on rent growth and giving a little bit on occupancy. A year ago, we were more aggressive on occupancy than rents, so a little bit of a change of strategy, obviously, consistent with the revised plan. And the other note I would mention is that the Southern California results contain some timing issues in other income, which makes them look artificially low for that two-month period that's presented on Page 23. That will more normalize as we go through the year. So essentially, we're on-track to achieve the revised guidance.

The big change this year is on the investment side. If we go back to the beginning of the year, we had actually relatively muted transaction volumes that were assumed for 2019, that was driven by conditions in the stock market at the end of the year and the concern about increasing interest rates. With what's happened so far this year, we have become very much more focused on growing the company, and so we are aggressively pursuing acquisitions once again to date, and this is summarized on our presentation on Page 31. We've acquired $660 million. That's above the high end of the guidance range of $400 million that we had. We also have originated about $109 million in preferred equity transactions. That's again above the high end of our guidance range of $100 million. And we continue to have strong pipelines for both, so we are pretty aggressively pursuing acquisitions.

So with that said, overall -- I'd say, overall, conditions are significantly better today than they were a year ago, both as to operations and as to the investment transaction markets. So again, thank you for joining us. And I'll turn it back to you, Jeff, for questions.

QUESTIONS AND ANSWERS

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Let's just start, big picture on the company, the footprint. I'm sure you get this question a lot, but I've heard you comment on focus on tech companies. Can you talk about the current footprint? Are you happy with it? Have you looked at other markets in the past? And are you thinking of other markets in the future, again, happy with the current footprint?

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

Yes. It's a good question obviously, probably the most essential question you could ask. We are -- we have actually varied the footprint of the company pretty considerably over the 25 years that we've been a public company. When we completed our IPO in 1994, we were about 70% Northern California, and most of the rest of the portfolio was in Seattle. After or in connection with the top of the cycle in the late '90s, we have moved about the majority of the portfolio to Southern California, which essentially, the rent growth in Northern California was extraordinary and we didn't believe it could be continued. And so we were diversified into Southern California, which I think ended with a Southern California portfolio allocation of about 60%. And we're currently about 20% Seattle, 35% Southern California and the rest in Northern California. So we -- back to the tech companies, the -- we created essentially an index to track the activity of the tech companies from a hiring perspective. And all the top 10 public tech companies are headquartered in an Essex market. And so they act as a interesting proxy for what's going on in the employment markets. And they continue to be incredibly robust, adding high-paying and high-quality jobs, exactly what we are after, and in amounts that support continued rent growth. And so it's, I think, a really important part of our company. Essentially, we're riding the tech wave, to a certain extent, with a nontech-type of products. So that part has worked out well. We are pretty happy with where we are currently. And so I wouldn't expect any dramatic portfolio changes unless conditions change pretty considerably.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Any concern that we heard it from a couple of the meetings at the conference, of course, the New York office folks are boasting about tech opening space here, and their company are in a big wave, and we've seen them starting to go in bigger waves into other U.S. cities, Austin, Denver, et cetera.

Are you concerned at all about that? Or, again, I know you've already answered, you're happy with your current footprint, but maybe tie in those type of comments.

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

I would say that we're always concerned about these things, so it's why we track. And on the conference calls, we talk about some of the confirming indicators that indicate that we are going to continue to do well. So chief among them will be office construction. So how much office construction is there in the West Coast? Does that confirm the employment growth? So in other words, is the office space being created to support continued employment growth? Those employees will be our tenants, to some extent, and so we looked for confirmation there. In Northern California, for example, I'm doing this from memory, but I think the under construction office component is something like 5% of stock, that's a pretty big number. It's about 3.3% in Seattle. So these would confirm that those markets are going to continue to have employees, or they will have, obviously, vacant office buildings, which I think is very unlikely. So that's one of the key things.

We monitor venture capital investment transactions and trends, and those numbers are near the upward end of the historical range or setting new records for venture capital. We have our self-created job opening for the top 10 public tech companies. It's near all-time highs, once again. So Amazon, Google, Apple, et cetera, how many job openings do they have in California and Washington. So we are trying to work through a number of items to confirm that the demand for apartments is going to continue to be pretty strong. So no doubt, Jeff. I mean I think the technology industry in general will creep out everywhere. There's an enormous amount of wealth. The business models are pretty powerful. It wouldn't surprise me that New York would be a beneficiary and other markets, certainly, Boston and some other places around the U.S. But I still think that, that core group and the core group, both from a technology perspective, and certainly, from a venture capital perspective, is on the West Coast, and I think that's been the case for, what, 50 years now and probably, it's not going to change.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Maybe just one more tech question. Because we get the question a lot, and just thinking about the growth of tech, the importance to your company and the California markets, Seattle, recession. We did a recession in REITs primer recently. And of course, if you look at the recession during the early 2000, the tech crash, California rents took a big hit. Yes, we believe that tech firms are the ones today are healthier cash flow positive. But what are your thoughts with recession? How are you thinking about it if there is one?

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

Yes, we do think about it. And the reason why we have a very significant Southern California portfolio is it acts more like the U.S., like it's more diversified, it doesn't have the tech components. So when we seek safety, we generally will increase our portfolio allocation to Southern California, and it has been less volatile. Having said that, it doesn't grow as fast as the North. If you look at long-term CAGRs of rent growth over 30-, 40-year periods, you won't find a market that will beat San Francisco. So we acknowledge that there's more volatility but more growth over that period of time.

So if we saw a recession come in, we would start gravitating to selling some assets in the North and diversifying in the South and/or increasing our portfolio allocation in the South in the acquisition side in order to create a little bit more safety. But I just want to go back to what you said, because I agree with you with respect to the late '90s. And again, what we were trying to do is diversify out of what we thought was a situation that couldn't continue, which rents went up, and I'm doing this from memory, 30% to 40% in 2 years before it created a huge bubble and gave it all back. So yes, if you only look at that downside of that, you would've come to the conclusion that, oh my gosh, there's a huge exposure in the Bay Area tech markets. But you may have missed the runup, the incredible runup that was completely unsustainable that happened before that. So again, over long periods of time, the CAGRs of rent growth are -- there are few markets that are going to beat the Bay Area.

Shirley Wu - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. As we're looking -- so you guys mentioned the acquisitions first. If they have exceeded the high end of your guidance range already, so going to next year as you're thinking about planning, where are you seeing these opportunities? And particularly what markets and where that's where the yields that you're targeting as well?

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

It changes all the time. So as we started this year, I'd say these hurdles were pretty modest from an investment perspective for company our size. So but if you go back to conditions at that time, there was much higher interest rates and fear of increasing capital cost at the end of 2018. We have just sold a large building in downtown L.A. for a sub-4 cap and bought some stock back with the proceeds. And so we were thinking, for trading at or near net asset value, it's very hard to buy a property and make it accretive to the net asset value of the company. And therefore, we entered this year with a much different scenario in mind. This year's changed, and so we've just, as quickly as we could, accelerated our activity that changed our strategy and to be much more aggressive. And we found, fortunately, this is the good part -- rather at the beginning of the year, we had relatively few transactions, not a lot of transactions, that sellers were not convinced that there would be aggressive buyers out there given the economic backdrop, that's changed dramatically. So now there's a very robust acquisition market that's out there. We are incredibly busy, and our Co-Chief Investment Officer, Adam, over here shouldn't be here. He should be working underwriting deals. But it's a great time, and fortunately, the market I think is, to a certain extent, come to us because there are a lot of transactions that are in the marketplace that we will be interested in. We may not get it but...

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

A few people still do deals from our conference, right?

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

So you've got a deal going there, Adam?

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Maybe just -- it's been a busy day, so I'm sorry if anything came out in the news on rent regulation. But we were lucky to have a meeting with you at your, I think, in your headquarters, one of your key offices, end of March, and we had a good conversation with you. You shared some comments on how you were approaching it in California. And a lot of what you said has come -- it seems like it's getting inked or close to it. I guess, can you share with us the latest? Are you happy with what -- supposedly, is that getting done today?

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

I think it was done yesterday. So Jeff is talking about AB, Assembly Bill 1482, which is a statewide cap on rents, on renewal rents effectively, with vacancy decontrol. It's similar to the Oregon Law, that was introduced in January at CPI plus blank. So everyone was wondering, what does CPI plus blank mean and what's going to be filled in there. It was filled in, in the assembly, at CPI plus 7. And then the governor came out recently and said, I really think that the CPI plus 7 should be CPI plus 5, worked with the California Apartment Association and others to essentially come to agreement that, that was an acceptable level. So the California Apartment Association has a no oppose on CPI plus 5, which ultimately was voted on by the Senate yesterday, from what I understand, and it was passed by the Senate. So CPI plus 5 is probably in the 7% to 8% range on renewal rent increases. And so at that level, we think that it's -- it does put the governor, was talking about doing, which is maintain the incentives to build housing. So don't completely destroy the housing producers, keep those incentives in place while offering reasonable protections to the renter. And so again, we grow rents over long periods of time at somewhere around a 3% CAGR of rent growth in our best markets. And so I think this is consistent with that. It will impact probably certain transactions more than others. For example, those that were buying a building in order to do a complete renovation probably will have to approach it somewhat differently because they're not going to put a bunch of capital in because the returns are going to be staggered throughout a couple of years. And I would say, in a recessionary period as well, the recovery from the recessionary period would probably take a little bit longer. But again, it's -- I think that this is -- the important part about California is we've had this dialogue about rent control going for 3 or 4 years now, and it seems like the politics of that situation have evolved toward trying to find the common ground between housing production and reasonable tenant rights.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

And just one follow-up that I'll get to. I Guess just to clarify because we have a global audience. So what does that exactly mean, the Senate passed yesterday?

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

Yes, it goes back to the assembly for ratification since if the Assembly Bill was passed by the Senate untouched, and it would be -- go to the Governor's desk. So it has to go back to the assembly. There could be some noise in the assembly because of realtors, which were in favor of CPI plus 7, are now opposed to CPI plus 5. So I don't know exactly what that dynamic is, but it should go back to the assembly sometime in the near future. And then ultimately, it will probably reach the Governor's desk.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

And it's his desk, he signs it, it's in state constitution?

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

No. It's -- nonetheless, it's the law. And we had hoped that we would get a constitutional amendment and it would go through a ballot process. But I don't think that's going to happen.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

And this law, was this for 10 years?

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

Originally proposed for 3 years, and it became 10 years in the most recent voting.

Shirley Wu - *BofA Merrill Lynch, Research Division - Research Analyst*

So if this law were in place this last year. And you're counting your renewals, I call it 7.5%. What would have been the financial impact to this year? Have you done anything?

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

I think nominal. John, do you want to handle that?

John F. Burkart - *Essex Property Trust, Inc. - COO*

Yes, our rents are growing in the 3.5% range and it really would not have had a material impact on the results.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

We have a question in. [Rob]?

Unidentified Analyst

That's just along those lines. Does this apply to short-term rentals as well?

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

The question is does this apply to short-term rentals as well?

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

No, I don't believe it does. California is very different when it comes to short-term rentals because the cities, in general, are very protective of the rental stocks. So in many jurisdictions within California, including a very significant amount of our portfolio, short-term rentals are not allowed at all. And there -- having said that, there are plenty of "illegal" or noncompliant short-term rentals that happened at these various properties. But it's -- it ultimately, in terms of short-term rentals, we've done some experiments and test programs for them. We found that it's so disruptive to the existing tenant base that they end up with having, in downtown L.A, there's a convention center, we have a property across the street. And if you have the chiropractors there, it's not a bad experience. They have the motorcycle gang there. It's really a horrible thing to have those people in your building. So it's -- so we're happy not having a lot of Airbnb activity anyway.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Maybe just one follow-up on an interesting comment you made about less incentive, I guess, to redevelop. As a public company, I think about it, on one hand yes, it does limit the potential growth that year. But at the same time, could it become an opportunity for you because the public shareholders do like slow increases, smooth earnings. So maybe you still get here stabilized. So instead of taking 2 years, it's 4 years, but it gives you some nice external growth?

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

Yes, well, two things. One, these are only on renewals. We -- typically, if we're doing a renovation program, for the most part, there are some exceptions to this, but we are talking about vacant units as opposed to an occupied unit turn. So most of what we do is on the vacant unit. So the vacancy decontrol is part of this law, and therefore, they're unaffected by that part of it. It would be -- in the case of these rehab organizations, they'd like to vacate buildings and renovate the entire building. They are going to have some difficulty vacating the building under what called the just cause initiative, and then they're going to have some concerns as it relates to how do they get their rent bump, get the return on their investment.

Shirley Wu - *BofA Merrill Lynch, Research Division - Research Analyst*

Great. So I do want to jump to operations a little bit. So your occupancy was down a little bit by 30 bps for July and August. So do you -- how do you anticipate the rest of the year would play out? And you still see that 20 basis points of headwind for occupancy that's coming this year?

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

You want to do that?

John F. Burkart - *Essex Property Trust, Inc. - COO*

Sure. So again, as Mike said, we shifted strategy because the market is stronger, and there's a better opportunity to focus on achieving market rate or the higher rent, and so we expected to allow the vacancy to increase or occupancy to drift down a little bit. We do expect this to play out throughout the rest of the year. I can give you the scheduled rent numbers, which give you kind of insight into the rent roll over time. So in Q1, our scheduled rent increased 3.3% year-over-year. And in Q2, it was 3.5%. And in July-August, it's 3.5%. Our guidance is now at midpoint, at 3.3% in the quarter. And so that big picture, that difference is being made up by an occupancy reduction, again, why we favor these higher rents. So we'll continue with that process. Again, and it relates to the market's strong, it's a good market condition right now.

Shirley Wu - *BofA Merrill Lynch, Research Division - Research Analyst*

Great. So to your point, rental rate growth was up like 3.6%, and then, but -- so considering also 30 bps of the occupancy, you -- there seems to be a little bit of 20 basis points slippage between the rents, the occupancy to your revenue of 3.1? What is that differential, can you give us a little color?

John F. Burkart - *Essex Property Trust, Inc. - COO*

So we posted on Page 23 of our presentation, we posted the market rent increase for July-August, which is 3.6%. But that was the market on transactions that are occurring at that various point. The rents in place were less than that. They were 3.5%. So if we take the 3.5% and we subtract the 30 basis points, we end up at 3.2%, and that's about 10 basis points, which is other income, noise, just miscellaneous that's in there.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

I'm not looking for 2020, but as you said, you've entered '19...

John F. Burkart - *Essex Property Trust, Inc. - COO*

You are. (inaudible) financial, our CFO.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Again, when we saw you at March, I remember you commenting that you were feeling good about being more aggressive in '19, on pushing rents, sacrificing a bit of occupancy. I mean is there anything that you're seeing that would -- now that we're ending this leasing season. But anything you're seeing that, right now, you would change that policy?

John F. Burkart - *Essex Property Trust, Inc. - COO*

I would say instead of talking about 2020 guidance, let's just talk about what we have going on. So again, we have solid rent growth going on right now, driven largely by very good job growth, especially in the tech markets. We're about 20 basis points above our expectations. And we're seeing that continue. So the outlook that we have based upon supply-demand, our supply-side, what our expectations for next year is about the same, overall, big picture, about the same as this year for 2020. It moves around a little bit and a little bit heavier in L.A., and down about 30% in Seattle is our expectation. So when we look and say based on the current economic scenario, it's a very solid economic outlook for the next year.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

When you say supply expectations, the same as '19, are you saying '20 deliveries will be equal to around the '19 deliveries, overall in your book?

John F. Burkart - *Essex Property Trust, Inc. - COO*

In total, yes, exactly. In our markets, in total, absolutely.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

But Seattle down 30%?

John F. Burkart - *Essex Property Trust, Inc. - COO*

Seattle, down 30%, the -- again, L.A. goes up a little bit and the Bay Area, San Francisco -- or sorry, San Jose opened, go up a little bit as well to offset that. The bigger move to the most interesting market will be Seattle. It's been very strong with job growth and it's continued to swallow up all the supply. And now we have a scenario where if that demand continues and supply drops by 30%, that's a interesting situation.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

And I think it's been years of supply, I think, in Seattle, right?

John F. Burkart - *Essex Property Trust, Inc. - COO*

Yes.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

So what happened that suddenly -- I mean did it get harder to develop? Like what -- is that just temporary? Or did something occur that wouldn't -- it's not just '20, but even '21 could be lower?

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

Well, I think the trends, when you look at permitting, we think permitting is down about 13% across our footprint from the 2018 peak. And I think the thing that's driving that is, as I've commented many times on the conference calls, construction costs growing in these markets faster than rents and NOIs, and the net effect of that is that developer yields are being compressed. And so I think you're compressing to a point where it's much more difficult to make the numbers work, and so you're just seeing fewer permits being pulled. So what John is mentioning, the deals that we're actually delivering, they've been in the process, in many cases, 3 to 5 years. That's the typical entitlement process in California. So we would expect a couple of years down the road to start seeing the impact of lower permits across our footprint.

Shirley Wu - *BofA Merrill Lynch, Research Division - Research Analyst*

Are you seeing any changes in permitting or developers having more conversations in Seattle, just given some of the upselling regulations that they passed earlier this year?

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

I think it's too early to tell exactly. But there were some regulations that offered density bonuses for going higher in a building and trying to produce more housing. And I think it's too early to tell. Again, the entitlement processes are so long in some of these cities that it's probably a couple of years before you really see if there was an impact or not. It's also more expensive to build as you go higher in the -- in these properties. And therefore, whether there's an appropriate trade-off of additional rent, given higher cost, remains to be seen. Candidly, between all of us, I don't think it will have a material impact. Yes, you have a similar situation in California, it's a little bit different context in that there were 15 laws passed in the state of California to try to increase housing production in late 2018. And so those laws are driven by a process where the state creates a needs assessment, how many people do we need to accommodate and the expectation that California's population is going to go from almost 40 million to 50 million over the next decade or so, and -- or next couple of decades.

And so given that, the state says, hey, we need to produce more housing and then tries to drive that via a needs assessment process and allocation, and then tell cities -- make cities essentially produce housing representing their needs allocation. And this has been a pretty difficult process. And in one case, the state has sued the City of Huntington Beach, and the City of Huntington Beach has countersued over this allocation. Where the allocation is constitutional that, that's countersued, and whether state can force city to produce more housing. And a lot of this goes back to what the governor called a perverse incentive not to produce housing in California, because a lot of cities view it as a not a good trade-off. Yes, there's some tax money comes in from residential, but there's also the services associated with that, schools, roads, fire, police, et cetera, and whereas other types of development are viewed as being better for the city. And so this whole process is going to play out over the next several years. And it's going to be -- it's not something that we can predict the outcome at this point in time.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Please?

Unidentified Analyst

So you mentioned that [3.6 was growth in market rent]

John F. Burkart - *Essex Property Trust, Inc. - COO*

Market, correct.

Unidentified Analyst

(inaudible)

John F. Burkart - *Essex Property Trust, Inc. - COO*

No, that's what we achieved on the leases, the new leases that we leased during that period. The slightly lower number, the 3.5%, that was our rent roll. So our total rent roll, so that includes the leases that were done in January all the way through over the prior year.

Unidentified Analyst

Yes. And so just taking your comment earlier that the West Coast has a significantly higher rent growth in the past. It seems like that's been growing at a much -- just using your peers' number, I can see more of a high 3s to even 5% rental growth rate. Do you think it's more a function of the other markets growing more, and do you expect that to continue?

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

No. I mean what we're doing is we are, just looking back at historical data and trying to understand what long-term rent growth looks like, and then what company was really founded on by our chairman was this concept of, okay, let's understand what the data tells us, and let's try to distill the factors that lead to rent growth. And what are those factors? There's supply-demand imbalance for housing, there are affordability issues, there's locating properties somewhere -- it used to be 0.5 hour from where you work because people will just always -- they only want to travel so far, and a variety of other things. So really, our strategy has evolved from using the data to distill drivers of rent growth and then try to locate in those markets. And we go through an annual process with our Board, which we're about to do, where we have a list of other markets that we think are kind of the next group of markets that we might be interested in. And then we go through a process of trying to waive these various factors for those markets. And essentially, it's a confirmation process about whether we would reinvest in our own markets as opposed to going to some other markets. So it's a pretty dynamic process. We -- I think going back to 1982, before we were a public company, we hired a PhD economist. It was very unusual to do that back then. And again, this is kind of the DNA of the company, is to go back and try to figure out what drives something, and then try to come up with a competitive advantage. And so we're constantly asking these questions, constantly trying to shoot holes in our own strategy and philosophy. And we've -- every year, when presented with the Board, we come back to staying pretty close to home, at least for the last many years. There was one point in the, when was that, it was after the dotcom that we looked at buying the company on the East Coast and -- but that was driven by exactly the scenario Jeff was talking about earlier, which is, there were these incredible rent growth in Northern California in the tech markets that we didn't think were sustainable, and so we were looking for diversification. And that was, I think, the one-time in recent memory that we ended up with a different portfolio allocation result than we have now.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

And you're still happy you didn't do it?

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

It's interesting, so we proposed to buy a company back there, but it would have been in a 50-50 joint venture. That was another REIT. And I feel we've been okay, I think it did okay.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

A lot more travel for you.

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

Yes, a lot more travel, exactly.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

One last question from me, and we could get to, we have 3 quick rapid-fire question. Just listening to some of your office peers in the West Coast, big topic, carbon footprint, ESG. Of course, it's a big topic for everyone. But it does hit apartments. I guess, can you just talk a little bit about your company policy?

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

Yes. Actually, our company policy has been to -- for about the last decade, be very careful about making investments in technologies that will lower cost structures, specifically, utilities and water and gas, et cetera. And we kept pretty quiet about that because there's competitive pressures and we didn't -- we try to act with propriety, the things that we do and we try to pursue. Because investors are demanding this information, we have changed a little bit. So we are in the process of publishing a corporate social responsibility report, due out next month. And so it will have a lot of detail. We also -- I think we started doing the GRESB survey 3 years ago. And from the first year that we participated in that program, we were at green star, their highest rating. So it's something that is very important to us. We're spending a lot more time on it, certainly. And we're spending a lot more time talking about it and demonstrating what we're doing. So that report should give you a pretty good idea what we're doing.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Great. Thank you. And then quick questions with quick answers. BofA ML's U.S. economists now estimate a 1-in-3 chance of a recession within the next 12 months. Are you and your Board discussing recession more during recent meetings, the same as earlier in the year or not at all?

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

I would say the same. No color. The same.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

You can add color if you want.

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

The color would be, we view risk as essentially balance sheet, and balance sheet is in very good order, kind of better than it was going into the enterprise. So we feel pretty good about that.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Great. Number two, with macro risk rising, are you seeing any signs of a slowdown or pullback from your tenants in the last couple of months?

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

No.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Which of the following sector do you think could surprise expectations the most for being defensive in the next recession? Industrial, retail, office or residential?

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

Oh my gosh. Is there a defensiveness in retail?

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

Well that's the -- historically, actually, it was defensive. The perception today is that it wouldn't be, that's why we added it.

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

Yes, it's an interesting one. I don't even know how to measure that one. I would say probably industrial or residential.

John F. Burkart - *Essex Property Trust, Inc. - COO*

We're in there somewhere.

Jeffrey Alan Spector - *BofA Merrill Lynch, Research Division - MD and Head of United States REITs*

All right. Thank you. Thanks very much.

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

Thank you.

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

Thanks, everyone.