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ESSEX PROPERTY TRUST (ESS) Earnings Report: Q1 2016 Conference Call Transcript

The following ESSEX PROPERTY TRUST conference call took place on May 2, 2016, 09:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Michael Schall; Essex Property Trust; President & CEO
- John Burkart; Essex Property Trust; Senior EVP of Asset Management
- Angela Kleiman; Essex Property Trust; CFO
- John Eudy; Essex Property Trust; Co-Chief Investment Officer & EVP, Development

Other Participants

- Austin Wurschmidt; KeyBanc Capital Markets; Analyst
- Nick Yulico; UBS; Analyst
- Nick Joseph; Citigroup; Analyst
- Rob Stevenson; Janney Capital Markets; Analyst
- John Kim; BMO Capital Markets; Analyst
- Ivy Zelman; Zelman & Associates; Analyst
- Tom Lesnick; Capital One; Analyst
- Alexander Goldfarb; Sandler O'Neill & Partners; Analyst
- Wes Golladay; RBC Capital Markets; Analyst
- Drew Babin; Robert W. Baird & Co.; Analyst
- Tayo Okusanya; Jefferies LLC; Analyst
- Rich Anderson; Mizuho Securities; Analyst
- Kris Trafton; Credit Suisse; Analyst
- Conor Wagner; Green Street Advisors; Analyst
- Karin Ford; MUFG; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the Essex Property Trust first quarter 2016 earnings conference call. As a reminder, today's conference call is being recorded.

Statements made on this conference call regarding expected operating results and other future events are forward-looking statements that involve risks and uncertainty.

Forward-looking statements are made based on current expectations, assumptions and beliefs, as well as information available to the Company at this time. A number of factors could cause actual results to differ materially from those anticipated.

Further information about these risks can be found in the Company's filings with the SEC.

When we get to the question-and-answer portion, management asks that you be respectful of everyone's time and limit yourself to one question and one follow-up question. It is now my pleasure to introduce your host, Mr. Michael Schall, President and Chief Executive Officer for Essex Property Trust .

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Thank you, Mr. Schall, you may begin.

Michael Schall (President & CEO):

Thank you for joining us today and welcome to our first quarter earnings conference call. John Burkart and Angela Kleiman will follow me with comments and John Eudy is here for Q&A. I'll cover the following topics on the call. First, comments on our Q1 results and market conditions; second, investment activities; and finally, an update on rent control proposals.

Yesterday we were pleased to report continued strong operating results for the first quarter of 2016. For the past several years, one of our primary operating goals has been to grow core FFO per share. I congratulate the Essex team for accomplishing that goal, with over 100% increase in core FFO per share since Q1 2011.

Generally speaking, the West Coast economy continues to perform well and we are on track to achieve our 2016 market rent forecast shown on page S16 of the supplement. Recent job reports have generally equaled or exceeded our expectation.

In Southern California, we have modestly increased our market rent growth expectations from 5.2% to 5.5%, again mostly related to better than expected jobs, representing more evidence that our thesis for slow and steady growth continues.

For Northern California, we are lowering our economic rent growth forecast from 7.5% to 6.5%. As noted on our last call, supply deliveries during the typically weak fourth quarter caused lower rent growth in Northern California, mostly focused on three sub markets, south of Market in San Francisco, the peninsula south of San Francisco, and North San Jose, which combined account for approximately 7% of our same-store NOI.

As reflected in our Q1 results, we experienced a choppy but nice rebound from Q4. March and April have brought renewed pricing pressure focused on these three sub markets in the form of greater concessions, often equal to six to eight weeks of rent, as newly delivered apartments push rapid absorption in a competitive market.

The greater concessions provide enough incentive to draw people out of nearby properties, pressuring price for stabilized communities. Apartment supply deliveries and hiring are inherently lumpy and, much like Q4 2015 and the past couple of months, conditions can change quickly. John Burkart will elaborate further in his comments.

Turning to Seattle. We have significantly increased the economic rent forecast for Seattle from 4.9% to 6.1%, as its great job growth and strong economy has provided the demand to absorb Seattle's significant new apartment pipeline at higher than expected rents.

On to the second topic, investments. During the quarter we originated a preferred equity investment on an apartment development consisting of 494 apartment homes located in Glendale, California. The investment provides a 12% preferred return on outstanding principal, with a total commitment of $47 million.

We are working on other preferred equity transactions, as developers are finding themselves in need of additional equity giving construction cost increases, more conservative construction lending standards, and more challenging and expensive entitlement processes. Market clearing cap rates for development deals typically generate around a 4.5% to 4.75% untrended cap rate, which is below our yield threshold. We continue to look for development opportunities that meet our underwriting criteria and we are not likely to lower our targets in the near term.

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There's been widespread discussion of increasing cap rates in the West Coast market. Two of our recent acquisitions, Mio and Enso, both in San Jose, were cited by brokers as examples of cap rates that are higher than comparable properties trading a few months earlier. We take this as a compliment that we acquired property at a better than market cap rate; however, in our evaluation of many deals that we have recently underwritten, the value of Mio and Enso did not change materially in the past several quarters.

In our experience, cap rates change slowly, primarily because buyers and sellers don't change their pricing expectations quickly or easily. Rather, buyers and sellers need to be convinced that market conditions have permanently changed. Financial distress often shortens this process for changing cap rates, but currently there is almost no distress in well-located apartments. To the contrary, the amount of positive leverage available to buyers at existing cap rates represents a compelling opportunity in this yield starved environment.

During the quarter and as outlined in the press release, we acquired two properties to facilitate 1031 exchanges and sold two properties as part of a portfolio culling process. Similar to last quarter, A quality property and locations traded around a 4.25% cap rate using the Essex methodology; but from time to time, more aggressive buyers will pay sub 4% cap rates. B quality properties and locations typically have cap rates 25-50 basis points higher than A quality property.

Now on to my third topic, which is rent control. There have been several new developments with respect to rent control in various California cities, mostly in northern California. Most notable, the City Council in San Jose has amended the existing rent stabilization ordinance to lower the maximum rent increase on renewals to 5%, from 8% previously.

The amended San Jose ordinance also contains a provision to bank or accumulate up to 8% of potential rent increases to be used during periods that market rent increases are below the 5% maximum. Finally, the San Jose ordinance is applicable only to properties built before 1979.

Oakland, which also has an existing rent stabilization ordinance, recently passed an emergency 90-day moratorium on rent increases, applicable only to properties built before 1983. In addition to the specific actions in San Jose and Oakland, we believe that tenants rights groups will attempt to win voter approval referendums that will oppose rent control in several cities.

It is important to note that all local ordinances, including the activity just described, must comply with state law which mandates, among other things, that vacant apartments are prohibited from rent control and rent control can only be applied to property built before 1996. We believe that these various ordinances will have limited impact on Essex, primarily because the vast majority of our properties are newer than the rent control cutoff dates in the various stabilization ordinances.

In addition, because rent control limits renewal rent increases, residents stay longer, which reduces turnover at rent controlled property. Reduced turnover means that fewer apartments are available to rent for people moving into the area, which likely pushes rents upward on the available apartment inventory. Thus, renewals will often occur at below market rates, but this impact is partially mitigated by higher rents on new leases, reflecting the unintended secondary effect of rent control.

I'm incredibly grateful for John Eudy and many Essex team members for attending and advocating on behalf of the Company and the industry at several City Council meetings. The meetings contain a lot of emotion and often end well past midnight.

That concludes my comments. Thank you for joining the call today. I will now turn the call over to John Burkart.

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John Burkart (Senior EVP of Asset Management):

Thank you, Mike.

We had a good quarter, delivering total same-store revenue growth of 7.3% and NOI growth of 8.8%. Our renovation team got off to a great start in 2016. We increased the number of units renovated in the same-store portfolio 229%, from 247 units in the first quarter of 2015 to 813 units in the first quarter of 2016. The increased unit turns negatively impacted our vacancy rate by about 5 basis points for the quarter and the same-store portfolio compared to the prior year.

Now I will share some highlights for each region. Strong demand in the Seattle market, fueled by employment growth of 3.3% in March, which is above our expectations, enabled the market to absorb the new supply and continue to grow revenues. Our Seattle portfolio grew revenue 7% in the first quarter of 2016 compared to the first quarter of 2015.

We made the strategic decision, due to the market strength in the first quarter, to emphasize achieved rental rates over occupancy and we continue to do so as we enter the spring leasing season. That decision is paying off well, with better than expected performance, and it will position us well going forward.

Sub markets performed similar to last year, with the CBD growing rental revenue about 4% in the first quarter of 2016 compared to the comparable quarter, and the East, North Seaside, North and South sub markets are all growing between 7.5% and 9% for the first quarter of 2016, compared to their comparable quarter.

In the Bay Area, as I mentioned previously, our expectations for the first quarter were that the market would be choppy and that it would be followed by the normal seasonal pattern. However, the market is currently softer than expected. Our same-store achieved rents in March of 2016 were about 6% over achieved rents in March 2015. And the achieved rents in April of 2016 are roughly 4% over the comparable month, due to the difficult comp.

The BLS surveys continue to show strong employment growth in the Bay Area. The industry survey reported March 2016 employment growth rates of 4%, 2.4% and 3.8% for San Francisco, Oakland and San Jose MDs, respectively, which are above our expectations. The household survey reported unemployment declined an average of 60 basis points in each MD year-over-year, which is consistent with strong job growth. Both reports indicate strong employment market, which should be able to absorb total supply, multi-family and single family units, and continue to grow rents.

It appears that in addition to the lumpiness of the multi-family supply deliveries during the low demand period, other factors are currently impacting the demand in the Bay Area market, such as doubling up; an increase in renters choosing to rent single family homes, which enables more roommates to share the rent; the one-time impact of the crack down of student Visa program which has reduced demand from outside the country; and an increase in the flexible work arrangement enabling the employees to telecommute from outside the normal commute zone.

We have noted a slight change in the geographic location of the open positions listed by the major tech companies. There's a slight increase in total open positions between Washington and California; however, California open positions have declined slightly, while the Washington open positions have increased slightly. This shift maybe the product of the tight labor market and housing market that we have in the Bay Area.

Southern California region continues to perform, driven by strong job growth exceeding our expectations. As expected, the momentum we saw in 2015 continued into 2016, enabling us to achieve a

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revenue growth of 6.1% in the first quarter of 2016 compared to the comparable quarter.

In the LA MSA, LA CBD, which is impacted by a pocket of supply grew rental revenue 4.9% for the first quarter of 2016 compared to the first quarter of 2015. And the Woodland Hills sub market, which had the greatest positive impacts from Porter Ranch relocation, performed at the top of the MSA, with an increase in rental revenues of 8.6% for the first quarter of 2016 compared to the comparable quarters.

We estimate that the increased demand for short-term rentals related to the Porter Ranch leases increased the year-over-year growth rate for the LA MSA portfolio by about 30 basis points during the first quarter of 2016.

Currently, our portfolio occupancy is at 95.8% and our availability 30 days out is at 5.4%. Considering the under performance in the Northern California portfolio, we are cautiously optimistic about the spring leasing season.

Thank you and I will now turn the call over to Angela Kleiman.

Angela Kleiman (CFO):

Thanks, John.

I'll start with our first quarter results, then provide an update on recent capital markets activities.

I'm pleased to report that our core FFO for the first quarter exceeded the midpoint of our guidance by $0.08 per share. Although $0.04 was related to timing of expenses, the remaining $0.04 was primarily driven by stronger than anticipated operations, which lead to another quarter of solid operating results.

Also in the first quarter, we declared a quarterly common dividend of $1.60 per share, which is an 11% year-over-year increase and represents our 20th year of consecutive dividend growth.

Moving on to recent capital markets activities. In April, we issued $450 million of 10-year senior unsecured notes at the rate of 3.375% per annum. The net proceeds from the offering were used to pay off the balance on our line of credit, redeem the series H preferred stock, and fund other corporate activities.

While there is a temporary mismatch on the timing of the use for some portion of the proceeds, we believe it was an opportune time to enter the debt market.

Our only remaining maturity this year is $200 million term loan which comes due in November. With zero outstanding on our $1 billion line of credit and limited near term debt maturities, our balance sheet is well positioned to be opportunistic, as we evaluate future investment and refinancing alternatives.

For the full year, we are reaffirming our guidance on same property revenue, expense and NOI growth, and the midpoint of our core FFO per share of $10.92. Lastly, I would like to highlight a new page, S12.1 in our supplemental, which provides additional disclosures on our revenue generating and non-revenue generating CapEx spending.

We hope these enhanced disclosures will be beneficial to the investment community.

I will now turn the call back to the Operator for questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

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Jordan Sadler from KeyBanc Capital Markets.

Austin Wurschmidt (Analyst - KeyBanc Capital Markets):

Hello, guys. It's Austin Wurschmidt here with Jordan. On the preferred equity deals, I was just wondering if you could give us a sense of the number of deals you're looking at and the potential magnitude of transactions.

Michael Schall (President & CEO):

Sure. This is Mike Schall. We are looking at several deals, so somewhere between around five deals going forward. Previously we have established an overall cap on what we would consider at 5% of enterprise value. I think at the end of last quarter we were somewhere around $140 million funded on the preferred equity investments, and so we have quite a ways to go. I don't think we'll get anywhere close to the cap.

Austin Wurschmidt (Analyst - KeyBanc Capital Markets):

That's helpful. Thanks for the detail. And then on the affordable housing, do you think at any point that it spurs loosening in permitting or zoning for multi-family housing in the Bay Area?

Michael Schall (President & CEO):

Again, it's Michael Schall. And John Eudy's here and he may have a comment on this, as well. It seems like all the forces are working against that. Number one, the entitlement process is just very challenging. If anything, there are some cities like San Francisco that would like to bump up the number of units that are dedicated to below market rate units. And construction costs are going up at double digit rates. So it would be difficult to see, especially with rents moderating, a lot of momentum toward more apartment development going forward, at this point in time.

Austin Wurschmidt (Analyst - KeyBanc Capital Markets):

Thanks for taking the questions.

Michael Schall (President & CEO):

Thank you.

Operator:

And our next question comes from the line of Nick Yulico from UBS.

Nick Yulico (Analyst - UBS):

Thanks. I just wanted to go back to the comment John made about -- I was a bit confused about April -- I think you said something about 4% year-over-year rents. Was that for the entire San Francisco Bay area?

John Eudy (Co-Chief Investment Officer & EVP, Development):

Yes, this is John speaking. That was for Northern California. And so effectively what happened is rents between March and April were basically flat on a year-over-year comparison, because last year normally seasonally rents move up in April, that means that our comparison went from 6% to 4%. And so that flatness is what I was commenting on, which is unique in the context of the season. So it's a short window, but that's what we're at right now.

Nick Yulico (Analyst - UBS):

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And that's your blended new and renewal rent growth?

John Eudy (Co-Chief Investment Officer & EVP, Development):

No, that's new only. Our renewals are in the 6.5% zone in Northern California at this time.

Nick Yulico (Analyst - UBS):

Okay. Okay. I just wanted to be clear on that. And then can you just remind us in the entire Northern California region where your rents in place today are versus market?

John Eudy (Co-Chief Investment Officer & EVP, Development):

You mean off lease?

Nick Yulico (Analyst - UBS):

Yes, right.

Michael Schall (President & CEO):

I have that number. This is Mike Schall. Northern California lost a lease. So the difference between scheduled and market rents is 4.8%. A year ago, it was 8.1%.

Nick Yulico (Analyst - UBS):

Okay. Great. Thanks, Mike.

Michael Schall (President & CEO):

Thank you.

Operator:

Our next question comes from the line of Nick Joseph from Citigroup .

Nick Joseph (Analyst - Citigroup):

Thanks. Just one question on guidance. I think for the last two years after the first quarter, you had beaten the first quarter and then you raised for the full year 2016, recognizing part of the beat in this first quarter was timing. What were your thoughts on not revisiting overall 2016 guidance at this point?

Michael Schall (President & CEO):

Hello. It's Mike Schall. I think John Burkart's comments cover that, to some extent. It was that slowdown from month to month, actually through the first quarter and into April, that was concerning us. And there's a couple of other pieces, too. One is that our evaluation of apartment supply indicates further lumpiness in Q2 and Q3. So roughly in the San Francisco MSA, 3,600 units get delivered in Q2 and 2,700 in Q3. So roughly 70% of the expected annual deliveries will happen in Q2 or Q3. So we're concerned about that and the significance, since we turn or renew or turn around 50% of the leases in these next several months, that has a pretty significant impact on the overall results.

So I guess perhaps we're being overly cautious, but those were the factors that lead us to do that. And actually, let me add one more factor. And that is overall supply and demand, as you look at the numbers, appears to be disconnecting in some way. As an example, or to go through the numbers, the Bay Area is expected to produce about 93,000 jobs in 2016. That would ordinarily, at a 2-to-1, looking at all housing,

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not just apartments, would give you 46,000 units of demand against about 20,000 apartments and homes being delivered into the marketplace, so about a 2-for-1 relationship. So there should be sufficient demand to absorb the supply as it comes on board, yet what we're seeing in the marketplace is that there's more concessions and that the supply is not being absorbed as easily as we otherwise would expect. So that supply/demand disconnect is of concern to us, could be indicative of perhaps employment is slowing, but it hasn't really hit the numbers yet.

In the last many years that I've been here, it seems that sometimes we see changes in the marketplace before they actually get reported in the numbers. So those would be a little bit of background on why we decided not to change guidance.

Nick Joseph (Analyst - Citigroup):

Thanks. Appreciate the color. And then the spread in terms of same-store revenue growth between Northern California and Southern California continues to contract, for the reasons you've discussed. Do you expect at any point this year for Southern California to actually outperform Northern California?

John Eudy (Co-Chief Investment Officer & EVP, Development):

Yes, this is John. It's hard to tell, right? We right now are expecting that NorCal will follow seasonal patterns, as Mike laid out. There's a lot of strength, if you look at the jobs versus the supply. But honestly, it's not necessarily working out that way. So yes, if there's a year that it happens, this year is Southern Cal is stronger than expected and is doing very well, it might happen somewhere down the line this year or into 2017.

Nick Joseph (Analyst - Citigroup):

Thanks.

Michael Schall (President & CEO):

Thank you.

Operator:

And our next question comes from the line of Rob Stevenson from Janney.

Rob Stevenson (Analyst - Janney Capital Markets):

Good afternoon, guys. Can you talk a little bit about LA County results? Was it strong across-the-board or were there pockets of relative strength, relative weakness in the quarter? Obviously, it's 7% plus of relative weakness is probably a strong statement. But where within the portfolio was the best performance in LA County and was there noticeable between some of the sub markets?

John Eudy (Co-Chief Investment Officer & EVP, Development):

Yes. Overall, the sub markets were fairly consistent. However, if we're really breaking it down clearly, the Woodland Hills area got some benefit from Porter Ranch, and so that moves it up. It doesn't really move the needle so much as it relates to Essex, but that enabled that sub market to move up a little bit. You might see it in some of the Axio numbers. And then of course, the downtown area is a little bit on the low side, again, we have supply going in in that market, but still doing strong. Overall, So Cal as a big picture is doing well, as is LA County.

Really, it's interesting, there was not a lot of changes. And if you look at the Bay Area, it's a little different. The Bay Area, you clearly have San Francisco is underperforming and then you have other markets, other

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sub markets in the Bay Area are doing stronger. SoCal was much more consistent.

Rob Stevenson (Analyst - Janney Capital Markets):

Okay. And then in terms of the shadow development pipeline, how many units are you working through entitlement process through that could start in the next year, year and a half or so out there versus basically exhausting your land supply at this point?

Michael Schall (President & CEO):

This is Mike. And again, John Eudy may want to add to this. Our view is that we are more aggressive on development at the bottom of the cycle and we scale off as we go to the top of the cycle, and so we do not have a significant land inventory or land bank at this point in time. In terms of deal making, I know John is looking at deals that are fully entitled, ready to go, where we're not taking any cost risk. Because again, construction costs are moving so rapidly that we're concerned about committing and being naked with respect to when we commit to a deal and when it starts. So we have turned to become more conservative. And again, that really provides the opportunity within or for the preferred equity transactions where we can come in between the somewhere around the 60% loan to cost to about 85% loan to cost and earn a 12% return there. We fundamentally like that business and we think it's a great time to do that relative to the opportunities in the marketplace.

Rob Stevenson (Analyst - Janney Capital Markets):

Are you looking at that business as a path to ownership or just basically a 12% investment, at this point?

Michael Schall (President & CEO):

Well, we would love to negotiate an option to buy at the end of that, but we have not really been able to do that. We could do it if we were willing to give up a significant amount of current return. We haven't made that choice at this point in time. So at this point in time, we're happy to earn that fixed return and get repaid; and if there are some bumps down the road somewhere, perhaps we're in a position to buy out our partner.

Rob Stevenson (Analyst - Janney Capital Markets):

Okay. Thanks, guys.

Michael Schall (President & CEO):

Thank you.

Operator:

Our next question comes from the line of John Kim from BMO Capital Markets.

John Kim (Analyst - BMO Capital Markets):

My questions have been asked, thank you.

Michael Schall (President & CEO):

Thanks.

Operator:

And our next question comes from the line of Ivy Zelman from Zelman and Associates.

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Ivy Zelman (Analyst - Zelman & Associates):

Thank you. Good afternoon, guys.

Michael Schall (President & CEO):

Hello, Ivy.

Ivy Zelman (Analyst - Zelman & Associates):

Could you talk a little bit about the financing environment with respect to availability of financing for construction lending and land development and if anything, if we should be modeling more conservatively if the cost is increasing, giving some less desire from the banks, or are you guys not seeing that?

Michael Schall (President & CEO):

No, that's exactly what we're seeing. A number of our preferred equity transactions over the last several months have really come together because a construction lender is cutting back their construction loan commitment and becoming more conservative. In one case, the construction lender was at the 65% to 68% loan to cost. They cut it back to about 60%. And actually in that deal, we went from essentially there wasn't a place for us in the transaction, they could finance it themselves, to creating the tranche that we ultimately invest in between the 60 and 85th percentile loan to cost. So we've seen a pretty significant change, not just in one or two lenders, but really across-the-board, as construction lenders have become more conservative.

Ivy Zelman (Analyst - Zelman & Associates):

Got it. That's really helpful. And then secondly, I think Mike Schall was citing some numbers on expected deliveries, and I really compliment you guys on being conservative with respect to the outlook. I think that's prudent. When you talk about those deliveries in Q2 and Q3, Mike, were you talking about deliveries in the Bay Area for all of multi-family or was it just the rental portion?

Michael Schall (President & CEO):

Yes, Ivy, there's a couple of nuances there. We do not include student housing. And we essentially ignore under 100 units, and that's part of it. But I was referring to San Francisco directly when I gave out those numbers. So San Francisco, we have again 3,600 units in Q2 and 2,700 units in Q3. San Jose also has pretty significant deliveries in Q2 and Q3, as does Los Angeles. So again, relative to the total, we see Q2 and Q3 as creating potentially more lumpiness, similar to what we saw in the fourth quarter and again, in March/April.

Ivy Zelman (Analyst - Zelman & Associates):

And just in keeping with the prudent, more conservative guide, when you think about deliveries that are coming from condos and recognizing that many of those condos are being bought by investors that might want to cash flow and rent out those units, is there potential risk that that could put more pressure relative to market? Because I know we're hearing about that. Equity Residential mentioned they had someone come in below market against their rents by like $800 (Indiscernible) to cash flow. So how do you guys think about that as a risk to your guidance?

Michael Schall (President & CEO):

Yes, in terms of how we approach it, we try to lump all housing together, because we know that people will move out of apartments and buy condos or homes, and some will actually go the other direction, as

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well. So our basic analysis is to look at all the jobs, try to determine what the total households are and really not distinguish between what's a rental home and what is a for sale home.

Having said that, the other thing that we pay attention to is affordability of rentals versus home ownership. And in every one of our markets -- and Ivy, you know this better than anyone -- the cost of these homes is pretty significant. I think the median price home in San Francisco is over $1 million. And so that transition from a renter to a homeowner is really important to us. And it's obviously very difficult in this marketplace. But in order to avoid this issue of okay, how many of these demand units are going to go to for sale versus for rent, we just look at the whole thing.

Ivy Zelman (Analyst - Zelman & Associates):

No, no, no, and I appreciate that. I'm sorry, I may have miscommunicated the question right. What we're hearing is that the condos that are coming to being delivered, those that have already been purchased as a for sale unit, they may be an investor, whether they're from outside the US, foreign buyer, that wants to now rent it out. Is that a risk that you've incorporated into your outlook, that they will be competitive now in the rental, and I guess you're saying that you just look at it overall in shelter and every delivery to you is a competitive risk.

Michael Schall (President & CEO):

Exactly. It's a household. And so yes, we don't care -- well, we care, but it should not affect us.

Ivy Zelman (Analyst - Zelman & Associates):

Okay. No, that's great. No, I've got it. Great. That's really helpful and very conservative. Thank you.

Michael Schall (President & CEO):

Okay. Thanks.

Ivy Zelman (Analyst - Zelman & Associates):

Good luck.

Michael Schall (President & CEO):

Thank you.

Operator:

Our next question comes from the line of Tom Lesnick from Capital One.

Tom Lesnick (Analyst - Capital One):

Hello. Thanks for taking my questions. Just a couple ones on development. I saw your new start this quarter went into the consolidated bucket at 100% ownership. Can you talk a little bit about how you make the risk allocation decision between placing development into a JV or keeping it on balance sheet?

John Eudy (Co-Chief Investment Officer & EVP, Development):

This is John Eudy. That was a deal that we basically bought out of bankruptcy about four years ago. As you know, it was an operating property, took it through entitlements, and have a substantial low land base of a little over $30,000 a door. We're able to get the entitlements without any increased exactions or inclusionary requirements, so the yield is very attractive and not replaceable in today's market, which the short story is we're probably going to leave that on the balance sheet.

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Tom Lesnick (Analyst - Capital One):

Got it. I appreciate that color. And then one other quick one. Obviously, with the Agora close to initial occupancy and that being a condo finished project, are you guys contemplating any other condo finish developments at this point in time?

John Eudy (Co-Chief Investment Officer & EVP, Development):

We map everything we can, just so you know, which is a majority of our deals. But by your question, it sounds like, do we plan on going to a condo program out of the chute? No.

Tom Lesnick (Analyst - Capital One):

All right. Great. Thanks, guys.

Michael Schall (President & CEO):

Thank you.

Operator:

And our next question comes from the line of Alexander Goldfarb from Sandler O'Neill.

Alexander Goldfarb (Analyst - Sandler O'Neill & Partners):

Hello, and good morning out there. Just a few quick questions for you guys. There was a lot in the up front about the increase in rental homes and people doubling up in the Bay Area, so a two-part on that. One, are you seeing any dynamic at the super -- where are these people coming from? Are they super high end renters who just got tired of it and said it's cheaper to rent otherwise, or these are entry level people who just can't make anything else work and therefore they're defaulting to this? So one, are you seeing more pressure at the high end rental or at the low end price point? And then I'll ask the follow-up after that.

John Eudy (Co-Chief Investment Officer & EVP, Development):

Let me answer a little bit broad here, Alex. First off, with the supply coming in and they're trying to get the units absorbed, they're naturally offering concessions and those have been increased, and therein is the start of the process as it relates to some of the concessionary activity, and then of course, others, with the consumer, the empowered consumer and with the information age, you have some concession jumpers. And so people are moving around and that causes some pressure then on the next level in the apartments.

As it relates to the doubling up, it's really happening at various levels within apartment zone, and you have people that are doubling up into twos, people are doubling up into ones, just various things going on, and it's all incremental. But that incremental takes a hair off the demand that's out there, and again, ultimately reduces demand. And so you see it all over. The feedback that we get anecdotally is that the single family market is very, very high occupancy right now. And that again would have taken up some of the demand. And it makes sense, if you think about it, it's a larger unit, in effect, and you can put a couple, or two, three, four people in, income earners, and have a nice space. So I think people are finding ways to deal with the higher rents and some of those, again, mean doubling up.

Alexander Goldfarb (Analyst - Sandler O'Neill & Partners):

But is it fair to say that it's more, it's not the high price point rents aren't the issue, it's more the lower price point renter is more of the pressure point, not the high end renter?

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John Eudy (Co-Chief Investment Officer & EVP, Development):

I think it's across the whole zone.

Alexander Goldfarb (Analyst - Sandler O'Neill & Partners):

Okay. Okay. And then Mike Schall, you had mentioned previously that Seattle and San Francisco co-exist on the tech side and that you don't have a disconnect. Do you think that that still holds true, or do you think that maybe the affordability issues in San Francisco, coupled with the supply, means that the two markets could disconnect on the fundamental side?

Michael Schall (President & CEO):

Yes, Alex. Just to be clear, those comments I think I made in connection with Q4, and the point I was trying to make is that it did not appear to be a tech hiring issue. It appeared to be a supply issue, a supply lumpiness issue. I think I commented that around 40%, 40-plus percent of the supply in Northern California hit the fourth quarter during the seasonally weakest time. But again, to the point, it appears that Seattle and San Francisco, i.e., both being tech markets, are performing very well on the jobs side, and therefore, we look at the supply side, at the lumpiness of supply, as being a contributing factor or a driver of this disconnect.

As we go forward, it's going to be interesting to see, because again, if you look at the overall numbers going from jobs and job growth to household formation to supply, it would not indicate that we should have weakness in the apartment area, and the concessions seem to be going from roughly a month to six to eight weeks, that would not be indicated, given the overall supply/demand numbers. But yet here we are, and so we are trying to make sense out of why that is occurring. We don't have the answer, at this point.

Alexander Goldfarb (Analyst - Sandler O'Neill & Partners):

Okay. And then just finally, you made some comments in the opening MD&A about cap rates maybe softening a bit. Was that just normal cap rate volatility or were you indicating that cap rates are in fact backing up on the West Coast?

Michael Schall (President & CEO):

Yes, Alex. The comment I made was that there were comments in the marketplace from brokers. There was a couple of articles that I read where brokers in the marketplace were suggesting that cap rates were increasing. We have not seen that. And as the point I was trying to make is we underwrite a lot of deals, we're always in the market, and so we have a very good sense of what's happening in the marketplace, and so we disagree with those brokers. So if that didn't come clear, I apologize.

Alexander Goldfarb (Analyst - Sandler O'Neill & Partners):

No, no. Look, it's been a long week, so appreciate it. Thanks, Mike.

Michael Schall (President & CEO):

Thank you.

Operator:

And our next question comes from the line of Wes Golladay from RBC Capital Markets.

Wes Golladay (Analyst - RBC Capital Markets):

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Yes. Hello, everyone. Thanks for taking the question. Looking at this dynamic of what appears to be still a favorable supply and demand market, but yet you kind of have a glut of supply in certain sub markets, is that what it is weighing on it and once we get through this glut then we could get to more normal patterns on the rental growth?

Michael Schall (President & CEO):

Hello, Wes. It's Mike. And John may have comments on this, as well. Again, we're not quite sure. If you look at these overall supply/demand ratios up and down the coast, it would indicate that we would continue to have pricing power. And again, we're seeing concessions on the newly delivered product increasing from a month to six to eight weeks, and I think it's lumpiness, but we're going to let this next quarter go by and then we'll reevaluate guidance and results at this point in time.

So essentially, as a general rule, revising guidance at the end of the first quarter is something that I think is generally not what you want to do, because it's only one quarter. So we would rather be a little bit cautious and hopefully, we blow right through this period and absorb the units and we're back into a very strong pricing power type of mode come the end of summer. But we'll have to wait and see.

Wes Golladay (Analyst - RBC Capital Markets):

Okay. So is sounds like the velocity is actually going pretty nicely on those new units, so just a matter of getting them through at a little bit lower price point?

Michael Schall (President & CEO):

Well, yes. But keep in mind that an extra month of concession is an 8% reduction in price. And when you look at it that way, people that otherwise wouldn't move might say, oh, gee, at that price, I'm willing to make a change and move to a brand new apartment unit. And so that's the effect of concessions. And it seems to me that concessions are prevalent in the marketplace and they've increased; and again, that's what's causing the softness.

Again, I believe that the concessions can abate, much like they did January and February, quickly, but we just don't know exactly how that's going to happen. It's a function of how many units do you have, how aggressive the owners are. Obviously, if you deliver a new building, you have zero dollars coming in on your vacant units and so you're highly motivated to rent them. And many of those owners are saying, hey, rather than leaving it vacant, I'll try to hit really high absorption numbers and increase my cash flow. Again, they have a different financial objective or a different financial view relative to stabilized apartments, but they have a dramatic effect on the stabilized apartments. So that process is going to play out, so we're going to be clearly under a bit more pressure than we have over the last couple of years and we'll have to see how that ultimately turns out.

Wes Golladay (Analyst - RBC Capital Markets):

Okay. And just a quick follow-up. So is it the concessions enough to people pull in maybe from the East Bay into the SoMa market, or do you think people will stay in their own sub market?

Michael Schall (President & CEO):

Oh, no, I think everything will happen. People are looking for opportunity. I've been in this business a long time, as you know, Wes, and people are smart. They figure out the opportunities in the marketplace and they go after them.

Many of the renters just don't have that much furniture and so moving is not that big a deal. So if you give them another 8% off their rent in the form of a concession, they are all over it. And so it's a very fluid

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marketplace. And what I suspect will happen is we will go through this period of time and we will absorb the units, we'll get back into Q4 in San Francisco, where we think roughly 1,300 units will be delivered, and we'll have much more pricing power. So it will be a temporary dislocation in the market, is what I suspect.

Wes Golladay (Analyst - RBC Capital Markets):

Okay. Thanks for the clarity.

Michael Schall (President & CEO):

Thanks.

Operator:

And our next question comes from the line of Drew Babin from Robert W. Baird.

Drew Babin (Analyst - Robert W. Baird & Co.):

Good afternoon.

Michael Schall (President & CEO):

Hello, Drew.

Drew Babin (Analyst - Robert W. Baird & Co.):

I wanted to ask about the three sub markets you mentioned, SoMa, Peninsula, North San Jose, and what the supply outlook looks like in those markets for next year, once you deal with the concessions and everything going out now, when there might be a more sustained drop off in new supply deliveries.

Michael Schall (President & CEO):

That's a good question. I don't have that information with me. I think it will be slightly lower in 2017 relative to 2016, but I just don't have -- I'm not focused on those numbers at this point in time.

Drew Babin (Analyst - Robert W. Baird & Co.):

Okay.

Michael Schall (President & CEO):

Again, the dynamics, let me go back to the dynamics though, with construction costs increasing, lender issues, et cetera, it seems like we are at the point where we're going to start seeing slower development deliveries going forward, just as a general rule.

Drew Babin (Analyst - Robert W. Baird & Co.):

Okay. Then one question, going back to a topic that was frequently visited on last quarter's call, the prospects for share repurchase to the extent you're able to sell properties at cap rates below the implied cap rate on your stock, has anything changed in the market over the past few months that would maybe cause you to view doing something like that differently?

Michael Schall (President & CEO):

Our thoughts have evolved in that area. And for background, we have a $250 million share repurchase program out there. Last quarter, we were trying to not use the balance sheet. We were trying to align

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sales proceeds from properties. Essentially, I think I mentioned that roughly 33% of the share in green sale we wanted to use for share repurchase. And when the stock price recovered and we were not trading at a discount to NAV, we decided to just go ahead and redeploy that with a 1031 exchange.

So the evolution of our thought process on that is to go ahead and use the balance sheet, because it seems like the dislocations in the stock, and we had one in the first quarter, those dislocations are relatively temporary in nature. And so I don't want to give you exact targets, but of the $250 million program, we've decided to take some balance sheet risk to the extent that the stock trades at a significant discount to NAV. And again, I'm not going to share with you our targets and how that works, but practically, if it's not 10% to15% type of discounts, it probably doesn't make much of a difference. So we will use some balance sheet and we will look for significant discounts and we will be ready within relatively short periods of time, given dislocation in stock price.

Angela Kleiman (CFO):

But let me just add to that, as far as using the balance sheet, that would just be a temporary bridge, because then we will look to sell assets in arbitrage, the public and private market pricing. So ultimately, the goal was still to have it to be a balance sheet neutral transaction.

Michael Schall (President & CEO):

Thank you, yes.

Drew Babin (Analyst - Robert W. Baird & Co.):

Understood. Thank you very much.

Operator:

Our next question comes from the line of Tayo Okusanya from Jefferies.

Tayo Okusanya (Analyst - Jefferies LLC):

Yes. Good afternoon, everyone. Just in light of some of the commentary you've made about lumpy new supply going forward and some of the market dynamics, does that change how you think about disposition activity, especially if, based on your commentary, cap rates really haven't moved at this point?

Michael Schall (President & CEO):

Yes, Tayo, this is Mike Schall. At this point, to the extent that we believe it's temporary in nature and again, lumpy supply, I don't think that it has a significant impact on how we allocate capital. However, if that changed, if we saw job growth dynamics change, for example, I think that would be more fundamental in nature and that would change our thinking about how we want to allocate the portfolio.

So again, we have these exceptional job growth numbers that have continued, in Q1 San Francisco at 4.1%, Seattle 3.2%, et cetera. That's a trailing three-month number. Those numbers are incredibly powerful when it comes to owning apartments. And so as long as those numbers remain as strong as they are, and not to mention the amount of wealth that's been created within the technology area, I think we estimated the 10 top tech companies have produced about $1.8 trillion in wealth -- and obviously, some of that is not on the West Coast, but a lot of it is here -- those dynamics keep us excited about owning properties in Northern California, despite the lumpiness of the supply.

Tayo Okusanya (Analyst - Jefferies LLC):

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Got it. And then my second question, you guys are well known in this space for being data junkies and I know you're doing a lot of analysis suggesting rents should still be strong, occupancies could still be strong. And at least I hear from your tune, you're kind of scratching your head a little bit, wondering why is what's going on, why is this really going on? And I guess the question is, if we all don't know but you had to at least make one or two educated guesses, what would they be and what does that tell you about if that continues going forward or if truly this might be temporary?

Michael Schall (President & CEO):

Well, John Burkart and I are looking at each other. I hope we've come to the same answer to this one. But clearly, the impact of affordability is one that concerns us. And generally speaking, we think affordability is a constraint, not a driver. In some markets it's a driver, but not in our markets. And so anything that affects affordability, and John mentioned doubling up, longer commutes, working from home, those types of things would be concerns to us. And we are, back to your data junkie point, we are trying to find ways to measure them. And we have some data on them and we do have some information about the level of double up, but it's not perfect at this point in time. But clearly, we are trying to become more refined in how we look at this. And where we have a disconnect, we're trying to explain it to ourselves so that we can obviously use it proactively to manage the portfolio and to do a better job at capital allocation.

Tayo Okusanya (Analyst - Jefferies LLC):

Thank you.

Michael Schall (President & CEO):

Thank you.

Operator:

Our next question comes from the line of Rich Anderson, Mizuho Securities.

Rich Anderson (Analyst - Mizuho Securities):

Thanks. Good afternoon. I'm sorry to keep it going here, but just a couple of quick ones. Getting back to the rent control issue, while you made the point that it doesn't hit you because your newer assets and all of the rest, but is there an indirect effect, do you think, that is playing a role in some of the quote-unquote choppiness that you're seeing in the Bay Area? Is there any way to see that?

Michael Schall (President & CEO):

I don't think so, Rich, because I'd say the opposite. To the extent that people that were forced out of the marketplace can now stay there longer and turnover rates are going to be reduced, the number of units that's actually coming to market therefore is reduced, and therefore you should have better pricing power. So on our portfolio it's probably a net positive, just because we don't have that many units, again, subject to what might happen in these referendums, because we don't know what cities they're going to be affecting at this point in time. But based on San Jose and Oakland, for example, we think we have probably a positive effect, not a negative effect.

Rich Anderson (Analyst - Mizuho Securities):

Because of the turnover factor, you mean?

Michael Schall (President & CEO):

Yes, because more people, there's going to be fewer units vacating, the turnover goes down with rent

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control, right? We'll go, portfolio wide, we'll go from 50% to 30% turnover. So you're going to turn only 30% of your units, therefore your units available for leasing to people moving into the area, you're going to have fewer units available to lease to the same number of people, and therefore it's going to put more pressure on price as to the units that are turning. So again, because we don't have that much rent control product, it probably has a favorable effect on us.

Rich Anderson (Analyst - Mizuho Securities):

Got you. And then some have been alluding to why you haven't addressed guidance in this quarter, and I understand all of the answers. But to me, I'm wondering if the guidance direction should be up or down. I think most people are indicating that maybe you should have raised guidance because you beat numbers in the first quarter. But is it as clear cut as your bias is upward, or does the lumpiness in the Bay Area put at least them into the possibility list that guidance could weaken in the future?

Michael Schall (President & CEO):

I think when you raise guidance in the first quarter, you better be really sure about what you're doing. Otherwise, why do it? We just gave you guidance a couple months ago. So that's the basic premise of the whole thing. Obviously, we're going to push to make the year and next quarter as good as it possibly can be and to react appropriately to changing market conditions. But I just don't see a lot of motivation. I'm probably one of the ones that prevented the guidance increase of the group here. But that's the basic background. It's really uncertainty and the feeling that raising guidance after a quarter just doesn't make a lot of sense to me.

Rich Anderson (Analyst - Mizuho Securities):

Okay. But at least the conversation was up, not down?

Michael Schall (President & CEO):

Well, we have lots of conversations. But yes, most of the pressure was on up, not down, yes.

Rich Anderson (Analyst - Mizuho Securities):

Okay. That makes sense. And then lastly, you talked about some of these supply numbers in the second and third quarter. What are you guys seeing beyond that? Is there a notable reduction that you could speak to for fourth quarter this year and beyond?

Michael Schall (President & CEO):

Yes, there is. However, the comment I made in the fourth quarter, on the fourth quarter call, about transactions deliver when they deliver, we may schedule them to happen, and I bet a lot of the transactions that hit in the fourth quarter last year were scheduled for delivery in the second and third quarter, but they got delayed to the fourth quarter. My point is, they deliver when they deliver. And we actually have our people go around and look at buildings and try to see exactly what is being delivered. But having said that, you don't have great certainty with respect to exactly when it's going to be delivered and it can easily slide a quarter.

Rich Anderson (Analyst - Mizuho Securities):

Okay. Thank you.

Michael Schall (President & CEO):

Thanks.

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Operator:

Our next question comes from the line of Kris Trafton from Credit Suisse.

Kris Trafton (Analyst - Credit Suisse):

Hello, guys. Just wanted to circle back on the preferred equity. And obviously, there's a lot of demand for this capital, but could you speak to a little bit about the supply of preferred capital, maybe the other players involved that are offering it, and then maybe how you're mitigating it in terms of risk?

Michael Schall (President & CEO):

Yes, it's Mike Schall. I think there are several people that are active in that area, different types of specialty finance organizations. So we have plenty of competition there. And much like acquisitions, we don't win nearly all the business. And part of the reason for that, and it goes to your risk mitigation point, is we only want to originate preferred equity on apartments that we would like to own. So it has to meet our locational and other criteria. And again, if everything goes great, then it's a good piece of capital for the developer. If things don't go great, we're in a position to step in at what would be an attractive price to us. So that's how we think we have the best of both worlds. We have a high yielding vehicle and we also have something that is synergistic with our portfolio, if things don't go well.

Kris Trafton (Analyst - Credit Suisse):

That makes a lot of sense. Second question, on when you're looking within a market and you're looking at the cap rates that they're trading at, do you see a difference, obviously adjusting for quality for properties that are just above or just below the year where you can do rent control in California?

Michael Schall (President & CEO):

You know, I haven't looked at it really that closely, but let's see. I've just looked at Oakland and San Jose. And then again, the statewide law, [Costa-Hawkins], has a pre-1996 date. And so we have obviously more properties that are within the [Costa-Hawkins] realm that's pre-1996. But with respect to the cities that already have rent control ordinances like the ones in Oakland and San Jose, they were preexisting, the nice thing about them is they can't bump their prior date, their effective date, their cutoff date. They can't move it to 1995, at least at this point in time, because that was prohibited by [Costa-Hawkins], as well. So again, I think our overall exposure to rent control is actually not that substantial, as I look at the portfolio, as we look at the portfolio.

Kris Trafton (Analyst - Credit Suisse):

Okay. And then just one last quick one. I think your original guidance was to have three now developments in 2016 at $230 million at share, and you just started one here at $230 million. Is that incremental to the other three, or was that originally going to be a JV, or can you just talk to what's updated there for development start guidance?

John Eudy (Co-Chief Investment Officer & EVP, Development):

The one that we announced is one of the three, so it's not incremental.

Kris Trafton (Analyst - Credit Suisse):

Okay. So that was originally going to be at 50% or something?

John Eudy (Co-Chief Investment Officer & EVP, Development):

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No, no, that was always going to be 100%. I'm sorry, I didn't answer that piece of your question.

Kris Trafton (Analyst - Credit Suisse):

Okay. I thought the original guidance was $230 million for three properties? Am I --

Angela Kleiman (CFO):

No, it was $220 million, somewhere around there, for the year.

Michael Schall (President & CEO):

Right.

Kris Trafton (Analyst - Credit Suisse):

Oh, that's a spend, not starts?

Angela Kleiman (CFO):

That's the spend, correct.

Kris Trafton (Analyst - Credit Suisse):

Got you. Okay. Thank you very much.

Michael Schall (President & CEO):

Thanks.

Operator:

And our next question comes from the line of Conor Wagner from Green Street Advisors.

Conor Wagner (Analyst - Green Street Advisors):

Good afternoon. Have you seen fewer properties come to market in the Bay Area in recent months?

Michael Schall (President & CEO):

Come to market, you mean for sale?

Conor Wagner (Analyst - Green Street Advisors):

Yes, in the transaction market.

Michael Schall (President & CEO):

No, actually there's a pretty decent deal flow out there and we're looking at quite a few properties, so I'd say activity is generally picked up a bit.

Conor Wagner (Analyst - Green Street Advisors):

And from your earlier comments, I gather that sellers haven't reset their expectations?

Michael Schall (President & CEO):

Yes. Again, this is our experience and we underwrite lots of transactions. And I can think of a deal in Freemont that we recently underwrote and we got handily beat, and on that transaction specifically, that

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was, I don't actually think that is closed yet even, so I think it just has been awarded. Again, as we look at the transactions out there, we don't see a lot of evidence that cap rates have changed. And again, we win some, we lose some, but we underwrite a lot. And from our view, things have really hung in there. Which is what we expect, by the way.

Conor Wagner (Analyst - Green Street Advisors):

Great. And then I just wanted to confirm, earlier you said that traffic at your properties has not slowed down. And I know you've indicated before that you think that's a leading indicator of job growth. But is that correct that actual traffic at properties has not slowed?

John Burkart (Senior EVP of Asset Management):

Well, yes, this is John Burkart. I don't think we spoke about traffic earlier. But as it relates to traffic, it's actually up year-over-year really across the whole portfolio. But traffic is a challenging number. Sometimes it can be driven, of course, by better marketing and a variety of other items, but it is up and it's very strong.

Conor Wagner (Analyst - Green Street Advisors):

Do you guys get the sense then that perhaps renters in the Bay Area, because they read the headlines about slowdowns in tech and job growth, that perhaps they become more cautious on what they're willing to spend or their willingness to trade up?

John Burkart (Senior EVP of Asset Management):

We're not seeing that in the sense of anecdotals, hearing about that, obviously hearing people make comments or anything else. But obviously, as been said a little bit earlier in the call, we're trying to reconcile the supply/demand equation with the reality in parts of Northern California. And I don't have the answer to that, with what's exactly causing that to not fall in line exactly as we've expected, other than some lumpiness in supply and possible some doubling up.

Conor Wagner (Analyst - Green Street Advisors):

Great. Thank you very much.

Michael Schall (President & CEO):

Thanks, Conor.

Operator:

And our final question comes from the line of Karin Ford from MUFG.

Karin Ford (Analyst - MUFG):

Hello. Good afternoon. Just wanted to go back to the divergent trends between some of the markets in Northern Cal and Seattle, given similar job trends. On the affordability side, do you guys track rent to incomes in each of those markets and do you think there's a big difference between the metrics in those two?

Michael Schall (President & CEO):

We do definitely track them on an ongoing basis. And yes, there's very significant differences. So Seattle, which has much more affordability, obviously, the rent to income is around 19.6%, and so less than 20%. In Northern California, those numbers are in the 25% to 27% range. So definitely, affordability is much,

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much different in Seattle and San Francisco, and that would drive what John Burkart was talking about with respect to double ups. The more affordability enters the equation, the more doubling up you would expect to happen.

So clearly, Seattle, if you look at median income levels are high, about $84,000, which is less than San Francisco and San Jose that are both over $100,000, but nonetheless, when you look at that relationship between average rents, which are about $1,400 in Seattle, on average, this is the whole marketplace, there's a high level of affordability in Seattle, there is not in Northern California.

Karin Ford (Analyst - MUFG):

Thanks. So just to round that out, where is Southern Cal on that metric?

Michael Schall (President & CEO):

Southern Cal on that metric is in the 21% to 24% range, so it is between the two.

Karin Ford (Analyst - MUFG):

Between the two. Got it. Great. Thanks very much.

Michael Schall (President & CEO):

Thank you, Karin.

Operator:

Ladies and gentlemen, there are no further questions at this time. I'd like to turn the conference back over to Mr. Schall for any closing remarks.

Michael Schall (President & CEO):

Thank you very much. We really appreciate your participation on the call. And obviously, we're pleased with the results and we look forward to seeing many of you at NAREIT next month to continue the discussion. Have a great day. Thank you.

Operator:

Ladies and gentlemen, this does conclude today's teleconference.

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