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AvalonBay Communities, Inc. (AVB) CEO Tim Naughton on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-28-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.07281 misses by $-0.10 | Revenue of $586.38M (1.97% Y/Y) beats by $2.15M

Earning Call Audio

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AvalonBay Communities, Inc. (NYSE:AVB) Q3 2019 Results Earnings Conference Call October 29, 2019 11:00 AM ET

Company Participants

Jason Reilley - Vice President of Investor Relations

Tim Naughton - Chief Executive Officer

Sean Breslin - Chief Operating Officer

Matt Birenbaum - Chief Investment Officer

Kevin O'Shea - Chief Financial Officer

Conference Call Participants

Nick Joseph - Citigroup

Rich Hightower - Evercore ISI

Rich Hill - Morgan Stanley

Jeff Spector - Bank of America

Austin Wurschmidt - KeyBanc Capital Markets

Trent Trujillo - Scotiabank

John Kim - BMO Capital Markets

John Guinee - Stifel

John Pawlowski - Green Street Advisors

Hardik Goel - Zelman & Associates

Alex Kubicek - Baird

Alexander Goldfarb - Sandler O'Neill

Linda Tsai - Jefferies

Haendel St. Juste - Mizuho Securities

Michael Bilerman - Citigroup

Operator

Good morning, ladies and gentlemen, and welcome to the AvalonBay Communities Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following remarks by the company, we will conduct a question-and-answer session. [Operator Instructions]

Your host for today's conference call is Mr. Jason Reilley, Vice President of Investor Relations. Mr Reilley, you may begin your conference.

Jason Reilley

Thank you, Vicki and welcome to AvalonBay Communities third quarter 2019 earnings conference call. Before we begin, please note that forward-looking statements may be made during this discussion. There are a variety of risks and uncertainties associated with forward-looking statements and actual results may differ materially. The discussion of these risks and uncertainties in yesterday afternoon's press release as well as in the company's Form 10-K and Form 10-Q filed with the SEC.

As usual, this press release does include an attachment with definitions and reconciliations of non-GAAP financial measures and other terms, which may be used in today's discussion. The attachment is also available on our website at www.avalonbay.com/earnings and we encourage you to refer to this information during the review of our operating results and financial performance.

And with that, I'll turn the call over to Tim Naughton, Chairman and CEO of AvalonBay Communities for his remarks.

Tim Naughton

Thanks, Jason. And welcome to our Q3 call, with me today are Kevin O'Shea, Sean Breslin and Matt Birenbaum. Sean, Matt and I will provide brief commentary on the slides that we posted last night and all of us will be available for Q&A afterwards. Our comments this morning will focus on providing a summary of Q3 and year-to-date results, an update on operations including some areas of innovation in the operating platform and then lastly, a review of the development portfolio.

Starting now on Slide 4 highlights for the quarter include core FFO growth of just over 2.5% for the quarter and 3.3% year year-to-date. Same-store revenue growth in Q3 came in at 2.7% or 2.9% including redevelopment with most regions clustered in the 2.5% to 3% range. Year-to-date same-store revenue growth stands at 3.1% or 3.2% including redevelopment. We completed a $90 million community in Seattle this quarter at an initial yield of just over 6%. $335 million so far this year at an average yield of 6.3%.

We purchased two communities totaling $135 million in the quarter including our third community so far in Southeast Florida, where we also have one development under way. We sold four communities in Q3 totaling $260 million including the last two assets in Texas that were acquired as part of the Archstone transaction. Lastly, in late September, we have entered into a forward contract with $200 million of equity which will be settled over the next year will help fund the remaining cost to complete the development, currently under construction.

And with that now, I'll turn it over to Sean to discuss operations.

Sean Breslin

Okay. Thanks, Tim. Turning to Slide 5. This chart represents the trailing four-quarter average rent change for our same-store portfolio and shows the East and West converging to average roughly 3%. During Q3, however, rent change for our East Coast portfolio was 3.6%, 80 basis points greater than the 2.8% produced by our West Coast assets. The last time our East Coast portfolio outperformed the West from a rent change perspective was Q4 of 2010.

During Q3, the East Coast portfolio was led by 4.6% rent change in New England, up 50 basis points year-over-year and 3.8% in the mid-Atlantic, up a very healthy 140 basis points year-over-year. On the West Coast, our Pacific Northwest portfolio produced like-term rent change of 4.1%, which was essentially unchanged year-over-year. Northern and Southern California delivered rent change in the 2.5% to 3% range each down more than 100 basis points year-over-year.

Turning to Slide 6, I'd like to highlight a few of the components of revenue growth in the first half and second half of this year. As indicated on the chart, we expect relatively stable rental rate growth which is the primary driver of same-store revenue growth throughout the year. However, as I mentioned during our Q2 call, revenue growth in the first half of this year benefited from the burn off of leased-up concessions from new entrants into the same-store pool, a reduction in bad debt and healthy revenue growth from our retail portfolio.

In total, these components contributed an incremental 70 basis points to rental revenue growth during the first half of the year. We don't have much of a tailwind from those same components in the second half of the year and the benefit we are realizing has been offset by the impact of rent caps in LA and the recently adopted rent regulations in New York. As a result, revenue growth in the second half of the year is more in line with the actual rental rate growth.

Turning to Slide 7. I'd like to share a little bit about what we're doing on the innovation front, which will enhance our operating margins and allow us to reach new customers. As indicated on the left side of Slide 7, we're leveraging various technologies, our scale and new organizational capabilities to create value through a number of initiatives, including those identified on the right side of the slide. Some of our margin enhancement initiatives relate to leasing and maintenance service, which I'll address in more detail shortly, along with customized renewal offerings and centralized renewal administration.

In addition we're studying opportunities to use AI, digitalization and various other technologies to improve the productivity of our property management organization, including our call center operation. We're also using our scale and technology to reach new customers. In the residential space, our segmentation studies indicated that roughly 10% of the renter market would prefer a furnished apartment home. We started offering furnished apartment homes in select locations about 18 months ago. Based on early results, we expect to scale at the 5% or more of our portfolio over the next couple of years.

In addition, we are pursuing a strategy to profitably serve the limited service segment of the rental market through the development of a new community featuring high quality apartment homes and amenity-like design and limited community services. As compared to our typical development community, we expect to reduce capital cost per home via thoughtful design, choice of materials and the elimination of almost all the amenity space.

On the operating side, we expect to reduce operating expenses by eliminating most of the on-site staff as most of the customer interactions would be facilitated by technology and the cost of maintaining what tends to be expensive amenity spaces. The net benefit to the customer is a rental rate approximately 10% to 20% below other new communities in the area. Our first pilot community is currently under construction and we expect initial results in the next 12 months to 18 months.

Turning now to Slide 8 to provide more detail on a couple of initiatives. About 18 months ago, we've mapped out all the customer journey is tied to leasing an apartment and created a new technology enabled self service model for most leasing activities. We started implementing the first phase of our redesign customer journey earlier this year, which includes the use of an AI powered automated leasing agent and the adoption of a more dynamic demand driven staffing model. Our automated agent is now fully deployed across the entire portfolio. The screenshot on the right side of Slide 8 represents a clip of a recent text conversation our agent had with a prospective resident.

The automated agent operates 24 hours a day, 365 days a year, and we're seeing an improved performance metrics as a result of our adoption of this technology including about a 700 basis point improvement and leads to tour conversion ratios. We implemented a staffing model in two regions this year and expect to adopt it across the entire portfolio by the end of next year.

We're seeing a substantial improvement in productivity across the two pilot regions and expect similar results in our other regions. Other components of the new leasing model include more self-guided tours and self-service move-ins. Overall, we expect to realize about a 50 basis point improvement in our same-store operating margin as a result of our new approach to leasing, which is primarily driven by an increase in the productivity of our leasing teams.

Turning now to Slide 9, we've also created a road map for our new maintenance service mode. There are several phases to the plan, but it includes digitalized workflow and procurement, automated scheduling via new optimization platform, the application of data science to predict demand and enhanced associate performance metrics.

We're in the process of integrating the new maintenance platform with our other enterprise systems, which would allow us to implement the first phase in Q1 2020 and realize stabilization of roughly mid-year 2021. We expect another roughly 50 basis point improvement in our same-store operating margin from our new maintenance service model which is primarily driven by an increase in the productivity of our maintenance teams.

And lastly, turning to Slide 10, I'd also like to provide an update on some of our environmental initiatives. Over the past few years, we have invested in a number of opportunities to reduce energy consumption and carbon emissions across our portfolio including LED lighting, which is already generating more than $3 million in annual utility savings and on-site solar generation, which we have started to install more broadly after completing several pilots.

We are on track to have almost 6 megawatts of carbon-free power generating capacity installed by the end of next year, providing strong returns on a $20 million investment and with more opportunity to extend solar to additional assets in future years.

With that, I'll turn it over to Matt to talk about development in Columbus Circle. Matt?

Matt Birenbaum

All right. Great. Thanks, Sean. Our development activity continues to be a strong driver of both NAV and earnings growth even this far into the business cycle. As seen on Slide 11, we currently have $975 million of development that is currently in lease-up or has recently been completed across 10 communities with a weighted average initial stabilized yield based on today's rents and expenses of 6.1%. We believe these assets would be worth roughly $1.3 billion in the private market generating $325 million in value creation on completion, which translates directly into corresponding growth in NAV.

Slide 12 illustrates the future NOI growth we expect as we complete all of the development currently under way. On the left hand side of the slide, you can see that at stabilization we anticipate $60 million in NOI from the $975 million worth of assets shown on the previous slide that are currently in lease-up, plus another $103 million in NOI from the $1.8 billion in assets that are under construction, but not yet in lease-up for a total of $163 million in future NOI to come. And as shown on the right hand side of this slide, this activity is almost completely match funded between our recent forward equity deal, free cash flow and cash on hand.

In addition, the projected sources of capital as shown does not include proceeds from pending asset sales or condominium unit sales, which we expect to realize in Q1 2020 and which exceed $100 million remaining to fund. With initial yields well above our marginal short-term cost of capital, this development activity is projected to contribute meaningfully to earnings growth over the next two years to three years. Speaking of condominium sales proceeds, slide 13 provides an update on our mixed use building at Columbus Circle in Manhattan, which has been renamed The Park Loggia.

As we have discussed on prior calls, we began marketing individual apartments in the building as for sale condominiums back in April. And based on the market response to our offering, we can now confirm that we are proceeding with the condominium execution for the residential component. The Park Loggia has been the top selling property in Manhattan since the sales launch and we currently have 40 signed contracts, which we expect will move to settlement in early 2020 once the individual tax lots have been recorded with the city.

The retail component also continues to be well received by the market with our anchor tenant target opening for business any day now. Of the 67,000 square feet of total retail space available for lease, about 45,500 square feet has been leased so far and we are in advanced negotiations for another 10,300 square feet on the second floor, which would leave us with about 11,000 square feet left to lease, most of which is on the ground floor with Broadway frontage. Ultimately, we expect to generate roughly $10 million in total NOI from the retail component of this project once it reaches stabilization in 2021.

And with that, I'll turn it back over to Tim for some concluding remarks.

Tim Naughton

Okay. Thanks, Matt. So in summary, apartment markets remain quite healthy with most markets in balance producing consistent revenue growth of 2.5% to 3% for the first time as Sean mentioned, since late 2010, the East Coast is performing either in line or slightly ahead of the West Coast, we are investing aggressively in our operating platform, leveraging scale, technology and capabilities to grow margins by driving efficiencies and leasing maintenance and utility costs.

We expect our investments in these areas to stabilize over the next several quarters. And we continue to create significant value through our sector-leading development platform; an activity that's consistently delivered 30%-plus value creation margins over this 10-year expansion cycle and combined with our practice of match funding should contribute meaningfully to earnings growth over the next couple of years.

And with that, Vicki, we are ready to open the call for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We'll take our first question today from Nick Joseph with Citi. Please go ahead.

Nick Joseph

Thanks. Sean, you highlighted the rent growth converging. Given what you're seeing today, what are your expectations for the East and West Coast from here. Do you think we'll see sustained rent outperformance in the East Coast over the next 12 months?

Sean Breslin

Yes Nick. Sean here. Good question on that topic. I mean, there's a number of factors out there that kind of relate to the outlook for demand and supply as we move into 2020. On the supply side, if you want to think about it where we're seeing some benefit on the East Coast going into next year for the most part is in New York City where supply is coming down, projected to be roughly in half in 2020 as compared to deliveries in 2019 2018. So, we expect a little bit of benefit there that may be muted to some degree obviously by the rent regulations.

The first half of next year, we're going to see some impact from that as it bleeds through as you know it started mid-year. So we had the back half of '19 and the first half of 20, we'll see a little bit of dilution from that, but from a pure market fundamentals perspective, if you want to look at it that way, I'd say New York City looks pretty good. Boston, we are going to see more supply in the urban sub-markets of Boston next year. And then as you come down to the Mid-Atlantic, for the most part, things will be roughly at par from a supply standpoint. And if you pivot to the West Coast with the same question, we're expecting more supply in Northern California across all three markets, San Francisco the East Bay and San Jose and a little bit more in LA.

So, if you think about sort of the supply side of it assuming the demand side was relatively stable and there's a number of reasons why you'd expect it to potentially decelerate a little bit from job growth perspective etc. based on macroeconomic factors. Those are the markets where we're probably going to see some change either to the upside or the downside based on the deliveries. The one interesting component I point to is sometimes it's not all just embedded in the jobs data that we see or the supply data that we see.

So in the Mid-Atlantic as an example it's had a nice tailwind this year. Jobs and supply has been about what we've expected but procurement's up quite a bit and that tends to bring a lot of contractors to the region, so some of those factors that come into play. So net-net, you'd have to look at it sort of market-by-market, but there're good reasons to expect the East Coast to continue to perform well based on what we see whether it's at par, above the West Coast is yet to be seen. So I don't know if you want to add anything to that Tim?

Tim Naughton

Yes. No, I think that's all right, Sean. Yes, I think, Nick, I think one of the things that's sort of remarkable is just how tightly clustered all the markets are while East is slightly outperforming the West. I think what's really striking to us is that it does seem like all the markets performing within 50 basis points or 100 basis points, which I just can't remember a time the cycle where that's occurred. It just seems like we're pretty close to equilibrium almost across the board, which again is kind of remarkable when you think about how supply sort of moves up and down through the course of the cycle in any one market. So it's, I don't know if there's a firm house view that East or West is going to outperform next year as much as the markets are basically in balance and approaching equilibrium for from our view.

Nick Joseph

Thanks. That's very helpful. And then just on the Upper West Side condo sales for the 40 signed contracts. What's the average sales price?

Matt Birenbaum

Yes. Hi, Nick. It's Matt. I don't want to give too much detail, but we do 40 signed contracts. The average price of those particular units is about $2,000,750 and they are in different parts of the building.

Nick Joseph

Okay. Thanks.

Operator

And we'll go to Rich Hightower with Evercore.

Rich Hightower

Hi, good morning guys.

Matt Birenbaum

Good morning.

Rich Hightower

So, just a question on some of the tech spending that it looks like you guys are ramping up on. I know you've expressed this in terms of basis points of NOI growth impact, but could you maybe translate that into sort of an old-fashioned ROI. What incremental spend do you expect to roll out and what sort of the estimated ROI on all of that, if we take all the categories together?

Sean Breslin

Yes. Rich, this is Sean. I want to give you just a little bit on that in terms of where we are. A number of these things that we're doing particularly, I'll just focus on the leasing and maintenance side for the moment because they're pretty far along as compared to, say, the development communities. They all have their own independent capital budgets that are different when you look at each one kind of on a per home basis. But in terms of sort of the backbone of it on the leasing and maintenance side, the expected investment to deliver the kind of margin enhancement we're talking about, which is roughly 100 basis points is about $10 million. So for a $10 million investment, you can run the math pretty quickly on 100 basis point improvement on operating margin, that's a pretty good ROI.

Rich Hightower

Okay. Yes. We can do that. And then maybe secondly, just in terms of, I think there was an uptick in R&M expense last quarter in a couple of markets. And I know this is part of the larger conversation that we're having in terms of technology and efficiency spending. But, maybe just if you could talk to labor expense growth, not only as a function of the tight job market in general, but also as a function of new supply in your markets. How do those two factors sort of interplay with the labor expense growth in some of those categories?

Sean Breslin

Sure. Yes, happy to address that and maybe a couple of broad comments to begin with. One is, when you look at each quarter here, things can be pretty lumpy. So we tend to add people to really consider focusing on sort of where we are from a year-to-date basis since there's a lot of different things that are happening. So when you look at the quarter, as an example, there is a lot of lumpiness in R&M spend of Q2, late-Q2, Q3 is sort of the peak for when you're completing maintenance projects given the weather, particularly in some of the markets in the Northeast as an example and even here in the Mid-Atlantic and so there tends to be greater spend there. Obviously there's seasonal patterns to turnover that relates to R&M.

On the marketing side, as an example, we had a substantial call center credit Q3 of last year so if you went looked at Q3 numbers for OpEx and marketing last year, marketing was down about 21%. That's why there's a big increase this year. So, you have to kind of look at it over a period of time, but to address your specific questions around labor, I'm going to give you some sense for us as an example, on the payroll side and we're starting to see some efficiency there, year-to-date, we're up 270 basis points on payroll. About 140 basis points of that just relates to benefits and workers' comp and things like that, that are very lumpy in terms of claims activity and things like that versus 130 basis points is really the sort of organic underlying growth related to the associates in the field.

And if you consider that, wage growth pick a source is running anywhere from say 3% up to, for our types of folks, if you look at the ADP data maybe even more so. It's pretty constrained labor cost growth on a year-over-year basis. So we've been able to mainly through leveraging on the office side some of the operating model work that we're doing, some of the innovation work that we're doing, taken some FTEs out of the system on the office side, so far to help contain that which is good because the merit pool for our associates is still in the 3% to 4% range on a year-over-year basis for our population.

The one other thing that I would comment on is, there is some pressure in certain markets as it relates to minimum wage regulation and things of that sort. That's putting pressure on the maintenance and labor side for outsourced services. So even though turnover was down as an example, labor rates in some of the markets in Northern California, as an example, Seattle etc.; labor rates are up. So labor component of some of those vendors is up more so than you might like, so we have to try to be as efficient as we can and that's one of the reasons we're investing in the maintenance initiative is to make sure that we're being as efficient as we can not only with our own labor, but with the systems of procurement for the outsource labor as well. So hopefully that addresses a number of your topics there.

Rich Hightower

Yes, that's great color. Thank you, Sean.

Sean Breslin

Yes.

Operator

We'll go to Rich Hill with Morgan Stanley.

Rich Hill

Hi, good morning guys, a couple of things. Getting back to rent regulation, we've heard some mixed commentary on with some of your peers. So I was wondering if maybe you could think about the impact on revenue breaking down California and New York City or if it's too early to sort of think through that detail.

Sean Breslin

Rich, this is Sean and when you say breakdown, what are you looking for, just kind of what the expected impact of this year or next year...

Rich Hill

Well, really next, yes. So I thought the color in your pitch book post earnings was really helpful where there is an offset. So, that was helpful to understand. I'm trying to understand, do you think California or New York is more onerous? We sort of look at New York City is being more onerous and obviously you've talked about decreasing your exposure to that market. I think the market was thinking California at 5%-plus inflation wasn't that big of a deal, it sounds like it's having some headwinds. So I'm just trying to quantify that offset and how much of it's driven by California versus New York?

Sean Breslin

Okay. So yes, let me give you just a brief summary on each one to give you some perspective. So what we talked about on the last quarter call as it relates to New York is that we expected the same-store impact in the second half of 2019 to be about $1 million. And about 80% of that is derived from loss of all the fee income that we can generate for application fees and things of that sort. As you may recall, so it will reduce the growth rate in the New York-New Jersey region by about 25 basis points for the full year and the growth for the full year in the same-store portfolio is really about 6 basis points or 7 basis points, but since it's all concentrated in the second half, the impact is about 10 basis points or 11 basis points.

So, for New York, that's for the second half of this year, we would expect a similar impact roughly in the first half of next year and so you get to the second half of 2020 where you have year-over-year comps that are a little more stable because you have an impact, second half of '19. The impact would be in place the second half of 2020. So then projecting it beyond that, it's a little bit of a mathematical jigsaw puzzle in terms of different things that you expect where you are in terms of legal rent today across your portfolio etc. So I do think you're going to get different answers from each of the REIT owner-operators as it relates to their assets and the potential impact.

So I'm not surprised that you're hearing different things about that, but that's sort of how it looks in New York. And keep in mind for us as it relates to the rent stabilization component of it as opposed to the fee component which is statewide, the stabilization side impact about 21,000 units, and for us about 10 years from now, those 421-a programs burn off and then we'd be free of that. So that's how to think about it for our portfolio in New York. In terms of AB 1482 in California, it is a couple of different ways to look at it.

First is we went back and sort of back tested our portfolio in 2018 and 2019, and said if AB 1482 has been adopted in either one of those years, what would the impact have been? And if you back tested that way, for us, it would have been about a 20 basis point impact for each of Northern and Southern California. That's about 40% of our portfolio. So call it 8 basis points roughly for the full year.

And then probably the other relevant question is you know given the reset on January 1, 2020, how does that impact your embedded growth rate for 2020? And what we've done today as we basically said look if it went into effect October 1st and we had to reset leases back to Q1 of 2019 which is the regulation. It has about a 5 basis point drag on our embedded growth.

So it's not, that's on the same-store pool overall. So it's not terribly meaningful, but it's going to look certainly a little bit more meaningful in those markets, and then beyond that, it's really a function of the market environment, whether you're hitting the caps or not, but the piece that tends to come into play that people don't always think about is not just the CPI piece, but there are short-term lease extensions month to month leases various things like that, that have kept our ability to generate more premium revenue.

And so, I'm not sure if everybody is recognizing that at this point, but it tends to be a material impact and we mentioned that this year as an example, the impacts some of the rent caps in LA because of the fire was about $1 million because we couldn't do those short-term leases very profitably. So, you have to look at all those different components. That's a lot of detail, maybe more than you need. But that's kind of how we're looking at it right now.

Rich Hill

No. That's I think the transparency that I was certainly looking for. So thank you for that. One quick follow-up question and I apologize if you mentioned this on the prepared remarks, maybe I missed it. And I recognize you don't give quarterly guides but it looks like the full year guide imply some pretty healthy growth in FFO year-over-year in 4Q '19. Is there anything specific driving that that we should think about.

Kevin O'Shea

Hi, Rich, this is Kevin O'Shea. We typically do see a ramp in core FFO as we progress through the year because of our development and focus specifically as it relates to the ramp from 3Q '19 to 4Q '19. The sequential growth and expected core FFO is being primarily driven by seasonal operating expenses and by development NOI for lease-up communities. So those are the two main drivers of the increase.

Rich Hill

Got it, got it. Thank you, guys. That's it from me.

Operator

We'll go to Jeff Spector with Bank of America.

Jeff Spector

Good morning. Thank you. I had a follow-up question on supply. You mentioned, New York City next year, I think for your exposure down 50%. Can you put some numbers around some of the West Coast markets you discussed that you said you mentioned some I guess, qualitatively, some comments around supply, but do you have any stats.

Sean Breslin

Yes. Sure, Jeff. This is Sean. Happy to do that. So on the West Coast market specifically, we are expecting basically flat deliveries in Seattle. But in terms of Northern California, I mentioned supply deliveries across all the market, it's about 1,000 units more in San Francisco, about 1800 in East Bay, about 1500 in San Jose and then in LA it's about 2800 units. A lot of that concentrated in around Downtown, Korea town, Hollywood, West Hollywood, a little bit on the West side. And in the other markets, happy to go through some of the sub-markets with you offline, if that's helpful, but those are kind of really the big chunks.

Jeff Spector

That's helpful. Thanks. And we've seen slippage each year for the last few years. Is there a chance that any of that slips into '21 or is this is the supply more front loaded first half '20?

Sean Breslin

No, it's pretty, it's spread relatively evenly across the quarters. So, to your point based on what we've seen historically, we would expect some of that absolutely. Our rule of thumb has been somewhere in the 10% to 15% range based on what we've seen sort of historical experience. So give you some perspective. And I'd say more delays in kind of the urban high rise product, more so than the suburban wood-frame.

Jeff Spector

Thanks. And then just one follow-up on demand. I know you talked about, obviously unemployment is low and so job growth has slowed but wage growth for your renter has been strong. So how are you thinking about that in terms of pushing rents? I don't know if you can give any comments on maybe what you're putting out for renewals over the next 30 days, 60 days out?

Sean Breslin

Yes, this is Sean. Happy to jump on that and Tim or others can chime in. But yes, historically when we look at a wage growth, it is most highly correlated with rent growth. Job growth is sort of the number two variable in that equation. And so we are seeing people come in with healthy wage gains, but we tend to look at is, for the people that move into our apartment communities, January of 2019. What their income level is relative to those that will move into January of 2020 and how much is it moving as an example, that's kind of how we measure it.

We don't necessarily get income levels from every renewal, but people are seeing healthy wage growth is certainly in line with what we're seeing in the raw data, whether it's the BLS data or the ADP data. I kind of referenced kind of 3.5% earlier when we're talking about wage growth. But in the ADP data, professional services, financial services, etc., tech those numbers on paper are closer to 6%, 7% wage growth that may or may not include some of the stock option income, things of that sort, but we're seeing healthy wage growth. And certainly that influences how we think about it, but to the extent of the supply in the market, they have choices. So it really comes down to how we think the demand supply environment looks.

Right now in terms of renewal offers though, to answer the specific question, we're talking about stuff in the mid-5% to high-5% range for November and December in terms of where renewal offers are going out and renewals have been relatively fall year kind of in the mid-4% to high-4% range. And I would expect that to be the case as we continue to move through the fourth quarter as well.

Tim Naughton

Hi, Jeff. Tim. Just maybe one thing to add. I think you're right in terms of our population, the income growth has been quite decent relative to maybe the 3%, 3.5% for the overall population. I think one of the thing to consider is what's happening on the for sale side. Affordability has become more challenging is up until the last quarter or two, where the Case-Shiller has been outpacing I've been outpacing rent growth. So I think that's helped rental demand. Some of the margin, you're now seeing, I think a Case-Shiller had a print this morning, right around 2%. You're now seeing sort of for sale inflation, housing inflation start to fall more in line with the with rent growth.

So overall, I think our outlook is it's a pretty balanced housing market not just across each of the geographic markets, but between for sale and per rental you're starting to see relatively flattish movement in home ownership rates, might be up one quarter down the next quarter. So it really is remarkable. Just in terms of the overall housing market, just kind of how in equilibrium it is right now and maybe that shouldn't be surprise sort of 10 years into an expansion, but it's about as stable as I can remember seeing it.

Jeff Spector

Thank you.

Operator

Austin Wurschmidt with KeyBanc Capital Markets is next.

Austin Wurschmidt

Hi. Good morning, everyone. You guys have spent some time talking about the convergence in like-term rent change across kind of the East Coast and West Coast but this was really the first quarter this year that we've seen that like-term effective rent change be below where it was at this time last year. And I wouldn't think some of the headwinds, you've talked about same-store revenue growth related to other incomes and lower bad debt would necessarily show up in that figure. So I'm just curious what's driving that moderation and how should we think about that moving forward.

Tim Naughton

Yes. Austin, this is Tim. I think it's just demand overall. I mean, if you've seen an economy sort of downshift from 3% growth to roughly currently 2% growth job growth more in the 1.5% range now running about 2 million jobs versus we were in the mid-2s before. So household formation has been pretty good. But I think it's just the overall economic activity being down a little bit because supply as, Sean mentioned, has been relatively stable. Obviously there's shifts from market to market, but overall across our market footprint it's been relatively stable. I think just economic activity and job growth is down a little bit, that's probably what's impacting the margin the most.

Austin Wurschmidt

And so, it's safe to assume that's mostly on the new lease side because you've talked about kind of that mid-4% to high-4% range for renewals being fairly stable. So just traffic overall is down a bit

Sean Breslin

Yes, no. This is Sean. I mean I wouldn't think too much about traffic because traffic is something that we can either engineer up or down depending on how much you spend and things like that. I think if you look at really what's happened with rent change where you're seeing lift, the lift is in the Mid-Atlantic and as I mentioned, job growth has been about the same, but there's been a substantial increase in procurement from the government, that brings in a lot of contractors that gives you a little bit better lift than we might have anticipated, but we're down in Northern and Southern California is more just a function of demand because the supply is pretty much what we expected. And if you see where it is, it's pretty widespread. So you can't just point to one particular market or sub-market and say that's kind of driving it, it's pretty broad, which generally is more macroeconomic oriented.

Austin Wurschmidt

I appreciate the thoughts. And then, just second one from me is Matt you provided a good bit of detail on kind of the limited spend you've got within the development pipeline here, but I'm curious what does that figure on the remaining spend look like once you commence the remaining starts you've targeted for 2019. And I think you've got north of $1 billion being completed in 2020. So can you, if you factor all of that in, what's kind of that future spend look like.

MattBirenbaum

Yes, I'll speak to that quickly and then I don't know if Kevin wants to add anything. Obviously, we haven't provided any guidance in terms of what our starts might be next year. I think this year we're expected to start $400 million to $500 million additional here in the fourth quarter. So, some of which has been spent already but most of which has not. So I guess if you project it out to a year-end you probably add that and then you take out spend that we would incur over this quarter on the stuff that's currently under way. So it might tick up a little bit, but as I mentioned we also have not only condo sales but pending disposition asset sales proceeds coming in the first quarter as well that aren't even in those numbers.

Kevin O'Shea

Austin, this is Kevin. One way to think about our business is if we're kind of starting somewhere close to $1 billion a year in development and spending about $100 million, $150 million or so a redevelopment we're spending about $100 million in the investment side of the house; everyone. So it certainly moves around a little bit, but if you're just trying to get a general sense of kind of what that flow of investment activity looks like for us, it's probably a ballpark number somewhere in the $100 million a month in terms of investment spend.

Austin Wurschmidt

That's helpful, thanks guys.

Operator

Next is Nick Yulico with Scotiabank.

Trent Trujillo

Yes. Hi. Good morning. This is Trent on with Nick. Matt going back to The Park Loggia condos, you mentioned the average sales price so far is a little lower than the average targeted sales price for the building so with perhaps some higher priced units still left to go and some softness in the higher priced market, what kind of sales trajectory do you anticipate whether on a monthly or quarterly basis?

Matt Birenbaum

Yes, sure Trent. Yes, so first of all, it's going great. Over the past six months we've been running 27 visits a week, Corcoran Sunshine is marketing them for us. They are average across all the deals, they're marketing in Manhattan is 7 visits a week. So we're getting a lot of traffic. It helps that the product is there and people can actually see it and we're close to being able to have people buy and settle. So, they're not buying off of plans and particularly going into next year and not going to be buying and having to wait a significant amount of time. So yes, I mean I think when we launched, we said we figure the average price across the whole building was roughly $3 million a unit. The ones we've sold so far are $2.75 million.

So you're right. I mean that average is skewed a little bit by some super premium units at the very top of the building and those will sell when they sell. So, it's hard to predict or project when those might sell and they will move the need a little bit. So while we sold so far, on average, there has been a nice balance across the building, but a little bit more kind of at the bottom of the building than the top so far. We hope to be able to continue at reasonable pace. We think we've got a compelling value proposition to the market. Obviously we'll have to see how it goes. Right now, where we stand is any day now we expect the plan to be declared effective by the Attorney General, which is a process that frankly we thought would take two week or three weeks, it's probably more like five weeks or six weeks.

And then we have to go to getting the tax loss recorded by the City Assessor's office and that process is taking a little longer than we had originally anticipated. So the market response and everything has been as we expected, kind of, even as of the beginning of the year. It's just taking us a little longer to get to the legal place where we can start settlements, because of that two-step process of the AG. And then the City Assessor's office and, I guess there's a back up in the City Assessor's office so that's taking just a little longer than we had thought, projected going in. But again, we're well on track for settlements first quarter and we continue to make sales at that pace of roughly four to six a month and we've seen that, we haven't seen any slowdown yet in our sales pace even here through October.

Trent Trujillo

That's very good detail. Thank you. Maybe just sticking with that a little bit on the retail space, looks like you're making progress on that as well. Can you talk about the new tenants being added or maybe how you're viewing the overall mix and what you're targeting on the remaining available space?

Matt Birenbaum

A little bit. Sure. I mean we have target. As I mentioned, I think should be opening any day now. Our first tenant on the second floor Financial Services, I think they're getting ready to open here before the end of the year as well. We have one of the additional ground floor space that's leased to a high quality credit tenant that should start their build out here probably in January, and we've got a couple of tenants we're talking to, actually in pretty far advanced negotiations about the remaining space on the second floor; different use groups. One is kind of a restaurant use group and other is more of a fitness use group. So we have some interesting options there and then we'll see about the remainder of the ground floor space.

We continue to get interest from various folks. So it's kind of an interesting mix of different, different tenancies. We do think Target will attract further interest just because they're going to drive a lot of traffic. Now obviously that location gets a tremendous amount of street, pedestrian traffic anyway. So again, things are proceeding nicely. We are getting nice interest and the NOI from that is going to take a couple of years to phase in as those final spaces get leased.

Trent Trujillo

Okay. And maybe just one more if I may. With the development rates increasing to over $4.2 billion, how are you I guess viewing that development pipeline, if that pilot initiative, you mentioned about an amenity-like community if that's successful, does that change how you're looking at where to develop or how to develop maybe some color on that would be helpful.

Matt Birenbaum

Yes, this is Matt. Again, it's probably a little too early to say. We do have one community under construction, that's kind of our pilot test case for it and we're going to see what the market response is. We're going to validate kind of what those margins look like. So the way I would think about it is it's another tool in the toolkit. We haven't really underwritten any of deals in the pipeline to that model, but I think it could improve or particularly on larger sites where we might have multiple phases, it gives us the opportunity to segment the market a little more and provide kind of different price points and different service offerings, which can help on the development economics and if it's validated it could open up other sites for us over time.

Trent Trujillo

Great. Appreciate the color. Thanks for the time.

Operator

We'll go to John Kim with BMO Capital Markets.

John Kim

Thank you. Your expected development yield on your development pipeline has been trending down below 6%. I'm wondering if this is the reflection of higher costs, the mix of the projects or have you changed any of your rental assumptions at all.

Matt Birenbaum

Sure, John. This is Matt. I mean it is a reflection of the basket that's under construction at any given point in time, some of which is product and geographic mix. So that will tend to move around a little bit over time. It is, in some respects, a reflection of, we are 10 years into the cycle and certainly as we've said for a while construction costs have been growing faster than rent. So it is getting harder to find deals and deals on balance, might be a little tighter, although there is still very strong value creation in the stuff that we're creating as we've talked about. And by the way, our cost of capital is down quite a bit over the last two or three quarters as well.

John Kim

Got it. Okay. And then a follow-up on the limited service offering that you're testing out, how do you think this will impact returns. Do you foresee this being a lower growth product with a higher exit cap rate, offset by lower costs or do you think basically the IRRs would be pretty similar to your kind of product?

Matt Birenbaum

It's really too early to tell, John. I mean, again, we view it as there is a customer segment out there that's probably being under-served today because 99% of the new product that's built is being heavily amenitized and the concept is to provide the same apartment itself high-end finishes and strong labs but just less of the other trappings, the bells and whistles that our research would suggest there's lots of customers that want the nice apartment but don't necessarily value all those other things, which have a lot of first cost and a lot of hidden costs over time as well, which may be are under-appreciated by the market. So it's hard to say how that might impact valuation or cap rates. I don't see any reason why its rent growth would be significantly different than the rest of the market. And it does seem like asset valuation is primarily just driven by the cash flow it can generate. So I'm not sure I would expect anything significantly different there but time will tell.

John Kim

Is there another developer or developers out there who you are emulating for that product or are you basically being a leader?

Matt Birenbaum

Yes, I mean, it does require some upfront investment in technology to enable it and some back of house service, for example, one of the reasons we think we can do this profitably is because it really leverages our call center down in Virginia Beach. So we may not have an on-site presence for leasing. Some of that's tech enabled, but some of that's also that they can call the CCC and interact with somebody that way. So I'm not familiar with others that are trying this.

Tim Naughton

Yes. Hi, John, this is Tim. I guess I mean still most of the production is coming from merchant builders it tend to be a little more risk-averse and if they've got a customer and institutional buyer who is accustomed to buying a highly amenitized building, they're less likely to sort of take that risk in terms of doing something different. But as Matt mentioned, we are on customer research. We have plenty of customers that are paying more today in our existing assets and sort of any with value because they're not necessarily using all the amenities, or all the services that we're providing and we've done enough research to know that they would like something less, but they don't want to compromise on the quality of their unit and the quality of the finishes. So it's really just even taking the existing customer base we have today and continue to segment it and provide them something we think that's a better match for what they value.

Matt Birenbaum

It is also one of the advantages we've talked about being such an active developers. We do have the ability to create the product that may be more in tune with what certain segments in the market will value as opposed to just being limited to buy what somebody else has built.

John Kim

Thanks for the color.

Operator

We will go to John Glennie with Stifel. Please go ahead.

John Guinee

Great, thank you. Quick question, if you look at your retail, I think you said maybe a $10 million stabilized NOI and you cap that at 5% so you say that's worth $200 million. It looks like your basis in the multi-family now condos is about $426 million or $2.5 million a unit. Is it safe to say that you breakeven on this one is all said and done, if you value the retail at $200 million?

Tim Naughton

John, this is Tim. I think our expectation, I think we've shared before is that we thought there is between $100 million-$150 million of incremental value here. So no, we do expect to we do expect to make money. If the retail were valued at $200 million, Matt mentioned the average unit that's sold today is about $2.75 million, but that's not where the average unit is priced today, so based upon current pricing there is incremental profit over above a breakeven scenario.

John Guinee

Right, OK. And then a follow-up on your furnished units, are you going from 0% to 5% in couple of years? And what's the big change of heart to decide that furnished units have merit?

Sean Breslin

Yes. John, this is Sean. I mean a couple of things, one is in terms of why it has merit. As I mentioned in my prepared remarks, we do a fair amount of consumer research and we identified about 10% of the market actually that has some level of interest in a furnished apartment home either expressed interest or will consider it. And so, we've, just anecdotally we've had that people come in looking for furnished apartments, but we have tested the last 18 months across the sample of communities in our portfolio.

We are seeing some pretty steady demand and therefore, we do think it's a profitable opportunity. So, to be able to scale it, we'll have a team together here to do that and getting to that 5% mark could take yet two years to three years depending on the pace at which we decided to go. So as we scale it from where we are today, which is call it 300, 400 units type of thing to something that will be more substantial. You probably won't grow in a linear fashion or probably get to about 1,000 and then we will go much faster.

Tim Naughton

Hi John, maybe just to add a couple of thing. I think there's a couple of other things that worked and once just changing consumer preference, particularly among those under 35. We just don't want to own as much stuff is or don't need to own as much stuff as perhaps as generations pass. So I think that's piece. I think another piece of it is there just aren't that many companies that have the scale that we do that can actually make a business out of this. So if you're fund that owns 5,000 or 10,000 units, you're probably not going to make a big investment into this business versus somebody that owns 80,000 units or 100,000 units. So I think it's kind of a combination of those two things that's created what we think is an appealing business opportunity.

John Guinee

Great. Thank you.

Operator

We'll go to John Pawlowski with Green Street Advisors.

John Pawlowski

Thanks, Sean. On Page 5 the like-term effective rent change if you swapped out the East Coast versus West Coast and just showed urban versus suburban, what does the 2019 recent trajectory look like if you zoomed in on that?

Sean Breslin

Yes. So if you're looking at, just for our portfolio John, as compared to the market overall.

John Pawlowski

Just AvalonBay's suburban versus urban portfolio.

Sean Breslin

Yes. So suburban versus urban, they basically were flat on a year-over-year basis, 2.7% when you look at it from that perspective. And that has changed and that doesn't include all the assets, because they're classified different ways. There's infill suburban and suburban. So this is true definition of strictly urban true definition of strictly urban versus strictly suburban, and throwing out TOD and all those kind of things. So it's not going to line up with the 3.2% for the full quarter. But if you look at the pure urban and pure suburban the way we would define it, they are similar. Down in the past, obviously that's been very different over the last four quarters, but it has converts as well. So as Tim indicated, whether you're looking at AB, you're looking at urban or suburban or are you looking across the different markets, just sort of a similar pattern of convergence across all those variables.

John Pawlowski

Okay. And Tim, curious to get your thoughts on how you're thinking about the trajectory starts moving forward as you had tug-of-war between the improved cost of capital that Matt alluded to and then perhaps some flashing yellow lights in the economy and just which those variables are winning out in your mind right now?

Tim Naughton

John, I mean it's one of the reasons why we do match fund, so to the extent you match funding in some ways, it's not that different than your stabilized portfolio. You've got the risk rate of the assets that you, 80,000 apartments that you already owned. But those are completely funding finance, but the same is pretty much true in everything that we start from a developer standpoint. So if anything I think as you get later in the cycle, it just puts us more position of what we've talked about in the past. Just be flexible, try to have as many option, contracts as you can to give you some flexibility to potentially to either to drop a deal or to renegotiate a deal or to push it out and we don't have any land inventory to speak up.

So, we could always if we had to sort of buy a land and sit on it. But right now, when you're talking about 6% projected yields against where our incremental marginal cost of capital is, we think it's still, we think it's still makes sense and that asset values are still well above replacement costs in most of our markets. So it's m ore, it's been more of the opportunity set, we've been adding about $1 billion a year in new development rights and we've been starting about a $1 billion in our, private focus on that probably as much as anything when that pipeline maybe start to dry up because we're just not seeing value in the land markets.

John Pawlowski

Okay, thank you.

Operator

Hardik Goel with Zelman & Associates is next.

Hardik Goel

Hi guys, how are you? Thanks for taking my question. I've just got two for you. Matt, you've been a veteran in multifamily development for a long time and I just wanted to get your thoughts on how you see the regulatory environment today versus maybe five, 10 or maybe even 15 years ago across all markets, not just California and maybe talk about which markets have the greatest barriers on a regulation standpoint versus which ones are the best?

Matt Birenbaum

Sure. There are some interesting cross currents there and you see it obviously in the other side of it which is the rent control and in many ways, it's the regulations that have created in many of our markets, part of the environment that's provided for the supply constraints and in turn have driven rent growth to be well in excess of inflation over a sustained period of time. The barriers to entry are still very, very high in California. The sequel process, particularly if you're starting something from scratch, the amount of money you have to have in a project, but by the time you get it through, if anything the dollar investment has gone up, which in turn makes it very difficult for merchant builders to hang in there through that time period.

The legal challenges that we see, so the barriers in California, I think are as high as ever, they may be higher in LA now with JJJ passing a couple of years ago and some of the labor requirements that have been put on top of that. If you think about like around here in the Mid-Atlantic, I'd say the barriers this cycle is lower than prior cycles and some of that frankly is better landed as planning, as some of the local jurisdictions here have really focused on transit oriented development and frankly from a public policy point of view, one of the benefits been less rent growth this cycle has been great as a landlord, but maybe it improve the economic competitiveness of the region on long-term.

So some cross currents there and then in some of our very constrained markets in the Northeast, they're just different cross currents both directions in New Jersey, there is kind of a one-time once every 20 year opportunity to get a little more supply in the suburbs and land suburbs because of some affordable housing litigation and regulation, which is having some teeth and we've been able to take advantage of that and get a bunch of sites in some sub-markets that haven't seen much supply for generation. So you may see a little bit more there over the next 5 years or 10 years.

Conversely, in Boston, suburban Boston, where we've had success for a lot of years with what they called Chapter 40B there which is a similar provision that forces small towns and jurisdictions to take a certain amount of affordable housing, which we then integrate into our market rate communities. 40B, a lot of the suburban Boston jurisdictions have met our obligation now. So if anything we've seen, we saw more supply there over the prior couple of cycles, than we may see over the next cycle because of that. So it really does vary from region to region.

Sean Breslin

Steve, I guess, maybe one thing to add and maybe it's implied in Matt's comments, the regulatory barriers are just higher in the suburbs than the urban areas, maybe with the exception of LA, as Matt mentioned. Certainly true in the Northeast, certainly true in California, what has been remarkable this cycle is in urban markets, it's generally been an economic barrier, financial barrier not a regulatory barrier and that's certainly been the case and one of the reasons why you've seen, why we've seen elevated supply in our markets this cycle versus prior cycles because it's made financial sense and oftentimes, it's been highest and best use relative to condominium, relative to office, relative to hotel.

I think this cycle condos have only accounted for about 5% of multifamily supply and prior cycles has been closer to a quarter of new supply. So I think there's been a, I think a few things that are a bit more unique about the cycle, but I think it's still continue to be largely the suburban Northeast California markets that are toughest to penetrate from regulatory standpoint.

Hardik Goel

Thanks guys. That's probably the best response I received for that question, so thank you for that. And just my second one is pretty easy; just splitting out the blended lease over lease, rent by new and renewal. And maybe talking about pricing power in the fourth quarter, realizing that it is a low leasing volume quarter?

Matt Birenbaum

Yes, in terms of Q3, specifically in terms of the breakout, as I mentioned, it was a blended 3.2%, it was 4.6% on renewals and for my comment earlier, it's been pretty stable all year we expect it to be also relatively stable in the fourth quarter and then the move-ins, it was 1.7% during the quarter and that typically is the metric that from a seasonal basis tends to drift down as you move through Q4 and Q1 and peaks as you get into kind of late Q2 or early Q3 and we don't see any reason for that pattern to be any different going forward over the next few quarters.

Hardik Goel

Got it. Thank you.

Operator

Drew Babin with Baird is next.

AlexKubicek

Good morning, this is Alex on for Drew. Just one quick modeling question for us, it looked like a pretty sizable quarter when it came to Asset Preservation CapEx. I thought the run rate in the current year-to-date pace, it looks like year-to-year growth could be over 18%, obviously rising costs and some seasonality that play here, but I was just curious what's driving that growth and if you have any color you can provide us on how we should expect that to trend in 4Q and into '20?

Sean Breslin

Yes, Alex, this is Sean. Similar to what I talked about our maintenance projects, it tends to be seasonality of the CapEx as well, the way I'd probably think about it from a modeling perspective is 2019 maintenance CapEx is probably going to be in the range of 5% to 6% of NOI. There is a piece of that that we call remerchandising that is sort of a refresh of amenity spaces and such that you could probably say that has some return to it, although hard to quantify. But if you use that 5% to 6% of NOI is sort of a run rate, that's about right, it'll be a little bit lumpy from year-to-year. But that's sort of how we're looking at it.

Alex Kubicek

That's helpful. Thanks.

Sean Breslin

Yes.

Operator

We'll go to Alexander Goldfarb with Sandler O'Neill.

Alexander Goldfarb

Hi, good afternoon and thank you for taking the questions. Just two quick ones for me. First upfront, I didn't hear it but maybe I got lost. Your OpEx for the year, your guidance of $2.1 to $2.7, you're trending $2.8 for the year. So what are the items in the fourth quarter they're going to bring it down or is the trend sort of what it is, but within your overall FFO guidance, you're able to manage the higher OpEx?

Sean Breslin

Yes. Alex, this is Sean. We haven't changed our guidance and so, as I mentioned earlier, every quarter is a little bit lumpy. Q3 was lumpy for a number of reasons related to R&M projects that are done in certain seasons of the year. I mentioned marketing is up dramatically because of a substantial credit we credit we received last year when marketing was down 21%, insurance renewal bleed through payroll, we continue to see good reductions in FTEs. As a result of the initiatives I mentioned. So I would say at this point, we're pretty comfortable with where we are.

Kevin O'Shea

Okay. Kevin here. One more thing to think about as you as you evaluate sort of the year-over-year growth rates in OpEx is it's obviously you need to look at what happened. The prior year and last year in the fourth quarter of '18, we had a pretty tough comp with year-over-year growth in OpEx at 50 basis points, so that as probably a key driver of the 4.2%

this year. So I think there is the lumpiness that Sean alluded to, not only in terms of what we spend, but it's sort of what happened in the prior year. So you need to kind of incorporate that into modeling.

Alexander Goldfarb

Okay, that's helpful. And then second is just going back to the new initiative you're trying on the sort of amenity light and people light properties I understand the point about amenities you walk the buildings and certainly there's a lot of space that doesn't get used, but I would think that part of what makes the REITs different from others especially you guys to be able to charge a premium rents it sort of that in person customer service. So in your testing is there no diminishment of what the tenants will pay relative to not having the people around them, they feel they're being catered to or how do you make that trade-off between the premium rents versus giving people that experience that they're absolutely being catered to if they have a maintenance request or have a package request or anything like that.

Matt Birenbaum

Yes, I know Alex I'll respond to that one than anyone else can chime in if they like, but we've done a fair bit of work on this in terms of consumer research, both through surveys focus groups shadows, a lot of different things we engaged some consultants to work with us on this and what you find might be a little surprising, which is if you think about kind of consumerism today what people experience whether it's buying a car today, whether it's shopping through Amazon whether it's lot of other things, they kind of want to be able to do things when they want to do it on their own as opposed to being dependent upon someone else holding their hand all the way through, and for the most part, they actually don't want that unless they specifically needed for a purpose.

And so all of our consumer research is that like from a leasing standpoint, do they want to come in and meet a salesperson and spend an hour touring the community with a sales person in kind of selling them along the way for the most part, the answer is no. They want to see everything they can, online and if they want to schedule a tour they want to go there. When they want to go there. Regardless of the office hours, they really don't want someone to show us or show them around except for one segment kind of a mature social segment, so that fits and then on the maintenance and service side. It's more, what's the right level of service.

You're absolutely correct that some segments want the 24 hour response in the white glove service, but there is a decent chunk of the market that doesn't necessarily value that and may be perfectly fine with, they have picked something the dishwasher isn't working today, they don't cook a lot, they're fine if it 24 hour to 48 hour service as long as you give them the option to tell you how important is to them to have that thing fixed, it never responsive to their demand. The network just fine.

So I think it's just segmenting the market in a more fine way so that the people they really do value those things are paying for it and the people that don't value those things aren't paying for it. And as I mentioned in my prepared remarks, absent the amenity space which not only has capital cost, but pretty heavy recurrent costs for OpEx and OpEx and sort of the on demand service as opposed to the continuous services high responsive, they can see rent, it's 10% to 20% lower than a brand new building down the street and there's definitely a segment of the market that would prefer that option. So I don't know Tim, you want to add anything.

Tim Naughton

Yes. No, I think you hit it, if anyone else want to jump in. I mean lower rent is part of the value proposition here and I don't think necessarily low touch necessarily as necessarily means low levels of service. I think you're going to have high level of service with high tech in sort of a low touch kind of offering. So I think it depends on the issue. Alex, but part of the value proposition is absolutely that they would pay a lower price on a comparable community that would be more amenitized and more fully staffed.

Alexander Goldfarb

Okay, thank you.

Operator

We'll go to Linda Tsai with Jefferies.

Linda Tsai

Hi, thanks for taking my question. The technologically driven efficiencies you're driving in leasing and maintenance, apologies if you've discussed this previously, is this thing across the entire portfolio or just a portion. I'm just wondering how much opportunity exist to reduce expenses further through these types of initiatives?

Sean Breslin

Yes, Linda, this is Sean. The expectation is that we would deploy it across the portfolio, it might have slightly different nuances across certain buildings dependent on the customer segment that's in that building. So, as we were just talking about the limited service offering, that'd probably be one extreme there'll be another buildings maybe as a high touch, very high rent building that could be the other extreme, but we expect to deploy a lot of it across 95% of our portfolio where people have the option to self-serve, that's sort of the default. But if they would like a tour, they can schedule one at a time that's convenient for them and things like that. So we're taking advantage of the opportunity across the entire portfolio, and we may, different usage of certain services or needs for leasing etc., based on the customer profile at each one.

Linda Tsai

Thanks for that clarification. And then on The Park Loggia, could you talk about the different, how different the retail rents are between the four levels shown on slide 13 and then what's the average term for the leases you've signed?

Matt Birenbaum

Yes, hi, Linda. This is Matt. The rents are very different, between the four levels. I think we provided some high level thoughts about that maybe a year or so ago on a call but you're talking about, its the highest rents are on the ground floor with the Broadway frontage, the second floor might be 40% to 50% of that rent, and then the basement and sub-basement would be maybe the basements little bit less than that and the sub-basement quite a bit less than that. So it really does vary based on the specific space. The lease term are generally long-term leases. I think one of our anchor lease, the first two leases were, I don't remember exactly, I think they were probably 20-year terms or I think with some extension options beyond that probably, I probably can't get into terms for specific leases, but generally speaking, they have been relatively long-term.

Linda Tsai

Thanks for that. And then just a final one. The demand for fully furnished apartments can we assume the economics are more attractive for leasing these units if there are fewer of these units available across the market.

Sean Breslin

Yes, there's less supply of those units. So there certainly would be a premium associated with the furnished product, of course.

Linda Tsai

Okay, thanks.

Operator

[Operator Instructions] We will now go to Haendel St Juste with Mizuho. Please go ahead.

Haendel St. Juste

Hi, good morning or good afternoon. I just want to follow up on Linda's question, can you talk about the premium you're looking for here or maybe give us some sense of required ROI. We're talking about a lot of furniture here and also curious if you're thinking or should we expect that to be expensed capitalized? Thanks.

Sean Breslin

Yes. Haendel, this is Sean. So just a couple of things. We've been testing a variety of different premiums. What I can tell you that's out there is, if you went to a third party. Operator. Marriott has a product from others do typically what you'd find is the rent for our furnished unit relative to the base rent of typical unit that's comparable would be about double that's a company that is taking inventory risk and signing different leases and things of that sort. We are the own inventory risk so we probably think about a little bit differently, but I wouldn't be surprised if we said we could generate 50% premiums above the base rent for a unit to that customer to include the various services, maybe some, utilities and with cord cutting may not need to provide cable, but in some cases, you do.

And then as it relates to your specific question around the furniture there'll be capitalized but then depreciated over probably a five-year to seven-year period. At this point we're depreciated over five year, we think that's a reasonable proxy. We've been talking to others including some of the student housing rates in terms of what to expect in that area it seems to be five years to seven years is sort of the expected range for useful life, so it's going to come back at 1% a year or so…

Tim Naughton

Yes Haendel, Tim here. Just to be clear in terms of the premium, if you get a 50% premium. Some of that would be for the furniture. Yes, I'm going to be premium based for a short-term nature of these leases tend not to be, on average tend to be less than a year or 24 months, which our average residents days. I think to-date, it's been closer to six months to seven months, Sean. So there is a return, sort of that additional vacancy exposure that's factored into that 50% premium as well.

Haendel St. Juste

That's helpful, thanks. Because I was thinking some of those numbers sounded more like shorter term corporate units but appreciate that color.

Tim Naughton

Yes. No, I think that's right. I think some of the premiums when you hear like to 2x, a lot of times, that is a very, very short-term certainly…

Sean Breslin

Yes, there's like the operator that might be taking a 12 month lease but their leasing 30 days at a time type of thing. We would certainly have some of that business, but just, we want to manage that exposure appropriately from lease expiration profile standpoint and so far we've been serving customers that are interested in something that's slightly longer.

Haendel St. Juste

Got it, got it. Okay, thank you. Appreciate that. And then I wanted to go back to some of your earlier comments on supply first in LA, it seems like much supply coming online is more focused downtown so curious what you're thinking about and thinking about for your more suburban SoCal portfolio, you're a bit more in the Pasadena Burbank Orange County. So I'm curious how you're thinking about the performance of your more suburban portfolio versus say downtown LA. And then maybe some similar commentary on Boston, we're again, your portfolio is a bit more suburban versus the urban core there with the supply seems to be coming on more. Thanks.

Sean Breslin

Yes, sure happy to talk about that briefly, maybe starting in reverse order in Boston. Correct. Most of the increase in supply will be concentrated in and around, call it the core urban sub-markets, majority of our portfolio is in suburban and Boston. We continue to develop a number of suburban communities that are performing quite well. So in that environment, we would expect our portfolio to hold up relatively well given most of that supply is concentrated downtown. In terms of LA and your specific comments about LA. Yes, I mean the supply is, I mean it's heavier in Koreatown, but then Woodland Hills, Warner Center kind of Hollywood and Mid-Wilshire, South Central, there's a little bit actually and then some in Culver City down by the, along the coast as I mentioned.

So in terms of our portfolio, a little bit of exposure in Hollywood. We don't have anything in South Central or Koreatown. We have two, three assets in Woodland Hills Warner Center. But that sub-market has seen a fair amount of supply over the last decade has done relatively well, most of the assets we have there more affordable price points, which tend to perform quite well in the face of new supply. So in terms of LA, I think we are positioned pretty well given where the supply will be delivered in 2020.

Haendel St. Juste

Thank you.

Operator

We'll go to Nick Joseph with Citi.

Michael Bilerman

Hi, it's Michael Bilerman. I had a few follow-ups. The first is just back to the retail at The Park Loggia out of that $10 million of forecasted NOI. How much is represented by the 45,000 square feet of leasing. So effectively, how much of the $10 million have you secured?

Matt Birenbaum

Michael, it's Matt, I think it's probably roughly half, maybe a little bit more than half. I can based on well, we had a $1 million in our third quarter numbers release that didn't include one tenant and where it's a little bit early to kind of give guidance in terms of what will end through calendar 2020. But most of it is a lot of that's already in place.

Michael Bilerman

Arguably, I mean that you went through the rent differential between second floor basement and so while you're two-third leased clearly it's lower overall rents relative to the street where you still have the 9,000 that you're marketing. So that's why was just, picture of…

Sean Breslin

Yes, Michael. Correct. I mean the lease rates, as Matt mentioned before are all over the map, depending upon what, but I think the ranges to below $100 a foot well over 400 a foot. If you're on the parts of the ground floor. So it's, I don't think that's what we have pro forma it in for the balance of what's on the first floor some of the better parts of the first already taken, but there is more high value space left to be leased in the building.

Michael Bilerman

All right. And that's what I was trying to the cash flow impact of what's been done and what's to come. So I take it 50% a reasonable number. Then to use, and then part of that is , do you have intentions to originally this to be a JV on the retail or even a sale now that you do and selling at the condos above where is your mindset on selling, or JV-ing the retail portion because arguably would not be core anymore to the company.

Matt Birenbaum

Yes, Mike, I think at some point we would likely sell this, it's really just a question on when we, how to optimize the value and when actually sort of pull the trigger on that. So, and then there is a tax issue. Just in terms of balancing it versus the any profits that we might have in the condo proceeds. And just to given that this is now a taxable transaction, will try to manage it to minimize taxes.

Michael Bilerman

And then as you think about, someone had asked earlier about development funding. As you go into 2020 in terms of the capital that you will need if squared away all of this year and you also have the forward you put in place as well. I guess how should we earmark and arguably capital now sitting in the building upon which you will start selling the condos, are you going to earmark that next year and I guess how should we think about that capital coming back to you able to fund development you intend to hold.

Kevin O'Shea

Sure. So Michael, this is Kevin. You're right, I mean, we do anticipate receiving next year proceeds from the sale condos that will be an important component of call it our equity need for next year's funding activity. There may or may not be additional asset sale disposition activity beyond that and beyond refinancing debt we're likely to look to the debt markets as well. As you know from our leverage profile today in our target leverage, we typically target 5 to 6 turns of leverage for below that now 4.7 turns so, kind of, when we put our budget together for next year. But certainly, I think it's fair to assume that we've got some scope to increase in leverage a little bit given how attractive debt capital markets are today.

Michael Bilerman

And then on the AI initiatives on Slide 8 is Sydney really responding this quickly to people's requests

Sean Breslin

Yes, you've kind of program that what you desire. So it can be instant or it can be as long as you want typically instant isn't good in terms of feeling people get. So it's typically within that about a minute Michael.

Michael Bilerman

Last one is, you made the decision. Earlier this year to stop the quarterly guidance effectively focus people on the long-term because you're in a long-term business I would say that the reactions to the quarterly results. Since then, in the first, second, and now in the third quarter have been more volatile in terms of your stock price performance relative to the index. Now, I know it's hard to separate out the results themselves from things because there's other factors at play. But help us understand, I mean are you going to reconsider it this a one-year trial and I guess how do you think about the short-term volatility that may be created with less information on a quarterly basis versus the long-term.

Tim Naughton

Yes, Michael. Tim here. It's not our expectation that we change our practice at this point, I hear what you're saying there is maybe a little bit more volatility because people's projections may be a little bit more of a just a wider a bigger beta just, around different sell side projections on us. But again, we're trying to focus and we really do manage the business for the longer term. And we really think about more annual plan. It's how we talk at the Board is how we talk among ourselves is as leaders in the company and that's our intent to continue going forward.

Matt Birenbaum

Just to add one thing, Michael, I mean, I understand. We're not providing the quarterly FFO numbers anymore, but to your comment about providing this information. Apart from that we still provide as you can tell from you in this call. Just a robust level of detailed information on the business and every six months. We go through a very detail reforecast which is akin to what we do internally here we management business ourselves and communicating to our Board. So there is still just an awful lot of information that we do try to provide transparency due to investors. What we're not doing is providing the specific earnings number on a quarterly basis but we do think we give more than enough information for investors to drive their own estimates, if they do.

Michael Bilerman

Yes, no, and I would concur with that comment. Your transparency in the time that you spend. I mean we're already at an hour and a half on this earnings call is very much appreciated, and I think differentiates the company over the long term. I was just making a note that since you've changed the quarterly policy, your stock has reacted a lot more volatile relative to the Index unfortunately last two quarters has been much more negative that just to think about whether you're achieving the right output, with the change on the quarterly numbers. That's all.

Tim Naughton

Fair enough. Thank you, Michael.

Michael Bilerman

Okay, thank you.

Operator

And there are no other questions. So I would like to turn it back to Tim Naughton for any additional or closing remarks.

Tim Naughton

Well, thanks everybody. As Michael just mentioned, we're about an hour and a half into this call. So we'll give you a quick goodbye and we'll look forward to seeing many of you at NAREIT here in just about two or three weeks' time.

Operator

Thank you very much. That does conclude our conference for today. I'd like to thank everyone for your participation. And you may now disconnect.