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Equity Residential (EQR) CEO Mark Parrell on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-22-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.34633 misses by $-0.03 | Revenue of $685.12M (4.97% Y/Y) beats by $5.46M

Earning Call Audio

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Equity Residential (NYSE:EQR) Q3 2019 Earnings Conference Call October 23, 2019 11:00 AM ET

Company Participants

Martin McKenna - Investor Relations

Mark Parrell - President and Chief Executive Officer

Michael Manelis - Chief Operating Officer

Bob Garechana - Chief Financial Officer

Conference Call Participants

Nick Joseph - Citi

Nick Yulico - Scotiabank

Shirley Wu - Bank of America

Rich Hightower - Evercore

John Pawlowski - Green Street Advisors

Richard Hill - Morgan Stanley

John Kim - BMO Capital Markets

Derek Johnston - Deutsche Bank

Rich Anderson - SMBC

Drew Babin - Baird

Alexander Goldfarb - Sandler O'Neill

Hardik Goel - Zelman & Associates

Wes Golladay - RBC Capital Markets

Michael Bilerman - Citi

Haendel Juste - Mizuho

Aaron Wolf - Stifel

Operator

Good day and welcome to the Equity Residential Third Quarter 2019 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Marty McKenna. Please go ahead, sir.

Martin McKenna

Thanks Nick. Good morning and thanks for joining us to discuss Equity Residential's third quarter 2019 results. Our featured speakers today are Mark Parrell, our President and CEO and Michael Manelis, our Chief Operating Officer. Bob Garechana, our CFO is also with us for the Q&A. Please be advised that certain matters discussed during this conference call may constitute forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are subject to certain economic risks and uncertainties. The company assumes no obligation to update or supplement these statements that become untrue because of subsequent events.

Now, I will turn it over to Mark Parrell.

Mark Parrell

Thanks, Marty. Good morning and thank you for joining us today. Continued solid demand for our product is driving absorption of new supply and our excellent people and properties that produced record high resident retention and this all resulted in same-store revenue growth that is in line with the expectations we shared with you on our July call. While we are not giving precise guidance at this time, we do want to share the basic building blocks and thought process that we are undertaking to determine next year same same-store revenue guidance.

The important inputs to our process include expected supply, our embedded growth which for us that means the growth inherent in our rent roll headed into 2020, and most importantly and most difficult for us to handicap our perspective on demand, which influences both our occupancy and rate growth estimates. A new factor this year is a negative impact of regulatory changes in California and New York, will have on our same-store revenue numbers. In a moment, Michael Manelis, our COO, will give you color on our third quarter operating performance and revised full-year same-store operating guidance, and discuss our 2020 building blocks and then we'll open the call up to your questions

So moving on to investments, with the exception in New York, where activity since the new rent control on June is too limited, the draw any conclusions on the product we own. We have seen cap rates modestly decline across our markets, pushing up values, bidding tense are more crowded and competition among buyers is fierce. This is especially true for B and C quality assets were value-add play may exist. As we have stated previously, this is compressed cap rates between new and older product. Our response to this has been accelerate the sale of older or less strategic assets and the purchased assets that better fit our long-term strategy and minimal to no dilution.

During the third quarter, we are busy acquiring four new properties, consistent with this strategy and selling seven older assets, three properties we acquired are in California, these are new properties, so they will not be subject to the new rent control law for almost 15 years. The first property is a 237-unit property in the Little Tokyo submarket of Downtown, Los Angeles. This asset was built in 2017, and we bought it for a purchase price of approximately $105.2 million, and at a cap rate of 4.4%. With a Walk Score of 96, the asset is a short walk to multiple transit hubs and is proximate to both extensive employment concentrations and interesting entertainment options. The second is a 398-unit property built in 2017 in the Korea town submarket of Los Angeles at a purchase price of approximately $189 million and at a cap rate of 4.3%. The property, which is a retail component, has excellent access to both public transit and freeways, with abundant nearby entertainment options and sports a 97 Walk Score. The third asset we acquired is a 137-unit property on the Peninsula in the San Francisco Bay Area, which was acquired for approximately $108 million at a 4.3% cap rate. This property is very near Caltrain station and is in close proximity to many large technology employers.

Our last acquisition was the purchase of a 312-unit property in the Denver suburbs. This asset was built in 2016. We bought it for a purchase price of approximately $88 million and at a cap rate of 4.7%. This property is an example of the kind of well located suburban elevator building and is likely to make up about 30% of our portfolio in Denver. During the third quarter, we also sold seven assets; one was Park at Pentagon Row, a 30 year asset and near Amazon HQ2 that we discussed on last quarter’s call, the other 6 sales with the vast majority of our portfolio in Berkeley, California. These were 6 smaller buildings that totaled 343 units, and were sold for an aggregate price of approximately $187 million. These buildings are about 20 years old and have significant student populations, making them operationally intensive to operate. The 7 properties sold during the quarter had an average disposition yield of 4.7%, and generated an un-levered IRR of approximately 7.6%.

We also completed two developments during the third quarter, with offset Kendall Square 2 in Cambridge, Massachusetts. This is an 84-unit property built at a total development cost of approximately $51.4 million, that we expect will generate a stabilized yield of 5.4%. This property was developed at the second phase of our existing Kendall Square Loft asset and is an excellent addition to our portfolio in the booming Cambridge Life Sciences area. We are particularly pleased with the speed of our lease-up at this property. We also just completed our 137 unit Chloe on Madison Project in Seattle. The total cost of this project was approximately $65.3 million and we expect that it will generate a stabilized yield of 5.4%. This asset was built adjacent to our Chloe on Union asset in the Pine Pike Corridor of Seattle.

Switching to new development, the capital availability story is somewhat different than for existing assets. We continue to hear from reputable local and regional developers with good projects, unable to put their equity stack together in light of escalating construction costs and shrinking build to yields. We have been pursuing a few of these opportunities as joint ventures and believe that investing our capital in shovel-ready deals, in sound deal structures that provide some protection to our capital is a good way to source new properties, while managing some of the risk inherent in development. We started two developments during the quarter. Arrow Apartments is a 200 unit mid-rise property that we are developing in a joint venture with a prominent regional developer. This property is part of the master plan community on the site of a former Naval Air Station and will have dedicated Ferry Service to San Francisco. We expect to build our 200 units for a total development cost of approximately $117.8 million and we expect to produce a stabilized yield of 5.3%.

Our other new development is 4885 Edgemoor Lane. This is a 154-unit property in downtown Bethesda, adjacent to an existing EQR asset. This is a ground lease deal, where we have the right to acquire the fee interest in about 20 years. We will develop this 15-story high rise for a total cost of approximately $75.3 million and expect to produce a stabilized yield of 5.9%. We think the recent increase in office space in Bethesda will create more demand for rental housing that this well located property will capture new office workers who want to leave conveniently to work, while having excellent access to the Metro and entertainment amenities. On the capital markets front, as you saw in the release, we took advantage of a very favorable environment and issued $600 million in unsecured debt, with the yield of 2.56%. There was tremendous demand for the issuance and we couldn’t be more pleased with the execution and I congratulate the team for it.

Finally, before I hand it over to Michael, I want to make a comment on rent control. With California recently passing AB 1482, both that state and New York have introduced new regulations on rents, the new laws are complex and will create compliance challenges for all landlords, while also acting as a powerful disincentive to building the new affordable apartments needed in these two states. We agree that there is a shortage of workforce in affordable housing in many places in our country, but believe the actions taken in New York and California will not help solve these problems. These new housing loss would discourage the production of new housing and do not materially address the root causes of housing production shortages, like zoning regulations that prohibit construction of multi-unit housing and other excessive governmental regulation. We also think that over time it will lead to the deterioration of the existing affordable housing stock. Through our trade associations, we will continue to encourage policymakers to embrace actions like zoning reform and the removal of regulatory barriers to new housing construction as well as programs that create incentives for private market developers to build the affordable housing units our city so badly need.

I will now turn the call over to Michael Manelis.

Michael Manelis

Thanks Mark. So I would like to begin with a shout out to all of the employees of Equity Residential. The third quarter represents our busiest leasing period of the year, with just over one-third of the entire year's transactions taking place. The team's focus on delivering remarkable experiences to our new customers and current residents continues to pay off, and allowed us to achieve our highest recorded resident satisfaction scores, while increasing our all-time high online reputation scores. Favorable operating fundamentals continue through the quarter with strong occupancy of 96.5% which is 20 basis points above Q3 of 2018. Record low resident turnover delivering a 5% achieved renewal increase for the quarter and strong demand to close out the peak leasing season.

While we reported strong occupancy this quarter, we anticipate that the balance of the year will moderate in line with normal seasonal decline, a process that has already begun, and should result in our full year same-store occupancy ending up at 96.4%, which supports our 3.3% same-store revenue growth. Today, our portfolio is 96.2% occupied, which is exactly where it was this time last year. Base rents are up 2.7% year-over-year renewal performance continues to be very stable with expected achieved renewal rate increases around 5% for the balance of the year,

Heading into 2020, the following represent a few top level inputs that will serve as building blocks for our guidance process. Most markets will deliver relatively the same amount of new supply with the exceptions being New York which will have considerably less and Boston, which will have more. We expect demand for our high-quality and well located assets to be relatively the same as 2019, which should equate to similar occupancy next year.

Revenue growth in both our California markets and New York will be negatively impacted by about 20 basis points each due to recently enacted rent control rules. For the entire company, this equates to about a 15 to 20 basis point impact to our 2020 same-store revenue growth. We also anticipate starting the year with better embedded growth than we had entering into 2019. So, overall, assuming these inputs hold, we would expect New York, DC, Seattle, and San Diego to deliver equal or better revenue growth next year, and Boston, San Francisco, LA and Orange County to be less. We are in the early stages of our budget process and we will be updating our models throughout the balance of this year and we will issue specific guidance on our January call.

So on to the markets, let’s start with Boston. Full year revenue growth expectations have been raised to 3.9% from 3.5% as the results for the quarter were better than expected. The reprieve from head to head supply delivered strong rate growth and most notably an occupancy of 96.4% that was 70 basis points better than the third quarter of 2018. On the supply front, after a quiet 2019, we’re starting to see new competitive supply return to the city of Boston. We are tracking about 5,800 units being delivered in 2020, with roughly 60% of those units in the city of Boston, heavily concentrated in the Seaport. Demand remains strong, bolstered by large corporate expansions and relocations. It also helps that strong demand and increasing rents for office and lab space seems to be tilting the highest and best use for development parcels away from multifamily in the Seaport District, while we have only seen a few of these deals shift, this could create more renters and less supply in future years.

The New York market continues to demonstrate strength in overall operating fundamentals, and its performance during the quarter was in line with expectations. There is no change to our full-year same-store revenue growth projection for New York of 2.5%. Overall, we continue to see good economic activity and strong demand for our product in this market. The impact from changes associated with the rent regulations that went into effect in the middle of June are playing out exactly as expected, with approximately a 50 basis point reduction to achieved renewal increases in the second half of the year and about a $400,000 reduction in application and late fees. Combined, these changes to the regulations will reduce our expected New York Metro market revenue performance by approximately 20 basis points in 2019, a similar impact from rent regulations is expected next year.

On the supply front, next year we will deliver just over 4,300 units in our competitive footprint, a 50% decline from 2019. While we still see some pressure, the overall competitive nature of this supply will be much less, which should allow us to absorb the impact from rent regulation changes. Washington DC continues to demonstrate strength, despite the elevated deliveries with our full year revenue growth projected to be 2.5%. Results for the quarter were in line with expectations. The market unemployment rate of 3.3% remains below the national average and job growth remains healthy with gains being driven in a large part by the professional and business services sector concentrated in Northern Virginia. Deliveries of 10,000 units per year or more seems to be the new norm for the Washington region. The continued strength in demand is fueling robust Class A absorption, which delivered strong occupancy and improved pricing power for the third quarter. In 2020, we are tracking just over 12,000 units with a notable increase to the capital riverfront area, where we have no direct exposure.

Heading over to the West Coast, Seattle outperformed our expectations for the quarter. We have increased our full-year revenue growth projection by 20 basis points to 3.4%. Job growth remains robust. The market is creating jobs at its fastest pace since 2016 and Seattle’s office absorption is the highest it has been in a decade. Gains in job growth was widespread, not just in the technology sector, overall demand for our product remains strong, which has allowed us to maintain high occupancies while pushing rate. On the supply front, the concentration shifted to the East side in 2019, which has allowed pricing power to return to the CBD, where we have several assets. Suburban submarkets have yielded greater rental income growth over the last several years, but that trend reversed for us over the summer, as the downtown submarket rent growth led the pact for the third quarter.

Overall deliveries in 2020 will be similar to 2019, with just over 8,000 new units coming online, the concentration will continue to be weighted to the East side in the first half of the year and will then shift back to the CBD Belton submarket in the second half of the year. As I move to the California markets, let me start by providing color on the impact of the new rent control laws. These new regulations go into effect on January 1, 2020, and we have 97 properties or about 70% of our California portfolio subject to the new restrictions next year. The most pronounced impact will be on renewals, as there will be a cap on increase equivalent to CPI plus 5% on all properties that are 15 years or older . The law allows vacancy decontrol, meaning upon move out rents can increase the market pricing about a cap. If these regulations had been in place for 2019, they would have reduced our renewal growth rate by about 50 basis points and our same-store revenue growth in these markets by about 20 basis points.

So, moving to San Francisco, we now expect full year same-store revenue growth to be 3.8% which is 20 basis points lower than our July guidance. During the third quarter, we were unable to maintain both occupancy and rate at the high levels we anticipated. We had continued strength in July and August, but September traffic was a little lighter than expected, Today our San Francisco portfolio is 95.5% occupied, which is 10 basis points lower than the same week last year. While reduction in occupancy at this time of the year consistent with normal seasonal declines, this is something that we will continue to watch. Strongest results continue to be posted Downtown and the East Bay continues to face pressure,. On the job front, the Bay Area topped 4.1 million jobs, with 10 straight months of employment gains. It's possible that the rate of job growth is slowing, But these gains are still strong. Heading into 2020, we're tracking 9,800 units being delivered, which is similar to 2019. The East Bay will deliver less units and the concentration will shift to the South Bay.

Moving down to Los Angeles, full year same-store revenue growth projection is 3.8%, which is 10 basis points lower than our July guidance. As we stated last quarter, we anticipated deceleration due to pressure from new supply that was back half-loaded and had a difficult occupancy comp for the second half of 2018. Occupancy remained strong at 96.3% but we didn't quite get as much pricing power as expected, resulting in softening rate growth to maintain the needed leasing velocity. Continuing the trend on supply, roughly 2,800 units of deliveries were pushed from 2019 into 2020. These units were originally scheduled to deliver toward the end of 2019, but the story remains the same. With labor shortages and construction delays, this shift results in both 2019 and 2020, having approximately 9,700 units being delivered. Downtown LA, West LA and the San Fernando Valley are the highest supplied submarkets in 2019. We are still about 3,900 competitive units under construction, scheduled to complete by the end of the year, which will continue to put pressure on rates.

Moving into 2020, the supply will be concentrated in West LA, Hollywood, and the San Fernando Valley. Downtown LA is expected to see a reduction, so only 1,200 units being delivered which should benefit our pricing power and performance in the back half of the year and a submarket that is close to 20% of our LA revenue. Orange County delivered third quarter results, which were better than we expected, primarily driven by 40 basis points of stronger occupancy than this time last year. Our full-year revenue growth guidance has been increased by 20 basis points to 3.8%. As I've stated before, we have a diverse set of properties in Orange County, and not all victim competes head to head with the 2019 supply. 2020 is expected to be similar with just over 2700 units being delivered. San Diego performed as expected in the third quarter and there is no change to our full-year revenue growth guidance at 3.4%. Overall, the newer product downtown continues to pressure our pricing power as we think about next year, supply will be lower with just over 2,100 units being delivered.

On the initiatives front, we continue to make great progress toward the sales and service road map that we shared in our June investor update. On the sales front, we will have just over a third of our communities on our artificial intelligence e-lead platform by the end of the year we will have deployed self-guided tours at over 25% of our communities. On the service side of the business, our new mobility platform for our service teams will be fully deployed by the end of the year. We also have approximately 2,500 units enabled with smart home technology.

During the quarter, we launched our new resident portal and app, our app adoption has grown to 55% of households, with our original portal, residents will continue to pay rent and service request online, but now have many additional features that will allow them to engage with each other. We can already see them taking advantage of self-service functionality in the portal to reserve amenities, register guests, and leverage the social platform to facilitate gatherings and post items for sale. We hope that this continues to increase resident satisfaction and stickiness. The evolution of our operating platform is underway. The new technology will enable continued centralization and digitalization to further enhance the resident and employee experience. Over the next few quarters, we expect to provide more detailed updates on the financial and customer impact from these and other initiatives.

At this time, I will turn the call over to the operator to begin the Q&A session.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from Nick Joseph with Citi. Please go ahead, sir.

Nick Joseph

Thanks. Maybe just starting with guidance, historically, for the fourth quarter, you have seen an acceleration both in terms of core NFFO and also same-store NOI growth and this year seems to be an exception. So I am wondering if you can walk through what's the variance of that versus historical years?

Bob Garechana

Thanks Nick. It's Bob Garechana. It is really three-fold items overall as it relates to the NFFO guidance, the $0.03 identified in the press release. The first of which is really timing of transaction activity. During the fourth quarter, our guidance incorporates about $300 million in dispositions and in the third quarter we had a similar amount of dispositions, but actually had $500 million roughly of acquisitions that Mark went through, front unloaded, so that's about a penny of delta. It is also timing of other items, predominantly corporate overhead and some other expense items as well and then that's another penny, and then the last penny is to same-store, so you are right. As you look at sequential same-store revenue, it specifically does decelerate between the third and the fourth quarter, which is what we have embedded in our guidance today, that modest kind of traditional deceleration that you see from seasonal activity. You usually also see some expense seasonality and you see expenses actually decline from the third quarter to the fourth quarter in a pretty material amount historically and we don't expect to see that as much this year and that is largely driven by the timing of some real estate tax appeals and some other items and that is really driving that last penny that we identified in the release.

Nick Joseph

Thanks. And then Mark you are active with California acquisition and I note the recent law doesn't impact those assets, but is your underwriting standards change at all either quantitatively or qualitatively, given the more broad regulatory environment in California?

Mark Parrell

Thanks for that question, Nick. Yes. We have talked I think more than ever before. And we have always had a regulatory component to our underwriting, but it has been a bigger discussion. We have done things like sensitized exit cap rates. We generally think about asset whole periods in our pro forma is 10 years. So 10 years from now, these assets will be closer to the end of their protected period. So we have sensitize those cap rates at the end, those exit cap rates, a little and thought about them in a few different ways, so that we would be more thoughtful about maybe how those assets might trade 10 years from now. Again, mostly we do generally hold assets longer than 10 years, but we need to be a little bit more mindful, so we did that analysis and we were still happy to hold the assets, so generally changed our IRRs from mid 7 IRRs to high 6 IRRs by doing that, Nick.

Bob Garechana

Thanks.

Operator

Thank you. Our next question comes from Nick Yulico with Scotiabank. Please go ahead, sir.

Nick Yulico

Thanks. So you had this unusual dynamic this quarter for new lease growth where, strengthened on the East Coast and it weakened in California. You talked about some of the California issues, but it also looks like your new lease gross debts were weaker than some of the industry stats we're looking at in California. So just hoping to get a little bit more info on how new lease growth turned negative in the third quarter for the California markets?

Michael Manelis

Yes. So, this is Michael. So I guess first I just want to call out that I think we've talked about before that looking at any of these stats for the stand-alone quarter on new lease change, it's probably not the best way to think about it, it's probably more indicative to think over long term of the year, but specific to the quarter. I guess I want to call out what we report on Page 15 in that release is really the impact from all lease terms, meaning regardless of what lease was in place when the resident moved out to the replacement rent, when we tend to when we isolate the leases that were just like term or just 12 month lease to 12 monthly month lease, we see about a 100 basis point improvement in the results for the quarter. So I would say that we started, we understood that we were going to see deceleration. I think I mentioned in on the previous call, but if you look specifically like at LA, LA instead of reporting the negative 20 basis points would have reported 80 basis points if I just isolate it out for the life-term or the 12 to 12 and that would have been a positive. The quarter actually performed pretty consistent with what we expected. We knew we were going to face back half pressure on supply and you can see that in San Diego and you can see that and LA and the areas that we have supply have the most pronounced kind of pressure on that new lease change. As I said in my prepared remarks, I mean Downtown LA actually is going to see a reduction in supply next year. So we would expect some pricing power to return to us there.

Nick Yulico

Okay, that's helpful. So it sounds like the read through here is that you're not expecting these, the new lease growth numbers in the California markets to stay negative going forward?

Mark Parrell

Well, I guess I will tell you as we hit the fourth quarter, they will most likely be negative, they typically are negative and I talked about that before that there is a seasonality component to these stats, which is why when you isolate any one quarter, it's not always indicative of the full year.

Nick Yulico

Okay, thanks. Just last question Mark I guess how are you thinking about doing more acquisitions right, EQR hasn't been a net acquirer in a while and your stock price is looking more attractive. Would you issue equity to do that, what is kind of the size of the opportunity set you're looking at, is this something that you would be considering at all?

Mark Parrell

Thanks Nick. No, we are certainly open to getting larger, I think the market is giving us a growth signal, I would start by saying, as I said in my prepared remarks, the transaction market with the kind of quality assets we want is extremely competitive. So it's not like we have a whole bunch of things that have piled up that we'd love to acquire. I mean we're buying pretty well everything again that fits into the window that we're comfortable with on price. So I would start by saying, there isn't a lot left that we haven't done to begin with. I also point out that if you were to use, for example, the ATM. The implied cap rate on the stock as compared to the kind of asset cap rates we have is not going to create a great deal of accretion at least immediately for the company. I would say we're more interested in potentially issuing debt and buying assets. I mean I think we have a pretty modest leverage profile, we are not suggesting we are going to pile the debt on, but I think we're in a position where we could certainly spend a considerable amount of money and fund it with debt to buy assets if we could find enough good assets to buy. So definitely that's top of mind for us Nick. But it's probably more of a debt play at this point than it is use of the ATM or some discrete secondary.

Nick Yulico

Thank you, Mark.

Mark Parrell

Thank you.

Operator

Thank you. Our next question comes from Shirley Wu with Bank of America. Please go ahead.

Shirley Wu

Hi, guys. Thanks for taking the question. So, just a follow-up to Nick's earlier question on the rent regulation AB 1482, so what is your most input based on it? Did you guys see any impact to transactions markets or in terms of, let's say hesitation to jump into those markets, just given that new regulation has been in place?

Mark Parrell

Hi, Shirley. It's Mark. Thanks for the question. We have not. California has really just kept going. I mean, cap rates have generally kind of been steady to declining for our kind of assets. So we have not seen, I think that's because California was so well discussed to the credit of the policymakers the activists representing the tenant groups, and the companies like ours and the owners, everyone was involved in this conversation about rent control and rent reform. And so when this all came to pass, everyone understood it and the regulations made sense in the market digested it. I contrast that to New York, where it was done, as I've said before, sort of in the dark night, probably wasn't as well thought through. And I think the implications are harder to understand the transaction market in New York. But in California everything feels about the same to us.

Shirley Wu

That's great to hear. But there is talks of a new ballot initiatives that kind of brings back this the previous conversation about repealing Costa Hawkins in 2020. Have you heard anything in terms of updated news on that front?

Mark Parrell

Sure. So this is what the industry has been calling Prop 10 2.0, and the proponent put out a press release recently saying as we expected, but they have enough signatures to put this on the ballot. Again that's what the industry anticipated. I will tell you we are very well organized. There have been the industry meetings about this. We beat this by about 20 percentage points back in November, educated the public, educated policymakers it was just a bad idea. We think the same approach is justified here again, we intend to be very much aggressive and out there having these conversations in the public space about how this sort of repeal of Costa Hawkins is going to do the exact opposite of what people want, there will be less supply, there will be less investment in existing stock of housing, both single family and multifamily by the way, and we're going to have that conversation to be very forthright about it So at this point, I feel pretty good about, again our organization in the industry to oppose that measure.

Shirley Wu

Great. Thanks for the color.

Operator

Thank you. And our next question comes from Rich Hightower with Evercore. Please go ahead, sir.

Rich Hightower

Hi, good morning guys.

Mark Parrell

Hey, good morning.

Rich Hightower

Good morning. So, Mark, I want to go back to a couple of your comments in the prepared remarks around developer equity appetite and just in the sense of the portion of the cap stack required from the equity or the cost of capital and maybe wondering if there is something of a disconnect there between public and private in the sense that the apartment REITs are obviously trading very well and have opportunity that comes from that versus what you are seeing on the private side and how does that lead to opportunities for EQR. I know obviously at least one of the developments that you guys started in the quarter was it was a joint venture? And just wondering what the opportunity set might be that emanates from some of this phenomenon?

Mark Parrell

Yes, we have a few other. Thank you for the question. We have a few other of these sort of opportunities we are talking to. We have just seen and we telegraphed this on the prior call, it was just more inbound call volume. Developers we know, regional folks, reputable local folks that have had no problem getting equity and now do and we think some of that is just again build to yields have gotten low. A lot of folks who made a lot of money on development maybe they are a little anxious about where they are in the cycle. A lot of people that are building, they build for a window. So these, developers are building, needing to deliver as merchant builders in a window and things need to be great in 2022 or 2023 or they don’t make money, that is not the way we think about development. We want to like our unit cost in our per square foot cost and our location in the long run. So I think we do have an advantage right now at the moment where we’re able to take a longer view, where we do have ample capital and these opportunities, again you can put in front of you, the capital of the developer, they’re out there, taking the completion risk initially, now again these developers have capitalization, not as significant as ours and they have experience and we watch over their shoulders. So we think we get a little risk mitigation and there is a little bit of an opportunity right now to kind of jump in the deals that are ready to go. So I do think there is a little bit of a window here for us.

Rich Hightower

Okay, great. That's great color. And then maybe just a second question quickly – 2020 supply, sorry about that. So obviously, the numbers we look at coming from Axiare or other sources seem to change every single quarter. It's very hard to get a grip on what's really in the pipeline. What's really likely to open by a certain date? So how much flex do you guys put into your forecast in that regard?

Michael Manelis

Yes, I mean so we have a process right where we have boots on the ground kind of validating this stuff, I mean it's pretty hard right now to think that in most of these markets that anything to get delivered in 2020 that we're not aware of, as you start to get to the shoulder periods, especially like the Q3, Q4. You could see things shift from what we thought was going to be a completion in 2019 shifting into 2020. We've seen that now in LA consistently occurring. So I think as you get to the shoulder periods, it's normal to see some of this stuff shift. And I think on average we see about 10% to 15% shift, in LA we started seeing it to be a little bit more pronounced like 20%, 25% of the unit shifts. But as far as the total quantity, the process that we go through with our local investment team in the market trying to understand the competitive nature of supply in our competitive marketplace, the deals don't kind of come and go.

Mark Parrell

Yes, I want to add one thing, Rich. This stuff becomes competitive even earlier. So before the CMO comes there out their pre-leasing that pressures operators and people like us with properties in the area. So sometimes moving from December to January, it looks like something in all of us from a distance, but from the operator perspective it's meaningless. And I also point out, when you have 20% of LA move from '18 and '19 and 20% move from '19 and '20, nothing really happened. I mean all that happened is, we have done some good interesting analytical work where we see the pattern and really this is the point where the numbers for example, for 2020 are at their highest and from here they'll just decline because deals will keep getting pushed or moved or changed in some regard. So there is a bit of a pattern here where I think we all start looking at numbers that end up being much lower in the long run, because stuff just naturally pushes.

Rich Hightower

Got it. Thank you very much.

Mark Parrell

Thank you.

Operator

Thank you. And our next question comes from John Pawlowski with Green Street Advisors. Please go ahead, sir.

John Pawlowski

Thanks. Mark, apologies if I missed this. Could you just give us on the development opportunities, what you expect a reasonable development pipeline size to look like for EQR next year?

Mark Parrell

Thanks, John. So I would probably put it in terms of spend, if that's helpful. So the way we've talked about it with the Board is, we feel like we can spend $500 million a year on development, which would consist of the $300 million of excess cash flow that we have every year after all, our CapEx needs are met, as well as, call it $200 million of additional leverage from the growth in EBITDA. We do that, we don't need to sell assets, we don't need to access to capital and we won't need to do anything, we can just sort of self fund and in that case, then we think that's the best safest way to do it. So I would expect our goal is to get close to opening starting, say $500 million in 2020. We have one large deal in the West Coast. We are working hard on that would be half of that. So, and there is a number of other play, that are really interesting that are density plays, where we're knocking down say 40 or so garden units and replacing them with 200, 250 mid-rise units and we have a number of projects like that going on in the West Coast that we hope to start next year, and a few going on in the East and may take a little longer. So I mean that's where you should see, in terms of a range, probably spend $300 million, $400 million, $500 million a year and us looking at both JV development, some of this legacy land bank we still have of lower priced brand and these density plays that we think are interesting.

John Pawlowski

Okay. And Michael, can you give us some more specifics about your opening remarks about weakness in traffic, foot traffic in San Francisco and not able to maintain occupancy or rate and just what are you seeing on the ground in terms of leading demand indicators for your San Fran portfolio?

Michael Manelis

So, I mean it's really – it's submarket specific. So even if I just think about the results in the quarter, like the Downtown portfolio produced like 6% revenue growth compared to the East Bay at 2.5. When you start looking at the traffic patterns our traffic is down, but like I said it was strong July and August. And then in September, we started to see that shift. We went back and we kind of just looked against all of our available units, the volume of traffic we're getting, just as a ratio and compared it. And when you look at it, it's really seems to be following more of like a 2017 pattern versus the 2018 that really defy kind of a seasonal decline. So I think right now the demand is really just kind of overall it's mixed. It's definitely kind of following the normal seasonal decline, but I haven't seen anything that suggests it's not – it's going to be any greater than normal. Does that help?

John Pawlowski

Is it is Oakland supply starting to suck out demand or...

Michael Manelis

Yes. So it's interesting. So at the back door, meaning people leaving us and giving us forwarding addresses to Oakland. We see very little of that activity. Less than 2% of our kind of move-outs give us that forwarding address, but you can look at the Oakland assets that are coming online right now, and they are performing well, their concessions are reasonable than what you would expect from a lease-up. So they are probably siphoning off some demand on the front door right now.

John Pawlowski

Okay, great. Thank you.

Operator

Thank you. And our next question comes from Richard Hill with Morgan Stanley. Please go ahead.

Richard Hill

Hey, guys. Quick question on the leasing spreads, I thought your comments about like-for-like leasing spreads were around 100 basis points higher, it was pretty interesting and I hope that hopefully I got that number right. I'm curious, are you seeing tenants ask for longer leases. Because it seems like your commentary would suggest so, and the reason I ask is one of the consequences of written regulation was maybe tenants would stay in their leases for longer, so I'm curious, are you seeing leases longer and is that intentional on your part. And how are you thinking about it?

Mark Parrell

So you are correct. First of all that, the spread is about 100 basis points improvement in new lease change when you isolate to the 12 to 12. I haven't really seen much from a demand standpoint changing in the willingness to take long-term leases we've done some stuff in LA we do some stuff strategically in front of some of the supply to try to get some longer leases in place, but we haven't seen anything whether that be in New York or California yet that would suggest consumers are looking for longer term leases or that turnover has changed. I mean New York turnover, for example, one of my questions, which is whether we would see a difference between our market rate and our rent stabilized portfolio in terms of turnover and they both are moving in the similar way. So maybe I guess it's just one quarter of data and we'll see, but my expectation was that the rent stabilized portfolio would start to have even lower turnover than the market rate portfolio, but that has not yet proven to be true.

Richard Hill

Got it. And look, I mean is going everyone focusing on the negatives of rent regulation, but I think there were some foreign investors that would argue that this in the consequences of restricting supply and accelerating rents, could you comment about how you think about that maybe over the medium to long-term and either California or New York?

Mark Parrell

Yes, it's Mark. We certainly have talked on several occasions, the fact that these rent control rules in the long run are going to reduce supply and even though the affordable New York program for example wasn't specifically changed, these sort of rules have a chilling effect on capital going into development. And so for an owner like us of properties that already have a relatively low basis because we've owned them a long time, in a lot of regards the government has now been our partner in reducing supply and increasing the competitive moat. But and we also have opportunities on expenses that we've talked about whether it's leasing and advertising, because again, we're more highly occupied, turn costs and the like, but I have to be fair about this and I've said this before, rent regulation when it reduces the amount the supply of housing, ultimately reduces the dynamism and vibrancy of a city and that's not good for us. We would rather see and take a little bit of pain in the short run but see these neighborhoods continue to build out and our existing assets become even more popular and there will be even more entertainment options and more of everything. So I would suggest that rent control is I think we can manage through and to this point has been not as significant as maybe some folks who thought it would be, but it's hard for me to say that it's a positive in the long run to these cities.

Richard Hill

Got it.

Mark Parrell

Because – I think it's very damaging to the cities.

Richard Hill

Got it. And just one follow-up question, the 4.4% cap rate that you cited, I think, some would say that's pretty compelling against the global macro backdrop where we stand right now, is 4.5% cap just sort of steady state for where you see cap rates right now. I guess I'm not asking you to tell me where they're going forward. But is 4.5% cap representative of where you think you could buy, let's just say the LA market for instance?

Mark Parrell

Yes, I think that's probably fair or maybe a little bit lower. I mean I think the range we're operating in is 4.3% to 4.7% for markets like Boston near the low end of that cap rate range, where it's just super competitive and a market like Denver more toward the higher end of that range.

Richard Hill

Got it. Helpful color guys. Thanks very much.

Mark Parrell

Thank you.

Operator

Thank you. And our next question comes from John Kim with BMO Capital Markets. Please go ahead.

John Kim

Thank you. This quarter your dispositions were very targeted in Berkeley. And as we get prop 10, 2.0 as you call it coming back. Are you looking to reposition out of certain markets within California or is age really the primary factor of the asset sales?

Mark Parrell

Certainly the regulatory scheme, the pressure we feel, the welcome frankly that the city puts out for us is a factor. The Berkeley assets had both asset characteristics and city characteristics that made them worth selling. So I'd say we aware of places where it's more difficult to do business and we factor that into our decisions to sell.

John Kim

Okay. And sticking to the market, do you have any commentary on Google and Facebook and potentially other tech companies investing billions of capital into the housing market in San Francisco? Is there any potential for you to partner with these on the development or to participate in their incentive program?

Mark Parrell

Sure. While we welcome those sorts of conversations certainly, and I know we try and engage in of sort of dialogs. I think this is great. I think Facebook's announcement I believe was $1 billion and I think that equated to about $50,000 a unit. So clearly there is something else going on here in terms of the government matching or contributing land or doing some other things. I think it's great to alleviate some of these housing shortages. I think it's very thoughtful for big office users to also be thinking about housing. And I think this is just another ingredient in the solution that the government can utilize if it sees fit.

John Kim

But can EQR partner with them or is that not really…

Mark Parrell

Sure, we are open to that. We are absolutely open to that. And a lot of cases they are making – if they are building a project that's employee specific, for tech company is building what amounts to a dormitory for their employees, that's probably a little less interesting for us. If they are building properties where in along with maybe the city contributing land and they're contributing capital and we are in a partnership and we are building it, that's all, that's very interesting. Those kind of opportunities would be very worthwhile for us.

John Kim

Thank you.

Mark Parrell

Thank you.

Operator

Thanks. And our next question comes from Derek Johnston with Deutsche Bank. Please go ahead.

Derek Johnston

Hi everyone. With cap rates currently low and development yield targets hard to justify. We expect continued and possibly accelerated capital recycling. Going forward, I think you guys have mentioned that, will you be focusing on Denver I think that's certainly a key market, but currently a pretty small earnings contributor. So what is the target NOI contribution you'd like to see from that market?

Mark Parrell

Yes, great question. So our goal, as we mentioned in Denver is to get it up to call it 5% of our NOI. Right now it's about 1.5%. That's probably funded with some incremental capital but probably some recycling out of places like Washington DC, where we like the market, but we have a significant concentration and where there been some serious supply issues over the years, as well as maybe some money from some of the other markets here and there. So I think you can expect us to continue to acquire in Denver, we acquired one asset in the past quarter, we have almost $600 million invested in that market and I'd like to see that number closer to $2 billion and our concentration closer to 5%.

Derek Johnston

Excellent. Helpful. And then what is the new low end requirement on development yields from your perspective. Just given the environment today, I think you mentioned a projected 5.2% on an asset, I think was in San Francisco during the opening remarks. So what would the low end be?

Mark Parrell

Well, the way you just spoke to that is really the merchant builder thought process and that's fine, that's not our thought process. I mean the fact that we can build something in a place for example it's very hard to build like Boston, the fact that we can build a tower there and maybe, and we've said this, we have slightly lower than 5% current yield on that property mark to market, if you mark the land to market on that deal, that doesn't bother us in the least because we really like our basis in the asset, it's hard to buy, it's a location we really like, we like everything about the demand and supply dynamics. So I don't have a number – it was a 4.5% cap rate on current rents, we are were done. I don't feel that way. I think as we talk about, it is a group as a management team and with the board. It's about how protected is that market, what are the demand dynamics, how do we feel about our basis and our per square foot and unit basis. So for us, it isn't just I got to deliver it at a 5.5% cap rate, two years from now, because I got one year to sell it or else my equity would wipe me out as a developer. That's just not the kind of deals we do. For us, I think it's a little bit different of a thought process and it isn't a minimum. It's just part of the ingredients of the thought process. You still there?

Derek Johnston

Yes. Thank you.

Mark Parrell

Thank you

Operator

Thank you. And our next question comes from Rich Anderson with SMBC. Please go ahead, sir.

Rich Anderson

Thanks. Good morning. So on the cap rates, can you just – those are economic cap rates that you saw in the acquisitions and dispositions?

Mark Parrell

Yes, they are after our normal thought process on CapEx for these types of assets.

Rich Anderson

Okay. So is it, what do you assume on the buy side and what do you assume on the sell side from a CapEx perspective?

Mark Parrell

Well, it depends. I mean some of the older assets we sell. it's got a higher CapEx low to them I have some of the stuff in front of me, but I'm not sure I'm in a position to give you exact numbers – we talked about in our disclosure materials on – page 27 I think we define for you acquisition capitalization rate or cap rate and give you a sense of kind of what the underwriting looks like from a in unit replacement, CapEx etcetera, and how that's kind of condition that might give you some color, Rich.

Rich Anderson

Alright. So I guess my point is very little, if any dilution from these trades, but if you were to load, got to the FFO line. I'm not saying that's more important. But if you were what would the spread be or do you have that number available to you, if it's 30 basis points on an economic basis?

Mark Parrell

Do you mean FFO – AFFO of after the replacement reserves and everything else for example? Yes, like Park at Pentagon Row that's, that's a good thing to talk about for a second. I mean we looked at the buyers numbers as best we can. And again, that's not what we disclose and we put in $200 a unit for that per year. I can tell you that number is way too low. We also put $200 unit in some of the 2017, 2018 product we bought in California. And I think that number is just fine on stuff that was built a year to 18 months ago. So I think when you start to get to where the rubber meets the road and what you're replacements really are a lot of the stuff we're doing isn't accretive in the long run, it's accretive right then and now.

Rich Anderson

Yes. Okay, alright. And then shifting to California, 48% of your portfolio, housing shortage, regulation, business unfriendly, wildfires, earthquakes, school funding issues, out-migration of population, you know, there is a lot of things going on in California and yet you are showing signs of continuing to grow there. Would it be fair to say that you're not going to get smaller in California, but younger, is that the basic game plan or do you see yourself, sort of whittling down your exposure to rent control inclusive of New York City, which brings up to about 63% exposed to rent control situations?

Mark Parrell

Well, I mean there's so much to un-bundle in that. I mean, I just want to start by saying, you do have plague a horrible, as you mentioned in California, but there is a lot of positives that we wouldn't known and I know, is that you're a veteran guy, you know that. I mean the job creation machine in California. The Company creation machine, a whole employment picture in the United States is to some extent driven by what's going on in California In terms of technology and going on in the West Coast and now spread everywhere throughout the country. So I would say, we like a lot of the dynamics there and things that would scare us about California are mostly about those job dynamics changing, that sort of demand stuff would be most concerning to us, we don't, as Michael said in his remarks on San Francisco, we just don't see that yet. I also say that Prop 13 and remember the split role initiative doesn't affect us in the apartment business. Having your largest single expense, significantly lower, I mean we have a lot of markets where outside of New York, where property taxes are going up 5%, 7% a year. And in California, they are considerably lower. That's a huge advantage to us in terms of what our return is. So I'd say there is still plenty of positive things about California, notwithstanding some of the elements of the plagues that you mentioned earlier. And I think you hit it on the head in terms of the California strategy. We do not want to have more NOI in California that we have now. I think we're about right, maybe a little lower be okay too, but I think we do want to be younger. I think we have some older assets that even withstanding, notwithstanding rent control we want to sell. And I think we'll continue along that play and you'll see us sell some of the stuff that's a little bit older in the portfolio and try and keep our portfolio in California particularly young.

Rich Anderson

Perfect. That's all I got. Thanks.

Mark Parrell

Thank you, sir.

Operator

Thank you. Our next question comes from Drew Babin with Baird. Please go ahead, sir.

Drew Babin

Hey, good morning.

Mark Parrell

Good morning.

Drew Babin

Wanted to expand on Richard's question, demand growth in California, obviously there is a bit of a North heavy element to that and with LA with the revenue growth expectations coming down to say, despite some supply being pushed out in the next year, I guess is the demand picture in LA and I guess Southern California generally been somewhat disappointing, I know had kind of a slow start to the year, kind of came back. Can you talk a little more about that trajectory, as it applies to Southern California and what we might expect for next year?

Mark Parrell

Yes, so I don't say that Southern Cal is disappointing at all on the demand side. I think what you're seeing right now in our numbers and what we've talked about even in the previous quarters is we knew deceleration was going to be come and just based on the supply coming right on top of us. So even though while there was that shift of supply kind of moving the supply is on top of us in Downtown LA right now and we feel that, but the demand is still strong for our type of product. It's just, we're not having as much pricing power. And as I think as you go into 2020 just in my prepared remarks, we recognize that we’re still going to have that pressure sitting on us in the first part of the year and LA. So I think it’s clear to say that it’s not that the demand is shifting. It’s really more just the pressure that we’re feeling from the supplier.

Drew Babin

Okay, appreciate the color. And then on one more shift to the East Coast new leasing spreads. If you kind of average that over the full year have gone from negative in some cases to flat to kind of what I’ll call may be inflationary levels, given the current national employment backdrop, wage growth trends, home ownership trends, demographic trends, all the things you look at, I guess how do you feel about the potential for those leasing spreads to maybe exceed, to maybe go to like a CPI plus type of territory in the near-term, based on everything we know right now, kind of the steady state economy?

Mark Parrell

Well, I guess, I would tell you, I kind of opened it up, which is what we thought about kind of next year at the high level for some of those markets. But I would say the momentum for the East Coast markets has been strong, but you’ve got to factor in just like I said, for next year with Boston. We’re starting to see the supply come back on us in Boston, which mean just like the conversation we had in LA, we will experience some pricing pressure that we haven’t had to deal with this year, but the overall demand picture and the overall momentum that we feel on new lease growth and renewal growth is really good in the East Coast markets.

Drew Babin

I appreciate all the color. Thank you.

Mark Parrell

Thank you.

Operator

Thank you. And our next question comes from Alexander Goldfarb with Sandler O’Neill. Please go ahead.

Alexander Goldfarb

I guess it's still good morning out there.

Mark Parrell

Good morning

Alexander Goldfarb

I have two questions. Good morning. I have two questions. You gave some color on revenue, the other element obviously our expenses which have outpaced revenue this year. So as you think about next year and what you're seeing on the different elements that form the OpEx, do you think that this year's sort of outpacing revenue that's going to continue next year, or are there some initiatives or abilities for you guys to contain such that OpEx will grow inside of revenue next year?

Bob Garechana

Hey, Alex. Bob. Obviously, we're very focused on reducing that number. Overall, I think if you look at our 10-year history, we generated something that's well under 3% on expenses and we'd like to get to that arena again. One of the things that we've talked about on the screen called many times that is a challenge for us is the 421a assets. We've made a lot of progress in the sales that we've had in reducing that rate of growth, but it does to overall, same-store expenses on average contribute 60 basis points of incremental growth. So anything away at that could obviously present some opportunities. Michael talked about in the past initiatives and opportunities that we will focus on there, but it's hard to get over that real estate tax piece, although we've done a lot to make that better.

Alexander Goldfarb

Right. But I mean looking across all your items are sort of 3% plus. So it's not just the real estate taxes.

Bob Garechana

No. Yes. So it's not just real estate taxes, right. There are some things that I think we give you some color on page 16 on expenses on certain things that are one-time in nature, for instance, that are '19 or might be one-time or less frequent like the ground lease revaluation that's other expenses and the HOA kind of holiday. That was in other expenses that you wouldn't expect necessarily to recur. We're not giving you 2020 guidance. I got to say that in 2020, there might be some things that pop up that could go the other way. You heard us and others talk about the benefit in real estate taxes that we saw in Seattle this year that may not repeat itself, but we're very focused on making sure that we can manage those expense line items to be lowest possible growth rate overall.

Alexander Goldfarb

Okay. And then the second thing is Mark appreciate your upfront comments on the California rent control and New York. As you look to next year, it seems like Albany is taking that CPI plus rent cap to try and have a market rate rent control. So, which would not have, as best as we can see from the press reports, would not have all the flexibility that California has, what do you guys see differently in how you and the industry would approach Albany in the upcoming legislative year versus what happened in the prior year?

Mark Parrell

Well, I'll start by saying I don't think anyone on this call, myself included, is in any position to predict what a politician will do or what the political system will do and how many or elsewhere. So it's hard to say. I've read the same things you read, Alex, and we're working with our advocates in New York. So what I'd say is I think there needs to be more dialog than maybe there has been so far. And we're working to do that. I know that the people we have on the ground talk a lot to policy makers, but I'm not sure those channels couldn't be opened even wider. I do know that there has been some conversations even from the mayor's office about whether the first stage of rent control is working very well in New York. I think there is already things that make you wonder about whether this is such a great idea. And I would hope the policymakers would take that into account before considering or passing new rules on top of the already onerous regulations passed back in

June. So what I hope for the most is to have the industry have a seat at the table for that dialog and that's what as a member of the industry and as a big owner in New York, we'll push for.

Alexander Goldfarb

Thank you.

Mark Parrell

Thank you.

Operator

Thank you. And our next question comes from Hardik Goel from Zelman & Associates. Please go ahead, sir.

Hardik Goel

Hey guys. Thanks for taking my questions. We've heard a lot about cost controls in terms of – on the personnel side, where you essentially have less employees. Maybe you pay the remaining once more and you essentially are leveraging technology to achieve that. Can you talk a little bit about how much of that you're doing and what you see the future of that over the next two years? How does that play out?

Mark Parrell

Yes. So I think I said over the course of the next couple of quarters, I think you'll see us talk more specifically around some of the financial kind of impact from some of these initiatives, I would say, sitting here right now, it's pretty clear that several of these initiatives combined are ultimately going to create some operating efficiencies in the portfolio. For us the goal of doing all these initiatives has really been around better experiences for our employees and residents and we expect that the efficiencies that we gain on the operation staff that will impact staffing level will really just happen through attrition in the workplace. The initiatives on the sales side of the business are already starting to show time save, definitely offering our customers flexibility and convenience. And on the service side of the business, right now our expectation is that our dependency and reliance on contractors and overtime that we pay out should start to be reduced over time. So I think it's clear in the next couple of quarters, we'll start putting some more financial numbers in front of you guys, but over the course of the next couple of years, the operating efficiencies will start to manifest themselves through leveraging this technology.

Hardik Goel

And just a quick one on utilities as well, which line items will this effect overall, I guess, and then a little bit on utilities, are you guys doing anything pertaining to that?

Michael Manelis

Yes, so just to make sure I understood the question, kind of what's driving the utility cost in the quarter and year-to-date, and that's mostly, it's been pretty self-contained in the gas and electric component, most of the increase, we are slightly higher in the third quarter, was coming from some garbage and trash-related expenses, which is predominantly from the West Coast, from a couple of markets in the West Coast.

Hardik Goel

Got it. And then I meant to ask which line items are most affected by the efficiency savings over the next two years that you mentioned?

Mark Parrell

Yes, the – what the payroll obviously which Mike alluded to, but also repairs and maintenance is where you tend to see most of that contract labor flow through. And oftentimes that's a line item where you might see some of that as we – on the service side. I don't know Michael if you have anything else?

Michael Manelis

Yes, I think, look, some of the, some of the initiatives around the smart home technology or even smart thermostats being put in the unit can help reduce some of the vacant electric cost associated with it. But those aren't significant dollars for us that are going to really equate to anything meaningful for us to be talking about.

Mark Parrell

Yes, on the utility side, because you did call that out specifically, we've done almost every LED-type lighting project we can do, so some of the low hanging, really all the low hanging fruit is gone. We have a lot of solar installs and some of which are actually going to be pushed into the beginning of next year that we're going to do in this quarter and the fourth quarter that stuff will benefit us to. But, yes, on the utility side, it's this sort of the sustainability thought process we have that – we just put a new report out on our ESG efforts. There is a lot in there about it. That's going to help us on the utility items, but it takes some time to kind of get through the numbers, but again I think we've done all the easy stuff and now we're onto things like solar and co-gen and other things that will save us money and be good for the environment but take a little time to manifest.

Hardik Goel

Thanks guys. That's all.

Mark Parrell

Thank you.

Operator

Thank you. Our next question comes from Wes Golladay with RBC Capital Markets. Please go ahead.

Wes Golladay

Yes, good morning guys. So you sold about $1 billion this year that – that's the plan and you're still have some non-core assets with you, but you did mention potentially using leverage to buy assets. I'm trying to get the magnitude, if you will be a net acquirer next year. Is it a fair to assume that you've done the heavy lifting on some of the non-core assets this year?

Mark Parrell

Yes, I mean we – have a $40 billion portfolio, there is always an asset or two that is becoming obsolete for whatever reason, where the neighborhoods change, the dynamics change, there will always be an asset here or there that need selling, but it isn't significant. It is like we have this incredible burden where we're tearing a whole market, we don't want to own or anything like that, that's just not the case anymore, and you can evidence that most by seeing our little dilution in this case, in this year none that we have because we are basically buying and selling in the same markets and just buying newer product versus the older. So next year, will we buy more than we sell, we will see and that mostly depends on the competition, it isn't that we've been hesitant to start raising debt by assets. It's just that we haven't been able to find enough good product at prices we were willing to pay in order to fire up that acquisition machine. So it's really more about our spend in the next two or three months, seeing if there is enough in the pipeline for us to really buy in order to to kind of have a net acquisition year in 2020.

Wes Golladay

Okay. And then looking at the turnover, that just continues to trend lower, kind of surprised a lot of people, and when I look to next year. I'm thinking about the smart home technology is going to be more robust next year, more people going to adopt it, does that actually drive turnover lower, is that too aggressive of an assumption on my part?

Mark Parrell

No, I don't think the correlation there, I think lifestyle changes of our resident base is really, the probably most significant catalyst to the reduction in turnover, and we've proven time and time again that turnover is correlated to resident satisfaction. So as we keep focused on increasing our overall resident satisfaction, we should still continue to see reductions in turnover. How much lower it can go. I don't know, I would think that it stabilizes here at some point, but I guess that every quarter we continue to inch that down a little bit.

Wes Golladay

Thank you.

Mark Parrell

Thank you.

Operator

Thanks. And our next question comes from Nick Joseph again with Citi. Please go ahead.

Michael Bilerman

Hi, it's Michael Bilerman here with Nick. Mark, you mentioned Prop 10, 2.0, you had I think it was $4.5 million last year that you spent on that campaign, you added that back to normalized FFO, even though I would argue you're in the business and you spend money to advocate for your business, that's the business cost, putting that part aside because that's in the past. I would assume your costs are going to continue as rent control initiatives and just going to happen next year in California, and it's going to go across the US, how should we think about the money you're spending. How much it could be, how you're going to treat it?

Mark Parrell

Yes, good question. Thank you for that. Michael. So you can see on Page 25 that the amount we spent this year on advocacy is $200,000 versus the number last year that I think approached 5 actually at the end of the day, mostly California related. So there is great variability, it's like a lawsuit. We sometimes settle a lawsuit and get money, which we then settle a lawsuit and pay money, they're not important to the core operation of the business.

Michael Bilerman

I don't think I can get any money back on this one.

Mark Parrell

Yes. So what I tell you is we'll do and we promise to do is be very clear , like we are on Page 25, we'll tell you what we're spending, whether it's in or out of norm FFO will convene our Chief Accounting Officer, our very capable CFO, and our audit committee and we'll decide what we're going to do next year, but I agree with you that at some point if you have large recurring every year costs, then they are just part of your business. For us this has been unusual. Last year was, I don't remember any year like that. And I've been at the company for 20 plus years, so that's when we call out something is when it's unusual and it was not affecting the run rate of our cash flows.

Michael Bilerman

Thank you. And then if we think about the acquisitions and you've been fortunate that you've been able to match them perfectly with dispose and not have any dilution, which you had in years past, where you've been calling higher cap rate assets, you mentioned early on about IRRs and thinking about rent control and how the deal that you bought are going to pencil in the high sixes versus in the sevens. How – what is in that IRR analysis over the next, let's call it five years from a fundamental standpoint there – we are obviously extraordinary long in this economic cycle. There is a significant amount of caution flags that are out there right now from an economic and a global perspective, are you modeling any sort of slowdown in that IRR and when are you doing it?

Mark Parrell

So the way we think about, and I'm going to use rent growth as revenue growth as the kind of biggest thing you are thinking about biggest variable. We have a good sense of what will happen in the next year. We know the markets we're going into, we know if there is a bunch of supply. We know if the prior owner was running asset well where the rents are too low, maybe they have been, they have, nominally high rents but high concessions. So we understand the existing rent roll in the market and then you'll get a number that's very specific as a result of that. So I'm looking for example at our underwriting for Denver and our number for rent growth in year one is slightly negative. And it's slightly negative because we understand what's going on in that submarket and we have priced the deal to that. Over the long haul we pick a number that we think is appropriate. We don't pro forma year that's going to be negative, even though we know there is one there, just like we don't perform a year when it's 6%, even though we know there is going to be one of those. So in the near term, what we do Michael is we really think hard about what's going on and for the first year or two we feel pretty good about that on revenue growth after that we're putting an average out there, it's usually somewhere around 3 and saying to ourselves, there'll be years where it will be way low on that number, of years we will be way high and this will be a good average. And then we spent a whole bunch of time thinking about the cap rate at the end of the deal, and that's kind of the thought process that the team has.

Michael Bilerman

And then I wanted to come back on your financing comment about maybe using some additional leverage. Do you think the debt markets not only availability of capital but the cost of that capital being so low, both on the secured and the unsecured side is perhaps driving on economic decisions that could come back and bite us from a basis perspective?

Mark Parrell

That we are talking about us specifically being EQR I'd say no, with the thought being that we're talking about relatively small amounts of money relative to the size of the company. Do I think there is excesses in the sovereign debt market or in with the central banks are doing, I think there's a lot of people to think that's true. I mean there's a lot of interesting and unusual things going on in those markets in the short-term funding market, things like that, but I don't feel like we're putting the company in any risk adding several hundreds of million dollars of debt to the balance sheet and adding hundreds of millions dollars of high-quality assets, that feels fine to me.

Michael Bilerman

I said now whether there was expenses that you see in the apartment acquisition market given the amount of cheap financing available where you're seeing assets trade at levels that perhaps you would want to own them long term?

Mark Parrell

I wonder if some of that isn't the equity, are you really on the debt, so the debt's been cheap for a while. This isn't like a new factor really. I think what really is going on as you got a hard asset class with stable to good operating performance, good demographics that's easy to understand and we are to some extent a safety, then we are also a substitute for fixed income, I think a lot of people look at apartments and the private side is all over it because they feel all those things. So I think a lot of the positive you see, that may be why development capital is a little less available equity because that is perceived correctly, is ,considerably more risky whereas buying a stabilized asset in a great market at a 4.5% cap rate feels like a good trade not going to turn out bad.

Michael Bilerman

Yes, great. Thanks for the color and see you in a few weeks.

Mark Parrell

Thank you.

Operator

Thank you. And our next question comes from Haendel Juste with Mizuho. Please go ahead.

Haendel Juste

Hey, there. So had a few questions, first, I guess given the low cap rate decided and challenge of putting capital to work for new acquisitions here in your core markets, what's your current view today or more recently with the Board on expanding the portfolio year to perhaps some vibrant secondary markets that offer higher returns that not too dissimilar from say a Denver maybe Austin, Portland and Salt Lake and then what type of yield IRR premium would you require to go into those markets versus say your more established core markets?

Mark Parrell

Great question. Thank you for that. Yes, we had our regularly scheduled board meeting a few weeks ago and at that meeting, we talked about market allocations and I think you've been around a while, so you know in our book we have page usually it's page 16 of our investor book, where we talk about other markets – our markets and other markets and the relative attractiveness. And the example you gave of Austin, Austin screens particularly well. The issue to date has been that Austin trades as good or better at the moment as some of our other primary markets do and we're not sure that makes a lot of sense and that IRR is defensible. So would we go into another market, is that possible? Sure, that's possible. But in the near-term what we are trying to do is do things that makes sense both on the real estate side but are good on the FFO side and the buy – there is an asset that traded recently in Austin – it was a good asset that's a sub-4 cap rate, I don't know why that's a good idea from our perspective. So for us it's both having these great demand and good supply statistics like Austin has, especially on the demand side, but it's also just a matter of price, there may be markets we'd like to be, and they're just not price for our entry as they're just too expensive. So I can't give you an exact premium, but there is a cost to us going into a new market because until we have a good enough size. We don't have as good a coverage. We don't have the same number of people in that market doing maintenance items for example and oversight. We have people on-site doing their jobs, but just we don't have an on-site human resources manager for Denver, those sorts of things. There's travel costs and stuff. And then as you build it out, you have those people on site. So I would tell you that you don't need to just get to be a market with a little higher cap rate for it to be more compelling.

Haendel Juste

Got it. That's helpful. Thanks Mark. And then I guess the perceptual potential risk of going maybe back into the market that you exited in 2015. I believe I know that you had a largely suburban older portfolio and I think you're a bit more concentrated or focused on more urban locations, but just curious how that weighs into the consideration as well.

Mark Parrell

Well, I mean the good news is this team has been here a long time. Some of us are newer to our jobs, but none of us are new to the company. So we know that thought process, we understand it, some of the markets we exited, many of them we are delighted to have exited. We were in Austin, many, many years ago with a very different suburban portfolio and to me that's an argument like Denver. We didn't leave the Denver market we left did specific Denver assets we own. So I feel like, if the markets changed, circumstances have changed, and we can explain it to ourselves to the Board and to you, then we go back into that market. And if we can't, we wouldn't and nothing will change our minds on that.

Haendel Juste

Okay. And then one last one, I think you mentioned $500 million of potential new development starts on an annual basis at least near term. I guess I'm curious, should we assume these will be all within the existing core markets. And then given the development challenges, the rising costs, yield compression you outlined earlier, how confident are you of meeting that that figure and then should we be expecting similar low 5 stabilized yield on that? Thank you.

Mark Parrell

Well, next year, we will see whether we get to $500 million and it was more of a spend number. So we have existing assets under construction, especially the Alcot deal in Boston that are going to be a significant amount of cash next year as we get closer to completing it. So whether we start exactly $500 million or not, I'm not sure, but we expect to start modestly more development than we have seen this year and last year, but I can tell you it won't be outside our markets. It's not a great idea from our point of view to have our first asset in the new market, be a development deal, we would rather buy some stabilized assets, make sure we understand what's going on and then there is a development opportunity like Denver, we're open for business to do development for sure in that market, but I don't expect us to enter a new market by doing development.

Haendel Juste

Thank you.

Mark Parrell

Thank you.

Operator

Thank you. And our next question comes from John Guinee with Stifel. Please go ahead.

Aaron Wolf

Hey, all, Good morning. This is Aaron Wolf on for John Guinee. I just have one – you provided a great amount of commentary on your development pipeline in your project list and you may have covered this and I apologize if you have, does the 489,000 unit for the

Edgemore project, does that include capitalized ground lease?

Mark Parrell

So it does include a ground lease. But let me give you some statistics. Just bear with me as I find the correct pile here but I gave you a cap rate I believe was about 5.9% cap rate, and that cap rate would go down to a 5.1% if we had bought the land. So going to take that question a different way, imagine we had bought the land, the per unit cost of the land would have been about 100,000 a unit in our estimation. And that would have driven down the yield from 5.9% to 5.1%. So that gives you an idea. We always think about ground leases AS financing tools. So the answer is yes. It's in our numbers and it's correctly accounted for as a GAAP matter. But when we think about it at the investment side, we're thinking about it is a financing and making sure we're comfortable that if we had bought the land in FY, it's still a good transaction.

Aaron Wolf

Okay, great. Thank you. That was my one question.

Mark Parrell

Thank you.

Operator

Thank you. And we have no additional questions at this time.

Mark Parrell

Thank you very much. We appreciate everyone sticking with us on the call and we will see you around the conference circuit.

Operator

Thank you all for your attention. This concludes today's conference. All participants may now disconnect.