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AVB - AvalonBay Communities Inc at Citi Global Property CEO Conference

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PRESENTATION

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Morning. Welcome to the 8:10 a.m. session at Citi's 2019 Global Property CEO Conference. I'm Michael Bilerman. I'm here with Nick Joseph. We're pleased to have with us AvalonBay, Tim Naughton.

Tim, I'm going to turn it over to you to introduce your management team and provide 3 reasons why investors should buy your stock today. And just for those in the room, if you want to ask questions, you go to liveqa.com, enter code Citi2019. And obviously, the session is for investment clients only. If media or other individuals are online, disconnect.

And so Tim, let me turn it over to you for that.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Great, thanks. Thanks, Michael. I'd like to introduce first the management team. To my right is Sean Breslin, our Chief Operating Officer; to my left is Kevin O'Shea, our Chief Financial Officer.

As Michael suggests, I'll just introduce the company briefly. I also want to give a mid-quarter update. We did issue a press release this morning, so I wanted to touch on that. And then lastly, address your question as to 3 reasons as to why somebody should own AvalonBay.

First of all, Avalon's a $34 billion apartment REIT. We're the 10th-largest public REIT, second-largest apartment REIT, make up about 20% of the subsector. We have 85,000 apartments in 290 communities. Our focus in terms of market is markets in the East and West coasts. Over the last 18 months, we have entered 2 new markets, which were the first markets we've entered in 20 years, those being in Denver and Southeast Florida.

We focus really across the geography within our MSAs, urban, infill suburban as well as suburban. And we address our markets through a mix of product, anywhere from 2-story walk-up garden communities, to 60-story high-rise CBD-type locations.

We've been public for 25 years. We actually just celebrated our 25th anniversary this past November. And in our 25 years as a REIT, we've actually delivered a 13% compounded annual return, which is about 400 basis points above the S&P 500. And importantly, about 70% of that return has actually come through dividends or through cash flow growth as opposed to appreciation. Core FFO growth during that period of time has been about 7%, again, on a compounded annual base over 25 years, and dividend growth has been north of 5%.

So I thought I'd just spend a minute talking about the first quarter. As I mentioned, we did issue a press release this morning. And January and February same-store revenues are coming about -- coming at 3%. That's about 20 basis points above original outlook. Our budget occupancies gains are accounting for about 2/3 of that variance.

Like-term rental rates for the first 2 months of the year are 2.3%, which is about 100 basis points higher than they were January and February of 2018 so still some pretty good momentum that we saw in the back half of the year carrying over into the first quarter of this year. And then lastly, March and April renewal offers have gone out in the 6% range, again, with healthy rates.

And then lastly, Michael, just to address your question as to why -- 3 reasons why somebody should own AvalonBay, yes, I start with just track record and tenure in our markets. As I mentioned, we've been around for 25 years as a public company, but we've been in these markets for more like 35 to 40 years. In most cases, dividend and FFO growth have outperformed the subsector by 250 to 300 basis points on a compounded basis over that period of time. I just think that continuity of presence has allowed us to really be a strong cap allocator within our footprint.

The second reason I'd say is the business model. We are a fully integrated company. We're one of the largest operators, asset managers, developers, redevelopers, construction companies, and acquirers and sellers in our markets.

Development is a differentiated strategy. It's been highly, highly accretive. This cycle alone, we think we've created about $26 per share of NAV, or net asset value; value creation, little over $3 billion. We think the existing pipeline has another $4 to $5 per share. That's what's under construction, not what's in the shadow pipeline. So just this cycle alone we've been able to -- we think we've been able to create about $30 or close to $3.5 billion to $4 billion of value just in the last 8 or 9 years through that capability. And by being -- by having capabilities sort of across the spectrum, we are able to allocate capital we think sort of to its highest and best use within our footprint.

Then the last reason I'd say is just relative valuation. We currently trade at around the same multiple as the rest of the sector, and yet we've been able to deliver, and we think our business model will allow us to continue to deliver sort of outsized growth. So from our perspective, there's a long-term growth premium there that essentially is free today.

So those are the 3 reasons, Michael, that I think are most relevant in terms of why somebody should own AVB today. So I'll turn it back to you.

QUESTIONS AND ANSWERS

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Thank you for that, Tim. We're going to start each one of these sessions with talking about disruption. And what do you believe is the biggest potential disruption to your business? And what are you doing as a management team to take advantage of it or mitigate the risk of it?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes. Thank you, Mike. I think there are a lot of potential disruptors to anybody's business. I think for our business, probably not much different than a lot of other businesses. I think it's just technology and the digitization of commerce, in general. I think it's a huge opportunity, actually for larger landlords that control assets, whether you're talking about smarthomes, Internet of Things, package management, home sharing, utility management, creating coworking spaces. Almost in every deal that we're developing or redeveloping today, we're creating very large coworking spaces for our residents just given the blurring of work, live, play. And as a landlord, I think there's an obligation and an opportunity to sort of be the curator, provider and integrator of sort of a network of services that I think it's hard to do if you're a smaller scale or you don't control the assets; you're just managing them through for a series of different investors. So I think it's an area where scale matters. And I think it's an area where asset control and ownership also matters as well. So as a management team, we're trying to address it through creating, frankly, more capabilities in areas with partnerships and technology, partnering with the likes of the Amazons and Googles of the world. For instance, Sean actually led an initiative a couple years ago. I think we're the first apartment REIT to do that in terms of creating a package acceptance locker system with Amazon. It's becoming pretty prevalent now across the country. But I think it was important that they started with somebody like us that was in the markets that they wanted to be, where they could get 80,000 apartments right away. And they had somebody to talk to on the other end who could speak their language. So I think it's a great opportunity for some of the larger REITs.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Do you think that technology is that element of -- think about the strategic evolution of AvalonBay going to multiple brands, getting the different price points between A and B product, having suburban as well as urban product, obviously, the development pipeline being a key competent thing for the company, the geographic expansion and retilting with Denver and Florida. What is that next strategic thing that you and the board are thinking about to take Avalon in the next step? What should investors expect from strategy and strategic moves?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Well, I think, we'll tell people when we're ready. But I mean, obviously, we entered 2 new markets this past year. I think what the one thing that our markets have in common, we think they're overindexed through knowledge economy. Increasingly, it is a winner-take-all economy. And I think they're going to be winning and losing MSAs. I think they're going to be winning and losing submarkets within those MSAs. I think they're winning and losing populations within those submarkets. And so our brand strategy, our market strategy is really designed around trying to overindex towards those populations, and ultimately, if they're going to drive and capture more income growth from their local economies, and rent growth is sort of the mother's milk of our business. So I think you should expect, we're going to continue to try to overindex those populations and markets and then increasingly be a provider and a curator of services to them, largely based upon a lot of innovations going on, particularly in those markets today.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Do you think, on the services front and weaving in technology, you're going to get paid for that in just excess rent? Or do you view it as a new income stream into Avalon?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

You know, I think it could be both. I think it could be a little bit table stakes at some level in order to be able to sort of play within a particular customer segment. I think there's going to be -- I think there's going to be opportunity potentially to participate in the cash flows. In the case of Amazon, it was more of a capital subsidy, so it was an opportunity sort of where they were providing most of the capital in order to install the systems. And the only thing that they were getting in return was for the customer, in order to use that locker -- which they can use, by the way, for anybody, UPS, FedEx, they just had to have Prime account. That was the only consideration that we were giving them was sort of giving access ultimately to our customer base. So I think, there's going to be some opportunities, whether it's renting out coworking spaces, making our amenities available to not just the residents that are within that community but perhaps other residents. In the submarket, we do benefit from having density within our markets, and ultimately, potentially, to sort of a network outside the Avalon network, if you will.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

You've been very active in mixed-use projects, but you've been always just the -- generally, the apartment owner. Do you sort of view yourself down the road and potentially controlling more of the larger scope of a project?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes, I think it's going to be a mix, Michael. I think, there -- I mean, we're willing to do kind of a spectrum -- sort of full spectrum today whether we control the retail. It's not, I wouldn't say, a differentiating capability today for us. For the most part, to your point, we've combined with retailers -- retail developers and have generally developed it the property in a condominium regime, where we own the residential at the end. They own the retail. We've also done it so that we own the retail, and we're just developing it ourselves. But we're also very open to basically a partnership where we're both contributing kind of our expertise, our capital and ultimately sharing in the ownership of the mixed-use asset, which, in the long term, may be the optimal ownership scenario.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Sharing revenue and taking...

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Just so you're optimizing the overall asset, and you're not trying to gain advantage at your partners' expense.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

A question came in here on liveqa that the company seems a little bit more confident to press rents this year relative to last year and certainly coming out of the fourth quarter. I guess, why that is? And is there a risk of pushing too hard?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

I'm going to turn it over to Sean here in a moment, but I'll just say, I think, as a function of the macro environment, I think what we've been doing has largely been the behavior of the sector. The lift that we saw from tax reform and just stronger economic growth in the first half of last year really carried into the back half of this year and really allowed us to -- we just saw stronger demand and obviously allowed us to push rents. But Sean, you want to talk a little bit more on that?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Yes, sure. I mean, for the most part, it's really what Tim said in terms of the macro factors that are providing a tailwind of the business. So we certainly saw rent growth accelerate in the second half of last year, continues to be trending well above what we produced last year in terms of rent change. And from what we can tell at this point based on where supply is in our various markets as well as the pricing power that we have, we think we're in good shape as we can see through at least the first half of this year in terms of producing rent change that trend's above last year. So, so far, we think things are trending in the appropriate direction.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

And maybe just sticking with operations, so thank you for the update quarter-to-date so far. Are there any markets you're running ahead so far? Are there any markets that are either running ahead of your expectations or running behind?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Yes. As Tim indicated in the press release, we're running about 20 basis points ahead. About 2/3 of that relates to just occupancy being a little bit above what we expected. There's probably 3 markets I'd point to that are outperforming a little bit more than average, which are the Mid-Atlantic, Pacific Northwest and Northern California. All of the markets are ahead at this point, but those 3 are outperforming a little bit more than average. So given where we are, everything trending a little bit ahead, but those 3 are a little bit stronger.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

And in terms of occupancy, is that a -- in terms of occupancy being ahead of expectations, are you still seeing turnover lower? It sounds like you're still pushing renewal. So is it more of a reflection of people just not moving out?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

I'd say the pricing power is, as I mentioned a second ago, we saw it accelerate in the second half of last year. Turnover basically was flat in 2018 relative to 2017. Our expectation is turnover will again remain flat in 2019. Just the total volume of churn has been relatively stable over the last 3 or 4 years. So the occupancy is really just a function of where we are in the kind of the seasonal patterns of the year and our ability to continue to push rents and hold that occupancy without much change. So I wouldn't point to any one specific thing that's leading to it at this point.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

And when you think about the spread you're seeing of your assets of urban versus suburban, are you still seeing suburban meaningfully outperform?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

That is correct. Yes, suburban has outperformed urban since about 2014. Over the last 4 quarters, it's running about 100, 110 basis points ahead in terms of suburban outperformance. And based on where we see supply coming again this year, in terms of total delivery, it's being around 2.3% of stock. It's north of 3% in those urban submarkets and about half of that in the suburban submarkets. So we would expect that trend to continue through 2019, for sure.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Sean, maybe just touch base on what we've been seeing in the Class A versus Class B because that has shifted a bit.

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Yes. What's been interesting is, over the last probably 3 quarters, we have seen Class A accelerate relative to Class B. So for the last 4 or 5 years, it's been a pretty good spread in terms of Class B outperforming Class A. But if you look at our market footprint over the last 3 quarters, Class A has actually accelerated and is currently outperforming Class B assets. So a little bit of a rebound just in terms of what's happening on the demand side but also in terms of what's happening with supply in certain submarkets staring to impact that. So our view is that wage growth, particularly at that sort of higher-end customer in the tax space or financial services, is seeing pretty good wage growth. Right now, that tends to be the more dominant customer profile in those A assets, and they can pay more.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

And you mentioned the supply 2.3% of stock. I don't believe that you factor in any delays where some of your peers do. I mean, what percentage of that do you think probably slips to 2020?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Our experience over the last, I'd say, 3 years for the construction market, particularly from a labor and a municipality perspective, has been relatively strained in terms of capacity. We typically see anywhere from 8% to 15% being delayed from 1 year to the next. So we'll see if that plays out for 2019. What we said on the last quarter call is that, while we're tracking deliveries that represent 2.3% of stock in our markets, we wouldn't be surprised if it came in closer to 2% for the full year. Based on what we know today and the type of product that's particularly being built in the urban submarkets, which is type 1 high rise, and that has more challenges associated with it in high-density, wood-frame construction in some of the suburban environments.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

And if I could just add to that. I think we've mentioned on our earnings call, we've actually started to see starts come down within our footprint. And really for the first time in the last several years, we're starting to see a little bit of relief from a labor standpoint in many of our markets. I was out on the West Coast recently. And both in Northern and Southern California, the people at the site level basically saying, it's as if somebody switched a -- flipped the switch in December or January, where suddenly there's just a lot more labor. They've got 100 more bodies on the job. And so there may be less delays kind of going forward based -- at least within our market footprint based upon the start level that we're seeing today.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

I think throughout last year, at least, kind of in the middle of the year, you talked about reaching more of an equilibrium with kind of market rent growth being 2% to 3% maybe for the remainder of the cycle. It seems like we're seeing a bit of a reacceleration right now. I mean, are we just kind of bouncing off the top of that? Or would those comments still hold?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

I think those comments still hold. I mean, it's an acceleration from 2.5% to 3%. It was 2.5% revenue growth in '17 and '18. We're expecting 3% in 2019. That's still pretty range bound, in my view. Our expectation is supply or deliveries will start to -- will start to come down in 2020, but we also expect the economy will be softer and overall household formation will probably soften in 2020 as well. So that sort of inflation plus a little bit 2% to 3% range, it feels about right to space -- as long as we're not, obviously, in any kind of recession.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

I mean, 3% is 20% higher than 2.5% so...

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

That's right, Michael.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

So rocket ship.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

You're always good at math, yes.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Yes, there was a question that came in here on the liveqa. Coliving or shared apartments, is that a threat? Or is that an opportunity for you?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

I don't think it's a threat necessarily, and Sean may want to expand on it as well. I think it's just -- I think it's a segment of the industry. We think it's maybe 7%, 8% of the sector. We think it's an opportunity as well, something that we could address within a community. We address a lot of different segments today. We don't necessarily have a product that's targeted at the coliving segment, but that's something that we can do either in terms of part of development or redevelopment or reconfiguring existing units. So I think to this point, it really hasn't been a threat or a big drag. And you look at the companies that are out there, they're really small. I mean, the guys that are -- they're coming to see us, too, by the way, about looking for capital. And they got these -- they are like 25-unit deals. I mean, it's -- these are not 400-unit urban highrise. So I think today, it's a pretty -- it's a relatively small segment of the market. It's probably being addressed or product that's already out there. I think that's always an opportunity segment. Markets further provide more targeted products. So I think you'll see that within normal market rate players in terms of trying to address that segment along with others.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

You started testing doing basically furnished apartment short-lease duration. Did that pick up any steam and payback come as what you thought it would be?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes, that's a good question. Sean, why don't you handle the first one?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Yes. Michael, on that one, just to tag along to what Tim said on coliving, we certainly look at coliving, furnished housing, some other segments in terms of where the opportunities might be in some of the strategic considerations with those segments. So we certainly are talking to several of the operators of coliving. There's operators out there that are doing popup hotels. We're also exploring a couple of other segments. You just pointed to one, which is furnished housing. But the way we're approaching furnished housing is not from a short-term perspective actually in terms of lease duration, a bit more longer term. So there are a lot of short-term options out there to provide furnished housing, particularly, corporate housing. We're seasonal during the summer. But what we've done is target specific submarkets and product that we have to do longer-term furnished housing for people that are coming into a market. They aren't committed to being there forever, and they may want to lease for normal durations, anywhere from 8 to 14 months. And so we've piloted that over the last 18 months. We expect to scale that more so over the next year or 2. One other segment I point to is we are looking at a limited service offering through the execution of due development offerings, where we're providing communities that might be a little bit smaller but sort of value-oriented very limited in the way of amenities, very limited in the way of the leasing offices and the big fancy clubhouses, things of that sort, much more of a self-serve model in terms of the staffing considerations at the community, where people may not be there full time, but they may be available by appointment or a couple hours a day, things of that sort. So those are 2 segments that I say we're exploring in addition to what you mentioned in the way of coliving.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes. There is -- just to tag on that, there is a segment of the renter industry that, while they like the amenities and they appreciate the amenities, they don't necessarily value them, and they just assume they're paying for them if they're there and really want the value and the unit themselves. So I don't think it's much different than maybe you see in the hotel sector with limited service where you don't necessarily want to be paying for the -- for this space if you don't have a need for a conference or food and beverage. And there's good value in parts of that industry as well in the limited service space.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Would you want to go up the age scale and go into senior living at all?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Senior living really hasn't been something we've focused on. I mean, they are part of our customers today. We actually have a fair number of 55-plus. And -- so I think just given demographics, you'll see us providing units that are larger, 2 or 3 bedroom, maybe even some communities that are a little bit more targeted towards -- we call them a mature bohemian segment...

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Active lifestyle?

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

Yes, yes. Active, don't necessarily want to be in a senior community, want to be in a sort of vibrant, oftentimes urban walkable environment.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Some of them may want to be going to AVA. I mean, it's entirely possible for...

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

You know what, we got a lot of people of my age who walk into AVA and think it's pretty cool, and they want to live there, and we'll rent them a unit. So...

Sean J. Breslin - *AvalonBay Communities, Inc. - COO*

And Michael, based on our research of that more mature segment, they do want to be in a community that's mixed with a lot of different types of customers. So what you may see from us is taking floors of buildings within the community and have the services and the unit layouts be more specifically targeted to that segment. That appears to be the best fit based on what we can see today.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

A few questions from the room? I know everyone is getting comfortable sending them in anonymously. But if you have a question, you can raise your hand.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Maybe a balance sheet question, which is -- Kevin's really not a prop up here. He's...

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Balance sheet seems to be in good shape.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

Yes, just a quick question on the regulatory environment. It feels like there's more and more move towards rent control. You guys don't own in Oregon, but there's just stuff that's there, obviously, defeated Prop 10 in California. But there is, at least, noise in New York and Washington state and, I guess, probably California continuing. So how do you think about that both as a risk to the business and how to, I guess, fight it?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes, it's -- the latter part of that's going to be a function of where it is. We've talked about disruptors earlier. I think one of the big threats to the industry from a sort of a winner-take-all knowledge-based economy is just the increased income in a quality and wealth concentration. And when you have those factors, the public sector tends to get more involved, whether that's in health care, education or housing, which -- things that are sort of viewed as necessity. So I think it is a threat that we'll see more public involvement. The question is how. Is it going to be through ownership? Is it going to be providing capital or capital subsidies to -- in exchange for additional affordability? Or ultimately, I think, to your question, Nick, is it going to be regulatory through price controls, which we think is the worst option. If you want more housing, the way you don't get that is by controlling price. So I think, everyone in this room probably understands that. I think, ultimately, it's going to be a function of what's the nature of the threat in terms of how its -- how you address it. Is it more at an industry level which we did in -- with Prop 10 in California? But oftentimes, these are really at the town level or at the community level, and which it's more of a local debate, if you will. So -- sometimes we're going to be on our own. Other times, we're going to be joining forces with others in the industry.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

So maybe shifting to development. You've rightsized the development pipeline $800 million, $900 million of starts a year, so you can self-fund it. Number one, maybe walk through the sources of capital that get you to that $800 million, $900 million? This is, I guess, for Kevin. And then number two, just what's the spread on new starts today? What kind of cap rate can you get, stabilize cap rate versus transaction cap rates today?

Kevin P. O'Shea - *AvalonBay Communities, Inc. - CFO*

So, Nick, I'll answer the first question. So in terms of the sources and uses for the year, as we laid out in our guidance attachment in our earnings release, essentially, we have free cash flow of about, call it, $350 million, which is essentially operating cash flow less dividends, less maintenance CapEx assumption. The other 2 sources are really sort of year-over-year EBITDA growth that we leverage at, call it, 5x. And then the third source is planned dispositions, where we anticipate being able to retain the capital and not having to make special dividends. So you kind of work through those numbers, and you end up today with somewhere in the kind of $900 million to $1 billion range in terms of the total amount of capital that we can invest on an annual basis on a leverage neutral -- deleverage neutral. And so in terms of the sources, in terms of the uses themselves, as we've also disclosed, there is about $1.3 billion of spend that we anticipate this year on development and redevelopment, including the land acquisitions associated with new starts. And then we have fully a modest amount of debt maturities this year of about $120 million.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes. In terms of spreads, our current pipeline, as we have estimated initial stabilized yield, not adjusted for inflation, in the low 6% range, Nick. Our shadow pipeline is about the same. So we've got about $4 billion that's going through the planning and entitlement process, design process and about $3 billion under construction. So that $7 billion has a projected initial stabilize yield, call it, in the low 6% range of the cap rate today that would still be in the mid-4s. That spread is lower than it has been early in the cycle. And obviously, you should get later in the cycle. The confidence you have of sort of being able to deliver that projected yield maybe isn't quite as high. And so our view has always been, besides not -- depending upon the equity markets if something's more expensive, you buy a little bit less of it. And we try to demonstrate that through our behaviors. And I guess, in addition to that, maybe just say -- our focus has really turned more towards risk management kind of later in the cycle. We're much more...

Unidentified Participant

This session has ended. Next session will begin in 5 minutes.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

No.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

We're much more...

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

No. We still got 5 more minutes.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes. And so we are much more aggressive early in the cycle in terms of putting our foot on the gas with respect to development. We've been more cautious later in the cycle. We're...

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Talk over The Who.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes, exactly.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

I'm just waiting for the crescendo...

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

But we have a lot less land inventory, under $100 million today. Very flexible development pipeline, most of it controlled through options or densification. And then certainly, what we've been doing on the balance sheet and funding side has been part of really risk management strategy.

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

Maybe just quickly on Columbus Circle. I know it's been a month since the call. But is there any final decision there, I know, your soft market in?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes. So on Columbus Circle, we are going to open for sales this spring. And it's going to be a function ultimately in terms of the market response and market reaction, but we'll ultimately go forward with the condo conversion opportunity there.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

We're going to do rapid fire.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Okay, good.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

There we go. I was texting the DJ. Got the right song, wrong time. So now we have 3:50. Anyone have a question? No? Okay. So do you, Nick, have another one?

Nicholas Gregory Joseph - *Citigroup Inc, Research Division - Director & Senior Analyst*

I have. I have a lot, but you can -- the only other thing I kind of want to hear was, you talked about densification opportunities in these public/private partnerships. So I don't know if we have time to do this, but what -- how do you think about underwriting those versus more market rate conventional that you've typically done?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Well, first of all, there's often less land risk, and, obviously, in [new land] case densification, you won the land. So -- and right now, just given the affordability issue in a lot of our markets, we just have more receptive public sectors in terms of re-entitling some of our assets. Oftentimes, it's really just densifying parking lots and building parking structures, so either excess parking or parking we reconstruct in the form of a parking deck. So we look at the land base is effectively the cost that takes us to repurpose the land for additional density. So -- and then obviously has a lot more flexibility. In the case of public/private partnerships, you usually have a lot of flexibility there, too. They don't want to make their sort of fight. They are committed from a PR standpoint when they select a developer. They're oftentimes not committed to contribute the land until you are ready to start construction. So there's optionality on both sides, oftentimes up until the date you're ready to pull the trigger. And at that point, if the capital markets or the construction markets don't make sense, you kind of make a decision to wait it out together. So those are 2 types of businesses that represent about half of our shadow pipeline today that we think just gives us sort of much more flexibility in terms of the growth lever from development.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

All right. So this is our rapid fire.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

Yes.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

Will the apartment sector have more or fewer public companies a year from now?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

I think it will have the same, Michael. You know, our sector -- subsector has been -- has had tremendous consolidation over the last 20 years. I don't -- but I don't see much -- I really don't see much over the next -- either way, either in terms of new companies or additional consolidation in the next year.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

So same-store NOI growth for the apartment sector overall, not Avalon, in 2020, and for reference, 2019 guidance is 2.9%.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

2.5%.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

That would be now down 20%. 10-year treasury a year from now, it's 2.75% today?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

A little over 2.6%.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

What year will the U.S. enter a recession?

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

They are unpredictable.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

I know.

Timothy J. Naughton - *AvalonBay Communities, Inc. - Chairman, CEO & President*

2023.

Michael Bilerman - *Citigroup Inc, Research Division - MD and Head of the US Real Estate and Lodging Research*

2023. Okay, great. Thank you very much.

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