ESSEX PROPERTY TRUST INC
Form 10-Q
May 07, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________to _________

Commission file number 001-13106

ESSEX PROPERTY TRUST, INC.
(Exact name of Registrant as Specified in its Charter)

Maryland	77-0369576
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

925 East Meadow Drive
Palo Alto, California 94303
(Address of Principal Executive Offices including Zip Code)

(650) 494-3700
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” ”accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,214,497 shares of Common Stock as of May 3, 2012.

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Part I -- Financial Information

Item 1: Condensed Financial Statements (Unaudited)

"Essex" or the "Company" means Essex Property Trust, Inc., a real estate investment trust incorporated in the State of Maryland, or where the context otherwise requires, Essex Portfolio, L.P., a limited partnership (the "Operating Partnership") in which Essex Property Trust, Inc. is the sole general partner.

The information furnished in the accompanying unaudited condensed consolidated balance sheets, statements of operations and comprehensive income, equity, and cash flows of the Company reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the aforementioned condensed consolidated financial statements for the interim periods and are normal and recurring in nature, except as otherwise noted.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands, except per share amounts)

Assets	March 31, 2012	December 31, 2011
Real estate:		
Rental properties:		
Land and land improvements	$865,321	$860,661
Buildings and improvements	3,477,935	3,452,403
	4,343,256	4,313,064
Less accumulated depreciation	(954,243)	(920,026)
	3,389,013	3,393,038
Real estate under development	45,632	44,280
Co-investments	401,531	383,412
	3,836,176	3,820,730
Cash and cash equivalents-unrestricted	13,744	12,889
Cash and cash equivalents-restricted	23,603	22,574
Marketable securities	80,000	74,275
Funds held by 1031 exchange facilitator	10,984	-
Notes and other receivables	48,053	66,369
Prepaid expenses and other assets	21,795	22,682
Deferred charges, net	17,023	17,445
Total assets	$4,051,378	$4,036,964
Liabilities and Equity		
Mortgage notes payable	$1,724,317	$1,745,858
Unsecured debt	465,000	465,000
Lines of credit	153,566	150,000
Accounts payable and accrued liabilities	62,092	48,324
Construction payable	3,337	6,505
Dividends payable	42,096	39,611
Derivative liabilities	2,725	3,061
Other liabilities	20,446	20,528
Total liabilities	2,473,579	2,478,887
Commitments and contingencies		
Cumulative convertible Series G preferred stock	4,349	4,349
Equity:		
Cumulative redeemable Series H preferred stock at liquidation value	73,750	73,750
Common stock, $.0001 par value, 656,020,000 shares authorized 34,132,502 and 33,888,082 shares issued and outstanding	3	3
Additional paid-in capital	1,877,373	1,844,611
Distributions in excess of accumulated earnings	(422,919)	(408,066)
Accumulated other comprehensive loss, net	(70,565)	(72,771)
Total stockholders' equity	1,457,642	1,437,527

Noncontrolling interest	115,808	116,201
Total equity	1,573,450	1,553,728
Total liabilities and equity	$4,051,378	$4,036,964

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARES
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues:		
Rental and other property	$125,474	$111,208
Management and other fees	2,444	1,224
	127,918	112,432
Expenses:		
Property operating, excluding real estate taxes	28,751	27,837
Real estate taxes	11,413	10,587
Depreciation	40,734	36,658
General and administrative	5,400	5,274
Cost of management and other fees	1,640	925
	87,938	81,281
Earnings from operations	39,980	31,151
Interest expense before amortization	(24,658)	(21,811)
Amortization expense	(2,871)	(2,851)
Interest and other income	2,413	6,987
Equity income (loss) in co-investments	2,340	(1,373)
Income from continuing operations	17,204	12,103
Income from discontinued operations	10,037	404
Net income	27,241	12,507
Net income attributable to noncontrolling interest	(3,151)	(3,546)
Net income attributable to controlling interest	24,090	8,961
Dividends to preferred stockholders	(1,368)	(543)
Net income available to common stockholders	$22,722	$8,418
Comprehensive income	$29,592	$11,898
Comprehensive income attributable to noncontrolling interest	(3,296)	(3,505)
Comprehensive income attributable to controlling interest	$26,296	$8,393
Per common share data:		
Basic:		
Income from continuing operations	$0.39	$0.25
Income from discontinued operations	0.28	0.02
Net income available to common stockholders	$0.67	$0.27
Weighted average number of common shares outstanding during the period	34,027,890	31,465,817
Diluted:		
Income from continuing operations	$0.39	$0.25
Income from discontinued operations	0.28	0.02
Net income available to common stockholders	$0.67	$0.27
Weighted average number of common shares outstanding during the period	34,151,475	31,546,953

Dividend per common share	$1.10	$1.04

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Equity for the three months ended March 31, 2012
(Unaudited)
(Dollars and shares in thousands)

	Series H Preferred stock		Common stock		Additional paid-in	Distributions in excess of accumulated	Accumulated other comprehensive	Noncontrolling	
	Shares	Amount	Shares	Amount	capital	earnings	loss, net	Interest	Total
Balances at December 31, 2011	2,950	$ 73,750	33,888	$ 3	$ 1,844,611	$ (408,066)	$ (72,771)	$ 116,201	$ 1,553,728
Comprehensive income:									
Net income	-	-	-	-	-	24,090	-	3,151	27,241
Change in fair value of cash flow hedges and amortization of swap settlements	-	-	-	-	-	-	1,880	124	2,004
Change in fair value of marketable securities	-	-	-	-	-	-	326	21	347
Issuance of common stock under:									
Stock option and restricted stock plans	-	-	24	-	1,348	-	-	-	1,348
Sale of common stock	-	-	221	-	31,590	-	-	-	31,590
Equity based compensation costs	-	-	-	-	(176)	-	-	596	420
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(3,850)	(3,850)
Redemptions of noncontrolling interest	-	-	-	-	-	-	-	(435)	(435)
Common and preferred stock dividends	-	-	-	-	-	(38,943)	-	-	(38,943)
Balances at March 31, 2012	2,950	$ 73,750	34,133	$ 3	$ 1,877,373	$ (422,919)	$ (70,565)	$ 115,808	$ 1,573,450

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$ 27,241	$ 12,507
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of marketable securities	-	(4,543)
Co-investments	862	1,445
Amortization expense	2,871	2,884
Amortization of discount on marketable securities	(1,256)	(1,133)
Amortization of discount on notes receivables	(466)	(329)
Gain on the sales of real estate	(10,870)	-
Depreciation	40,828	37,031
Equity-based compensation	986	427
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(2,563)	(1,011)
Accounts payable and accrued liabilities	14,610	9,281
Other liabilities	(83)	748
Net cash provided by operating activities	72,160	57,307
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(38,900)	(31,400)
Improvements to recent acquisitions	(2,296)	(8,881)
Redevelopment	(8,008)	(6,347)
Revenue generating capital expenditures	(611)	-
Non-revenue generating capital expenditures	(1,200)	(2,933)
Acquisition of and additions to real estate under development	(6,789)	(29,171)
Dispositions of real estate	16,816	-
Changes in restricted cash and refundable deposits	517	1,136
Purchases of marketable securities	(5,438)	(6,805)
Sales and maturities marketable securities	1,348	26,798
Collections of notes and other receivables	7,164	184
Contributions to co-investments	(12,945)	(26,767)
Distributions from co-investments	6,291	-
Net cash used in investing activities	(44,051)	(84,186)
Cash flows from financing activities:		
Borrowings under debt agreements	159,394	304,187
Repayment of debt	(177,984)	(191,542)
Additions to deferred charges	(293)	(474)
Payments to settle derivative instruments	-	(2,395)
Equity related issuance cost	(150)	-
Net proceeds from stock options exercised	933	1,361
Net proceeds from issuance of common stock	31,590	38,436

Distributions to noncontrolling interest		(3,850)		(5,028)
Redemption of noncontrolling interest		(435)		(741)
Common and preferred stock dividends paid		(36,459)		(32,995)
Net cash (used in) provided by financing activities		(27,254)		110,809
Net increase in cash and cash equivalents		855		83,930
Cash and cash equivalents at beginning of year		12,889		13,753
Cash and cash equivalents at end of year	$	13,744	$	97,683
Supplemental disclosure of cash flow information:				
Cash paid for interest, net of $1,616, and $2,182 capitalized in 2012 and 2011, respectively	$	22,603	$	24,161
Supplemental disclosure of noncash investing and financing activities:				
Transfer from real estate under development to rental properties	$	242	$	41,730
Contribution of note receivable to co-investment	$	12,325		-
Change in accrual of dividends	$	2,484	$	530
Change in fair value of derivative liabilities	$	396	$	61
Change in fair value of marketable securities	$	379	$	1,157
Change in construction payable	$	3,168	$	1,429

See accompanying notes to the unaudited condensed consolidated financial statements

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 and 2011
(Unaudited)

(1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. (the "Company"), which include the accounts of the Company and Essex Portfolio, L.P. (the "Operating Partnership," which holds the operating assets of the Company) and are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

All significant intercompany balances and transactions have been eliminated in the condensed consolidated financial statements.

The unaudited condensed consolidated financial statements for the three months ended March 31, 2012 and 2011 include the accounts of the Company and the Operating Partnership. The Company is the sole general partner in the Operating Partnership, with a 93.8% general partnership interest as of March 31, 2012. Total Operating Partnership units outstanding were 2,240,145 and 2,229,230 as of March 31, 2012 and December 31, 2011, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled $339.4 million and $313.2 million, as of March 31, 2012 and December 31, 2011, respectively.

As of March 31, 2012, the Company owned or had ownership interests in 158 apartment communities, aggregating 32,649 units, excluding the Company's ownership in preferred interest co-investments, (collectively, the "Communities", and individually, a "Community"), five commercial buildings and five active development projects (collectively, the "Portfolio"). The Communities are located in Southern California (Los Angeles, Orange, Riverside, San Diego, Santa Barbara, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan area.

Marketable Securities

The Company reports its available for sale securities at fair value, based on quoted market prices (Level 2 for the unsecured bonds and Level 1 for the common stock and investment funds, as defined by the Financial Accounting Standards Board ("FASB") standard for fair value measurements as discussed later in Note 1), and any unrealized gain or loss is recorded as other comprehensive income (loss). Realized gains and losses, interest income, and amortization of purchase discounts are included in interest and other income on the condensed consolidated statement of operations.

As of March 31, 2012 and December 31, 2011, marketable securities consisted primarily of investment-grade unsecured bonds, common stock, investments in mortgage backed securities and investment funds that invest in U.S. treasury or agency securities. As of March 31, 2012 and December 31, 2011, the Company classified its investments in mortgage backed securities, which mature in November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost. The estimated fair values of the mortgage backed securities (Level 2 securities) are approximately equal to the carrying values.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 and 2011
(Unaudited)

As of March 31, 2012 and December 31, 2011 marketable securities consist of the following ($ in thousands):

	March 31, 2012		
	Amortized Cost	Gross Unrealized Gain(Loss)	Fair Value
Available for sale:			
Investment-grade unsecured bonds	$ 4,094	$ (29)	$ 4,065
Investment funds - US treasuries	15,388	615	16,003
Common stock	10,067	1,866	11,933
Held to maturity:			
Mortgage backed securities	47,999	-	47,999
Total	$ 77,548	$ 2,452	$ 80,000

	December 31, 2011		
	Amortized Cost	Gross Unrealized Gain	Fair Value
Available for sale:			
Investment-grade unsecured bonds	$ 3,615	$ 399	$ 4,014
Investment funds - US treasuries	11,783	121	11,904
Common stock	10,067	1,552	11,619
Held to maturity:			
Mortgage backed securities	46,738	-	46,738
Total	$ 72,203	$ 2,072	$ 74,275

The Company uses the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other comprehensive income for securities sold. For the three months ended March 31, 2012, there were no sales of available for sale securities. For the three months ended March 31, 2011 the Company sold $26.8 million of available for sale securities for a gain of $4.5 million.

Variable Interest Entities

The Company evaluates its investments in entities to determine whether such entities may be a variable interest entity, or VIE, and, if a VIE, whether it is the primary beneficiary and therefore should consolidate the VIE. Generally, an entity is determined to be a VIE when either: (1) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support, (2) the equity holders, as a group, lack any of the following three characteristics: (i) the power, through voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity’s economic performance, (ii) the obligation to absorb the expected losses of the entity, (iii) the right to receive the expected residual returns of the entity, or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities) since the Company is the primary beneficiary of these variable interest entities ("VIEs"). Total DownREIT units outstanding were 1,061,848 and 1,063,848 as of March 31, 2012 and December 31, 2011, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled $160.8 million and $149.5 million, as of March 31, 2012 and December 31, 2011, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately $200.6 million and $172.1 million, respectively, as of March 31, 2012 and $199.8 million and $171.5 million, respectively, as of December 31, 2011. Interest holders in VIEs consolidated by the Company are allocated income equal to the cash payments made to those interest holders. The remaining results of operations are generally allocated to the Company. As of March 31, 2012 and December 31, 2011, the Company did not have any other VIEs of which it was deemed to be the primary beneficiary.

Equity Based Compensation

The Company accounts for equity based compensation using the fair value method of accounting. The estimated fair value of stock options granted by the Company is being amortized over the vesting period of the stock options. The estimated grant date fair values of the long term incentive plan units (discussed in Note 13, "Equity Based Compensation Plans," in the Company's Form 10-K for the year ended December 31, 2011) are being amortized over the expected service periods.

Stock-based compensation expense for options and restricted stock totaled $0.4 million and $0.3 million for the three months ended March 31, 2012 and 2011 respectively. The intrinsic value of the stock options exercised during the three months ended March 31, 2012 and 2011 totaled $1.1 million and $1.0 million, respectively. As of March 31, 2012, the intrinsic value of the stock options outstanding totaled $16.1 million. As of March 31, 2012, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled $4.9 million. The cost is expected to be recognized over a weighted-average period of 1 to 6 years for the stock option plans and is expected to be recognized straight-line over 7 years for the restricted stock awards.

The Company has adopted an incentive program involving the issuance of Series Z-1 Incentive Units of limited partnership interest in the Operating Partnership. Stock-based compensation expense for Z-1 Units totaled $0.6 million and $0.4 million for the three months ended March 31, 2012 and 2011, respectively.

Stock-based compensation for Z-1 units capitalized totaled $0.1 million for the three months ended March 31, 2012, and 2011, respectively. As of March 31, 2012, the intrinsic value of the Z-1 Units subject to future vesting totaled $22.5 million. As of March 31, 2012, total unrecognized compensation cost related to Z-1 Units subject to future vesting totaled $10.1 million. The unamortized cost is expected to be recognized over the next fourteen years subject to the achievement of the stated performance criteria.

Fair Value of Financial Instruments

The Company values its financial instruments based on the fair value hierarchy of valuation techniques described in the FASB's accounting standard for fair value measurements. Level 1 inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. The Company uses Level 1 inputs for the fair values of its cash equivalents and its marketable securities except for unsecured bonds and mortgage backed securities. The Company uses Level 2 inputs for its investments in unsecured bonds, mortgage backed securities, notes receivable, notes payable, and derivative liabilities. These inputs include interest rates for similar financial instruments. The Company's valuation methodology for the swap related to the multifamily revenue refunding bonds for the 101 San Fernando apartment community, is described in more detail in Note 8. The Company does not use Level 3 inputs to estimate fair values of any of its financial instruments. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Management believes that the carrying amounts of its amounts outstanding under lines of credit, notes receivable and notes and other receivables approximate fair value as of March 31, 2012 and December 31, 2011, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for similar instruments. Management has estimated that the fair value of the Company’s $1.75 billion of fixed rate debt, including unsecured bonds, at March 31, 2012 is approximately $1.83 billion and the fair value of the Company’s $438.6 million of variable rate debt, excluding borrowings under the lines of credit, at March 31, 2012 is $417.3 million based on the terms of existing mortgage notes payable, unsecured bonds and variable rate demand notes compared to those available in the marketplace. Management believes that the carrying amounts of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, construction payables, other liabilities and dividends payable approximate fair value as of March 31, 2012 due to the short-term maturity of these instruments. The fair values of the Company’s investments in mortgage backed securities are approximately equal to the amortized cost carrying value of these securities. Marketable securities and both the note payable and the swap related to multifamily revenue refunding bonds for the 101 San Fernando apartment community, are carried at fair value as of March 31, 2012, as discussed above and in Note 8.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 and 2011
(Unaudited)

Capitalization Policy

The Company capitalizes all direct and certain indirect costs, including interest and real estate taxes, incurred during development and redevelopment activities. Interest is capitalized on real estate assets that require a period of time to get them ready for their intended use. The amount of interest capitalized is based upon the average amount of accumulated development expenditures during the reporting period. Included in capitalized costs are management’s accounting estimates of the direct and incremental personnel costs and indirect project costs associated with the Company's development and redevelopment activities. Indirect project costs consist primarily of personnel costs associated with construction administration and development, including accounting, legal fees, and various office costs that clearly relate to projects under development. The Company’s capitalized internal costs related to development and redevelopment projects totaled $1.1 million and $1.0 million during each of the three months ended March 31, 2012 and 2011, respectively, most of which relates to development projects. These totals include capitalized salaries of $0.7 million and $0.5 million for three months ended March 31, 2012 and 2011, respectively.

Co-investments

The Company owns investments in joint ventures (“co-investments”) in which it has significant influence, but its ownership interest does not meet the criteria for consolidation in accordance with the accounting standards. Therefore, the Company accounts for these investments using the equity method of accounting. Under the equity method of accounting, the investment is carried at the cost of assets contributed, plus the Company’s equity in earnings less distributions received and the Company’s share of losses. The significant accounting policies of the Company’s co-investments entities are consistent with those of the Company in all material respects. For preferred equity investments the Company recognizes its preferred interest as equity in earnings.

A majority of the co-investments, excluding the preferred equity investments, compensate the Company for its asset management services and may provide promote distributions if certain financial return benchmarks are achieved. Asset management fees are recognized when earned, and promote fees are recognized when the earnings events have occurred and the amount is determinable and collectible.

Accounting Estimates and Reclassifications

The preparation of condensed consolidated financial statements, in accordance with U.S. generally accepted accounting principles, requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate portfolio, its investments in and advances to joint ventures and affiliates, its notes receivables and its qualification as a Real Estate Investment Trust (“REIT”). The Company bases its estimates on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could be different under different assumptions or conditions.

Reclassifications for discontinued operations have been made to prior year statements of operations balances in order to conform to current year presentation. Such reclassifications have no impact on reported earnings, cash flows, total assets or total liabilities.

(2) Significant Transactions During the First Quarter of 2012 and Subsequent Events

Acquisitions

In January 2012, the Company acquired Bon Terra, a 60-unit community located adjacent to Delano in Redmond, Washington for $16.0 million. Interior finishes are of condo quality including granite countertops, stainless steel appliances and extra large windows, and the community will operate as one community with Delano. The Company also acquired Reed Square, a 100-unit community located in Sunnyvale, California for $23.0 million.

In April, the Company purchased the joint venture partner's membership interest in the co-investment Essex Skyline at MacArthur Place, a 349-unit premier high-rise apartment community containing luxury amenities located in Santa Ana, California, for a total purchase price of $85 million. During the second quarter, the Company expects to record income of $2.3 million, representing an incentive partnership interest earned as a result of achieving certain performance hurdles per the joint venture agreement. The secured loan was repaid early as part of this transaction, and the property has been added to the Company's unencumbered asset pool.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 and 2011
(Unaudited)

Notes Receivable

In January 2012 the mortgage loan secured by California Hill was paid off in full for $7.3 million.

The Company contributed a note receivable with a principal balance of $12.4 million, secured by land located in San Mateo, California, at an interest rate of 5% due in November 2012 and its rights to acquire the secured land to a new joint venture, referred to as Elkhorn, with Canada Pension Plan Investment Board ("CPPIB") for a 55% non-controlling interest and $5.5 million in cash. The terms of this new joint venture are substantially the same as the other CPPIB joint ventures and will be accounted for under the equity method of accounting. The joint venture has the rights to acquire the land and subsequently develop 197 units.

Mortgage Notes Payable

During the first quarter 2012, the Company repaid the loan secured by the Santa Clara commercial property of $10.7 million with a rate of 5%. The Company also repaid the construction loan related to the Walnut Creek land parcel held for future development of $5.6 million with a rate of LIBOR plus 350 basis points.

Common Stock

During the first quarter, the Company issued 221,072 shares of common stock for $31.6 million, net of commissions, at an average per share price of $144.54. From December 31, 2011 through May 3, 2012, the Company land parcel held for future development has sold 569,307 shares of common stock for $84.4 million, net of commissions, at an average price of $149.83.

Private Placement Unsecured Notes

During the first quarter, the Company entered into an agreement for the issuance of $200 million of private placement unsecured notes for a term of 9-years at an all-in rate of 4.3%. The notes were forward funded to close at the end of April, June and August of 2012 for $100 million at a rate of 4.27%, $50 million at a rate of 4.30% and $50 million at a rate of 4.37%, respectively.

The net proceeds from the note offering are expected to be used to prepay secured mortgage debt coming due in late 2012 and 2013 at an average rate of 5.5%. As a result of the prepayment of the Skylines loan referred to above and the prepayment of secured debt coming due in 2012 and 2013, the Company may incur prepayment penalties and write-off of deferred charges up to $2.5 million during the remainder of 2012.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
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(Unaudited)

(3) Co-investments

The Company has co-investments, which are accounted for under the equity method. The co-investments own, operate and develop apartment communities.

The following table details the Company's co-investments (dollars in thousands):

	March 31, 2012	December 31, 2011
Investments in joint ventures accounted for under the equity method of accounting:		
Membership interest in Wesco I	$ 74,697	$ 75,588
Partnership interest in Fund II	64,735	64,294
Membership interest in a limited liability company that owns Essex Skyline at MacArthur Place	22,424	24,063
Total operating co-investments	161,856	163,945
Membership interests in limited liability companies that own and are developing Cadence, West Dublin, and Elkhorn	81,499	62,897
Membership interest in a limited liability company that owns and is developing Expo (formerly Queen Anne)	18,273	17,981
Membership interests in limited liability companies that own and are developing Fountain at La Brea and Santa Monica at La Brea	15,381	15,194
Total development co-investments	115,153	96,072
Membership interest in Wesco II that owns a preferred equity interest in Parkmerced with a perferred return of 10.1%	89,065	88,075
Preferred interests in limited liability companies that own apartment communities in downtown Los Angeles with preferred returns of 9% and 10%	22,792	22,792
Preferred interest in a related limited liability company that owns Madison Park at Anaheim with a preferred return of 13%	12,665	12,528
Total preferred interest investments	124,522	123,395
Total co-investments	$ 401,531	$ 383,412

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2012 and 2011
(Unaudited)

The combined summarized balance sheet and statements of operations for co-investments, which are accounted for under the equity method, are as follows (dollars in thousands).

	March 31, 2012	December 31, 2011
Balance sheets:		
Rental properties and real estate under development	$ 1,705,899	$ 1,659,078
Other assets	93,170	63,847
Total assets	$ 1,799,069	$ 1,722,925
Debt	$ 918,811	$ 900,095
Other liabilities	59,832	48,518
Equity	820,426	774,312
Total liabilities and equity	$ 1,799,069	$ 1,722,925
Company's share of equity	$ 401,531	$ 383,412

	Three Months Ended March 31, 2012	2011
Statements of operations:		
Property revenues	$ 34,323	$ 18,512
Property operating expenses	(13,137)	(7,976)
Net property operating income	21,186	10,536
Interest expense	(8,545)	(4,861)
General and administrative	(796)	(984)
Depreciation and amortization	(13,896)	(8,063)
Net loss	$ (2,051)	$ (3,372)
Company's share of net income (loss)	$ 2,340	$ (1,373)

(4) Notes and Other Receivables

Notes receivable secured by real estate, and other receivables consist of the following as of March 31, 2012 and December 31, 2011 (dollars in thousands):

	March 31, 2012	December 31, 2011
Note receivable, secured, bearing interest at 9.8%, paid in full January 2012	$-	$7,331

Note receivable, secured, bearing interest at 5.0%, due November 2012 (1)	-	12,428