

ESSEX PROPERTY TRUST INC  
Form 10-Q  
May 11, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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.  
ESSEX PORTFOLIO, L.P.  
(Exact name of Registrant as Specified in its Charter)  
Maryland (Essex Property Trust, Inc.)  
California (Essex Portfolio, L.P.)

77-0369576 (Essex Property Trust, Inc.)  
77-0369575 (Essex Portfolio, L.P.)

(State or Other Jurisdiction of Incorporation or Organization)  
925 East Meadow Drive  
Palo Alto, California 94303  
(Address of Principal Executive Offices including Zip Code)

(I.R.S. Employer Identification Number)

(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.

Essex Property Trust, Inc. Yes  No  Essex Portfolio, L.P. Yes  No

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).

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Essex Property Trust, Inc. Yes  No

Essex Portfolio, L.P. Yes  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):

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Essex Property Trust, Inc.:

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

Essex Portfolio, L.P.:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Essex Property Trust, Inc. Yes  No

Essex Portfolio, L.P. Yes  No

**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: 65,352,146 shares of Common Stock (\$0.0001 par value) of Essex Property Trust, Inc. were outstanding as of May 5, 2015.

## EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the three month period ended March 31, 2015 of Essex Property Trust, Inc. and Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to “Essex” mean Essex Property Trust, Inc., a Maryland corporation that operates as a self-administered and self-managed real estate investment trust (“REIT”), and references to “EPLP” mean Essex Portfolio, L.P. (the “Operating Partnership”). References to the “Company,” “we,” “us” or “our” mean collectively Essex, EPLP and those entities/subsidiaries owned or controlled by Essex and/or EPLP. References to the “Operating Partnership” mean collectively EPLP and those entities/subsidiaries owned or controlled by EPLP.

Essex is the general partner of EPLP and as the sole general partner of EPLP, Essex has exclusive control of EPLP's day-to-day management.

The Company is structured as an umbrella partnership REIT (“UPREIT”) and Essex contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, Essex receives a number of OP Units (see definition below) in the Operating Partnership equal to the number of shares of common stock it has issued in the equity offering. Contributions of properties to the Company can be structured as tax-deferred transactions through the issuance of OP Units in the Operating Partnership, which is one of the reasons why the Company is structured in the manner outlined above. Based on the terms of EPLP's partnership agreement, OP Units can be exchanged with Essex common stock on a one-for-one basis. The Company maintains a one-for-one relationship between the OP Units of the Operating Partnership issued to Essex and shares of common stock.

The Company believes that combining the reports on Form 10-Q of Essex and EPLP into this single report provides the following benefits:

- enhances investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports

Management operates the Company and the Operating Partnership as one business. The management of Essex consists of the same members as the management of EPLP.

All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and Essex has no material assets, other than its investment in EPLP. Essex's primary function is acting as the general partner of EPLP. As general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. Essex also issues equity from time to time and guarantees certain debt of EPLP, as disclosed in this report. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by the Company, which are contributed to the capital of the Operating Partnership in exchange for additional limited partnership interests in the Operating Partnership (“OP Units”) (on a one-for-one share of common stock per OP Unit basis), the Operating Partnership generates all remaining capital required by the Company's business. These sources include the Operating Partnership's working capital, net cash provided by operating activities, borrowings under its revolving credit facilities, the issuance of secured and unsecured debt and equity securities and proceeds received from disposition of certain properties and joint ventures.

The Company believes it is important to understand the few differences between Essex and EPLP in the context of how Essex and EPLP operate as a consolidated company. Stockholders' equity, partners' capital and noncontrolling interest are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners' capital in the Operating Partnership's consolidated financial statements and as noncontrolling interest in Essex's consolidated financial statements. The noncontrolling interest in the Operating Partnership's consolidated financial statements include the interest of unaffiliated partners in various consolidated partnerships and joint venture partners. The noncontrolling interest in the Company's consolidated financial statements include (i) the same noncontrolling interest as presented in the Operating Partnership's consolidated financial statements and (ii) limited partner OP Unitholders of the Operating Partnership. The differences between stockholders' equity and partners' capital result from differences in the equity issued at the Company and Operating Partnership levels.

To help investors understand the significant differences between the Company and the Operating Partnership, this report provides separate consolidated financial statements for the Company and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of stockholders' equity or partners' capital, and earnings per share/unit, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the Company and the Operating Partnership in order to establish that the requisite certifications have been made and that the Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the Company and the Operating Partnership, the separate sections in this report for the Company and the Operating Partnership specifically refer to the Company and the Operating Partnership. In the sections that combine disclosure of the Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the Company is one business and the Company operates that business through the Operating Partnership. The separate discussions of the Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

The information furnished in the accompanying unaudited condensed consolidated balance sheets, statements of income and comprehensive income, equity, capital, and cash flows of the Company and the Operating Partnership reflect 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, 2014.

ESSEX PROPERTY TRUST, INC.  
 ESSEX PORTFOLIO, L.P.  
 FORM 10-Q  
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## Part I – Financial Information

## Item 1. Condensed Financial Statements

## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share amounts)

ASSETS	March 31, 2015	December 31, 2014
Real estate:		
Rental properties:		
Land and land improvements	\$2,505,257	\$2,424,930
Buildings and improvements	9,332,472	8,819,751
	11,837,729	11,244,681
Less accumulated depreciation	(1,658,692 )	(1,564,806 )
	10,179,037	9,679,875
Real estate under development	339,386	429,096
Co-investments	1,057,298	1,042,423
Real estate held for sale, net	—	56,300
	11,575,721	11,207,694
Cash and cash equivalents-unrestricted	219,200	25,610
Cash and cash equivalents-restricted	36,030	70,139
Marketable securities and other investments	128,502	117,240
Notes and other receivables	28,954	24,923
Prepaid expenses and other assets	25,836	33,378
Acquired in place lease value	37,967	47,748
Deferred charges, net	32,949	29,439
Total assets	\$12,085,159	\$11,556,171
<b>LIABILITIES AND EQUITY</b>		
Mortgage notes payable	\$2,322,837	\$2,246,255
Unsecured debt	3,113,216	2,617,482
Lines of credit	—	246,391
Accounts payable and accrued liabilities	162,100	135,162
Construction payable	28,753	30,892
Dividends payable	98,874	88,221
Other liabilities	33,607	32,444
Total liabilities	5,759,387	5,396,847
Commitments and contingencies		
Redeemable noncontrolling interest	24,916	23,256
Equity:		
Common stock; \$0.0001 par value, 656,020,000 shares authorized; 64,620,378 and 63,682,646 shares issued and outstanding, respectively	6	6
Cumulative redeemable 7.125% Series H preferred stock at liquidation value	73,750	73,750
Additional paid-in capital	6,848,255	6,651,165
Distributions in excess of accumulated earnings	(684,436 )	(650,797 )
Accumulated other comprehensive loss, net	(50,868 )	(51,452 )
Total stockholders' equity	6,186,707	6,022,672
Noncontrolling interest	114,149	113,396

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Total equity	6,300,856	6,136,068
Total liabilities and equity	\$12,085,159	\$11,556,171

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Income and Comprehensive Income  
(Unaudited)  
(In thousands, except share and per share amounts)

	Three Months Ended	
	March 31,	
	2015	2014
Revenues:		
Rental and other property	\$280,229	\$159,349
Management and other fees from affiliates	2,644	1,660
	282,873	161,009
Expenses:		
Property operating, excluding real estate taxes	55,618	36,967
Real estate taxes	31,553	15,339
Depreciation and amortization	106,907	50,312
General and administrative	10,545	7,583
Merger and integration expenses	2,388	16,059
Acquisition costs	547	188
	207,558	126,448
Earnings from operations	75,315	34,561
Interest expense	(47,546)	(29,041)
Interest and other income	4,199	2,879
Equity income in co-investments	4,311	10,526
Gains on sale of real estate and land	7,112	7,481
Gain on remeasurement of co-investment	21,362	—
Net income	64,753	26,406
Net income attributable to noncontrolling interest	(4,076)	(3,126)
Net income attributable to controlling interest	60,677	23,280
Dividends to preferred stockholders	(1,314)	(1,368)
Net income available to common stockholders	\$59,363	\$21,912
Comprehensive income	\$65,352	\$30,729
Comprehensive income attributable to noncontrolling interest	(4,091)	(3,372)
Comprehensive income attributable to controlling interest	\$61,261	\$27,357
Per share data:		
Basic:		
Net income available to common stockholders	\$0.92	\$0.58
Weighted average number of shares outstanding during the period	64,185,455	37,685,073
Diluted:		
Net income available to common stockholders	\$0.92	\$0.58
Weighted average number of shares outstanding during the period	64,394,680	37,931,454
Dividend per common share	\$1.44	\$1.21

See accompanying notes to the unaudited condensed consolidated financial statements.

## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Equity for the three months ended March 31, 2015

(Unaudited)

(Dollars and shares in thousands)

	Series H Preferred stock		Common stock		Additional paid-in capital	Distributions in excess of accumulated earnings	Accumulated other comprehensive loss, net	Noncontrolling interest	
	Shares	Amount	Shares	Amount				Interest	Total
Balances at December 31, 2014	2,950	\$73,750	63,683	\$6	\$6,651,165	\$(650,797)	\$(51,452)	\$113,396	\$6,136,068
Net income	—	—	—	—	—	60,677	—	4,076	64,753
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	—	(1,289)	(46)	(1,335)
Change in fair value of marketable securities	—	—	—	—	—	—	1,873	61	1,934
Issuance of common stock under:									
Stock option and restricted stock plans	—	—	115	—	15,613	—	—	—	15,613
Sale of common stock	—	—	822	—	184,158	—	—	—	184,158
Equity based compensation costs	—	—	—	—	613	—	—	757	1,370
Reclassification of noncontrolling interest to redeemable noncontrolling interest	—	—	—	—	—	—	—	(144)	(144)
Changes in the redemption value of redeemable noncontrolling interest	—	—	—	—	(1,517)	—	—	—	(1,517)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(3,574)	(3,574)
Redemptions of noncontrolling interest	—	—	—	—	(1,777)	—	—	(377)	(2,154)
	—	—	—	—	—	(94,316)	—	—	(94,316)

Common and  
preferred stock  
dividends

Balances at March 31, 2015	2,950	\$73,750	64,620	\$6	\$6,848,255	\$(684,436)	\$(50,868)	)	\$114,149	\$6,300,856
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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)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$64,753	\$26,406
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,907	50,312
Amortization of discount on marketable securities	(2,856	) (1,938
Amortization of (premium) discount and debt financing costs, net	(6,530	) 2,986
Gain on sale of marketable securities	—	(427
Company's share of gain on the sales of co-investment	(469	) (3,211
Earnings from co-investments	(3,842	) (7,315
Operating distributions from co-investments	6,055	9,569
Gains on the sales of real estate and land	(7,112	) (7,481
Non cash merger and integration expenses	—	3,750
Equity-based compensation	1,370	1,233
Gain on remeasurement of co-investment	(21,362	) —
Changes in operating assets and liabilities:		
Prepaid expense, receivables and other assets	3,548	2,787
Accounts payable and accrued liabilities	21,741	15,131
Other liabilities	346	92
Net cash provided by operating activities	162,549	91,894
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(199,190	) (33,825
Redevelopment	(19,140	) (10,281
Acquisitions of and additions to real estate under development	(90,925	) (11,919
Capital expenditures on rental properties	(16,196	) (10,697
Acquisition of membership interest in co-investment	(41,513	) —
Proceeds from insurance for property losses	4,589	—
Proceeds from dispositions of real estate	74,485	14,123
Proceeds from dispositions of co-investments	11,072	—
Contributions to co-investments	(48,650	) (39,679
Changes in restricted cash and refundable deposits	45,145	2,512
Purchases of marketable securities	(7,250	) (10,340
Sales and maturities of marketable securities	717	4,016
Collections of notes and other receivables	—	35,500
Net cash used in investing activities	(286,856	) (60,590
Cash flows from financing activities:		
Borrowings under debt agreements	756,562	233,780
Repayment of debt	(536,830	) (312,585
Additions to deferred charges	(4,456	) (9,294
Net proceeds from issuance of common stock	174,592	157,596
Equity related issuance cost	—	(92
Net proceeds from stock options exercises	15,613	1,176

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Distributions to noncontrolling interest	(3,574	) (3,969	)
Redemption of noncontrolling interest	(2,154	) (101	)
Common and preferred stock dividends paid	(83,663	) (96,388	)
Net cash provided by (used in) financing activities	316,090	(29,877	)
Cash acquired in consolidation of co-investment	1,807	—	

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	Three Months Ended	
	March 31,	
	2015	2014
Net increase in cash and cash equivalents	193,590	1,427
Cash and cash equivalents at beginning of period	25,610	18,491
Cash and cash equivalents at end of period	\$219,200	\$19,918
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$4.3 million and \$3.1 million capitalized in 2015 and 2014, respectively	\$50,343	\$26,447
Supplemental disclosure of noncash investing and financing activities:		
Issuance of Operating Partnership units for contributed properties	\$—	\$1,419,816
Transfer from real estate under development to rental properties	\$162,345	\$3,070
Transfer from real estate under development to co-investments	\$1,562	\$3,125
Change in accrual of dividends	\$10,653	\$—
Change in fair value of marketable securities	\$1,934	\$1,575
Change in construction payable	\$2,139	\$376
Reclassifications of and changes in redeemable noncontrolling interest from additional paid in capital and noncontrolling interest	\$1,660	\$—
Debt assumed in connection with acquisition of co-investment	\$114,435	\$—
Receivable for sales of common stock	\$9,566	\$440

See accompanying notes to the unaudited condensed consolidated financial statements

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except unit amounts)

	March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Real estate:		
Rental properties:		
Land and land improvements	\$2,505,257	\$2,424,930
Buildings and improvements	9,332,472	8,819,751
	11,837,729	11,244,681
Less accumulated depreciation	(1,658,692)	(1,564,806)
	10,179,037	9,679,875
Real estate under development	339,386	429,096
Co-investments	1,057,298	1,042,423
Real estate held for sale, net	—	56,300
	11,575,721	11,207,694
Cash and cash equivalents-unrestricted	219,200	25,610
Cash and cash equivalents-restricted	36,030	70,139
Marketable securities and other investments	128,502	117,240
Notes and other receivables	28,954	24,923
Prepaid expenses and other asset	25,836	33,378
Acquired in place lease value	37,967	47,748
Deferred charges, net	32,949	29,439
Total assets	\$12,085,159	\$11,556,171
<b>LIABILITIES AND CAPITAL</b>		
Mortgage notes payable	\$2,322,837	\$2,246,255
Unsecured debt	3,113,216	2,617,482
Lines of credit	—	246,391
Accounts payable and accrued liabilities	162,100	135,162
Construction payable	28,753	30,892
Dividends payable	98,874	88,221
Other liabilities	33,607	32,444
Total liabilities	5,759,387	5,396,847
Commitments and contingencies		
Redeemable noncontrolling interest	24,916	23,256
Capital:		
General Partner:		
Common equity(64,620,378 and 63,682,646 units issued and outstanding, respectively)	6,166,366	6,002,915
Series H 7.125% Preferred interest (liquidation value of \$73,750)	71,209	71,209
	6,237,575	6,074,124
Limited Partners:		
Common equity(2,182,676 and 2,168,158 units issued and outstanding, respectively)	47,803	48,665
Accumulated other comprehensive loss	(48,757)	(49,356)
Total partners' capital	6,236,621	6,073,433
Noncontrolling interest	64,235	62,635

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Total capital	6,300,856	6,136,068
Total liabilities and capital	\$12,085,159	\$11,556,171

See accompanying notes to the unaudited condensed consolidated financial statements

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## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except unit and per unit amounts)

	Three Months Ended	
	March 31,	
	2015	2014
Revenues:		
Rental and other property	\$280,229	\$159,349
Management and other fees from affiliates	2,644	1,660
	282,873	161,009
Expenses:		
Property operating, excluding real estate taxes	55,618	36,967
Real estate taxes	31,553	15,339
Depreciation and amortization	106,907	50,312
General and administrative	10,545	7,583
Merger and integration expenses	2,388	16,059
Acquisition costs	547	188
	207,558	126,448
Earnings from operations	75,315	34,561
Interest expense	(47,546)	(29,041)
Interest and other income	4,199	2,879
Equity income in co-investments	4,311	10,526
Gains on sale of real estate and land	7,112	7,481
Gain on remeasurement of co-investment	21,362	—
Net income	64,753	26,406
Net income attributable to noncontrolling interest	(1,965)	(1,709)
Net income attributable to controlling interest	62,788	24,697
Preferred interest distributions	(1,314)	(1,368)
Net income available to common unitholders	\$61,474	\$23,329
Comprehensive income	\$65,352	\$30,729
Comprehensive income attributable to noncontrolling interest	(1,965)	(1,709)
Comprehensive income attributable to controlling interest	\$63,387	\$29,020
Per unit data:		
Basic:		
Net income available to common unitholders	\$0.93	\$0.58
Weighted average number of common units outstanding during the period	66,369,769	39,957,252
Diluted:		
Net income available to common unitholders	\$0.92	\$0.58
Weighted average number of common units outstanding during the period	66,578,994	40,203,633
Distribution per common unit	\$1.44	\$1.21

See accompanying notes to the unaudited condensed consolidated financial statements

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statement of Capital for the three months ended March 31, 2015

(Dollars and units in thousands)

(Unaudited)

	General Partner		Preferred Equity Amount	Limited Partners		Accumulated Other Comprehensive (Loss) Income	Noncontrolling	
	Common Equity Units	Amount		Common Equity Units	Amount		Interest	Total
Balances at December 31, 2014	63,683	\$6,002,915	\$71,209	2,168	\$48,665	\$ (49,356 )	\$ 62,635	\$6,136,068
Net income	—	59,363	1,314	—	2,111	—	1,965	64,753
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	(1,335 )	—	(1,335 )
Change in fair value of marketable securities	—	—	—	—	—	1,934	—	1,934
Issuance of common units under:								
General partner's stock based compensation	115	15,613	—	17	757	—	—	16,370
Sale of common stock by general partner	822	184,158	—	—	—	—	—	184,158
Equity based compensation costs	—	613	—	—	—	—	—	613
Reclassification of noncontrolling interest to redeemable noncontrolling interest	—	—	—	—	—	—	(144 )	(144 )
Changes in the redemption value of redeemable noncontrolling interest	—	(1,517 )	—	—	—	—	—	(1,517 )
Distributions to noncontrolling interest	—	—	—	—	—	—	(221 )	(221 )
Redemptions	—	(1,777 )	—	(2 )	(377 )	—	—	(2,154 )
Distributions declared	—	(93,002 )	(1,314 )	—	(3,353 )	—	—	(97,669 )
Balances at March 31, 2015	64,620	\$6,166,366	\$71,209	2,183	\$47,803	\$ (48,757 )	\$ 64,235	\$6,300,856

See accompanying notes to the unaudited condensed consolidated financial statements



ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$64,753	\$26,406
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,907	50,312
Amortization of discount on marketable securities	(2,856)	(1,938)
Amortization of (premium) discount and debt financing costs, net	(6,530)	2,986
Gain on sale of marketable securities	—	(427)
Company's share of gain on the sales of co-investment	(469)	(3,211)
Earnings from co-investments	(3,842)	(7,315)
Operating distributions from co-investments	6,055	9,569
Gains on the sales of real estate and land	(7,112)	(7,481)
Non cash merger and integration expenses	—	3,750
Equity-based compensation	1,370	1,233
Gain on remeasurement of co-investment	(21,362)	—
Changes in operating assets and liabilities:		
Prepaid expenses, receivables and other assets	3,548	2,787
Accounts payable and accrued liabilities	21,741	15,131
Other liabilities	346	92
Net cash provided by operating activities	162,549	91,894
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(199,190)	(33,825)
Redevelopment	(19,140)	(10,281)
Acquisitions of and additions to real estate under development	(90,925)	(11,919)
Capital expenditures on rental properties	(16,196)	(10,697)
Acquisition of membership interest in co-investment	(41,513)	—
Proceeds from insurance for property losses	4,589	—
Proceeds from dispositions of real estate	74,485	14,123
Proceeds from dispositions of co-investments	11,072	—
Contributions to co-investments	(48,650)	(39,679)
Changes in restricted cash and refundable deposits	45,145	2,512
Purchases of marketable securities	(7,250)	(10,340)
Sales and maturities of marketable securities	717	4,016
Collections of notes and other receivables	—	35,500
Net cash used in investing activities	(286,856)	(60,590)
Cash flows from financing activities:		
Borrowings under debt agreements	756,562	233,780
Repayment of debt	(536,830)	(312,585)
Additions to deferred charges	(4,456)	(9,294)
Net proceeds from issuance of common stock	174,592	157,596
Equity related issuance cost	—	(92)
Net proceeds from stock options exercised	15,613	1,176
Distributions to noncontrolling interest	(221)	(1,335)

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Redemption of limited partners units	(2,154	) (101	)
Common units and preferred units and preferred interests distributions paid	(87,016	) (99,022	)
Net cash provided by (used in) financing activities	316,090	(29,877	)
Cash acquired in consolidation of co-investment	1,807	—	

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	Three Months Ended	
	March 31,	
	2015	2014
Net increase in cash and cash equivalents-unrestricted	193,590	1,427
Cash and cash equivalents-unrestricted at beginning of period	25,610	18,491
Cash and cash equivalents-unrestricted at end of period	\$219,200	\$19,918
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$4.3 million and \$3.1 million capitalized in 2015 and 2014, respectively	\$50,343	\$26,447
Supplemental disclosure of noncash investing and financing activities:		
Issuance of Operating Partnership units for contributed properties	\$—	\$1,419,816
Transfer from real estate under development to rental properties	\$162,345	\$3,070
Transfer from real estate under development to co-investments	\$1,562	\$3,125
Change in accrual of distributions	\$10,653	\$—
Change in fair value of marketable securities	\$1,934	\$1,575
Change in construction payable	\$2,139	\$376
Reclassifications of and changes in redeemable noncontrolling interest from general partner and limited partners common units	\$1,660	\$—
Debt assumed in connection with acquisition of co-investment	\$114,435	\$—
Receivable for sales of common stock	\$9,566	\$440

See accompanying notes to the unaudited condensed consolidated financial statements

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

(1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. (“Essex” or the “Company”), which include the accounts of the Company and Essex Portfolio, L.P. and subsidiaries (the “Operating Partnership,” which holds the operating assets of the Company), prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) 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, 2014.

All significant intercompany balances and transactions have been eliminated in the condensed consolidated financial statements. Certain reclassifications have been made to conform to the current year's presentation. Such reclassification had no effect on previously reported net income.

The unaudited condensed consolidated financial statements for the three months ended March 31, 2015 include the accounts of the Company and the Operating Partnership. Essex is the sole general partner in the Operating Partnership, with a 96.7% general partnership interest as of March 31, 2015. Total Operating Partnership limited partnership units outstanding were 2,182,676 and 2,168,158 as of March 31, 2015 and December 31, 2014, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$501.8 million and \$447.9 million, as of March 31, 2015 and December 31, 2014, respectively.

As of March 31, 2015, the Company owned or had ownership interests in 240 apartment communities, aggregating 57,203 units, excluding the Company's ownership in preferred interest co-investments, (collectively, the “Communities”, and individually, a “Community”), four commercial buildings and twelve active developments (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 areas.

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), and any unrealized gain or loss is recorded as other comprehensive income (loss). Realized gains and losses, interest and dividend income, and amortization of purchase discounts are included in interest and other income on the condensed consolidated statements of income and comprehensive income.

As of March 31, 2015 and December 31, 2014, marketable securities consisted primarily of investment-grade unsecured bonds, common stock, investments in mortgage backed securities and investment funds that invest in US treasury or agency securities. As of March 31, 2015 and December 31, 2014, the Company classified its investments in mortgage backed securities, which mature through November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost. As of March 31, 2015 and December 31, 2014,

marketable securities consist of the following (\$ in thousands):

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## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

	March 31, 2015		
	Amortized Cost	Gross Unrealized Gain	Carrying Value
Available for sale:			
Investment-grade unsecured bonds	\$8,762	\$176	\$8,938
Investment funds - US treasuries	5,019	7	5,026
Common stock and stock funds	31,753	6,975	38,728
Held to maturity:			
Mortgage backed securities	70,810	—	70,810
Total - Marketable securities	\$116,344	\$7,158	\$123,502
Other investments <sup>(1)</sup>	5,000	—	5,000
Total - Marketable securities and other investments	\$121,344	\$7,158	\$128,502

	December 31, 2014		
	Amortized Cost	Gross Unrealized Gain	Carrying Value
Available for sale:			
Investment-grade unsecured bonds	\$9,435	\$145	\$9,580
Investment funds - US treasuries	3,769	3	3,772
Common stock and stock funds	25,755	5,137	30,892
Held to maturity:			
Mortgage backed securities	67,996	—	67,996
Total - marketable securities	\$106,955	\$5,285	\$112,240
Other investments <sup>(1)</sup>	5,000	—	5,000
Total - Marketable securities and other investments	\$111,955	\$5,285	\$117,240

(1) Limited partnership interests

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, 2015 and 2014, the proceeds from sales of available for sale securities totaled \$0.7 million and \$4.0 million, respectively, which resulted in no realized gains or losses and gains of \$0.4 million, respectively.

## Variable Interest Entities

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 965,289 and 974,790 as of March 31, 2015 and December 31, 2014 respectively, and the redemption value of the units, based on the closing price of the Company’s common stock totaled \$221.9 million and \$201.4 million, as of March 31, 2015 and December 31, 2014, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately \$235.6 million and \$209.3 million, respectively, as of March 31, 2015 and \$235.1 million and \$209.1 million, respectively, as of December 31, 2014. Interest holders in VIEs consolidated

by the Company are allocated income equal to the cash distributions made to those interest holders. The remaining results of operations are allocated to the Company. As of March 31, 2015 and December 31, 2014, the Company did not have any other VIEs of which it was deemed to be the primary beneficiary.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

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, 2014) are being amortized over the expected service periods.

Stock-based compensation expense for options and restricted stock totaled \$0.6 million for each of the three months ended March 31, 2015 and 2014. Stock options exercised during the three months ended March 31, 2015 and 2014 were 114,833 and 11,242, respectively and the intrinsic value of the stock options exercised during these periods totaled \$10.3 million and \$0.6 million, respectively. As of March 31, 2015, the intrinsic value of the stock options outstanding and fully vested totaled \$27.2 million. As of March 31, 2015, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled \$6.4 million. The cost is expected to be recognized over a weighted-average period of 1 to 5 years for the stock option plans and is expected to be recognized straight-line over a period of 1 to 7 years for the restricted stock awards.

Stock-based compensation expense for Z-1 and Long-Term Incentive Plan ("LTIP") Units totaled \$0.8 million and \$0.6 million for the three months ended March 31, 2015 and 2014, respectively. The intrinsic value of the vested and unvested Z-1 and LTIP Units totaled \$59.9 million as of March 31, 2015. Total unrecognized compensation cost related to Z-1 Units and LTIP Units subject to future vesting totaled \$10.2 million as of March 31, 2015. On a weighted average basis, the unamortized cost for the Z-1 and LTIP Units is expected to be recognized over the next 10.3 years and 4.0 years, respectively.

Fair Value of Financial Instruments

Management believes that the carrying amounts of outstanding lines of credit, and notes and other receivables approximate fair value as of March 31, 2015 and December 31, 2014, 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 \$4.8 billion of fixed rate debt, including unsecured bonds, at March 31, 2015 is approximately \$5.1 billion and the Company's variable rate debt, excluding borrowings under the lines of credit, at March 31, 2015 approximates its fair value 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, 2015 due to the short-term maturity of these instruments. Marketable securities, except mortgage backed securities that are held to maturity, and derivatives are carried at fair value as of March 31, 2015.

At March 31, 2015, the Company's investments in mortgage backed securities had a carrying value of \$70.8 million and the Company estimated the fair value to be approximately \$99.0 million. At December 31, 2014, the Company's investments in mortgage backed securities had a carrying value of \$68.0 million and the Company estimated the fair value to be approximately \$96.0 million. The Company determines the fair value of the mortgage backed securities based on unobservable inputs (level 3 of the fair value hierarchy) considering the assumptions that market participants would make in valuing these securities. Assumptions such as estimated default rates and discount rates are used to

determine expected discounted cash flows to estimate the fair value.

#### Capitalization of Costs

The Company's capitalized internal costs related to development and redevelopment projects were comprised primarily of employee compensation and totaled \$2.0 million and \$1.7 million during the three months ended March 31, 2015 and 2014, respectively. The Company capitalizes leasing commissions associated with the lease-up of a development community and amortizes the costs over the life of the leases. The amounts capitalized for leasing commissions are immaterial for all periods presented.

## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

## 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 U.S. GAAP. Therefore, the Company accounts for co-investments using the equity method of accounting. The equity method employs the accrual basis for recognizing the investor’s share of investee income or losses. In addition, distributions received from the investee are treated as a reduction in the investment account, not as income. The significant accounting policies of the Company’s co-investment entities are consistent with those of the Company in all material respects.

Upon the acquisition of a controlling interest of a co-investment, the co-investment entity is consolidated and a gain or loss is recognized upon the remeasurement of co-investments in the condensed consolidated statement of income equal to the amount by which the fair value of the co-investment interest the Company previously owned exceeds its carrying value. A majority of the co-investments, excluding the preferred equity investments, compensate the Company for its asset management services and may provide promote income 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. Any promote fees are reflected in equity income in co-investments.

## Changes in Accumulated Other Comprehensive Loss, Net by Component

## Essex Property Trust, Inc.

(in thousands):

	Change in fair value and amortization of derivatives	Unrealized gains on available for sale securities	Total
Balance at December 31, 2014	\$(56,003 )	\$4,551	\$(51,452 )
Other comprehensive income before reclassification	(3,211 )	1,873	(1,338 )
Amounts reclassified from accumulated other comprehensive loss	1,922	—	1,922
Net other comprehensive income	(1,289 )	1,873	584
Balance at March 31, 2015	\$(57,292 )	\$6,424	\$(50,868 )

## Essex Portfolio, L.P.

(in thousands):

	Change in fair value and amortization of derivatives	Unrealized gains on available for sale securities	Total
Balance at December 31, 2014	\$(53,980 )	\$4,624	\$(49,356 )
Other comprehensive income before reclassification	(3,257 )	1,934	(1,323 )
Amounts reclassified from accumulated other comprehensive loss	1,922	—	1,922
Net other comprehensive income	(1,335 )	1,934	599



## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

## Accounting Estimates

The preparation of condensed consolidated financial statements, in accordance with GAAP, 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.

## BRE Merger

The merger with BRE Properties, Inc. ("BRE") was a two step process. First, 14 of the BRE properties were acquired on March 31, 2014 in exchange for \$1.4 billion of OP units. The fair value of these properties was substantially all attributable to rental properties which included land, buildings and improvements, and real estate under development and approximately \$19 million was attributable to acquired in-place lease value. Second, the BRE merger was closed on April 1, 2014 in exchange for the total consideration of approximately \$4.3 billion. A summary of the fair value of the assets and liabilities acquired on April 1, 2014 was as follows (includes the 14 properties acquired on March 31, 2014 as the OP units issued were retired on April 1, 2014) (in millions):

Cash assumed	\$ 140	
Rental properties and real estate under development	5,605	
Real estate held for sale, net	108	
Co-investments	224	
Acquired in-place lease value	77	
Other assets	16	
Mortgage notes payable and unsecured debt	(1,747	)
Other liabilities	(87	)
Redeemable noncontrolling interest	(5	)
	\$4,331	
Cash consideration for BRE merger	\$556	
Equity consideration for BRE merger	3,775	
Total consideration for BRE merger	\$4,331	

During the quarter ended March 31, 2015, the Company recorded adjustments to decrease the preliminary fair value of real property by \$13.1 million, to increase the preliminary fair value of co-investments by \$6.0 million and to decrease its preliminary estimate for liabilities assumed by \$7.1 million. The changes in estimates were the result of subsequent additional information pertaining to the opening balance sheet identified by management. The Company believes that the information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed.

## (2) Significant Transactions During the First Quarter of 2015 and Subsequent Events

Significant Transactions

Acquisitions

In February 2015, the Company formed a joint venture, Block 9 Residential, LLC ("500 Folsom"), to purchase a land parcel located at the intersection of Folsom and First Streets in downtown San Francisco, CA for a contract price of \$43.6 million. The site is located near the Transbay Terminal transportation hub, which is currently under construction. 500 Folsom plans to

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

develop a forty-two story apartment community comprising 545 homes and 5,900 square feet of ground floor retail space. The Company has an approximately 50% interest in the joint venture.

In February 2015, the Company acquired 8th and Hope, a 290 unit community in Los Angeles, CA for \$200 million. The property was completed in 2014 and has approximately 4,000 square feet of ground floor retail space.

In March 2015, the Company acquired Station Park Green, a parcel of land located in San Mateo, CA for a contract price of \$67.0 million. The Company plans to develop an apartment community comprising 599 homes and approximately 35,000 square feet of office and retail space.

In March 2015, the Company acquired an additional 50% interest in The Huxley and The Dylan communities, located in Los Angeles, CA, for a contract price of \$100.1 million. As a result of the acquisition, the properties and related debt are now consolidated and the Company recorded a \$21.4 million gain to remeasure the Company's investment in the co-investments to fair value.

#### Dispositions

In January 2015, the Company sold Pinnacle South Mountain, a 552 unit community located in Phoenix, AZ for gross proceeds of \$63.8 million and a net gain of \$4.7 million.

#### Issuance of Unsecured Debt

In March 2015, the Company issued \$500.0 million of 3.50% senior unsecured notes that mature in April 1 2025. The interest is payable semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2015 until the maturity date in April 2025. The Company used the net proceeds of this offering to repay indebtedness under the Company's \$1.0 billion unsecured line of credit facility, its \$25.0 million unsecured working capital line and for other general corporate purposes.

#### Common Stock

During the first quarter, the Company issued 822,071 shares of common stock, through our equity distribution program, at an average price of \$225.51 for net proceeds of \$184.2 million.

#### Subsequent Events

Subsequent to quarter end, the Company purchased the joint venture partners 49.5% interest in Reveal, from the Wesco I, LLC co-investment, for a contract price of \$73.0 million. Reveal has 438 apartment homes located in Woodland Hills, CA. Starting in the second quarter of 2015, the property will be consolidated.

During the second quarter through May 4, 2015, the Company sold 34,125 shares of common stock for \$7.8 million, net of fees and commissions, at an average price of \$229.50.



## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(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 carrying value of Company's co-investments (in thousands):

	March 31, 2015	December 31, 2014
Membership interest/Partnership interest in:		
Wesco I and III	\$186,667	\$188,853
Fund II	232	696
Expo	6,877	7,352
The Huxley	—	11,471
CPPIB	170,501	169,621
Wesco IV	67,904	67,937
BEXAEW	93,842	97,686
Palm Valley	69,817	70,186
Total operating co-investments	595,840	613,802
Membership interest in:		
Limited liability companies with CPPIB that own and are developing Epic Phase III, Mosso I and II, Park 20, The Emme, Moorpark, The Village, The Owens, and Hacienda	283,785	268,016
One South Market	31,300	30,919
The Dylan	—	7,874
Century Towers	13,475	13,121
500 Folsom	25,824	—
Total development co-investments	354,384	319,930
Preferred interest in related party limited liability company that owns Sage at Cupertino with a preferred return of 9.5% (matures in May 2016)	16,675	16,571
Preferred interest in a related party limited liability company that owned Madison Park at Anaheim with a preferred return of 9% (matures in September 2020) <sup>(1)</sup>	13,824	13,824
Preferred interest in related party limited liability company that owns an apartment development in Redwood City with a preferred return of 12% (redeemed for \$11.1 million in March 2015)	—	10,396
Preferred interest in a limited liability company that owns an apartment development in San Jose with a preferred return of 12% (matures in August 2016 with one one-year extension option)	10,314	10,011
Preferred interest in a limited liability company that owns 8th & Thomas with a preferred return of 10.0% (matures in June 2018 with one one-year extension option)	13,477	13,145
Preferred interest in a limited liability company that owns Newbury Park with a preferred return of 12.0% (matures in January 2019)	13,548	13,150
Preferred interest in a limited liability company that owns Century Towers (matures in August 2019) <sup>(2)</sup>	19,528	12,357
Preferred interest in a limited liability company that owns an apartment development in San Jose with a preferred return of 9% (matures in January 2023)	19,708	19,237

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Total preferred interest co-investments	107,074	108,691
Total co-investments	\$1,057,298	\$1,042,423

(1) The Madison Park at Anaheim property was sold during the quarter ended March 31, 2015 and the Company's investment is now collateralized by cash.

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## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

(2) The Company has committed to a total preferred equity investment in the project of \$27.0 million at an effective preferred return rate of 8.1%. As of March 31, 2015 the Company has made a preferred equity investment of \$19.0 million.

The combined summarized financial information of co-investments are as follows (in thousands).

	March 31, 2015	December 31, 2014
Combined balance sheets:		
Rental properties and real estate under development	\$3,425,781	\$3,426,574
Other assets	181,856	107,902
Total assets	\$3,607,637	\$3,534,476
Debt	\$1,450,210	\$1,568,398
Other liabilities	158,909	91,579
Equity (1)	1,998,518	1,874,499
Total liabilities and equity	\$3,607,637	\$3,534,476
Company's share of equity	\$1,057,298	\$1,042,423
	Three Months Ended	
	March 31, 2015	2014
Combined statements of income:		
Property revenues	\$63,498	\$27,960
Property operating expenses	(22,954	) (11,560
Net operating income	40,544	16,400
Gain on sale of real estate	14	11,369
Interest expense	(11,316	) (6,023
General and administrative	(1,606	) (1,388
Equity income from co-investments (2)	—	4,759
Depreciation and amortization	(25,381	) (10,693
Net income	\$2,255	\$14,424
Company's share of net income (3)	\$4,311	\$10,526

(1) Includes preferred equity investments held by the Company.

(2) Represents income from Wesco II's preferred equity investment in Park Merced.

(3) Includes the Company's share of equity income from preferred equity investments, gain on sales of co-investments, co-investment promote income and income from early redemption of preferred equity investments.

## (4) Notes and Other Receivables

Notes receivable secured by real estate and other receivables consist of the following as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Notes receivable, secured, bearing interest at 6.0%, due December 2016	\$3,219	\$3,212

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Notes and other receivables from affiliates	4,177	8,105
Other receivables <sup>(1)</sup>	21,558	13,606
	\$28,954	\$24,923

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

(1) Amount includes \$9.6 million for the sale of the Company's common stock which was settled in April 2015 and \$12.0 million for utilities, rents and other receivables.

(5) Related Party Transactions

The Company charges certain fees to its co-investments for asset management, property management, development and redevelopment services. These fees from affiliates totaled \$5.7 million and \$2.6 million during the three months ended March 31, 2015 and 2014, respectively. All of these fees are net of intercompany amounts eliminated by the Company. The Company netted development and redevelopment fees of \$3.1 million and \$0.9 million against general and administrative expenses for the three months ended March 31, 2015 and 2014, respectively.

The Company's Chairman and founder, Mr. George Marcus, is the Chairman of the Marcus & Millichap Company ("MMC"), which is a parent company of a diversified group of real estate service, investment, and development firms. Mr. Marcus is also the Co-Chairman of Marcus & Millichap, Inc. ("MMI"), and Mr. Marcus owns a controlling interest in MMI, a national brokerage firm listed on the NYSE. In July 2014, the Company acquired Paragon Apartments, a 301 apartment community located in Fremont, CA for \$111.0 million from an entity that was partially owned by an affiliate of MMC. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the acquisition of Paragon Apartments.

In January 2013, the Company invested \$8.6 million as a preferred equity interest investment in an entity affiliated with MMC that owns an apartment development in Redwood City, California. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the investment in this entity. In March 2015 the Company's preferred interest investment was prepaid and the Company recognized a gain of \$0.5 million as a result of the prepayment.

As described in Note 4, the Company has provided short-term bridge loans to affiliates. As of March 31, 2015, \$4.2 million of short-term loans remained outstanding due from joint venture affiliates.

(6) Debt

The Company does not have indebtedness as debt is incurred by the Operating Partnership. The Company guarantees the Operating Partnership's unsecured debt including the revolving credit facilities for the full term of such debt.

In March 2015, in connection with the purchase of a controlling interest in The Huxley and The Dylan, the Operating Partnership now consolidates the related entities. The Operating Partnership assumed mortgage loans with a principal balance of \$114.4 million outstanding, with a remaining term to maturity of thirty-two years with a variable interest rate based on the Municipal Market Data rate plus 345 basis points.

Debt consists of the following (in thousands):

## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2015 and 2014

(Unaudited)

	March 31, 2015	December 31, 2014	Weighted Average Maturity In Years
Bonds private placement - fixed rate	\$465,000	\$465,000	4.0
Term loan - variable rate	225,000	225,000	1.6
Unsecured Bonds - fixed rate	2,423,216	1,927,482	7.5
Unsecured debt <sup>(1)</sup>	3,113,216	2,617,482	
Lines of credit	—	246,391	
Mortgage notes payable <sup>(2)</sup>	\$2,322,837	\$2,246,255	6.6
Total debt	\$5,436,053	\$5,110,128	
Weighted average interest rate on fixed rate unsecured bonds	3.6	% 3.6	%
Weighted average interest rate on variable rate term loan	2.4	% 2.4	%
Weighted average interest rate on lines of credit	—	% 1.8	%
Weighted average interest rate on mortgage notes payable	4.5	% 4.6	%

(1) Includes unamortized premium of \$23.2 million and \$27.5 million as of March 31, 2015 and December 31, 2014, respectively.

(2) Includes unamortized premium of \$78.2 million and \$83.8 million as of March 31, 2015 and December 31, 2014, respectively.

The aggregate scheduled principal payments of the Company's outstanding debt as of March 31, 2015 are as follows (excluding lines of credit):

Remaining in 2015	\$74,177
2016	391,519
2017	564,178
2018	320,621
2019	641,393
Thereafter	3,342,728
	\$5,334,616

## (7) Segment Information

The Company defines its reportable operating segments as the three geographical regions in which its communities are located: Southern California, Northern California and Seattle Metro. Excluded from segment revenues and net operating income are management and other fees from affiliates, and interest and other income. Non-segment revenues and net operating income included in the following schedule also consist of revenue generated from commercial properties. Other non-segment assets include real estate under development, co-investments, cash and cash equivalents, marketable securities, notes and other receivables, prepaid expenses and other assets and deferred charges.

The revenues and net operating income for each of the reportable operating segments are summarized as follows for the three months ended March 31, 2015 and 2014 (\$ in thousands):



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	Three Months Ended	
	March 31,	
	2015	2014
Revenues:		
Southern California	\$ 123,455	\$ 69,611
Northern California	102,427	56,488
Seattle Metro	48,654	28,705
Other real estate assets	5,693	4,545
Total property revenues	\$ 280,229	\$ 159,349
Net operating income:		
Southern California	\$ 83,088	\$ 46,939
Northern California	72,516	39,923
Seattle Metro	33,129	19,046
Other real estate assets	4,325	1,135
Total net operating income	193,058	107,043
Management and other fees from affiliates	2,644	1,660
Depreciation and amortization	(106,907	) (50,312
General and administrative	(10,545	) (7,583
Merger and integration expenses	(2,388	) (16,059
Acquisition costs	(547	) (188
Interest expense	(47,546	) (29,041
Interest and other income	4,199	2,879
Equity income from co-investments	4,311	10,526
Gains on sale of real estate and land	7,112	7,481
Gain on remeasurement of co-investment	21,362	—
Net income	\$ 64,753	\$ 26,406

Total assets for each of the reportable operating segments are summarized as follows as of March 31, 2015 and December 31, 2014 (\$ in thousands):

	March 31, 2015	December 31, 2014
Assets:		
Southern California	\$ 4,612,162	\$ 4,241,277
Northern California	3,782,875	3,641,720
Seattle Metro	1,634,249	1,647,058
Other real estate assets	149,751	149,820
Net reportable operating segment - real estate assets	10,179,037	9,679,875
Real estate under development	339,386	429,096
Co-investments	1,057,298	1,042,423
Real estate held for sale, net	—	56,300
Cash and cash equivalents, including restricted cash	255,230	95,749
Marketable securities and other investments	128,502	117,240
Notes and other receivables	28,954	24,923
Other non-segment assets	96,752	110,565

Total assets	\$12,085,159	\$11,556,171
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## (8) Net Income Per Common Share

(Amounts in thousands, except per share and unit data)

## Essex Property Trust, Inc.

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Income	Weighted- average Common Shares	Per Common Share Amount	Income	Weighted- average Common Shares	Per Common Share Amount
Basic:						
Net income available to common stockholders	\$59,363	64,185,455	\$0.92	\$21,912	37,685,073	\$0.58
Effect of Dilutive Securities <sup>(1)</sup>	—	209,225		—	246,381	
Diluted:						
Net income available to common stockholders	\$59,363	64,394,680	\$0.92	\$21,912	37,931,454	\$0.58

Weighted average convertible limited partnership units of 2,184,314 and 2,272,179 which include vested Series Z-1 incentive units, for the three months ended March 31, 2015, and 2014, respectively, were not included in the determination of diluted EPS because they were anti-dilutive. Income allocated to convertible limited partnership units, which includes vested Series Z-1 units, aggregating \$2.1 million and \$1.4 million for the three months ended (1) March 31, 2015 and 2014, respectively has been excluded from income available to common stockholders for the calculation of diluted income per common share since these units are excluded from the diluted weighted average common shares for the period as the effect was anti-dilutive. The Company has the ability to redeem DownREIT limited partnership units for cash and does not consider them to be potentially dilutive securities.

Stock options of zero and 164,442 for the three months ended March 31, 2015 and 2014, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive.

## Essex Portfolio, L.P.

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Income	Weighted- average Common Units	Per Common Unit	