FIRST FINANCIAL BANKSHARES INC
Form 10-Q
October 31, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

Commission file number 0-7674

FIRST FINANCIAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas	**75-0944023**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

400 Pine Street, Abilene, Texas	**79601**
(Address of principal executive offices)	**(Zip Code)**

(325) 627-7155

(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 such reports), and (2) has been subject to such filing requirements for the past 90 days. 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 Regulations 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding at October 31, 2017**
Common Stock, $0.01 par value per share	**66,226,057**

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company or we) at September 30, 2017 and 2016 and December 31, 2016, and the consolidated statements of earnings and comprehensive earnings for the three and nine months ended September 30, 2017 and 2016, and the consolidated statements of shareholders equity and cash flows for the nine months ended September 30, 2017 and 2016, follow on pages 4 through 8.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	Septembere 30, 2017	2016	December 31, 2016
ASSETS	(Unaudited)		
CASH AND DUE FROM BANKS	$ 177,615	$ 166,981	$ 204,782
FEDERAL FUNDS SOLD		3,400	3,130
INTEREST-BEARING DEPOSITS IN BANKS	166,820	117,334	48,574
Total cash and cash equivalents	344,435	287,715	256,486
INTEREST-BEARING TIME DEPOSITS IN BANKS	1,458	1,707	1,707
SECURITIES AVAILABLE-FOR-SALE, at fair value	2,885,483	2,729,030	2,860,837
SECURITIES HELD-TO-MATURITY (fair value of $133 and $124 at September 30, 2016, and December 31, 2016, respectively)		129	121
LOANS:			
Held for investment	3,472,227	3,337,793	3,357,307
Less - allowance for loan losses	(47,922)	(45,298)	(45,779)
Net loans held for investment	3,424,305	3,292,495	3,311,528
Held for sale	19,119	31,591	26,898
Net loans	3,443,424	3,324,086	3,338,426
BANK PREMISES AND EQUIPMENT, net	125,668	122,725	122,685
INTANGIBLE ASSETS	141,355	143,729	143,603
OTHER ASSETS	67,341	77,615	86,066
Total assets	$ 7,009,164	$ 6,686,736	$ 6,809,931
LIABILITIES AND SHAREHOLDERS EQUITY			
NONINTEREST-BEARING DEPOSITS	$ 1,949,174	$ 1,702,993	$ 1,717,722
INTEREST-BEARING DEPOSITS	3,748,286	3,532,471	3,760,817
Total deposits	5,697,460	5,235,464	5,478,539
DIVIDENDS PAYABLE	12,580	11,891	11,897
BORROWINGS	351,435	513,759	445,770
OTHER LIABILITIES	41,133	57,678	35,840

Total liabilities	6,102,608	5,818,792	5,972,046
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS EQUITY:			
Common stock - ($0.01 par value, authorized 120,000,000 shares; 66,223,957, 66,063,285, and 66,094,695 shares issued at September 30, 2017 and 2016, and December 31, 2016, respectively)	662	661	661
Capital surplus	376,286	371,170	372,245
Retained earnings	493,706	431,765	446,534
Treasury stock (shares at cost: 498,459, 510,955, and 507,409 at September 30, 2017 and 2016, and December 31, 2016, respectively)	(7,028)	(6,566)	(6,671)
Deferred compensation	7,028	6,566	6,671
Accumulated other comprehensive earnings	35,902	64,348	18,445
Total shareholders equity	906,556	867,944	837,885
Total liabilities and shareholders equity	$ 7,009,164	$ 6,686,736	$ 6,809,931

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS - (UNAUDITED)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME:				
Interest and fees on loans	$ 42,749	$ 40,411	$ 123,643	$ 120,700
Interest on investment securities:				
Taxable	8,074	6,775	23,848	21,167
Exempt from federal income tax	11,091	10,808	33,991	32,220
Interest on federal funds sold and interest-bearing deposits in banks	640	99	1,037	222
Total interest income	62,554	58,093	182,519	174,309
INTEREST EXPENSE:				
Interest on deposits	2,228	1,112	5,748	3,197
Other	638	254	978	811
Total interest expense	2,866	1,366	6,726	4,008
Net interest income	59,688	56,727	175,793	170,301
PROVISION FOR LOAN LOSSES	1,415	3,833	5,090	8,219
Net interest income after provision for loan losses	58,273	52,894	170,703	162,082
NONINTEREST INCOME:				
Trust fees	6,040	5,066	17,804	14,446
Service charges on deposit accounts	5,083	4,796	14,517	13,614
ATM, interchange and credit card fees	6,340	6,000	19,102	17,521
Real estate mortgage operations	3,891	4,697	11,496	11,849
Net gain on sale of available-for-sale securities (includes $1,075 and $239 for the three months ended September 30, 2017 and 2016, respectively, and $1,825 and $1,153 for the nine months ended September 30, 2017 and 2016, respectively, related to accumulated other comprehensive earnings reclassifications)	1,075	239	1,825	1,153
Net gain (loss) on sale of foreclosed assets	(11)	(10)	(42)	343
Net gain (loss) on sale of assets	(15)	(168)	(211)	271
Interest on loan recoveries	405	709	896	1,970
Other	1,452	823	3,328	2,243
Total noninterest income	24,260	22,152	68,715	63,410

NONINTEREST EXPENSE:				
Salaries and employee benefits	24,143	22,931	70,867	67,668
Net occupancy expense	2,711	2,672	8,081	7,886
Equipment expense	3,294	3,420	10,397	10,186
FDIC insurance premiums	561	513	1,657	2,155
ATM, interchange and credit card expenses	2,001	1,859	5,517	5,352
Professional and service fees	2,036	1,883	5,878	5,099
Printing, stationery and supplies	449	536	1,423	1,504
Operational and other losses	1,081	533	2,639	1,452
Amortization of intangible assets	143	172	477	570
Other	7,545	7,484	22,955	21,968
Total noninterest expense	43,964	42,003	129,891	123,840
EARNINGS BEFORE INCOME TAXES	38,569	33,043	109,527	101,652
INCOME TAX EXPENSE (includes $376 and $84 for the three months ended September 30, 2017 and 2016, respectively, and $639 and $404 for the nine months ended September 30, 2017 and 2016, respectively, related to income tax expense from reclassification items)	9,195	7,440	25,300	23,544
NET EARNINGS	$ 29,374	$ 25,603	$ 84,227	$ 78,108
EARNINGS PER SHARE, BASIC	$ 0.44	$ 0.39	$ 1.27	$ 1.18
EARNINGS PER SHARE, ASSUMING DILUTION	$ 0.44	$ 0.39	$ 1.27	$ 1.18
DIVIDENDS PER SHARE	$ 0.19	$ 0.18	$ 0.56	$ 0.52

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS - (UNAUDITED)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NET EARNINGS	$ 29,374	$ 25,603	$ 84,227	$ 78,108
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):				
Change in unrealized gain on investment securities available-for-sale, before income taxes	1,729	(18,984)	28,682	27,235
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(1,075)	(239)	(1,825)	(1,153)
Total other items of comprehensive earnings	654	(19,223)	26,857	26,082
Income tax benefit (expense) related to other items of comprehensive earnings	(229)	6,728	(9,400)	(9,129)
COMPREHENSIVE EARNINGS	$ 29,799	$ 13,108	$ 101,684	$ 95,061

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive	Total Shareholders
	Shares	Amount	Surplus	Earnings	Shares	Amount	Compensation	Earnings	Equity
Balances at December 31, 2015	65,990,234	$ 660	$ 368,925	$ 388,006	(520,651)	$ (6,296)	$ 6,296	$ 47,395	$ 804,986
Net earnings (unaudited)				78,108					78,108
Stock option exercises (unaudited)	66,866	1	988						989
Restricted stock grant (unaudited)	6,185		250						250
Cash dividends declared, $0.52 per share (unaudited)				(34,349)					(34,349)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								16,953	16,953
Additional tax benefit related to directors deferred compensation plan (unaudited)			345						345
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					9,696	(270)	270		
Stock option expense			662						662

(unaudited)									
Balances at September 30, 2016 (unaudited)	66,063,285	$ 661	$ 371,170	$ 431,765	(510,955)	$ (6,566)	$ 6,566	$ 64,348	$ 867,944
Balances at December 31, 2016	66,094,695	$ 661	$ 372,245	$ 446,534	(507,409)	$ (6,671)	$ 6,671	$ 18,445	$ 837,885
Net earnings (unaudited)				84,227					84,227
Stock option exercises (unaudited)	114,612	1	2,259						2,260
Restricted stock grant (unaudited)	14,650		600						600
Cash dividends declared, $.056 per share (unaudited)				(37,055)					(37,055)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								17,457	17,457
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					8,950	(357)	357		
Stock option expense (unaudited)			1,182						1,182
Balances at September 30, 2017 (unaudited)	66,223,957	$ 662	$ 376,286	$ 493,706	(498,459)	$ (7,028)	$ 7,028	$ 35,902	$ 906,556

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (UNAUDITED)

(Dollars in thousands)

	Nine Months Ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 84,227	$ 78,108
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	9,447	8,627
Provision for loan losses	5,090	8,219
Securities premium amortization (discount accretion), net	23,009	21,275
Gain on sale of assets, net	(1,572)	(1,767)
Deferred federal income tax benefit	1,290	825
Change in loans held-for-sale	7,779	1,952
Change in other assets	18,703	10,059
Change in other liabilities	7,172	530
Total adjustments	70,918	49,720
Net cash provided by operating activities	155,145	127,828
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in interest-bearing time deposits in banks	249	1,788
Activity in available-for-sale securities:		
Sales	120,576	20,792
Maturities	4,299,781	2,830,522
Purchases	(4,450,719)	(2,835,964)
Activity in held-to-maturity securities - maturities	124	148
Net increase in loans	(119,911)	(27,446)
Purchases of bank premises and equipment and other assets	(12,626)	(17,151)
Proceeds from sale of other assets	4,857	2,960
Net cash used in investing activities	(157,669)	(24,351)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	231,452	(42,959)
Net increase (decrease) in interest-bearing deposits	(12,531)	88,254
Net decrease in borrowings	(94,335)	(101,916)
Common stock transactions:		
Proceeds from stock issuances	2,260	989
Dividends paid	(36,373)	(33,016)

Net cash provided by (used in) financing activities		90,473		(88,648)
NET DECREASE IN CASH AND CASH EQUIVALENTS		87,949		14,829
CASH AND CASH EQUIVALENTS, beginning of period		256,486		272,886
CASH AND CASH EQUIVALENTS, end of period	$	344,435	$	287,715
SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:				
Interest paid	$	6,772	$	4,018
Federal income tax paid		21,896		21,631
Transfer of loans and bank premises to other real estate owned		2,044		1,905
Investment securities purchased but not settled		993		4,521
Restricted stock grant to officers and directors		600		250

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of the Company, a Texas corporation and a financial holding company registered under the Bank Holding Company Act of 1956, as amended, or BHCA, and its wholly-owned subsidiaries: First Financial Bank, National Association, Abilene, Texas; First Technology Services, Inc.; First Financial Trust & Asset Management Company, National Association; First Financial Investments, Inc.; and First Financial Insurance Agency, Inc.

Through our subsidiary bank, we conduct a full-service commercial banking business. Our banking centers are located primarily in Central, North Central, Southeast and West Texas. As of September 30, 2017, we had 69 financial centers across Texas, with eleven locations in Abilene, three locations in San Angelo and Weatherford, two locations in Cleburne, Conroe, Stephenville and Granbury, and one location each in Acton, Albany, Aledo, Alvarado, Beaumont, Boyd, Bridgeport, Brock, Burleson, Cisco, Clyde, Cut and Shoot, Decatur, Eastland, Fort Worth, Glen Rose, Grapevine, Hereford, Huntsville, Keller, Magnolia, Mauriceville, Merkel, Midlothian, Mineral Wells, Montgomery, Moran, New Waverly, Newton, Odessa, Orange, Port Arthur, Ranger, Rising Star, Roby, Southlake, Sweetwater, Tomball, Trent, Trophy Club, Vidor, Waxahachie, Willis and Willow Park, all in Texas. Our trust subsidiary has seven locations which are located in Abilene, Fort Worth, Odessa, Beaumont, San Angelo, Stephenville and Sweetwater.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary for a fair presentation of the Company s financial position and unaudited results of operations and should be read in conjunction with the Company s audited consolidated financial statements, and notes thereto in the Company s Annual Report on Form 10-K, for the year ended December 31, 2016. All adjustments were of a normal recurring nature. However, the results of operations for the three and nine months ended September 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017, due to seasonality, changes in economic conditions and loan credit quality, interest rate fluctuations, regulatory and legislative changes and other factors. The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date. Actual results could vary. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted under U.S. Securities and Exchange Commission (SEC) rules and regulations. The Company evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued.

Goodwill and other intangible assets are evaluated annually for impairment as of the end of the second quarter. No such impairment has been noted in connection with the current or any prior evaluations.

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Note 2 - Stock Repurchase

On July 25, 2017, the Company s Board of Directors authorized the repurchase of up to 2,000,000 common shares through September 30, 2020. Previously, the Board had authorized the repurchase of up to 1,500,000 common shares through September 30, 2017. The shares buyback plan authorizes management to repurchase the shares at such time as repurchases are considered beneficial to shareholders. Any repurchase of shares will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through October 27, 2017, no shares were repurchased under this authorization or the previous authorization.

Note 3 - Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the periods presented. In computing diluted earnings per common share for the three months and nine months ended September 30, 2017 and 2016, the Company assumes that all dilutive outstanding options to purchase common shares have been exercised at the beginning of the period (or the time of issuance, if later). The dilutive effect of the outstanding options and the restricted shares is reflected by application of the treasury stock method, whereby the proceeds from exercised options and restricted shares are assumed to be used to purchase common stock at the average market price during the respective periods. The weighted average common shares outstanding used in computing basic earnings per common share for the three months ended September 30, 2017 and 2016 were 66,140,518 and 66,023,069 shares, respectively. The weighted average common shares outstanding used in computing basic earnings per common share for the nine months ended September 30, 2017 and 2016 were 66,104,914 and 66,004,797 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the three months ended September 30, 2017 and 2016 were 66,417,281 and 66,147,202 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the nine months ended September 30, 2017 and 2016 were 66,392,210 and 66,135,918 shares, respectively.

Note 4 - Interest-bearing Time Deposits in Banks and Securities

Interest-bearing time deposits in banks totaled $1,458,000, $1,707,000 and $1,707,000 at September 30, 2017 and 2016 and December 31, 2016, respectively, and have original maturities generally ranging from one to two years.

Management classifies debt and equity securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported in the consolidated statements of comprehensive earnings. Available-for-sale securities that have unrealized losses that are judged other-than-temporary are included in gain (loss) on sale of securities and a new cost basis is established. Securities classified as trading are recorded at fair value with unrealized gains and losses included in earnings.

The Company records its available-for-sale and trading securities portfolio at fair value. Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or

an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

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When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity, (ii) whether it is more likely than not that we will have to sell our securities prior to recovery and/or maturity, (iii) the length of time and extent to which the fair value has been less than amortized cost, and (iv) the financial condition of the issuer. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company s results of operations and financial condition.

The Company s investment portfolio consists of U.S. Treasury securities, obligations of U.S. government sponsored enterprises and agencies, obligations of states and political subdivisions, mortgage pass-through securities, corporate bonds and general obligation or revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third-party pricing services to value its investment securities, which the Company reviews as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with pricing matrices. The Company validates quarterly, on a sample basis, prices supplied by the independent pricing services by comparison to prices obtained from other third-party sources.

A summary of the Company s available-for-sale securities follows (in thousands):

	September 30, 2017			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. government sponsored enterprises and agencies	$ 73,583	$ 35	$ (30)	$ 73,588
Obligations of states and political subdivisions	1,379,117	56,671	(1,594)	1,434,194
Corporate bonds and other	19,439	118	(2)	19,555
Residential mortgage-backed securities	1,024,615	8,466	(3,797)	1,029,284
Commercial mortgage-backed securities	328,806	945	(889)	328,862
Total securities available-for-sale	$ 2,825,560	$ 66,235	$ (6,312)	$ 2,885,483

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	September 30, 2016			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Treasury securities	$ 10,685	$ 54	$	$ 10,739
Obligations of U.S. government sponsored enterprises and agencies	114,918	802		115,720
Obligations of states and political subdivisions	1,419,737	83,694	(715)	1,502,716
Corporate bonds and other	68,285	1,325	(1)	69,609
Residential mortgage-backed securities	750,673	17,125	(1,299)	766,499
Commercial mortgage-backed securities	259,636	4,200	(89)	263,747
Total securities available-for-sale	$ 2,623,934	$ 107,200	$ (2,104)	$ 2,729,030

	December 31, 2016			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Treasury securities	$ 10,649	$ 19	$	$ 10,668
Obligations of U.S. government sponsored enterprises and agencies	113,450	253		113,703
Obligations of states and political subdivisions	1,534,095	40,194	(10,013)	1,564,276
Corporate bonds and other	51,920	476	(3)	52,393
Residential mortgage-backed securities	848,614	8,260	(5,513)	851,361
Commercial mortgage-backed securities	269,044	622	(1,230)	268,436
Total securities available-for-sale	$ 2,827,772	$ 49,824	$ (16,759)	$ 2,860,837

Disclosures related to the Company s held-to-maturity securities, which totaled $129,000 and $121,000 at September 30, 2016, and December 31, 2016, respectively, have not been presented due to insignificance. There were no held-to-maturity securities owned by the Company at September 30, 2017.

The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at September 30, 2017 were computed by using scheduled amortization of balances and historical prepayment rates. At September 30, 2017 and 2016, and December 31, 2016, the Company did not hold CMOs that entail higher risks than standard mortgage-backed securities.

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2017, by contractual and expected maturity, are shown below (in thousands):

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	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 187,370	$ 189,136
Due after one year through five years	650,523	679,535
Due after five years through ten years	632,562	656,623
Due after ten years	1,684	2,043
Mortgage-backed securities	1,353,421	1,358,146
Total	$ 2,825,560	$ 2,885,483

The following tables disclose, as of September 30, 2017 and 2016, and December 31, 2016, the Company s investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 or more months (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S.government sponsored enterprises and agencies	$ 45,050	$ 30	$	$	$ 45,050	$ 30
Obligations of states and political subdivisions	54,983	309	45,217	1,285	100,200	1,594
Corporate bonds and other			240	2	240	2
Residential mortgage-backed securities	225,369	1,531	131,849	2,266	357,218	3,797
Commercial mortgage-backed securities	170,146	751	21,001	138	191,147	889
Total	$ 495,548	$ 2,621	$ 198,307	$ 3,691	$ 693,855	$ 6,312

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$ 82,131	$ 711	$ 741	$ 4	$ 82,872	$ 715
Corporate bonds and other	12,257	1			12,257	1
Residential mortgage-backed securities	80,015	267	57,334	1,032	137,349	1,299
Commercial mortgage-backed securities	10,213	25	13,692	64	23,905	89
Total	$ 184,616	$ 1,004	$ 71,767	$ 1,100	$ 256,383	$ 2,104

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2016	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of state and political subdivisions	$ 446,052	$ 9,997	$ 1,209	$ 16	$ 447,261	$ 10,013
Corporate bonds and other	244	3			244	3

Residential mortgage-backed securities	372,331	4,532	33,227	981	405,558	5,513
Commercial mortgage-backed securities	193,495	1,180	13,263	50	206,758	1,230
Total	$ 1,012,122	$ 15,712	$ 47,699	$ 1,047	$ 1,059,821	$ 16,759

The number of investments in an unrealized loss position totaled 179 at September 30, 2017. We do not believe these unrealized losses are other-than-temporary as (i) we do not have the intent to sell our securities prior to recovery and/or maturity and (ii) it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. In making this determination, we also consider the length of time and extent to which fair value has been less than cost and the financial condition of the issuer. The unrealized losses noted are interest rate related due to the level of interest rates at September 30, 2017 compared to the time of purchase. We have reviewed the ratings of the issuers and have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies. At September 30, 2017, 82.70% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 31.16% are guaranteed by the Texas Permanent School Fund.

At September 30, 2017, $1,787,958,000 of the Company s securities were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During the quarters ended September 30, 2017 and 2016, sales of investment securities that were classified as available-for-sale totaled $83,605,000 and $7,410,000, respectively. Gross realized gains from security sales during the third quarter of 2017 and 2016 totaled $1,750,000 and $239,000, respectively. Gross realized losses from security sales during the third quarter of 2017 totaled $675,000. There were no gross realized losses during the third quarter of 2016.

During the nine months ended September 30, 2017 and 2016, sale of investment securities were classified as available-for-sale totaled $120,576,000 and $20,792,000, respectively. Gross realized gains from security sales during the nine-month period ended September 30, 2017 and 2016 totaled $2,550,000 and $1,158,000, respectively. Gross realized losses from security sales during the nine-month periods ended September 30, 2017 and 2016 totaled $725,000 and $5,000, respectively.

The specific identification method was used to determine cost in order to compute the realized gains and losses.

Note 5 - Loans and Allowance for Loan Losses

Loans held for investment are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company defers and amortizes net loan origination fees and costs as an adjustment to yield. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on an annual basis and makes changes as appropriate. Management receives and reviews monthly reports related to loan originations, quality, concentrations, delinquencies, nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geographic location.

Commercial loans are underwritten after evaluating and understanding the borrower s ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and,

secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. These agricultural loans are based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle or equipment, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company s real estate portfolio are generally diverse in terms of type and geographic location within Texas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company s risk.

Consumer loan underwriting utilizes methodical credit standards and analysis to supplement the Company s underwriting policies and procedures. The Company s loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company s risk.

The allowance for loan losses is an amount which represents management s best estimate of probable losses that are inherent in the Company s loan portfolio as of the balance sheet date. The allowance for loan losses is comprised of three elements: (i) specific reserves determined based on probable losses on specific classified loans; (ii) a historical valuation reserve component that considers historical loss rates; and (iii) qualitative reserves based upon general economic conditions and other qualitative risk factors both internal and external to the Company. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management s periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our historical valuation reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company s historical loss rate. Specific allocations are increased or decreased in accordance with deterioration or improvement in credit quality and a corresponding increase or decrease in risk of loss on a particular loan. In addition, we adjust our allowance for qualitative factors such as current local economic conditions and trends, including, without limitations, unemployment, oil and gas prices, flood and drought conditions, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans and changes in trends in volume and terms of loans. This qualitative reserve serves to estimate for additional areas of losses inherent in our portfolio that are not reflected in our historic loss factors.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A decline in the economy and employment rates could result in increased levels of non-performing assets and charge-offs, increased loan provisions and reductions in income. Additionally, bank regulatory agencies periodically review our allowance for loan losses and methodology and could require, in accordance with generally accepted accounting principles, additional provisions to the allowance for loan losses based on their judgment of information available to them at the time of their examination as well as changes to our methodology.

Accrual of interest is discontinued on a loan and payments are applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower s financial condition is such that collection of interest is doubtful. Except consumer loans, generally all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

Loans are considered impaired when, based on current information and events, management determines that it is probable we will be unable to collect all amounts due in accordance with the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectable.

The Company s policy requires measurement of the allowance for an impaired, collateral dependent loan based on the fair value of the collateral. Other loan impairments for non-collateral dependent loans are measured based on the present value of expected future cash flows or the loan s observable market price. At September 30, 2017 and 2016, and December 31, 2016, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral less costs to sell.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. For all impaired loans, including the Company s troubled debt restructurings, the Company performs a periodic, well-documented credit evaluation of the borrower s financial condition and prospects for repayment to assess the likelihood that all principal and interest payments required under the terms of the agreement will be collected in full. When doubt exists about the ultimate collectability of principal and interest, the troubled debt restructuring remains on non-accrual status and payments received are applied to reduce principal to the extent necessary to eliminate such doubt. This determination of accrual status is judgmental and is based on facts and circumstances related to each troubled debt restructuring. Each of these loans is individually evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral, modified loan terms and cash flow. As of September 30, 2017 and 2016, and December 31, 2016, substantially all of the Company s troubled debt restructured loans are included in the non-accrual totals.

The Company originates certain mortgage loans for sale in the secondary market. Accordingly, these loans are classified as held-for-sale and are carried at the lower of cost or fair value on an aggregate basis. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to nine months, or if documentation is determined not to be in compliance with regulations. The Company s historic losses as a result of these indemnities have been insignificant.

Loans acquired, including loans acquired in a business combination, are initially recorded at fair value with no valuation allowance. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, non-accrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances at acquisition date, the fair value discount, is accreted into interest income over the estimated life of the acquired loan portfolio.

Purchased credit impaired loans are those loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their acquisition fair value, which includes a credit component at the acquisition date, was based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the discounted cash flows expected at acquisition and the investment in the loan is recognized as interest income on a level-yield

method over the life of the loan, unless management was unable to reasonably forecast cash flows in which case the loans were placed on

nonaccrual. Contractually required payments for interest and principal that exceed the cash flows expected at acquisition are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows subsequent to acquisition are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition. The carrying amount of purchased credit impaired loans at September 30, 2017 and 2016, and December 31, 2016, was $736,000, $1,853,000 and $1,256,000, respectively, compared to a contractual balance of $932,000, $2,528,000, and $1,865,000, respectively. Other purchased credit impaired loan disclosures were omitted due to immateriality.

Loans held-for-investment by class of financing receivables are as follows (in thousands):

	September 30,		December 31,
	2017	2016	2016
Commercial	$ 674,947	$ 663,581	$ 674,410
Agricultural	83,005	84,716	84,021
Real estate	2,297,556	2,191,260	2,189,844
Consumer	416,719	398,236	409,032
Total loans held-for-investment	$ 3,472,227	$ 3,337,793	$ 3,357,307

Loans held for sale totaled $19,119,000, $31,591,000 and $26,898,000 at September 30, 2017 and 2016, and December 31, 2016, respectively, which are valued using the lower of cost or fair value.

The Company s non-accrual loans, loans still accruing and past due 90 days or more and restructured loans are as follows (in thousands):

	September 30,		December 31,
	2017	2016	2016
Non-accrual loans*	$ 18,750	$ 33,712	$ 27,371
Loans still accruing and past due 90 days or more	257	107	284
Troubled debt restructured loans**	668	750	701
Total	$ 19,675	$ 34,569	$ 28,356

*Includes $736,000, $1,853,000 and $1,256,000 of purchased credit impaired loans as of September 30, 2017 and 2016, and December 31, 2016, respectively.

**Troubled debt restructured loans of $5,277,000, $7,513,000 and $6,863,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2017 and 2016, and December 31, 2016, respectively.

The Company s recorded investment in impaired loans and the related valuation allowance are as follows (in thousands):

September 30, 2017		September 30, 2016		December 31, 2016	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$18,750	$4,177	$33,712	$7,042	$27,371	$5,012

The Company had $22,076,000, $34,938,000 and $29,000,000 in non-accrual, past due 90 days or more and still accruing, restructured loans and foreclosed assets at September 30, 2017 and 2016, and December 31, 2016, respectively. Non-accrual loans at September 30, 2017 and 2016, and December 31, 2016, consisted of the following by class of financing receivables (in thousands):

	September 30, 2017	September 30, 2016	December 31, 2016
Commercial	$ 4,133	$ 12,714	$ 7,284
Agricultural	60	167	99
Real estate	13,386	19,582	18,754
Consumer	1,171	1,249	1,234
Total	$ 18,750	$ 33,712	$ 27,371

No significant additional funds are committed to be advanced in connection with impaired loans as of September 30, 2017.

The Company s impaired loans and related allowance as of September 30, 2017 and 2016, and December 31, 2016, are summarized in the following tables by class of financing receivables (in thousands). No interest income was recognized on impaired loans subsequent to their classification as impaired.

September 30, 2017	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-Month Average Recorded Investment
Commercial	$ 10,989	$ 617	$ 3,516	$ 4,133	$ 1,671	$ 7,313	$ 5,866
Agricultural	66		60	60	17	66	60
Real Estate	17,306	3,742	9,644	13,386	1,984	14,279	13,829
Consumer	1,388	262	909	1,171	505	1,341	1,238
Total	$ 29,749	$ 4,621	$ 14,129	$ 18,750	$ 4,177	$ 22,999	$ 20,993

*Includes $736,000 of purchased credit impaired loans.

September 30, 2016	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-Month Average Recorded Investment
Commercial	$ 21,696	$ 1,067	$ 11,647	$ 12,714	$ 3,983	$ 8,421	$ 14,238
Agricultural	168		167	167	41	83	84
Real Estate	24,130	5,626	13,956	19,582	2,566	17,021	19,436
Consumer	1,479	324	925	1,249	452	989	1,166
Total	$ 47,473	$ 7,017	$ 26,695	$ 33,712	$ 7,042	$ 26,514	$ 34,924

*Includes $1,853,000 of purchased credit impaired loans.

December 31, 2016	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year Average Recorded Investment
Commercial	$ 13,389	$ 1,148	$ 6,136	$ 7,284	$ 2,128	$ 4,921
Agricultural	103		99	99	25	50
Real Estate	23,466	6,229	12,525	18,754	2,428	16,170
Consumer	1,421	280	954	1,234	431	914
Total	$ 38,379	$ 7,657	$ 19,714	$ 27,371	$ 5,012	$ 22,055

*Includes $1,256,000 of purchased credit impaired loans.

The Company recognized interest income on impaired loans prior to being recognized as impaired of approximately $829,000 during the year ended December 31, 2016. Such amounts for the three-month and nine-month periods ended September 30, 2017 and 2016 were not significant.

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From a credit risk standpoint, the Company rates its loans in one of four categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans rated as loss are charged-off.

The ratings of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on our credits as part of our on-going monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are felt to be inherent in each credit as of each reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company s position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

The following summarizes the Company s internal ratings of its loans held-for-investment by class of financing receivables and portfolio segments, which are the same, at September 30, 2017 and 2016, and December 31, 2016 (in thousands):

September 30, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 632,693	$ 7,997	$ 34,257	$	$ 674,947
Agricultural	79,227	841	2,937		83,005
Real Estate	2,224,970	26,231	46,355		2,297,556
Consumer	414,043	168	2,508		416,719
Total	$ 3,350,933	$ 35,237	$ 86,057	$	$ 3,472,227

September 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 614,900	$ 6,108	$ 42,573	$	$ 663,581
Agricultural	82,400		2,316		84,716
Real Estate	2,118,807	19,064	53,389		2,191,260

Consumer	395,086	316	2,832	2	398,236
Total	$ 3,211,193	$ 25,488	$ 101,110	$ 2	$ 3,337,793

December 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 629,756	$ 5,769	$ 38,885	$	$ 674,410
Agricultural	81,620	715	1,686		84,021
Real Estate	2,111,947	18,091	59,806		2,189,844
Consumer	406,182	212	2,638		409,032
Total	$ 3,229,505	$ 24,787	$ 103,015	$	$ 3,357,307

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At September 30, 2017 and 2016, and December 31, 2016, the Company s past due loans are as follows (in thousands):

September 30, 2017	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 3,288	$ 585	$ 1,495	$ 5,368	$ 669,579	$ 674,947	$ 212
Agricultural	322			322	82,683	83,005	
Real Estate	12,636	984	2,293	15,913	2,281,643	2,297,556	
Consumer	1,211	457	176	1,844	414,875	416,719	45
Total	$ 17,457	$ 2,026	$ 3,964	$ 23,447	$ 3,448,780	$ 3,472,227	$ 257

September 30, 2016	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 4,707	$ 841	$ 6,950	$ 12,498	$ 651,083	$ 663,581	$ 61
Agricultural	523	63		586	84,130	84,716	
Real Estate	13,444	1,496	3,376	18,316	2,172,944	2,191,260	34
Consumer	1,418	314	180	1,912	396,324	398,236	12
Total	$ 20,092	$ 2,714	$ 10,506	$ 33,312	$ 3,304,481	$ 3,337,793	$ 107

December 31, 2016	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Commercial	$ 3,908	$ 1,122	$ 2,220	$ 7,250	$ 667,160	$ 674,410	$ 10
Agricultural	185			185	83,836	84,021	
Real Estate	13,172	1,301	5,268	19,741	2,170,103	2,189,844	272
Consumer	1,845	368	122	2,335	406,697	409,032	2
Total	$ 19,110	$ 2,791	$ 7,610	$ 29,511	$ 3,327,796	$ 3,357,307	$ 284

*The Company monitors commercial, agricultural and real estate loans after such loans are 15 days past due. Consumer loans are monitored after such loans are 30 days past due.

The following table details the allowance for loan losses at September 30, 2017 and 2016, and December 31, 2016, by portfolio segment (in thousands). There were no allowances for purchased credit impaired loans at September 30, 2017 and 2016, and December 31, 2016. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 1,671	$ 17	$ 1,984	$ 505	$ 4,177
Loans collectively evaluated for impairment	10,201	1,284	26,484	5,776	43,745
Total	$ 11,872	$ 1,301	$ 28,468	$ 6,281	$ 47,922

September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 3,983	$ 41	$ 2,566	$ 452	$ 7,042
Loans collectively evaluated for impairment	9,733	1,027	23,655	3,841	38,256
Total	$ 13,716	$ 1,068	$ 26,221	$ 4,293	$ 45,298

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December 31, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 2,128	$ 25	$ 2,428	$ 431	$ 5,012
Loans collectively evaluated for impairment	9,579	1,076	24,436	5,676	40,767
Total	$ 11,707	$ 1,101	$ 26,864	$ 6,107	$ 45,779

Changes in the allowance for loan losses for the three and nine months ended September 30, 2017 and 2016, are summarized as follows by portfolio segment (in thousands):

Three months ended September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 11,935	$ 1,127	$ 28,023	$ 6,325	$ 47,410
Provision for loan losses	557	157	424	277	1,415
Recoveries	119	17	50	91	277
Charge-offs	(739)		(29)	(412)	(1,180)
Ending balance	$ 11,872	$ 1,301	$ 28,468	$ 6,281	$ 47,922

Three months ended September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 14,026	$ 1,451	$ 25,644	$ 3,939	$ 45,060
Provision for loan losses	3,248	(358)	296	647	3,833
Recoveries	298	4	367	108	777
Charge-offs	(3,856)	(29)	(86)	(401)	(4,372)
Ending balance	$ 13,716	$ 1,068	$ 26,221	$ 4,293	$ 45,298

Nine months ended September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 11,707	$ 1,101	$ 26,864	$ 6,107	$ 45,779
Provision for loan losses	1,485	211	2,556	838	5,090
Recoveries	868	25	141	400	1,434
Charge-offs	(2,188)	(36)	(1,093)	(1,064)	(4,381)
Ending balance	$ 11,872	$ 1,301	$ 28,468	$ 6,281	$ 47,922

Nine months ended September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 12,644	$ 1,191	$ 24,375	$ 3,667	$ 41,877
Provision for loan losses	6,239	41	367	1,572	8,219
Recoveries	839	20	1,957	427	3,243
Charge-offs	(6,006)	(184)	(478)	(1,373)	(8,041)

Ending balance	$ 13,716	$ 1,068	$ 26,221	$ 4,293	$ 45,298

The Company s recorded investment in loans as of September 30, 2017 and 2016, and December 31, 2016 related to the balance in the allowance for loan losses on the basis of the Company s impairment methodology was as follows (in thousands). Purchased credit impaired loans of $736,000, $1,853,000 and $1,256,000 at September 30, 2017 and 2016, and December 31, 2016, respectively, are included in loans individually evaluated for impairment.

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September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 4,133	$ 60	$ 13,386	$ 1,171	$ 18,750
Loans collectively evaluated for impairment	670,814	82,945	2,284,170	415,548	3,453,477
Total	$ 674,947	$ 83,005	$ 2,297,556	$ 416,719	$ 3,472,227

September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 12,714	$ 167	$ 19,582	$ 1,249	$ 33,712
Loans collectively evaluated for impairment	650,867	84,549	2,171,678	396,987	3,304,081
Total	$ 663,581	$ 84,716	$ 2,191,260	$ 398,236	$ 3,337,793

December 31, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 7,284	$ 99	$ 18,754	$ 1,234	$ 27,371
Loan collectively evaluated for impairment	667,126	83,922	2,171,090	407,798	3,329,936
Total	$ 674,410	$ 84,021	$ 2,189,844	$ 409,032	$ 3,357,307

The Company s loans that were modified in the three and nine months ended September 30, 2017 and 2016 and considered troubled debt restructurings are as follows (in thousands):

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	3	$ 514	$ 514	9	$ 838	$ 838
Agricultural						
Real Estate	1	256	256	3	473	473
Consumer				1	25	25
Total	4	$ 770	$ 770	13	$ 1,336	$ 1,336

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Number	Pre-Modification	Post-Modification	Number	Pre-Modification	Post-Modification

		Recorded Investment	Recorded Investment		Recorded Investment	Recorded Investment
Commercial	3	$ 230	$ 230	14	$ 3,156	$ 3,156
Agricultural						
Real Estate	3	706	706	5	1,169	1,169
Consumer	1	44	44	5	162	162
Total	7	$ 980	$ 980	24	$ 4,487	$ 4,487

The balances below provide information as to how the loans were modified as troubled debt restructured loans during the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	$	$	$ 514		$ 181	$ 657
Agricultural						
Real Estate		256			312	161
Consumer					25	
Total	$	$ 256	$ 514		$ 518	$ 818

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	$	$ 112	$ 118		$ 2,561	$ 595
Agricultural						
Real Estate		185	521		298	871
Consumer			44		43	119
Total	$	$ 297	$ 683		$ 2,902	$ 1,585

During the three months ended September 30, 2017 and 2016, two loans and two loans, respectively, were modified as troubled debt restructured loan within the previous 12 months and for which there was a payment default. During the nine months ended September 30, 2017 and 2016, four loans and three loans, respectively, were modified as troubled debt restructured loan within the previous 12 months and for which there was a payment default. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or more or results in the foreclosure and repossession of the applicable collateral. The loans with payment default are as follows (dollars in thousands):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Number	Balance	Number	Balance
Commercial	2	$ 88	3	$ 141
Agriculture				
Real Estate			1	62
Consumer				
Total	2	$ 88	4	$ 203

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Number	Balance	Number	Balance
Commercial	1	$ 62	1	$ 62
Agriculture				
Real Estate	1	112	2	462
Consumer				
Total	2	$ 174	3	$ 524

As of September 30, 2017, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas (FHLB) to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At September 30, 2017, $2,140,557,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At September 30, 2017, there was no balance outstanding under this line of credit.

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Note 6 - Borrowings

Borrowings at September 30, 2017 and 2016, and December 31, 2016 consisted of the following (dollars in thousands):

	September 30,		December 31,
	2017	2016	2016
Securities sold under agreements with customers to repurchase	$ 339,660	$ 345,559	$ 360,820
Federal funds purchased	11,775	8,200	9,950
Advances from Federal Home Loan Bank of Dallas		160,000	75,000
Total	$ 351,435	$ 513,759	$ 445,770

Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which the Company pledges certain securities that have a fair value equal to at least the amount of the borrowings. The agreements mature daily and therefore the risk arising from a decline in the fair value of the collateral pledged is minimal. The securities pledged are mortgage-backed securities. These agreements do not include right of set-off provisions and therefore the Company does not offset such agreements for financial reporting purposes.

Note 7 - Income Taxes

Income tax expense was $9,195,000 for the third quarter of 2017 as compared to $7,440,000 for the same period in 2016. The Company s effective tax rates on pretax income were 23.84% and 22.52% for the third quarters of 2017 and 2016, respectively. Income tax expense was $25,300,000 for the nine months ended September 30, 2017 as compared to $23,544,000 for the same period in 2016. The Company s effective tax rates on pretax income were 23.10% and 23.16% for the nine months ended September 2017 and 2016, respectively. The effective tax rates differ from the statutory federal tax rate of 35% primarily due to tax exempt interest income earned on certain investment securities and loans, the deductibility of dividends paid to our employee stock ownership plan and excess tax benefits related to our directors deferred compensation plan.

Note 8 - Stock Option Plan and Restricted Stock Plan

The Company grants incentive stock options for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant to employees. In June 2017, the Company granted 452,450 incentive stock options with an exercise price of $42.35 per share. The fair value of the options was $9.90 per option and was estimated using the Black-Scholes options pricing model with the following weighted average assumptions: risk-free interest rate of 1.89%; expected dividend yield of 1.79%; expected life of 6.24 years; and expected volatility of 26.51%. No options were granted in 2016.

The Company recorded stock option expense totaling $750,000 and $221,000 for the three-month periods ended September 30, 2017 and 2016, respectively. The Company recorded stock option expense totaling $1,182,000 and $662,000 for the nine months ended September 30, 2017 and 2016, respectively. The additional disclosure requirements under authoritative accounting guidance have been omitted due to the amounts being insignificant.

On July 21, 2015, 7,070 restricted shares were granted to the ten non-employee directors. Total value of these restricted shares totaled $250,000 and was expensed over the period from grant date to April 26, 2016, the annual shareholders meeting at which these director s term expired. On April 26, 2016, upon re-election of existing directors, 7,660 restricted shares with a total value of $250,000 were granted to the ten non-employee directors and was expensed over the period from grant day to April 25, 2017, the annual shareholders meeting at which these directors term expired. On April 25, 2017, upon re-election of existing directors, 14,650 restricted shares with a total value of $600,000 were granted to the ten non-employee directors and is being expensed over the period from the grant date to April 24, 2018, the Company s next shareholders meeting at which the directors term expires.

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The Company recorded director expense related to these restricted share grants of $150,000 and $63,000 for the three-month periods ended September 30, 2017 and 2016, respectively. The Company recorded director expense related to these restricted share grants of $333,000 and $215,000 for the nine-month periods ended September 30, 2017 and 2016, respectively.

On October 27, 2015, the Company granted 31,273 restricted shares with a total value of $1,060,000 to certain officers that is being expensed over the vesting period of three years. On October 25, 2016, the Company granted 15,405 restricted shares with a total value of $560,000 to certain officers that is being expensed over the vesting period of three years. The Company recorded restricted stock expense for officers of $133,000 and $88,000, for the three-month periods ended September 30, 2017 and 2016, respectively. The Company recorded restricted share expense for officers of $399,000 and $262,000 for the nine-month periods ended September 30, 2017 and 2016, respectively.

On October 24, 2017, the Company granted 14,191 restricted shares with a total value of $655,000 to certain officers that will be expensed over the vesting period of one to three years.

Note 9 - Pension Plan

The Company s defined benefit pension plan was frozen effective January 1, 2004, whereby no new participants will be added to the plan and no additional years of service will accrue to participants, unless the pension plan is reinstated at a future date. The pension plan covered substantially all of the Company s employees at the time. The benefits for each employee were based on years of service and a percentage of the employee s qualifying compensation during the final years of employment. The Company s funding policy was and is to contribute annually the amount necessary to satisfy the Internal Revenue Service s funding standards. Contributions to the pension plan, prior to freezing the plan, were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. As a result of the Pension Protection Act of 2006 (the Protection Act), the Company will be required to contribute amounts in future years to fund any shortfalls. The Company has evaluated the provisions of the Protection Act as well as the Internal Revenue Service s funding standards to develop a plan for funding in future years. The Company made a contribution totaling $500,000 in 2016, and has made no contribution through September 30, 2017.

Net periodic benefit costs totaling $84,000 and $82,000 were recorded for the three months ended September 30, 2017 and 2016, respectively. Net periodic benefit costs totaling $253,000 and $247,000 were recorded for the nine months ended September 30, 2017 and 2016, respectively.

Note 10 - Fair Value Disclosures

The authoritative accounting guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The authoritative accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows

or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs Significant unobservable inputs that reflect an entity s own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities classified as available-for-sale and trading are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, dealer quotes, market consensus prepayments speeds, credit information and the security s terms and conditions, among other items.

There were no transfers between Level 1 and Level 2 or Level 2 and Level 3 during the three and nine months ended September 30, 2017 and 2016, and the year ended December 31, 2016.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2017 and 2016, and December 31, 2016, respectively, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

September 30, 2017

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
Obligations of U. S. government sponsored enterprises and agencies	$	$ 73,588	$	$ 73,588
Obligations of states and political subdivisions		1,434,194		1,434,194
Corporate bonds		15,099		15,099
Residential mortgage-backed securities		1,029,284		1,029,284
Commercial mortgage-backed securities		328,862		328,862
Other securities	4,456			4,456
Total	$ 4,456	$ 2,881,027	$	$ 2,885,483

September 30, 2016

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 10,739	$	$	$ 10,739
Obligations of U. S. government sponsored enterprises and agencies		115,720		115,720
Obligations of states and political subdivisions		1,502,716		1,502,716
Corporate bonds		65,037		65,037
Residential mortgage-backed securities		766,499		766,499
Commercial mortgage-backed securities		263,747		263,747
Other securities	4,572			4,572
Total	$ 15,311	$ 2,713,719	$	$ 2,729,030

December 31, 2016

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	$ 10,668	$	$	$ 10,668
Obligations of U. S. government sponsored enterprises and agencies		113,703		113,703
Obligations of states and political subdivisions		1,564,276		1,564,276
Corporate bonds		47,965		47,965
Residential mortgage-backed securities		851,361		851,361
Commercial mortgage-backed securities		268,436		268,436

Other securities	4,428			4,428
Total	$ 15,096	$ 2,845,741	$	$ 2,860,837

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following at September 30, 2017:

Impaired Loans Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral less costs to sell. Collateral values are estimated using Level 2 inputs based on observable market data. At September 30, 2017, impaired loans with a carrying value of $14,129,000 were reduced by specific valuation reserves totaling $4,177,000 resulting in a net fair value of $9,952,000. The Company also had impaired loans of $4,621,000 with no specific valuation reserve at September 30, 2017, due to the loans carrying value generally being lower than the value of the collateral associated with the loan.

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Loans Held-for-Sale Loans held-for-sale are reported at the lower of cost or fair value. In determining whether the fair value of loans held-for-sale is less than cost when quoted market prices are not available, the Company considers investor commitments/contracts. These loans are considered Level 2 of the fair value hierarchy. At September 30, 2017, the Company s mortgage loans held-for-sale were recorded at cost as fair value exceeded cost.

Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include other real estate owned, goodwill and other intangible assets and other non-financial long-lived assets. Non-financial assets measured at fair value on a non-recurring basis during the three months and nine months ended September 30, 2017 and 2016 include other real estate owned which, subsequent to their initial transfer to other real estate owned from loans, were re-measured at fair value through a write-down included in gain (loss) on sale of foreclosed assets. During the reported periods, all fair value measurements for foreclosed assets utilized Level 2 inputs based on observable market data, generally third-party appraisals, or Level 3 inputs based on customized discounting criteria. These appraisals are evaluated individually and discounted as necessary due to the age of the appraisal, lack of comparable sales, expected holding periods of property or special use type of the property. Such discounts vary by appraisal based on the above factors but generally range from 5% to 25% of the appraised value. Re-evaluation of other real estate owned is performed at least annually as required by regulatory guidelines or more often if particular circumstances arise. The following table presents other real estate owned that were re-measured subsequent to their initial transfer to other real estate owned (dollars in thousands):

	Three Months Ended September 30,	
	2017	2016
Carrying value of other real estate owned prior to re-measurement	$ 937	$
Write-downs included in gain (loss) on sale of other real estate owned	(288)	
Fair value	$ 649	$

	Nine Months Ended September 30,	
	2017	2016
Carrying value of other real estate owned prior to re-measurement	$ 1,025	$
Write-downs included in gain (loss) on sale of other real estate owned	(296)	
Fair value	$ 729	$

At September 30, 2017 and 2016, and December 31, 2016, other real estate owned totaled $2,176,000, $241,000, and $413,000, respectively.

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial

instruments. Many of the Company s financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Cash and due from banks, federal funds sold, interest-bearing deposits and time deposits in banks and accrued interest receivable and payable are liquid in nature and considered Levels 1 or 2 of the fair value hierarchy.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities and are considered Levels 2 and 3 of the fair value hierarchy. Financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value and are considered Level 1 of the fair value hierarchy.

The carrying value and the estimated fair value of the Company s contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance at September 30, 2017 and 2016, and December 31, 2016, were as follows (in thousands):

	September 30,				December 31,		
	2017		2016		2016		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Cash and due from banks	$ 177,615	$ 177,615	$ 166,981	$ 166,981	$ 204,782	$ 204,782	Level 1
Federal funds sold			3,400	3,400	3,130	3,130	Level 1
Interest-bearing deposits in banks	166,820	166,820	117,334	117,334	48,574	48,574	Level 1
Interest-bearing time deposits in banks	1,458	1,458	1,707	1,709	1,707	1,709	Level 2
Available-for-sale Securities	2,885,483	2,885,483	2,729,030	2,729,030	2,860,837	2,860,837	Levels 1 and 2
Held-to-maturity securities			129	133	121	124	Level 2
Loans	3,443,424	3,458,603	3,324,086	3,334,965	3,338,426	3,361,735	Level 3
Accrued interest receivable	26,321	26,321	26,209	26,209	36,469	36,469	Level 2
Deposits with stated maturities	464,782	465,655	535,793	537,167	508,996	510,304	Level 2
Deposits with no stated maturities	5,232,678	5,232,678	4,699,671	4,699,671	4,969,543	4,969,543	Level 1
Borrowings	351,435	351,435	513,759	513,759	445,770	445,770	Level 2
Accrued interest Payable	179	179	230	230	225	225	Level 2

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Note 11 - Recently Issued Authoritative Accounting Guidance

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 implements a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-4 Revenue from Contracts with Customers Deferral of the Effective Date deferred the effective date of ASU 2014-09 by one year and as a result, the new standard will be effective the first quarter of 2018. The Company s revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. Based on the Company s analysis of the effect of the new standard on its recurring revenue streams, the Company does not expect these changes to have a significant impact on the Company s financial statement. Upon adoption in the first quarter of 2018, no significant adjustment to opening retained earnings is expected.

ASU 2014-15, Presentation of Financial Statements Going Concern. ASU 2014-15 requires management to evaluate an entity s ability to continue as a going concern within one year after the date that the financial statements are issued. Management must evaluate whether conditions and events raise substantial doubt about an entity s ability to continue as a going concern and then whether its plans alleviate that doubt. ASU 2014-15 was effective in 2016 and management has performed and continues to perform such required evaluation and has concluded there are no such conditions or events that raise substantial doubt about the Company s ability to continue as a going concern.

ASU 2015-01, Income Statement Extraordinary and Unusual Items. ASU 2015-01 eliminated from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to show the item separately in the income statement, net of tax, after income from continuing operations. The new guidance became effective for the Company beginning January 1, 2016 and did not have a significant impact on the Company s financial statements.

ASU 2015-05, Intangibles Goodwill and Other Internal-Use Software Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service, (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 became effective on January 1, 2016 and did not have a significant impact on the Company s financial statements.

ASU 2015-16, Business Combinations Simplifying the Accounting Measurement Period Adjustments. ASU 2015-16 amended business combination guidance to require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period s financial statements, the effect of earnings on changes in depreciation, amortization, or other income effects, if any, as a result of the changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Additionally, the entity is required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amended guidance became effective for the Company on January 1, 2016 and did not have a significant impact on the Company s financial statements.

ASU 2016-1, Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-1 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on the Company s financial statements.

ASU 2016-02, Leases. ASU 2016-02 will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. The amended guidance will be effective in the first quarter of 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company continues to evaluate the provision of the new lease standard but, due to the small number and dollar amount of lease agreements presently in effect for the Company, has concluded the new guidance will not have a significant impact on the Company s financial statements.

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ASU 2016-09, Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 amends current guidance such that all excess tax benefits and tax deficiencies related to share-based payment awards will be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in capital surplus. Additionally, excess tax benefits will be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that any entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current requirement, or account for forfeitures when they occur. ASU 2016-09 became effective January 1, 2017 and did not have a significant impact on the Company s financial statements.

ASU 2016-13, Financial Instruments Credit Losses. ASU 2016-13 implements a comprehensive change in estimating the allowances for loan losses from the current model of losses inherent in the loan portfolio to a current expected credit loss model that generally is expected to result in earlier recognition of allowances for losses. Additionally, purchase accounting rules have been modified as well as credit losses on held-to-maturity debt securities. ASU 2016-13 will be effective in the first quarter of 2020. While the Company generally expects that the implementation of ASU 2016-13 will increase their allowance for loan losses balance, the Company is continuing to evaluate the potential impact on the Company s financial statements.

ASU 2017-04, Intangibles Goodwill and Other. ASU 2017-04 will amend and simplify current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. An entity still has the option to perform the quantitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 will be effective for the Company on January 1, 2020 and is not expected to have a significant impact on the Company s financial statements.

ASU 2017-07, Compensation Retirement Benefits, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost. ASU 2017-17 will require employers that sponsor defined benefit pension plans to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Other components of the net periodic benefit cost will be presented separately from the service cost component. ASU 2017-17 will be effective in 2018 and, as the Company froze its defined benefit pension plan in 2004, there is no service cost component of its net periodic benefit cost and therefore will not have an impact on the Company s financial statements.

ASU 2017-08, Receivables Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 addresses the amortization method for all callable bonds purchased at a premium to par. Under the revised guidance, entities will be required to amortize premiums on callable bonds to the earliest call date. ASU 2017-08 is effective in 2019 although early adoption is permitted. The Company elected to early adopt ASU 2017-08 in the first quarter of 2017. The adoption of this guidance did not have a material impact on the Company s financial statements.

Note 12 - Acquisition Definitive Agreement Signed

On October 12, 2017, the Company announced that it has entered into a definitive agreement to acquire Commercial Bancshares, Inc. and its wholly owned bank subsidiary, Commercial State Bank, El Campo, Texas pursuant to an Agreement and Plan of Reorganization (the Reorganization Agreement) dated October 12, 2017, by and among the Company, Kingwood Merger Sub, Inc., a wholly owned subsidiary of the company, and Commercial Bancshares, Inc. for consideration to be paid in shares of Common Stock with an aggregate value of approximately $59,400,000. In

addition, Commercial Bancshares, Inc. will make a $15,600,000 special dividend to its shareholders prior to closing of the transaction, which may be increased or decreased for the amount by which Commercial Bancshares, Inc. s consolidated shareholders equity as of the closing date exceeds or is less than $42,400,000, after certain adjustments described in the Reorganization Agreement. At September 30, 2017 Commercial State Bank, Kingwood, Texas had gross loans totaling $263,800,000, total deposits of $322,100,000 and total assets of $366,800,000. Pending regulatory and shareholder approval, the acquisition is expected to close in the first quarter of 2018.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as anticipate, believe, estimate, expect, intend, predict, project, and similar expressions, as they relate to us or management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited, to those listed in Item 1A- Risk Factors in our Annual Report on Form 10-K and the following:

- general economic conditions, including our local, state and national real estate markets and employment trends;
- effect of severe weather conditions, including hurricanes, tornadoes, flooding and drought;
- volatility and disruption in national and international financial and commodity markets;
- government intervention in the U.S. financial system including the effects of recent legislative, tax, accounting and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau and the capital ratios of Basel III as adopted by the federal banking authorities;
- political instability;
- the ability of the Federal government to address the national economy;
- changes in our competitive environment from other financial institutions and financial service providers;
- the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the Federal Reserve Board);
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;

the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply;

changes in the demand for loans;

fluctuations in the value of collateral securing our loan portfolio and in the level of the allowance for loan losses;

the accuracy of our estimates of future loan losses;

the accuracy of our estimates and assumptions regarding the performance of our securities portfolio;

soundness of other financial institutions with which we have transactions;

inflation, interest rate, market and monetary fluctuations;

changes in consumer spending, borrowing and savings habits;

changes in commodity prices (e.g., oil and gas, cattle and wind energy);

our ability to attract deposits and increase market share;

changes in our liquidity position;

changes in the reliability of our vendors, internal control system or information systems;

cyber attacks on our technology information systems, including fraud from our customers and external third party vendors;

our ability to attract and retain qualified employees;

acquisitions and integration of acquired businesses;

the possible impairment of goodwill associated with our acquisitions;

consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors;

expansion of operations, including branch openings, new product offerings and expansion into new markets;

changes in compensation and benefit plans; and

acts of God or of war or terrorism.

Such forward-looking statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by law).

Introduction

As a financial holding company, we generate most of our revenue from interest on loans and investments, trust fees, and service charges. Our primary source of funding for our loans and investments are deposits held by our subsidiary, First Financial Bank, National Association, Abilene, Texas. Our largest expense is salaries and related employee benefits. We usually measure our performance by calculating our return on average assets, return on average equity, our regulatory leverage and risk based capital ratios and our efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income.

The following discussion and analysis of operations and financial condition should be read in conjunction with the financial statements and accompanying footnotes included in Item 1 of this Form 10-Q as well as those included in the Company s 2016 Annual Report on Form 10-K.

Critical Accounting Policies

We prepare consolidated financial statements based on GAAP and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

We deem our most critical accounting policies to be (1) our allowance for loan losses and our provision for loan losses and (2) our valuation of securities. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period. A discussion of (1) our allowance for loan losses and our provision for loan losses and (2) our valuation of securities is included in note 5 and note 4, respectively, to our notes to consolidated financial statements (unaudited) which begins on page 9.

Recent Development

Houston and surrounding areas around the Gulf Coast were significantly affected by Hurricane Harvey beginning in late August 2017 and continuing into September 2017. Our Company has regional locations (i) north of Houston in Conroe, Willis, Tomball, Huntsville, Montgomery, Magnolia and Cut and Shoot and (ii) in Southeast Texas in Orange, Beaumont, Vidor, Newton, Mauriceville and Port Arthur. We continue to evaluate the effect of the hurricane on our branch facilities and our loan and investment portfolios. Our initial assessment of our physical buildings and equipment indicates damage primarily at our Mauriceville branch, and amounts not covered by insurance do not appear to be significant. At September 30, 2017, we have loans totaling $448.82 million in our Conroe region and $397.63 million in the Southeast Texas/Orange region. We are evaluating these loans and the related collateral and

business operations underlying such loans. At September 30, 2017, we provided additional allowance for loan and lease losses as deemed appropriate based on this analysis. We continue to evaluate these loans and expect some changes, plus or minus, as we learn more information about to the damage caused by the hurricane. Our tax exempt municipal bonds in the counties of Texas effected by the hurricane have been evaluated, including insurance on the bonds. At September 30, 2017, our municipal bonds in these counties totaled $254.48 million but only $9.13 million does not have bond insurance. Based on analysis of these bonds and the related municipality, at September 30, 2017, we do not believe we have any credit related losses other than temporary impairment.

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Results of Operations

Performance Summary. Net earnings for the third quarter of 2017 were $29.37 million compared to $25.60 million for the same quarter in 2016, or a 14.73% increase.

Basic earnings per share for the third quarter of 2017 were $0.44 compared to $0.39 for the same quarter last year. The return on average assets was 1.65% for the third quarter of 2017, as compared to 1.54% for the third quarter of 2016. The return on average equity was 12.95% for the third quarter of 2017 as compared to 11.72% for the third quarter of 2016.

Net earnings for the nine-month period ended September 30, 2017 were $84.23 million compared to $78.11 million for the same period in 2016, or a 7.83% increase.

Basic earnings per share for the first nine months of 2017 were $1.27 compared to $1.18 for the same period in 2016. The return on average assets was 1.62% for the first nine months of 2017 as compared to 1.59% for the same period in 2016. The return on average equity was 12.88% for the first nine months of 2017, as compared to 12.33% a year ago.

Net Interest Income. Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits.

Tax-equivalent net interest income was $66.00 million for the third quarter of 2017, as compared to $63.00 million for the same period last year. The increase in 2017 compared to 2016 was largely attributable to the increase in interest earning assets, particularly loans and taxable securities. Average earning assets increased $431.96 million for the third quarter of 2017 over the same period in 2016. Average loans and taxable securities increased $119.07 million and $187.14 million, respectively, for the third quarter of 2017 over the same quarter of 2016. Average interest-bearing liabilities increased $222.71 million for the third quarter of 2017, as compared to the same period in 2016. The yield on earning assets decreased one basis points and the rate paid on interest-bearing liabilities increased fourteen basis points for the third quarter of 2017 compared to the third quarter of 2016.

Tax-equivalent net interest income was $195.16 million for the first nine months of 2017, as compared to $188.86 million for the same period last year. The increase in 2017 compared to 2016 was largely attributable to the increase in volume of interest earning assets. Average earning assets increased $363.44 million for the first nine months of 2017 over the same period in 2016. Average loans and taxable securities increased $99.77 million and $125.78 million, respectively, for the first nine months of 2017 over the same period of 2016. Average interest-bearing liabilities increased $223.70 million for the first nine months of 2017, as compared to the same period in 2016. The yield on earning assets decreased five basis points and the rate paid on interest-bearing liabilities increased eight basis points for the first nine months of 2017 over the first nine months of 2016.

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Table 1 allocates the change in tax-equivalent net interest income between the amount of change attributable to volume and to rate.

Table 1 - Changes in Interest Income and Interest Expense (in thousands):

	Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016			Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ 175	$ 364	$ 539	$ 312	$ 503	$ 815
Taxable investment securities	971	328	1,299	2,008	673	2,681
Tax-exempt investment securities (1)	(13)	356	343	2,139	407	2,546
Loans (1) (2)	1,456	866	2,322	3,672	(687)	2,985
Interest income	2,589	1,914	4,503	8,131	896	9,027
Interest-bearing deposits	86	1,031	1,117	325	2,226	2,551
Short-term borrowings	(20)	404	384	(176)	343	167
Interest expense	66	1,435	1,501	149	2,569	2,718
Net interest income	$ 2,523	$ 479	$ 3,002	$ 7,982	$ (1,673)	$ 6,309

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.
(2) Non-accrual loans are included in loans.

The net interest margin for the third quarter of 2017 was 3.94%, a decrease of ten basis points from the same period in 2016. The continued decrease in our net interest margin in 2017 and 2016 was largely the result of the extended period of historically low levels of short-term interest rates. We have been able to somewhat mitigate the impact of lower short-term interest rates by establishing minimum interest rates on certain of our loans, improving the pricing for loan risk, and minimizing rates paid on interest bearing liabilities.

The net interest margin for the nine months ending September 30, 2017 was 4.01%, a decrease of nine basis points from the same period in 2016. The continued decrease in our net interest margin in 2017 and 2016 was largely the result of the extended period of historically low levels of short-term interest rates. We have been able to somewhat mitigate the impact of lower short-term interest rates by establishing minimum interest rates on certain of our loans, improving the pricing for loan risk, and minimizing rates paid on interest bearing liabilities.

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The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in Table 2.

Table 2 - Average Balances and Average Yields and Rates (in thousands, except percentages):

	Three Months Ended September 30,					
	2017			2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 200,789	$ 638	1.26%	$ 73,881	$ 99	0.53%
Taxable investment securities (2)	1,492,246	8,074	2.16	1,305,103	6,775	2.08
Tax-exempt investment securities (2)(3)	1,477,559	16,884	4.57	1,478,719	16,541	4.47
Loans (3)(4)	3,468,524	43,270	4.95	3,349,458	40,948	4.86
Total earning assets	6,639,118	$ 68,866	4.12%	6,207,161	$ 64,363	4.13%
Cash and due from banks	157,983			152,080		
Bank premises and equipment, net	123,550			122,944		
Other assets	55,428			55,358		
Goodwill and other intangible assets, net	141,776			143,854		
Allowance for loan losses	(47,667)			(45,997)		
Total assets	$ 7,070,188			$ 6,635,400		
Liabilities and Shareholders Equity						
Interest-bearing deposits	$ 3,728,442	$ 2,228	0.24%	$ 3,460,208	$ 1,111	0.13%
Short-term borrowings	524,357	638	0.48	569,883	254	0.18
Total interest-bearing liabilities	4,252,799	$ 2,866	0.27%	4,030,091	$ 1,365	0.13%
Noninterest-bearing deposits	1,864,144			1,663,460		
Other liabilities	53,537			72,611		
Total liabilities	6,170,480			5,766,162		
Shareholders equity	899,708			869,238		
Total liabilities and shareholders equity	$ 7,070,188			$ 6,635,400		
Net interest income		$ 66,000			$ 62,998	
Rate Analysis:						
Interest income/earning assets			4.12%			4.13%
Interest expense/earning assets			0.18			0.09
Net yield on earning assets			3.94%			4.04%

	Nine Months Ended September 30,					
	2017			2016		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	$ 129,945	$ 1,036	1.07%	$ 54,908	$ 221	0.54%
Taxable investment securities (2)	1,451,712	23,848	2.19	1,325,935	21,167	2.13
Tax-exempt investment securities (2)(3)	1,511,786	51,859	4.57	1,448,933	49,313	4.54
Loans (3)(4)	3,419,105	125,147	4.89	3,319,337	122,162	4.92
Total earning assets	6,512,548	$ 201,890	4.14%	6,149,113	$ 192,863	4.19%
Cash and due from banks	159,202			151,485		
Bank premises and equipment, net	123,110			119,664		
Other assets	57,191			55,094		
Goodwill and other intangible assets, net	142,885			144,091		
Allowance for loan losses	(47,021)			(44,487)		
Total assets	$ 6,947,915			$ 6,574,960		
Liabilities and Shareholders Equity						
Interest-bearing deposits	$ 3,779,967	$ 5,748	0.20%	$ 3,431,572	$ 3,197	0.12%
Short-term borrowings	448,773	978	0.29	573,464	811	0.19
Total interest-bearing liabilities	4,228,740	$ 6,726	0.21%	4,005,036	$ 4,008	0.13%
Noninterest-bearing deposits	1,797,174			1,656,935		
Other liabilities	47,720			66,855		
Total liabilities	6,073,634			5,728,826		
Shareholders equity	874,281			846,134		
Total liabilities and shareholders equity	$ 6,947,915			$ 6,574,960		
Net interest income		$ 195,164			$ 188,855	
Rate Analysis:						
Interest income/earning assets			4.14%			4.19%
Interest expense/earning assets			0.13			0.09
Net yield on earning assets			4.01%			4.10%

(1) Short-term investments are comprised of Fed Funds sold, interest-bearing deposits in banks and interest-bearing time deposits in banks.
(2) Average balances include unrealized gains and losses on available-for-sale securities.
(3) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.
(4) Non-accrual loans are included in loans.

Noninterest Income. Noninterest income for the third quarter of 2017 was $24.26 million, an increase of $2.11 million compared to the same period in 2016. Trust fees increased 19.23 percent to $6.04 million in the third quarter of 2017 compared with $5.07 million in the same quarter last year, due to continued growth in the fair value of trust assets managed to $4.92 billion from $4.22 billion a year ago and an increase in Trust fees. Service charges on deposit accounts increased 5.98 percent to $5.08 million compared with $4.80 million in the same quarter last year due to continued growth in net new accounts. ATM, interchange and credit card fees increased 5.67 percent to $6.34 million compared with $6.00 million in the same quarter last year due to continued growth in debit cards. Also included in noninterest income during the third quarter of 2017 were gains on the sale of securities of $1.08 million, an increase of $836 thousand when compared to the same quarter in 2016, and an increase of $629 thousand in other noninterest income when compared to the same period a year ago which largely resulted from a $505 thousand litigation settlement in the third quarter of 2017. Real estate mortgage fees decreased in the third quarter of 2017 to $3.89 million compared with $4.70 million in the same quarter a year ago and interest on loan recoveries decreased $304 thousand in the third quarter of 2017 compared to the same period in 2016.

Noninterest income for the nine-month period ended September 30, 2017 was $68.72 million, an increase of $5.31 million compared to the same period in 2016. Trust fees increased 23.25 percent to $17.80 million in the first nine months of 2017 compared with $14.45 million in the same period in 2016 due primarily to continued growth in the fair value of trust assets managed to $4.92 billion from $4.22 billion a year ago and an increase in Trust fees. Service charges on deposits increased 6.63 percent to $14.52

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million compared with $13.61 million in the same period last year due primarily to the continued growth in net new accounts. ATM, interchange and credit card fees increased 9.02 percent to $19.10 million compared with $17.52 million in the same period last year due to continued growth in debit cards. Also included in noninterest income for the nine-month period ended September 30, 2017 were gains on the sale of securities of $1.83 million, an increase of $672 thousand when compared to the same period in 2016, and an increase of $524 thousand in other noninterest income when compared to the same period a year ago which largely resulted from a $505 thousand litigation settlement in the third quarter of 2017. Real estate mortgage fees and interest on loan recoveries decreased $353 thousand and $1.07 million, respectively for the nine-month period ending September 30, 2017 when compared to the same period a year ago.

ATM and interchange fees are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. ATM and interchange fees consist of income from debit card usage, point of sale income for debit card transactions and ATM service fees. Federal Reserve rules applicable to financial institutions that have assets of $10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. While we currently have assets under $10 billion, we are monitoring the effect of this reduction in per transaction fee income as we approach the $10 billion asset level.

Table 3 - Noninterest Income (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	**Increase (Decrease)**	**2016**	**2017**	**Increase (Decrease)**	**2016**
Trust fees	$ 6,040	$ 974	$ 5,066	$ 17,804	$ 3,358	$ 14,446
Service charges on deposit accounts	5,083	287	4,796	14,517	903	13,614
ATM, interchange and credit card fees	6,340	340	6,000	19,102	1,581	17,521
Real estate mortgage operations	3,891	(806)	4,697	11,496	(353)	11,849
Net gain on sale of available-for-sale securities	1,075	836	239	1,825	672	1,153
Net gain (loss) on sale of foreclosed assets	(11)	(1)	(10)	(42)	(385)	343
Net gain (loss) on sale of assets	(15)	153	(168)	(211)	(482)	271
Interest on loan recoveries	405	(304)	709	896	(1,074)	1,970
Other:						
Check printing fees	40	(11)	51	121	(16)	137
Safe deposit rental fees	108	(7)	115	424	(2)	426
Credit life fees	156	(83)	239	439	(29)	468
Brokerage commissions	323	276	47	908	608	300
Miscellaneous income	825	454	371	1,436	524	912
Total other	1,452	629	823	3,328	1,085	2,243
Total Noninterest Income	$ 24,260	$ 2,108	$ 22,152	$ 68,715	$ 5,305	$ 63,410

Noninterest Expense. Total noninterest expense for the third quarter of 2017 was $43.96 million, an increase of $1.96 million compared to $42.00 million in the same period of 2016. An important measure in determining whether a

financial institution effectively manages noninterest expense is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Lower ratios indicate better efficiency since more income is generated with a lower noninterest expense total. Our efficiency ratio for the third quarter of 2017 was 48.71%, compared to 49.33% for the same period in 2016.

Salaries and employee benefits for the third quarter of 2017 totaled $24.14 million, an increase of $1.21 million compared to the same period in 2016. The increase was primarily driven by (i) annual merit pay increases that were effective March 1, 2017 (ii) an increase in our profit sharing expenses of $353 thousand over the same quarter in 2016 and (iii) an increase in stock option and stock grant expense of $574 thousand due to the stock option grant in June 2017.

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All other categories of noninterest expense for the third quarter of 2017 totaled $19.82 million, an increase of $749 thousand compared to the same quarter in 2016. This increase primarily resulted from increases in operational and other losses of $548 thousand due to fraud and weather related losses and software amortization and expense of $252 thousand from the write-off of software costs as compared to the same period in 2016.

Total noninterest expense for the first nine months of 2017 was $129.89 million, an increase of $6.05 million, compared to $123.84 million in the same period of 2016. Our efficiency ratio for the first nine months of 2017 was 49.22%, compared to 49.09% from the same period in 2016.

Salaries and employee benefits for the first nine months of 2017 totaled $70.87 million, an increase of $3.20 million compared to the same period in 2016. The increase was primarily driven by (i) annual pay increases that were effective March 1, 2017 (ii) an increase in our profit sharing expense over the same period in 2016 and (iii) an increase in stock option and stock grant expense of $657 thousand due to the stock option grant in June 2017.

All other categories of noninterest expense for the first nine months of 2017 totaled $59.02 million, an increase of approximately $2.85 million, as compared to the same period in 2016. The increase primarily resulted from increases in operational and other losses of $1.19 million due to fraud and weather related losses, professional and services fees of $779 thousand and software amortization and expense of $756 thousand from the write-off of software costs as compared to the same period in 2016.

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Table 4 - Noninterest Expense (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	Increase (Decrease)	2016	2017	Increase (Decrease)	2016
Salaries	$ 18,166	$ 320	$ 17,846	$ 54,022	$ 1,439	$ 52,583
Medical	2,125	(97)	2,222	6,201	(248)	6,449
Profit sharing	1,091	353	738	3,074	1,181	1,893
Pension	84	2	82	253	6	247
401(k) match expense	603	12	591	1,829	35	1,794
Payroll taxes	1,191	48	1,143	3,907	129	3,778
Stock option and stock grant expense	883	574	309	1,581	657	924
Total salaries and employee benefits	24,143	1,212	22,931	70,867	3,199	67,668
Net occupancy expense	2,711	39	2,672	8,081	195	7,886
Equipment expense	3,294	(126)	3,420	10,397	211	10,186
FDIC assessment fees	561	48	513	1,657	(498)	2,155
ATM, interchange and credit card expense	2,001	142	1,859	5,517	165	5,352
Professional and service fees	2,036	153	1,883	5,878	779	5,099
Printing, stationery and supplies	449	(87)	536	1,423	(81)	1,504
Operational and other losses	1,081	548	533	2,639	1,187	1,452
Amortization of intangible assets	143	(29)	172	477	(93)	570
Other:						
Data processing fees	349	230	119	896	563	333
Postage	399	(7)	406	1,232	9	1,223
Advertising	894	(30)	924	2,649	(6)	2,655
Correspondent bank service charges	215	(25)	240	662	(64)	726
Telephone	737	(146)	883	2,303	(185)	2,488
Public relations and business development	633	(172)	805	1,997	(58)	2,055
Directors fees	387	86	301	1,125	125	1,000
Audit and accounting fees	385	(55)	440	1,246	(94)	1,340
Legal fees	331	(148)	479	1,429	(103)	1,532
Regulatory exam fees	296	15	281	880	32	848
Software amortization and expense	742	252	490	2,237	756	1,481
Travel	276	(56)	332	892	(46)	938
Courier expense	237	15	222	657	32	625
Other real estate	14	(20)	34	102	(74)	176
Other miscellaneous expense	1,650	122	1,528	4,648	100	4,548
Total other	7,545	61	7,484	22,955	987	21,968
Total Noninterest Expense	$ 43,964	$ 1,961	$ 42,003	$ 129,891	$ 6,051	$ 123,840

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Balance Sheet Review

Loans. Our portfolio is comprised of loans made to businesses, professionals, individuals, and farm and ranch operations located in the primary trade areas served by our subsidiary bank. Real estate loans represent loans primarily for 1-4 family residences and commercial real estate. The structure of loans in the real estate mortgage area generally provides re-pricing intervals to minimize the interest rate risk inherent in long-term fixed rate loans. As of September 30, 2017, total loans held for investment were $3.47 billion, an increase of $114.92 million, as compared to December 31, 2016 balances. As compared to December 31, 2016, commercial loans increased $537 thousand, agricultural loans decreased $1.02 million, real estate loans increased $107.71 million, and consumer loans increased $7.69 million. Loans averaged $3.47 billion during the third quarter of 2017, an increase of $119.07 million from the prior year third quarter average balances. Loans averaged $3.42 billion during the nine-month period ended September 30, 2017, an increase of $99.77 million from the prior year nine-month average balances.

Table 5 - Composition of Loans (in thousands):

	September 30,		December 31,
	2017	2016	2016
Commercial	$ 674,947	$ 663,581	$ 674,410
Agricultural	83,005	84,716	84,021
Real estate	2,297,556	2,191,260	2,189,844
Consumer	416,719	398,236	409,032
Total loans held-for-investment	$ 3,472,227	$ 3,337,793	$ 3,357,307

At September 30, 2017, our real estate loans represent approximately 66.17% of our loan portfolio and are comprised of (i) 1-4 family residence loans of 45.83%, (ii) commercial real estate loans of 23.91%, generally owner occupied, (iii) other loans, which includes ranches, hospitals and universities, of 16.09%, (iv) residential development and construction loans of 7.88%, which includes our custom and speculation home construction loans and (v) commercial development and construction loans of 6.29%.

Loans held for sale, consisting of secondary market mortgage loans, totaled $19.12 million, $31.59 million, and $26.90 million at September 30, 2017 and 2016, and December 31, 2016 respectively, which are valued using the lower of cost or market method.

Asset Quality. Our loan portfolio is subject to periodic reviews by our centralized independent loan review group as well as periodic examinations by bank regulatory agencies. Loans are placed on nonaccrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Nonaccrual, past due 90 days or more and still accruing, and restructured loans plus foreclosed assets were $22.08 million at September 30, 2017, as compared to $34.94 million at September 30, 2016 and $29.00 million at December 31, 2016. As a percent of loans and foreclosed assets, these assets were 0.63% at September 30, 2017, as compared to 1.04% at September 30, 2016 and 0.86% at December 31, 2016. As a percent of total assets, these assets were 0.31% at September 30, 2017, as compared to 0.52% at September 30, 2016 and 0.43% at December 31, 2016. We believe the level of these assets to be manageable and are not aware of any material classified credits not properly disclosed as nonperforming at September 30, 2017.

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Supplemental Oil and Gas Information. As of September 30, 2017, the Company s exposure to the oil and gas industry totaled 1.99% of gross loans, or $69.43 million, down $9.05 million from December 31, 2016 year-end levels, and consisted (based on collateral supporting the loan) of (i) development and production loans of 2.65%, (ii) oil and gas field servicing loans of 6.91%, (iii) real estate loans of 40.77%, (iv) accounts receivable and inventory of 24.40% and (v) other of 25.27%. While the overall state of the Company s oil and gas portfolio has improved, price fluctuations from the upper $40 to lower $50 continue to cause stress on several of our credits. The Company instituted additional monitoring procedures for these loans and classified, downgraded and charged-off loans as appropriate. The following oil and gas information is as of and for the quarters ended September 30, 2017 and 2016, and December 31, 2016:

	September 30,		December 31,
	2017	2016	2016
Oil and gas related loans	$ 69,433	$ 86,785	$ 78,483
Oil and gas related loans as a % of total loans	1.99%	2.58%	2.32%
Classified oil and gas related loans	21,817	$ 31,541	$ 32,518
Nonaccrual oil and gas related loans	1,569	5,140	4,092
Net charge-offs for oil and gas related loans for quarter/year then ended		104	1,145
Allowance for oil and gas related loans as a % of oil and gas loans	6.03%	5.60%	6.28%

Table 6 - Non-accrual, Past Due 90 Days or More and Still Accruing, Restructured Loans and Foreclosed Assets (in thousands, except percentages):

	September 30,		December 31,
	2017	2016	2016
Non-accrual loans*	$ 18,750	$ 33,712	$ 27,371
Loans still accruing and past due 90 days or more	257	107	284
Troubled debt restructured loans**	668	750	701
Nonperforming Loans	19,675	34,569	28,356
Foreclosed assets	2,401	369	644
Total nonperforming assets	$ 22,076	$ 34,938	$ 29,000
As a % of loans and foreclosed assets	0.63%	1.04%	0.86%
As a % of total assets	0.31%	0.52%	0.43%

* Includes $736 thousand, $1.85 million and $1.26 million of purchased credit impaired loans as of September 30, 2017 and 2016, and December 31, 2016, respectively.

** Other troubled debt restructured loans of $5.28 million, $7.51 million and $6.86 million, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2017 and 2016, and December 31, 2016, respectively.

We record interest payments received on non-accrual loans as reductions of principal. Prior to the loans being placed on non-accrual, we recognized interest income on impaired loans of approximately $790 thousand for the year ended

December 31, 2016. If interest on these impaired loans had been recognized on a full accrual basis during the year ended December 31, 2016, such income would have approximated $2.90 million. Such amounts for the 2017 and 2016 interim periods were not significant.

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Provision and Allowance for Loan Losses. The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. For a discussion of our methodology, see note 5 to our notes to the consolidated financial statements (unaudited). The provision for loan losses was $1.42 million for the third quarter of 2017, as compared to $3.83 million for the third quarter of 2016. The provision for loan losses was $5.09 million for the nine-month period ended 2017 as compared to $8.22 million for the same period in 2016. The continued provision for loan losses in 2017 and 2016 reflects the growth in the loan portfolio, the continued levels of gross charge-offs and the effects related to Hurricane Harvey on the loan portfolio. As a percent of average loans, net loan charge-offs were 0.10% for the third quarter of 2017, as compared to 0.43% for the third quarter of 2016. As a percent of average loans, net loan charge-offs were 0.12% for the first nine months of 2017, as compared to 0.19% for the first nine months of 2016. The allowance for loan losses as a percent of loans was 1.37% as of September 30, 2017, as compared to 1.34% as of September 30, 2016 and 1.35% as of December 31, 2016. Included in Table 7 is further analysis of our allowance for loan losses.

Table 7 - Loan Loss Experience and Allowance for Loan Losses (in thousands, except percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Allowance for loan losses at period-end	$ 47,922	$ 45,298	$ 47,922	$ 45,298
Loans held for investment at period-end	3,472,227	3,337,793	3,472,227	3,337,793
Average loans for period	$ 3,468,524	$ 3,349,458	$ 3,419,105	$ 3,319,337
Net charge-offs/average loans (annualized)	0.10%	0.43%	0.12%	0.19%
Allowance for loan losses/period-end loans	1.37%	1.34%	1.37%	1.34%
Allowance for loan losses/non-accrual loans, past due 90 days still accruing and restructured loans	243.57%	131.04%	243.57%	131.04%

Interest-Bearing Deposits in Banks. At September 30, 2017, our interest-bearing deposits in banks were $168.28 million compared to $119.04 million at September 30, 2016 and $50.28 million at December 31, 2016, respectively. At September 30, 2017, interest-bearing deposits in banks included $1.46 million invested in FDIC-insured certificates of deposit, $166.26 million maintained at the Federal Reserve Bank of Dallas and $556 thousand on deposit with the Federal Home Loan Bank of Dallas (FHLB).

Available-for-Sale and Held-to-Maturity Securities. At September 30, 2017, securities with a fair value of $2.89 billion were classified as securities available-for-sale. As compared to December 31, 2016, the available-for-sale portfolio at September 30, 2017 reflected (i) a decrease of $10.67 million in U.S. Treasury securities (ii) a decrease of $40.12 million in obligations of U.S. government sponsored enterprises and agencies, (iii) a decrease of $130.08 million in obligations of states and political subdivisions, (iv) a decrease of $32.84 million in corporate bonds and other, and (v) an increase of $238.35 million in mortgage-backed securities. Our mortgage related securities are backed by GNMA, FNMA or FHLMC or are collateralized by securities backed by these agencies.

See note 4 to the consolidated financial statements (unaudited) for additional disclosures relating to the investment portfolio at September 30, 2017 and 2016, and December 31, 2016.

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Table 8 - Maturities and Yields of Available-for-Sale Securities Held at September 30, 2017 (in thousands, except percentages):

	One Year or Less		After One Year Through Five Years		Maturing After Five Years Through Ten Years		After Ten Years		Total	
Available-for-Sale:	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Obligations of U.S. government sponsored enterprises and agencies	$ 33,038	1.16%	$ 40,550	1.47%	$	%	$	%	$ 73,588	1.33%
Obligations of states and political subdivisions	136,783	5.02	638,745	5.14	656,623	4.73	2,043	6.86	1,434,194	4.94
Corporate bonds and other securities	19,315	2.72	240	1.15					19,555	2.70
Mortgage-backed securities	18,469	2.31	1,062,189	2.24	227,721	2.64	49,767	2.80	1,358,146	2.33
Total	$ 207,605	3.95%	$ 1,741,724	3.28%	$ 884,344	4.19%	$ 51,810	2.96%	$ 2,885,483	3.60%

Amounts for held-to-maturity securities are not included herein due to insignificance.

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 35%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

As of September 30, 2017, the investment portfolio had an overall tax equivalent yield of 3.60%, a weighted average life of 4.18 years and modified duration of 3.74 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were $5.70 billion as of September 30, 2017, as compared to $5.24 billion as of September 30, 2016 and $5.48 billion as of December 31, 2016. Table 9 provides a breakdown of average deposits and rates paid for the three and nine months periods ended September 30, 2017 and 2016.

Table 9 - Composition of Average Deposits (in thousands, except percentages):

• 80% of the votes entitled to be cast by holders of outstanding voting shares; and
itled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder with whom the business
ed.

xemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that the es an interested stockholder. These voting provisions do not apply if the stockholders receive a minimum price, as defined under by the statute, the Board of Directors of the Essex Property Trust, Inc. irrevocably has elected to exempt any business combination by eorge M. Marcus, who is the chairman of Essex Property Trust, Inc., and TMMC or any entity owned or controlled by Mr. Marcus and ve-year prohibition and supermajority vote requirement described above will not apply to any business combination between the Essex rcus, or TMMC. As a result, Essex Property Trust, Inc. may in the future enter into business combinations with Mr. Marcus and TMMC supermajority vote requirements and other provisions of the Maryland General Corporation Law.

s and joint ownership of communities and partial interests in corporations and limited partnerships could limit the Company's ability to d partial interests. Instead of purchasing and developing apartment communities directly, the Company has invested and may continue t venture partners often have shared control over the development and operation of the joint venture assets. Therefore, it is possible that vestment might become bankrupt, or have economic or business interests or goals that are inconsistent with the Company's business position to take action contrary to the Company's instructions or requests, or its policies or objectives. Consequently, a joint venture ct property owned by the joint venture to additional risk. Although the Company seeks to maintain sufficient influence over any joint ves, the Company may be unable to take action without its joint venture partners' approval, or joint venture partners could take actions without its consent. Should a joint venture partner become bankrupt, the Company could become liable for such partner's share of joint nstances, the Company and the joint venture partner may each have the right to trigger a buy-sell arrangement, which could cause the or acquire a partner's interest, at a time when the Company otherwise would have not have initiated such a transaction.

any, through the Operating Partnership, invests in corporations, limited partnerships, limited liability companies or other entities that ha of acquiring, developing, financing, or managing real property. In certain circumstances, the Operating Partnership's interest in a than a majority of the outstanding voting interests of that entity. Therefore, the Operating Partnership's ability to control the daily may be limited. Furthermore, the Operating Partnership may not have the power to remove a majority of the board of directors (in the ca ral partner or partners (in the case of a limited partnership) of such an entity in the event that its operations conflict with the Operating e Operating Partnership may not be able to dispose of its interests in such an entity. In the event that such an entity becomes insolvent, t se up to its entire investment in and any advances to the entity. The Company may also incur losses if any guarantees were made by th s, and in the future may, enter into transactions that could require the Company to pay the tax liabilities of partners, which contribute he Operating Partnership, in the event that certain taxable events, which are within the Company's control, occur. Although the Compa assets or defer recognition of gain on sale pursuant to the like-kind exchange rules under Section 1031 of the Internal Revenue Code, th urance that the Company will be able to do so and if such tax liabilities were incurred they can expect to have a material impact on its

nay operate in ways that may adversely impact the Company's interests. The Company is the general partner of Essex Apartment Value l with Fund II there are the following risks:

the Company's partners in Fund II might remove the Company as the general partner of Fund II;

in Fund II might have economic or business interests or goals that are inconsistent with the Company's business interests or goals; or

he Company's partners in Fund II might fail to approve decisions regarding Fund II that are in the Company's best interest.

l other real estate securities could affect the Company's ability to make distributions to Essex Property Trust, Inc.'s stockholders and Es The Company may invest in securities related to real estate, which could adversely affect the Essex Property Trust, Inc.'s ability to mak and Essex Portfolio L.P.'s unitholders. The Company may purchase securities issued by entities which own real estate and invest in obligations. These mortgages may be first, second or third mortgages that may or may not be insured or otherwise guaranteed. In gages include the following risks:

that the value of mortgaged property may be less than the amounts owed, causing realized or unrealized losses;
ndebtedness under the mortgage when due, requiring the Company to foreclose, and the amount recovered in connection with the
n the amount owed;
that interest rates payable on the mortgages may be lower than the Company's cost of funds; and
in the case of junior mortgages, that foreclosure of a senior mortgage could eliminate the junior mortgage.

ccur, cash flows from operations and Essex Property Trust, Inc.'s ability to make expected dividends to stockholders and Essex Portfoli
ed distribution to unitholders could be adversely affected.

ting disabled persons may require the Company to make significant unanticipated expenditures or impact the Company's investment
l, state and local laws (including the Americans with Disabilities Act) and regulations exist that may require modifications to existing
enovations by requiring improved access to such buildings by disabled persons and may require other structural features which add to th
ruction. Legislation or regulations adopted in the future may impose further burdens or restrictions on the Company with respect to
persons. The costs of compliance with these laws and regulations may be substantial.

y have unknown environmental liabilities. Under various federal, state and local laws, ordinances and regulations, an owner or operato
sts of removal or remediation of certain hazardous or toxic substances on, in, to or migrating from such property. Such laws often impo
whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of suc
roperly remediate such substances, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow usin
Persons exposed to such substances, either through soil vapor or ingestion of the substances may claim personal injury damages. Person
or treatment of hazardous or toxic substances or wastes also may be liable for the costs of removal or remediation of such substances at
lity to which such substances or wastes were sent, whether or not such facility is owned or operated by such person. Certain
iability for release of asbestos-containing materials ("ACMs") into the air, and third parties may seek recovery from owners or operator
ersonal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development o
Company could be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous o
re, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and costs rela
perty.

create a potential for environmental liabilities on the part of the owner of such real property. The Company carries certain limited
ype of environmental risk. The Company has conducted environmental studies which revealed the presence of groundwater contaminat
n contamination at certain of these apartment communities was reported to have migrated on-site from adjacent industrial manufacturing
strial users of the communities were identified as the source of contamination. The environmental studies noted that certain communitie
sibly down gradient from sites with known groundwater contamination, the lateral limits of which may extend onto such apartment
ental studies also noted that at certain of these apartment communities, contamination existed because of the presence of underground fu
en removed. In general, in connection with the ownership, operation, financing, management and development of apartment communit
ally liable for removal or clean-up costs, as well as certain other costs and environmental liabilities. The Company may also be subject
related to injuries to persons and property.

g number of lawsuits against owners and managers of apartment communities alleging personal injury and property damage caused by
al real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. The Company has been sued for
settled some, but not all, of such matters. Insurance carriers have reacted to mold related liability awards by excluding mold related
and pricing mold endorsements at prohibitively high rates. The Company has, however, purchased pollution liability insurance, which
nold. The Company has adopted policies for promptly addressing and resolving reports of mold when it is detected, and to minimize an
esidents of the property. The Company believes its mold policies and proactive response to address any known existence, reduces its ri
ere can be no assurance that the Company has identified and responded to all mold occurrences. Liabilities resulting from such mold
ted to have a material adverse effect on the Company's financial condition, results of operations or cash flows. As of December 31, 201
and other environmental liabilities are not quantifiable and an estimate of possible loss cannot be made.

ation commonly referred to as “Proposition 65” requiring that “clear and reasonable” warnings be given to consumers who are exposed t
of California to cause cancer or reproductive toxicity, including tobacco smoke. Although the Company has sought to comply with
the Company cannot assure you that the Company will not be adversely affected by litigation relating to Proposition 65.

ccurring gas that is commonly found below the surface in several areas, particularly in the Southern California coastal areas. Methane is
itable in confined spaces. Although naturally-occurring, methane gas is not regulated at the state or federal level, however some local
unty of Los Angeles, have imposed requirements that new buildings install detection systems in areas where methane gas is known to be
o associated with certain industrial activities, such as former municipal waste landfills. Radon is also a naturally-occurring gas that is
e Company cannot assure you that it will not be adversely affected by costs related to its compliance with methane or radon gas related
ts related to methane or radon gas.

indemnification agreements from third parties for potential environmental clean-up costs at its communities. The Company has no way
nagnitude of any potential liability to which it may be subject arising out of unknown environmental conditions or violations with respe
ned by the Company. No assurance can be given that existing environmental studies with respect to any of the communities reveal all
any prior owner or operator of an apartment community did not create any material environmental condition not known to the Compan
ntal condition does not exist as to any one or more of the communities. The Company has limited insurance coverage for the types of
ribed above.

eral uninsured losses. The Company carries comprehensive liability, fire, extended coverage and rental loss insurance for each of the
vever, certain types of extraordinary losses, such as, for example, losses from terrorism or earthquakes, for which the Company does no
bstantially all of the communities are located in areas that are subject to earthquake activity. In January 2007, the Company canceled it
cy and established a wholly owned insurance subsidiary, Pacific Western Insurance LLC (“PWI”). Through PWI, the Company is
rthquake related losses. Additionally, since January 2008, PWI has provided property and casualty insurance coverage for the first $5.0
perty level insurance claims per incident.

carry insurance for potential losses associated with its communities, employees, residents, and compliance with applicable laws, it may
ured risks, deductibles, co-payments or losses in excess of applicable insurance coverage and those losses may be material. In the event
coverage may not be able to cover the full replacement cost of the Company’s lost investment, or the insurance carrier may become
over the full amount of the insured losses. Changes in building codes and ordinances, environmental considerations and other factors
ny’s ability to replace or renovate an apartment community after it has been damaged or destroyed.

d other laws may adversely affect the Company’s results of operations. Generally, the Company does not directly pass through costs
l estate tax laws to residential property tenants. The Company also does not generally pass through increases in income, service or othe
. These costs may adversely affect funds from operations and the ability to make distributions to stockholders. Similarly, compliance w
g the potential liability for environmental conditions existing on apartment communities or the restrictions on discharges or other
or rent stabilization laws or other laws regulating housing may result in significant unanticipated decrease in revenue or increase in
dversely affect funds from operations and the ability to make distributions to stockholders.

y affect our liability relating to our properties and our operations. Increases in real estate taxes and income, service and transfer taxes
ugh to residents or users in the form of higher rents, and may adversely affect our cash available for distribution and our ability to make
ers and pay amounts due on our debt. Similarly, changes in laws increasing the potential liability for environmental conditions existing
estrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, m
ated expenditures, which could have a material adverse effect on us and our ability to make distributions to our shareholders and pay
addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce rental
g costs.

nancing policy may lead to higher levels of indebtedness. The Company has adopted a policy of maintaining a limit on debt financing ovenants required to maintain the Company's unsecured line of credit bank facility, unsecured debt and senior unsecured bonds. The ocuments do not limit the amount or percentage of indebtedness that may be incurred. If the Company changed this policy, the Compan ing in an increased risk of default on the Company's obligations and the obligations of the Operating Partnership, and an increase in deb ld adversely affect the Company's financial condition and results of operations. Such increased debt could exceed the underlying value

arious tax risks. Essex Property Trust, Inc. has elected to be taxed as a REIT under the Internal Revenue Code. Essex Property Trust, In res it to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Internal which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and thin the Company's control. Although Essex Property Trust, Inc. intends that its current organization and method of operation enables i ssure you that it so qualifies or that it will be able to remain so qualified in the future. Future legislation, new regulations, administrativ ons (any of which could have retroactive effect) could adversely affect Essex Property Trust, Inc.'s ability to qualify as a REIT or operty Trust, Inc.'s stockholders and Essex Portfolio, L.P.'s unitholders. If Essex Property Trust, Inc. fails to qualify as a REIT in any ould be subject to U.S. federal income tax (including any applicable alternative minimum tax) on the Company's taxable income at operty Trust, Inc. would not be allowed to deduct dividends paid to its shareholders in computing its taxable income. Essex Property alified from treatment as a REIT for the four taxable years following the year in which Essex Property Trust, Inc. failed to qualify. The reduce its net earnings available for investment or distribution Essex Property Trust, Inc.'s stockholders and Essex Portfolio, L.P.'s rty Trust, Inc. would no longer be required to make distributions to its stockholders. Even if Essex Property Trust, Inc. continues to tinue to be subject to certain federal, state and local taxes on the Company's income and property.

d several taxable REIT subsidiaries ("TRSs"). Despite its qualification as a REIT, the Company's TRSs must pay U.S. federal income t the Company will attempt to ensure that its dealings with its TRSs do not adversely affect Essex Property Trust, Inc.'s REIT qualificati hat it will successfully achieve that result. Furthermore, it may be subject to a 100% penalty tax, or its TRSs may be denied deductions, s TRSs are not deemed to be arm's length in nature. No assurances can be given that the Company's dealings with its TRSs will be arm

any may transfer or otherwise dispose of some of its properties. Under the Internal Revenue Code, any gain resulting from transfers of holds as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited penalty tax. Since the Company acquires properties for investment purposes, it does not believe that its occasional transfers or disposa nsactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstanc nsaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by the Company are prohibited Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then the to pay a 100% penalty tax on any gain allocable to it from the prohibited transaction and the Company's ability to retain future gains or opardized. Income from a prohibited transaction might adversely affect Essex Property Trust, Inc.'s ability to satisfy the income tests fo .S. federal income tax purposes. Therefore, no assurances can be given that Essex Property Trust, Inc. will be able to satisfy the income EIT.

ertain corporate dividends paid to certain individuals and other non-corporate taxpayers is at a reduced rate of 15%; a rate of 20% appli dual taxpayers. Dividends paid by REITs to individuals and other non-corporate stockholders are not eligible for the above reduced 15 s may cause investors to view REIT investments to be less attractive than investments in non-REIT corporations, which in turn may stock in REITs, including Essex Property Trust, Inc.'s stock.

ABOUT THIS PROSPECTUS

automatic shelf registration statement that we filed with the Securities and Exchange Commission using a "shelf" registration process, v
ng Partnership, which is a majority owned subsidiary of the Company, as "well-known seasoned issuers" as defined in Rule 405 under
nended, or the Securities Act. Under this process, the Company may sell common stock, preferred stock, depositary shares, warrants,
cts, units, debt securities (including related guarantees), and the Operating Partnership may sell debt securities, in each case in one or mo
security holders to be named in a Prospectus Supplement may sell certain of our securities from time to time. This prospectus provides
n of the securities the Company, our Operating Partnership or any selling security holder may offer. Each time the Company, our
selling security holder sells securities, the Company, our Operating Partnership or the selling security holder will provide a Prospectus
fic information about the terms of the applicable offering. Such Prospectus Supplement may add, update or change information containe
d read this prospectus and the applicable Prospectus Supplement together with additional information described below under the headin
Information."

Partnership or any selling security holder may offer the securities directly, through agents, or to or through underwriters or dealers. Th
ment will describe the terms of the plan of distribution and set forth the names of any agents, underwriters or dealers involved in the sal
f Distribution" for more information on this topic. No securities may be sold without delivery of a Prospectus Supplement describing th
ring of those securities.

WHERE YOU CAN FIND MORE INFORMATION

g Partnership will file, annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange
ou may read and copy any document Essex or the Operating Partnership files with the SEC at the SEC's public reference room at Room
on, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains a
, proxy and information statements, and other information regarding registrants that file electronically with the SEC (http://www.sec.go
other information we file at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

nership have filed a Registration Statement of which this prospectus is a part and related exhibits with the SEC under the Securities Act
rities Act"). The Registration Statement contains additional information about us. You may inspect the Registration Statement and exhi
f the SEC at Room 1580, 100 F Street, N.E., Washington, D.C. 20549, and you may obtain copies from the SEC at prescribed rates.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

porate by reference" the information we file with the SEC, which means that we can disclose important information to you by referring
ation incorporated by reference is an important part of this prospectus. Any statement contained in a document which is incorporated by
s automatically updated and superseded if information contained in this prospectus, or information that we later file with the SEC,
rmation. We incorporate by reference the following documents we filed with the SEC:

— Essex's Annual Report on Form 10-K for the year ended December 31, 2012;

Form 8-K filed on April 2, 2013 (jointly filed with Essex Portfolio, L.P.); March 18, 2013, March 12, 2013, February 28, 2013, and

ommon stock contained in a Registration Statement on Form 8-A filed with the SEC on May 27, 1994, as amended on September 19,

x Property Trust, Inc. and Essex Portfolio, L.P. with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange A
Exchange Act") (but excluding any documents or portions of documents that are deemed under applicable rules to be "furnished" and no
of this prospectus and prior to the termination of the offering.

of the documents incorporated by reference in this prospectus (other than exhibits, unless they are specifically incorporated by referenc
te Essex Property Trust, Inc., 925 East Meadow Drive, Palo Alto, California 94303, Attention: Secretary, (650) 494-3700.

FORWARD-LOOKING STATEMENTS

ncorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the
t to the “safe harbor” provisions created by these statutes. All statements, other than statements of historical facts, that address activitie
we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Such statements are
such as “anticipates,” “believes,” “expects,” “future,” “intends,” “assuming,” “projects,” “plans” and similar expressions or the negativ
y. These forward-looking statements, which include statements about our expectations, objectives, anticipations, intentions and strategi
d operation results, revenues and earnings, reflect only management’s current expectations and are not guarantees of future performance
ncertainties, including those risk factors set forth in any applicable Prospectus Supplement and those in Item 1A, “Risk Factors”, of the
ual Report on Form 10-K and in the future Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that the Company and t
Such risk factors could cause actual results to differ materially from the results contemplated by the forward-looking statements. Some
ents include statements regarding our expectations as to:

The timing of completion of current development and redevelopment projects and the stabilization dates of such projects;

The total projected costs and rental rates of development and redevelopment projects;

h flows to meet operating requirements and to provide for dividend payments in accordance with real estate investment trust (“REIT”)

The amount of capital expenditures and non-revenue generating capital expenditures;

- Future acquisitions and anticipated development projects in 2013 and thereafter;
- The anticipated performance of Essex Apartment Value Fund II, L.P. (“Fund II”);
- The anticipated performance of existing properties; and

The anticipated results from various geographic regions and our investment focus in such regions.

ts included or incorporated by reference in this prospectus are made as of the date hereof, based on information available to us as of the
o obligation to update any forward-looking statement or statements. It is important to note that such forward-looking statements are
ties and that our actual results could differ materially from those in such forward-looking statements. The risk factors set forth in any
ment and those in Item 1A, “Risk Factors”, of our most recent Annual Report on Form 10-K and in the future Annual Reports on Form
rm 10-Q that the Company and the Operating Partnership files with the SEC from time to time, set forth factors that in the future could
ould cause our actual results to differ materially from those expressed in any forward-looking statement made by us. You are cautioned
n forward-looking statements contained in this prospectus.

USE OF PROCEEDS

in the applicable prospectus supplement, the Company intends to contribute the net proceeds from any sale of its securities pursuant to
ing Partnership. Our Operating Partnership intends to subsequently use the net proceeds contributed by the Company, as well as any net
debt securities pursuant to this prospectus, to potentially acquire, develop, or redevelop properties, which primarily will be apartment
nvestments and for working capital or general corporate purposes, which may include the repayment of indebtedness. Pending
s from the sale of the Offered Securities, such proceeds initially may be invested in short-term securities. Further details regarding the
the sale of a specific series or class of the securities will be set forth in the applicable prospectus supplement.

U.S. FEDERAL INCOME TAX STATUS

as a REIT under Sections 856 through 860 of the Internal Revenue Code (the "Code"), commencing with its taxable year ended
IT, Essex generally is not subject to U.S. federal income tax on its net income that it distributes to stockholders. See “Material Federal

DESCRIPTION OF CAPITAL STOCK

e total number of shares of stock of all classes which the Company has authority to issue is 1,000,000,000 shares (par value $.0001 per
shares are shares of common stock, 13,980,000 shares are shares of preferred stock, consisting of 5,980,000 shares of 4.875% Series G
erred Stock (the "Series G Preferred Stock") and 8,000,000 shares of 7.125% Series H Cumulative Redeemable Preferred Stock (the
and 330,000,000 shares of Excess Stock.

ere were 36,442,994 shares of common stock issued and outstanding. Up to 1,200,000 shares of common stock have been reserved for
perty Trust, Inc. 2004 Stock Incentive Plan, and there were 623,434 options outstanding under the Essex Property Trust, Inc. 2004 Stoc
n aggregate of 1,955,181 shares of common stock may be issued upon the conversion of limited partnership interests in the Operating
167,200 shares of common stock would be issuable in exchange for non-forfeitable Series Z-1 Incentive Units in the Operating
ng certain requirements with respect to the Series Z-1 Incentive Units program. In addition, certain partners in limited partnerships in
hip has invested, have the right to have their limited partnership interests in such partnership(s) redeemed for cash or, at our option, for
s of common stock. In addition, as of December 31, 2012, 178,249 shares of Essex's Series G Preferred Stock were issued and outstand
x's Series H Preferred Stock were issued and outstanding.

the common stock sets forth certain general terms and provisions of the common stock. This description is in all respects subject to and
ference to the applicable provisions of Essex’s Charter and Bylaws. The common stock is listed on the New York Stock Exchange unde
rshare Investor Services, LLC is Essex’s transfer agent.

g common stock are entitled to one vote per share on all matters voted on by stockholders, including elections of directors. The Charter
on stock do not have cumulative voting rights.

offered hereby are fully paid and nonassessable and will not be subject to preemptive or similar rights. Subject to the preferential rights
ital stock, the holders of common stock are entitled to such distributions as may be authorized from time to time by the Board of Direct
ctors") and declared by Essex from funds available for distribution to such holders. Essex currently pays regular quarterly dividends to
of funds legally available for distribution when, and if, authorized by the Board of Directors and declared by Essex.

dissolution or winding up of Essex, the holders of common stock are entitled to receive ratably the assets remaining after satisfaction of
uidation preferences and accrued dividends, if any, on any series of capital stock that has a liquidation preference. The rights of holders
the rights and preferences established by the Board of Directors for any capital stock that may subsequently be issued by Essex.

in information from all persons who own, directly or by virtue of the attribution provisions of the Internal Revenue Code (the "Code"),
ge of our outstanding stock. Stockholders who do not provide us with the information requested are required to submit such information
e tax returns. See “Material Federal Income Tax Considerations — Requirements for Qualification.”

as a REIT under the Code, among other requirements (see “Material Federal Income Tax Considerations — Requirements for Qualifica
ue of the outstanding shares of our stock may be owned, directly or indirectly, by five or fewer individuals, as defined in the Code, durin
(other than our first year as a REIT) or during a proportionate part of a shorter taxable year. In addition, our stock must be owned by 10
st 335 days of a taxable year of 12 months (other than our first year as a REIT) or during a proportionate part of a shorter taxable year.

n exceptions, provides an “ownership limit” under which no stockholder, other than George M. Marcus (and his wife and children, trust
s and, upon his death, his heirs), may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 6.0% of t
anding shares of our stock (not including any shares of excess stock). However, the ownership limit provisions provide that a qualified
er, generally may own up to 9.9% of the value of the outstanding shares of our stock. If George M. Marcus converts his limited partners
tnership into shares of common stock, he may exceed the ownership limit. The ownership limit provisions therefore provide that Georg
children, trusts for the benefit of his descendants and, upon his death, his heirs) may own up to 25% of the value of the outstanding sha
irectors may also exempt an underwriter of a public offering of our stock or a person who is not an “individual” (as defined under the C
om the ownership limit if it received satisfactory evidence that such stockholder’s ownership of Essex’s shares in excess of the ownersh
x’s status as a REIT. As a condition to providing such an exemption, the Board of Directors must receive an opinion of counsel or rulin
and representations and agreements from the applicant with respect to preserving Essex’s REIT status. However, the Board of Director
the ownership limit if the applicant would own more than 25% of the value of the outstanding shares of Essex’s stock, unless, in additi
f Directors receives a ruling from the Internal Revenue Service to the effect that such an exemption will not jeopardize Essex’s status as
s has granted an exemption to the ownership limit to the trusts that were shareholders of John M. Sachs, Inc. in connection with the
Essex to such trusts for the acquisition of John M. Sachs, Inc. The Board of Directors may also increase the ownership limit to a
nnection therewith, require opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order t
. If the Board of Directors and Essex’s stockholders determine that it is no longer in our best interests to attempt to qualify, or to contin
rship limit provisions of the Charter can be terminated.

ransfer shares of stock that would (i) create a direct or indirect ownership of Essex’s shares in excess of the ownership limit absent a Bo
wnership of Essex’s stock by fewer than 100 persons, or (iii) result in the ownership of more than 50% of the value of Essex’s stock (ot
r indirectly, by five or fewer individuals, as defined in the Code, the transfer shall be null and void, and the intended transferee will
s. In addition, in the event of a transfer or attempted transfer, or other event, that would result in any person owning directly or indirectl
ss of the ownership limit (or any limit created in connection with an exemption from the ownership limit) or that would result in the
of the value of Essex’s stock, directly or indirectly, by five or fewer persons, such shares of our stock will automatically be exchanged
shares of excess stock will be automatically transferred, without action by the purported holder, to a person who is unaffiliated with us
e for the exclusive benefit of one or more organizations described in Sections 170(b), 170(c) or 501(c)(3) of the Code as charitable
y resolution of the Board of Directors. Such shares of excess stock held in trust are considered issued and outstanding shares of Essex’s
of such shares is deemed to own the shares of excess stock held in trust for the exclusive benefit of the charitable beneficiary on the day
rted transfer or change in capital structure which resulted in the automatic transfer and has all voting rights and all right to receive
spect to the excess shares. Any dividend or other distribution paid prior to the discovery by Essex that shares exchanged for excess stock
t to Essex upon demand or, if Essex elects, offset against any future dividends or distributions payable to the recipient. Subject to
by the purported owner of excess shares will be rescinded and recast in accordance with the direction of the trustee acting for the benefi

o transfer a beneficial interest in the trust representing a number of shares of excess stock if the shares of excess stock would not be exc
tified transferee. In the event of such a transfer, the purported transferee of the shares exchanged for excess stock may receive a price fo
is the lesser of (i) the price paid by the purported transferee or, if the purported transferee did not give value for the shares in connectio
to be exchanged for excess stock (e.g., a gift, devise or other similar transaction), the Market Price (as defined in Essex’s Charter) of th
t causing the shares to be exchanged for excess stock and (ii) the price received by the trustee from the sale or other disposition of the
any such a transfer, the shares of excess stock will automatically be exchanged for an equal number of shares of stock of the class and
or such shares of excess stock.

n the trust will be deemed to have been offered for sale to Essex, or its designee, at a price per share equal to the lesser of (i) the price pe
esulted in the exchange for shares of excess stock (or, in the case of a devise or gift, the Market Price at the time of the devise or gift) an
ate that Essex, or its designee, accepts the offer. Essex will have the right to accept the offer for a period of ninety days after the later of
t resulted in the exchange for shares of excess stock and, if Essex does not receive prior notice of such transaction, the date that the Boa
od faith that a transaction resulting in excess stock has occurred.

Code regarding REITs are changed to eliminate any ownership concentration limitation or increase the limitation, the ownership
l not be automatically eliminated or modified. Except as described above, any change to such limitations would require an amendment t
ould require the affirmative vote of holders owning a majority of the outstanding shares of Essex's common stock. In addition to preserv
ownership limit provisions in the Charter may have the effect of precluding an acquisition of our control without the approval of the Bo

hares of equity stock will bear a legend referring to the restrictions described above.

erred Stock

pleted an offering of 5,980,000 shares of its Series G Preferred Stock at a public offering price of $24.75 per share. The holders of Serie
d to receive cumulative cash dividends on the Series G Preferred Stock at a rate of 4.875% per year of the $25.00 liquidation preference
may be converted by the holder at an initial conversion rate of 0.1830 shares of common stock per $25.00 liquidation preference (subje
ts), which is equivalent to an initial conversion price of $136.62 per share of common stock. The Series G Preferred Stock has no matur
purchased 5,801,751 shares of the Series G Preferred Stock, and 178,249 shares are currently outstanding.

in events, holders of the Series G Preferred Stock may require the redemption for cash of all outstanding shares of such preferred stock,
ast a majority of the shares of Series G Preferred Stock elect such redemption. With respect to the Series G Preferred Stock, if a
ed in the articles supplementary for the Series G Preferred Stock) occurs, holders will have the right to require the redemption for cash
Preferred Stock.

G Preferred Stock is in all respects subject to and qualified in its entirety by reference to the applicable provisions of Essex's Charter an

tional Conversion

may be converted, at Essex's option on and after July 31, 2011, at the then prevailing conversion rate, only if the closing sale price of
s or exceeds 130% of the then prevailing conversion price of the Series G Preferred Stock for at least 20 trading days in a period of 30

ns shall not have been timely made on any Series G Preferred Stock with respect to any six (6) prior quarterly distribution periods, wheth
olders of such Series G Preferred Stock, voting together as a single class with the holders of each class or series of parity preferred stoc
ghts have been conferred and are exercisable will have the right to elect two additional directors to the Board of Directors at a special
of record of at least 10% of the then outstanding shares of Series G Preferred Stock, or any other class or series of parity preferred stoc
ghts have been conferred and are exercisable, or at the next annual meeting of stockholders, and at each subsequent annual meeting of
ng held in place thereof, until all such distributions in arrears and distributions for the current quarter have been paid in full. Thereafter,
e holders of such class or series of preferred stock will be divested of their voting rights and the term of any member of the Board of
ers of such class or series of preferred stock shall terminate. Holders of Series G Preferred Stock are entitled to one vote per $50.00 of
ch such series of preferred stock is entitled by its terms (excluding amounts in respect of accumulated and unpaid distributions).

of the Series G Preferred Stock are outstanding, Essex shall not, without the affirmative vote of the holders of at least two-thirds (2/3) o Series G Preferred Stock, (voting separately as a class): (i) authorize or create, or increase the authorized or issued amount of, any class to the Series G Preferred Stock with respect to payment of distributions or rights upon liquidation, dissolution or winding-up or reclass ex into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any nd, alter or repeal the provisions of Essex's Charter (including the Articles Supplementary pertaining to the Series G Preferred Stock) o or consolidation, that would materially and adversely affect the preferences, other rights, voting powers, restrictions, limitations as to ons, qualifications, or terms and conditions of redemption, of any outstanding shares of the Series G Preferred Stock.

will have no voting rights other than as discussed above and as otherwise provided by applicable law.

olders of any other senior or parity preferred stock, each share of Series G Preferred Stock is entitled to a liquidation preference of $25.0 nd unpaid dividends, in preference to any other class or series of capital stock of Essex.

erred Stock

2011, the Company issued 2,950,000 shares of its Series H Preferred Stock at a public offering price of $25.00 per share for net procee and underwriting discounts.

H Preferred Stock is in all respects subject to and qualified in its entirety by reference to the applicable provisions of Essex's Charter an

ranks senior to our shares of common stock and to any other of our future equity securities that we may later authorize or issue that by Series H Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissoluti Preferred Stock ranks on a parity with (i) our Series G Preferred Stock, and (ii) any future equity securities that we may later authorize o on a parity with the Series H Preferred Stock. The Series H Preferred Stock ranks junior to any equity securities that we may later author nk senior to the Series H Preferred Stock. Any such authorization or issuance would require the affirmative vote of the holders of at lea shares of Series H Preferred Stock. The Series H Preferred Stock ranks junior to all of our existing and future indebtedness.

rs of stock ranking senior to, or on parity with, the Series H Preferred Stock as to the payment of dividends, holders of the Series H ed to receive, when and as authorized by our Board of Directors and declared by Essex, out of funds legally available for the payment o ividends at the rate of 7.125% per annum of the $25.00 per share liquidation preference, equivalent to $1.78125 per annum per share of vidends on the Series H Preferred Stock are payable quarterly in arrears on or about the 15th day of January, April, July and October of

not authorize, and we will not pay, any dividends on the Series H Preferred Stock or set aside funds for the payment of dividends if the nts, including agreements relating to our indebtedness, prohibit that authorization, payment or setting aside of funds or provide that the tting aside of funds is a breach of or a default under that agreement, or if the authorization, payment or setting aside of funds is restricted d may in the future become a party to agreements that restrict or prevent the payment of dividends on, or the purchase or redemption of Under certain circumstances, these agreements could restrict or prevent the payment of dividends on or the purchase or redemption of red Stock. These restrictions may be indirect (for example, covenants requiring us to maintain specified levels of net worth or assets) or t these restrictions currently have any adverse impact on our ability to pay dividends on the Series H Preferred Stock.

g, dividends on the Series H Preferred Stock will accrue whether or not we have earnings, whether or not there are funds legally availal
and whether or not dividends are authorized or declared. Accrued but unpaid dividends on the Series H Preferred Stock will not bear
e Series H Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends as described above. All of our
eferred Stock, including any capital gain distributions, will be credited to the previously accrued dividends on the Series H Preferred
idend made on the Series H Preferred Stock first to the earliest accrued and unpaid dividend due.

lowing paragraph, we will not declare or pay any dividends, or set aside any funds for the payment of dividends, on our common stock
ior to, or on a parity with, the Series H Preferred Stock, if any, or redeem or otherwise acquire our common stock or other junior shares
with the Series H Preferred Stock, unless we also have declared and either paid or set aside for payment the full cumulative dividends o
for the current and all past dividend periods. This restriction will not limit our redemption or other acquisition of shares under incentive
ns for officers, directors or employees or others performing or providing similar services or for the purposes of enforcing restrictions up
r equity securities contained in our Charter in order to preserve our status as a REIT.

er pay or set aside for payment the full cumulative dividends on the Series H Preferred Stock and all shares that rank on a parity with
amount which we have authorized and declared will be allocated pro rata to the Series H Preferred Stock and to each parity series of
lared for each Series H Preferred Stock and for each share of each parity series is proportionate to the accrued and unpaid dividends on

n, dissolution or winding up, the holders of the Series H Preferred Stock will be entitled to be paid out of our assets legally available for
rs liquidating distributions in cash or property at fair market value as determined by our Board of Directors equal to a liquidation
e, plus any accrued and unpaid dividends to, but not including, the date of the payment. Holders of Series H Preferred Stock will be
ating distribution before we distribute any assets to holders of our common stock or any other shares of preferred stock that rank junior
The rights of holders of Series H Preferred Stock to receive their liquidation preference would be subject to preferential rights of the
s that is senior to the Series H Preferred Stock. After payment of the full amount of the liquidating distribution to which they are entitle
rred Stock will have no right or claim to any of our remaining assets. If we consolidate or merge with any other entity, sell, lease, transf
all of our property or business, or engage in a statutory share exchange, we will not be deemed to have liquidated, dissolved or wound
ssets are insufficient to pay the full liquidating distributions to the holders of Series H Preferred Stock and all other classes or series of
parity with the Series H Preferred Stock, if any, then we will distribute our assets to the holders of Series H Preferred Stock and all oth
urities ratably in proportion to the full liquidating distributions they would have otherwise received.

es H Preferred Stock prior to April 13, 2016, except as described below under "-- Special Optional Redemption" and under restrictions
s a REIT for federal tax purposes. On and after April 13, 2016, upon no fewer than 30 days' nor more than 60 days' written notice, we
ies H Preferred Stock, in whole or from time to time in part, by paying $25.00 per share, plus any accrued and unpaid dividends to, but
tion.

f the shares of Series H Preferred Stock, the notice of redemption mailed to each shareholder will also specify the number of shares of
we will redeem from each shareholder. In this case, we will determine the number of shares of Series H Preferred Stock to be redeeme
y any other equitable method we may choose in our sole discretion.

unless full cumulative distributions on all shares of Series H Preferred Stock are declared and paid or set apart for payment for all past
hen current distribution period, no shares of Series H Preferred Stock shall be redeemed unless all outstanding shares of Series H Prefer
eemed.

has no stated maturity and will not be subject to any sinking fund or mandatory redemption provisions, except as provided under
alification as a REIT for federal tax purposes. In order to ensure that we continue to meet the requirements for qualification as a REIT,
be subject to the restrictions on ownership and transfer set forth in our Charter.

may purchase Series H Preferred Stock in the open market, by tender or by private agreement.

n

ange of Control, we may, at our option, redeem the Series H Preferred Stock, in whole or in part and within 120 days after the first date
ol occurred, by paying $25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. If, prior to
rsion Date, we have provided or provide notice of redemption with respect to the shares of Series H Preferred Stock (whether pursuant
t or our special optional redemption right), the holders of such shares of Series H Preferred Stock will not have the conversion right
onversion Rights."

f the outstanding shares of Series H Preferred Stock, the notice of redemption mailed to each shareholder will also specify the number o
Stock that we will redeem from each shareholder. In this case, we will determine the number of shares of Series H Preferred Stock to be
by lot or by any other equitable method we may choose.

en, after the original issuance of the Series H Preferred Stock, the following have occurred and are continuing:

on, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Exchange Act of beneficial ownership, dire
chase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of shares of the Company
rcise more than 50% of the total voting power of all shares of the Company entitled to vote generally in elections of directors (except th
d to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is
occurrence of a subsequent condition); and

y transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or
curities) listed on the NYSE, the NYSE Amex or NASDAQ or listed or quoted on an exchange or quotation system that is a successor t
x or NASDAQ.

ange of Control, each holder of Series H Preferred Stock will have the right, unless, prior to the Change of Control Conversion Date, we
ice of our election to redeem the Series H Preferred Stock as described under "— Redemption" or ''— Special Optional Redemption," t
eries H Preferred Stock held by such holder (the "Change of Control Conversion Right") on the Change of Control Conversion Date int
mon stock per share of Series H Preferred Stock (the "Common Share Conversion Consideration") equal to the lesser of:

viding (i) the sum of the $25.00 liquidation preference plus the amount of any accrued and unpaid dividends to, but not including, the
sion Date (unless the Change of Control Conversion Date is after a record date for a Series H Preferred Stock dividend payment and pri
H Preferred Stock dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included i
on Share Price (such quotient, the "Conversion Rate"); and

- 0.3995 (the "Share Cap").

ro rata adjustments for any share splits (including those effected pursuant to a dividend of our common stock), subdivisions or
"Share Split") with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of
that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fractio
number of shares of our common stock outstanding after giving effect to such Share Split and the denominator of which is the number
outstanding immediately prior to such Share Split.

ubject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative
s defined below), as applicable) issuable in connection with the exercise of the Change of Control Conversion Right in respect of curren
H Preferred Stock will not exceed 1,178,525 shares of our common stock in total (or equivalent Alternative Conversion Consideration, a
Cap"). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the
onal shares of Series H Preferred Stock in the future, the latter number will increase.

ontrol pursuant to which our common stock will be converted into cash, securities or other property or assets (including any combination
rm Consideration"), a holder of Series H Preferred Stock will receive upon conversion of such Series H Preferred Stock the kind and am
ration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of
equal to the Common Share Conversion Consideration immediately prior to the effective time of the Change of Control (the "Alternativ
and the Common Share Conversion Consideration or the Alternative Conversion Consideration, as may be applicable to a Change of
"Conversion Consideration").

stock have the opportunity to elect the form of consideration to be received in the Change of Control, the consideration that the holders
will receive will be the form and proportion of the aggregate consideration elected by the holders of our common stock who participate
he weighted average of elections) and will be subject to any limitations to which all holders of our common stock are subject, including
eductions applicable to any portion of the consideration payable in the Change of Control.

o which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly
into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control
r to the Change of Control Conversion Date we have provided or provide notice of our election to redeem such Series H Preferred Stock
onal redemption right or our special optional redemption right. If we elect to redeem Series H Preferred Stock that would otherwise be
Conversion Consideration on a Change of Control Conversion Date, such Series H Preferred Stock will not be so converted and the
e entitled to receive on the applicable redemption date $25.00 per share, plus any accrued and unpaid dividends thereon to, but not
te.

connection with a Change of Control, the shares of Series H Preferred Stock are not convertible into or exchangeable for any other

d Stock will have no voting rights, except as set forth below.

eries H Preferred Stock are due but unpaid for six quarterly periods, whether or not consecutive (a "Preferred Dividend Default"), the
stituting our Board of Directors shall be increased by two and holders of the Series H Preferred Stock, voting as a single class with the
series of parity preferred stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the
ectors to serve on our Board of Directors (the "Preferred Stock Directors") at a special meeting called by the holders of at least 10% of
ed Stock or the holders of at least 10% of any such other series of parity preferred stock, or at the next annual or special meeting of
sequent annual or special meeting of stockholders until all dividends accumulated on the Series H Preferred Stock for the past dividend
dividend period have been paid or declared and set aside for payment in full.

dividends in arrears and dividends for the then-current dividend period on the Series H Preferred Stock shall have been paid in full or a
nt is irrevocably deposited in trust for payment, the holders of the Series H Preferred Stock shall be divested of the voting rights as
ject to revesting in the event of each and every Preferred Dividend Default) and, if all accumulated dividends in arrears and the dividend
od have been paid in full or set aside for payment in full on all other classes or series of parity preferred stock upon which like voting rig
exercisable, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be remove
ause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares
en they have the voting rights set forth as described in this section (voting together as a single class, with one vote for each $50.00 of
ll other classes or series of parity preferred stock upon which like voting rights have been conferred and are exercisable). So long as a

hall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director
e remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series H Preferred Stock when they hav
his section (voting together as a single class with all other classes or series of parity preferred stock upon which like voting rights have
isable). The Preferred Stock Directors shall each be entitled to one vote per Director on any matter.

es H Preferred Stock remain outstanding, we shall not, without the affirmative vote of the holders of at least two-thirds of the shares of
standing at the time: (i) authorize or create, or increase the authorized or issued amount of, any class or series of shares ranking senior to
with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up of the Company, or
res of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the righ
(ii) amend, alter or repeal the provisions of our Charter (including the articles supplementary designating the Series H Preferred Stock),
ation or otherwise, in each case in such a way that would materially and adversely affect any right, preference, privilege or voting powe
provided, however, that with respect to the occurrence of a merger, consolidation or a sale or lease of all of our assets as an entirety, so
es H Preferred Stock remain outstanding with the terms thereof materially unchanged, or (b) the holders of the Series H Preferred Stock
rights, preferences, privileges or voting powers substantially the same as those of the Series H Preferred Stock, then the occurrence of a
ed to materially and adversely affect the rights, privileges or voting powers of the holders of the Series H Preferred Stock. In addition, a
horized Series H Preferred Stock or the creation or issuance, or increase in the amounts authorized, of any other equity securities rankin
he Series H Preferred Stock with respect to payment of dividends and the distribution of assets upon liquidation, dissolution or winding
deemed to materially and adversely affect the rights, preferences, privileges or voting powers of the Series H Preferred Stock.

s of the Series H Preferred Stock are entitled to vote, each share of Series H Preferred Stock will be entitled to one vote. If the holders o
another series of preferred shares, if any, are entitled to vote together as a single class on any matter, the shares of Series H Preferred
ther series will have one vote for each $50.00 of liquidation preference.

DESCRIPTION OF PREFERRED STOCK

bed by Maryland law and Essex's Charter, the Board of Directors is authorized to issue, from the authorized but unissued shares of capi
k in such classes or series as the Board of Directors may determine and to establish from time to time the number of shares of preferred
ch class or series and to fix the designation and any preferences, conversion and other rights, voting powers, restrictions, limitations as
ons, qualifications and terms and conditions of redemption of the shares of any such class or series, and such other subjects or matters a
f the Board of Directors. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of

vith, and acceptance for record by, the State Department of Assessments and Taxation of Maryland of articles supplementary setting for
s of preferred stock, and issuance against full payment of the purchase price therefor, will be fully paid and nonassessable. The specific
series of preferred stock will be described in the Prospectus Supplement relating to that class or series, including a Prospectus Supplem
k may be issuable upon the exercise of Warrants issued by Essex. The description of preferred stock set forth below and the description
or series of preferred stock set forth in a Prospectus Supplement do not purport to be complete and are qualified in their entirety by
lementary relating to that class or series.

rms of the preferred stock of each class or series will be fixed by the articles supplementary relating to such class or series. A Prospectus
class or series, will specify the terms of the preferred stock as follows:

such preferred stock;

such preferred stock offered, the liquidation preference per share and the offering price of such preferred stock;

od(s), and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

ch preferred stock are cumulative or not and, if cumulative, the date from which dividends on such preferred stock shall accumulate;

g fund, if any, for such preferred stock;

tion, if applicable, of such preferred stock;

red stock on any securities exchange;

, if applicable, upon which such preferred stock will be converted into Common Stock, including the conversion price (or manner of

rial federal income tax considerations applicable to such preferred stock;

t or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve the status of Essex as a REIT;

preferences of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of Essex;

nce of any class or series of preferred stock ranking senior to or on a parity with such class or series of preferred stock as to dividend
tion, dissolution or winding up of the affairs of Essex;

, preferences, rights, limitations or restrictions of such preferred stock; and

h preferred stock.

the Prospectus Supplement, the preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding
l classes or series of Common Stock and excess stock of Essex, and to all equity securities ranking junior to such preferred stock with
l rights upon liquidation, dissolution or winding up of Essex; (ii) on a parity with all equity securities issued by Essex the terms of which
equity securities rank on a parity with the preferred stock with respect to dividends rights or rights upon liquidation, dissolution or
) junior to all equity securities issued by Essex the terms of which specifically provide that such equity securities rank senior to the
o dividend rights or rights upon liquidation, dissolution or winding up of Essex.

any, upon which any shares of any class or series of preferred stock are convertible into Common Stock will be set forth in the applicab
ng thereto. Such terms will include the number of shares of Common Stock into which the shares of preferred stock are convertible, the
of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders of such class or
ssex, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of su
ock.

T under the Code, not more than 50% in value of its outstanding stock may be owned, directly or indirectly, by five or fewer individual
ng the last half of a taxable year, the stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year
rtionate part of a shorter taxable year. To enable Essex to continue to qualify as a REIT, the Charter restricts the acquisition of shares of
stock. The Charter provides that, subject to certain exceptions specified in the Charter, no stockholder may own, or be deemed to own b

sions of the Code, more than 6.0% of the value of the outstanding common stock and preferred stock of Essex. See “Description of Cap
nsfer.” The applicable Prospectus Supplement will also specify any additional ownership limitation relating to a series of preferred stock

DESCRIPTION OF DEPOSITARY SHARES

f the provisions of the deposit agreement to govern any depositary shares, the depositary shares themselves and the depositary receipts. complete in all respects and is qualified entirely by reference to the relevant deposit agreement and depositary receipts with respect to t ny particular series of preferred stock. The specific terms of any series of depositary shares will be described in the applicable Prospectu n the Prospectus Supplement, the terms of that series of depositary shares may differ from the general description of terms presented

, or Multiple Shares, of Preferred Stock

to offer depositary shares, each of which would represent an interest in a fractional share, or multiple shares, of our preferred stock inst stock. If so, we will allow a depositary to issue to the public depositary shares, each of which will represent an interest in a fractional preferred stock as described in the Prospectus Supplement.

ock underlying any depositary shares will be deposited under a separate deposit agreement between us and a bank or trust company act those shares of preferred stock. The Prospectus Supplement relating to a series of depositary shares will specify the name and address o posit agreement, each owner of a depositary share will be entitled, in proportion of its interest in a fractional share or multiple shares, of at depositary share, to all the rights and preferences of that preferred stock, including dividend, voting, redemption, conversion, exchan

denced by one or more depositary receipts issued under the deposit agreement. We will distribute depositary receipts to those persons hares in accordance with the terms of the offering made by the related Prospectus Supplement.

tions

all cash dividends or other cash distributions in respect of the preferred stock underlying the depositary shares to each record depositar nber of the depositary shares owned by that holder on the relevant record date. The depositary will distribute only that amount which ca ting to any depositary stockholders a fraction of one cent, and any balance not so distributed will be added to and treated as part of the ositary for distribution to record depositary stockholders.

than in cash, the depositary will distribute property to the entitled record depositary stockholders, unless the depositary determines that stribution. In that case the depositary may, with our approval, adopt the method it deems equitable and practicable for making that le of property and the distribution of the net proceeds from this sale to the concerned holders.

also contain provisions relating to the manner in which any subscription or similar rights we offer to holders of the relevant series of available to depositary stockholders.

of the foregoing cases will be reduced by any amounts required to be withheld by us or the depositary on account of taxes and

receipts at the office of the depositary and upon payment of the charges provided in the deposit agreement and subject to the terms y receipts is entitled to have the depositary deliver to such holder the applicable number of shares of preferred stock underlying the by the surrendered depositary receipts. There may be no market, however, for the underlying preferred stock and once the underlying from the depositary, it may not be redeposited.

sitary shares relating to the preferred stock of any series may be redeemed, and any amounts distributable upon our liquidation, dissolut
bed in the applicable Prospectus Supplement.

meeting at which preferred stockholders of any series are entitled to vote, the depositary will mail the information contained in that not
holders relating to that series of preferred stock. Each depositary shareholder on the record date will be entitled to instruct the depositar
preferred stock underlying that holder's depositary shares. The depositary will vote the shares of preferred stock underlying those
o those instructions, and we will take reasonably necessary actions to enable the depositary to do so. If the depositary does not receive
depositary stockholders relating to that preferred stock, it will abstain from voting those shares of preferred stock, unless otherwise
upplement.

other taxes and governmental charges arising solely from the existence of the depositary arrangements. We will also pay all charges of
n with the initial deposit and any redemption of the preferred stock. Depositary stockholders will be required to pay any other transfer an
l charges and any other charges expressly provided in the deposit agreement to be for their accounts.

to the relevant depositary stockholders all our reports and communications that we are required to furnish to preferred stockholders of a

ontain provisions relating to adjustments in the fraction of a share of preferred stock represented by a depositary share in the event of a
combination or other reclassification of the preferred stock or upon any recapitalization, merger or sale of substantially all of our assets

sex will be liable if it is prevented or delayed by law or any circumstance beyond its control in performing its obligations under any
to any liability under the deposit agreement to holders of depositary receipts other than for the relevant party's gross negligence or will
of Essex and each depositary under any deposit agreement will be limited to performance in good faith of their duties under that
be obligated to prosecute or defend any legal proceeding in respect of any depositary shares or preferred stock unless they are provided
They may rely upon written advice of counsel or accountants, or information provided by persons presenting preferred stock for deposit
her persons believed to be competent and on documents believed to be genuine.

ny of their agents may treat the registered owner of any depositary share as the absolute owner of that share, whether or not any paymen
hare is overdue and despite any notice to the contrary, for any purpose.

Depositary

ny time by issuing us a notice of resignation, and we may remove any depositary at any time by issuing it a notice of removal. Resignati
pon the appointment of a successor depositary and its acceptance of appointment. That successor depositary must be appointed within 60
ce of resignation or removal.

DESCRIPTION OF WARRANTS AND OTHER RIGHTS

nding (other than options issued under Essex's stock option plans). Essex may issue Warrants for the purchase of Common Stock. Esse
ently or together with any other Offered Securities offered by any Prospectus Supplement and may be attached to or separated from suc
es of Warrants will be issued under a separate warrant agreement (each, a "Warrant Agreement") to be entered into between Essex and a
e applicable Prospectus Supplement (the "Warrant Agent"). The Warrant Agent will act solely as an agent of Essex in connection with t
will not assume any obligation or relationship of agency or trust for or with any provisions of the Warrants offered hereby. Further terms
ble Warrant Agreements will be set forth in the applicable Prospectus Supplement.

upplement will describe the terms of the Warrants in respect of which this prospectus is being delivered, including, where applicable, the n Warrants; (2) the aggregate number of such Warrants; (3) the price or prices at which such Warrants will be issued; (4) the designation of Common Stock purchasable upon exercise of such Warrants; (5) the designation and terms of the Offered Securities, if any, with whic the number of such Warrants issued with each such Offered Security; (6) the date, if any, on and after which such Warrants and the be separately transferable; (7) the price at which each share of Common Stock purchasable upon exercise of such Warrants may be hich the right to exercise such Warrants shall commence and the date on which such right shall expire; (9) the minimum or maximum ich may be exercised at any one time; (10) information with respect to book-entry procedures, if any; (11) a discussion of certain federa nd (12) any other terms of such Warrants, including terms, procedures and limitations relating to the exchange and exercise of such

DESCRIPTION OF STOCK PURCHASE CONTRACTS

f the provisions of the stock purchase contracts, the stock purchase contract agreement and the pledge agreement. This information is no s qualified entirely by reference to the stock purchase contract agreement and pledge agreement with respect to the stock purchase ries. The specific terms of any series of stock purchase contracts will be described in the applicable Prospectus Supplement. If so pplement, the specific terms of any series of stock purchase contracts may differ from the general description of terms presented below.

the applicable Prospectus Supplement, we may issue stock purchase contracts, including contracts obligating holders to purchase from a specified number of shares of common stock, preferred stock, depositary shares or other security or property at a future date or dates. hase contracts may obligate us to purchase from holders, and obligate holders to sell to us, a specified or varying number of shares of ck, depositary shares or other security or property. The consideration per share of common stock or preferred stock or per depositary sha may be fixed at the time the stock purchase contracts are issued or may be determined by a specific reference to a formula set forth in th e stock purchase contracts may provide for settlement by delivery by or on behalf of Essex of shares of the underlying security or proper ement by reference or linkage to the value, performance or trading price of the underlying security or property. The stock purchase rately or as part of stock purchase units consisting of a stock purchase contract and debt securities, preferred stock or debt obligations of reasury securities, other stock purchase contracts or common stock, or other securities or property, securing the holders' obligations to may be, the common stock or the preferred stock under the stock purchase contracts. The stock purchase contracts may require us to mal ders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis and may be paid on a . The stock purchase contracts may require holders to secure their obligations thereunder in a specified manner and may provide for the he consideration payable by holders in connection with the purchase of the underlying security or other property pursuant to the stock

tock purchase contracts may be pledged to a collateral agent for Essex's benefit pursuant to a pledge agreement to secure the obligation ntracts to purchase the underlying security or property under the related stock purchase contracts. The rights of holders of stock purchase ed securities will be subject to Essex's security interest therein created by the pledge agreement. No holder of stock purchase contracts pledged securities related to such stock purchase contracts from the pledge arrangement except upon the termination or early settlemen ntracts or in the event other securities, cash or property is made subject to the pledge agreement in lieu of the pledged securities, if ement, or as otherwise provided in the pledge agreement. Subject to such security interest and the terms of the stock purchase contract reement, each holder of a stock purchase contract will retain full beneficial ownership of the related pledged securities.

plicable Prospectus Supplement, the collateral agent will, upon receipt of distributions on the pledged securities, distribute such paymen e contract agent, as provided in the pledge agreement. The purchase agent will in turn distribute payments it receives as provided in the ement.

DESCRIPTION OF UNITS

f the provisions of the units and the unit agreements. This information may not be complete in all respects and is qualified entirely by nt with respect to the units of any particular series. The specific terms of any series of units will be described in the applicable Prospect n a particular supplement, the specific terms of any series of units may differ from the general description of terms presented below.

d of two or more of debt securities, shares of common stock, shares of preferred stock, stock purchase contracts, warrants, rights and ot . Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit ations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in ansferred separately, at any time or at any time before a specified date.

pplement may describe:

of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or

any provisions of the governing unit agreement that differ from those described below;

- the price or prices at which such units will be issued;
- information with respect to book-entry procedures, if any;

the applicable United States federal income tax considerations relating to the units;

ovisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units; and

- any other terms of the units and of the securities comprising the units.

his section, as well as those described under “Description of the Debt Securities and Guarantees,” “Description of Warrants and Other F se Contracts,” “Description of Capital Stock” and “Description of Preferred Stock” will apply to the securities included in each unit, to

mounts and in as many distinct series as we wish. This section summarizes terms of the units that apply generally to all series. Most of t rms of your series will be described in the applicable Prospectus Supplement.

one or more unit agreements to be entered into between us and a bank or other financial institution, as unit agent. We may add, replace me to time. We will identify the unit agreement under which each series of units will be issued and the unit agent under that agreement i pplement.

l generally apply to all unit agreements unless otherwise stated in the applicable Prospectus Supplement.

greement will act solely as our agent in connection with the units issued under that agreement. The unit agent will not assume any agency or trust for or with any holders of those units or of the securities comprising those units. The unit agent will not be obligated to t

holders to enforce or protect their rights under the units or the included securities.

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xt paragraph, a holder of a unit may, without the consent of the unit agent or any other holder, enforce its rights as holder under any in accordance with the terms of that security and the indenture, warrant agreement, rights agreement or other instrument under which th ns are described elsewhere in this prospectus under the sections relating to debt securities, warrants, stock purchase contracts, common relevant.

g, a unit agreement may limit or otherwise affect the ability of a holder of units issued under that agreement to enforce its rights, includ on, with respect to those units or any securities, other than debt securities, that are included in those units. Limitations of this kind will b rospectus Supplement.

e Qualified Under Trust Indenture Act

alified as an indenture, and no unit agent will be required to qualify as a trustee, under the Trust Indenture Act. Therefore, holders of un will not have the protections of the Trust Indenture Act with respect to their units.

tions Permitted; No Restrictive Covenants or Events of Default

restrict our ability to merge or consolidate with, or sell our assets to, another corporation or other entity or to engage in any other e merge or consolidate with, or sell our assets substantially as an entirety to, another corporation or other entity, the successor entity wil bligations under the unit agreements. We will then be relieved of any further obligation under these agreements.

include any restrictions on our ability to put liens on our assets, including our interests in our subsidiaries, nor will they restrict our abil reements also will not provide for any events of default or remedies upon the occurrence of any events of default.

units will be governed by California law.

r

obal—i.e., book-entry—form only. Units in book-entry form will be represented by a global security registered in the name of a deposita l the units represented by the global security. Those who own beneficial interests in a unit will do so through participants in the rights of these indirect owners will be governed solely by the applicable procedures of the depositary and its participants.

omprising the unit will be issued in the same form.

ered, non-global form, the following will apply to them.

the denominations stated in the applicable Prospectus Supplement. Holders may exchange their units for units of smaller denominations of larger denominations, as long as the total amount is not changed.

ransfer their units at the office of the unit agent. Holders may also replace lost, stolen, destroyed or mutilated units at that office. We ma erform these functions or perform them ourselves.

d to pay a service charge to transfer or exchange their units, but they may be required to pay for any tax or other governmental charge r or exchange. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with the holder's proof fer agent may also require an indemnity before replacing any units.

em, accelerate or settle any units before their maturity, and we exercise our right as to less than all those units or other securities, we ma sfer of those units during the period beginning 15 days before the day we mail the notice of exercise and ending on the day of that maili

f holders to prepare the mailing. We may also refuse to register transfers or exchange of any unit selected for early settlement, except th
transfers and exchanges of the unsettled portion of any unit being partially settled. We may also block the transfer or exchange of any u
ncludes securities that are or may be selected for early settlement.

ntitled to transfer or exchange a unit in global form, since it will be the sole holder of the unit.

ng notices with respect to our units, we will follow the procedures we plan to use with respect to our debt securities, where applicable. V
low under "Description of Debt Securities and Guarantees."

DESCRIPTION OF DEBT SECURITIES AND GUARANTEES

ed by the Operating Partnership and related guarantee by Essex will be issued under an indenture, the form of which is filed as an exh
t of which this prospectus forms a part. The terms of the debt securities and the related guarantee will be described in the prospec
fering of such debt securities.

CERTAIN PROVISIONS OF MARYLAND LAW AND ESSEX'S CHARTER AND BYLAWS

of certain provisions of Maryland law and of our Charter and Bylaws. This description is not complete and is subject to, and qualified in
Maryland law and our Charter and Bylaws, copies of which are exhibits to the registration statement of which this prospectus is a part. Se
Information" and "Incorporation of Certain Documents by Reference."

provide that its Board of Directors may establish the number of directors as long as the number is not fewer than the minimum required
Corporation Law. Essex's Charter provides that a director may be removed, without cause (as defined in the Charter) only by the
vo-thirds of the votes entitled to be cast generally in the election of directors, and with cause, only by the affirmative vote of at least a
to be cast generally in the election of directors.

and Bylaws, the Board of Directors is divided into three classes of directors, each class serving staggered three-year terms. In Essex's pr
meeting, it is being proposed that the stockholders approve an amendment to the Charter to eliminate such classification of the Board o
ors would be elected annually, commencing with the 2014 annual meeting.

ness combinations" between us and an interested stockholder or an affiliate of an interested stockholder for five years after the most rec
stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in cert
e statute, an asset transfer or issuance or reclassification of equity securities. Maryland law defines an interested stockholder as:

any person who beneficially owns 10% or more of the voting power of our outstanding voting stock, or

urs who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of th
tstanding stock.

stockholder if our Board of Directors approved in advance the transaction by which the person otherwise would have become an
ver, in approving a transaction, our Board of Directors may provide that its approval is subject to compliance, at or after the time of
conditions determined by our Board of Directors.

n, any business combination between us and an interested stockholder or an affiliate of an interested stockholder generally must be
of Directors and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of our then-outstanding shares of voting stock, and

ted to be cast by holders of our voting stock other than stock held by the interested stockholder with whom or with whose affiliate the be effected or stock held by an affiliate or associate of the interested stockholder.

quirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their stock in the for n in the same form as previously paid by the interested stockholder for its stock.

xemptions from its provisions, including business combinations that are approved or exempted by the Board of Directors before the tim
r becomes an interested stockholder. As permitted by the statute, the Board of Directors of the Company irrevocably has elected to
ation by the Company, George M. Marcus, who is the chairman of the Company, and The Marcus & Millichap Company ("TMMC") or
ed by Mr. Marcus and TMMC. Mr. Marcus is the chairman of TMMC. Consequently, the five-year prohibition and supermajority vote
e will not apply to any business combination between the Company, Mr. Marcus, or TMMC. As a result, the Company may in the futur
ons with Mr. Marcus and TMMC, without compliance with the supermajority vote requirements and other provisions of the Maryland

oration Law provides that holders of "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting
l at a special meeting of stockholders by the affirmative vote of two-thirds of the votes entitled to be cast on the matter. Shares owned b
fficers or by directors who are our employees, are excluded from shares entitled to vote on the matter. "Control shares" are voting share
ith all other such shares of stock previously acquired by the acquiror or in respect of which the acquiror is able to exercise or direct the
cept solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the
wer:

one-tenth or more but less than one-third,

one-third or more but less than a majority, or

a majority or more of all voting power.

e shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share
sition of control shares, subject to certain exceptions.

roposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may
rs to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request
ration may itself present the question at any stockholders meeting.

ved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to
ions, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved)
t regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of an
hich the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders
omes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the
oses of such appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

statute does not apply (1) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction
or exempted by the charter or bylaws of the corporation.

on exempting from the control share acquisition statute any and all acquisitions by any person of our stock. We can provide no assuran
ill not amend or eliminate such provision in the future. Should this happen, the control share acquisition statute may discourage others
l of us and increase the difficulty of consummating any offer.

aryland General Corporation Law permits a Maryland corporation with a class of equity securities registered under the Exchange Act a
nt directors to elect to be subject to any or all of five provisions:

a classified board,

a two-thirds vote requirement to remove a director,

a requirement that the number of directors be fixed only by the vote of the directors,

cy on the board be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy

a majority requirement for the calling of a special meeting of stockholders.

his statute by provision in its Charter or Bylaws or by a resolution of its board of directors. Furthermore, a corporation can elect to be
ns regardless of any contrary provisions in its Charter or Bylaws.

Nominations and New Business

n respect to an annual meeting of stockholders, nominations of individuals for election to our Board of Directors and the proposal of
stockholders may be made only:

pursuant to our notice of the meeting,

by or at the direction of our Board of Directors, or

ockholder of record both at the time of giving the stockholder's notice required by our Bylaws and at the time of the meeting, who is
g and who has complied with the advance notice procedures set forth in our Bylaws.

, a stockholder seeking to nominate a director or bring other business before our annual meeting of stockholders must deliver a notice to
e close of business on the 120th day nor earlier than the 150th day prior to the first anniversary of the date of the proxy statement for th
For a stockholder seeking to nominate candidates for our Board of Directors, the notice must set forth specified information regarding th
seeking to propose other business, the notice must include a description of the proposed business, the reasons for the proposal and other
h case, the notice must also set forth specified information concerning the stockholder making the proposal and persons associated with

uirements for calling a special meeting of stockholders, generally to the effect that the Chairman of the Board, the President, the Chief
rd of Directors may call a special meeting of the stockholders, and a special meeting of stockholders shall also be called by our secretary
properly be submitted to a vote of stockholders upon the written request of the stockholders entitled to cast not less than a majority of a
n such matter at such meeting. Separate provisions of our Bylaws establish advance notice, informational and related requirements for
director nominations or other proposals at special meetings.

l as a detailed summary of these or related provisions of our Bylaws, and is qualified by reference to the Bylaws, a copy of which was
r Form 8-K filed September 22, 2008.

ain Provisions of Maryland Law and of Our Charter and Bylaws

r on removal of directors and the advance notice provisions of the Bylaws could delay, defer or prevent a transaction or a change of
might involve a premium price for the holders of our common stock or otherwise be in their best interest. Likewise, with respect to the
ons of the Maryland General Corporation Law or if the provision in the Bylaws opting out of the control share acquisition provisions of
ration Law were rescinded, these provisions of the Maryland General Corporation Law could have similar anti-takeover effects.

Essex's Charter and Bylaws might discourage certain types of transactions that involve an actual or threatened change of control of
may delay or impede a transaction or a change in control of Essex that might involve a premium price for Essex's capital stock or otherw
tockholders. See "Description of Capital Stock — Restrictions on Transfer." The issuance of preferred stock by the Board of Directors
ng, deferring or preventing a change in control of Essex. See "Description of Preferred Stock – General."

DESCRIPTION OF THE PARTNERSHIP AGREEMENT OF ESSEX PORTFOLIO, L.P.

of material provisions in the Operating Partnership's partnership agreement. For more detail, you should refer to the partnership agreem
d with the SEC and which we incorporate by reference herein. See "Where You Can Find More Information."

a California limited partnership that was formed on March 15, 1994. Essex is its sole general partner and substantially all of our busine
erating Partnership. As the Operating Partnership's sole general partner, Essex is, subject to limited exceptions for which the limited
responsible for the management of the Operating Partnership's day-to-day business and affairs. Essex can cause the Operating Partners
nsactions including acquisitions, dispositions and refinancings, subject to limited exceptions. The Operating Partnership's limited partn
, or participate in the management activities or decisions of, the Operating Partnership, except as provided in the partnership agreement
law. The partnership agreement restricts Essex's ability to engage in certain "Major Decisions" - including terminating the partnership
assignment for the benefit of creditors, taking title to property not in the name of the Operating Partnership, instituting bankruptcy
Partnership's behalf or dissolving the Operating Partnership - without the written consent of the holders of a majority of the limited
in the case of such a Major Decision other than taking title to property not in the Operating Partnership's name, the limited partners
e percent of the Operating Partnership's partnership interests at the time of such Major Decision).

partnership agreement to the Operating Partnership or to any partner for acts or omissions performed or omitted to be performed by it
conferred upon it by the partnership agreement, provided that Essex acted in good faith and was not guilty of fraud, misconduct, bad fa

rovides that substantially all of Essex's business activities, including activities pertaining to the acquisition, development and ownership
d through the Operating Partnership, and that Essex will use its best efforts to cause the Operating Partnership to avoid taking any actio
asing to satisfy the requirements for being classified as a REIT or would result in the imposition of any federal income or excise tax

y not voluntarily withdraw from the Operating Partnership, or transfer or assign all or any portion of its interest in the Operating
ent of the holders of a majority of the limited partnership interests (unless the limited partners collectively own less than five percent of
artnership interests at the time of such withdrawal or transfer).

and conditions set forth in the partnership agreement, each limited partner generally has the right to transfer all or any portion of its
rson or entity. Certain classes of the Operating Partnership's partnership interests, such as its incentive partnership units, contain additio
forth in the partnership agreement.

erests is permitted if such transfer would result in (i) such interests being traded on an "established securities market" or a "secondary
uivalent thereof)" within the meaning of Section 7704 of the Code; or (ii) the Operating Partnership being unable to qualify for at least c
in Treasury Regulations Section 1.7704-1(e), (t), (g), (h) or U) (or such other guidance subsequently published by the IRS setting forth
erests will not be treated as "readily tradable on a secondary market (or the substantial equivalent thereof)" within the meaning of Sectio
o transfer of partnership interests is permitted (i) to any person or entity that lacks the legal right, power or capacity to own such interes
age or trust deed constituting a lien against one of the Operating Partnership's properties or in violation of any other instrument, docume
party; (iii) in violation of applicable law, including, without limitation, any applicable state securities "blue sky" law; (iv) of any
terests; (v) in the event such transfer would cause Essex to cease to satisfy the requirements for being classified as a REIT; (vi) if such
rating Partnership's termination for federal income tax purposes; (vii) if such transfer would, in the opinion of the Operating Partnershi
e classified as a partnership for federal income tax purposes; (viii) if such transfer would cause the Operating Partnership to become, w
efit plan subject to Title 1 of ERISA, a "party-in-interest" (as defined in Section 3(14) of ERISA) or a "disqualified person" (as defined i
; (ix) if such transfer would, in the opinion of the Operating Partnership's counsel, cause any portion of the Operating Partnership's asse

ployee benefit plan pursuant to U.S. Department of Labor Regulations Section 2510.3-10 1; (x) if such transfer may not be effected nterest under the Securities Act; (xi) if such transfer would violate any provision of Essex' s articles of incorporation, as such may be or (xii) to any of the Operating Partnership's lenders, or any person or entity related to any of its lenders whose loan constitutes a n the meaning of Section 1.752-1(a)(2) of the Treasury Regulations) without the consent of Essex, in its sole and absolute discretion, hip's basis for tax purposes would not be reduced as a result of such transfer.

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rating Partnership all of the net proceeds of Essex's initial public offering as Essex's initial capital contribution. After Essex's initial pub
l to the Operating Partnership, as additional capital contributions, the net proceeds from our subsequent issuances of common stock and
ber 31, 2012, Essex held 94.5% of the Operating Partnership's partnership interests, and the limited partners held the remaining 5.5% o

nership's limited partners contributed to the Operating Partnership all of their right, title and interest in certain properties, assets and
partnerships as their initial capital contributions.

rovides that Essex, as general partner, subject to certain restrictions, may determine that the Operating Partnership's best interests requir
of additional partnership interests, which may include preferred limited partnership interests. The Operating Partnership is authorized to
be issued for less than fair market value if Essex concludes in good faith that such issuance is in the best interest of the Operating
ssue additional partnership interests to itself unless (i) the additional partnership interests are issued in connection with an issuance of
k and Essex makes a capital contribution to the Operating Partnership in an amount equal to the net proceeds raised in connection with t
) the additional partnership interests are issued to all of the Operating Partnership's partners pro rata in accordance with their respective
erating Partnership.

rovides that if Essex issues additional partnership interests, the percentage interests of the partners to whom such partnership interests ar
on a proportionate basis. Limited partners have no obligation to make additional capital contributions, unless such additional capital
y approved by the partners.

nent, with certain limited exceptions, Essex is obligated to contribute the proceeds of any offering of its stock as additional capital to the

urchase stock of Essex are exercised, or shares of common stock are issued pursuant to any stock purchase plan, then (i) Essex will, on o
f the calendar year, contribute to the Operating Partnership's capital an amount equal to the total exercise price paid upon option exercise
the common stock issued during such calendar year; (ii) Essex will be issued additional partnership interests equal to the number of sha
ercising or purchasing party; (iii) Essex will be deemed to have made an additional capital contribution to the Operating Partnership, in
e market price of such shares of stock, multiplied by the number of such shares of stock delivered; and (iv) the percentage interests of th
d accordingly.

hip Agreement

partnership agreement may generally be amended by (i) the written consent of Essex as general partner, and (ii) only if the limited partn
percent of the partnership interests then outstanding, the holders of a majority of the limited partnership interests. However, no
p agreement may be made without the consent of all of the affected limited partners if such amendment (i) provides for distributions to a
r other than proportionally with all limited partners based on their respective ownership interests in the Operating Partnership; (ii)
's ownership interests in the Operating Partnership without proportionally decreasing all other limited partners' ownership interests; (iii)
s interest in the Operating Partnership into a general partner interest; (iv) adversely modifies the limited liability of any limited partner; o
change rights set forth in Article XI of the partnership agreement.

Essex may amend the partnership agreement without the consent of any limited partner to:

ex's obligations or surrender any right or power granted to Essex or any of its affiliates for the benefit of the limited partners;

reflect the admission, substitution, termination, or withdrawal of partners in accordance with the partnership agreement;

orth the rights, powers and duties of the holders of any additional partnership interests issued by the Operating Partnership;

s not adversely affect the limited partners in any material respect, cure any ambiguity, correct or supplement any defective provision in
make other changes with respect to matters arising under the partnership agreement that are not inconsistent with any other provision of

the relative distribution and allocation preferences and priorities among two or more classes of Essex' s preferred stock; and

- satisfy any requirements, conditions, or guidelines of federal or state law.

uch on September 30,1997, as well as limited partners who acquired their limited partner interests with the rights specified in Article XI
ave the right to convert a portion of their limited partner interests into shares of Essex's common stock and to sell the remainder (or any
partner interests to Essex (or its designee), at any time prior to the 30th anniversary of June 13, 1994, on the terms and subject to the
ontained in the partnership agreement. Subject to such terms, conditions and restrictions, common units of the Operating Partnership are
one-for- one basis into shares of Essex's common stock.

ederal law provides for the "step-up" in basis of an asset upon death, upon the death of a limited partner, all of such limited partner's
omatically convert as of the date of such death into shares of Essex common stock; provided that Essex, in its sole and absolute discreti
of issuing the common stock to the estate of the decedent limited partner, of paying to such estate an amount in cash equal to the value
ssuable upon conversion of the decedent limited partner's partnership interests, or any combination of cash and common stock equal to
on stock issuable upon conversion of the decedent limited partner's partnership interests.

ermits the issuance of incentive units of limited partnership interests to executive management selected by the compensation committee
of Series Z-1 incentive units. Upon certain triggering events, the Series Z-l incentive units will automatically convert into common units
n the Operating Partnership. The incentive units' conversion ratio varies over time. The Series Z-1 incentive units are entitled to
y distributions paid out by the Operating Partnership. These units receive a percentage, generally based on the current conversion ratio
stributions. Additional information concerning the Series Z-1 incentive units is set forth in the most recent annual proxy statement of

s automatically convert into common units of the Operating Partnership if either (i) the conversion ratio reaches the maximum level of
pating executives remain employed, (iii) the Operating Partnership dissolves or is liquidated, or (iv) generally fifteen years after the dat
n certain change of control situations, the participating executives will also be given the option to convert their units at the then-effectiv
the Operating Partnership has the option to redeem Series Z-1 incentive units held by any executive whose employment has been
d are obliged to redeem any such units upon the death of any holder. In such event, the Operating Partnership has the option of redeemi
f the Operating Partnership or shares of the Essex common stock based on the then-effective conversion ratio. Holders of Z-l incentive
t an early conversion once a year and such conversion is based on the conversion ratio as of January 1 of the year of election, as more fu
reement. Common units, issued upon conversion of incentive units, are in turn exchangeable on a one-for-one basis into shares of Esse
may be subject to limitations as to when they can be sold or otherwise transferred.

ership's tax matters partner. Essex has authority to make tax elections under the Code on the Operating Partnership's behalf.

nd Net Losses to Partners

net income and net losses generally will be allocated to Essex, as the general partner, and to the limited partners in whatever manner is
ective capital accounts to be equal to the amount they would receive if the Operating Partnership sold all its assets for book value and

l determine the amount of the Operating Partnership's net operating cash revenues as well as its net sales proceeds and net financing
he partners, which distribution will be made quarterly and will generally be pro rata in accordance with the partners' percentage interests
ng Partnership make to Essex will be in amounts sufficient to enable Essex to pay dividends to its stockholders in a manner that will
ements for qualifying as a real estate investment trust under the Code and the Treasury Regulations thereunder.

ill dissolve upon the first to occur of: (i) the dissolution, termination, retirement or bankruptcy of Essex, unless the holders of a majority
sts elect to continue its existence; (ii) the election to dissolve the Operating Partnership made in writing by Essex with the consent of the
imited partnership interests, in accordance with the terms of the partnership agreement; (iii) the sale or other disposition of all or
ting Partnership's assets unless the partners elect to continue its existence for the purpose of the receipt and the collection of indebtednes
consideration to be received in exchange for its assets in accordance with the terms of the partnership agreement; (iv) the Operating
operation of law; or (v) December 31, 2054.

hip's dissolution, its assets will be liquidated and distributed as follows: (i) first, to the payment and discharge of all of its debt and
cond, to the establishment of reserves as provided by Essex to provide for any contingent liabilities (iii) third, to the payment of any deb
s partners and (iv) the balance, if any, to the partners in accordance with the positive balances in their capital accounts, after giving effec
ons and allocations for all periods.

ill continue in full force and effect until December 31, 2054, or until sooner dissolved in accordance with the partnership agreement's
ed by law.

equires the Operating Partnership to indemnify Essex, as general partner, its affiliates and any other persons acting on its behalf from an
im or liability incurred by them by reason of any acts or omissions performed or omitted to be performed by Essex in connection with it
d that such acts or omission are within the scope of the authority granted to Essex under the partnership agreement, and provided furthe
ere taken in good faith and in the belief that such acts or omissions were in its best interests, and that the persons seeking indemnificatio
conduct, bad faith, or gross negligence.

ust pay any costs reasonably incurred by any person entitled to indemnification under the partnership agreement in defending any
such costs must be repaid to the Operating Partnership if a court determines that such person was not entitled to indemnification. Any
ust be made entirely out of the Operating Partnership's assets, and no partners will be liable for any portion of any such payments.

MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

of material federal income tax considerations relating to the qualification and taxation of Essex as a REIT which may be material to
his summary is based on current law, is for general information only and is not tax advice. The tax treatment of a holder of Essex's deb
pending upon the terms of the specific securities acquired by such holder, as well as the holder's particular situation. Because this is a
ddress only the material federal income tax consequences generally relevant to purchasers of Essex's securities, it may not contain all c
ertinent to you. This discussion does not attempt to address all aspects of U.S. federal income taxation relating to holders of Essex's
l federal income tax considerations relevant to holders of particular offerings of Essex's debt or equity securities will be addressed in th
ment for those securities. This discussion does not cover state or local tax laws or any U.S. federal tax laws other than income tax laws.
applicable Prospectus Supplement in connection with the purchase of any of Essex's securities, and to consult your own tax advisor
sequences to you of investing in Essex's securities, of Essex's election to be taxed as a REIT and regarding potential changes in the

REIT commencing with its taxable year ended December 31, 1994. Essex believes that it has operated in a manner that permits it to
axation as a REIT under the applicable provisions of the Code. Qualification and taxation as a REIT depend upon Essex's ability to mee
ng results, distribution levels and diversity of stock ownership, and the various qualification tests imposed under the Code discussed
ds to continue to operate to satisfy such requirements, no assurance can be given that the actual results of Essex's operations for any
tisfy such requirements. See "Material Federal Income Tax Considerations — Failure to Qualify."

he U.S. Treasury regulations promulgated thereunder, and other U.S. federal income tax laws relating to qualification and operation as a
d complex. The following discussion sets forth the material aspects of the laws that govern the U.S. federal income tax treatment of a
fied in its entirety by the applicable Code provisions, rules and U.S. Treasury regulations thereunder, and administrative and judicial
er, the anticipated income tax treatment described in this prospectus may be changed, perhaps retroactively, by legislative, administrativ

acted as Essex's tax counsel in connection with the filing of this prospectus. In connection with this filing, Baker & McKenzie LLP wil
ganized and has operated in conformity with the requirements for qualification and taxation as a REIT under the Code for each of Essex
the taxable year ended December 31, 1994 through Essex's taxable year ended December 31, 2012, and its organization and proposed
ble it to continue to meet the requirements for qualification and taxation as a REIT. The opinion of Baker & McKenzie LLP will be bas
epresentations made by Essex as to factual matters, including representations made by Essex in a factual certificate provided by one of
Essex's qualification and taxation as a REIT depend upon its ability to meet the various qualification tests imposed under the Code and
ts actual annual operating results, asset diversification, distribution levels, and diversity of stock ownership, the results of which have n
d by Baker & McKenzie LLP. Accordingly, neither Baker & McKenzie LLP nor Essex can assure you that the actual results of Essex's
taxable year will satisfy these requirements. See "Material Federal Income Tax Considerations — Failure to Qualify."

nditions imposed by the REIT provisions of the Code are satisfied, entities, such as Essex, that invest primarily in real estate and that
r U.S. federal income tax purposes as corporations, generally are not taxed at the corporate level on their "REIT taxable income" that i
olders. If Essex fails to qualify as a REIT in any year, however, it will be subject to U.S. federal income tax as if it were an ordinary
ers will be taxed in the same manner as stockholders of ordinary corporations. In that event, Essex could be subject to potentially
amount of cash available for distribution to its stockholders could be reduced and Essex would not be obligated to make any distributio
squalified from taxation as a REIT for four taxable years. See "Material Federal Income Tax Considerations — Failure to Qualify."

mmary of the Code provisions that govern the federal income tax treatment of a REIT and its stockholders.

ualifies as a REIT, it generally will not be subject to U.S. federal income tax on that portion of its net income that it distributes to substantially eliminates the "double taxation" (at the corporate and stockholder levels) that generally results from an investment in a will be subject to U.S. federal income tax as follows:

axed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gain. However, Essex can f its taxes paid on its undistributed net capital gain income to its stockholders on a pro rata basis in which case, as explained further belo or refunded to the stockholder.

n circumstances, Essex may be subject to the "alternative minimum tax" on its items of tax preference.

a) net income from the sale or other disposition of "foreclosure property" (including foreign currency gain that is attributable to otherwi losure property) which is held primarily for sale to customers in the ordinary course of business or (b) other nonqualifying income from vill be subject to tax at the highest corporate rate on such income. Foreclosure property generally is property acquired on foreclosure or n secured by such real property or a lease of such property.

net income from "prohibited transactions," which are, in general, sales or other dispositions of property held primarily for sale to custor ness, generally other than foreclosure property and property involuntarily converted, such income will be subject to a 100% penalty tax

d fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), but nonetheless maintains its qualification requirements have been met, Essex will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater ails the 75% gross income test or the amount by which 95% of its gross income exceeds the amount of income qualifying under the 95% by (b) a fraction intended to reflect its profitability.

d fail to satisfy the asset test (as discussed below) but nonetheless maintains its qualification as a REIT because certain other requireme subject to a tax that would be the greater of (a) $50,000; or (b) an amount determined by multiplying the highest rate of tax for ne generated by the assets for the period beginning on the first date of the failure and ending on the day Essex disposes of the assets (or ements for maintaining REIT qualification).

ould fail to satisfy one or more requirements for REIT qualification, other than the 95% and 75% gross income tests and other than the intains its qualification as a REIT because certain other requirements have been met, Essex may be subject to a $50,000 penalty for eac

uld fail to distribute during each calendar year at least the sum of (1) 85% of its ordinary income for such year, (2) 95% of its net capital d (3) any undistributed taxable income from prior periods, Essex will be subject to a nondeductible 4% excise tax on the excess of such amounts distributed.

ex does not elect to instead be taxed at the time of the acquisition, if Essex acquires any asset from a C corporation (i.e., a corporation orate level tax) in a transaction in which the basis of the asset in Essex's hands is determined by reference to the basis of the asset (or an of the C corporation, Essex would be subject to tax at the highest corporate rate if it disposes of such asset during the applicable 10 years) beginning on the date that Essex acquired that asset, to the extent of such property's "built-in gain" (the excess of the fair ma time of Essex's acquisition over the adjusted basis of such property at such time). This tax is referred to as the "Built-in Gains Tax." Th apply if the asset acquired in such manner was exchanged for a replacement property in a qualifying exchange under Code Section 103 ement property within that same period would be subject to the Built-in Gains Tax.

be subject to a 100% excise tax if Essex's dealings with its taxable REIT subsidiaries, defined below, are not at arm's length.

gs that Essex derives through a taxable REIT subsidiary will effectively be subject to a corporate-level tax.

on

a corporation, trust or association (1) which is managed by one or more trustees or directors; (2) the beneficial ownership of which is ares, or by transferable certificates of beneficial interest; (3) which would be taxable as a domestic corporation, but for Sections 856 which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (5) the beneficial ownership persons; (6) not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals me during the last half of each taxable year; (7) which meets certain other tests, described below, regarding the nature of its income and REIT, or has made such election for a previous year, and satisfies the applicable filing and administrative requirements to maintain (9) that adopts a calendar year accounting period. The Code provides that conditions (1) to (4), inclusive, must be met during the entire on (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 1 to satisfy condition (6) during a taxable year, that failure would not result in Essex's disqualification as a REIT under the Code for such atisfied the stockholder demand statement requirements described in the succeeding paragraph and (ii) it did not know, or exercising ot have known, whether it had failed condition (6).

ued sufficient stock with sufficient diversity of ownership to satisfy conditions (5) and (6) above. Essex may redeem, at its option, a r restrict the transfer thereof to bring or maintain the ownership of the shares in conformity with the requirements of the Code. In order wnership tests described above, Essex also has certain restrictions on the transfer of its stock to prevent further concentration of stock estricts the transfer of its shares in order to assist in satisfying the share ownership requirements.

iance with these requirements, Essex must maintain records which disclose the actual ownership of its outstanding stock. In fulfilling in records, it must and will demand written statements each year from the record holders of designated percentages of Essex stock whic such stock. A list of those persons failing or refusing to comply with such demand must be maintained as part of Essex's records. A g to comply with Essex's written demand must submit with his federal income tax returns a similar statement disclosing the actual nd certain other information. Although Essex intends to satisfy the stockholder demand letter rules described in this paragraph, Essex's ements will not result in its disqualification as a REIT, but may result in the imposition by the Internal Revenue Service of penalties.

irect corporate subsidiaries and may have additional corporate subsidiaries in the future. Certain of these corporate subsidiaries will be bsidiaries" under the Code. A corporation will qualify as a qualified REIT subsidiary of Essex if Essex owns 100% of its outstanding st y do not jointly elect to treat it as a "taxable REIT subsidiary," as described below. A corporation that is a qualified REIT subsidiary is ion, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary are treated as assets, liabilities an nd credit (as the case may be) of the parent REIT for all purposes under the Code (including all REIT qualification tests). Thus, in scribed in this prospectus, the subsidiaries in which Essex owns a 100% interest (other than taxable REIT subsidiaries) will be ignored, tems of income, deduction and credit of such subsidiaries will be treated as the assets, liabilities and items of income, deduction and cre ubsidiary is not subject to U.S. federal income tax and Essex's ownership of the stock of such a subsidiary will not violate the REIT ass "Material Federal Income Tax Considerations — Asset Tests."

irect or indirect interest in a corporation that qualifies as a taxable REIT subsidiary, as long as the REIT's aggregate holdings of taxable not exceed 25% of the value of the REIT's total assets. A taxable REIT subsidiary is a fully taxable corporation that generally is esses, own assets, and earn income that, if engaged in, owned, or earned by the REIT, might jeopardize REIT status or result in the n the REIT. To qualify as a taxable REIT subsidiary, the subsidiary and the REIT must make a joint election to treat the subsidiary as a axable REIT subsidiary also includes any corporation (other than a REIT or a qualified REIT subsidiary) in which a taxable REIT tly owns more than 35% of the total voting power or value. See "Material Federal Income Tax Considerations — Asset Tests," below. A pay tax at regular corporate income rates on any taxable income it earns. Moreover, the Code contains rules, including rules requiring t T at the rate of 100% on certain reallocated income and expenses, to ensure that contractual arrangements between a taxable REIT T are at arm's length.

a partner in a partnership, U.S. Treasury regulations provide that the REIT will be deemed to own its proportionate share, generally base
l interest in the partnership, of the assets of the partnership and will be deemed to be entitled to the gross income of the partnership
addition, the character of the assets and gross income of the partnership shall retain the same character in the hands of the REIT for
tests and the asset tests, described below. Thus, Essex's proportionate share of the assets, liabilities and items of income of its Operatin
Essex's assets, liabilities and items of income for purposes of applying the requirements described below. See "Material Federal Incom
tments in Partnerships."

of Essex's taxable year, Essex generally must satisfy three tests relating to the nature of its assets. First, at least 75% of the value of Esse
ed by interests in real property, interests in mortgages on real property, shares in other REITs, cash, cash items and government securiti
investments in stock or debt instruments purchased with the proceeds of new capital raised by Essex). "Cash" includes foreign currenc
ess unit" uses such foreign currency as its functional currency, but only to the extent such foreign currency is held for use in the normal
ex or the "qualified business unit" giving rise to income in the numerator for the 75% income test or the 95% income test (discussed be
g or holding assets qualifying for the numerator in the 75% assets test, and is not held in connection with a trade or business of trading
Second, although the remaining 25% of Essex's assets generally may be invested without restriction, securities in this class generally m
he value of its total assets as to any one issuer (the "5% asset test"), (2) 10% of the outstanding voting securities of any one issuer (the "
10% of the value of the outstanding securities of any one issuer (the "10% value test"; and collectively with the 10% voting securities
, not more than 25% of the total value of Essex's assets can be represented by securities of one or more taxable REIT subsidiaries. Sec
and 10% asset tests may include debt securities, including debt issued by a partnership.

unt as a security for purposes of the 10% value test if the security qualifies for any of a number of applicable exceptions, for example, as
efined for this purpose to include certain debt issued by partnerships, and to include certain other debt that is not considered to be abusi
portunity to share in the business profits of the issuer. Solely for purposes of the 10% value test, a REIT's interest in the assets of a
on the REIT's proportionate interest in any securities issued by the partnership (including, for this purpose, the REIT's interest as a partn
bt securities issued by the partnership, but excluding any securities qualifying for the "straight debt" or other exceptions described abov
ent is the adjusted issue price.

hich it owns stock may make a joint election for such corporation to be treated as a "taxable REIT subsidiary." A taxable REIT subsidia
other than a REIT with respect to which a taxable REIT subsidiary owns securities possessing more than 35% of the total voting powe
rities of such corporation. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may genera
ding the provision of customary or non-customary services to tenants of its parent REIT. The securities of a taxable REIT subsidiary ar
st and the 10% asset tests (collectively, the "asset tests"). Instead, as discussed above, a separate asset test applies to taxable REIT
ing taxable REIT subsidiaries contain provisions generally intended to insure that transactions between a REIT and its taxable REIT
ngth" and on commercially reasonable terms. These requirements include a provision that prevents a taxable REIT subsidiary from dedu
ndebtedness to its parent REIT if, under a specified series of tests, the taxable REIT subsidiary is considered to have an excessive intere
ty ratio. In addition, a 100% penalty tax can be imposed on the REIT if its loans, or rental, service or other agreements with its taxable
ined not to be on arm's length terms. No assurances can be given that Essex's loans to or rental, service or other agreements, with its
ll be on arm's length terms. A taxable REIT subsidiary is subject to a corporate level tax on its net taxable income, as a result of which
ough a taxable REIT subsidiary are effectively subject to a corporate level tax notwithstanding Essex's status as a REIT. To the extent th
s dividends to Essex in a particular calendar year, Essex may designate a corresponding portion of the dividends that it pays to its
as "qualified dividend income" eligible to be taxed at reduced rates to noncorporate recipients. See "Material Federal Income Tax
of Taxable U.S. Holders."

reat several of its corporate subsidiaries as taxable REIT subsidiaries. Essex believes that the value of the securities that it holds in its es not, and will not, represent more than 25% of its total assets, and that all transactions between Essex and its taxable REIT subsidiarie h terms. In addition, Essex believes that the amount of its assets that are not qualifying assets for purposes of the 75% asset test will n 25% of its total assets and will satisfy the asset tests.

lly all of its assets consist of, and will continue to consist of, (1) real properties, (2) stock or debt investments that earn qualified e, (3) other qualified real estate assets, and (4) cash, cash items and government securities. Essex may also invest in securities of other nvestments will not prevent it from satisfying the asset and income tests for REIT qualification set forth above.

% asset test and/or the 10% asset tests for a particular quarter, it will not lose its REIT status if the failure is cured within 30 days of the re occurred, or the failure is due to the ownership of assets the total value of which does not exceed a specified de minimis threshold, to compliance with the asset tests within six months after the last day of the quarter in which Essex identifies the failure. Other failures y will not result in a loss of REIT status if (1) following Essex's identification of the failure, Essex files a schedule with the Internal each asset that caused the failure; (2) the failure was due to reasonable cause and not to willful neglect; (3) Essex comes into complianc months after the last day of the quarter in which the failure was identified; and (4) Essex pays an excise tax equal to the greater of ined by multiplying the highest corporate tax rate by the net income generated by the prohibited assets for the period beginning on the nding on the date Essex comes into compliance with the asset tests. Additionally, if Essex meets the asset tests at the close of any quarte on as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in the foreign currency exchang foreign asset.

ate percentage tests relating to the sources of its gross income for each taxable year. For purposes of these tests, where Essex invests in ated as receiving its pro rata share based on its capital interest in the partnership of the gross income and loss of the partnership, and the ip will retain the same character in Essex's hands as it has in the hands of the partnership. See "Material Federal Income Tax ts in Partnerships."

s income for a taxable year must be "qualifying income." Qualifying income generally includes (1) rents from real property (except as on obligations secured by mortgages on, or interests in, real property; (3) gains from the sale or other disposition of interests in real gages, other than gain from property held primarily for sale to customers in the ordinary course of Essex's trade or business ("dealer other distributions on shares in other REITs, as well as gain from the sale of such shares; (5) abatements and refunds of real property tax n, and gain from the sale, of property acquired at or in lieu of a foreclosure of the mortgage secured by such property ("foreclosure fees received for agreeing to make loans secured by mortgages on real property or to purchase or lease real property; and (8) income fro ck or debt instruments purchased with the proceeds of new capital raised by Essex. A REIT that owns foreign real estate or other foreig ency exchange gain. Two categories of foreign currency gain are excluded from the computation of qualifying income for purposes of th income test (described below): real estate foreign exchange gain and passive foreign exchange gain.

gain is foreign currency gain which is attributable to (1) any item of income qualifying for the numerator for the 75% income test; (2) t bligations secured by mortgages on real property or interests in real property; or (3) becoming or being the obligor under obligations property or interests in real property. Real estate foreign exchange gain also includes certain foreign currency gains attributable to cert a REIT. Real estate exchange gain is excluded from gross income for purposes of the 75% income test.

n includes all real estate foreign exchange gain, and in addition includes foreign currency gain which is attributable to (1) any item of e numerator for the 95% income test; (2) the acquisition or ownership of obligations; (3) becoming the obligor under obligations; and (in to be determined by the Internal Revenue Service. Passive foreign exchange gain is included in gross income and treated as extent it is not real estate foreign exchange gain, for purposes of the 75% income test.

owever, and except in the case of certain income excluded under the hedging rules, foreign currency exchange gain derived from antial and regular trading, in certain securities, constitutes gross income that does not qualify under the 75% income test.

will not qualify as rents from real property in satisfying the 75% income test (or the 95% income test) if Essex, or an owner of 10% or ities, directly or constructively owns (1) in the case of any tenant that is a corporation, stock possessing 10% or more of the total combi stock entitled to vote, or 10% or more of the total value of shares of all classes of stock of such tenant or (2) in the case of any tenant t st of 10% or more in the assets or net profits of such tenant (such tenants that are described under (1) or (2) being a "related party tenan t is a taxable REIT subsidiary and certain other requirements are satisfied. In addition, if rent attributable to personal property, leased in l property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property property. Moreover, an amount received or accrued generally will not qualify as rents from real property (or as interest income) for test and 95% income test if it is based in whole or in part on the income or profits of any person. Rent or interest will not be disqualifie being based on a fixed percentage or percentages of receipts or sales. Finally, for rents received to qualify as rents from real property, rate or manage the property or furnish or render certain services to tenants, other than through an "independent contractor" who is from whom Essex derives no revenue or through a taxable REIT subsidiary. The independent contractor and taxable REIT subsidiary t apply to the extent that the services provided by Essex are "usually or customarily rendered" in connection with the rental of space fo otherwise considered "rendered to the occupant." For both the related party tenant rules and determining whether an entity qualifies as a EIT, certain attribution rules of the Code apply, pursuant to which ownership interests in certain entities held by one entity are deemed entities.

s impermissible services (i.e., services furnished by a REIT to tenants of real or personal property, or services consisting of the real or personal property) to its tenants, all of the rent from that property will be disqualified from satisfying the 75% income test and th ents will not be disqualified if a REIT provides de minimis impermissible services. For this purpose, services provided to tenants of a inimis where income derived from the services rendered equals 1% or less of all income derived from the property (as determined on a For purposes of the 1% threshold, the amount treated as received for any service shall not be less than 150% of the direct cost incurred dering the service.

nt that is based on the income or profits of any person. In addition, Essex does not own, directly or indirectly, 10% or more of any tena that is a taxable REIT subsidiary where other requirements are satisfied). Furthermore, Essex believes that any personal property rente tment facilities is well within the 15% restriction. Finally, Essex does not believe that it provides services, other than within the 1% de above, to its tenants that are not customarily furnished or rendered in connection with the rental of property, other than through an axable REIT subsidiary. Essex does not intend to rent to any related party, to base any rent on the income or profits of any person (othe fixed percentage or percentages of receipts or sales), or to charge rents that would otherwise not qualify as rents from real property.

f its gross income from the sources listed above, at least 95% of Essex's gross income for a taxable year must be derived from the ncome, or from dividends, interest or gains from the sale or disposition of stock or other securities that are not dealer property. Dividen g a taxable REIT subsidiary) and interest on any obligation not collateralized by an interest on real property are included for purposes o (except with respect to dividends from a REIT) for purposes of the 75% income test. For purposes of determining whether Essex comp e tests, gross income does not include income from "prohibited transactions" (discussed below). Both real estate foreign exchange gai n (described above) are excluded from the computation of qualifying income for purposes of the 95% income test. Notwithstanding the n the case of certain income excluded under the hedging rules, foreign currency exchange gain derived from engaging in dealing, or g, in certain securities, constitutes gross income that does not qualify under the 95% income test.

y enter into hedging transactions with respect to one or more of its assets or liabilities. Essex's hedging activities may include entering i
aps and floors, or options to purchase such items, and futures and forward contracts. Income and gain from "hedging transactions"
d from gross income for purposes of both the 95% income test and the 75% income test. A "hedging transaction" means any transaction
urse of Essex's trade or business primarily to manage the risk of interest rate, price changes or currency fluctuations with respect to
ide, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets. Essex will be required to clearly identify any
ore the close of the day on which it was acquired, originated, or entered into and to satisfy other identification requirements. To the exte
ypes of hedging transactions, the income from such transactions may be treated as non-qualifying income for purposes of both the 75%
ome test. Essex intends to structure any hedging transactions in a manner that does not jeopardize its status as a REIT.

ent communities generally gives rise to rental income that is qualifying income for purposes of the 75% and 95% gross income tests. G
nities, other than from prohibited transactions, as described below, or of Essex's interest in a partnership, generally will be qualifying
5% and 95% gross income tests. Essex anticipates that income on its other investments will not cause it to fail the 75% or 95% gross

one or both of the 75% or 95% income tests for any taxable year, it may still qualify as a REIT for such year if it is entitled to relief und
e. These relief provisions will generally be available if Essex's failure to comply was due to reasonable cause and not to willful neglect,
ith requirements for reporting each item of its income to the Internal Revenue Service. It is not possible, however, to state whether in al
e entitled to the benefit of these relief provisions. Even if these relief provisions applied, a 100% penalty tax would be imposed on the
d the 75% gross income test or the amount by which 95% of Essex's gross income exceeds the amount of income qualifying under the 9
amount is greater), multiplied by a fraction intended to reflect Essex's profitability.

exceptions, any gain realized by Essex on the sale of any property held as inventory or other property held primarily for sale to custom
ness will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Such prohibited transaction income m
pon Essex's ability to qualify as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in
business is a question of fact that depends on all the facts and circumstances with respect to the particular transaction.

ments

is required to distribute dividends (other than capital gain dividends) to its stockholders each year in an amount equal to at least (A) the
EIT taxable income (computed without regard to the dividends paid deduction and Essex's net capital gain) and (ii) 90% of the net incor
losure property, minus (B) the sum of certain items of non-cash income over 5% of Essex's REIT taxable income. Such distributions mu
which they relate, or in the following taxable year if declared before Essex timely files its tax return for such year and if paid on or befo
ment after such declaration, provided that such payment is made during the 12-month period following the close of such taxable year.
le to stockholders in the year in which paid, even though the distributions relate to Essex's prior taxable year for purposes of the 90%

not distribute all of its net capital gain, or to the extent that it has undistributed REIT taxable income, Essex will be subject to tax on th
ular corporate tax rates, as the case may be. However, Essex can elect to "pass through" any of the taxes paid on Essex's undistributed n
ckholders on a pro rata basis. Furthermore, if Essex should fail to distribute during each calendar year at least the sum of (1) 85% of its
r, (2) 95% of its net capital gain income for such year, and (3) any undistributed taxable income from prior periods, Essex would be
% excise tax on the excess of such required distribution over the sum of the amounts actually distributed and the amount of any net capi
Essex elected to retain and pay tax. For these and other purposes, dividends declared by Essex in October, November or December of on
stockholder of record on a specific date in any such month shall be treated as both paid by Essex and received by the stockholder durin
hat the dividend is actually paid by Essex by January 31 of the following taxable year.

ribution requirements as a result of an adjustment to its tax return by the Internal Revenue Service or Essex determines that it understate
Essex may retroactively cure the failure by paying a "deficiency dividend" (plus applicable penalties and interest) within a specified per

de timely distributions sufficient to satisfy the annual distribution requirements. It is possible that in the future Essex may not have
l assets to meet the distribution requirements, due to timing differences between the actual receipt of income and actual payment of
d the inclusion of such income and deduction of such expenses in computing Essex's REIT taxable income on the other hand. Further, a
e that, from time to time, Essex may be allocated a share of net capital gain attributable to the sale of depreciated property that exceeds
sh attributable to that sale. To avoid any problem with the distribution requirements, Essex will closely monitor the relationship betwee
h flow and, if necessary, will borrow funds or issue preferred or common stock to satisfy the distribution requirement. Essex may be
imes when market conditions are not favorable.

enalty tax on the net income derived from a sale or other disposition of property, other than foreclosure property, that the REIT holds
rs in the ordinary course of a trade or business (a "prohibited transaction"). Under a safe harbor provision in the Code, however, income
perty held by the REIT for at least two years at the time of the disposition will not be treated as income from a prohibited transaction if
e also satisfied. Whether a REIT holds an asset "primarily for sale to customers in the ordinary course of a trade or business" depends,
cumstances in effect from time to time, including those related to a particular asset. Foreign currency gain or loss that is attributable to
taken into account in determining the amount of prohibited transactions net income subject to the 100% prohibited transactions tax.
to ensure that none of its sales of property will constitute a prohibited transaction, it cannot assure you that none of such sales will be so

r more requirements for REIT qualification, other than the gross income tests and asset tests, Essex may retain its REIT qualification if
cause and not willful neglect, and if it pays a penalty of $50,000 for each such failure.

xation as a REIT in any taxable year and the relief provisions do not apply, Essex will be subject to tax (including any applicable
its taxable income at regular corporate rates. Distributions to stockholders in any year in which Essex fails to qualify will not be
they be required to be made. In such event, to the extent of Essex's current and accumulated earnings and profits, all distributions to
as ordinary income, and, subject to certain limitations in the Code, corporate distributees may be eligible for the dividends received
distributees may be eligible to treat the dividends as "qualified dividend income" taxable at long-term capital gain rates. See "Material F
— Taxation of Taxable U.S. Holders." Unless entitled to relief under specific statutory provisions, Essex will also be disqualified from
ur taxable years following the year during which qualification was lost. It is not possible to state whether Essex would be entitled to suc

ip interest in the Operating Partnership. In general, partnerships are "pass-through" entities which are not subject to U.S. federal income
their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax
hether the partners receive a distribution from the partnership. The allocation of partnership income or loss must comply with rules for
e or loss under Section 704(b) of the Code and the U.S. Treasury regulations thereunder. The Operating Partnership's allocations of taxa
to comply with the requirements of Section 704(b) of the Code and the U.S. Treasury regulations thereunder. Essex includes its allocab
income, gain, loss deduction and credit in the computation of its REIT taxable income. Moreover, Essex includes its proportionate shar
a partnership, of the foregoing partnership items for purposes of the various REIT income tests. See "Material Federal Income Tax
of Essex" and " — Gross Income Tests," above. Any resultant increase in Essex's REIT taxable income increases its distribution require
income tax in Essex's hands provided that such income is distributed to its stockholders. See "Material Federal Income Tax Considerat

ments." In addition, for purposes of the REIT asset tests, Essex includes its proportionate share, generally based on its capital interest in
l by the partnership. See "Material Federal Income Tax Considerations — Asset Tests," above.

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two owners or members will be classified as a partnership, rather than a corporation, for U.S. federal income tax purposes if (i) it is
r the Treasury regulations relating to entity classification (the "check-the-box regulations"); and (ii) it is not a "publicly traded partnersh
ulations, an unincorporated entity with at least two owners or members may elect to be classified either as an association taxable as a
p. If such an entity does not make an election, it generally will be treated as a partnership for U.S. federal income tax purposes. A publi
rship whose interests are traded on an established securities market or are readily tradable on a secondary market (or the substantial
ly traded partnership is generally treated as a corporation for federal income tax purposes, but will not be so treated if at least 90% of th
onsisted of specified passive income, including real property rents (which includes rents that would be qualifying income for purposes o
rtain modifications that make it easier for the rents to qualify for the 90% passive income exception), gains from the sale or other
nterest, and dividends (the "90% passive income exception").

gulations provide limited safe harbors from treatment as a publicly traded partnership. Pursuant to one of those safe harbors (the "privat
ests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (i) all interests in
ransaction or transactions that were not required to be registered under the Securities Act of 1933, as amended, and (ii) the partnership
partners at any time during the partnership's taxable year. For the determination of the number of partners in a partnership, a person
rship, grantor trust, or S corporation that owns an interest in the partnership is treated as a partner in the partnership only if (i)
of the owner's interest in the entity is attributable to the entity's direct or indirect interest in the partnership and (ii) a principal purpose o
mit the partnership to satisfy the 100-partner limitation.

ing Partnership will qualify for the private placement exclusion. Accordingly, it is expected that the Operating Partnership will not be
artnership and taxed as a corporation. The Operating Partnership has not requested, nor does it intend to request, however, a ruling from
that it will be treated as a partnership for U.S. federal income tax purposes.

t to the Properties

the Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in
e partnership (such as some of Essex's properties), must be allocated in a manner such that the contributing partner is charged with, or
he unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or
qual to the difference between the fair market value of contributed property at the time of contribution, and the adjusted tax basis of suc
oution (a "book-tax difference"). Such allocations are solely for U.S. federal income tax purposes and do not affect the book capital acc
rangements among the partners. The Operating Partnership has property subject to book-tax differences. Consequently, the partnership
Partnership requires such allocations to be made in a manner consistent with Section 704(c) of the Code.

contributed appreciated assets to the Operating Partnership will be allocated lower amounts of depreciation deductions for tax purposes
e and gain on sale by the Operating Partnership of the contributed assets (including some of Essex's properties). This will tend to elimin
time. However, the special allocation rules under Section 704(c) of the Code do not always entirely rectify the book-tax difference on a
o a specific taxable transaction, such as a sale. Thus, the carryover basis of the contributed assets in the hands of the Operating Partners
ex to be allocated lower depreciation and other deductions, and possibly greater amounts of taxable income in the event of a sale of such
of the economic or book income allocated to Essex as a result of such sale. This may cause Essex to recognize taxable income in excess
dversely affect its ability to comply with the REIT distribution requirements. See "Material Federal Income Tax Considerations — An

lized by the Operating Partnership or any other pass-through subsidiary on the sale of any property held as inventory or "primarily for s
course of business" will be treated as income from a prohibited transaction that is subject to a 100% excise tax. See "Material Federal
— Prohibited Transaction Rules." Under existing law, whether property is held as inventory or primarily for sale to customers in the or
depends upon all of the facts and circumstances of the particular transaction.

ribes certain U.S. federal income tax consequences relating to the purchase, ownership and disposition of Essex's stock as of the date this summary deals only with stock held as a capital asset and does not deal with special situations, such as those persons whose functio ome tax purposes is not the U.S. dollar, persons liable for the alternative minimum tax, dealers in securities or currencies, tax-exempt rement accounts and other tax deferred accounts, financial institutions, life insurance companies, or persons holding Essex's stock as a p ansaction or a straddle. Furthermore, the discussion below is based upon the current U.S. federal income tax laws and interpretations Such authorities may be repealed, revoked, or modified (possibly with retroactive effect) so as to result in U.S. federal income tax those discussed below. In addition, except as otherwise indicated, the following summary does not consider the effect of any applicable tax laws or estate or gift tax considerations.

ership for U.S. federal income tax purposes holds Essex's stock, the tax treatment of a partner in that partnership will generally depend and the activities of the partnership. If you are a partner of a partnership holding Essex's stock, you should consult your tax advisor es of the ownership and disposition of Essex's stock.

er" of Essex's stock means a holder that for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corpo rporation for U.S. federal income tax purposes that is created or organized in or under the laws of the United States or any political state the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (a) a U.S. court is able to over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b o be treated as a U.S. person or otherwise is treated as a U.S. person.

lders

ex qualifies as a REIT, distributions made to its taxable U.S. Holders out of current or accumulated earnings and profits (and not idends or "qualified dividend income") will be taken into account by them as ordinary income, and U.S. Holders that are corporations v received deduction. "Qualified dividend income" generally includes dividends received from ordinary U.S. corporations and from certa s, provided that certain stock holding period requirements are met. "Qualified dividend income" of noncorporate taxpayers is taxed at t rate of 20%) as long-term capital gain.

Ts are generally not eligible to be taxed at the preferential qualified dividend income rates (the current maximum rate is 20%). As a dividends will continue to be taxed at the ordinary income tax rate, which is as high as 39.6%. Dividends received by a noncorporate as "qualified dividend income," however, to the extent that Essex has received dividend income from taxable corporations (such as a tax xtent such dividends are attributable to income that is subject to tax at the REIT level (for example, if Essex distributed less than 100% l, to qualify for the reduced tax rate on qualified dividend income, a stockholder must hold Essex's stock for more than 60 days during the date that is 60 days before the date on which Essex's stock becomes ex-dividend.

es distributions in excess of its current and accumulated earnings and profits, these distributions are treated first as a tax-free return of ducing the tax basis of such U.S. Holder's stock by the amount of such distribution (but not below zero), with distributions in excess of d as proceeds from a sale of Essex's stock, the tax treatment of which is described below. Distributions will generally be taxable, if at a However, any dividend declared by Essex in October, November or December of any year and payable to a U.S. Holder who held Essex ate in any such month shall be treated as both paid by Essex and received by the U.S. Holder on December 31 of such year, provided tha by Essex during January of the following calendar year.

h are designated by Essex as capital gain dividends will be taxable to U.S. Holders as gain from the sale of assets held for greater than o
in." That treatment will apply regardless of the period for which a U.S. Holder has held the stock upon which the capital gain dividend
. Holders may be required to treat up to 20% of certain capital gain dividends as ordinary income. Noncorporate taxpayers are generall
 tax rate of 20% for long-term capital gain attributable to sales or exchanges. A portion of any capital gain dividends received by
t be subject to tax at a 25% rate to the extent attributable to gains realized on the sale of real property that correspond to Essex's
gain."

her than distribute as a capital gain dividend, its net long-term capital gains. In such event, Essex would pay tax on such retained net
dition, to the extent designated by Essex, a U.S. Holder generally would (1) include his proportionate share of such undistributed
mputing his long-term capital gains for his taxable year in which the last day of Essex's taxable year falls (subject to certain limitations
(2) be deemed to have paid the capital gains tax imposed on Essex on the designated amounts included in such U.S. Holder's long-term
edit or refund for such amount of tax deemed paid by the U.S. Holder, (4) increase the adjusted basis of his stock by the difference
ncludable gains and the tax deemed to have been paid by him, and (5) in the case of a U.S. Holder that is a corporation, appropriately
 for the retained capital gains in accordance with U.S. Treasury regulations (which have not yet been issued).

and gain arising from the sale or exchange by a U.S. Holder of stock will not be treated as passive activity income, and as a result, U.S.
 able to apply any "passive losses" against this income or gain. U.S. Holders may not include in their individual income tax returns any
r capital losses.

ny taxable sale or other disposition of Essex's stock, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in a
e between (1) the amount of cash and the fair market value of any property received on the sale or other disposition except with respect
ed but unpaid dividends and (2) the U.S. Holder's adjusted basis in the stock for tax purposes.

pital gain or loss, and will be long-term capital gain or loss, respectively, if Essex's stock has been held for more than one year at the tim
rate U.S. Holders are generally taxable at a current maximum rate of 20% on long-term capital gain. The Internal Revenue Service has
 not yet prescribed, regulations that would apply a capital gain tax rate of 25% to a portion of capital gain realized by a noncorporate U
tock that would correspond to the REIT's "unrecaptured Section 1250 gain." U.S. Holders are urged to consult with their own tax advis
ain tax liability. A corporate U.S. Holder will be subject to tax at a maximum rate of 35% on capital gain from the sale of Essex's stock
d for the stock.

le or exchange of Essex's stock by a U.S. Holder who has held such stock for six months or less (after applying certain holding period
g-term capital loss, to the extent of distributions (actually made or deemed made in accordance with the discussion above) from Essex
 U.S. Holder as long-term capital gain.

ram. Stockholders participating in Essex's dividend reinvestment program are treated as having received the gross amount of any cash
ve been paid by Essex to such stockholders had they not elected to participate in the program. These distributions will retain the charact
istributions from Essex generally. Participants in the dividend reinvestment program are subject to U.S. federal income and withholding
med distributions to the extent that such distributions represent dividends or gains, even though they receive no cash. Shares of Essex's
gram will have a holding period beginning with the day after purchase, and a tax basis equal to their cost (which is the gross amount of t

ackup Withholding. Payments of dividends on Essex's stock and proceeds received upon the sale, redemption or other disposition of
 to information reporting and backup withholding. Payments to certain U.S. Holders (including, among others, corporations and certain
e generally not subject to information reporting or backup withholding. Payments to a non-corporate U.S. Holder generally will be subje
h payments also generally will be subject to backup withholding if such holder (i) fails to furnish its taxpayer identification number, wh
 his or her social security number; (ii) furnishes an incorrect taxpayer identification number; (iii) is notified by the Internal Revenue
roperly report payments of interest or dividends; or (iv) fails to certify, under penalties of perjury, that it has furnished a correct taxpaye
t the Internal Revenue Service has not notified the U.S. Holder that it is subject to backup withholding.

provide Essex with its correct taxpayer identification number may also be subject to penalties imposed by the Internal Revenue Service.
withholding will be creditable against the U.S. Holder's U.S. federal income tax liability, if any, and otherwise will be refundable, provi
are followed.

rotection and Affordable Care Act of 2010, which was signed into law by the President on March 23, 2010, generally imposes on certai
a tax of 3.8% on the lesser of (i) "net investment income", or (ii) the excess of modified adjusted gross income over a threshold amoun
December 31, 2012. Net investment income generally includes dividends, and net gains from the disposition of stock, unless such
n the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading
ders that are individuals, trusts or estates are therefore subject to the 3.8% Medicare tax with respect to dividends on, and capital gains
tion of, Essex's stock. U.S. Holders are encouraged to consult with their tax advisors regarding the possible implications of this tax on
on of Essex common stock in light of such holders' individual circumstances.

Investment Interest Limitations. Distributions made by Essex and gain arising from the sale or exchange by a U.S. Holder of Essex's st
activity income. As a result, stockholders will not be able to apply any "passive losses" against income or gain relating to Essex's stoc
to the extent they do not constitute return of capital, generally will be treated as investment income for purposes of computing the
.

their independent tax advisors regarding the tax consequences to them of an investment in Essex in light of their particular circumstance

. Holders

g by the Internal Revenue Service, a distribution by Essex to, and gain upon a disposition of Essex's stock by, a U.S. Holder that is a
nstitute "unrelated business taxable income" ("UBTI") provided that the tax-exempt entity has not financed the acquisition of its stock
ithin the meaning of the Code and the stock is not otherwise used in an unrelated trade or business of the tax-exempt entity.

. Holders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group
rom U.S. federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code, respectively, income from an
stitute UBTI unless the organization properly sets aside or reserves such amounts for purposes specified in the Code. These tax-exempt
their own tax advisers concerning these "set aside" and reserve requirements.

ension trust (1) that is described in Section 401(a) of the Code, (2) is tax exempt under Section 501(a) of the Code, and (3) that owns m
uld be required to treat a percentage of the dividends from Essex as UBTI if Essex is a "pension-held REIT." Essex will not be a
either (A) one pension trust owns more than 25% of the value of Essex's stock, or (B) a group of pension trusts, each individually hold
f Essex's stock, collectively owns more than 50% of such stock; and (ii) Essex would not have qualified as a REIT but for the fact that
e provides that stock owned by such trusts shall be treated, for purposes of the requirement that not more than 50% of the value of the
is owned, directly or indirectly, by five or fewer "individuals" (as defined in the Code to include certain entities), as owned by the
Essex believes that it is not, and does not expect to become, a pension-held REIT.

uld consult their independent tax advisors regarding the tax consequences to them of an investment in Essex in light of their particular

s

of certain anticipated U.S. federal income tax consequences of the ownership and disposition of Essex's stock applicable to non-U.S.
n-U.S. Holder" is any person (other than an entity or arrangement treated as a partnership for U.S. federal income tax purposes) who is
is based on current law and is for general information only. The discussion addresses only certain and not all aspects of U.S. federal
s may apply to certain non-U.S. Holders such as "controlled foreign corporations" and "passive foreign investment companies." Such e
advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

The portion of dividends received by non-U.S. Holders payable out of Essex's current and accumulated earnings and profits which are
nd which are not effectively connected with a U.S. trade or business of the non-U.S. Holder will be subject to U.S. withholding tax at th
by an applicable income tax treaty). In general, non-U.S. Holders will not be considered engaged in a U.S. trade or business solely as a
ssex's stock. In cases where the dividend income from a non-U.S. Holder's investment in Essex's stock is effectively connected with th
f a U.S. trade or business (or, if an income tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. Holder),
ill be subject to U.S. tax at graduated rates, in the same manner as U.S. Holders are taxed with respect to such dividends (a corporate
subject to a "branch profits tax" at a rate of 30% or a lower rate under an applicable treaty).

S. income tax at the rate of 30% on the gross amount of any distributions of ordinary income made to a non-U.S. Holder unless (1) a lo
certification is provided on an applicable Internal Revenue Service Form W-8 (i.e., Internal Revenue Service Form W-8BEN) or (2) th
rnal Revenue Service Form W-8ECI with Essex claiming that the distribution is effectively connected with the non-U.S. Holder's cond
r, if an income tax treaty applies, is attributable to a U.S. permanent establishment of the non-U.S. Holder). However, the non-U.S. Hol
nounts from the Internal Revenue Service if it is subsequently determined that such distribution was, in fact, in excess of Essex's curren
d profits.

ibutions. Unless Essex's stock constitutes a USRPI (as defined below), distributions by Essex which are not paid out of Essex's current
ofits will not be subject to U.S. income or withholding tax. If it cannot be determined at the time a distribution is made whether or not s
of current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends.
er may seek a refund of such amounts from the Internal Revenue Service if it is subsequently determined that such distribution was, in
rent and accumulated earnings and profits. If Essex's stock constitutes a USRPI, a distribution in excess of current and accumulated
ubject to 10% withholding tax and may be subject to additional taxation under FIRPTA (as defined below). However, the 10%
y to distributions already subject to the 30% dividend withholding.

nds. Under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"), a distribution made by Essex to a non-U.S. Holder, t
USRPI Capital Gains") from dispositions of United States real property interests ("USRPIs"), will be considered effectively connected
non-U.S. Holder and therefore will be subject to U.S. income tax at the rates applicable to U.S. Holders, without regard to whether such
capital gain dividend. (The properties owned by the Operating Partnership generally are USRPIs.) Distributions subject to FIRPTA ma
profits tax in the hands of a corporate non-U.S. Holder. Notwithstanding the preceding, distributions received on Essex's stock, to the
Capital Gains, will not be treated as gain recognized by the non-U.S. Holder from the sale or exchange of a USRPI if (1) Essex's stock
ed on an established securities market located in the United States and (2) the selling non-U.S. Holder did not own more than 5% of su
ing the one-year period ending on the date of the distribution. The distribution will instead be treated as an ordinary dividend to the
consequences to the non-U.S. Holder will be as described above under "Material Federal Income Tax Considerations — Ordinary Divi

Essex's capital gains which are not USRPI Capital Gains generally will not be subject to income taxation, unless (1) investment in the st
the non-U.S. Holder's U.S. trade or business (or, if an income tax treaty applies, is attributable to a U.S. permanent establishment of th
ase the non-U.S. Holder will be subject to the same treatment as U.S. Holders with respect to such gain (except that a corporate non-U.S
the branch profits tax) or (2) the non-U.S. Holder is a non-resident alien individual who is present in the United States for 183 days or
and certain other conditions are present, in which case the nonresident alien individual will be subject to a 30% tax on the individual's

red to withhold and remit to the Internal Revenue Service 35% of any distributions to non-U.S. Holders that are designated as capital ga
of a distribution that could have been designated as a capital gain dividend. Distributions can be designated as capital gains to the exter
r the taxable year of the distribution. The amount withheld is creditable against the non-U.S. Holder's U.S. federal income tax liability.
any amounts paid to a holder of not more than 5% of Essex's stock while such stock is regularly traded on an established securities
ts will be treated as described above under "Material Federal Income Tax Considerations — Ordinary Dividends."

Essex's stock constitutes a USRPI, a sale of such stock by a non-U.S. Holder generally will not be subject to U.S. taxation unless (1) th
ectively connected with the non-U.S. Holder's U.S. trade or business (or, if an income tax treaty applies, is attributable to a U.S. perma
. Holder) or (2) the non-U.S. Holder is a non-resident alien individual who is present in the United States for 183 days or more during t
r conditions are present.

a USRPI if Essex is a "domestically controlled REIT." A domestically controlled REIT is a REIT in which, at all times during a specifi
in value of its shares is held directly or indirectly by non-U.S. Holders. Essex believes that it is, and expects to continue to be, a
, and therefore that the sale of Essex's stock will not be subject to taxation under FIRPTA. Because Essex's stock will be publicly trad
e given that Essex will continue to be a domestically controlled REIT.

tute a domestically controlled REIT, a non-U.S. Holder's sale of its stock generally will not be subject to tax under FIRPTA as a sale o
stock continues to be regularly traded on an established securities market located in the United States and (2) the selling non-U.S. Hold
f such class of stock at any time during the one year period ending on the date of the distribution.

stock were subject to taxation under FIRPTA, the non-U.S. Holder would be subject to the same treatment as a U.S. Holder with respe
ble alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In addition, the purchas
d to withhold 10% of the purchase price and remit such amount to the Internal Revenue Service. This 10% is creditable against the U.S.
f the non-U.S. Holder under FIRPTA in connection with its sale of Essex's stock.

ackup Withholding. Backup withholding will apply to dividend payments made to a non-U.S. Holder of Essex's stock unless the holder
holder and the payer has no actual knowledge that the owner is not a non-U.S. Holder. Information reporting generally will apply with
even if certification is provided.

n a disposition of Essex's stock by a non-U.S. Holder made to or through the U.S. office of a broker is generally subject to information
lding unless the holder or beneficial owner certifies that it is not a U.S. Holder or otherwise establishes an exemption. Generally,
ckup withholding will not apply to a payment of disposition proceeds if the payment is made outside the United States through a foreig
aler. If the proceeds from a disposition of Essex's stock are paid to or through a foreign office of a U.S. broker-dealer or a non-U.S. offi
t is (1) a "controlled foreign corporation" for U.S. federal income tax purposes, (2) a person 50% or more of whose gross income from
year period was effectively connected with a U.S. trade or business, (3) a foreign partnership with one or more partners who are U.S.
gate hold more than 50% of the income or capital interest in the partnership, or (4) a foreign partnership engaged in the conduct of a tra
es, then backup withholding and information reporting generally will apply unless the non-U.S. Holder satisfies certification requireme
J.S. Holder and the broker-dealer has no actual knowledge that the owner is not a non-U.S. Holder.

0, the Hiring Incentives to Restore Employment Act (the "HIRE Act") was enacted in the United States. The HIRE Act includes provis
nt Tax Compliance Act ("FATCA"). Final regulations under FATCA were issued by the Internal Revenue Service on January 17, 2013.
30% withholding tax on (i) dividends paid with respect to Essex common stock after December 31, 2013 and (ii) certain gross proceed
common stock paid after December 31, 2016 to (a) foreign financial institutions (as defined in Section 1471(d)(4) of the Code) unless
lose to the Secretary of the Treasury information regarding their direct and indirect U.S. account holders and (b) certain other foreign
rtain information regarding their direct and indirect U.S. owners. The 30% withholding rate generally applies without regard to reduced
ptions from withholding available under current law under treaties or existing statutory rules. Under some circumstances, a foreign own
the benefit of such reduced withholding rates and exemptions through a claim for refund.

FATCA does not apply to any payments made under an obligation that is outstanding on January 1, 2014 (provided such obligation is n
ent to such date) and any gross proceeds from the disposition of such obligation. Stock in a corporation is not an "obligation" for purpos
common stock would not be exempt from the application of FATCA under this grandfathering rule. FATCA does not replace the existi
but the FATCA regulations contain coordination provisions to avoid double withholding on U.S.-source income. Non-U.S. Holders are
heir tax advisors regarding the possible implications of FATCA on an investment in Essex common stock in light of such holders'

nsult their independent tax advisors regarding the tax consequences to them of an investment in Essex in light of their particular

ay be subject to state or local taxation in various jurisdictions, including those in which Essex or its stockholders transact business or
x treatment of Essex and its stockholders may not conform to the U.S. federal income tax consequences discussed above. Consequently,
uld consult their own tax advisers regarding the effect of state and local tax laws on an investment in Essex.

Actions Affecting Tax Considerations

recognize that the present U.S. federal income tax treatment of an investment in Essex may be modified by legislative, judicial or
ime, and that any such action may affect investments and commitments previously made. The rules dealing with U.S. federal income
review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department, resulting
y regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and
adversely affect the tax consequences of an investment in Essex.

PLAN OF DISTRIBUTION

urities domestically or abroad to one or more underwriters for public offering and sale by them or may sell the Offered Securities to
agents, which agents may be affiliated with us. We will name any such underwriter or agent involved in the offer and sale of the Offere
rospectus Supplement.

ime sales of Offered Securities offered pursuant to any applicable Prospectus Supplement in one or more transactions at a fixed price or
d, at prices related to the prevailing market prices at the time of sale, or at negotiated prices. We also may, from time to time, authorize
ents to offer and sell the Offered Securities upon the terms and conditions as set forth in the applicable Prospectus Supplement. In
ffered Securities, underwriters may be deemed to have received compensation from Essex or from the Operating Partnership in the form
commissions, and also may receive commissions from purchasers of Offered Securities for whom they may act as agent. Underwriters
o or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the
ions from the purchasers for whom they may act as agent.

transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the
ment indicates, in connection with those derivatives, the third parties (or affiliates of such third parties) may sell Offered Securities
nd the applicable Prospectus Supplement, including in short sale transactions. If so, the third parties (or affiliates of such third parties) m
or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received
e derivatives to close out any related open borrowings of common stock. The third parties (or affiliates of such third parties) in such sale
ters and, if not identified in this prospectus, will be identified in the applicable Prospectus Supplement or a post-effective amendment to

ion we pay to underwriters, dealers or agents in connection with the offering of Offered Securities, and any discounts, concessions or
ow to participating dealers, will be set forth in the applicable Prospectus Supplement. Underwriters, dealers and agents participating in
curities may be deemed to be underwriters, and any discounts and commissions they receive and any profit they realize on resale of the
emed to be underwriting discounts and commissions under the Securities Act of 1933, as amended (the "Securities Act"). Underwriters
titled, under agreements entered into with us, to indemnification against and contribution toward certain civil liabilities, including
s Act. Any such indemnification agreements will be described in the applicable Prospectus Supplement.

the related Prospectus Supplement, each series of Offered Securities will be a new issue with no established trading market, other than
h is listed on the New York Stock Exchange. Any shares of Essex's Common Stock sold pursuant to a Prospectus Supplement will be l
official notice of issuance. We may elect to list any preferred stock, warrants or debt securities on any exchange, but we are not obligat
e or more underwriters may make a market in a series of Offered Securities, but will not be obligated to do so and may discontinue any
ithout notice. Therefore, we cannot assure you of the liquidity of the trading market for the Offered Securities.

le Prospectus Supplement, we may authorize, underwriters or other persons acting as our agent, to solicit offers by certain institutions o
other suitable purchasers to purchase Offered Securities from us at the public offering price set forth in such Prospectus Supplement,
contracts ("Contracts") providing for payment and delivery on the date or dates stated in such Prospectus Supplement. Institutions with
rized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational an
her institutions but will in all cases be subject to our approval. Contracts will be subject to the condition that the purchase by an institut
ered by its Contracts shall not, at the time of delivery, be prohibited under the laws of any jurisdiction in the United States to which such

he Offered Securities, certain persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affec
is may include over-allotments or short sales of the Offered Securities, which involve the sale by persons participating in the offering o
to them. In these circumstances, these persons would cover the over-allotments or short positions by making purchases in the open mar
lotment option. In addition, these persons may stabilize or maintain the price of the Offered Securities by bidding for or purchasing
or by imposing penalty bids, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if securities
in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the
above that which might otherwise prevail in the open market. These transactions may be discontinued at any time.

dealers and agents and their affiliates may be customers of, engage in transactions with and perform services for, us in the ordinary cour

LEGAL MATTERS

ecurities to be offered by Essex will be passed upon for us by Venable LLP and the validity of the Offered Securities to be offered by th
passed upon for us by Baker & McKenzie LLP. Baker & McKenzie LLP will also issue an opinion to us regarding certain tax matters
deral Income Tax Considerations."

EXPERTS

atements and financial statement schedule III of Essex Property Trust, Inc. and subsidiaries as of December 31, 2012 and 2011, and for
-year period ended December 31, 2012, and management's assessment of the effectiveness of internal control over financial reporting as
n incorporated by reference herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm,
rein, and upon the authority of said firm as experts in accounting and auditing.

atements and financial statement schedule III of Essex Portfolio, L.P. and subsidiaries as of December 31, 2012 and 2011, and for each
riod ended December 31, 2012, have been included herein in reliance upon the report of KPMG LLP, independent registered public
sewhere herein, and upon the authority of said firm as experts in accounting and auditing.

d certain expenses of PPC Montebello, LLC (Montebello Apartments) for the period April 5, 2010 (inception) through December 31,
December 31, 2011 included and incorporated by reference herein have been audited by Ernst & Young LLP, independent auditors, as
Such statements of revenue and certain expenses of Montebello Apartments are included and incorporated by reference herein in relianc
e authority of such firm as experts in accounting and auditing.

l certain expenses of the Murphy Road Apartments – San Jose, a California limited partnership (Willow Lake) for the year ended Decem
nd incorporated by reference herein in reliance upon the report of KPMG LLP, independent auditors, included and incorporated by
e authority of said firm as experts in accounting and auditing. KPMG LLP's report refers to the fact that the statement of revenue and
d for the purpose of complying with the rules and regulations of the U.S. Securities and Exchange Commission and is not intended to be
enue and expenses.

SELECTED CONSOLIDATED FINANCIAL DATA

, on a historical basis, certain summary consolidated financial and operating data for Essex Portfolio, L.P. and Essex Property Trust, In ies. You should read the following summary historical financial data in conjunction with the consolidated historical financial statement Essex Portfolio, L.P. and Essex Property Trust, Inc. and their respective subsidiaries and "Management's Discussion and Analysis of ults of Operations," included or incorporated by reference elsewhere in this prospectus.

Essex Portfolio, L.P.

et data as of December 31, 2012 and 2011 and the consolidated statement of income operating data for each of the years in the three-ye 2012 have been derived from the historical consolidated financial statements of Essex Portfolio, L.P. and subsidiaries, which are include have been audited by KPMG LLP, an independent registered public accounting firm, whose report with respect thereto is included The consolidated balance sheet data as of December 31, 2010 and the consolidated statement of income operating data for the years d 2009 have been derived from the historical consolidated financial statements of Essex Portfolio, L.P. and subsidiaries, have also been e consolidated balance sheet data as of December 31, 2009 and 2008 and the consolidated statement of income operating data for the ye ve been derived from the unaudited historical consolidated financial statements of Essex Portfolio, L.P. and subsidiaries.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
hare amounts)					
	$ 531,936	$ 465,713	$ 405,728	$ 401,550	$ 397,673
	11,489	6,780	4,551	4,325	5,166
	543,425	472,493	410,279	405,875	402,839
	174,088	159,234	143,164	137,457	130,328
	170,592	151,428	128,221	116,540	108,221
	23,307	20,694	23,255	24,966	24,725
er fees	6,513	4,610	2,707	3,096	2,959
s	-	-	2,302	13,084	650
	374,500	335,966	299,649	295,143	266,883
	168,925	136,527	110,630	110,732	135,956
tization expense	(100,244)	(91,694)	(82,756)	(81,196)	(78,203
	(11,644)	(11,474)	(4,828)	(4,820)	(6,860
	13,833	17,139	27,841	13,040	11,337
o-investments	21,947	-	-	-	-
-investments	41,745	(467)	(1,715)	670	7,820
nt of debt	(5,009)	(1,163)	(10)	4,750	3,997
e	-	-	-	103	4,578
operations	129,553	48,868	49,162	43,279	78,625
perations	10,037	8,648	1,620	10,460	5,770
	139,590	57,516	50,782	53,739	84,395
ncontrolling interest	(6,347)	(5,571)	(5,770)	(6,107)	(5,943
ntrolling interest	133,243	51,945	45,012	47,632	78,452
ns - Series F, G, & H	(5,472)	(4,753)	(2,170)	(4,860)	(9,241
ns - limited partners	-	(1,650)	(6,300)	(6,300)	(9,909

ng amount of preferred interests to redeem preferred interests	-	(1,949)	-	49,952	-
mon unitholders	$ 127,771	$ 43,593	$ 36,542	$ 86,424	$ 59,302
operations available to common	$ 3.16	$ 1.00	$ 1.09	$ 2.56	$ 1.86
mon unitholders	$ 3.43	$ 1.25	$ 1.14	$ 2.91	$ 2.06
nit outstanding	37,252	34,774	31,961	29,717	28,809
operations available to common	$ 3.15	$ 1.00	$ 1.09	$ 2.56	$ 1.86
mon unitholders	$ 3.42	$ 1.25	$ 1.14	$ 2.91	$ 2.06
nit outstanding	37,344	34,861	32,028	29,747	28,855
nit	$ 4.40	$ 4.16	$ 4.13	$ 4.12	$ 4.08

	As of December 31,				
	2012	2011	2010	2009	2008
es (before accumulated depreciation)	$ 5,033,672	$ 4,313,064	$ 3,964,561	$ 3,412,930	$ 3,279,788
erties	3,952,155	3,393,038	3,189,008	2,663,466	2,639,762
nt	66,851	44,280	217,531	274,965	272,273
	4,847,223	4,036,964	3,732,887	3,254,637	3,164,823
	1,565,599	1,745,858	2,082,745	1,832,549	1,588,931
s	1,253,084	615,000	176,000	14,893	165,457
rred interests	4,349	4,349	4,349	4,349	145,912
erred interests	71,209	71,209	104,412	104,412	104,412
	1,880,116	1,486,914	1,284,515	1,200,208	1,001,356

	As of and for the years ended December 31,				
	2012	2011	2010	2009	2008
	$ 139,590	$ 57,516	$ 50,782	$ 53,739	$ 84,395
tization expense	100,244	91,694	82,756	81,196	78,203
	11,644	11,474	4,828	4,820	6,860
	-	(1,682)	-	-	-
	170,686	152,543	129,712	118,522	113,294
	$ 422,164	$ 311,545	$ 268,078	$ 258,277	$ 282,752
rges (3)	1.98	1.36	1.41	1.34	1.66
d fixed charges and preferred	1.89	1.29	1.30	1.20	1.38

(1) Includes amounts classified within discontinued operations.

measure and is defined as net income before interest expense, income taxes, depreciation and amortization. EBITDA, as defined by the
not a recognized measurement under U.S. generally accepted accounting principles, or GAAP. This measurement should not be
as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordanc
ure of profitability or liquidity. The Company's definition may not be comparable to that of other companies.

fixed charges were computed by dividing earnings by fixed charges. For this purpose, earnings consist of income before discontinued
n on sale of real estate and interest and amortization expense. Fixed charges consist of interest and amortization expense plus interest
ned fixed charges consist of fixed charges plus preferred interest distributions and preferred unit distributions.

Essex Property Trust, Inc.

et data as of December 31, 2012 and 2011 and the consolidated statements of income for each of the years in the three year period ende
n derived from the historical consolidated financial statements of Essex Property Trust, Inc. and subsidiaries, incorporated by reference
ted by KPMG LLP, an independent registered public accounting firm whose report with respect thereto is incorporated by reference
nce sheet data as of December 31, 2010, 2009 and 2008 and the consolidated statements of income operating data for each of the years
d 2008 have been derived from the historical consolidated financial statements of Essex Property Trust, Inc. and subsidiaries, have also
Certain prior year amounts have been reclassified to conform to the current year presentation.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	($ in thousands, except per share amounts)				
	$ 531,936	$ 465,713	$ 405,728	$ 401,550	$ 397,673
rom affiliates	11,489	6,780	4,551	4,325	5,166
	543,425	472,493	410,279	405,875	402,839
	174,088	159,234	143,164	137,457	130,328
	170,592	151,428	128,221	116,540	108,221
	23,307	20,694	23,255	24,966	24,725
er fees	6,513	4,610	2,707	3,096	2,959
s	-	-	2,302	13,084	650
	374,500	335,966	299,649	295,143	266,883
	168,925	136,527	110,630	110,732	135,956
tization expense	(100,244)	(91,694)	(82,756)	(81,196)	(78,203
	(11,644)	(11,474)	(4,828)	(4,820)	(6,860
	13,833	17,139	27,841	13,040	11,337
-investments	41,745	(467)	(1,715)	670	7,820
-investment	21,947	-	-	-	-
nt of debt	(5,009)	(1,163)	(10)	4,750	3,997
e	-	-	-	103	4,578
operations	129,553	48,868	49,162	43,279	78,625
erations	10,037	8,648	1,620	10,460	5,770
	139,590	57,516	50,782	53,739	84,395
ncontrolling interest	(14,306)	(10,446)	(14,848)	(16,631)	(22,255
ntrolling interest	125,284	47,070	35,934	37,108	62,140
holders	(5,472)	(4,753)	(2,170)	(4,860)	(9,241
ng amount of preferred stock to redeem preferred stock	-	(1,949)	-	49,952	-
mon stockholders	$ 119,812	$ 40,368	$ 33,764	$ 82,200	$ 52,899
operations available to common	$ 3.15	$ 0.99	$ 1.09	$ 2.66	$ 1.88
mon stockholders	$ 3.42	$ 1.24	$ 1.14	$ 3.01	$ 2.10
tock outstanding.	35,032	32,542	29,667	27,270	25,205

operations available to common	$ 3.14	$ 0.99	$ 1.09	$ 2.56	$ 1.87
mon stockholders	$ 3.41	$ 1.24	$ 1.14	$ 2.91	$ 2.09
tock outstanding	35,125	32,629	29,734	29,747	25,347
hare	$ 4.40	$ 4.16	$ 4.13	$ 4.12	$ 4.08

	As of December 31,				
	2012	2011	2010	2009	2008
	($ in thousands)				
es (before accumulated depreciation)	$ 5,033,672	$ 4,313,064	$ 3,964,561	$ 3,412,930	$ 3,279,788
erties	3,952,155	3,393,038	3,189,008	2,663,466	2,639,762
nt	66,851	44,280	217,531	274,965	272,273
	4,847,223	4,036,964	3,732,887	3,254,637	3,164,823
	1,565,599	1,745,858	2,082,745	1,832,549	1,588,931
s	1,253,084	615,000	176,000	14,893	165,457
rred stock	4,349	4,349	4,349	4,349	145,912
erred stock	73,750	73,750	25,000	25,000	25,000
	1,764,804	1,437,527	1,149,946	1,053,096	852,227

	As of and for the years ended December 31,				
	2012	2011	2010	2009	2008
	$ 139,590	$ 57,516	$ 50,782	$ 53,739	$ 84,395
tization expense	100,244	91,694	82,756	81,196	78,203
	11,644	11,474	4,828	4,820	6,860
	-	(1,682)	-	-	-
	170,686	152,543	129,712	118,522	113,294
	$ 422,164	$ 311,545	$ 268,078	$ 258,277	$ 282,752
arges(3)	1.98	1.36	1.41	1.34	1.66
d fixed charges and preferred stock	1.89	1.29	1.30	1.20	1.38

(1) Includes amounts classified within discontinued operations.

measure and is defined as net income before interest expense, income taxes, depreciation and amortization. EBITDA, as defined by the
nized measurement under U.S. generally accepted accounting principles, or GAAP. This measurement should not be considered in
e for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP
ity or liquidity. The Company's definition may not be comparable to that of other companies.

fixed charges were computed by dividing earnings by fixed charges. For this purpose, earnings consist of income before discontinued
n on sale of real estate and interest and amortization expense. Fixed charges consist of interest and amortization expense plus interest
ned fixed charges consist of fixed charges plus preferred stock dividends.

AGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

e," "us," "our" or the "Company" refer to Essex Property Trust, Inc., a Maryland corporation, and any of our subsidiaries, including Esse
imited partnership of which we are the parent company and general partner, which may be referred to herein as the "Operating Partnersh
e sole general partner of Essex Portfolio, L.P., is a real estate investment trust ("REIT") engaged primarily in the ownership, operation,
velopment and redevelopment of predominantly apartment communities. Essex Property Trust, Inc. owns all of its interest in its real esta
ctly through Essex Portfolio, L.P. As of December 31, 2012, we had 1,144 employees.

nistered and self-managed REIT that acquires, develops, redevelops and manages apartment communities in selected residential areas
Coast of the United States. The Company owns all of its interests in its real estate investments, directly or indirectly, through the
Company is the sole general partner of the Operating Partnership and, as of December 31, 2012, had an approximately 94.5% general
ng Partnership.

e Company had ownership interests in 163 communities, comprising 33,468 apartment units, and the apartment communities are located
Coast regions:

geles, Orange, Riverside, San Diego, Santa Barbara, and Ventura counties)
Francisco Bay Area)
olitan area)

e Operating Partnership also had ownership interests in five commercial buildings (with approximately 315,900 square feet).

e Operating Partnership's development pipeline was comprised of two consolidated projects under development, seven unconsolidated
levelopment, two consolidated predevelopment projects, one unconsolidated joint venture predevelopment project and one consolidated
velopment or sale aggregating 2,994 units, with total incurred costs of $531.6 million, and estimated remaining project costs of
n for total estimated project costs of $995.5 million. By region, the Operating Partnership's operating results for 2012 and 2011 and
sing supply, job growth, and rental income are as follows:

As of December 31, 2012, this region represented 47% of the Operating Partnership's consolidated apartment units. During the year
evenues for "2012/2011 Same-Properties" (as defined below), or "Same-Property revenues," increased 4.2% in 2012 as compared to 20
hip expects new residential supply of 11,500 multifamily and 7,135 single family homes, which represents a total new multifamily supp
using stock, respectively. The Operating Partnership assumes an increase of 117,500 jobs or 1.7%, and an increase in rental income of

As of December 31, 2012, this region represented 31% of the Operating Partnership's consolidated apartment units. Same-Property
012 as compared to 2011. In 2013, the Operating Partnership expects new residential supply of 9,900 multifamily and 4,479 single fam
tal new multifamily supply of 1.1% and 0.6%, respectively, of total housing stock. The Operating Partnership assumes an increase of
ncrease in rental income of 6.5% to 8.0% in 2013.

December 31, 2012, this region represented 22% of the Operating Partnership's consolidated apartment units. Same-Property revenues
mpared to 2011. In 2013, the Operating Partnership expects new residential supply of 6,900 multifamily and 5,888 single family home
multifamily supply of 1.7% and 1.1%, respectively, of total housing stock. The Operating Partnership assumes an increase of 41,000 jo
ental income of 6.0% to 7.5% in 2013.

consolidated apartment communities are as follows:

	As of December 31, 2012			As of December 31, 2011		
	Apartment Units		%	Apartment Units		%
	13,656	47	%	13,205	48	
	8,987	31	%	8,106	30	
	6,598	22	%	6,108	22	
	29,241	100	%	27,419	100	

und II and Wesco I communities, and preferred equity interest co-investment communities are not included in the table presented above

December 31, 2012 to the Year Ended December 31, 2011

average financial occupancies for the Operating Partnership's stabilized apartment communities or "2012/2011 Same-Properties" (stabi
e Operating Partnership for the years ended December 31, 2012 and 2011) remained consistent at 96.3% for 2012 and 2011. Financial
percentage resulting from dividing actual rental revenue by total possible rental revenue. Actual rental revenue represents contractual
ases without considering delinquency and concessions. Total possible rental revenue represents the value of all apartment units, with
ractual rental rates pursuant to leases and vacant units valued at estimated market rents. We believe that financial occupancy is a
pancy because it considers the value of each vacant unit at its estimated market rate.

using a variety of factors such as effective rental rates at the property based on recently signed leases and asking rates for comparable
e recently signed effective rates at the property are used as the starting point in the determination of the market rates of vacant units. Th
ncreases or decreases these rates based on the supply and demand in the apartment community's market. The Operating Partnership wil
hese rents based on its position within the market and compare the rents against the asking rents by comparable properties in the
may not completely reflect short-term trends in physical occupancy and financial occupancy rates as disclosed by other REITs may no
ng Partnership's calculation of financial occupancy.

oes not take into account delinquency and concessions to calculate actual rent for occupied units and market rents for vacant units. The
pancy compares contractual rates for occupied units to estimated market rents for unoccupied units, thus the calculation compares the gr
xcluding delinquency and concessions. For apartment communities that are development properties in lease-up without stabilized
ting Partnership believes the physical occupancy rate is the appropriate performance metric. While an apartment community is in the
g Partnership's primary motivation is to stabilize the property which may entail the use of rent concessions and other incentives, and thu
based on contractual revenue is not considered the best metric to quantify occupancy.

he Operating Partnership's 2012/2011 Same-Property portfolio for financial occupancy for the years ended December 31, 2012 and 201

	Years ended December 31,			
	2012		2011	
	96.1	%	96.1	%
	96.7	%	96.7	%
	96.1	%	96.1	%

a breakdown of revenue amounts, including revenues attributable to the 2012/2011 Same-Property portfolio:

	Number of Properties	Years Ended December 31, 2012	2011	Dollar Change	Percentage Change
sands)					
	58	$ 227,768	$ 218,626	$ 9,142	4.2
	33	159,993	146,008	13,985	9.6
	28	85,373	78,785	6,588	8.4
rty revenues	119	473,134	443,419	29,715	6.7
ty Revenues (1)		58,802	22,294	36,508	163.8
		$ 531,936	$ 465,713	$ 66,223	14.2

nities acquired after January 1, 2011, one redevelopment community, five development communities, and three commercial buildings.

evenues increased by $29.7 million or 6.7% to $473.1 million for 2012 compared to $443.4 million in 2011. The increase was primarily
scheduled rents of $27.9 million as reflected in an increase of 6.4% in average rental rates from $1,388 per unit for 2011 to $1,478 per u
creased in all regions by 3.8%, 9.5%, and 8.2% in Southern California, Northern California, and Seattle Metro, respectively. Income fr
me increased by $1.3 million and $1.4 million, respectively in 2012 compared to 2011. Occupancy was consistent between years at

ty Revenues increased by $36.5 million or 164% to $58.8 million in 2012 compared to $22.3 million in 2011. The increase was primar
m five development communities (Via, Allegro, Bellerive, Muse, and Santee Village), thirteen communities acquired or consolidated si
00 Kiely, Delano/Bon Terra, Reed Square, Essex Skyline at MacArthur Place, Park Catalina, The Huntington, Montebello, Park West,
ke, and Bennett Lofts).

from affiliates increased $4.7 million or 69.5% to $11.5 million in 2012 compared to $6.8 million in 2011. The increase is primarily due
ement fees earned from Wesco I and II co-investments formed during 2011, and development fees earned from the joint ventures forme
Epic, Expo, Connolly Station, Elkhorn, Folsom and Fifth, The Huxley and The Dylan development projects.

excluding real estate taxes increased $9.9 million or 8.6% for 2012 compared to 2011, primarily due to the acquisition of thirteen
o of five development properties. 2012/2011 Same-Property operating expenses excluding real estate taxes, increased by $2.2 million o
011, due mainly to a $1.5 million increase in salaries, marketing, and administration costs and a $0.3 million increase in utilities due to
nd sewer.

4.9 million or 11.3% for 2012 compared to 2011, due primarily to the acquisition of thirteen communities and expensing property taxes
st for communities that were previously under development. 2012/2011 Same-Property real estate taxes increased by $0.9 million or 2.
1 due to an increase of 5.6% in property taxes for the Seattle Metro and a 2.0% in property taxes for the majority of the properties locat
op. 13 offset by temporary reductions in assessed property valuations for select communities located in California.

ed by $19.2 million or 12.7% for 2012 compared to 2011, due to the acquisition of thirteen communities and the lease-up of five
o, the increase is due to the capitalization of approximately $97.9 million in additions to rental properties in 2012, including $40.2 milli
.7 million spent on improvement to recent acquisitions, and $7.7 million spent on revenue generating capital expenditures, and the
ly $95.3 million in additions to rental properties for 2011, including $45.1 million spent on redevelopment, $16.4 million spent on
isitions, and $7.6 million spent on revenue generating capital expenditures.

xpense increased $2.6 million or 12.6% for 2012 compared to 2011 primarily due to an increase of acquisitions cost of $1.3 million
he increase in acquisitions in 2012 compared to 2011, annual compensation adjustments for merit, and the cost of hiring additional staf

er fees increased $1.9 million or 41.3% for 2012 compared to 2011 primarily due to an increase in administrative costs due to hiring of
the management of the Operating Partnership's co-investments including Wesco I and II and the development joint ventures formed in

tization increased $8.6 million or 9.3% in 2012, primarily due to the payoff of the $250 million secured line of credit in the fourth quart
e interest rate of 1.3%. The Operating Partnership replaced the secured line with an unsecured term loan at an average interest rate of
011, the Operating Partnership issued $150 million of private placement notes with an average interest rate of 4.5%, on August 15, 2012
ued $300 million of new unsecured bonds with an interest rate of 3.625%, and the Operating Partnership drew an additional $150 millio
urth quarter of 2012. Thus, interest expense increased due to an increase in average outstanding debt for the funding of 2012 acquisitio
e and a higher average interest rate for 2012 compared to 2011.

creased by $3.3 million for 2012 primarily due to $2.3 million of promote income earned from achieving certain performance hurdles
co-investment and the sale of marketable securities for a gain of $0.8 million in 2012, compared to a gain of $5.0 million from the sale o
illion gain from the sale of a land parcel, and a $1.7 million income tax benefit from a taxable REIT subsidiary that met the "more likel
rth quarter of 2011. This tax benefit relates to the write-off of an investment in a joint venture development project recognized during

vestments was income of $41.7 million in 2012 compared to a loss of $0.5 million in 2011. The increase was primarily due to the
rata share of the gain of $29.1 million from the sale of seven properties owned by Fund II, and income of $13.5 million in 2012 compare
ted to the Operating Partnership's preferred equity investments made in 2011. In the fourth quarter of 2011, the Operating Partnership
stment in Wesco II which earned $9.0 million for 2012 compared to $0.5 million in 2011.

o-investment of $21.9 million in 2012 was due to the Operating Partnership's acquisition of the joint venture partner's membership inte
ur Place which the Operating Partnership subsequently consolidated. Upon consolidation, a gain was recorded equal to the amount by
perating Partnership's previously noncontrolling interest exceeded its carrying value.

ebt was $5.0 million for 2012 was due to the write-off of deferred financing costs and prepayment penalties related to the early
elated to six communities. The loss for 2012 also included the Operating Partnership's pro-rata share of the write-off of deferred financ
es incurred for the prepayment of the secured debt for the Essex Skyline joint venture and seven Fund II communities sold in
on early retirement of debt was due to the write-off of deferred financing costs related to the termination of the Operating Partnership's
credit with Freddie Mac and mortgages paid-off before maturity in 2011.

erations for 2012 was $10.0 million and included a gain of $9.8 million from the sale of Tierra del Sol/Norte and Alpine Country, net o
r 2011, income from discontinued operations was $8.6 million and included a gain of $7.5 million from the sale of Woodlawn Colonial
l disposition costs, and the operating results of the two communities sold in 2011 and 2012.

ecember 31, 2011 to the Year Ended December 31, 2010

average financial occupancies for the Operating Partnership's stabilized apartment communities for "2011/2010 Same-Properties" (stab
e Operating Partnership for the years ended December 31, 2011 and 2010) decreased 50 basis points to 96.4% in 2011 from 96.9% in
wn of the Operating Partnership's stabilized 2011/2010 Same-Property portfolio for financial occupancy for the years ended December 3

	Years ended December 31,			
	2011		2010	
	96.3	%	96.8	%
	96.6	%	97.2	%
	96.4	%	96.9	%

a breakdown of revenue amounts, including the revenues attributable to 2011/2010 Same-Properties.

sands)	Number of Properties	Years Ended December 31, 2011	2010	Dollar Change	Percentage Change
	58	$ 204,748	$ 199,348	$ 5,400	2.7
	28	123,451	116,796	6,655	5.7
	23	61,827	59,101	2,726	4.6
ty revenues	109	390,026	375,245	14,781	3.9
ty Revenues (1)		75,687	30,483	45,204	148.3
		$ 465,713	$ 405,728	$ 59,985	14.8

nities acquired after January 1, 2010, two redevelopment communities, eight development communities, and three commercial building

evenues increased by $14.8 million or 3.9% to $390.0 million for 2011 compared to $375.2 million in 2010. The increase was primaril scheduled rents of $15.1 million as reflected in an increase of 4.1% in average rental rates from $1,318 per unit for 2010 to $1,372 per u creased in all regions by 2.7%, 6.2%, and 4.8% in Southern California, Northern California, and Seattle Metro, respectively. Other reased by $0.6 million and $1.6 million, respectively in 2011 compared to 2010. Occupancy decreased 50 basis points in 2011 to 96.4 which resulted in a decrease in revenue of $2.5 million due to the Operating Partnership's focus on increasing renewal and new lease re l to 2010 and 2009 when high occupancy was the primary objective due to market conditions.

ty Revenues revenue increased $45.2 million or 148% to $75.7 million in 2011 compared to $30.5 million in 2010. The increase was acquisition of twelve operating properties since January 1, 2010 (Santee Court, Courtyard off Main, Corbella at Juanita Bay, Anavia, 4 ndo, The Commons, Bella Villagio, Elevation, 1000 Kiely, The Bernard, and Delano). The increase in 2011/2010 Non-Same Property revenue earned from eight development communities (Via, Santee Village, Bellerive, Muse, Allegro, Axis 2300, Fourth & U and Joul ta Clara retail center.

rom affiliates increased $2.2 million or 49.0% to $6.8 million in 2011 compared to $4.6 million in 2010. The increase is primarily due ement fees earned from Wesco I and II co-investments formed during 2011, and development fees earned from the joint ventures forme st Dublin, The Huxley (formerly Fountain at La Brea), The Dylan (formerly Santa Monica at La Brea), and Expo (formerly Queen Ann

excluding real estate taxes increased $11.5 million or 11.0% for 2011 compared to 2010, primarily due to the acquisition of twelve enter, and the lease-up of eight development properties. 2011/2010 Same-Property operating expenses excluding real estate taxes 2.2% for 2011 compared to 2010, due primarily to an increase of $1.1 million in repairs and maintenance expenses including a $0.5 costs.

4.6 million or 11.7% for 2011 compared to 2010, due primarily to the acquisition of twelve communities and one retail center and ead of capitalizing the cost for communities that were previously under development. Same-Property real estate taxes decreased by $0. npared to the 2010 due to a reduction in assessed property valuations for select communities located in California and a decrease in properties in the Seattle Metro.

ed by $23.2 million or 18.1% for 2011 compared to 2010, due to the acquisition of twelve communities, the completion of eight nd the capitalization of approximately $95.3 million in additions to rental properties for 2011, including $45.1 million spent on n spent on improvements to recent acquisitions, $7.6 million on revenue generating capital, and the capitalization of approximately $51 properties for 2010, including the capitalization of approximately $15.7 million spent on redevelopment and revenue generating capital on capital.

xpense decreased $2.6 million or 11.0% for 2011 compared to 2010 primarily due to $1.6 million in non-recurring compensation costs
nt in 2010 and certain staff in 2011 reallocated to manage newly formed co-investments including Wesco I and II.

er fees increased $1.9 million or 70.3% compared to 2010 primarily due to an increase in administrative costs due to hiring of additiona
ement of the Operating Partnership's co-investments including Wesco I and II and the development joint ventures formed in 2011.

s of $2.3 million in 2010 relates to an expense recorded by the Operating Partnership due to the hedge ineffectiveness of certain
vere settled in 2010.

tization increased $8.9 million or 10.8% in 2011, primarily due to the increase in average outstanding debt, and a decrease in capitalized
ared to 2010.

sed by $6.6 million in 2011 compared to 2010 due primarily to the settlement of forward starting swaps in the third and fourth quarters o
v 10-year secured mortgage loans, and as a result, the settlement amounts are being amortized over the ten years.

creased by $10.7 million for 2011 primarily due to a decrease of $7.5 million in gains from the sales of marketable securities. The
arketable securities for a gain of $5.0 million during 2011 compared to $12.5 million in gains generated from the sale of marketable
ally, interest on notes receivables decreased by $3.4 million in 2011 compared to 2010. This primarily relates to the settlement of the
on the Operating Partnership's acquisition of the Santee Court property and a full year of interest in 2011 on a note purchased at a disco
010. Finally, interest and dividends on marketable securities decreased by $1.6 million in 2011 compared to 2010 due to lower average
decrease was offset by a $1.6 million increase in other income resulting from an income tax benefit from a taxable REIT subsidiary tha
" threshold in the fourth quarter of 2011. This tax benefit relates to the write-off of an investment in a joint venture development projec

vestments was a loss of $0.5 million in 2011 compared to a loss of $1.7 million in 2010 due primarily to the gain on the sale of a
and an increase in income of $3.3 million related to the Operating Partnership's preferred equity investments made in 2010 and 2011,
in losses attributable to Wesco I and Essex Skyline at MacArthur Place. Essex Skyline at MacArthur Place achieved stabilization in

ebt was $1.2 million for 2011 due to the write-off of deferred financing costs related to the termination of the Operating Partnership's $
with Freddie Mac and mortgages paid-off before maturity in 2011.

erations for 2011 was $8.6 million and includes a gain of $7.5 million on the sale of Woodlawn Colonial and Clarendon, net of internal
nd 2010 discontinued operations consisted of the operating results of the two properties sold in 2011 and the operating results of Tierra
ntry which were sold in 2012.

nt of preferred interests redeemed over the cash paid to redeem preferred interests for 2011 was $1.9 million due to the redemption of al
which resulted in excess of cash paid of $1.0 million over the carrying value of Series B preferred units and the redemption of Series F
lted in excess of cash paid of $0.9 million over the carrying value of Series F preferred interests due to deferred offering costs and

ces

tings, Moody's Investor Service, and Standard and Poor's credit agencies rate Essex Property Trust, Inc. and Essex Portfolio, L.P.
nd BBB/Stable, respectively.

perating Partnership had $18.6 million of unrestricted cash and cash equivalents and $92.7 million in marketable securities, of which
able for sale. The Operating Partnership believes that cash flows generated by its operations, existing cash, cash equivalents, and
s, availability under existing lines of credit, access to capital markets and the ability to generate cash from the disposition of real estate

perating Partnership's reasonably anticipated cash needs during 2013. The timing, source and amounts of cash flows provided by
in investing activities are sensitive to changes in interest rates and other fluctuations in the capital markets environment, which can affe
lans for acquisitions, dispositions, development and redevelopment activities.

as two lines of credit aggregating $525.0 million as of December 31, 2012. The Operating Partnership had a $500.0 million unsecured l
o $600.0 million in January 2013. As of December 31, 2012 there was a $141.0 million balance on this unsecured line. The underlying
llion facility is based on a tiered rate structure tied to Fitch and S&P ratings on the credit facility and the rate was LIBOR plus 1.075%
facility matures in December 2015 with two one-year extensions, exercisable by the Operating Partnership. The Operating Partnership
red line of credit agreement for $25.0 million. This facility matures in January 2014, with a one year extension option. As of Decembe
e outstanding on this unsecured line. The underlying interest rate on the $25.0 million line is based on a tiered rate structure tied to Fitc
t facility of LIBOR plus 1.075%.

e Operating Partnership had $465 million of unsecured bonds outstanding at an average interest rate of 4.5%. During the second quarte
ership issued through private placements, $100 million of bonds and $50 million of bonds at 4.27% and 4.30%, respectively, due in 202
f 2012, $50 million of bonds at 4.37% due in 2021.

e Operating Partnership had a $350 million unsecured term loan outstanding at an average interest rate of 2.7%. The term loan has a
OR plus 1.2%. During the fourth quarter of 2012, the Operating Partnership increased the size of the term loan from $200 million to $35
nership entered into interest rate swap contracts for a term of five years with a notional amount totaling $300 million, which effectively
$300 million of the term loan to a fixed rate.

012, the Operating Partnership issued $300 million of senior unsecured bonds due August 2022 with a coupon rate of 3.625% per annum
h and August 15th of each year, beginning February 15, 2013.

unsecured line of credit and unsecured debt agreements contain debt covenants related to limitations on indebtedness and liabilities and
els of consolidated earnings before depreciation, interest and amortization. The Operating Partnership was in compliance with the debt
, 2012 and 2011.

e Operating Partnership's mortgage notes payable totaled $1.6 billion which consisted of $1.4 billion in fixed rate debt with interest rate
nd maturity dates ranging from 2013 to 2021 and $201.9 million of tax-exempt variable rate demand notes with a weighted average
-exempt variable rate demand notes have maturity dates ranging from 2013 to 2039, and $187.8 million are subject to interest rate caps.

pany filed a new shelf registration statement with the SEC, allowing the Company to sell an undetermined number or amount of certain
d allowing the Operating Partnership to sell an undetermined number or amount of debt securities, all as defined in the prospectus.

, the Company issued 2,950,000 shares of 7.125% Series H Cumulative Redeemable Preferred Stock ("Series H") at a price of $25.00 p
.2 million, net of costs and original issuance discounts. The Series H has no maturity date and generally may not be called by the
016. The $71.2 million net proceeds from the sale of the Series H were contributed by the Company to the Operating Partnership for a
the Operating Partnership. The contribution was used to redeem all of the 7.875% Series B Cumulative Redeemable Preferred Units o
Series B") with a liquidation value of $80.0 million. The Company received a special distribution from the Operating Partnership and al
F Preferred Stock ("Series F") at liquidation value for $25.0 million.

ays quarterly distributions from cash available for distribution. Until it is distributed, cash available for distribution is invested by the
rily in investment grade securities held available for sale or is used by the Operating Partnership to reduce balances outstanding under it

as entered into interest rate swap contracts with an aggregate notional amount of $300 million that effectively fixed the interest rate on
lion unsecured term loan at 2.7%. These derivatives qualify for hedge accounting.

e Operating Partnership also had twelve interest rate cap contracts totaling a notional amount of $187.8 million that qualify for hedge
y limit the Operating Partnership's exposure to interest rate risk by providing a ceiling on the underlying variable interest rate for $187.8
of the Operating Partnership's tax exempt variable rate debt.

, the Operating Partnership terminated a swap transaction with respect to the $38.0 million of tax-exempt bonds for the 101 San Fernan
itibank because the bonds were repurchased by the Operating Partnership at par.

d 2011 the aggregate carrying value of the interest rate swap contracts was a liability of $6.6 million and $1.4 million, respectively. The
he interest rate cap contracts was zero on the balance sheet as of December 31, 2012, and was an asset of $0.2 million as of December 3

11, the Operating Partnership settled its remaining $20.0 million forward starting swap contract for $2.3 million which was applied to th
ned in February 2011, increasing the effective borrowing rate from 5.4% to 6.2%.

Partnership settled $355 million in forward-starting swap contracts for $81.3 million, which was applied to 10-year mortgage loans
ment of the forward-starting swaps increased the average effective interest rate on the 2010 mortgage loans from 4.5% to 6.8%. During
hip incurred $2.3 million in expense related to the ineffectiveness of certain of the settled forward-starting swap hedges, which is includ
ges in the accompanying consolidated statement of operations for the year ended December 31, 2010. No hedge ineffectiveness on cash
ring the years ended December 31, 2012 and 2011.

pany entered into equity distribution agreements with Cantor Fitzgerald & Co, Barclays Capital Inc., BMO Capital Markets Corp., BN
uidnet, Inc., Mitsubishi UFJ Securities (USA), Inc., and Citigroup Global Markets Inc., which superseded the equity distribution
arch 2012 with Cantor Fitzgerald & Co, KeyBanc Capital Markets Inc., Barclays Capital Inc., BMO Capital Markets Corp., Liquidnet,
es (USA), Inc., and Citigroup Global Markets Inc. Pursuant to its equity distribution program, in 2012, the Company issued 2,404,096
$357.7 million, net of fees and commissions, and in 2011, the Company issued 2,459,947 shares of common stock for $323.9 million, ne
d the Company contributed such net proceeds to the Operating Partnership. During the first quarter of 2013 through March 29, 2013, the
shares of common stock at an average price of $151.82 for $122.9 million, net of fees and commissions, and the Company contributed
rating Partnership. Under this program, the Company may from time to time sell shares of common stock into the existing trading mark
the Company will contribute such net proceeds to the Operating Partnership. The Operating Partnership anticipates using the net procee
p, or redevelop properties, which primarily will be apartment communities, to make other investments and for working capital or genera
ay include the repayment of indebtedness. As of April 1, 2013, the Company may sell up to 5,000,000 shares under the current equity

tal expenditures are improvements and upgrades that extend the useful life of the property. For the year ended December 31, 2012,
al expenditures totaled approximately $1,101 per unit. The Operating Partnership expects to incur approximately $1,150 per unit in
al expenditures for the year ending December 31, 2013. These expenditures do not include the improvements required in connection w
oans, expenditures for deferred maintenance on acquisition properties, and expenditures for property renovations and improvements wh
tional revenue. The Operating Partnership expects that cash from operations and/or its lines of credit will fund such
e can be no assurance that the actual expenditures incurred during 2013 and/or the funding thereof will not be significantly different tha
urrent expectations.

pment Pipeline

efines development activities as new communities that are in various stages of active development, or the community is in lease-up and
completed. As of December 31, 2012, the Operating Partnership had two consolidated development projects comprised of 311 units wi
llion of which $76.2 million remains to be expended, and seven unconsolidated joint venture active development projects comprised of
cost of $832.6 million, of which $387.7 million remains to be expended. See discussion in the section, "Risk Factors--Development ar
be delayed, not completed, and/or not achieve expected results" in this prospectus.

efines the predevelopment pipeline as proposed communities in negotiation or in the entitlement process with a high likelihood of
ent projects. As of December 31, 2012, the Operating Partnership had two consolidated joint venture developments that were classified
regating 249 units for a total estimated cost of $39.8 million, and one unconsolidated joint venture predevelopment project aggregating
d cost of $19.8 million. The Operating Partnership may also acquire land for future development purposes or sale. The Operating
5 million in costs related to a land parcel held for future development or sale as of December 31, 2012, which was sold in the first quarte

pects to fund the development and predevelopment pipeline by using a combination of some or all of the following sources: its working
its lines of credit, construction loans, net proceeds from public and private equity and debt issuances, and proceeds from the dispositio

efines redevelopment communities as existing properties owned or recently acquired, which have been targeted for additional investmen
with the expectation of increased financial returns through property improvement. During redevelopment, apartment units may not be
sult, may have less than stabilized operations. As of December 31, 2012, the Operating Partnership had ownership interests in five maj
aggregating 1,056 apartment units with estimated redevelopment costs of $64.9 million, of which approximately $20.7 million remains

l II, L.P. ("Fund II") , an investment fund formed by the Operating Partnership, has eight institutional investors, and the Operating
artner equity contributions of $265.9 million were fully contributed as of 2008. See "Business and Properties—Business--Essex Apart
erating Partnership contributed $75.0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fun
roximately 55% upon the initial acquisition of the underlying real estate. Fund II invested in apartment communities in the Operating
Coast markets and, as of December 31, 2012, owned seven apartment communities. The Operating Partnership records revenue for its a
gement, development and redevelopment services when earned, and promote income when realized if Fund II exceeds certain financial
mmunities were sold during 2012 from Fund II, and it is anticipated that the remaining seven communities will be sold during 2013.

a 50/50 programmatic joint venture with an institutional partner for a total equity commitment of $300.0 million. Each partner's equit
n. Wesco I will utilize debt as leverage equal to approximately 50% of the underlying real estate. The Operating Partnership has
Wesco I, and as of December 31, 2012, Wesco I owned nine apartment communities with 2,713 units with an aggregate carrying value

Partnership entered into a 50/50 programmatic joint venture, Wesco III LLC ("Wesco III"), with an institutional partner for a total equity
of $120.0 million. Each partner's commitment is $60.0 million. Wesco III will utilize debt as leverage equal to approximately 50% of
Operating Partnership has contributed $10.0 million to Wesco III, and provided a $26.0 million short term bridge loan to Wesco III at a r
December 31, 2012, Wesco III owned one apartment community with 264 units for a purchase price of $45.6 million. Permanent secure
aced on the property in the first quarter of 2013.

Commercial Commitments

zes the maturation or due dates of the Operating Partnership’s contractual obligations and other commitments at December 31, 2012, an
uld have on the Operating Partnership’s liquidity and cash flow in future periods ($ in thousands):

	2013	2014 and 2015	2016 and 2017	Thereafter	Total
	$ 57,621	$ 116,920	$ 197,957	$ 1,193,101	$ 1,565,599
	-	-	540,000	572,084	1,112,084
	-	141,000	-	-	141,000
	119,547	226,264	180,971	225,038	751,820
including	198,400	87,700	-	-	286,100
s	13,820	6,908	-	-	20,728
	$ 389,388	$ 578,792	$ 918,928	$ 1,990,223	$ 3,877,331

Interest on indebtedness for variable debt was calculated using interest rates as of December 31, 2012.

g standards for consolidation of variable interest entities, the Operating Partnership consolidates 19 DownREIT limited partnerships
ties). The Operating Partnership consolidates these entities because it is deemed the primary beneficiary. The consolidated total assets
VIEs, net of intercompany eliminations, were approximately $201.1 million and $178.6 million, respectively, as of December 31, 2012
5 million, respectively, as of December 31, 2011. Interest holders in VIEs consolidated by the Operating Partnership are allocated net
ments made to those interest holders for services rendered or distributions from cash flow. The remaining results of operations are
erating Partnership. As of December 31, 2012, the Operating Partnership did not have any VIE’s of which it was not deemed to be the

and Estimates

ted financial statements, in accordance with U.S. generally accepted accounting principles, requires the Operating Partnership to make
affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The
s critical accounting policies as those accounting policies that require the Operating Partnership's management to exercise their most
plex judgments. The Operating Partnership’s critical accounting policies relate principally to the following key areas: (i) consolidation
standards of various entities; (ii) assessing the carrying values of the Operating Partnership's real estate and investments in and advance
and (iii) internal cost capitalization. The Operating Partnership bases its estimates on historical experience, current market conditions, a
that are believed to be reasonable under the circumstances. Actual results may differ from those estimates made by management.

sesses each entity in which it has an investment or contractual relationship to determine if it may be deemed to be a VIE. If such an ent
Partnership performs an analysis to determine who is the primary beneficiary. If the Operating Partnership is the primary beneficiary, th
he analysis required to identify VIEs and primary beneficiaries is complex and judgmental, and the analysis must be applied to various
uctures.

sesses the carrying value of its real estate investments by monitoring investment market conditions and performance compared to budge
oint ventures, and by monitoring estimated costs for properties under development. Local market knowledge and data is used to assess
and the market value of acquisition opportunities. Whenever events or changes in circumstances indicate that the carrying amount of a
may not be fully recoverable, the carrying amount is evaluated. If the sum of the property’s expected future cash flows (undiscounted a
ss than the carrying amount of the property, then the Operating Partnership will recognize an impairment loss equal to the excess of the
value of the property. Adverse changes in market conditions or poor operating results of real estate investments could result in

he Operating Partnership determines that a property is held for sale, it discontinues the periodic depreciation of that property. The criter erty is held for sale requires judgment and has potential financial statement impact as depreciation would cease and an impairment loss on of held for sale status. Assets held for sale are reported at the lower of the carrying amount or estimated fair value less costs to ents in and advances to joint ventures and affiliates, the Operating Partnership looks to the underlying properties to assess performance ying amounts for those investments in a manner similar to direct investments in real estate properties.

rship evaluates whether its co-investments have other than temporary impairment and, if so, records a write down.

pitalizes all direct and certain indirect costs, including interest and real estate taxes, incurred during development and redevelopment
ed 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
accumulated development expenditures during the reporting period. Included in capitalized costs are management's accounting estimate
personnel costs and indirect project costs associated with the Operating Partnership's development and redevelopment activities. Indire
y of personnel costs associated with construction administration and development, including accounting, legal fees, and various office
jects under development.

ses its accounting estimates on historical experience and on various other assumptions that are believed to be reasonable under the
s may vary from those estimates and those estimates could be different under different assumptions or conditions.

O")

at is commonly used in the REIT industry. The Company presents funds from operations as a supplemental operating performance
the Company, nor should it be considered to be, as an alternative to net earnings computed under GAAP as an indicator of the Compan
an alternative to cash from operating activities computed under GAAP as an indicator of the Company's ability to fund its cash needs.

t a comprehensive system of financial reporting and does not present, nor does it intend to present, a complete picture of the Company's
ting performance. The Company believes that net earnings computed under GAAP remain the primary measure of performance and tha
n it is used in conjunction with net earnings. The Company considers FFO and FFO excluding non-recurring items (referred to as "Cor
performance measurements of an equity REIT because, together with net income and cash flows, FFO provides investors with an additi
erformance and ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures and ability to pay
pany believes that its consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of its
erating performance.

pany follows the definition for this measure published by the National Association of Real Estate Investment Trusts ("NAREIT"), which
Company believes that, under the NAREIT FFO definition, the two most significant adjustments made to net income are (i) the exclusi
n and (ii) the exclusion of gains and losses from the sale of previously depreciated properties. The Company agrees that these two
ful to investors for the following reasons:

for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes
AREIT stated in its White Paper on Funds from Operations "since real estate asset values have historically risen or fallen with market
y investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insuffici
ently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation
AP do not reflect the underlying economic realities.

legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were i
ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains from the sales of previously
l estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT
nparing those operating results between periods.

y applied the NAREIT definition of FFO to all periods presented. However, other REITs in calculating FFO may vary from the NAREI
nd thus their disclosure of FFO may not be comparable to the Company's calculation.

n the Company's calculation of FFO and Core FFO for 2012 ($ in thousands).

	For the year ended	For the quarter ended			
	12/31/12	12/31/12	9/30/12	6/30/12	3/31/12
mon stockholders	$ 119,812	$ 43,793	$ 16,219	$ 37,078	$ 22,722
n	170,686	45,017	43,041	41,801	40,827
et of internal disposition costs	(60,842)	(29,112)	-	(21,947)	(9,783
unconsolidated co-investments and d dividend - Series G	14,467	3,365	3,352	3,366	4,384
ed to Operating Partnership units	7,950	2,781	1,077	2,502	1,590
hird party of co-investments	(1,223)	(319)	(312)	(303)	(289
	$ 250,850	$ 65,525	$ 63,377	$ 62,497	$ 59,451
are - diluted	$ 6.71	$ 1.72	$ 1.67	$ 1.69	$ 1.63
ebt	5,009	2,348	1,211	1,450	-
	2,255	1,480	277	312	186
ecurities	(819)	(298)	-	(521)	-
me	(2,299)	-	-	(2,299)	-
ding non-core items	$ 254,996	$ 69,055	$ 64,865	$ 61,439	$ 59,637
er share - diluted	$ 6.82	$ 1.81	$ 1.71	$ 1.66	$ 1.64
shares outstanding, diluted(1)	37,377,986	38,182,569	37,969,407	36,947,477	36,396,641

n the Company's calculation of FFO and Core FFO for 2011 ($ in thousands).

	For the year ended	For the quarter ended			
	12/31/11	12/31/11	9/30/11	6/30/11	3/31/11
mon stockholders	$ 40,368	$ 13,937	$ 7,687	$ 10,325	$ 8,419
	-				
n	152,544	39,863	38,137	37,510	37,034
et of internal disposition costs	(7,543)	(3,159)	880	(5,264)	-
unconsolidated co-investments and d dividend - Series G	12,642	4,145	3,502	1,957	3,038
ed to Operating Partnership units	3,228	1,027	583	987	631
hird party of co-investments	(1,066)	(277)	(266)	(260)	(263
	$ 200,173	$ 55,536	$ 50,523	$ 45,255	$ 48,859
are - diluted	$ 5.74	$ 1.55	$ 1.43	$ 1.32	$ 1.45
ebt	1,163	343	567	253	-
	1,231	181	210	510	330
securities	(4,956)	(414)	-	-	(4,542
	(1,682)	(1,682)	-	-	-
t	(919)	-	(919)	-	-
	(180)	-	(180)	-	-
n preferred stock and units over the	1,949	-	-	1,949	-
ding non-core items	$ 196,779	$ 53,964	$ 50,201	$ 47,967	$ 44,647
er share - diluted	$ 5.64	$ 1.51	$ 1.42	$ 1.40	$ 1.32
shares outstanding, diluted(1)	34,860,521	35,818,631	35,437,693	34,365,418	33,787,332

Assumes conversion of all dilutive outstanding operating partnership interests in the Operating Partnership.

n the Operating Partnership's cash flows for 2012 and 2011 ($ in thousands).

	For the year ended	For the quarter ended			
	12/31/12	12/31/2012	9/30/2012	6/30/2012	3/31/2012
in):					
	$ 267,499	$ 48,164	$ 89,943	$ 57,232	$ 72,160
	(812,138)	(294,072)	(201,888)	(272,127)	(44,051
	550,356	262,571	109,756	205,283	(27,254

	For the year ended	For the quarter ended			
	12/31/11	12/31/2011	9/30/2011	6/30/2011	3/31/2011
in):					
	$ 216,571	$ 45,877	$ 66,343	$ 47,044	$ 57,307
	(425,783)	(167,271)	(108,393)	(65,933)	(84,186

	208,348	125,263	42,261	(69,985)	110,809

Disclosures About Market Risks

ties

objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other
sh this objective, the Operating Partnership uses interest rate swaps as part of its cash flow hedging strategy. As of December 31, 2012
s entered into ten interest rate swap contracts to mitigate the risk of changes in the interest-related cash outflows on $300.0 million of th
t. As of December 31, 2012, the Operating Partnership also had $201.9 million of variable rate indebtedness, of which $187.8 million i
otection. All of the Operating Partnership's derivative instruments are designated as cash flow hedges, and the Operating Partnership d
es as of December 31, 2012. The following table summarizes the notional amount, carrying value, and estimated fair value of the
vative instruments used to hedge interest rates as of December 31, 2012. The notional amount represents the aggregate amount of a
rently hedged at one time, but does not represent exposure to credit, interest rates or market risks. The table also includes a sensitivity
mpact on the Operating Partnership's derivative instruments from an increase or decrease in 10-year Treasury bill interest rates by 50 ba
012.

	Notional Amount	Maturity Date Range	Carrying and Estimate Fair Value	Estimated Carrying Value + 50 Basis Points	Estimated Carrying Value - 50 Basis Points
	$ 300,000	2016-2017	$ (6,606)	$ (474)	$ (11,619
	187,788	2013-2018	-	102	-
	$ 487,788	2013-2018	$ (6,606)	$ (372)	$ (11,619

ities

exposed to interest rate changes primarily as a result of its line of credit and long-term debt used to maintain liquidity and fund capital
of the Operating Partnership's real estate investment portfolio and operations. The Operating Partnership's interest rate risk managemen
ct of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives the Operating
y at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks in order to mitiga
ed financial instrument. The Operating Partnership does not enter into derivative or interest rate transactions for speculative purposes.

interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts and weighted average intere
urity to evaluate the expected cash flows. Management has estimated that the fair value of the Operating Partnership's $2.13 billion an
ot at December 31, 2012 and 2011 respectively, to be $2.24 billion and $1.88 billion. Management has estimated the fair value of the
.9 million and $593.7 million of variable rate debt at December 31, 2012 and 2011, respectively, is $671.7 million and $572.3 million
g mortgage notes payable and variable rate demand notes compared to those available in the marketplace ($ in thousands).

	For the Years Ended December 31, 2014	2015	2016	2017	Thereafter	Total	Fair value
	$ 47,994	$ 68,926	$ 162,656	$ 225,301	$ 1,582,737	$ 2,125,815	$ 2,237,46
%	5.2 %	5.2 %	4.5 %	5.5 %	5.4 %		
)	$ -	$ 141,000	$ 200,000	$ 150,000	$ 182,448 (1)	$ 692,868	$ 671,651
%	-	2.3 %	2.6 %	2.7 %	1.9 %		

(1) $187.8 million subject to interest rate caps.

hose exposures that exist as of December 31, 2012; it does not consider those exposures or positions that could arise after that date. As
hip's ultimate realized gain or loss, with respect to interest rate fluctuations and hedging strategies would depend on the exposures that

ts with Accountants on Accounting and Financial Disclosure

BUSINESS AND PROPERTIES

marily in the ownership, operation, management, acquisition, development and redevelopment of predominantly apartment
er 31, 2012, the Company owned or held an interest in 163 communities, aggregating 33,468 units, located along the West Coast, as we
(totaling approximately 315,900 square feet), and nine active development projects with 2,495 units in various stages of development
.

a Maryland corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). The Company own
investments directly or indirectly through Essex Portfolio, L.P. a California limited partnership (the "Operating Partnership"). Essex
e general partner of the Operating Partnership and as of December 31, 2012 owned a 94.5% general partnership interest.

s elected to be treated as a REIT for federal income tax purposes, commencing with the year ended December 31, 1994 as the Company
ffering on June 13, 1994. In order to maintain compliance with REIT tax rules, the Company utilizes taxable REIT subsidiaries for vari
ment activities. All taxable REIT subsidiaries are consolidated by the Company.

ress is http://www.essexpropertytrust.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current repo
nents to those reports, and the Proxy Statement for its Annual Meeting of Stockholders are available, free of charge, on its website as so
any files the reports with the Securities and Exchange Commission ("SEC").

ny acquired Fox Plaza, a 444 unit property located in San Francisco, California for $135.0 million. The 29 story high rise tower was bu
partments are located on floors 14 through 29. The purchase did not include the 12 floors of commercial office space but did include an
omprised of 37,800 square feet of space leased to retail and office tenants and a two story underground parking garage comprised of 40

y sold the land parcel held for future development located in Palo Alto, California for $9.1 million, resulting in a gain of $1.5 million.

y sold $20.3 million of a common stock investment for a gain of $1.8 million.

13, through March 29, 2013, the Company sold 817,445 shares of common stock for $122.9 million, net of fees and commissions at an

Investments – The Company believes that successful real estate investment decisions and portfolio growth begin with extensive regior
market knowledge. The Company continually assesses markets where the Company operates, as well as markets where the Company
pportunities by evaluating the following:

Focus on markets in major metropolitan areas that have regional population in excess of one million;

driven by: (i) low availability of developable land sites where competing housing could be economically built; (ii) political growth
land, urban growth boundaries, and potential lengthy and expensive development permit processes; and (iii) natural limitations to
ntains or waterways;

Rental demand is enhanced by affordability of rents relative to costs of for-sale housing; and

based on proximity to jobs, high median incomes, the quality of life and related commuting factors, as well as potential job growth.

te markets are cyclical, the Company regularly evaluates the results of its regional economic, and its local market research, and adjusts t
lio accordingly. The Company seeks to increase its Portfolio allocation in markets projected to have the strongest local economies and
markets projected to have declining economic conditions. Likewise, the Company also seeks to increase its portfolio allocation in mark
valuations and to decrease such allocations in markets that have inflated valuations and low relative yields.

ompany manages its communities by focusing on activities that generate above-average rental growth, tenant retention/satisfaction and
The Company intends to achieve this by utilizing the strategies set forth below:

Oversee delivery of and quality of the housing provided to our residents and are responsible for the properties financial performance.

t Management is responsible for the planning, budgeting and completion of major capital improvement projects at the Company's

ntrol – Comprehensive business plans are implemented in conjunction with every investment decision. These plans include benchmarks
ce, based on collaborative discussions between on-site managers and senior management.

opment – The Company focuses on acquiring and developing apartment communities in supply constrained markets, and redeveloping i
nprove the financial and physical aspects of the Company's communities.

t component of the Company's business plan, and during 2012, the Company acquired ownership interests in fifteen communities totali
ng is a summary of its 2012 acquisitions:

on	Units	Essex Ownership Percentage		Ownership	Date		Purchase Price		Assumed Debt Principal	Assumed Debt Stated Rate		Assumed Debt Effectiv Rate
WA	60	100	%	EPLP	Q1 2012	$	16,000	$	-	-		-
, CA	100	100	%	EPLP	Q1 2012		23,000		-	-		-
es, CA	90	100	%	EPLP	Q2 2012		23,650		-	-		-
CA	349	100	%	EPLP	Q2 2012		85,000		-	-		-
n	276	100	%	EPLP	Q2 2012		48,250		30,300	5.7	%	3.3
A	92	100	%	EPLP	Q3 2012		34,000		14,600	5.7	%	3.0
WA	248	100	%	EPLP	Q3 2012		52,000		26,515	5.6	%	3.1
sco,	126	100	%	EPLP	Q3 2012		31,600		-	-		-
a, CA	156	50	%	Wesco I	Q3 2012		38,250		17,500	5.2	%	3.1

WA	90	100	%	EPLP	Q4 2012		15,850		-		-		-
sco,	113	100	%	EPLP	Q4 2012		73,730		-		-		-
CA	264	50	%	Wesco III	Q4 2012		45,600		-		-		-
iejo,	230	50	%	Wesco I	Q4 2012		(3	)	33,266		5.3	%	2.6
es, CA	314	50	%	Wesco I	Q4 2012		(3	)	46,939		4.0	%	2.5
CA	508	100	%	EPLP	Q4 2012		148,000		-		-		-
	3,016					$	801,930	$	169,120				

any purchased the joint venture partner's remaining membership interest in the co-investment Essex Skyline at MacArthur Place for a
llion. The property is now consolidated.

(2)Approximately 75% of the property was acquired in December and the remainder in January 2013 for $22.2 million.

ccordance with terms of the purchase agreements, purchase price of the properties are not being disclosed by the Company.

own quality real estate in supply-constrained markets, the Company continually evaluates all the communities and sells those which n
ria. The Company may use the capital generated from the dispositions to invest in higher-return communities or other real estate
The Company believes that the sale of these communities will not have a material impact on its future results of operations or cash flow
affect its ongoing operations. Generally, the Company seeks to have any impact of earnings dilution resulting from these dispositions
of its acquisitions, development and redevelopment activities.

old two apartment communities, for a total of $28.3 million resulting in a gain of $10.9 million. Also, Essex Apartment Value Fund II
total of $413.0 million. The total gain on the transaction was $106 million, of which the Company’s pro-rata share was $29.1 million.

pment projects as new communities that are in various stages of active development, or the community is in lease-up and phases of the
s of December 31, 2012, the Company had two consolidated development projects and seven joint venture development projects
an estimated cost of $928.4 million, of which $463.9 million remains to be expended.

edevelopment projects as proposed communities in negotiation or in the entitlement process with a high likelihood of becoming entitled
December 31, 2012, the Company had two consolidated predevelopment projects and one unconsolidated joint venture predevelopmen
. The Company may also acquire land for future development purposes or sale.

a information regarding the Company's development pipeline:

Location	Essex Ownership %		Units		Incurred Project Cost		Estimated Remaining Cost		Estimated Project Cost(1)	Projecte Stabilizati
					As of 12/31/12 ($ in millions)					
Emeryville, CA	100	%	190	$	18.1	$	40.1	$	58.2	Feb-15
Valley Village, CA	(2	)	121		1.5		36.1		37.6	Jun-14
			311		19.6		76.2		95.8	
Seattle, WA	50	%	275		64.5		5.5		70.0	Apr-13
San Jose, CA	55	%	569		128.2		63.4		191.6	Dec-14
Dublin, CA	55	%	309		51.6		42.9		94.5	May-14
West Hollywood, CA	50	%	187		46.2		28.8		75.0	Jul-14
a West Hollywood, CA	50	%	184		41.3		34.1		75.4	Oct-14
San Francisco, CA	55	%	463		88.5		161.5		250.0	Mar-15
San Mateo, CA	55	%	197		24.6		51.5		76.1	Dec-14
			2,184		444.9		387.7		832.6	
Moorpark, CA	100	%	200		9.7		-		9.7	
San Jose, CA	55	% (3)	200		19.8		-		19.8	
Walnut Creek, CA	50	%	49		28.5		-		28.5	
			-		1.6		-		1.6	
			449		59.6		-		59.6	
Palo Alto, CA	(4	)	50		7.5		-		7.5	
			2,994	$	531.6	$	463.9	$	995.5	

) Includes incurred costs and estimated costs to complete these development projects.

1.0 million and has incurred $0.5 million of additional internal costs as part of an agreement to purchase the property upon receipt of ccupancy for total estimated cost of $37.6 million, which is expected in the first quarter of 2014.

The Company accounts for this joint venture predevelopment project on the equity method.

This property was sold in January 2013 for $9.1 million, representing a gain on sale of $1.5 million.

lopment pipeline as existing properties owned or recently acquired, which have been targeted for additional investment by the Compan
ased financial returns through property improvement. During redevelopment, apartment units may not be available for rent and, as a
bilized operations. As of December 31, 2012, the Company had ownership interests in five redevelopment communities aggregating
stimated redevelopment costs of $64.9 million, of which approximately $20.7 million remains to be expended.

aid off $237.7 million in secured debt including secured mortgage debt totaling $202.6 million at an average interest rate of 5.5% and
bonds. Also, the Essex Skyline secured loan was repaid for $80.0 million.

ssued $200 million of unsecured bonds through private placement offerings at an average rate of 4.3%.

y issued $300.0 million of senior unsecured bonds due August 2022 with a coupon rate of 3.625% per annum.

ncreased the capacity of the unsecured line of credit facility from $425.0 million to $500.0 million, and the facility was increased to $60
s facility matures in December 2015 with two one-year extension options. In November, Fitch Ratings upgraded the Company's credit
outlook from BBB with a positive outlook. As a result, the pricing on the Company's unsecured credit facility was reduced from LIBC
107.5 basis points, and the pricing for the Company's $350.0 million term loan was reduced from LIBOR + 130 basis points to LIBOR

ncreased the size of the unsecured term loan from $200 million to $350 million. The Company entered into interest rate swap contracts
tional amount totaling $300 million, which effectively converted the interest rate on $300 million of the term loan to a fixed rate. As o
pany had $350 million outstanding on the unsecured term loan outstanding at an average interest rate of 2.7%.

ssued 2,404,096 shares of common stock at an average share price of $150.26 for $357.7 million, net of fees and commissions. During
March 29, 2013, the Company has issued 817,445 shares of common stock at an average price of $151.82 for $122.9 million, net of fee
pany used the net proceeds from the stock offerings to pay down debt, fund redevelopment and development pipelines, fund acquisition
poses.

l II, L.P.

l II, L.P. (“Fund II”) is an investment fund formed by the Company to add value through rental growth and asset appreciation, utilizing
evelopment, and property and asset management capabilities.

l investors, and the Company, with combined partner equity contributions of $265.9 million. The Company contributed $75.0 million t
8.2% interest as general partner and limited partner, and the Company uses the equity method of accounting for its investment in Fund
equal to approximately 55% upon the initial acquisition of the underlying real estate. Fund II invested in fourteen apartment communit
est Coast markets and sold seven of those communities in 2012. As of December 31, 2012, Fund II owned seven apartment communit
any records revenue for its asset management, property management, development, and redevelopment services when earned, and prom
d II exceeds certain financial return benchmarks.

d into a 50/50 programmatic joint venture, Wesco I LLC (“Wesco I”), with an institutional partner for a total equity commitment of $30
y commitment was $150.0 million, and Wesco I utilized debt as leverage equal to approximately 50% of the underlying real estate. Th
50.0 million to Wesco I, and as of December 31, 2012, Wesco I owned nine apartment communities with 2,713 units with an aggregate
ion. Investments must meet certain criteria to qualify for inclusion in the joint venture and both partners must approve any new
positions. The Company receives asset and property management fees, and may earn a promoted interest.

ntered into a 50/50 programmatic joint venture, Wesco III LLC (“Wesco III”), with an institutional partner for a total equity commitme
llion. Wesco III will utilize debt as leverage equal to approximately 50% of the underlying real estate. The Company has contributed
nd provided a $26.0 million short term bridge loan to Wesco III at a rate of LIBOR + 2.5%. As of December 31, 2012, Wesco III owne
th 264 units for a purchase price of $45.6 million. Permanent secured financing is expected to be placed on the property in the first
must meet certain criteria to qualify for inclusion in the joint venture and both partners must approve any new acquisitions and materia
e has an investment period of up to two years. The Company receives asset and property management fees, and may earn a promoted

ed in Palo Alto, California, and has regional offices in Woodland Hills, California; Irvine, California; San Diego, California and Bellev
r 31, 2012, the Company had 1,144 employees.

ehensive liability, fire, extended coverage and rental loss insurance for each of the communities. Under comprehensive liability claims,
o cover claims in excess of $100,000 per incident. Under property casualty claims, the Company reinsures the primary carrier for losse
per incident. There are, however, certain types of extraordinary losses, such as, losses from terrorism and earthquakes, for which the
rance. Substantially all of the communities are located in areas that are subject to earthquakes.

a proactive approach to its potential earthquake losses. The Company utilizes third-party seismic consultants for its acquisitions and m
those acquisitions that are determined to have a higher level of potential loss from an earthquake. The Company utilizes third-party los
ts exposure. The majority of the communities are lower density garden-style apartments which may be less susceptible to material
mpany will continue to monitor third-party earthquake insurance pricing and conditions and may consider obtaining third-party coverag

carry insurance for potential losses associated with its communities, employees, residents, and compliance with applicable laws, it may
ured risks, deductibles, co-payments or losses in excess of applicable insurance coverage and those losses may be material.

alternatives that compete with the Company's communities in attracting residents. These include other apartment communities, and
mmunities also compete for residents with new and existing condominiums. If the demand for the Company's communities is reduced
r acquire competing housing, rental rates and occupancy may drop which may have a material adverse effect on the Company's financia
ations.

tion from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of apartment
tors are larger and have greater financial resources than the Company. This competition may result in increased costs of apartment
cquires and or develops.

ash flows generated by its operations, existing cash and marketable securities balances, availability under existing lines of credit, access
y to generate cash from the disposition of real estate are sufficient to meet all of its reasonably anticipated cash needs during 2013. The
of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates and other
rkets environment, which can affect its plans for acquisitions, dispositions, development and redevelopment activities.

ns

caption, "Risk Factors - The Company's Portfolio may have unknown environmental liabilities", in this prospectus, for information
ct of environmental regulations on its operations.

n increasing number of lawsuits against owners and managers of apartment communities alleging personal injury and property damage
old in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. The Company has
atters and has settled some, but not all, of such matters. Insurance carriers have reacted to mold related liability awards by excluding
ndard policies and pricing mold endorsements at prohibitively high rates. The Company has, however, purchased pollution liability
me coverage for mold. The Company has adopted policies for promptly addressing and resolving reports of mold when it is detected, a
l might have on residents of the property. The Company believes its mold policies and proactive response to address any known existen
hese cases. There can be no assurances that the Company has identified and responded to all mold occurrences, but the Company
n reports of mold. Liabilities resulting from such mold related matters are not expected to have a material adverse effect on the Compan

f operations or cash flows. As of December 31, 2012, potential liabilities for mold and other environmental liabilities are not quantifiab
oss cannot be made.

arious other lawsuits in the normal course of its business operations. Such lawsuits are not expected to have a material adverse effect or
dition, results of operations or cash flows.

of December 31, 2012 (including communities owned by unconsolidated joint ventures, but excluding communities underlying preferre
prised of 163 apartment communities (comprising 33,468 apartment units), of which 15,444 units are located in Southern California,
e San Francisco Bay Area, and 7,835 units are located in the Seattle metropolitan area. The Company's apartment communities accoun
revenues for the year ended December 31, 2012.

ncial occupancies for the Company's stabilized communities or "2012/2011 Same-Properties" (stabilized properties consolidated by the
December 31, 2012 and 2011) was unchanged at 96.3% for the years ended December 31, 2012, and 2011. Financial occupancy is
ulting from dividing actual rental revenue by total possible rental revenue. When calculating actual rents for occupied units and market
uencies and concessions are not taken into account. Total possible rental revenue represents the value of all apartment units, with occup
ntal rates pursuant to leases and vacant units valued at estimated market rents. The Company believes that financial occupancy is a
pancy because it considers the value of each vacant unit at its estimated market rate. Financial occupancy may not completely reflect
occupancy and financial occupancy rates as disclosed by other REITs may not be comparable to the Company's calculation of financial
determined using a variety of factors such as effective rental rates at the property based on recently signed leases and asking rates for
market. The recently signed effective rates at the property are used as the starting point in the determination of the market rates of vaca
creases or decreases these rates based on the supply and demand in the apartment community's market. The Company will check the
based on its position within the market and compare the rents against the asking rents by comparable properties in the market. For
pment properties in lease-up without stabilized occupancy figures, the Company believes the physical occupancy rate is the appropriate
community is in the lease-up phase, the Company's primary motivation is to stabilize the property which may entail the use of rent
ves, and thus financial occupancy which is based on contractual revenue is not considered the best metric to quantify occupancy.

s are primarily suburban garden-style communities and town homes comprising multiple clusters of two and three-story buildings situat
nd. As of December 31, 2012, the Company's communities include 117 garden-style, 43 mid-rise, and 3 high-rise communities. The
e of approximately 206 units, with a mix of studio, one, two and some three-bedroom units. A wide variety of amenities are available at
including covered parking, fireplaces, swimming pools, clubhouses with fitness facilities, volleyball and playground areas and tennis

d supervises on-site service and maintenance personnel. The Company believes that the following primary factors enhance the Compa

- located near employment centers;
- attractive communities that are well maintained; and
- proactive customer service approach.

adquarters is located in two office buildings with approximately 31,900 square feet located at 925/935 East Meadow Drive, Palo Alto,
wns an office building with approximately 110,000 square feet located in Irvine, California, of which the Company occupies
feet at December 31, 2012. The Company owns Essex-Hollywood, a 35,000 square foot commercial building as a future development s
as a production studio.

urchased a retail site in Santa Clara for $20.6 million. The plans for this project are to entitle the site for 494 apartment units. The site
9,000 square foot retail space that is 100% leased.

e the Company’s Portfolio as of December 31, 2012. The first table describes the Company’s communities and the second table describe
ate assets.

	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy
	Alpine, CA	301	254,400	1971	2002	97%
	Anaheim, CA	250	312,343	2009	2010	95%
	Anaheim, CA	161	139,800	1984	2000	97%
	Bonita, CA	120	120,800	1983	2002	96%
	Camarillo, CA	564	459,000	1985	1996	96%
	Camarillo, CA	160	105,448	1990	2006	97%
	Chula Vista, CA	40	22,100	1965	2002	95%
	Clairemont, CA	133	43,600	1963	2002	97%
	Encino, CA	75	78,487	1989	2009	97%
	Fountain Valley, CA	160	169,700	1969	2001	97%
	Fullerton, CA	100	128,100	1961	2001	95%
	Fullerton, CA	264	224,130	1973	2012	96%
	Fullerton, CA	149	128,000	1992	1997	96%
	Garden Grove, CA	124	103,200	1974	2001	97%
	Goleta, CA	148	91,538	1962	2006	95%
p	Goleta, CA	91	88,370	1967	2006	84%
	Glendale, CA	115	126,782	2009	2010	95%
	Glendale, CA	83	71,500	1974	1999	97%
	Glendale, CA	132	141,500	1970	1999	97%
	Hemet, CA	276	207,200	1988	2002	92%
	Huntington Beach, CA	342	241,700	1984	1997	95%
	Huntington Beach, CA	276	202,256	1975	2012	97%
	Irvine, CA	115	170,714	2010(6)	2010	95%
	La Habra, CA	235	215,500	1999	1999	96%
	Lake Forest, CA	132	131,000	1985	1997	96%
	Mission Viejo, CA	230	228,099	2000	2012	97%
	Long Beach, CA	202	122,800	1987	2002	97%
	Long Beach, CA	296	197,700	1975(8)	1991	96%
	Los Angeles, CA	275	225,000	2008	2008	96%
	Los Angeles, CA	63	79,296	2011	2011	98%
	Los Angeles, CA	456	346,600	1968	1998	96%
	Los Angeles, CA	58	51,400	1989	1998	96%
	Los Angeles, CA	196	132,100	1979	1997	96%
	Los Angeles, CA	60	50,108	1991	2005	96%
	Los Angeles, CA	314	277,980	2006	2012	100%
	Los Angeles, CA	90	72,864	2002	2012	98%
	Los Angeles, CA	60	48,000	1988	1997	96%
	Los Angeles, CA	169	154,268	1990(10)	2006	98%
	Los Angeles, CA	165	132,040	2004	2010	97%

Los Angeles, CA	73	69,817	2011	2010	97%
Los Angeles, CA	58	46,600	1988	1997	96%
Marina Del Rey, CA	101	127,200	1971	2004	97%
Marina Del Rey, CA	188	176,800	2000	2000	96%
Mira Mesa, CA	355	262,600	1982	2002	97%
Newbury Park, CA	608	521,900	1973	1998	97%
Newport Beach, CA	74	107,100	1972	1999	95%
North Hollywood, CA	152	135,292	2011	2011	96%
Oceanside, CA	180	179,700	1976	2002	96%
Oceanside, CA	282	244,000	1984	2005	97%
Oxnard, CA	105	77,200	1987	2000	98%
Oxnard, CA	122	122,100	1974	1997	97%
Oxnard, CA	404	387,100	2001	2001	96%
Oxnard, CA	373	503,196	2001	2011	96%
Pasadena, CA	123	74,400	1972	1997	97%
Pasadena, CA	84	73,100	1972	1999	97%
Pasadena, CA	85	69,200	1972	1999	97%
Placentia, CA	256	217,600	1970	2001	97%

(continu

	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy
ed)						
	Playa Vista, CA	705	608,900	2002	2004	97%
	Rancho Palos Verdes, CA	255	290,200	1972(13)	1997	94%
	San Diego, CA	224	126,700	1974(14)	1997	94%
	San Diego, CA	300	229,400	1972	2002	96%
	San Diego, CA	106	51,800	1975	2002	97%
	Santa Ana, CA	140	154,800	1970	2001	98%
Place (15)	Santa Ana, CA	349	512,791	2008(6)	2010	95%
	Santa Ana, CA	164	135,700	1970	2001	96%
	Santa Barbara, CA	108	126,700	1965&73	2007	98%
	Simi Valley, CA	324	310,900	2004	2004	96%
	Simi Valley, CA	320	264,500	1986	1996	96%
	Spring Valley, CA	172	131,200	1983	2002	96%
	Studio City, CA	39	34,125	1979	2007	96%
	Valley Village, CA	97	127,812	2010(6)	2010	97%
	Ventura, CA	118	71,100	1971	1997	96%
	Ventura, CA	28	21,200	1973	2004	99%
	Ventura, CA	145	136,500	1987	2004	97%
	Walnut, CA	163	146,700	1964	2003	96%
	Woodland Hills, CA	438	414,892	2010	2011	93%
	Woodland Hills, CA	446	331,000	1970(18)	1997	97%
		15,444	13,717,248			96%
	Belmont, CA	71	72,951	1974	2006	98%
	Belmont, CA	195	107,200	1971	2004	96%
	Belmont, CA	69	65,974	1962	2006	96%
	Berkeley, CA	171	146,255	2010	2010	96%
	Campbell, CA	264	153,168	1973	2010	97%
	Cupertino, CA	116	135,200	1963(19)	1998	97%
	Foster City, CA	400	306,600	1971	2004	96%
	Fremont, CA	200	146,200	1971	1983	97%
	Fremont, CA	172	131,200	1978(20)	1996	95%
	Fremont, CA	160	111,160	1975	2011	96%
	Fremont, CA	160	105,280	1978	2011	97%
	Hayward, CA	572	462,400	1975(21)	1998	96%
	Newark, CA	96	74,624	1987	2006	97%
	Newark, CA	184	139,000	1987(22)	1987	97%
	Oakland, CA	243	205,026	2009	2009	99%
	Richmond, CA	432	407,600	2003	2003	98%
	San Francisco, CA	99	64,000	1973	2001	96%
	San Francisco, CA	126	90,060	1958	2012	82%
	San Francisco, CA	113	142,667	2004	2012	93%
	San Jose, CA	323	296,078	2001	2010	97%
	San Jose, CA	508	471,744	1989	2012	95%
	San Jose, CA	231	227,511	2004	2010	98%
	San Jose, CA	132	129,200	2000	2000	97%

San Jose, CA	278	279,000	2002	2004	97%
San Jose, CA	238	219,600	2000	2000	97%
San Mateo, CA	697	611,505	1948	2006	97%
San Ramon, CA	462	391,000	1988/2000	1997	96%
San Ramon, CA	250	237,894	2005	2007	97%
San Ramon, CA	132	155,100	1985	1997	95%
San Ramon, CA	400	381,060	2005	2007	96%
San Ramon, CA	44	51,700	1985	1997	95%
Santa Clara, CA	121	128,486	1971	2011	96%
Santa Clara, CA	140	113,200	1975	1994	97%
Santa Clara, CA	292	250,200	1974(24)	1994	96%
Santa Clara, CA	156	126,900	1972	2012	94%
Santa Cruz, CA	96	87,640	2002	2008	95%
Santa Rosa, CA	104	116,628	2004	2007	97%
Sunnyvale, CA	188	142,600	1989	1997	97%

(continu

	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy
ed)						
	Sunnyvale, CA	170	119,900	1973	2000	96%
	Sunnyvale, CA	32	31,541	2001(26)	2007	96%
	Sunnyvale, CA	390	294,100	1973(27)	1988	97%
	Sunnyvale, CA	100	95,440	1970	2011	96%
	Sunnyvale, CA	100	78,500	1988	1988	98%
	Sunnyvale, CA	156	110,824	1969(26)	2007	96%
	Sunnyvale, CA	216	161,800	1989	1989	97%
	Sunnyvale, CA	284	309,421	2011	2011	97%
	Tiburon, CA	76	78,300	1963	2004	96%
	Tracy, CA	30	29,088	2007	2007	93%
		10,189	8,792,525			97%
litan Area						
	Bellevue, WA	180	174,200	1984	2005	96%
	Bellevue, WA	109	108,388	2000	2010	97%
	Bellevue, WA	180	144,000	1987	1994	96%
	Bellevue, WA	388	288,300	1978(28)	1990	94%
	Bellevue, WA	192	159,700	1977	1990	97%
	Bellevue, WA	153	133,500	1986	1994	98%
	Bellevue, WA	236	172,300	1978(29)	1990	88%
	Bothell, WA	250	210,400	1990	2003	96%
	Bothell, WA	224	183,600	1985	1994	96%
	Bothell, WA	132	117,100	2000	2000	98%
	Bothell, WA	196	214,800	1986	1997	98%
	Issaquah, WA	333	424,674	2000	2008	96%
	Issaquah, WA	245	277,700	1999	1999	97%
	Kent, WA	156	124,300	1986	1995	98%
	Kirkland, WA	90	75,840	1988	2012	94%
	Kirkland, WA	108	99,700	1986(30)	1997	97%
	Kirkland, WA	169	103,339	1978	2010	97%
	Kirkland, WA	200	188,300	1990	1997	95%
	Kirkland, WA	248	272,734	1996	2012	96%
	Mill Creek, WA	164	134,300	1981	1996	95%
	Monroe, WA	222	221,786	1991	2005	97%
or Village)(4)	Mukilteo, WA	301	245,900	1981	1997	95%
	Newcastle, WA	216	191,900	1997	1997	97%
	Redmond, WA	126	116,340	2011/2005	2011/2012	96%
	Redmond, WA	157	138,916	1986	2010	94%
)	Redmond, WA	440	381,675	1998	2011	96%
	Redmond, WA	442	350,275	1985	2011	96%
	Renton, WA	264	201,300	1986	1996	97%
	Renton, WA	194	189,200	1997	2004	96%
	Renton, WA	192	182,500	1998	2003	97%
	Seattle, WA	63	43,151	2008	2011	97%
	Seattle, WA	100	70,806	2006	2007	96%
	Seattle, WA	92	79,421	2012	2012	88%

	Seattle, WA	133	234,086	2008	2008	96%
	Seattle, WA	320	207,000	2000	2000	95%
	Seattle, WA	295	191,109	2010	2010	96%
	Seattle, WA	183	142,200	1994	2000	96%
	Seattle, WA	142	119,200	1990	1994	95%
		7,835	6,913,940			96%
		33,468	29,423,713			96%

	Location	Tenants	Rentable Square Footage	Year Built	Year Acquired	Occupancy
e(32)	Palo Alto, CA	1	31,900	1988 / 1962	1997 / 2007	100%
	Los Angeles, CA	1	35,000	1938	2006	100%
	Irvine, CA	6	110,000	1983	2000	93%
	Santa Clara, CA	3	139,000	1970	2011	100%
		11	315,900			99%

Footnotes to the Company's Portfolio Listing as of December 31, 2012

Unless otherwise specified, the Company has a 100% ownership interest in each community.
ncy rates are based on financial occupancy for the year ended December 31, 2012; for the commercial buildings or properties which ha
e insufficient operating history, occupancy rates are based on physical occupancy as of December 31, 2012. For an explanation of how
physical occupancy are calculated, see "Business and Properties-Properties-Occupancy Rates" in this prospectus.
The community is subject to a ground lease, which, unless extended, will expire in 2082.
% special limited partner interest in the partnerships which own these apartment communities. These investments were made under
MC became the 1% sole general partner and the other limited partners were granted the right to require the applicable partnership to
cash. Subject to certain conditions, the Company may, however, elect to deliver an equivalent number of shares of the Company's comm
e applicable partnership's cash redemption obligation.
owned by Wesco III. The Company has a 50% interest in Wesco III which is accounted for using the equity method of accounting.
(6) The Company completed development of the property in 2010.
s owned by Wesco I. The Company has a 50% interest in Wesco I which is accounted for using the equity method of accounting.
(8) The Company completed a $10.8 million redevelopment in 2009.
s owned by Fund II. The Company has a 28.2% interest in Fund II which is accounted for using the equity method of accounting.
(10) Fund II completed a $5.3 million redevelopment in 2008.
This community is subject to a ground lease, which, unless extended, will expire in 2067.
This community is subject to a ground lease, which, unless extended, will expire in 2027.
(13) The Company completed a $16.6 million redevelopment in 2009.
14) The Company is in the process of performing a $10.2 million redevelopment.
% interest. A 50% voting interest was acquired in April 2012 when the Company acquired the joint venture partner's membership intere
6) The Company and EMC have a 74.0% and a 1% member interest, respectively.
The community is subject to a ground lease, which, unless extended, will expire in 2028.
(18) The Company completed a $12.0 million redevelopment in 2008.
(19) The Company is in the process of performing a $10.0 million redevelopment
(20) The Company completed an $8.9 million redevelopment in 2008.
(21) The Company completed a $9.4 million redevelopment in 2009.
(22) The Company completed a $4.6 million redevelopment in 2009.
his community on which 84 units are presently located is subject to a ground lease, which, unless extended, will expire in 2028.
(24) The Company is in the process of performing a $9.9 million redevelopment.
The community is subject to a ground lease, which, unless extended, will expire in 2070.
26) The Company is in the process of performing a $13.3 million redevelopment.
(27) The Company completed a $12.5 million redevelopment in 2009.
he Company completed a $36.3 million redevelopment in 2012, which included the construction of 28 in-fill units in 2009.
d the construction of 66 additional apartment homes in 2012 and is in the process of performing a redevelopment for a total cost of $21

mpany completed a $5.1 million redevelopment and completed construction of 16 units of the community's 108 units in 2006.
(31) The Company has 99% ownership in this community.
(32) The Company occupies 100% of this property.
(33) The property is leased through July 2014 to a single tenant.
(34) The Company occupies 7% of this property.

INVESTMENT POLICIES AND POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

of certain of Essex Property Trust, Inc.'s investment, financing and other policies. These policies have been determined by Essex of directors and management and, in general, may be amended or revised from time to time by Essex Property Trust, Inc.'s board of hout a vote of Essex Property Trust, Inc.'s stockholders.

Interests in real estate

e "Company"). is a Maryland corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). rest in its real estate investments directly or indirectly through Essex Portfolio, L.P. a California limited partnership (the "Operating y Trust, Inc. is the sole general partner of the Operating Partnership and as of December 31, 2012 owned a 94.5% general partnership

perating Partnership, is engaged primarily in the ownership, operation, management, acquisition, development and redevelopment of mmunities. As of December 31, 2012, the Company, through the Operating Partnership, owned or held an interest in 163 communities, ated along the West Coast, as well as five commercial buildings (totaling approximately 315,900 square feet), and nine active 495 units in various stages of development (collectively, the "Portfolio").

s elected to be treated as a REIT for federal income tax purposes, commencing with the year ended December 31, 1994 as the Company ffering on June 13, 1994. In order to maintain compliance with REIT tax rules, the Company utilizes taxable REIT subsidiaries for vari ment activities. All taxable REIT subsidiaries are consolidated by the Company.

perating Partnership, invests primarily in apartment communities that are located in predominantly coastal markets within Southern Bay Area, and the Seattle metropolitan area. The Company currently intends to continue to invest in apartment communities in such ctices may be reviewed and modified periodically by management. For a discussion of the Company's business strategies, see "Busines Business Strategies."

veloping apartment communities directly, the Company, through the Operating Partnership, has invested and may continue to invest in time, the Company, through the Operating Partnership, invests in corporations, limited partnerships, limited liability companies or othe d for the purpose of acquiring, developing, financing, or managing real property. In certain circumstances, the Operating Partnership's may be less than a majority of the outstanding voting interests of that entity. We have also formed investment funds that utilize the development, and property and asset management capabilities. See "Business and Properties—Business—Essex Apartment Value Fund

rtgages

our management or Essex Property Trust, Inc.'s board of directors, invest in mortgages and other types of real estate interests consistent c.'s qualification as a REIT. Investments in real estate mortgages run the risk that one or more borrowers may default under certain eral securing certain mortgages may not be sufficient to enable us to recoup our full investment.

ersons Primarily Engaged in Real Estate Activities and Other Issuers

f other REITs, other entities engaged in real estate activities or other issuers.

o own quality real estate in supply-constrained markets, the Company continually evaluates all the communities and sells those which no ria. The Company may use the capital generated from the dispositions to invest in higher-return communities or other real estate

Company's common stock, or repay debts. The Company believes that the sale of these communities will not have a material impact on r cash flows nor will their sale materially affect its ongoing operations. Generally, the Company seeks to have any impact of earnings dispositions offset by the positive impact of its acquisitions, development and redevelopment activities.

policy of maintaining a limit on debt financing consistent with the existing covenants required to maintain the Company's unsecured lin secured term loan. The Company's organizational documents do not limit the amount or percentage of indebtedness that may be anged this policy, the Company could incur more debt, resulting in an increased risk of default on the Company's obligations and the Partnership, and an increase in debt service requirements that could adversely affect the Company's financial condition and results of ebt could exceed the underlying value of the communities. See "Risk Factors – "Debt financing has inherent risks".

usiness conduct and ethics that prohibits conflicts of interest between our officers, employees and directors on the one hand, and our xcept in compliance with the policy. Waivers of our code of business conduct and ethics must be disclosed in accordance with New Yo nd SEC requirements. In addition, Essex Property Trust, Inc.'s board of directors is subject to certain provisions of Maryland law, which e or minimize conflicts. However, we cannot assure you that these policies or provisions of law will always succeed in eliminating the f they are not successful, decisions could be made that might fail to reflect fully the interests of all of Essex Property Trust, Inc.'s

er Transactions

neral Corporation Law, a contract or other transaction between us and a director or between us and any other corporation or other entity Trust, Inc.'s directors is a director or has a material financial interest is not void or voidable solely on the grounds of such common resence of such director at the meeting at which the contract or transaction is authorized, approved or ratified or the counting of the f, provided that

o the common directorship or interest and as to the transaction are disclosed or known to Essex Property Trust, Inc.'s board of directors erty Trust, Inc.'s board, and Essex Property Trust, Inc.'s board or a duly authorized committee authorizes, approves or ratifies the he affirmative vote of a majority of disinterested directors, even if the disinterested directors constitute less than a quorum,

o the common directorship or interest and as to the transaction are disclosed to Essex Property Trust, Inc.'s stockholders entitled to vote n is authorized, approved or ratified by a majority of the votes cast by the stockholders entitled to vote, other than the votes of shares ially by the interested director or corporation or other entity, or

the transaction or contract is fair and reasonable to us at the time that we enter into the transaction or contract.

policy that generally requires specified committees of its Board of Directors to approve transactions between it or an entity it controls, rship, on the one hand and any of the Company's directors, director nominees or executive officers, any beneficial owner of more than 5 n stock and any immediate family member of any of the foregoing persons, on the other hand. See "Certain Relationships and Related or Independence—Policies and Procedures with Respect to Related Person Transactions."

er Activities

tinue to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940. The Company has in the p ure (i) issue securities senior to its common stock, (ii) fund acquisition activities with borrowings under its line of credit and (iii) offer or units of limited partnership interest in the Operating Partnership or affiliated partnerships as partial consideration for property rom time to time acquires partnership interests in partnerships and joint ventures, either directly or indirectly through subsidiaries of the ' underlying assets are real estate.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

n the beneficial ownership of common units of the Operating Partnership as of February 28, 2013 for (i) each person known by the
d more than 5% of the outstanding units of the Operating Partnership, (ii) each Company director and each of the executive officers nam
on Table in the section "Executive Compensation" below, and (iii) all Company directors and executive officers as a group.

ollowing table is determined in accordance with the rules of the Securities and Exchange Commission ("SEC"). In computing the numb
person and the percentage ownership of that person, Series Z-1 incentive units, which are currently non-forfeitable or are non-forfeitab
Date, are deemed outstanding. Such units, however, are not deemed outstanding for the purposes of computing the percentage ownersh
Operating Partnership's knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws,
le below has sole voting and investment power with respect to the shares set forth opposite such person's name. Unless otherwise state
irectors and executive officers is c/o Essex Property Trust, Inc., 925 East Meadow Drive, Palo Alto, California, 94303.

described below under "Executive Compensation."

	Amount and Nature of Beneficial Ownership (1)	Percentage of Outstanding Common Units (1)
	37,990,836	94.5%
	1,193,157	3.0%
	131,471	*
	85,055	*
	7,295	*
	35,948	*
	41,491	*
	16,028	*
	-	*
	-	*
	-	*
	-	*
	-	*
	-	*
	-	*
d executive officers as a group (15 persons) (9)	1,534,661	3.8%

Less than 1%

rs, directors of the Company and certain other entities and investors own limited partnership interests in the Operating Partnership whic
roximately a 5.5% limited partnership interest. The Company presently has approximately 94.5% general partnership interest in the

e limited partners of the Operating Partnership share with the Company, as general partner, in the net income or loss and any distributio
hip. Pursuant to the partnership agreement of the Operating Partnership, limited partnership interests can be exchanged into shares of the
ck.

ng Partnership units beneficially owned by Mr. Marcus and 301,494 units and 15,941 units beneficially owned by The Marcus &
MMC") and Essex Portfolio Management Company ("EPMC"), respectively. Mr. Marcus disclaims beneficial ownership of (i) all units
its held by EPMC. As of February 28, 2013, Mr. Marcus had pledged to a commercial bank 875,722 Operating Partnership units.

ng Partnership units and 8,888 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 1,568 units
ertain requirements of the Series Z-1 incentive units.

g Partnership units and 14,388 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 12,524 unit
ertain requirements of the Series Z-1 incentive units. The aforementioned units in the Operating Partnership, are held in a revocable trus
Ann Schall act as co-trustees. Mr. Schall disclaims beneficial ownership for 35,333 Operating Partnership units and 7,194 units that may
n-forfeitable Series Z-1 incentive units.

Partnership units and 5,045 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 7,955 units
ertain requirements of the Series Z-1 incentive units.

g Partnership units and 12,156 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 9,210 units
ertain requirements of the Series Z-1 incentive units.

g Partnership units and 12,156 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 9,210 units
ertain requirements of the Series Z-1 incentive units.

Partnership units and 11,459 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 10,884 units
ertain requirements of the Series Z-1 incentive units.

ating Partnership units and 71,337 units that may be issued in exchange for non-forfeitable Series Z-1 incentive units. Excludes 59,289
ying the requirements of the Series Z-1 incentive units.

DIRECTORS AND EXECUTIVE OFFICERS

n information as of February 28, 2013 with respect to the incumbent directors and executive officers of Essex Property Trust, Inc., erating partnership is managed by Essex Property Trust, Inc., its sole general partner and parent company. Consequently, the operating own separate directors.

	Age	First Elected	Term Expires
	71	1994	2015
d	64	1994	2013
Officer and President	55	1994	2015
nd Chief Financial Officer	56	—	—
Development	58	—	—
Acquisitions	62	—	—
Asset Management	49	—	—
erty Operations	45	—	—
	72	1994	2014
	65	1994	2015
	67	1994	2013
	70	1994	2013
	63	2011	2014
	52	2011	2014
	67	2011	2014

ncerning directors and executive officers of Essex Property Trust, Inc. (some of whom are also directors) is set forth below.

nder and has been the Chairman of Essex Property Corporation (the predecessor to Essex Property Trust, Inc.) and The Marcus & eir inception in 1971. The Marcus & Millichap Company is the parent company of a diversified group of real estate service, investment Marcus was one of the original founders of Greater Bay Bancorp, a publicly held financial institution, which was acquired by Wells Far r. Marcus' professional memberships are the Regent Emeritus of the University of California, the Real Estate Roundtable, the Policy rsity of California at Berkeley — Center for Real Estate and Urban Economics, as well as numerous other professional and community with a Bachelor of Science degree in Economics from San Francisco State University. He was honored as Alumnus of the Millennium i raduate of the Harvard Business School of Owners / Presidents Management Program and the Georgetown University Leadership Mr. Marcus to serve as a director because he is the founder of the Company, he brings outstanding leadership and vision to the Compa

of the Company, and over 35 years of experience working in the real estate industry.

and Vice Chairman of the Board, held the position of President and Chief Executive Officer of the Company from 1988 through
011, Mr. Guericke retired from his position as an executive officer, and he remains a director of the Company and will continue to prov
ime employee. Mr. Guericke joined the Company's predecessor, Essex Property Corporation, in 1977 to focus on investment strategies
Guericke prepared the Company for its IPO in 1994, and has since significantly increased the Company's multifamily portfolio in
long the West Coast. Mr. Guericke is a member of National Association of Real Estate Investment Trusts ("NAREIT"), the National M
l local apartment industry groups. Prior to joining Essex, Mr. Guericke began his career with Kenneth Leventhal & Company, a CPA fi
tise. Mr. Guericke received his Bachelor of Science degree in Accounting from Southern Oregon College in 1971. The Board selected M
or because he served the Company for over 33 years and was its principal executive officer from 1988 to 2010, and he has expansive
ndustry and strong relationships with many executives and other senior management at real estate companies throughout the United

s the President and Chief Executive Officer of the Company, having been promoted to that position by the Board of Directors effective
sly served as the Senior Executive Vice President and Chief Operating Officer for the Company from 2005 to 2010, during which years
gic planning and management of the Company's property operations, redevelopment and co-investment programs. From 1993 to 2005,
's Chief Financial Officer, responsible for the organization's financial and administrative matters. He joined The Marcus & Millichap
so the Chief Financial Officer of the Company's predecessor, Essex Property Corporation. From 1982 to 1986, Mr. Schall was the Dire
rnational, a technology-oriented venture capital company. From 1979 to 1982, Mr. Schall was employed in the audit department of Erns
st & Whinney), where he specialized in the real estate and financial services industries. Mr. Schall received a B.S. from the University
rrently serves as a member of the Board of Trustees of Pebblebrook Hotel Trust, Inc. Mr. Schall is a Certified Public Accountant (inacti
, the National Multi Housing Council, the AICPA, and the Board of Governors of NAREIT. The Board selected Mr. Schall to serve as a
ncipal officer of the Company when initially selected as a director, he has extensive knowledge of the financial and operating matters o
ong relationships with many executives and senior management at real estate companies throughout the United States.

he Company's Executive Vice President and Chief Financial Officer since February 2005. From September 2002 to February 2005, Mr.
esearch, consulting, and litigation support services, while teaching as an adjunct Professor for the University of California at Berkeley,
Mr. Dance began his career at Peat, Marwick, Mitchell & Co in 1978. From 1990 to 2002, he was a partner with KPMG LLP, where he
al estate, construction, health care and technology industries. He received a Bachelor of Arts degree in Economics from California State
. Mr. Dance is a CPA (inactive).

for development activities, from the point of acquisition through construction and stabilization. Mr. Eudy joined the Company's
Corporation, in 1985. While at the Company, Mr. Eudy has been responsible for numerous activities including arranging of financing, d
and asset disposition. Prior to joining the Company, Mr. Eudy was a Vice President in the Commercial Real Estate Investment Group o
1980 to 1985 and Home Federal Savings from 1977 to 1980. He received a Bachelor of Science degree in Finance from San Diego Sta
raduate of the University of Southern California's Management Leadership School. Mr. Eudy is a member of the Urban Land Institute

onsible for acquisition activities. Mr. Zimmerman joined the Company's predecessor, Essex Property Corporation, in 1984 and was
acquisition of multifamily residential properties. Prior to joining the Company, Mr. Zimmerman was the Vice President of Acquisitions
nt Company, a national real estate developer and a principal in Zimmerman Properties. From 1975 through 1978, Mr. Zimmerman worl
pecialist for American Equities Corporation. He received a Bachelor of Arts degree in Rhetoric from the University of California at

e for the Company's asset management activities, including evaluation of existing investments, renovation, disposition, capital
, economic research, and the Company's institutional co-investment program. Mr. Burkart was responsible for supervising property
Northern Division as well as the creation and management of the institutional co-investments. Mr. Burkart joined Essex in 1996 and was
ce duties including identifying potential sources of financing and negotiating joint venture and debt financing transactions. From 1993 t
estate finance consultant for various companies. From 1987 to 1993 Mr. Burkart was a Vice President at Pacific States Management
e property management and accounting departments, along with other corporate duties. Mr. Burkart received a Bachelor of Science degr
te University in 1987 and a MBA degree in Real Estate from Golden Gate University in 1993.

ble for property operations of the Company. Mr. Alexander joined the Company in 1997 as a Regional Portfolio Manager and later serv
ment. Prior to joining the Company, Mr. Alexander served as the Director of Operations for Century West Properties, a Santa Monica
nd operator. Mr. Alexander also held a position as a real estate consultant with The Meyers Group providing pricing strategies, demand
es to new home developers and lenders in Southern California. Mr. Alexander received his Bachelor of Science degree in Business
cate of Real Property Development and Management from the University of Southern California in 1990.

olds the Bowen H. and Janice Arthur McCoy endowed chair at Stanford University Graduate School of Business and is a professor of
University School of Humanities and Sciences since 1988. Dr. Brady served as an associate Dean for academic affairs at the Graduate
6 until 2000, and continues to teach corporate ethics in both MBA and executive education. He is a Deputy Director at the Hoover
by courtesy at the Institute for International Studies. He was a member of the advisory council for the Kansai Silicon Valley Venture
selected Mr. Brady to serve as a director because of his many years of experience as a professor of political science and business, which
full board in understanding corporate governance and ethics issues, and he is familiar with a full range of corporate and board functions

private investor, and a member of the Board of Directors of LeoNovos, a public company on the Toronto Exchange and Chairman of t
e Vice President and Chief Financial Officer of Mobile Smart, a semiconductor company serving the automotive industry for the period
2002. From April 1998 to August 2000, he served as Vice President and Chief Financial Officer of Halo Data Devices, a supplier of da
drive market. Mr. Martin served from August 1995 to January 1998 as Vice President of Finance and Chief Financial Officer of 3Dfx
nber 1993 to July 1995, he served as Vice President of Finance and the Chief Financial Officer for MiniStor Peripherals Corporation, a
ucts for the mobile computer market. From 1985 to 1993, he was Senior Vice President of Finance and Administration for Chips and
also developed joint business ventures within the Soviet Union. From 1983 to 1984, Mr. Martin was Vice President of Finance and Ch
ck, Inc., a company involved in space development through private enterprise. Mr. Martin was one of the earliest employees at Apple
d both corporate and European controller positions during the period from 1977 to 1983. From 1971 to 1977, he worked for Aero Air
nductor. He received a Bachelor of Science degree in Accounting from San Jose State University in 1971. The Board selected Mr. Mart
he has years of experience serving on both public and private boards and committees, he has served as a Chief Financial Officer for a
has an extensive understanding of internal and external financial reporting of public companies.

r, is a partner at Cheyenne Capital, a venture capital firm. He was the Chief Executive Officer of Mainsail Networks, a
y in 2000 and 2001. Prior to joining Cheyenne Capital, Mr. Rabinovitch served from 1991 to 1994 as President and Chief Executive
ems, Inc., a company engaged in the designing, manufacturing and marketing of multiple semiconductor products. From 1985 to 1991, I
f Berkeley International Capital Corporation, a venture capital firm. From 1983 to 1985, Mr. Rabinovitch was President of Crowntek
ware development and distribution company. Before joining Crowntek, he was employed by the Xerox Corporation in various
novitch received a Bachelor of Science degree from McGill University in 1967 and a Master's of Business Administration degree from
The Board selected Mr. Rabinovitch to serve as a director because he brings valuable financial expertise, including extensive knowledg
s and investments in both public and private companies.

r, is a certified public accountant and was a testifying expert and director at LECG, Inc. from 1992 to 2010. Mr. Randlett's professional
tate and construction, financial institutions and transportation industries. Prior to joining LECG, Mr. Randlett was a managing partner a
r KPMG in Northern California, where he had been employed since 1966, and then a consultant at the New York branch of Midland Ba
d on the board of directors of Greater Bay Bancorp, a publicly held financial institution, from 2005 until the company was sold in
r of the Policy Advisory Board, School of Real Estate and Urban Economics, University of California at Berkeley and a current membe
Certified Public Accountants ("AICPA"), NAREIT, and California Society of Certified Public Accountants ("CSCPA"). He received a
Princeton University in 1966. The Board selected Mr. Randlett to serve as a director because of his 23 years of experience as an audit
ction and real estate companies, including audits of REITs, as well as his consulting experience, which includes interaction with the
and the Department of Justice.

served as the President and Chief Executive Officer of Greater Bay Bancorp and as a member of the Board of Directors of Greater Bay
ed subsidiary, Greater Bay Bank N.A. from January 1, 2004 until its sale in October 1, 2007. Mr. Scordelis served as the Chief Operatin
Greater Bay Banking Group which was comprised of the company's banking subsidiaries as well as its business and technology operatio
ources activities. Mr. Scordelis has previously served as an Executive Vice President with Wells Fargo Bank where he was named
o Bay Area Region and was responsible for the management and performance of 235 financial service offices in the San Francisco Bay
n 1998 as an Executive Vice President responsible for its retail banking activities in seven western states, and was appointed as a co-ch
ollowing the bank's merger with Norwest. From 1974 to 1998, Mr. Scordelis was President and Chief Executive Officer of Eureka Bank
e President and head of Bank of America's San Francisco Bay Area region, and was responsible for corporate finance, corporate strateg
and other staff and managerial areas. Mr. Scordelis is a Phi Beta Kappa graduate of the University of California at Berkeley where he
economics and natural resource studies in 1972. He received a Master of Business Administration from Stanford University in 1974. M
the Board of Regents at Santa Clara University where he is also a member of its Audit Committee as well as on the Advisory Board of
Ethics. He is also a member of the Board of EHC Lifebuilders, a non-profit organization, and also serves on the Advisory Board of the
n. The Board selected Mr. Scordelis to serve as a director because of his many years of experience as a Chief Executive Officer and a
raded financial service company.

ves as a Board Member, Chair of the Compensation Committee and member of the Governance and Investment Committees of The Sw
of office properties nationwide. Previously, Ms. Sears held the position of Managing Director, Western Region Head in the Real Estate
nt Banking Group at Banc of America Securities. She was concurrently the San Francisco Market President for Bank of America. As
managed a senior leadership team, deepening relationships with the nonprofit community, local government and worked to build
nerica brand. Prior to 1999, Ms. Sears was Head of Client Management for Bank of America's Commercial Real Estate Group in
w client relationships with REIT's, homebuilders and opportunity funds. Prior to 1988, Ms. Sears was a Real Estate Economist at both
in New York. Ms. Sears earned a B.S. in both Economics and Marketing from the University of Delaware. Her professional activities
ULI. Ms. Sears is the Past President and Past Treasurer of the San Francisco Chapter of the National Charity League and most recently
cisco Chamber of Commerce, the San Francisco Economic Development Council and Leadership San Francisco. She acts as an adviso
San Francisco Art Institute. Ms. Sears has been named one of the '100 Most Powerful Women in Business' in San Francisco. The Board
s a director because of her knowledge of capital markets and extensive experience working in the commercial real estate and REIT

ector, is co-founder and a Managing Partner of Fremont Realty Capital, the real estate merchant banking arm of the Fremont Group, a S
estment firm of the Bechtel family. The firm focuses on opportunistic and value-added real estate investments, both domestically and
nngrabe was Chairman and CEO of Prudential Real Estate Investors, the institutional real estate investment arm of Prudential Financial
Zinngrabe served as President of Prudential Institutional Investors and was responsible for strategic planning in Latin America and
, he founded and held the title of Chairman and CEO of Prudential Homebuilding Investors, a real estate investment management firm
investments. From 1972 to 1992, Mr. Zinngrabe held a number of investment professional and management positions within Prudentia
nvestment and asset management businesses. Mr. Zinngrabe is a member of ULI where he has served as a trustee and Executive
so a member of the Pension Real Estate Association and the National Association of Real Estate Investment Managers. Previously, Mr.
o-bono ULI real estate advisor to the U.S. Department of Defense, National Institutes of Health and the Government of Bermuda. Mr.
or of Science Degree in History from Xavier University in 1968 followed by a Master of Arts in History in 1970 and Master of Business
7 from Cleveland State University. Mr. Zinngrabe also completed the Advanced Management Program at Harvard Business School in
vernance Fellow of the National Association of Corporate Directors. The Board selected Mr. Zinngrabe to serve as a director because of
he real estate investment management business and his knowledge of the real estate industry.

DIRECTOR COMPENSATION

Essex Property Trust, Inc., who is not an executive officer, receives, or has received, the following compensation under our current direc
ed in February 2010:

s for that number of shares as determined by having the grant have a value of $50,000 as based on using the Black-Scholes option pric
ct to annual grants of options, directors can elect, in lieu of an option grant, to receive a restricted stock award for that number of share
restricted stock grant equal to a value of $50,000. Directors must make this election at the time of the Company's annual meeting, at w
or restricted stock will be made. Annual grants of options or restricted stock will completely vest one year after the date of grant.

An annual cash retainer, paid quarterly, in the amount of $22,000 per year.

A board attendance fee of $1,000 per meeting attended.

ee of $500 per meeting, except as to regularly scheduled Audit Committee meetings, for which a $2,000 attendance fee is paid. With
the Audit Committee, no meeting attendance fees shall apply when both Board of Directors and committee meetings occur on the sa

udit Committee, Mr. Randlett, receives $10,000 per year, payable quarterly, in addition to the other compensation indicated above.

upon joining the Board of Directors, receives an automatic grant of options for that number of shares as determined by having the gran
d on the Black-Scholes option pricing methodology. Such options become exercisable as to one-third of the shares of common stock
yearly anniversary of the grant date, such that the options granted will be fully exercisable three years after the grant date. In the event
mpany, the Board may unilaterally cancel unexercised director options, after advance written notice has been provided to each affected

the compensation the Company paid to directors for the fiscal year ended December 31, 2012. Mr. Schall, who served in 2012 as the
Officer, is not included in the table below because he did not receive for 2012 any additional compensation for services provided as a
served as a part-time employee in 2012, received a salary and bonus shown below under "All Other Compensation," but he did not rece
for services provided as a director.

Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
41,000	50,000	-	-	91,000
-	-	-	275,000	275,000
28,500	50,000	-	-	78,500
30,000	-	50,000	-	80,000
30,500	-	50,000	-	80,500
51,000	-	50,000	-	101,000
32,500	-	50,000	-	82,500
40,000	-	50,000	-	90,000
30,500	-	50,000	-	80,500

calculate the value of the restricted stock and options awards are set forth in Note 13 of the Notes to Consolidated Financial Statements
r ended December 31, 2012. As of December 31, 2012, each director had the following number of stock options (vested and unvested)
V. Brady: 9,676 options; Keith R. Guericke: 10,000 options; George M. Marcus: 0 options; Gary P. Martin: 17,914 options; Issie N.
ns; Thomas E. Randlett: 13,664 options; Byron A. Scordelis: 9,500 options, Janice L. Sears: 7,000 options; and Claude J. Zinngrabe, Jr

y. Also, as of December 31, 2012, David W. Brady and George M. Marcus each had 331 shares of unvested restricted stock outstandin
unvested restricted stock outstanding.

EXECUTIVE COMPENSATION

tion with respect to the directors and executive officers of Essex Property Trust, Inc. The operating partnership is managed by Essex
general partner . Consequently, the operating partnership does not have its own separate directors.

Compensation Discussion and Analysis

mpany's goals for its executive compensation program are (i) to attract, motivate and retain experienced, effective executives, (ii) to dir
cutives with clearly defined goals and measures of achievement, and (iii) to align the interests of management with the interests of our
absolute levels of executive compensation and the compensation programs we use, the Compensation Committee periodically reviews
mpetitive pay levels and structures but also considers a number of other factors, as described below.

ual corporate goals that are designed to promote shareholder value creation over a multiple year period. These corporate goals are used
gement performance, a key consideration in granting both cash bonuses and long term equity. These goals, which include measures of
lute basis as well as relative to peers, are described in more detail in the discussion below. Goals for 2012 included specific company
per share growth in Funds from Operations ("FFO"), yields from recent investment transactions relative to the pro-forma underwriting,
operating income ("NOI"), and discretionary objectives, such as progress on specific corporate initiatives.

cutive officers also reflects performance against individual and (where appropriate) business unit goals, as described in the discussion
2 included the following:

excluding non-core items, of $6.82, representing a 21% increase compared to 2011. We exceeded our original guidance for NOI gro
.

y and conservative debt structure through access to both debt and equity capital sources. Reflecting the commitment to a well-structu
oved our unsecured debt rating to BBB+/stable and we successfully completed our debut public debt offering totaling $300 millio
22 at a coupon of 3.625%.

Acquired 15 apartment communities (on balance sheet and in joint ventures) totaling $802 million.

opment pipeline to almost $1 billion with the commencement of five apartment projects with an estimated cost of $516 million.

on of Expo, a 275-unit community located in Seattle, Washington. Expo was a ground up development that was completed ahea
dgeted cost. Leasing activities are progressing as planned and the forecasted stabilized yield of approximately 7% exceeds our investm

experience through numerous technology iniatives and adding amenities to the existing apartment portfolio through redevelopment.

e management and our company performed well in 2012 when measured against the corporate and business unit performance goals
. Accordingly, our Board's compensation committee determined that the Company's management achieved all of its corporate, team a
ult, the non-discretionary components of bonuses were paid at their maximum and the discretionary bonuses were paid out at between
s.

pensation Committee retained Mercer to select a peer group of fifteen REITs and complete a review of the executive compensation leve
peer group. Based on the results of the study, the Compensation Committee increased the salary of the Chief Executive Officer ("CEO"
April 1, 2013 which is slightly below the median of the peer group. The 2012 performance criteria for the non-discretionary bonus
vels of same-property NOI growth, core FFO growth and external growth goals. In 2013 the Compensation Committee engaged Mercer
ompensation relative to the same peer group used for management compensation and to recommend the number of shares to include in
and Incentive Compensation Plan that is being submitted for shareholder approval pursuant to the Company's 2013 proxy statement.

services to the Company other than to the Compensation Committee with respect to executive and board compensation matters, reports
Committee and not to management, and is independent from the Company. The Compensation Committee has assessed the independen
king into account factors listed in, applicable SEC rules and concluded that the work of Mercer has not raised any conflict of interest.

al of the Company's executive compensation. In 2012, the Company held a "say-on-pay" vote on the Company's executive compensati
oxy statement and 97.5% of the votes cast voted "for" the proposal. The Compensation Committee will consider the results of the
2013 compensation but because a substantial majority of shareholders approved the compensation program, the Committee continued
determining the amounts and types of executive compensation and did not implement substantial changes as a result of the shareholder
ote to approve the compensation of the Company's named executive officers will be held on an annual basis until the next required vote
votes is held.

ompensation Committee. Our Board's Compensation Committee, composed of independent, non-employee directors, determines and
rrangements for the named executive officers. The Committee has the authority to select, retain and terminate special counsel and other
tion consultants) as the Committee deems appropriate. During 2012 the Committee retained the services of Mercer to select a peer grou
e a review of the Company's executive compensation programs.

mmittee determines Essex's overall compensation philosophies and sets the compensation for the CEO and other executive officers, it lo
endations with respect to both overall compensation policies and specific compensation decisions. For the upcoming fiscal year, the CE
ation Committee the levels of base salary, targeted annual bonus and long-term equity for the named executive officers other than hims
ensation otherwise established by the Committee. The sum of such base salaries and targeted bonuses and long term equity compensati
x annual business plan, which is approved by our Board. Also, at that time, the Committee reviews and approves goals for the upcomi
ficers. Such goals may include company-wide, business unit and individual goals.

e Board reviews actual performance against such goals and, in consultation with the CEO and as discussed further below, sets the actua
cutive officers. The CEO also provides the Compensation Committee with his perspective on the performance of Essex's executive
ssment of his own performance. The Committee establishes the compensation package for the CEO. Our Chief Financial Officer also
nsation Committee's meetings to provide perspective on the competitive landscape and the needs of the business and to discuss potentia
ve officer's compensation packages.

(all are equity REITs, five of which are headquartered in California, nine are reasonably similar to the Company in revenue and market
primarily in apartments) are considered in an annual peer comparison prepared by Mercer based on publicly filed proxy materials.
he Company ranked at the 47th percentile on revenues and at the 80th percentile on the market value of the common equity.

	($ in millions)	
	Revenues ($)(*)	Market Value($)(*)
Inc. (AVB)	1,044	13,093
Management Company (AIV)	1,060	3,849
uities, Inc. (ARE)	590	4,384
unities, Inc. (ACC)	445	3,386
(BMR)	470	2,948
)	397	3,715
PT)	719	5,616
I)	575	3,277
, Inc. (ELS)	699	2,783
IE)	621	3,028
Communities, Inc. (MAA)	474	2,660
	335	2,641
	430	1,906
n (O)	464	5,241
rust, Inc. (UDR)	728	6,071
(ESS)	527	5,261

he twelve months ended September 30, 2012, and the equity market capitalization (“Market Value”) is as of October 31, 2012.

ee considered the peer group information in determining overall compensation levels in light of the Committee’s view of appropriate, evels. However, the Committee did not utilize any specific or numeric percentile or other benchmark within the peer group companies

ctives. The objectives of our compensation program for named executive officers are to:

notivate executive officers through the overall design and mix of cash, equity, and short and long-term compensation elements;

nance by tying significant portions of short-term compensation in the form of salary and annual bonus opportunity to achievemen d

tive officers with the interests of our stockholders by tying significant portions of short and long- term compensation, in the form of ann y based awards, to increasing distributable cash flow to shareholders, and increasing the value of our common stock based on edevelopment and onsite property management of apartment communities.

Compensation Committee believes that the primary goal of our executive compensation program should be related to creating stockhold to offer the named executive officers competitive compensation opportunities based upon their personal performance, the financial pared to other REITs, and their contribution to that performance. The executive compensation program is designed to attract and retain tes to long-term success, to reward the achievement of our short-term and long-term strategic goals, to link executive officer compensat ough equity-based plans, and to recognize and reward individual contributions to corporate performance.

ents of our current compensation program for the named executive officers are summarized in the table below:

nent:	Why this element is included:	How the amount of this element is determined:	How this elements fits in the overall program:
	Customary element necessary to hire and retain executives.	Base salary and any changes in salary are based on views of individual retention or performance factors and market data at peer companies (but without specific benchmarking).	Short-term cash compensation that is fixed and paid during the year.
	Customary element appropriate to motivate executives and tie a significant compensation opportunity to a mix of individual and corporate performance.	Annual bonus is based on both discretionary and non-discretionary performance criteria.	Short-term cash compensation that is contingent on Compensation Committee discretion and review of non-discretionary criteria.
tions grants rship Units	Equity compensation for long-term retention of management and alignment of shareholder interest that complements cash compensation and provides performance incentives.	Stock option awards and Z-1 Unit awards are determined primarily based on how the award's grant date value relates to the officer's total compensation and how the vesting and other aspects of the awards might incentivize performance.	Long-term compensation is primarily contingent on performance goals whi are expected to be consistent with an increase in the long-term value of ou common stock into which the units a ultimately exchangeable. The sale of Z-1 incentive units is contractually prohibited.
n	Supplemental element to assist in retaining executives.	Executive officers may defer up to 100% of their base salary and bonus.	A tax planning benefit for executives
	For hiring and retaining executives, this element provides a reasonable level of continued economic benefit if a change of control and related termination was to occur. As stated below under the caption "Severance and Other Benefits Upon Termination of Employment of Change or Control", these payments provide a reasonable level of incentive for the covered individuals to remain with Essex prior to any proposal or contemplation of, and during any negotiations for, a change of control.	The element provides that in the event of a change of control and related involuntary termination within the period commencing 2 month preceding a change of control and ending 24 months after the change of control, an executive receives two times his current annual salary and three-year average annual bonus, vesting acceleration of equity awards and Z-1 incentive units, continued insurance benefits and out placement services.	A supplement to the base salary and annual bonus arrangements, which addresses possible change of control situations.
	Customary element necessary to hire and retain executives.	Generally based on perquisites being offered by comparable companies.	A supplement to the base salary.

xecutive officers have an employment agreement. Base salaries are viewed as a customary element necessary to hire and retain executi changes in base salary are based on views of individual retention and/or performance factors and market data at peer companies, witho e Compensation Committee established base salaries in light of these considerations as well as subjective assessments of individual nsibilities, expertise and experience, and Essex's financial performance and condition. The base salaries were increased to reflect results n study for comparable responsibilities as shown in the "Summary Compensation Table" below.

	Salary 2011 ($)	Salary 2012 ($)	Percentage Change
	350,000	450,000	28.6%
	300,000	325,000	8.3%
	300,000	325,000	8.3%
	300,000	325,000	8.3%
	250,000	275,000	10.0%

d executive officer is eligible to earn an annual cash bonus based on the achievement of the operating performance budget approved by
f performance goals during the year. The performance goals used for determining an officer's annual bonus fall into one or more of the
rmined by the Compensation Committee and by the CEO in his recommendations to the Compensation Committee:

individual performance;

corporate and business unit performance; and

the functions performed by the executive officer.

unt is established for each named executive officer, and the sum of all target bonuses are included in the Essex annual business plan
ard. To the extent that Essex does not meet its annual business plan targets and its results are less than the plan targets, the annual targe
d to zero. In years that Essex exceeds its financial targets, the Compensation Committee has awarded the named executive officers ann
wice the individual's target bonus amount.

unds from Operations ("FFO") per share and Core Funds from Operations ("Core FFO") per share are the primary corporate performan
s and approves an annual FFO and Core FFO per share target. The Compensation Committee monitors management's achievement of
on a relative basis (ranking in the top quartile of the multifamily REITs with respect to Core FFO per share growth). The target levels fo
d Core FFO per share changes from year to year and are dependent on a number of factors, including expectations surrounding internal a
onomic conditions, real estate fundamentals and other specific circumstances facing the Company in the coming year. The compensatio
FO and Core FFO goals that are consistent with the board approved operating plan for the Company. For 2012, the following specific
performance:

growth of 8.0%, adjusted for dispositions;

re of $6.62, and Core FFO per diluted share of $6.65;

xternal growth investments consistent with the FFO guidance provided to common stock investors; and

ding underwritten yields from 2010 and 2011 acquisitions and developments.

I growth was 9.2%; FFO per diluted share was $6.71, and after adjustments for non-core items was $6.82 per diluted share; aggregate F
th investments exceeded the underwritten yields; and actual versus underwritten yields from 2010 and 2011 acquisitions and
nderwritten yields. Thus, the actual results for these items exceeded the performance goals. For a discussion of the calculation of FFO
Discussion and Analysis of Financial Condition and Results of Operations, Funds from Operation (FFO)" in our Form 10-K for the fisca
he Compensation Committee considered the quantitative criteria above for the non-discretionary incentive bonus and based on the
ensation Committee concluded that the maximum incentive bonus was earned as the Company exceeded all its corporate performance
e targeted discretionary bonuses were paid based on the accomplishment of individual goals.

on-discretionary bonuses for the named executive officers ranged from approximately 130% to 140% of their annual base salary amour

Executive Officer, received $580,000 or 98% of his maximum 2012 bonus for achieving the Company's financial and operating objec
ture leaders, implementation of new information technology and human resources and other strategic initiatives.

inancial Officer, received $435,000 or 97% of his maximum 2012 bonus for achieving the Company's financial and operating objective
secured debt markets including the origination of the debut $300 million public bond offering, improving managerial reporting and
nd information system initiatives.

ve Vice President, Development, received $442,500 or 98% of his maximum 2012 bonus for initiation of development starts in exce
capitalization rates of an appropriate premium over acquisition capitalization rates and completing active development projects on time

xecutive Vice President, Acquisitions received $442,500 or 98% of his maximum 2012 bonus for his individual and business unit goal
ons in excess of $400 million which improved the growth rate of the portfolio.

tive Vice President of Asset Management received $383,500 or 98% of his maximum 2012 bonus for identifying assets for renovations
mance including unit upgrades to achieve targeted returns and the successful disposition of seven assets in the Fund II portfolio and two
to achieve the desired long term returns on investment.

ve Target Award Opportunities for the named executive officers are approximately 100% of their annual base salary. The Target Awar
percentages of base salary to incent the executives to achieve their individual, business unit, and the corporate performance goals.

ers are provided an opportunity to earn incentives as follows:

2013 Short-Term Incentive Award Opportunity

	Targeted Discretionary Bonus ($)	Targeted Non-Discretionary Incentive Bonus ($)	Maximum Bonus ($
	250,000	250,000	750,000
	150,000	150,000	450,000
	150,000	150,000	450,000
	150,000	150,000	450,000
	150,000	150,000	450,000

nary Incentive Bonus is tied to achieving corporate performance goals. Each executive will be paid based on meeting objective corporate
ximum opportunity of up to 200% of the targeted non-discretionary bonus if specific performance levels exceed the objective corporate
onsistent with the Company's high end of its 2013 guidance. The targeted corporate performance goals for 2013 are based on achievem
ing plan in the following areas:

growth of 7%, adjusted for dispositions;

re of $7.70; and Core FFO per diluted share of $7.55; and

xternal growth investments consistent with the FFO guidance provided to common stock investors; and

ding underwritten yields from 2011 and 2012 acquisitions and developments.

regoing are goals and should not in any way be considered to be a prediction, or guidance, by Essex as to its future results. The Targeted
n executive will be earned based on achievement of both objective and subjective factors, including the evaluation of the officer's handl
ties, and individual performance goals and, in some cases, business unit goals. For 2013, the primary individual-based bonus criteria fo
Discretionary Bonus are as follows:

e achieving the Company's financial and operating objectives, including ranking in the top quartile of multifamily REITs with respe
hing a career planning process for high impact employees, restructuring the Company's economic research activities to improve the
e and other strategic initiatives.

e achieving the Company's financial and operating objectives, including ranking in the top quartile of multifamily REITs with respe
ing the implementation of a human resource information system and improving the Company's equity compensation programs consis
ance practices.

the initiation of two new development starts with projected capitalization rates of an appropriate premium over acquisition capitaliza
active development projects on time and on budget.

nclude allocating capital via acquisitions to the supply constrained markets with the best return potential resulting in over $400 millio
estments at returns that exceed the cost of capital.

de identifying assets for renovations to improve their long term performance including unit upgrades to achieve targeted returns
re not expected to achieve the desired long term returns on investment, including the remaining seven assets in the Fund II portfolio,
million promote from the liquidation of Fund II.

s. The Essex long-term equity incentive program is designed to provide an opportunity for management to share in the value creation to
ation Committee approves the granting of new equity based compensation awards as well as determining the performance criteria for th
rsion ratio (equivalent to vesting) for Z-1 incentive unit awards.

sex long-term incentive program include restricted operating partnership units, referred to as "Z-1 incentive units", issued and sold to
in 2004, 2005, 2010 and 2011. As described more fully under the caption "Series Z-1 incentive units," these incentive units are conver
of the Essex operating partnership, which are exchangeable for shares of Essex common stock. The conversion ratio generally starts at
ards and may increase up to 14% each year and up to 20% in certain circumstances in the year following their initial issuance, in which
criteria set forth in the plan. The Compensation Committee may revise the criteria for increases in the conversion ratio to reflect differe
ectives or performance measures if it determines that the funds from operations per share performance measure is no longer appropriate
objectives or that the target levels are no longer feasible in light of factors or circumstances outside of Essex's control (such as general
egulatory changes, war or similar events). To change such criteria, the Compensation Committee must further determine that the revise
arable or more effective for analyzing the performance of the Company and incentivizing the executives and that such amended or revi
fficult to achieve than the funds from operations target measure set forth in the plan. The sale of these incentive units is contractually
vertible into operating partnership common units which are exchangeable for shares of Essex common stock that may have marketabili

o of outstanding units increased by 5% to 15% based on Essex reported FFO results.

pensation Committee granted to each of our named executive officers stock options at an exercise price of $143.03 per share (the fair va
10% on the grant date and 20% per year through 2016 with the remaining 10% vesting in 2017. The Committee determined the relative
ed primarily on considerations of how the grant date value of each award related to the total compensation of each officer, and how the
ve aspects of each award would incentivize our executive team to focus on longer term corporate performance. The Committee also ma
nation that the awards reflected an appropriate part of total compensation for the officers in light of the longer term value that might be
pplicable performance targets are met. See "Summary Compensation Table" and "Grants of Plan-Based Awards for 2012" below for fu
sation and grant date values.

pensation. Named executive officers are currently permitted to make elections to defer up to 100% of their base salaries and bonuses un
ion Plan. Essex believes that providing the named executive officers and other eligible employees with nonqualified deferred compensa
ve supplemental benefit that enables named executive officers to defer income tax on deferred salary and bonus payments, even though
deduction. Essex makes no matching contributions to the plan. Additional information concerning this deferred compensation plan is s
ferred Compensation table and related text below.

executive officers are eligible to participate in the Essex tax-qualified 401(k) plan. Essex does not make any additional matching
accounts. Essex does not maintain any defined benefit, pension, or supplemental or "excess" retirement plans for the named executive

s Upon Termination of Employment or Change of Control. Under the Essex Property Trust, Inc. Executive Severance Plan, which was
12, 2013, each of our named executive officers would be entitled to benefits defined under the plan if, within the period commencing 2
ontrol (as defined in the section titled "Potential Payments Upon Termination or Change of Control") of Essex (if the termination were
control) and ending 24 months after a change of control, the individual's employment is terminated by the employer for any reason othe
plan), death or disability, or if the individual resigns for good reason (as defined in the plan).

nerally consist of:

o times current annual base salary and two times the individual's average annual bonus for the three calendar years preceding the chang

continuation of health, dental and life insurance for up to 24 months to be paid by the Company;

outstanding, unvested equity-based compensation awards and Series Z-1 incentive units that are not assumed or substituted in connect
the vesting will accelerate at the time of a change in control if such awards or units are not assumed or substituted in connection wi
ompany) ; and

outplacement services provided at the cost of the Company.

efits are subject to withholding and other potential requirements of applicable income tax law. Individuals participating in the plan are n
in respect of excise taxes, if any, that might arise under the "golden parachute" sections of the federal income tax law (Section 280G o
a reduction in benefits if any such excise tax were applicable and the reduced benefit would maximize the after-tax payment to the

e believes that these provisions provide a reasonable level of continued economic benefit to the named executive officer if a change of
on event were to occur, are a reasonable balance to the at will nature (and lack of fixed terms) of employment for the officers, and provi
e for the covered individuals to remain with Essex prior to any proposal or contemplation of, and during any negotiations for, a change
believes that the 2 years' cash severance payment, the accelerated vesting of equity awards and other reasonable severance benefits,
a tax "gross-up" provision, is in line with or provides lesser benefits than the scope of change of control benefits offered by many comp
e comparable. Generally, the existence of this plan, and the potential benefits to executive officers under it, does not affect the annual
e officer's base salary, cash bonus or long-term incentive unit grants.

s. Named executive officers receive automobile allowances or leased automobiles, automobile insurance, annual DMV renewals, health
ment of life insurance premiums. The Committee believes that such perquisites are comparable to, or less than, what are provided by

rations. Section 162(m) of the internal revenue code of 1986, as amended, prohibits the Company from deducting compensation in exc
utive officers unless certain performance, disclosure, and stockholder approval requirements are met. Option grants under the Essex 19
ns are intended to qualify as "performance-based" compensation not subject to the Section 162(m) deduction limitation. The Committe

, to the extent reasonable, a substantial portion of the executive officers' compensation for deductibility under applicable tax laws. erves the right to design programs that incorporate a full range of performance criteria important to the company's success, even where such programs may not be deductible.

involving the issuance of Series Z-1 incentive units of limited partnership interests in the Essex operating partnership, vesting in the un
eria established in the plan. The estimated fair value of a unit is determined on the grant date and considers the company's current stock
n unvested units and the discount factor for the 8 to 15 years of illiquidity. Compensation expense for the units is calculated by taking
tiplied by the estimated fair value as of the grant date less each unit's $1.00 purchase price.

solidated Financial Statements in our Form 10-K for the fiscal year ended December 31, 2012, for a discussion of the accounting for our
ans.

The company has stock ownership guidelines that require executives to acquire and hold a certain amount of company shares and all
re in compliance with such guidelines as of December 31, 2012.

Summary Compensation Table

zes compensation information for named executive officers of Essex Property Trust, Inc. for the year ended December 31, 2012, which
31, 2011, which we refer to as "2011", and December 31, 2010, which we refer to as "2010".

ear	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(1)	All Other Compensation ($)(2)	Total ($)
012	450,000	580,000	-	646,800	13,647	1,690,447
011	350,000	475,000	418,200	269,800	11,260	1,524,260
010	295,000	400,000	751,000	-	11,207	1,457,207
012	325,000	435,000	-	199,920	14,168	974,088
011	300,000	375,000	167,280	168,625	13,556	1,024,461
010	225,000	300,000	660,880	-	11,383	1,197,263
012	325,000	442,500	-	199,920	13,527	980,947
011	300,000	375,000	167,280	168,625	14,083	1,024,988
010	300,000	300,000	660,880	-	14,130	1,270,010
012	325,000	442,500	-	199,920	13,423	980,843
011	300,000	375,000	167,280	168,625	13,600	1,024,505
010	300,000	400,000	660,880	-	13,547	1,374,427
012	275,000	383,500	-	176,400	13,427	848,327
011	250,000	350,000	585,480	67,450	14,165	1,267,095
010	224,000	275,000	450,600	-	14,097	964,697

lect the aggregate grant date fair value calculated in accordance with FASB ASC Topic 718 for the awards granted for the year indicate
re subject to performance conditions, and the grant date fair value of these awards is based on the probable outcome of the performance
accordance with ASC Topic 718. These dollar amounts do not represent payments actually received by the officers.

) for 2012, stock option awards (described in the next table below) (ii) for 2011, Series Z-1 incentive unit awards (described under "S
v) and stock option awards and (iii) for 2010, Series Z-1 incentive unit awards.

f the performance-based stock awards granted in 2011 based on the maximum level of performance is as follows: $697,500 for Mr. Sch
279,020, for Mr. Eudy, $279,020 for Mr. Zimmerman, and $976,570 for Mr. Burkart.

calculate the values of the 2012 awards are set forth in Note 13 of the Notes to Consolidated Financial Statements in our Form 10-K

include the named executive officers' respective perquisites limited to Company provided leased automobiles or automobile allowance
rance premiums of $368, for Mr. Schall, Mr. Dance, Mr. Eudy, Mr. Zimmerman, and Mr. Burkart, respectively.

Grants of Plan-Based Awards for 2012

l plan-based awards which Essex granted to the named executive officers during 2012. The equity awards are also reported in the able on page 114.

Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards Maximum (#)	All Other Option Awards: Number of Securities Underlying Options (#)(1)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Options Awards ($)
12/11/2012	-	55,000	143.03	646,800
12/11/2012	-	17,000	143.03	199,920
12/11/2012	-	17,000	143.03	199,920
12/11/2012	-	17,000	143.03	199,920
12/11/2012	-	15,000	143.03	176,400

ested on December 11, 2012, the date of grant, and will vest 20% each year through 2016 with the remaining 10% vesting in 2017.

Series Z-1 Incentive Units

n incentive program involving the issuance of Series Z-1 incentive units ("Z-1 Units") of limited partnership interests in the operating intended to further the Company's objective of long-term growth in funds from operations per share by providing long-term incentives Company who will be largely responsible for the achievement of such long-term growth. The Series Z-1 incentive units are a means to li els of growth in funds from operations per share.

administered by the Company's Compensation Committee. Participants in the program are senior management and key employees of th n Committee has the authority to select participants and determine the awards to be made to each.

authorized to be issued under the Z-1 Incentive Unit Program. In June 2004, the operating partnership issued 95,953 Z-1 Units to fourte n exchange for a capital commitment of $1.00 per Unit. On January 1, 2013, the 2004 Z-1 Units became 100 percent vested and were of the operating partnership.

rship issued 116,999 Z-1 Units to sixteen executives of the Company for cash or a capital commitment of $1.00 per unit. In 2010, the 108,000 Z-1 Units to twenty executives of the Company in return for cash of $1.00 per unit from seven executive officers of the Compa om the remaining thirteen executives of $1.00 per unit. In 2011, the Operating Partnership issued 46,500 Z-1 Units to fourteen executive cash from eight executive officers of the Company, and a capital commitment from the remaining six executives of $1.00 per unit.

tio increases over time. On each January 1 following the issuance, the conversion ratio increases by up to 14%, if (i) the participating the Company and (ii) the Company has met a specified "Funds from Operations" per share target, or such other target as the Compens e for the previous year. The maximum conversion ratio is 100%.

convert into common units of the operating partnership if either (i) the conversion ratio reaches the maximum level of 100%, (ii) none o emain employed by the Company, (iii) the Company dissolves or is liquidated, or (iv) generally fifteen years after the date of issue of th ge of control situations, the participating executives will also be given the option to convert their units at the then-effective conversion mmittee may provide for increasing the conversion ratio of Z-1 Units to 100% at the time of a change in control of the Company (i) if su

substituted in connection with such change in control or (ii) in the event the Z-1 Units are assumed and substituted and a holder of Z-1 eriences an involuntary termination within a specified period.

s the option to redeem Z-1 Units held by any executive whose employment has been terminated for any reason and is obliged to redeem
n of any holder. In such event, the operating partnership has the option of redeeming the units for common units of the operating
Company's common stock based on the then-effective conversion ratio.

allowed to elect an early conversion once a year and such conversion is based on the conversion ratio as of January 1 of the year of
o convert up to that number of common units into which their total holdings of incentive units is convertible. Based on the number of
to receive, the conversion ratio of the equivalent number of incentive units is increased to 100% and those incentive units are then
on a one-for-one basis. The conversion ratio for the remaining units is then adjusted accordingly so that there is no overall change in th
ued or issuable upon conversion of all incentive units held by a holder, as based on the current conversion ratio. Common units, issued
units, are in turn exchangeable on a one-for-one basis into shares of the Company's common stock. Such shares are subject to limitatio
r otherwise transferred.

participate in regular quarterly distributions paid out by the operating partnership. These units receive a percentage, generally based on
f the units, of such quarterly distributions.

Executive Severance Plan

verance plan and related quantitative disclosure based on assumed triggering events below under the heading "Potential Payments Upon
ontrol" below.

Outstanding Equity Awards at December 31, 2012

l outstanding equity awards held by the named executive officers at the end of 2012:

Option Awards				Stock Awards	
Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(2)
5,500	49,500	143.03	12/11/2019	12,524	1,824,121
6,000	14,000	132.03	12/6/2021	––-	-
1,700	15,300	143.03	12/11/2019	7,955	1,158,646
3,750	8,750	132.03	12/6/2021	-	-
1,700	15,300	143.03	12/11/2019	9,210	1,341,437
3,750	8,750	132.03	12/6/2021	-	-
1,700	15,300	143.03	12/11/2019	9,210	1,341,437
3,750	8,750	132.03	12/6/2021	-	-
1,500	13,500	143.03	12/11/2019	10,884	1,585,255
1,500	3,500	132.03	12/6/2021	-	-

Unvested units issued pursuant to the Z-1 Unit programs described above.

closing price of Essex common stock on the NYSE on December 31, 2012, of $146.65, multiplied by the number of units indicated in t
$1.00 capital contribution required for each unit.

Option Exercises and Stock Vested for 2012

r 2012 the number of shares acquired upon vesting of stock awards and value realized upon vesting.

Option Awards		Stock Awards	
Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)(1)	Value Realized o Vesting ($)(2)
-	-	3,921	571,094
-	-	4,070	592,796
-	-	3,065	446,417
-	-	3,065	446,417
-	-	3,042	443,067

Stock awards consist of Z-1 Units, the amount reflect the increase in conversion ratio as of January 1, 2013.

closing price of Essex common stock on the NYSE on December 31, 2012 of $146.65 multiplied by the number of units acquired on unit capital contribution.

Nonqualified Deferred Compensation

s are currently eligible to participate in the Essex Portfolio, L.P. 2005 Deferred Compensation Plan, which is referred to in this proxy ed compensation plan." The 2005 deferred compensation plan, which was adopted on December 2, 2008 and replaced an older plan, to f the Internal Revenue Code. Under the deferred compensation plan, eligible employees, which include the named executive officers, m procedures to defer up to 100% of their base salary and up to 100% of their cash bonus (and other cash compensation) in any year, in ffect reductions due to income and payroll tax withholding and contributions to benefits plans. Essex does not currently make company ugh the plan allows the company to make a discretionary contribution. Deferral elections under the 2005 deferred compensation plan ecember 15th of the calendar year proceeding the calendar year in which the compensation that is to be deferred is scheduled to be earn

accounts under the 2005 deferred compensation plan are made on the earliest of (1) the participant's "separation from service," as defin trol," as defined in the plan or (3) a date specified by the participant at the time the deferral election was made. The distributions are pa participant may elect a payout of amounts exceeding $150,000 as of the distribution date over a period of 5, 10 or 15 annual installment deferred compensation plan payable to a "key employee" (as defined in the plan) in connection with a separation from service will be e extent required to comply with Section 409A of the Internal Revenue Code).

in an officer's account are based on investment earnings (or losses) equal to the actual net investment earning or losses experienced by rticipant. Accordingly, any earnings are based solely upon the investment allocations directed by the officer. Essex does not make these antee any particular rate of return or other benefit under the plan. Under the investment policies of the plans, and subject to administrati e directed by the officer in any securities generally available and traded on US public markets. However, the plan prohibits investments securities issued by Essex, tax-exempt securities, foreign securities not listed on the NYSE, securities determined by the administrator t ed on margin, and a number of other categories intended to limit the permitted investments to securities regularly and publicly traded in not impose specific limitations on the frequency of investment selections or changes in investments.

ccount is wholly unfunded, the investments selected by the officer are purchased by Essex in and for its own account, which account is rokerage firm, and the return on the deferral account is derived solely from these purchased investments directed by the officer. The pla

r a participant's investment instructions, but it may require the participant to liquidate an investment that is determined to be inconsiste
olicy, other plan provisions, or the Company's brokerage account agreement. The following tables provide information concerning
the prior deferred compensation plan and the 2005 deferred compensation plan by the named executive officers as of the end of 2011.

	Executive Contributions in 2012 ($)	Registrant Contributions in 2012 ($)	Aggregate Earnings/(Losses) in 2012 ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance as of December 31, 2012 ($)
	-	-	205,303	-	2,481,189
	-	-	-	-	-
	-	-	27,358	-	319,591
	-	-	-	-	-
	-	-	-	-	-

Potential Payments upon Termination or Change of Control

xecutive severance plan, which was amended and restated effective March 12, 2013, that covers the officers and members of senior
who are selected by the Board and employees who were participating in the plan as of March 12, 2013, which includes, among others,
Zimmerman and Burkart. Under this plan, if, in connection with a change of control of the Company (as defined below), the equity
the officers are not assumed by the successor corporation, all equity awards and Z-1 Units held by the officers will become fully veste

that if within the period commencing 2 months prior to a change of control of Essex and ending 24 months thereafter, Essex terminate
overed by the plan or the officer terminates his or her employment for "good reason," (as these terms are defined in the plan), Essex wi
o twice such officer's current annual base salary, twice such officer's three-year average annual bonus, pay for up to 24 months' of heal
nium benefits and outplacement services, and the equity awards and Z-1 Units held by the officer will fully vest and become exercisabl
ayable in one lump sum within 31 days following the termination date, except that payments to officer who are "specified employees" a
ect to a 6-month delay. "Good reason" includes a number of circumstances including a substantial adverse change in the officer's autho
annual base salary, annual bonus opportunity or certain employee benefits, certain relocations, failure to pay amounts owed to the offic
ompany under the plan. Severance payments and benefits are subject to withholding and other potential requirements of applicable
participating in the plan are not entitled to any tax "gross up" in respect of excise taxes, if any, that might arise under the "golden parach
e tax law (Section 280G of the Code), and may be subject to a reduction in benefits if any such excise tax were applicable and the reduc
after-tax payment to the participant.

the executive severance plan is generally defined as: (a) the acquisition by any person or entity, together with all of their respective affi
presenting 30 percent or more of the combined voting power of Essex's then outstanding securities having the right to vote, (b) the pers
onstituted Essex Board of Directors (or the incumbent directors) cease to constitute a majority of such directors, provided that a person
ent to March 12, 2013 shall be considered an incumbent director if the person's election was approved by a vote of a majority of the
e consummation of any consolidation or merger of Essex where the stockholders of Essex, immediately prior to the consolidation or
ely after the consolidation or merger, beneficially own shares representing in the aggregate 50 percent or more of the voting shares of th
ecurities in the consolidation or merger.

ituations, executives holding Z-1 Units will have the option to convert such units at the then-effective conversion ratio into operating
owever, a change of control is alone not a triggering event for any increase in the conversion rate or any other form of accelerated vesti
ssumed or substituted in connection with such change of control. The footnotes to the table "Security Ownership of Certain Beneficial
r of Essex common shares that named executive officers are entitled to upon conversion of vested, non-forfeitable incentive units as of
ll become vested and non-forfeitable within 60 days of such date. The last column of the "Outstanding Equity Awards at December 31,
value of unvested incentive units as of December 31, 2012, which may become vested in the future if the criteria are met.

ypothetical payments under the executive severance plan as if a change of control had occurred on December 31, 2012 and a defined
hin the period commencing 2 months prior to such date and ending 24 months after such date:

	Payment for 2X Annual Salary/Bonus ($)	24 months of benefits ($)	Assumed Realized Value of Accelerated Equity Awards and Z-1 Incentive Units ($)	Total (1) ($)
	1,630,000	22,000	2,220,515	3,872,515
	1,216,667	22,000	1,349,912	2,588,579
	1,266,667	22,000	1,533,958	2,822,625
	1,266,667	22,000	1,533,958	2,822,625
	1,049,333	22,000	1,696,179	2,767,512

e: (i) available balances under the nonqualified deferred compensation plan table preceding this table, (ii) any amounts due for accrued plicable law or under generally available benefit plans such as our 401(k) plan, at the time of any employment termination, or (iii) licies paid by insurance companies in the event of death or disability.

Compensation Committee Interlocks and Insider Participation

on Committee was formed in June 1994. No interlocking relationship existed in 2012 or presently exists between any member of the ommittee or Board of Directors on the one hand and another company's compensation committee or Board of Directors on the other nd relationships between the Company and certain of its officers and directors are set forth below in the section titled "Certain Relations tions; Director Independence."

CERTAIN RELATIONSHIPS AND RELATED PERSONS TRANSACTIONS; DIRECTOR INDEPENDENCE

Investment Opportunities

d members of the Company's senior management (excluding the Chief Executive Officer and Chief Financial Officer) may be give unaffiliated joint venture partners in investment transactions managed by the Company's subsidiaries on the same terms as the unaffili ctors must approve all potential investments opportunities that would include investments made by the Company's management.

Policies and Procedures with Respect to Related Person Transactions

ritten related party transaction guidelines that are intended to cover transactions in which the Company (including entities it controls) ed person" has a direct or indirect interest. A "related person" means any Essex director, director nominee, or executive officer, any be ssex outstanding common stock, and any immediate family member of any of the foregoing persons. A related person may be conside n a transaction if he or she (i) is an owner, director, officer or employee of or otherwise associated with another company that is engag r (ii) otherwise, through one or more entities or arrangements, has an indirect financial interest in or personal benefit from the transactio

n review and approval process is intended to determine, among any other relevant issues, the dollar amount involved in the transaction; ated person's direct or indirect interest (if any) in the transaction; and whether or not (i) a related person's interest is material, (ii le, and serves the best interest of Essex and its shareholders, and (iii) whether the transaction or relationship should be entered in

e Essex Board of Directors (the "Board") will review single related person transactions up to $75 million and determine whether or no
ior to the Company committing to the transaction.

the Board's Nominating and Corporate Governance Committee will jointly review a single related person transaction in excess of $
ransactions that in the aggregate exceed $100 million in any calendar year, and such transaction shall be approved by each Commit
mitting to the transaction.

be ratified by such Committee or Committees no later than their next regularly scheduled meetings.

of related person transactions that are governed by specific approval procedures:

o $1,000,000 that might involve a related person: generally transactions with a related person for ordinary course goods or services w
es, such as broker commissions for listing or buying properties, do not require prior committee approval but are to be reported to the Au
.

e acquisition or disposition of properties that may involve a related person are governed by the general approval procedure set forth ab
million and $100 million thresholds (with associated Audit Committee, or Audit Committee and Nominating and Corporate Governa
atification), except that the guidelines list specified information relating to acquisitions or dispositions to be provided to the review
description of the related person's direct or indirect interest in the transaction, the underwriting process, risk and mitigation informati
ocess, and analysis of comparable transactions, valuation or other relevant metrics. For two years after an acquisition involving a rela
tee will receive reports concerning actual versus underwritten performance.

ate Debt Transactions: these types of transactions with a related person, regardless of the amount involved, must be approved or ratif
ttee and Nominating and Corporate Governance Committee. The committees must be provided information concerning the propo
able to that set forth above for property transactions, and reports must be made to the Audit Committee quarterly as to the status of
as to any default or similar event. Unless otherwise approved by the Board of Directors, the amount outstanding under, or inves
quity/subordinate debt transactions involving the same related person may not exceed $50 million.

the Board is to be annually provided a report of the related person transactions that have been entered into since the date of the last s

Agreements between Mr. Marcus and the Company

y's Chairman, is also involved in other real estate businesses. Mr. Marcus has entered into a written agreement with the Company purs
reed (1) that he will not divert any multifamily property acquisition and/or development opportunities, which involve properties in
and with more than one hundred rental units, that are presented to him in his capacity as Chairman of the Company to any of his affili
not divulge any confidential or proprietary information regarding property acquisition and/or development opportunities that may
ity as Chairman of the Company to any of his affiliated companies and (3) that he will absent himself from any and all discussions by
rs regarding any proposed acquisition and/or development of a multifamily property where it appears that there may be an actual confli
ted companies. This agreement was approved by the independent directors (other than Mr. Marcus) of the Company.

Other Transactions

Chairman and founder, Mr. George Marcus, is the Chairman of The Marcus & Millichap Company ("TMMC"), which is a holding co
ge services and other subsidiary companies.

l II, L.P. ("Fund II") paid a brokerage commission totaling $0.4 million to an affiliate of TMMC related to the sale of a property in 201
brokerage commissions during 2011 or 2010, and no brokerage commissions were paid by the Company to TMMC or its affiliates du

Company invested $8.6 million as a preferred equity interest investment in an entity affiliated with TMMC that owns an apartm
y, California. The investment has a preferred return of 9.5% and matures in January 2016. Independent members of the Company's B
Nominating and Corporate Governance and Audit Committees approved the investment in this entity.

2012, the Company invested $14.0 million as a preferred equity interest investment in an entity affiliated with TMMC that owns
pertino, California. The investment has a preferred return of 9.5% and matures in May 2016. The Company will invest an additional $
o fund renovation costs. Independent directors (other than Mr. Marcus) on the Company's Board of Directors approved the investme

quarter of 2012, the Company acquired Montebello, a 248 unit apartment community in Kirkland, Washington for $52.0 million from
, and Wesco I, LLC acquired Riley Square (formerly Waterstone Santa Clara), a 156 unit apartment community in Santa Clara, Califo
tity affiliated with TMMC. Independent directors (other than Mr. Marcus) on the Company's Board of Directors approved the acquisit
are.

010, the Company invested $12.0 million as a preferred equity interest investment in a related party entity that owns a 768 unit apartm
fornia. The entity that owns the property is an affiliate of TMMC. The Company's independent directors (other than Mr. Marcus) appro
The preferred return for this investment during the first five years is 13% per annum, and the preferred return increases to 15% thereafte

2010, the independent directors (other than Mr. Marcus) approved the partial redemption for cash by the Operating Partnership of limi
that were held by Mr. Marcus, at $106.76 per unit representing a 2% discount from the closing price of the Company's common stoc
ng Partnership purchased 187,334 units from Mr. Marcus. Under the Operating Partnership's partnership agreement, limited partner
one-for-one basis into shares of the Company's common stock.

010, an Executive Vice President of the Company invested $4.0 million for a 3% limited partnership interest in a partnership with
Skyline at MacArthur Place. The Executive Vice President's investment is equal to a pro-rata share of the contributions to the lim
Vice President's investment also receives pro-rata distributions resulting from distributable cash generated by the property if and w
Executive Vice President does not participate in fees paid to the Company by the property.

Director Independence

ds established by the Board, a director does not qualify as independent unless the Board affirmatively determines that the director has
e Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company. The Bo
rcumstances as it deems relevant to the determination of director independence. To assist in making its determination regard
siders, at a minimum, the following categorical standards:

nt if the director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has b
n executive officer of the Company.

ent if the director has received, or has an immediate family member that is an executive officer of the Company and who has receiv
eriod with the last three years, more than $120,000 in direct compensation from the Company (other than director and committee fees
ms of deferred compensation for prior service, which compensation is not contingent upon continued service). Consistent with
ble NYSE listing standards, compensation received by a director for former service as an interim Chairman or CEO or other execut
red in determining independence under this test, and compensation received by an immediate family member for service as an employe
an an executive officer) need not be considered in determining independence under this test.

nt if (i) the director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (ii
ee of such a firm, (iii) the director has an immediate family member who is a current employee of such a firm and who participates in
ax compliance (but not tax planning) practice; or (iv) the director or an immediate family member was within the last three years (but i
ee of such a firm and personally worked on the Company's audit within that time.

nt if the director or an immediate family member is, or has been within the last three years, employed as an executive officer of any ot
Company's present executive officers concurrently serves or served on that company's compensation committee.

ent if the director is a current employee, or an immediate family member is a current executive officer, of a company that has m
ayments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of
r company's consolidated gross revenues.

nt if the director serves an executive officer of any tax exempt organization to which the Company has made, within the last three ye
fiscal year that exceeded the greater of $1 million or 2% of such tax exempt organization's consolidated gross revenues.

hat the following directors and nominees for director have no material relationship with the Company (either directly or as a partn
organization that has a relationship with the Company), and each is independent within the meaning of independence as set forth in
Exchange: David W. Brady, George M. Marcus, Gary P. Martin, Issie N. Rabinovitch, Thomas E. Randlett, Byron A. Scordelis, Janice
grabe, Jr. The Company expects that following the election at the Annual Meeting, our Board of Directors will consist of ten directo
nt.

ence of Mr. Marcus, the Board considered the matters that refer to Mr. Marcus set forth under "Certain Relationships and Related Pers
rmining the independence of Mr. Rabinovitch, the Board considered that his son-in-law is employed by Essex as one of the vice preside
velopment and is not an executive officer. In determining the independence of Mr. Martin, the Board considered that his adult so
ry level position and is not an executive officer. The Board also considered the ownership of Essex equity securities by the directors
th principles of the NYSE listing standards, that such ownership is not inconsistent with a determination of independence.

DESCRIPTION OF INDEBTEDNESS

ve have approximately $1.57 billion of mortgage notes payable. Of this amount, $1.36 billion consists of fixed rate debt with effect
.3% to 6.4%. Maturity dates on this fixed rate debt range from 2013 to 2021 with 12.3% maturing in 2013 through 2016, and 87.
mainder of the mortgage notes payable balance of $201.9 million, as of December 31, 2012, is tax exempt variable rate debt wit
e of 1.9%, of which $187.8 million of this debt is subject to interest protection agreements.

on the consolidated balance sheet as of December 31, 2012 includes:

n the existing $500 million unsecured revolving credit facility. The line has an accordion option to $600 million. The line mature
e-year extensions, exercisable at our option. The underlying interest rate on the line is based on a tiered rate structure tied to our corpo
ly at LIBOR plus 1.075%. There is no outstanding balance on the existing $25 million unsecured working capital line of credit un

the senior unsecured notes due August 2022 with a coupon rate of 3.625% per annum and are payable on February 15th and August 1
uary 15, 2013 (the "2022 Notes"). The 2022 Notes were offered to investors at a price of 98.99% of par value. The 2022 Notes are g
of the Operating Partnership, rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partners
nally guaranteed by Essex Property Trust, Inc. This prospectus relates to an offer by the Operating Partnership to exchange the 2022 N

a 5 year unsecured term loan with capacity of $350 million, and the tiered pricing structure is LIBOR plus 120 basis points. We h
cts for a term of five years with a notional amount of $300 million effectively converting the outstanding bank term loan to a fixed rate;

$150 million 4.36% senior unsecured private placement notes which mature March 31, 2016;

$40 million 4.50% senior unsecured private placement notes which mature September 30, 2017;

$75 million 4.92% senior unsecured private placement notes which mature December 30, 2019;

$100 million 4.27% senior unsecured private placement notes which mature April 30, 2021;

$50 million 4.30% senior unsecured private placement notes which mature June 29, 2021; and

$50 million 4.37% senior unsecured private placement notes which mature August 30, 2021.

ate secured mortgages are non-recourse (with certain limited exceptions in the event of fraud, etc.) and have no claims to unencumbered

RICE OF AND DIVIDENDS OF REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

g market for common units of the Operating Partnership. The Operating Partnership has paid the following distributions per common u

Quarter Ended	2012	2011	2010
	$ 1.100	$ 1.040	$ 1.033
	1.100	1.040	1.033
	1.100	1.040	1.033
	1.100	1.040	1.033
	$ 4.400	$ 4.160	$ 4.130

perating Partnership will be at the discretion of the general partner’s Board of Directors and will depend on the actual cash flows from ts financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Coo nd such other factors as the Board of Directors deem relevant. There are currently no contractual restrictions on the Operating e ability to pay distributions.

ompany announced the Board of Directors approved a $0.44 per share increase to the annualized cash dividend, resulting in a quarterly gly, the first quarter distribution, payable on April 12, 2013 to unitholders of the Operating Partnership as of record as of March 28, 201 annualized basis, the distribution is $4.84 per common unit.

oes not currently propose to offer common units to the public, and does not currently expect that a public market for those units will

EQUITY COMPENSATION PLANS

zes share and exercise price information with respect to shares of the Company’s equity compensation plans as of December 31, 2012.

	Number of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights (#)	Weighted Average Exercise Price For Outstanding Options, Warrants and Rights ($)		Securities Remaining Available for Future Issuance Under Plans (#)
s approved by security holders:				
	623,434	125.96	(1)	194,321
s not approved by security holders:				
(2)	330,747	N/A		32,548
	954,181	-		226,869

This weighted average price amount applies only to options granted under the Company’s 1994 and 2004 plans.

Includes convertible Series Z-1 incentive units, as described above under “Executive Compensation.”

RECENT SALES OF UNREGISTERED SECURITIES

w, the securities described below were issued in reliance on Section 4(2) of the Securities Act (which exempts transactions not involv

erating Partnership issued $300 million aggregate principal amount of its 3.625% Senior Notes due 2022 (the "Notes"). The Operat s at 98.99% of the principal amount thereof. The Notes are general unsecured senior obligations of the Operating Partnership and r with all other senior unsecured obligations of the Operating Partnership. However, the Notes are effectively subordinated to all of ing and future secured indebtedness (to the extent of the collateral securing such indebtedness) and to all existing and future liabilities ecured or unsecured, of the Operating Partnership's subsidiaries. The Notes bear interest at 3.625% per annum. Interest is paya February 15 and August 15 of each year, beginning February 15, 2013 until the maturity date of August 15, 2022. The Operat er the Notes are fully and unconditionally guaranteed by the Company.

2012, the Operating Partnership issued through private placements, $100 million of bonds and $50 million of bonds at 4.27% and 4.30 during the third quarter of 2012, $50 million of bonds at 4.37% due in 2021.

Partnership issued $265.0 million of unsecured bonds through private placement offerings, $150.0 million at 4.4% with a maturity date 4.5% with a maturity date of September 2017, and $75.0 million at 4.92% with a maturity date of December 2019.

eral Partner

general partner, the Company, conducted the following public offerings, pursuant to registration statements, of its common stock s of which were contributed to the Operating Partnership in exchange for partnership units in the case of common stock issuances, e of preferred stock issuances.

old 2.4 million shares of common stock for $357.7 million, net of fees and commissions, at an average price of $150.26. During the f rch 29, 2013, the Company sold 817,445 shares of common stock for $122.9 million, net of fees and commissions, at an average price

Company sold 2.5 million and 2.4 million shares of common stock for $323.9 million and $251.4 million, net of fees and commissio Partnership used the net proceeds from such sales in 2010 through 2013, to pay down debt, repurchase preferred stock, fund redevelopm und acquisitions, and for general corporate purposes.

2011, the Company sold, in a public offering, 2,950,000 shares of 7.125% Series H Cumulative Redeemable Preferred Stock (“Series I or net proceeds of $71.2 million, net of costs and original issuance discounts. The Series H has no maturity date and generally may not ore April 13, 2016. The Operating Partnership used the net proceeds from the Series H offering to redeem all of its 7.875% Serie ferred Units with a liquidation value of $80.0 million.

s adopted an incentive program involving the issuance of Series Z-1 Incentive Units (referred to as “Z Units”) of limited partnership in Vesting in the Z Units is based on performance criteria established in the plan. The criteria can be revised at the beginning of the year Committee if the Committee deems that the plan's criterion is unachievable for any given year. The sale of Z Units is contractua ertible into Operating Partnership units which are exchangeable for shares of the Company’s common stock that may have marketab air value of a Z Unit is determined on the grant date and considers the company's current stock price, the dividends that are not paid

bility discount for the 8 to 15 years of illiquidity.

dministered by the Company's Compensation Committee which has the authority to select participants and determine the awards t
ed in 2011 and 2010 but not in 2012.

Partnership issued 108,000 Series Z-1 Incentive Units (the "2010 Z-1 Units") of limited partner interest to twenty executives o
tchet (accounted for as vesting) of the 2010 Z-1 Units into common units, increased to 20 percent effective January 1, 2011 because
) minimum target of $4.75 per diluted share in 2010. Once the units are vested, Z-1 Unit holders receive quarterly distributions
ate paid on common shares. Each year thereafter, vesting of the 2010 Z-1 Units will be consistent with the Company's annual FFO gro
or greater than 14 percent.

Partnership issued 46,500 Series Z-1 Incentive Units (the "2011 Z-1 Units") of limited partner interest to fourteen executives of the Con
ght executive officers of the Company, and a capital commitment from the remaining six executives of $1.00 per 2011 Z-1 Unit. The 20
e-for-one into common units of the Operating Partnership (which, in turn, are convertible into common stock of the Company) upon
ent vesting of the units or the year 2026. The conversion ratchet (accounted for as vesting) of the 2011 Z-1 Units into common un
ctive January 1, 2012 because the Company achieved the FFO minimum target of $5.65 per diluted share in 2011. Each year thereaf
s will be consistent with the Company's annual FFO growth, but is not to be less than zero or greater than 14 percent. The 2011 Z-1
distributions on vested units that are approximately the same as dividends to common stockholders.

zes information about the Z Units outstanding as of December 31, 2012 ($ in thousands):

Long Term Incentive Plan - Z Units					
Total Vested Units	Total Unvested Units	Aggregate Intrinsic Value of Unvested Units	Total Outstanding Units	Weighted-average Grant-date Fair Value	Weighted-average Remaining Contractual Life
288,651	105,881	$ 8,751	394,532	$ 39.36	8.2 years
-	108,000		108,000		
37,629	(37,629)		-		
	(4,350)		(4,350)		
326,280	171,902	19,463	498,182	54.15	11.2 years
-	46,500		46,500		
44,520	(44,520)		-		
(191,718)	-		(191,718)		
-	(3,863)		(3,863)		
179,082	170,019	23,719	349,101	58.17	12.3 years
-	-		-		
28,163	(28,163)		-		
(16,541)	-		(16,541)		
-	(1,813)		(1,813)		
190,704	140,043	$ 20,800	330,747	$ 58.44	11.3 years

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

panying consolidated balance sheets of Essex Portfolio, L.P. (the Operating Partnership) and subsidiaries as of December 31, 2012 a
dated statements of operations, comprehensive income (loss), capital, and cash flows for each of the years in the three-year period en
ection with our audits of the consolidated financial statements, we have also audited the accompanying financial statement schedule
l statements and the accompanying financial statement schedule III are the responsibility of Operating Partnership's management.
n opinion on these consolidated financial statements and the accompanying financial statement schedule III based on our audits.

accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we p
in reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a
he amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and signific
ment, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for

ated financial statements referred to above present fairly, in all material respects, the financial position of Essex Portfolio, L.P. a
r 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period en
formity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule III, wh
basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/S/ KPMG LLP
KPMG LLP

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2012 and 2011
(Dollars in thousands, except unit amounts)

	2012	2011
Assets		
	$ 1,003,171	$ 860,661
	4,030,501	3,452,403
	5,033,672	4,313,064
on	(1,081,517)	(920,026
	3,952,155	3,393,038
nt	66,851	44,280
	571,345	383,412
	4,590,351	3,820,730
arestricted	18,606	12,889
stricted	23,520	22,574
	92,713	74,275
	66,163	66,369
ssets	35,003	22,682
	20,867	17,445
	$ 4,847,223	$ 4,036,964
	$ 1,565,599	$ 1,745,858
	1,112,084	465,000
	141,000	150,000
d liabilities	64,858	48,324
	5,392	6,505
	45,052	39,611
	6,606	3,061
	22,167	20,528
	2,962,758	2,478,887
cies		
s G preferred interest (liquidation value of $4,456 and $4,456, respectively)	4,349	4,349
and 33,888,082 units issued and outstanding at December 31, 2012 and December 31, 2011,		
	1,762,856	1,439,089
n value of $73,750 and $73,750, respectively)	71,209	71,209
	1,834,065	1,510,298

nd 2,229,230 units issued and outstanding for the year ended December 31, 2012 and 2011,		
	45,593	48,578
ensive loss	(68,231)	(71,962
	1,811,427	1,486,914
	68,689	66,814
	1,880,116	1,553,728
	$ 4,847,223	$ 4,036,964

See accompanying notes to consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31, 2012, 2011 and 2010
(Dollars in thousands, except per unit and unit amounts)

	2012		2011		2010
	$ 531,936		$ 465,713		$ 405,728
rom affiliates	11,489		6,780		4,551
	543,425		472,493		410,279
g real estate taxes	125,437		115,528		104,049
	48,651		43,706		39,115
	170,592		151,428		128,221
	23,307		20,694		23,255
er fees	6,513		4,610		2,707
s	-		-		2,302
	374,500		335,966		299,649
	168,925		136,527		110,630
tization	(100,244	)	(91,694	)	(82,756
	(11,644	)	(11,474	)	(4,828
	13,833		17,139		27,841
-investments	41,745		(467	)	(1,715
o-investment	21,947		-		-
ebt	(5,009	)	(1,163	)	(10
operations	129,553		48,868		49,162
erations	10,037		8,648		1,620
	139,590		57,516		50,782
ncontrolling interest	(6,347	)	(5,571	)	(5,770
ntrolling interest	133,243		51,945		45,012
s - Series F, G, & H	(5,472	)	(4,753	)	(2,170
s - limited partners	-		(1,650	)	(6,300
nt of preferred interest redeemed over the cash paid to redeem preferred					
	-		(1,949	)	-
mon units	127,771		43,593		36,542
operations available to common units	$ 3.16		$ 1.00		1.09
erations	0.27		0.25		0.05
mon units	$ 3.43		$ 1.25		1.14
common units outstanding during the period	37,251,537		34,773,559		31,960,950

operations available to common units	$ 3.15	$ 1.00	1.09
erations	0.27	0.25	0.05
mon units	$ 3.42	$ 1.25	1.14
common units outstanding during the period	37,343,967	34,860,521	32,028,269

See accompanying notes to consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
Years ended December 31, 2012, 2011 and 2010
(Dollars in thousands)

	2012		2011		2010
	$ 139,590		$ 57,516		$ 50,782
e (loss):					
flow hedges and amortization of settlement swaps	3,402		7,707		(50,437
ketable securities	1,411		1,330		5,357
upon the sale of marketable securities	(1,082	)	(4,286	)	(12,027
come (loss)	3,731		4,751		(57,107
)	143,321		62,267		(6,325
utable to noncontrolling interest	(6,347	)	(5,571	)	(5,770
) attributable to the Operating Partnership	$ 136,974		$ 56,696		$ (12,095

onsolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Consolidated Statement of Capital for the Years ended December 31, 2012, 2011 and 2010
(Dollars and units in thousands)

General Partner		Limited Partners			Accumulated other comprehensive (loss) income	Noncontrolling Interest	Total
mon Equity	Preferred Equity	Common Equity		Preferred Equity			
Amount	Amount	Units	Amount	Amount			
$ 1,052,893	$ 24,412	2,398	$ 62,509	$ 80,000	$ (19,606)	$ 73,333	$ 1,273,541
33,761	2,170	-	2,781	6,300	-	5,770	50,782
-	-	-	-	-	(12,027)	-	(12,027
-	-	-	-	-	(50,437)	-	(50,437
-	-	-	-	-	5,357	-	5,357
5,803	-	-	-	-	-	-	5,803
251,455	-	-	-	-	-	-	251,455
(260)	-	(197)	2,474	-	-	-	2,214
-	-	-	-	-	-	4,038	4,038
(434)	-	-	-	-	-	-	(434

(16,347)	-	-	(4,357)	-	-	(3,482)	(24,186
-	-	-	-	-	-	(9,160)	(9,160
(124,120)	(2,170)	-	(9,342)	(6,300)	-	-	(141,932
1,202,751	24,412	2,201	54,065	80,000	(76,713)	70,499	1,355,014
42,317	4,753	-	3,225	1,650	-	5,571	57,516
-	-	-	-	-	(4,286)	-	(4,286
-	-	-	-		7,707		7,707
-	-	-	-	-	1,330	-	1,330
8,412	-	-	-	-	-	-	8,412
323,931	-	-	-	-	-	-	323,931
(725)	-	28	1,598	-	-	-	873
-	71,209	-	-	-	-	-	71,209
(588)	(24,412)	-	-	-	-	-	(25,000
1,200	-	-	-	(80,000)	-	-	(78,800

(1,134)	-	-	(1,049)	-	-	(3,204)	(5,387
-	-	-	-	-	-	(6,052)	(6,052
(137,075)	(4,753)	-	(9,261)	(1,650)	-	-	(152,739
1,439,089	71,209	2,229	48,578	-	(71,962)	66,814	1,553,728
119,812	5,472	-	7,959	-	-	6,347	139,590
-	-	-	-	-	(1,082)	-	(1,082
-	-	-	-		3,402		3,402
-	-	-	-	-	1,411	-	1,411
4,675	-	-	-	-	-	-	4,675
357,720	-	-	-	-	-	-	357,720
(430)	-	(107)	2,231	-	-	-	1,801
-	-	-	-	-	-	4,232	4,232
(1,798)	-	-	(3,441)	-	-	(1,747)	(6,986
-	-	-	-	-	-	(6,957)	(6,957
(156,212)	(5,472)	-	(9,734)	-	-	-	(171,418
$ 1,762,856	$ 71,209	2,122	$ 45,593	$ -	$ (68,231)	$ 68,689	$ 1,880,116

See accompanying notes to consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2012, 2011 and 2010
(Dollars in thousands)

	2012	2011	2010
ctivities:			
	$ 139,590	$ 57,516	$ 50,782
income to net cash provided by operating activities:			
ecurities	(819)	(4,956)	(12,491
o-investment	(21,947)	-	-
he sales of co-investment	(29,112)	(919)	-
te	(10,870)	(8,562)	-
ebt	5,009	1,163	10
	1,626	7,929	1,715
	11,644	11,474	4,828
notes receivables	(1,832)	(1,757)	(4,806
marketable securities	(5,127)	(4,794)	(3,714
ts - ineffectiveness	-	-	2,301
	170,686	152,542	129,711
	4,141	2,927	3,251
nd liabilities:			
ssets	(9,488)	(1,172)	(2,771
d liabilities	12,360	3,620	4,302
	1,638	1,560	2,412
ng activities	267,499	216,571	175,530
tivities:			
	(393,771)	(57,478)	(279,607
isitions	(13,704)	(16,446)	(6,388
	(40,200)	(45,130)	(14,096
xpenditures	(7,620)	(7,616)	(1,584
tal expenditures	(30,491)	(26,090)	(29,278
to real estate under development	(29,196)	(79,194)	(155,267
nterest in co-investment	(85,000)	-	-
	27,800	23,003	-
d refundable deposits	(6,069)	(1,376)	(4,414
rities	(73,735)	(8,048)	(49,974
ble securities	61,703	32,998	102,039
	-	-	1,223
nder notes and other receivables	(26,000)	(12,325)	(37,627
r receivables	14,525	884	1,855
nts	(260,153)	(246,106)	(79,450
rom co-investments	49,773	17,141	41,700
tivities	(812,138)	(425,783)	(510,868
ctivities:			
ments	1,745,853	1,514,684	1,214,216

	(1,371,317	)	(1,435,135	)	(882,646
s	(6,707	)	(5,533	)	(4,109
instruments	-		(2,395	)	(81,282
bonds	-		-		(5,396
of Series H Preferred interests	-		71,209		-
rred interests and Series F Preferred interests	-		(103,800	)	-
	(309	)	(627	)	-
ons exercised	2,643		6,986		4,765
of common stock	357,720		323,931		251,455
olling interest	2,400		-		4,038
ng interest	(6,957	)	(6,052	)	(9,160
ers units and noncontrolling interests	(6,986	)	(5,387	)	(24,186
units and preferred interests distributions paid	(165,984	)	(149,533	)	(139,264
ng activities	550,356		208,348		328,431
sh and cash equivalents	5,717		(864	)	(6,907
beginning of year	12,889		13,753		20,660
end of year	$ 18,606		$ 12,889		$ 13,753

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2012, 2011 and 2010
(Dollars in thousands)

	2012	2011	2010
ash flow information:			
$10,346, $8,240, and $9,486 capitalized in 2012, 2011 and 2010, respectively	$ 95,597	$ 89,691	$ 83,497
oncash investing and financing activities:			
er development to rental properties	$ 6,632	$ 165,214	$ 170,940
s to rental properties	$ 148,053	$ -	$ -
onnection with purchases of real estate including the loan premiums recorded	$ 82,133	$ 20,927	$ 87,336
er development to co-investments	$ -	$ 54,472	$ -
the company purchased the property securing the note receivable	$ -	$ -	$ 25,750
ole to co-investment	$ 12,325	$ -	$ -
ds	$ 5,441	$ 3,206	$ 2,655
ative liabilities	$ 4,461	$ 230	$ 1,907
etable securities	$ 459	$ 2,836	$ 6,670
ole	$ 1,113	$ 2,518	$ 1,304

See accompanying notes to consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31 2012, 2011, and 2010

ted financial statements present the accounts of Essex Portfolio, L.P. (the "Operating Partnership") and its subsidiaries. Essex Property
Company") is a Maryland corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). The C
eal estate investments directly or indirectly through the Operating Partnership.

ner in the Operating Partnership with a 94.5% general partner interest and the limited partners owned a 5.5% interest as of December 31
nay convert their Operating Partnership units into an equivalent number of shares of common stock. Total Operating Partnership units
nd 2,229,230 as of December 31, 2012 and 2011, respectively, and the redemption value of the units, based on the closing price of the
taled $311.2 million and $313.2 million, as of December 31, 2012 and 2011, respectively. The Company has reserved shares of comm
hese conversion rights may be exercised by the limited partners at any time through 2026.

e Operating Partnership owned or had ownership interests in 163 apartment communities, (aggregating 33,468 units), five commercial
velopment projects (collectively, the "Portfolio"). The communities are located in Southern California (Los Angeles, Orange, Riverside
d Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan area.

Significant Accounting Policies

on

g Partnership, its controlled subsidiaries and the variable interest entities ("VIEs") in which it is the primary beneficiary are consolidate
tatements. All significant inter-company accounts and transactions have been eliminated.

nsolidates 19 DownREIT limited partnerships (comprising twelve communities), since the Operating Partnership is the primary
interest entities ("VIEs"). The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were
n and $178.6 million, respectively, as of December 31, 2012, and $199.8 million and $171.5 million, respectively, as of December 31,

ively own twelve apartment communities in which Essex Management Company ("EMC") is the general partner, the Operating Partner
nd the other limited partners were granted rights of redemption for their interests. Such limited partners can request to be redeemed and
n elect to redeem their rights for cash or by having the Company issuing shares of its common stock on a one share per unit
l be based on the market value of the Company's common stock at the time of redemption multiplied by the number of units stipulated
s. The other limited partners receive distributions based on the Operating Partnership's current distribution rate times the number of un
outstanding were 1,039,431 and 1,063,848 as of December 31, 2012 and 2011 respectively, and the redemption value of the units, base
mpany's common stock totaled $152.4 million and $149.5 million, as of December 31, 2012 and 2011, respectively. As of December
value of the other limited partners' interests is presented at their historical cost and is classified within noncontrolling interest in the
balance sheets.

olidated by the Operating Partnership are allocated a priority of net income equal to the cash payments made to those interest holders o
The remaining results of operations are generally allocated to the Operating Partnership.

d 2011, the Operating Partnership did not have any VIE's of which it was not deemed to be the primary beneficiary.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31 2012, 2011, and 2010

ties

ch improve or extend the life of an asset and have a useful life of greater than one year, are capitalized. Operating real estate assets are and, buildings and improvements, furniture, fixtures and equipment, and other costs incurred during their development, redevelopment a r maintenance and repairs are charged to expense as incurred.

us categories of fixed assets is as follows:

oftware and equipment	3 - 5 years
improvements	5 years
vements and certain exterior components of real property	10 years
tructures	30 years

pitalizes all costs incurred with the predevelopment, development or redevelopment of real estate assets or are associated with the real property. Such capitalized costs include land, land improvements, allocated costs of the Operating Partnership’s project manageme ell as interest and related loan fees, property taxes and insurance. Capitalization begins for predevelopment, development, and activity commences. Capitalization ends when the apartment home is completed and the property is available for a new resident or if t t on hold. The Operating Partnership ceases to capitalize costs such as property taxes, insurance, and interest expenses once the t on hold.

locates the purchase price of real estate to land and building, and identifiable intangible assets, such as the value of above, below and f the above and below market leases are amortized and recorded as either a decrease (in the case of above market leases) or an increase (ses) to rental revenue over the remaining term of the associated leases acquired, which in the case of below market leases the Operating will elect to renew their leases. The value of acquired in-place leases are amortized to expense over the term the Operating Partnership tenant, which is generally 20 months.

erforms the following evaluation for communities acquired:

ust the purchase price for any fair value adjustments resulting from such things as assumed debt or contingencies.

(2) estimate the value of the real estate “as if vacant” as of the acquisition date;

(3) allocate that value among land and building;

of the difference between the “as if vacant” value and the adjusted purchase price, which will represent the total intangible assets;

e value of the above and below market leases and determine the associated life of the above market/ below market leases;

mpute the value of the in-place leases and customer relationships, if any, and the associated lives of these assets.

in circumstances indicate that the carrying amount of a property held for investment or held for sale may not be fully recoverable, the uated for impairment. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying assets) of a property held for investment, then the Operating Partnership will recognize an impairment loss equal to the excess of the value of the property. Fair value of a property is determined using conventional real estate valuation methods, such as discounted cash ged yield in comparison to the unleveraged yields and sales prices of similar communities that have been recently sold, and other third

e. Communities held for sale are carried at the lower of cost and fair value less estimated costs to sell. As of December 31, 2012 and
classified as held for sale and no impairment charges were recorded in 2012, 2011 or 2010.

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ess, the Operating Partnership will receive purchase offers for its communities, either solicited or unsolicited. For those offers that are
ver will usually require a due diligence period before consummation of the transaction. It is not unusual for matters to arise that result in
f the offer during this process. The Operating Partnership classifies real estate as "held for sale" when all criteria under the accounting
long-lived assets have been met. In accordance with the standard, the Operating Partnership presents income and gains/losses on
sale as discontinued operations. The Operating Partnership's equity in income or loss from real estate investments accounted for under
remain classified in continuing operations upon disposition. (See Note 6 for a description of the Operating Partnership's discontinued
d 2010).

vns investments in joint ventures ("co-investments") in which it has significant influence, but its ownership interest does not meet the
ccordance with the accounting standards. Therefore, the Operating Partnership accounts for these investments using the equity method
method of accounting, the investment is carried at the cost of assets contributed, plus the Operating Partnership's equity in earnings le
Operating Partnership's share of losses. For preferred equity investments the Operating Partnership recognizes its preferred interest as

ents, excluding the preferred equity investments, compensate the Operating Partnership for its asset management services and some of
de promote distributions if certain financial return benchmarks are achieved. Asset management fees are recognized when earned, and
when the earnings events have occurred and the amount is determinable and collectible. Any promote distributions are reflected in equi
nts. In 2012, the Operating Partnership recorded a $2.3 million promote fee in connection with acquisition of our joint venture partner's
est in the co-investment Essex Skyline at MacArthur Place for a purchase price of $85 million. The property is now consolidated. There
ized in 2011 and 2010 in the accompanying consolidated statements of operations.

ale of Real Estate

g or leasing apartment units are recorded when due from tenants and are recognized monthly as they are earned, which is not materially
ne basis. Units are rented under short-term leases (generally, lease terms of 6 to 12 months) and may provide no rent for one or two
rket conditions and leasing practices of the Operating Partnership's competitors in each sub-market at the time the leases are
nants leasing commercial space are recorded on a straight-line basis over the life of the respective lease.

cognizes gains on sales of real estate when a contract is in place, a closing has taken place, the buyer's initial and continuing investmen
mmitment to pay for the property and the Operating Partnership does not have a substantial continuing involvement in the property.

stricted Cash

th maturities of three months or less when purchased are classified as cash equivalents. Restricted cash balances relate primarily to
tal replacement at certain communities in connection with the Operating Partnership's mortgage debt.

ports its available for sale securities at fair value, based on quoted market prices (Level 2 for the unsecured bonds and Level 1 for the
nt funds, as defined by the Financial Accounting Standards Board ("FASB") standard for fair value measurements as discussed later in N
r loss is recorded as other comprehensive income (loss). There were no other than temporary impairment charges for the years ended
d 2010. Realized gains and losses, interest income, and amortization of purchase discounts are included in interest and other income on
f operations.

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

d 2011 marketable securities consist of the following ($ in thousands):

	December 31, 2012		
	Amortized Cost	Gross Unrealized Gain	Carrying Value
bonds	$ 5,143	$ 98	$ 5,241
ries	14,120	729	14,849
	18,917	1,704	20,621
	52,002	-	52,002
	$ 90,182	$ 2,531	$ 92,713

	December 31, 2011		
	Amortized Cost	Gross Unrealized Gain	Carrying Value
bonds	$ 3,615	$ 399	$ 4,014
ries	11,783	121	11,904
	10,067	1,552	11,619
	46,738	-	46,738
	$ 72,203	$ 2,072	$ 74,275

es the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other
curities sold. For the years ended December 31, 2012, 2011 and 2010, the proceeds from sales of available for sale securities totaled
and $102.0 million, respectively. These sales all resulted in gains, which totaled $0.8 million, $5.0 million and $12.5 million for the yea
011 and 2010, respectively.

l estate financing arrangements including mezzanine and bridge loans and are secured by real estate. Interest is recognized over the life

rmine if it is impaired. A note is impaired if it is probable that the Operating Partnership will not collect all principal and interest
ating Partnership does not accrue interest when a note is considered impaired and a loan allowance is recorded for any principal and
at are not believed to be collectable. All cash receipts on impaired notes are applied to reduce the principal amount of such notes until t
and, thereafter, are recognized as interest income. As of December 31, 2012 and 2011, no notes were impaired.

pitalizes all direct and certain indirect costs, including interest and real estate taxes, incurred during development and redevelopment
ed 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
accumulated development expenditures during the reporting period. Included in capitalized costs are management's accounting estimate
personnel costs and indirect project costs associated with the Operating Partnership's development and redevelopment activities. Indire
y of personnel costs associated with construction administration and development, including accounting, legal fees, and various office
ojects under development. The Operating Partnership's capitalized internal costs related to development and redevelopment projects tot
d $4.0 million for the years ended December 31, 2012, 2011 and 2010, respectively, most of which relates to development
e capitalized salaries of $2.4 million, $2.2 million and $2.1 million, for the years ended December 31, 2012, 2011 and 2010, respectively

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primarily from cash balances and marketable securities as well as notes receivables. Other income primarily consists of gains on sales o
interest and other income is comprised of the following for the years ended December 31 ($ in thousands):

		2012		2011		2010
	$	10,715	$	10,501	$	15,350
		2,299		-		-
securities		819		4,956		12,491
ıbsidiary		-		1,682		-
	$	13,833	$	17,139	$	27,841

struments

lues its financial instruments based on the fair value hierarchy of valuation techniques described in the FASB's accounting standard for
vel 1 inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Level 2 inputs
ilar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are
sset or liability. The Operating Partnership uses Level 1 inputs for the fair values of its cash equivalents and its marketable securities
nd mortgage backed securities. The Operating Partnership uses Level 2 inputs for its investments in unsecured bonds, mortgage backed
otes payable, and derivative liabilities. These inputs include interest rates for similar financial instruments. The Operating Partnership
erivatives is described in more detail in Note 9. The Operating Partnership's valuation methodology for the swap related to the multifam
the 101 San Fernando community, which the Operating Partnership terminated in 2012, is described in detail in Note 9. The Operating
el 3 inputs to estimate fair values of any of its financial instruments. The Operating Partnership's assessment of the significance of a
ue measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

e carrying amounts of its amounts outstanding under lines of credit, notes receivable and other receivables approximate fair value as of
, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for
ment has estimated that the fair value of the Operating Partnership's $2.13 billion and $1.77 billion of fixed rate debt at December 31,
to be $2.24 billion and $1.88 billion. Management has estimated the fair value of the Operating Partnership's $692.9 million and $593
t December 31, 2012 and 2011, respectively, is $671.7 million and $572.3 million based on the terms of the Operating Partnership's
mpared to those available in the marketplace. Management believes that the carrying amounts of cash and cash equivalents, restricted
ccrued liabilities, construction payables, other liabilities and dividends payable approximate fair value as of December 31, 2012 and 201
y of these instruments. The fair values of the Operating Partnership's investments in mortgage backed securities are approximately equ
alue of these securities. Marketable securities and derivative liabilities are carried at fair value as of December 31, 2012.

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Swap, and Forward Contracts

es interest rate swaps, interest rate cap contracts, and forward starting swaps to manage interest rate risks. As of December 31, 2012, rward starting swaps. The valuation of these derivative instruments is determined using widely accepted valuation techniques including s on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to e market-based inputs, including interest rate curves. The fair values of forward starting interest rate swaps were determined using the y of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). Th ceipts) were based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The orates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's air value measurements. The Operating Partnership records all derivatives on its consolidated balance sheet at fair value. The accountin of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to n asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedge

fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in signated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehens and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fai ognized directly in earnings. The Operating Partnership assesses the initial and ongoing effectiveness of each hedging relationship by r value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or

d as cash flow hedges, changes in fair value are recognized in earnings. All of the Operating Partnership's interest rate swaps and intere flow hedges except for the swap related to the multifamily revenue refunding bonds for the 101 San Fernando community that was bed in detail in Note 9. The Operating Partnership did not have any fair value hedges during the years end December 31, 2012, 2011 an

objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other sh this objective, the Operating Partnership primarily used interest rate swaps and interest rate forward-starting swaps as part of its cash Operating Partnership was hedging its exposure to the variability in future cash flows for a portion of its forecasted transactions.

ally comprised of loan fees and related costs which are amortized over the terms of the related borrowing in a manner which approximat

ng Partnership is not subject to federal or state income taxes except that in order to maintain compliance with REIT tax rules that are he Operating Partnership utilizes taxable REIT subsidiaries for various revenue generating or investment activities. The taxable REIT by the Operating Partnership. The activities and tax related provisions, assets and liabilities are not material.

s issued preferred interests to the Company in connection with issuances of preferred stock by the Company. These preferred interests e right to receive preferential distributions from the Operating Partnership. The Company may also make special distributions to itself

erests for the sole purpose of redeeming shares of preferred stock.

mulative Convertible Preferred Stock (“ Series G Preferred Stock”) contains fundamental change provisions that allow the holder to rec
f certain events occur. The redemption under these provisions is not solely within the Company’s or Operating Partnership’s control, th
s classified its related Series G Preferred Interest as temporary equity in the accompanying consolidated balance sheets.

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mulative Redeemable Preferred Stock ("Series H Preferred Stock"), issued during 2011, contains fundamental change provisions that al
erred stock for cash if certain events occur. The redemption under these provisions is within the Company's or Operating Partnership's
ng Partnership has classified its related Series H Preferred Interest as permanent equity in the accompanying consolidated balance sheets
011.

on

e-based payments to employees for the purpose of attracting and retaining its employees. For each share of common stock the Comp
ompensation plans, the Operating Partnership issues a corresponding number of operating partnership common units to the Company.
nts for equity based compensation using the fair value method of accounting. The estimated fair value of stock options granted by
over the vesting period of the stock options. The estimated grant date fair values of the long term incentive plan units (discussed in N
the expected service periods.

ted financial statements, in accordance with U.S. generally accepted accounting principles ("GAAP"), requires the Operating Partnershi
ts that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities
erating Partnership evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real
nts in and advances to joint ventures and affiliates, its notes receivable and the Company's qualification as a REIT. The Operating
s on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the
may vary from those estimates and those estimates could be different under different assumptions or conditions.

te

r 31, 2012, the Operating Partnership purchased eleven communities consisting of 2,052 units for $551.1 million.

12, the Operating Partnership acquired Bon Terra, a 60 unit community located adjacent to Delano in Redmond, Washington for $16.0
nership also acquired Reed Square, a 100 unit community located in Sunnyvale, California for $23.0 million.

2012, the Operating Partnership purchased the joint venture partner's membership interest in the co-investment Essex Skyline at
premier high-rise apartment community located in Santa Ana, California, for a total purchase price of $85.0 million. The Operating
e income of $2.3 million included in interest and other income on the consolidated statements of operations, earned as a result of achiev
as defined in the joint venture agreement. Upon the acquisition of partner's membership interest, the property was consolidated and a g
erating Partnership's co-investment interest of $21.9 million was recorded equal to the amount by which the fair value of the Operating
ed noncontrolling interest exceeded its carrying value. The secured $80.0 million loan was repaid early as part of this transaction.

er of 2012, the Operating Partnership purchased Park Catalina, a 90 unit property located in the Koreatown submarket of Los Angeles,
e price of $23.7 million. In addition, the Operating Partnership purchased The Huntington, a 276 unit property located in Huntington
ase price of $48.3 million. The Operating Partnership assumed a $30.3 million loan secured by the property at a fixed rate of 5.7% for
e on the loan was unfavorable compared to currently available market rates for mortgage loans, and thus in conjunction with the purchas
g Partnership recorded a $4.3 million loan premium to reflect the debt at fair value. This results in an effective interest rate for this loan

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012, the Operating Partnership purchased Montebello, a 248 unit property located in Kirkland, Washington, for a purchase price of $52.
ntity. The Operating Partnership assumed a $26.5 million mortgage loan secured by the property at a fixed rate of 5.6% for eight
e loan was unfavorable compared to currently available market rates for mortgage loans, and thus in conjunction with the purchase pric
tnership recorded a $4.1 million loan premium to reflect the debt at fair value. This results in an effective interest rate for this loan of

of 2012, the Operating Partnership acquired Park West, a 126 unit apartment community located in San Francisco, California, for $31.6
ership intends to renovate the exterior of the community for $8 million. In addition, the Operating Partnership acquired Domaine, a 92
le, Washington for $34.0 million. In connection with the purchase, the Operating Partnership assumed a $14.6 million loan at a fixed ra
he interest rate on the loan was unfavorable compared to currently available market rates for mortgage loans, and thus in conjunction w
the Operating Partnership recorded a $2.4 million loan premium to reflect the debt at fair value. This results in an effective interest rat

2012, the Operating Partnership acquired Ascent, a 90 unit community located in Kirkland, Washington, for $15.9 million and Willow
property located in San Jose, California for $148.0 million. Also during the fourth quarter of 2012, the Operating Partnership purchase
ofts), a 147 unit apartment community located in San Francisco, California, for a total purchase price of $96.0 million. Approximately
uired in December for $73.8 million, and the remainder was purchased in January 2013 for $22.2 million.

ber 31, 2011, the Operating Partnership purchased five communities for approximately $103.3 million, consisting of the follow
):

ties	Location		Purchase Price	Units
	Redmond, WA	$	14,100	66
	Seattle, WA		13,800	63
	Los Angeles, CA		27,000	63
	Los Angeles, CA		17,000	73
	Santa Clara, CA		31,400	121
		$	103,300	386

tments

r 31, 2012, the Operating Partnership sold $28.3 million of real estate which resulted in a gain of $10.9 million.

12, the Operating Partnership sold Tierra Del Sol/Norte, a 156 unit community located in San Diego, California for $17.2 million for a
erating Partnership also sold Alpine Country, a 108 unit community located in San Diego metropolitan area, for $11.1 million for a gai

2011, the Operating Partnership disposed of Woodlawn Colonial, a 159-unit community located in Chula Vista, California for $16.0
ain of $5.2 million. The property was purchased in 2002 as part of the John M. Sachs, Inc. merger.

011, the Operating Partnership sold the View Pointe land parcel located in Newcastle, Washington for net proceeds of $1.4 million and a

2011, the Operating Partnership sold the Clarendon office building in Woodland Hills, California for $7.4 million which resulted in a ga

or sale as of December 31, 2012 or 2011.

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as joint venture investments in co-investments which are accounted for under the equity method. The co-investments' accounting polici
Partnership's accounting policies. The joint ventures own, operate, and develop apartment communities.

a 50/50 programmatic joint venture with an institutional partner for a total equity commitment of $300.0 million. Each partner's equit
n. Wesco I will utilize debt as leverage equal to approximately 50% of the underlying real estate. The Operating Partnership has
Wesco I, and as of December 31, 2012, Wesco I owned nine apartment communities with 2,713 units with an aggregate carrying value

012, Wesco I acquired Riley Square (formerly Waterstone Santa Clara) for $38.3 million from a related party entity. The property conta
nta Clara, California. Wesco I assumed a $17.5 million mortgage loan secured by the property at a fixed rate of 5.2% for a term of 8
e loan was unfavorable compared to currently available market rates for mortgage loans, and thus in conjunction with the purchase pric
a $2.3 million loan premium to reflect the debt at fair value. This results in an effective interest rate for this loan of 3.1%.

2012, Wesco I acquired Madrid, a 230 unit community located in Mission Viejo, California for an undisclosed price (per an agreement
the quarter, Wesco I acquired Pacific Electric Lofts for an undisclosed amount (per an agreement with the seller). The property contain
square feet of retail.

r 31, 2011, the Operating Partnership purchased five communities under the Wesco I joint venture for approximately $429.2 million,
ommunities ($ in thousands):

unities	Location	Purchase Price		Units
	Oxnard, CA	$	92,000	373
	Redmond, WA		151,300	882
	Woodland Hills, CA		132,900	438
	Fremont, CA		27,800	160
	Fremont, CA		25,200	160
		$	429,200	2,013

Partnership entered into a 50/50 programmatic joint venture, Wesco III LLC ("Wesco III"), with an institutional partner for a total equity
of $120.0 million. Each partner's equity commitment is $60.0 million. Wesco III will utilize debt as leverage equal to approximately 5
The Operating Partnership has contributed $10.0 million to Wesco III, and provided a $26.0 million short term bridge loan to Wesco II

2012, Wesco III acquired Haver Hill, a 264 unit community located in Fullerton, California for $45.6 million.

l II, L.P.

l II, L.P. ("Fund II"), has eight institutional investors with combined partner equity contributions of $265.9 million. The Operating
0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fund II utilized debt as leverage equal to

initial acquisition of the underlying real estate. Fund II invested in apartment communities in the Operating Partnership's targeted Wes
asis on investment opportunities in the Seattle metropolitan area and the San Francisco Bay Area. As of October 2006, Fund II was full
uture acquisitions or development. As of December 31, 2012, Fund II owned seven apartment communities.

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2012, Fund II sold seven communities for gross proceeds of $413.0 million, consisting of the following communities ($ in thousands):

nities	Location	Purchase Price		Units
	Corona, CA	$	42,200	312
	Oakland, CA		31,000	178
	Studio City, CA		56,300	149
	Seattle, WA		50,100	173
	Chatsworth, CA		33,100	119
	Snoqualmie, WA		26,500	120
	San Jose, CA		173,750	637
		$	412,950	1,688

of the assets, the Operating Partnership incurred a prepayment penalty on debt obligations of $2.3 million during the fourth quarter of 20 II's debt. The total gain on the transaction was $106 million, of which the Operating Partnership's pro rata share was $29.1 million.

ment Board – Joint Venture Developments

as entered into four development joint ventures with the Canada Pension Plan Investment Board ("CPPIB") to develop four apartment venture the Operating Partnership holds a 55% non controlling interest in the venture and will earn customary management fees and ma property management fees. The Operating Partnership may also earn a promote interest. These co-investments are not variable interest cient equity without additional subordinated support, and the Operating Partnership and CPPIB jointly have the power to direct activitie t the co-investments' economic performance. Each of the co-investments between the Operating Partnership and CPPIB has a single sidiary consolidated by the Operating Partnership. However, the Operating Partnership, as general partner of the co-investments, does n ecause the limited partners have substantive participating rights. Therefore, the presumption of control by the Operating Partnership as by the rights held by CPPIB, and the Operating Partnership records the co-investments with CPPIB on the equity method of accounting.

development joint ventures:

IB Joint	Location	Ownership %	Units	Estimated Total Cost		Construction Start
	San Jose, CA	55%	569	$	191.6	Aug
	Dublin, CA	55%	309		94.5	Aug
	San Francisco, CA	55%	463		250.0	Jun
	San Mateo, CA	55%	197		76.1	Aug
			1,538	$	612.2	

formerly Fountain and Santa Monica at La Brea) – Joint Venture Developments

011, the Operating Partnership entered into a development joint venture with a regional developer for the construction of The Huxley, a proximately 18,200 square feet of retail located in West Hollywood, California. The regional developer contributed the land and the buted approximately $9.0 million in cash for a 50% interest in the venture. The joint venture obtained bond financing for the project in a maturity date of October 2046 and entered into an interest rate swap transaction with respect to the bonds that terminates in Septemb

s the interest rate to the Securities Industry and Financial Market Association index (“SIFMA”) plus 150 basis points through Decembe

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the Operating Partnership entered into another development joint venture with the same regional developer for the construction of The community with approximately 12,750 square feet of retail located in West Hollywood, California. The 50/50 joint venture was created million by the Operating Partnership and the contribution of entitled land by the regional developer. The joint venture secured bond 59.9 million, maturing in December 2046. The joint venture entered into a total return swap agreement that effectively converts the 50 basis points through December 2016.

two development projects have joint and several liability for the joint venture partners. Additionally, if either partner fails to make cap joint ventures in certain instances, then the ownership interest of the defaulting partner in the other joint venture may be reduced.

– Joint Venture Development

Operating Partnership entered into a development joint venture with a partner who contributed a land parcel during the first quarter of rest in the venture and the Operating Partnership contributed cash equal to the value of the land in return for a 50% interest in the joint unity is under development in Seattle, Washington. The Expo joint venture obtained a $45.0 million construction loan at a rate of LIBO y 2014, with two one-year extension options exercisable at the joint venture's option.

2012, the Operating Partnership made a $14 million preferred equity investment in an apartment community located in Cupertino, ntity. The investment has a preferred return of 9.5% and matures in May 2016. The preferred equity agreement provides for up to $4 for renovation costs.

11, the Operating Partnership invested $9.7 million as preferred equity investments in two apartment communities located in downtown ts are for ten years with a preferred return of 9% for five years, increasing to a minimum of 10% and a maximum of 12.5% thereafter.

2011, the Operating Partnership completed a $13.0 million preferred equity investment in an entity owning an apartment community geles. The Operating Partnership's preferred return is 10% and the Operating Partnership's investment has a five-year term.

011, the Operating Partnership sold its preferred stock investments in MyNewPlace.com, a real estate technology company for net a gain of $0.9 million.

2011, the Operating Partnership entered into a 50/50 joint venture with an institutional partner, Wesco II, LLC ("Wesco II"), which in tu ed equity investment in Park Merced, a 3,221-unit apartment community located in San Francisco, California. The preferred equity of 7 years and a preferred return of 10.1%. The investment cannot be repaid during the first two years, and there is a prepayment penalt year of the investment. The community is encumbered with a $450 million senior mortgage loan with a fixed interest rate of 3.83% due ents roughly a 60% loan to value, and the projected debt service coverage is approximately 110% including Wesco II's preferred equity

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perating Partnership's co-investments as of December 31, 2012 and 2011 are as follows ($ in thousands):

	2012	2011
accounted for under the equity		
o I	$ 143,874	$ 75,588
I	53,601	64,294
o III	9,941	-
ited liability company that owns		
Place	-	24,063
ts	207,416	163,945
ted liability companies that own and are developing Epic, Connolly Station, Folsom and Fifth, and	186,362	62,897
ited liability company that owns and is developing Expo	18,752	17,981
ted liability companies that own and are developing The Huxley and The Dylan	16,552	15,194
ments	221,666	96,072
o II that owns a preferred equity interest in Parkmerced with a perferred return of 10.1%	91,843	88,075
liability companies that own apartment communities in downtown Los Angeles with preferred	22,807	22,792
party limited liability company that owns Sage at Cupertino with a preferred return of 9.5%	14,438	-
party limited liability company that owns		
th a preferred return of 13%	13,175	12,528
tments	142,263	123,395
	$ 571,345	$ 383,412

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nancial information of co-investments, which are accounted for under the equity method, is as follows ($ in thousands):

	December 31, 2012		December 31, 2011
ate under development	$	1,745,147	$	1,659,078
		168,061		63,847
	$	1,913,208	$	1,722,925
	$	820,895	$	900,095
		91,922		48,518
		1,000,391		774,312
equity	$	1,913,208	$	1,722,925
of equity	$	571,345	$	383,412

	Years ended December 31, 2012		2011		2010
	$ 130,128		$ 106,386		$ 54,699
	(55,990	)	(43,066	)	(24,098
	74,138		63,320		30,601
	106,016		-		-
	(34,959	)	(27,843	)	(13,619
	(3,697	)	(1,748	)	(709
n	(47,917	)	(44,412	)	(20,850
	$ 93,581		$ (10,683	)	$ (4,577
of net income (loss	$ 41,745		$ (467	)	$ (1,715

ent

efines development activities as new properties that are being constructed, or are newly constructed and, in the case of development of lease-up and have not yet reached stabilized operations. As of December 31, 2012, the Operating Partnership had two consolidated ven unconsolidated joint venture development projects aggregating 2,495 units for an estimated total cost of $928.4 million, of which expended.

e Operating Partnership had two consolidated predevelopment projects and one unconsolidated predevelopment joint venture project otal cost of $59.6 million. In addition, the Operating Partnership owned one land parcel held for future development or sale as of erating Partnership expects to fund the development and predevelopment pipeline by using a combination of some or all of the followin amounts available on its lines of credit, net proceeds from public and private equity and debt issuances, and proceeds from the dispositio

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bles

real estate, and other receivables consist of the following as December 31, 2012 and 2011 ($ in thousands):

	2012	2011
ring interest at 9.8%, paid in full January 2012	$ -	$ 7,331
ring interest at 5.0%, due November 2012 (1)	-	12,428
ring interest at LIBOR + 8.0%, paid in full December 2012	-	6,422
ring interest at 8.8%, due February 2014 (2)	10,800	10,928
ring interest at 8.0%, due November 2013	971	971
ective interest at 9.6%, due February 2014	18,499	17,646
ring interest at 4.0%, due December 2014 (3)	3,212	3,221
rom affiliates (4)	28,896	2,734
	3,785	4,688
	$ 66,163	$ 66,369

$12.4 million note receivable was contributed to the Elkhorn co-investment during the first quarter of 2012.

the fourth quarter of 2012, the Operating Partnership amended the loan to extend the maturity date to February 2014.

2012, the Operating Partnership amended the loan secured by Vacationer RV Park to extend the maturity date to December 20
012 the note which has a carrying value of $3.2 million, bears interest at a rate of 4%, and the borrower funds an impound account

e Operating Partnership provided a $26.0 million short-term bridge loan to Wesco III at a rate of LIBOR + 2.5%.

ns

rom affiliates is comprised primarily of asset management, property management, development and redevelopment fees from
rom affiliates total $10.9 million, $6.1 million, and $4.1 million for the years ended December 31, 2012, 2011, and 2010, respectively, a
$0.5 million from the limited liability company that owns Skyline at MacArthur Place for the year ended December 31, 2010. All of the
amounts eliminated by the Operating Partnership.

ovided a $26.0 million short-term bridge loan to Wesco III at a rate of LIBOR + 2.5%, to assist with the purchase of Haver Hill.

f the Company, which is the Operating Partnership's parent and general partner, is Mr. George Marcus. Mr. Marcus, is the Chairman o
mpany ("TMMC"), which is a holding company for certain real estate brokerage services and other subsidiary companies. For further
policies and procedures with respect to related party transactions see the discussion under the caption "Certain Relationships and Relat
or Independence—Policies and Procedures with respect to Related Persons Transactions" on page 95 of the accompanying prospectus.
on totaling $0.4 million to an affiliate of TMMC related to the sale of a property in 2012 and Fund II did not pay any such brokerage
2010, and no brokerage commissions were paid by the Operating Partnership to TMMC or its affiliates during 2012, 2011, and 2010.

ng Partnership invested $8.6 million as a preferred equity interest investment in an entity affiliated with TMMC that owns an apartment
y, California. The investment has a preferred return of 9.5% and matures in January 2016. Independent members of the Company's Bo

Nominating and Corporate Governance and Audit Committees approved the investment in this entity.

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)12, the Operating Partnership invested $14.0 million as a preferred equity interest investment in an entity affiliated with TMMC that ov
Cupertino, California. The investment has a preferred return of 9.5% and matures in May 2016. The Operating Partnership will invest a
ferred equity to fund renovation costs. Independent directors (other than Mr. Marcus) on the Company's Board of Directors approved t

of 2012, the Operating Partnership acquired Montebello, a 248 unit apartment community in Kirkland, Washington for $52.0 million fr
IC, and Wesco I acquired Riley Square (formerly Waterstone Santa Clara), a 156 unit apartment community in Santa Clara, California
affiliated with TMMC. Independent directors (other than Mr. Marcus) on the Company's Board of Directors approved the acquisitions
.

)10, the Operating Partnership invested $12.0 million as a preferred equity interest investment in a related party entity that owns a 768-u
heim, California. The entity that owns the property is an affiliate of TMMC. The Company's independent directors (other than Mr.
nent in this entity. The preferred return for this investment during the first five years is 13% per annum, and the preferred return increa

2010, the independent directors (other than Mr. Marcus) of the Company approved the partial redemption for cash by the Operating
of the Operating Partnership that were held by Mr. Marcus, at $106.76 per unit representing a 2% discount from the closing price of the
1 May 17, 2010. The Operating Partnership purchased 187,334 units from Mr. Marcus. Under the Operating Partnership's partnership
p common units are exchangeable on a one-for-one basis into shares of the Company's common stock.

of the Company has invested $4.0 million for a 3% limited partnership interest in a partnership with the Operating Partnership that owr
Place. The Executive Vice President's investment is equal to a pro-rata share of the contributions to the limited partnership. The
ivestment also receives pro-rata distributions resulting from distributable cash generated by the property if and when distributions are
resident does not participate in fees paid to the Operating Partnership by the property.

Partnership sold Tierra Del Sol/Norte, a 156 unit community located in the San Diego, California for $17.2 million for a gain of $
he Operating Partnership sold Alpine Country, a 108 unit community located in San Diego metropolitan area, for $11.1 million for a g
ber 31, 2012 and 2011 no communities were held for sale.

Partnership sold one apartment community, Woodlawn Colonial, and one office building, Clarendon, for a total of $23.4 million resultin
.

as recorded the gains and operations for these various assets sold described above as part of discontinued operations in the accompany
perations. The components of discontinued operations are outlined below and include the results of operations for the respective peri
owned such assets, as described above ($ in thousands):

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		2012			2011			2010	
	$	608		$	4,081		$	5,453	
		(260	)		(1,861	)		(2,342	)
n		(94	)		(1,115	)		(1,491	)
		(354	)		(2,976	)		(3,833	)
estate sold		254			1,105			1,620	
		10,870			8,382			-	
		(1,087	)		(839	)		-	
erations	$	10,037		$	8,648		$	1,620	

ist of the following as of December 31, 2012 and 2011 ($ in thousands):

		2012		2011
yable	$	1,363,731	$	1,502,208
payable(1)		201,868		243,650
	$	1,565,599	$	1,745,858
g mortgage notes		55		68
		1-27 years		1-28 yea
e		5.4%		5.4%

cipal payments of mortgage notes payable are as follows ($ in thousands):

	$ 57,621
	47,994
	68,926
	12,656
	185,301
	1,193,101
	$ 1,565,599

notes payable consists of multifamily housing mortgage revenue bonds secured by deeds of trust on rental properties and guaranteed
ents, payable monthly at a variable rate as defined in the Loan Agreement (approximately 1.9% at December 2012 and 2.0% at Decem
ement and underwriting fees ranging from approximately 1.2% to 1.9%. Among the terms imposed on the properties, which are secu
irement that 20% of the units are subject to tenant income criteria. Principal balances are due in full at various maturity dates fr
December 2039. Of these bonds $187.8 million are subject to various interest rate cap agreements which limit the maximum interest r

o's mortgage notes payable as of December 31, 2012, monthly interest expense and principal amortization, excluding balloon payments
illion and $2.0 million, respectively. Second deeds of trust accounted for $87.3 million of the $1.6 billion in mortgage notes payable as
nent of debt before the scheduled maturity date could result in prepayment penalties. The prepayment penalty on the majority of the
gage notes payable are computed by the greater of (a) 1% of the amount of the principal being prepaid or (b) the present value of the
n is calculated by multiplying the principal being prepaid by the difference between the interest rate of the mortgage note and the stated
treasury security as defined in the mortgage note agreement. (See Schedule III for a list of mortgage loans related to each community i
Portfolio.)

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s of Credit

credit consist of the following as of December 31, 2012 and 2011 ($ in thousands):

	2012		2011		Weighted Averag Maturity In Years
xed rate	$ 465,000		$ 265,000		6.2
	350,000		200,000		4.2
rate	297,084		-		9.6
	1,112,084		465,000		
	141,000		150,000		3.0
	$ 1,253,084		$ 615,000		
e on fixed rate unsecured bonds	4.2	%	4.5	%	
e on variable rate term loan	2.7	%	2.7	%	
e on line of credit	2.3	%	2.5	%	

of the Operating Partnership's unsecured private placement bonds as of December 31, 2012 and 2011 ($ in thousands):

	Maturity	2012	2011	Coupon Rate
cement notes	March 2016	$ 150,000	$ 150,000	4.36
cement notes	September 2017	40,000	40,000	4.50
cement notes	December 2019	75,000	75,000	4.92
cement notes	April 2021	100,000	-	4.27
cement notes	June 2021	50,000	-	4.30
cement notes	August 2021	50,000	-	4.37
		$ 465,000	$ 265,000	

s two lines of credit aggregating $525.0 million as of December 31, 2012. The Operating Partnership had a $500.0 million unsecured l
o $600.0 million in January 2013. As of December 31, 2012 there was a $141.0 million balance on this unsecured line. The underlying
llion facility is based on a tiered rate structure tied to Fitch and S&P ratings on the credit facility and the rate was LIBOR plus 1.075%
facility matures in December 2015 with two one-year extensions, exercisable by the Operating Partnership. The Operating Partnership
red line of credit agreement for $25.0 million. This facility matures in January 2014, with a one year extension option. As of Decembe
e outstanding on this unsecured line. The underlying interest rate on the $25.0 million line is based on a tiered rate structure tied to Fitc
t facility of LIBOR plus 1.075%.

Operating Partnership had $465 million of unsecured bonds outstanding at an average effective interest rate of 4.5%. During the secon
g Partnership issued through private placements, $100 million of bonds and $50 million of bonds at 4.27% and 4.30%, respectively, du
arter of 2012, $50 million of bonds at 4.37% due in 2021.

e Operating Partnership had a $350 million unsecured term loan outstanding at an average interest rate of 2.7%. The term loan has a
OR plus 1.2%. During the fourth quarter of 2012, the Operating Partnership increased the size of the term loan from $200 million to $35
ership entered into interest rate swap contracts for a term of five years with a notional amount totaling $300 million, which effectively
the $300 million of the term loan to a fixed rate.

012, the Operating Partnership issued $300.0 million of senior unsecured notes due August 2022 with a coupon rate of 3.625% per annu
15th and August 15th of each year, beginning February 15, 2013 (the 2022 Notes). The 2022 Notes were offered to investors at a price
22 Notes are general unsecured senior obligations of the Operating Partnership, rank equally in right of payment with all other senior
e Operating Partnership and are fully and unconditionally guaranteed by Essex Property Trust, Inc.

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nnection with the 2022 Notes issuance, the Operating Partnership entered into a registration rights agreement whereby the Operating t an offer to exchange the 2022 Notes for a new series of publicly registered notes with substantially identical terms. If the Operating ertain of its obligation under the registration rights agreement, it will be required to pay registration default damages to the holders of the tingent obligation was recorded as no registration default damages became probable as of December 31, 2012.

unsecured line of credit and unsecured debt agreements contain debt covenants related to limitations on indebtedness and liabilities and vels of consolidated earnings before depreciation, interest and amortization. The Operating Partnership was in compliance with the debt , 2012 and 2011.

d Hedging Activities

es interest rate swaps and interest rate cap contracts to manage certain interest rate risks. The valuation of these instruments is determin ion techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contract uding the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swa ket standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash ariable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable marke rating Partnership incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective ce risk in the fair value measurements.

s entered into interest rate swap contracts with an aggregate notional amount of $300 million that effectively fixed the interest rate on lion unsecured term loan at 2.7% through November 2016. These derivatives qualify for hedge accounting.

Operating Partnership also had twelve interest rate cap contracts totaling a notional amount of $187.8 million that qualify for hedge y limit the Operating Partnership's exposure to interest rate risk by providing a ceiling on the underlying variable interest rate for $201.9 nership tax exempt variable rate debt.

d December 31, 2011 the aggregate carrying value of the interest rate swap contracts was a liability of $6.6 million and $1.4 million, arrying value of the interest rate cap contracts was zero on the balance sheet as of December 31, 2012, and was an asset of $0.2 million

012, the Operating Partnership terminated a swap transaction with respect to the $38.0 million of tax-exempt bonds for the 101 San ity with Citibank because the bonds were repurchased by the Operating Partnership at par.

Partnership settled its remaining $20.0 million forward starting swap contract for $2.3 million which was applied to the $32.0 million ry 2011, increasing the effective borrowing rate from 5.4% to 6.2%.

Partnership settled $355 million in forward-starting swap contracts for $81.3 million, which was applied to 10-year mortgage loans ment of the forward-starting swaps increased the average effective interest rate on the 2010 mortgage loans from 4.5% to 6.8%. During hip incurred $2.3 million in expense related to the ineffectiveness of certain of the settled forward-starting swap hedges, which is includ ges in the accompanying consolidated statement of operations for the year ended December 31, 2010. No hedge ineffectiveness on cash ring the years ended December 31, 2012 and 2011.

e Operating Partnership is a lessor for four commercial buildings and the commercial portions of 20 mixed use communities. The tenant
times through 2028. The future minimum non-cancelable base rent to be received under these operating leases for each of the years
summarized as follows ($ in thousands):

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	Future Minimum Rent
	$ 8,592
	8,395
	6,933
	4,512
	2,781
	14,562
	$ 45,775

Capital Transactions

s and Preferred Interest

ing cumulative preferred stock outstanding as of December 31, 2012, 2011 and 2010 (dollars in thousands):

Issue Date	Shares Outstanding 2012	2011	2010	Liquidation Preference
April 2011	2,950,000	2,950,000	-	$ 73,750
July 2006	178,249	178,249	178,249	$ 4,456
September 2003	-	-	1,000,000	$ 25,000
April 1998	-	-	400,000	$ 20,000
February 1998	-	-	1,200,000	$ 60,000

l securities are payable quarterly. The holders of the securities have limited voting rights if the required distributions are in arrears.

2011, the Company issued 2,950,000 shares of 7.125% Series H Cumulative Redeemable Preferred Stock (the "Series H Preferred Stoc
 for net proceeds of $71.2 million, net of costs and original issuance discounts. The $71.2 million net proceeds from the sale of the
ed by the Company to the Operating Partnership for a Series H Preferred Interest in the Operating Partnership. This preferred interest
he right to receive preferential distributions. The partnership agreement of the Operating Partnership provides that prior to making any
he partners' percentage interests in the Operating Partnership, the Operating Partnership shall make a distribution to the Company
red Interest equal to the total of the accrued but unpaid distributions with respect to the Series H Preferred Stock. The Company may al
 itself on account of its Series H Preferred Interest for the sole purpose of the redemption of shares of Series H Preferred Stock by the
nulative Redeemable Preferred Stock has no maturity date and generally may not be redeemed by the Company before April 13, 2016. I
referred Stock offering were used to redeem all of the 7.875% Series B Cumulative Redeemable Preferred Stock of the Company ("Ser
of $80.0 million, which resulted in excess of cash paid of $1.0 million over the carrying value of Series B due to deferred offering costs

er of 2011, a special distribution was made to the Company that enabled the Company to redeem its 7.8125% Series F Preferred Stock
at liquidation value for $25.0 million which resulted in excess of cash paid of $0.9 million over the carrying value of Series F Preferred
g costs and original issuance discounts.

006, the Company issued 5,980,000 shares of 4.875% Series G Cumulative Convertible Preferred Stock ("Series G Preferred Stock") fo
lion. The net proceeds from the sale of this preferred stock was contributed to the Operating Partnership for a Series G Preferred Interes

his preferred interest provides the Company with the right to receive preferential distributions. The partnership agreement of the
es that prior to making any distributions with respect to the partners' percentage interests in the Operating Partnership, the Operating
ribution to the Company regarding the Series G Preferred Interest equal to the total of the accrued but unpaid distributions with respect t
. The Company may also make a special distribution to itself on account of its Series G Preferred Interest for the sole purpose of the
s G Preferred Stock by the Company. Holders may convert Series G Preferred Stock into shares of the Company's common stock subj
nversion rate was initially .1830 shares of common stock per the $25 share liquidation preference, which is equivalent to an initial
nately $136.62 per share of common stock (the conversion rate will be subject to adjustment upon the occurrence of specified events). O
mpany may, under certain circumstances, cause some or all of the Series G Preferred Stock to be converted into that number of shares o
evailing conversion rate. As of December 31, 2012 and 2011, shares of Series G Preferred Stock with an aggregate liquidation value of
g.

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d Common Units

old 2.4 million shares of common stock for $357.7 million, net of fees and commissions, at an average price of $150.26, and the Compa
s to the Operating Partnership. During the first quarter of 2013, through March 11, 2013, the Company sold 815,319 shares of common
of fees and commissions at an average price of $151.82, and the Company contributed such net proceeds to the Operating Partnership.

ompany issued 2.5 million and 2.4 million shares of common stock for $323.9 million and $251.4 million, net of fees and commissions
ny contributed such net proceeds to the Operating Partnership. The Operating Partnership used these net proceeds from such sales to pay
se of the Company's preferred stock, fund redevelopment and development pipelines, fund acquisitions, and for general corporate

Net Income Per Common Unit

m continuing operations per unit are calculated as follows for the years ended December 31
nd per unit amounts):

2012 Weighted-average Common Units	Per Common Unit Amount	Income	2011 Weighted-average Common Units	Per Common Unit Amount	Income	2010 Weighted-average Common Units	Per Common Unit Amount
37,251,537	$ 3.16	$ 34,945	34,773,559	$ 1.00	$ 34,922	31,960,950	$ 1.09
37,251,537	0.27	8,648	34,773,559	0.25	1,620	31,960,950	0.05
	$ 3.43	$ 43,593		$ 1.25	$ 36,542		$ 1.14
92,430		-	86,922		-	67,319	
37,343,967	$ 3.15	$ 34,945	34,860,521	$ 1.00	$ 34,922	32,028,269	$ 1.09

37,343,967	0.27	8,648	34,860,521	0.25	1,620	32,028,269	0.05
	$ 3.42	$ 43,593		$ 1.25	$ 36,542		$ 1.14

p has the ability to redeem DownREIT limited partnership units for cash and does not consider them to be potentially dilutive securities

5,500; and 123,164; for the years ended December 31, 2012, 2011, and 2010, respectively, were not included in the diluted earnings per exercise price of these options were greater than the average market price of the Company’s common stock for the years ended and,

e convertible preferred interests have been excluded from diluted earnings per unit for the years ended 2012, 2011, and 2010 respective e.

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Equity Based Compensation Plans

Stock

nc. 2004 Stock Incentive Plan provides incentives to attract and retain officers, directors and key employees. The Stock Incentive P
ions to purchase a specified number of shares of common stock or grants of restricted shares of common stock. Under the Stock Incent
res available for grant is approximately 1,200,000. The 2004 Stock Incentive Plan is administered by the Compensation Committee of
mpensation Committee is comprised of independent directors. The Compensation Committee is authorized to establish the exercise pr
annot be less than 100% of the fair market value of the common stock on the grant date. The Company's options have a life of seven to
cers and employees fully vest between one year and five years after the grant date.

xpense for options and restricted stock under the fair value method totaled $2.0 million, $1.5 million, and $1.0 million for years en
nd 2010 respectively. Stock-based compensation capitalized for options and restricted stock totaled $0.3 million for the year en
2 million for each of the years ended December 31, 2011 and 2010. The intrinsic value of the options exercised totaled $2.9 million, $
r the years ended December 31, 2012, 2011, and 2010 respectively. The intrinsic value of the options outstanding and fully vested tota
nd $7.7 million, for the years ended December 31, 2012, 2011 and 2010, respectively.

ation cost related to unvested share-based compensation granted for stock options totaled $3.2 million as of December 31, 2012. The
cost is expected to be recognized over a period of 1 to 5 years for the stock option plans.

ck options granted for the years ended December 31, 2012, 2011 and 2010 was $12.64, $14.49 and $18.39, respectively. The stock
urth quarter of 2012 included a $75 cap on the appreciation of the market price over the exercise price. The stock options granted durin
uarter of 2012 included a $100 cap on the appreciation of the market price over the exercise price. The fair value of stock options was
t using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	2012		2011		2010
	$ 143.95		$ 131.87		$ 107.21
	1.16	%	2.23	%	3.50
	5 - 10 years		10 years		10 years
	20.05	%	19.63	%	22.00
	3.26	%	3.29	%	3.85

he Company's stock option plans as of December 31, 2012, 2011, and 2010 and changes during the years ended on those dates is prese

	2012		2011		2010	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
ear	415,020	$ 109.71	300,642	$ 88.11	378,542	$ 82.08
	263,113	143.95	197,500	131.87	18,214	107.21
	(41,603)	77.21	(83,122)	84.24	(78,381)	63.97
	(13,096)	128.36	-	0.00	(17,733)	105.40
	623,434	125.96	415,020	109.71	300,642	88.11

nd	250,620	107.12	219,820	92.31	265,770	86.28

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zes information about stock options outstanding as of December 31, 2012:

Options outstanding			Options exercisable	
er nding ber 31,	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable as of December 31, 2012	Weighted-average exercise price
34,973	3.0 years	$ 69.97	34,973	$ 69.97
144,498	3.9 years	99.10	130,498	98.69
443,963	7.9 years	139.10	85,149	135.31
623,434	6.7 years	125.96	250,620	107.12

) the Company issued 1,614, 1,540, and 14,415 shares of restricted stock, respectively. The unrecognized compensation cost granted
gram of $1.9 million as of December 31, 2012 will be recognized straight-line over a period of 1 to 7 years.

zes information about restricted stock outstanding as of December 31, 2012, 2011 and 2010 and changes during the years ended:

	2012		2011		2010	
	Shares	Weighted-average grant price	Shares	Weighted-average grant price	Shares	Weighted-average grant price
r	35,219	$ 98.57	44,877	$ 102.46	37,727	$ 99.43
	1,614	149.68	1,540	134.44	14,415	109.62
	(8,641)	106.69	(9,532)	104.91	(6,126)	102.27
	(3,270)	102.00	(1,666)	94.35	(1,139)	93.92
	24,922	104.52	35,219	98.57	44,877	102.46

Z Units

s adopted an incentive program involving the issuance of Series Z Incentive Units and Series Z-1 Incentive Units (collectively referred
nership interest in the Operating Partnership. Vesting in the Z Units is based on performance criteria established in the plan. The criteri
f the year by the Compensation Committee of the Company's Board of Directors if the Committee deems that the plan's criterion is
ear. The sale of Z Units is contractually prohibited. Z Units are convertible into Operating Partnership units which are exchangeable f
nmon stock that may have marketability restrictions. The estimated fair value of a Z Unit is determined on the grant date and considers
e, the distributions that are not paid on unvested units and a marketability discount for the 8 to 15 years of illiquidity. Compensation
tiplying estimated vesting increases for the period by the estimated fair value as of the grant date less its $1.00 per unit purchase price.

xpense for Z Units under the fair value method totaled approximately $2.1 million, $1.5 million and $2.3 million for the years ended
d 2010, respectively. Stock-based compensation capitalized for Z Units totaled approximately $0.5 million, $0.3 million, and $0.6
December 31, 2012, 2011, and 2010, respectively. The intrinsic value of the unvested Z Units totaled $20.8 million as of December 31,
mpensation cost related to the unvested Z Units under the Z Units plans totaled $7.3 million as of December 31, 2012. The unamortize
ears subject to the achievement of the stated performance criteria.

dministered by the Compensation Committee which has the authority to select participants and determine the awards to be made up t
ts. Effective January 1 of each year for each participating executive who remains employed by the Company if the Company has me
ations" per share target, or such other target as the Compensation Committee deems appropriate, for the prior year, up to a maxi
Z units issued in 2011 and 2010 are discussed below.

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Partnership issued 108,000 Series Z-1 Incentive Units (the “2010 Z-1 Units”) of limited partner interest to twenty executives of the
tchet (accounted for as vesting) of the 2010 Z-1 Units into common units, increased to 20 percent effective January 1, 2011 because the
minimum target of $4.75 per diluted share in 2010. To the extent that the units are vested, Z-1 Unit holders receive quarterly distributio
vidends paid on common stock. Each year thereafter, vesting of the 2010 Z-1 Units will be consistent with the Company’s annual FFO
han zero or greater than 14 percent.

Partnership issued 46,500 Series Z-1 Incentive Units (the “2011 Z-1 Units”) of limited partner interest to fourteen executives of the Con
ght executive officers of the Company, and a capital commitment from the remaining six executives of $1.00 per 2011 Z-1 Unit. The 20
-for-one into common units of the Operating Partnership (which, in turn, are convertible into common stock of the Company) upon the
t vesting of the units or the year 2026. The conversion ratchet (accounted for as vesting) of the 2011 Z-1 Units into common units,
tive January 1, 2012 because the Company achieved the FFO minimum target of $5.65 per diluted share in 2011. Each year thereafter,
 will be consistent with the Company’s annual FFO growth, but is not to be less than zero or greater than 14 percent. To the extent that
ders receive quarterly distributions equal to approximately the dividends paid on common stock. The 2011 Z-1 Unit holders are entitle
same as dividends distributed to common stockholders on vested units.

zes information about the Z Units outstanding as of December 31, 2012 ($ in thousands):

Long Term Incentive Plan - Z Units					
Total Vested Units	Total Unvested Units	Aggregate Intrinsic Value of Unvested Units	Total Outstanding Units	Weighted-average Grant-date Fair Value	Weighte average Remainii Contractu Life
288,651	105,881	$ 8,751	394,532	$ 39.36	8.2 year
-	108,000		108,000		
37,629	(37,629)		-		
	(4,350)		(4,350)		
326,280	171,902	19,463	498,182	54.15	11.2 yea
-	46,500		46,500		
44,520	(44,520)		-		
(191,718)	-		(191,718)		
-	(3,863)		(3,863)		
179,082	170,019	23,719	349,101	58.17	12.3 yea
-	-		-		
28,163	(28,163)		-		
(16,541)	-		(16,541)		
-	(1,813)		(1,813)		
190,704	140,043	$ 20,800	330,747	$ 58.44	11.3 yea

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Segment Information

efines its reportable operating segments as the three geographical regions in which its communities are located: Southern California,
tle Metro. Excluded from segment revenues are communities classified in discontinued operations, management and other fees from
her income. Non-segment revenues and net operating income included in the following schedule also consist of revenue generated from
r non-segment assets include real estate under development, co-investments, cash and cash equivalents, marketable securities, notes and
penses and other assets and deferred charges.

ng income for each of the reportable operating segments are summarized as follows for the years ended December 31, 2012, 2011, and

	Years Ended December 31,		
	2012	2011	2010
	$ 249,524	$ 223,304	$ 200,541
	175,325	149,457	127,302
	94,708	81,967	70,348
	12,379	10,985	7,537
	$ 531,936	$ 465,713	$ 405,728
	$ 166,162	$ 146,519	$ 132,150
	120,540	99,047	82,288
	62,076	52,173	43,006
	9,070	8,740	5,120
	357,848	306,479	262,564
	(170,592)	(151,428)	(128,221
tization	(100,244)	(91,694)	(82,756
	(11,644)	(11,474)	(4,828
rom affiliates	11,489	6,780	4,551
	(23,307)	(20,694)	(23,255
er fees	(6,513)	(4,610)	(2,707
s	-	-	(2,302
	13,833	17,139	27,841
ebt	(5,009)	(1,163)	(10
from co-investments	41,745	(467)	(1,715
-investment	21,947	-	-
operations	$ 129,553	$ 48,868	$ 49,162

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eportable operating segments are summarized as follow as of December 31, 2012 and 2011 ($ in thousands):

	As of December 31,			
		2012		2011
	$	1,675,265	$	1,478,018
		1,489,095		1,241,320
		699,465		579,612
		88,330		94,088
ments - real estate assets		3,952,155		3,393,038
nt		66,851		44,280
		571,345		383,412
cluding restricted cash		42,126		35,463
		92,713		74,275
		66,163		66,369
		55,870		40,127
	$	4,847,223	$	4,036,964

401(k) Plan

s a 401(k) benefit plan (the "Plan") for all full-time employees who have completed six months of service. Employee contributions are
wed under Section 401(k) of the Internal Revenue Code. The Operating Partnership matches the employee contributions for non-highly
o 50% of their contribution up to a specified maximum. Operating Partnership contributions to the Plan were approximately $0.2 millio
n for the years ended December 31, 2012, 2011, and 2010, respectively.

Commitments and Contingencies

e Operating Partnership had six non-cancelable land leases for certain apartment communities and buildings that expire between 2027
are typically the greater of a stated minimum or a percentage of gross rents generated by these apartment communities. Total minim
nd leases and operating leases, are approximately $1.7 million per year for the next five years.

mental matter arises or is identified in the future that has other than a remote risk of having a material impact on the financial stateme
ll disclose the estimated range of possible outcomes, and, if an outcome is probable, accrue an appropriate liability for remediation
e Operating Partnership will consider whether such occurrence results in an impairment of value on the affected property and, if
d.

communities, the Operating Partnership has no indemnification agreements from third parties for potential environmental clean-up cost
ting Partnership has no way of determining at this time the magnitude of any potential liability to which it may be subject arising ou
nditions or violations with respect to the communities formerly owned by the Operating Partnership. No assurance can be given t
es with respect to any of the communities reveal all environmental liabilities, that any prior owner or operator of a Property did not cre
condition not known to the Operating Partnership, or that a material environmental condition does not otherwise exist as to any one
he Operating Partnership has limited insurance coverage for the types of environmental liabilities described above.

s entered into transactions that may require the Operating Partnership to pay the tax liabilities of the partners in the Operating Partnersh
These transactions are within the Operating Partnership's control. Although the Operating Partnership plans to hold the contributed as
n their sale pursuant to like-kind exchange rules under Section 1031 of the Internal Revenue Code the Operating Partnership can provi

ble to do so and if such tax liabilities were incurred they may to have a material impact on the Operating Partnership's financial position

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g number of lawsuits against owners and managers of apartment communities alleging personal injury and property damage caused by
al real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. The Operating Partnership has be
and has settled some, but not all, of such matters. Insurance carriers have reacted to mold related liability awards by excluding mold
policies and pricing mold endorsements at prohibitively high rates. The Operating Partnership has, however, purchased pollution liabil
me coverage for mold. The Operating Partnership has adopted policies to promptly address and resolve reports of mold when it is
y impact mold might have on residents of the property. The Operating Partnership believes its mold policies and proactive response to
, reduces its risk of loss from these cases. There can be no assurances that the Operating Partnership has identified and responded to all
perating Partnership promptly addresses all known reports of mold. Liabilities resulting from such mold related matters are not expected
t on the Operating Partnership's financial condition, results of operations or cash flows. As of December 31, 2012, potential liabilities
l liabilities are not quantifiable and an estimate of possible loss cannot be made.

rries comprehensive liability, fire, extended coverage and rental loss insurance for each of the communities. Under comprehensive
g Partnership has insurance to cover claims in excess of $100,000 per incident. Under property casualty claims, the Operating Partnersh
for losses up to $5.0 million deductible per incident. There are, however, certain types of extraordinary losses, such as, for example,
thquake, for which the Operating Partnership does not have insurance. Substantially all of the communities are located in areas that are

ovided a loan and construction completion guarantee to the lender in order to fulfill the lender's standard financing requirements relate
community. The outstanding balance for the construction loan is included in the debt line item in the balance sheet of the co-investmen
struction completion guarantee is for the life of the loan, which is scheduled to mature on July 1, 2014, with two, one-year extension
ture's option. As of December 31, 2012, the Operating Partnership was in compliance with all terms of the construction loan and the
ty is expected to be completed on time and within budget. The maximum exposure of the guarantee as of December 31, 2012 was $70.
tion costs that were budgeted to be incurred to complete the construction.

ovided a payment guarantee to the counterparties in relation to the total return swaps entered into by the joint venture responsible for th
(formerly Fountain at La Brea) and The Dylan (formerly Santa Monica at La Brea) communities. Further the Operating Partnership has
velopment and made certain debt service guarantees for The Huxley and The Dylan. The outstanding balance for the loans is included i
nce sheet of the co-investments included in Note 3. The payment guarantee is for the payment of the amounts due to the counterparty
ich are scheduled to mature in September and December 2016. The maximum exposure of the guarantee as of December 31, 2012 was
ggregate outstanding debt amount.

subject to various other lawsuits in the normal course of its business operations. Such lawsuits are not expected to have a material
ng Partnership's financial condition, results of operations or cash flows.

Subsequent Events

ng Partnership sold the land parcel held for future development located in Palo Alto, California for $9.1 million, resulting in a gain of $

ng Partnership acquired Annaliese, a 56 unit community located in Seattle, Washington for $19.0 million. The property was built in 20
e Union submarket.

ng Partnership sold $20.3 million of a common stock investment for a gain of $1.8 million.

ing Partnership acquired Fox Plaza, a 444 unit property located in San Francisco, California for $135.0 million. The 29 story high rise
the Fox Plaza apartments are located on floors 14 through 29. The purchase did not include the 12 floors of commercial office space bu
tory building comprised of 37,800 square feet of space leased to retail and office tenants and a two story underground parking garage

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Quarterly Results of Operations (Unaudited)

of quarterly results of operations for 2012 and 2011 ($ in thousands, except per unit and distribution amounts):

	Quarter ended December 31	Quarter ended September 30	Quarter ended June 30	Quarter ended March 31
	$ 141,628	$ 135,070	$ 129,764	$ 125,474
operations	$ 49,640	$ 20,221	$ 42,490	$ 17,202
	$ 49,640	$ 20,221	$ 42,490	$ 27,239
mon units	$ 46,581	$ 17,296	$ 39,580	$ 24,314
	$ 1.22	$ 0.46	$ 1.08	$ 0.67
	$ 1.22	$ 0.45	$ 1.08	$ 0.67
	$ 1.10	$ 1.10	$ 1.10	$ 1.10
	$ 122,373	$ 117,226	$ 114,906	$ 111,208
operations	$ 14,493	$ 11,767	$ 10,502	$ 12,106
	$ 17,868	$ 11,085	$ 16,052	$ 12,511
mon units	$ 14,963	$ 8,269	$ 11,311	$ 9,050
	$ 0.43	$ 0.23	$ 0.34	$ 0.27
	$ 0.43	$ 0.23	$ 0.34	$ 0.26
	$ 1.04	$ 1.04	$ 1.04	$ 1.04

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
FINANCIAL STATEMENT SCHEDULE III
December 31 2012
(Dollars in thousands)

			Initial cost		Costs capitalized subsequent to acquisition	Gross amount carried at close of period			
ts	Location	Encumbrance	Land	Buildings and improvements		Land and improvements	Buildings and improvements	Total(1)	Accumulat depreciati
1	Mukilteo, WA	10,750	2,498	10,595	11,861	2,824	22,130	24,954	(9,585
6	Woodland Hills, CA	46,761	10,536	24,522	14,571	10,601	39,028	49,629	(19,62
4	Newark, CA	21,724	1,608	7,582	6,107	1,525	13,772	15,297	(9,783
1	Anaheim, CA	16,784	-	8,520	4,533	2,353	10,700	13,053	(4,485
2	San Ramon, CA	55,835	12,105	18,252	22,959	12,682	40,634	53,316	(18,97
5	Los Angeles, CA	30,045	8,100	66,666	2,765	8,267	69,264	77,531	(13,10
1	San Jose, CA	38,088	17,247	40,343	1,515	17,247	41,858	59,105	(3,304
0	Santa Ana, CA	19,283	2,833	11,303	5,482	3,502	16,116	19,618	(5,786
4	Renton, WA	14,644	2,623	10,800	2,779	2,656	13,546	16,202	(7,375
0	Sunnyvale, CA	19,974	7,301	16,310	19,923	10,328	33,206	43,534	(11,17
4	Camarillo, CA	47,350	10,953	25,254	2,634	11,075	27,766	38,841	(15,40
0	Camarillo, CA	21,110	6,871	26,119	831	6,931	26,890	33,821	(5,525
0	San Ramon, CA	28,989	19,088	44,473	1,338	19,088	45,811	64,899	(8,857
0	Bothell, WA	14,391	4,692	18,288	3,507	4,693	21,794	26,487	(7,095
2	San Jose, CA	18,613	3,954	15,277	9,847	5,801	23,277	29,078	(9,265
2	Hayward, CA	63,159	9,883	37,670	20,699	10,350	57,902	68,252	(29,05
	Studio City, CA	5,538	1,674	6,640	1,178	1,676	7,816	9,492	(1,972

9	Bellevue, WA	16,261	7,465	21,405	2,627	7,465	24,032	31,497	(1,806
	Seattle, WA	16,866	9,059	27,177	167	9,059	27,344	36,403	(266
7	Redmond, WA	11,839	4,758	14,285	4,666	4,757	18,951	23,708	(2,019
8	San Jose, CA	44,928	18,170	40,086	5,765	18,429	45,592	64,021	(13,22
4	Santa Ana, CA	17,269	2,626	10,485	4,806	2,957	14,960	17,917	(5,128
4	Renton, WA	13,307	5,296	15,564	2,054	5,297	17,617	22,914	(5,257
5	Playa Vista, CA	97,450	25,073	94,980	21,849	25,203	116,699	141,902	(36,48
4	Santa Rosa, CA	10,691	6,700	15,479	888	6,690	16,377	23,067	(3,401
5	Glendale, CA	21,296	6,695	16,753	5,266	6,733	21,981	28,714	(9,914
4	Simi Valley, CA	30,603	14,174	34,065	1,404	9,725	39,918	49,643	(11,36
5	Rancho Palos Verdes, CA	44,807	5,419	18,347	23,194	6,073	40,887	46,960	(17,02
3	Issaquah, WA	33,343	16,271	48,932	4,331	16,271	53,263	69,534	(8,371
8	Newbury Park, CA	69,555	15,318	40,601	14,623	15,755	54,787	70,542	(25,16
5	La Habra, CA	37,909	6,291	15,455	1,414	6,272	16,888	23,160	(7,487
6	Huntington Beach, CA	34,121	10,374	41,495	646	10,374	42,141	52,515	(757
2	Huntington Beach, CA	38,734	9,306	22,720	5,399	9,315	28,110	37,425	(13,78
4	Bothell, WA	8,300	3,467	7,881	5,494	3,474	13,368	16,842	(8,091
6	Sunnyvale, CA	18,314	8,190	24,736	5,097	8,191	29,832	38,023	(5,069
2	Long Beach, CA	18,959	4,700	18,605	3,082	4,760	21,627	26,387	(7,385
8	Marina Del Rey, CA	46,338	6,180	26,673	12,934	6,270	39,517	45,787	(14,32
0	San Ramon, CA	50,027	29,551	69,032	1,594	29,551	70,626	100,177	(12,72
0	Sunnyvale, CA	47,283	4,842	19,776	19,907	4,997	39,528	44,525	(27,38
8	Kirkland, WA	30,158	13,857	41,575	3,810	13,858	45,384	59,242	(684
4	Garden Grove, CA	13,307	1,925	7,685	2,264	2,194	9,680	11,874	(3,760
5	Issaquah, CA	29,477	7,284	21,937	1,905	7,284	23,842	31,126	(6,882
2		21,277	1,560	6,242	10,331	1,565	16,568	18,133	(10,15

	Bellevue, WA								
6	Long Beach, CA	38,219	4,083	16,757	18,076	6,239	32,677	38,916	(20,78
0	Fremont, CA	22,034	996	5,582	6,974	1,001	12,551	13,552	(8,698

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
FINANCIAL STATEMENT SCHEDULE III
December 31 2012
(Dollars in thousands)

		Initial cost		Costs capitalized subsequent to acquisition	Gross amount carried at close of period						
on	Encumbrance	Land	Buildings and improvements		Land and improvements	Buildings and improvements	Total(1)	Accumulated depreciation	Date of construction	Date acquired	Liv (yea
ll,	12,657	3,167	12,603	4,531	3,201	17,100	20,301	(8,471)	1986	10/97	3-3
vale,	13,769	2,654	4,918	1,069	2,656	5,985	8,641	(4,530)	1988	09/88	3-3
e, CA	10,064	3,699	11,345	43	3,689	11,398	15,087	(490)	2008	09/11	3-3
d,	57,444	13,652	53,336	3,030	13,661	56,357	70,018	(16,376)	2001	01/01	3-3
ain , CA	22,592	3,361	13,420	3,210	3,761	16,230	19,991	(6,161)	1969	11/01	3-3
tia,	27,542	4,498	17,962	4,726	4,962	22,224	27,186	(7,778)	1970	11/01	3-3
on,	10,272	5,573	11,901	4,180	5,573	16,081	21,654	(5,201)	1963	08/04	3-3
WA	5,300	1,285	4,980	3,366	1,296	8,335	9,631	(4,945)	1986	11/95	3-3
ose,	31,975	11,808	24,500	12,418	15,165	33,561	48,726	(13,735)	2000	06/00	3-3
ton,	18,276	3,118	7,385	6,683	3,797	13,389	17,186	(6,013)	1992	01/97	3-3
	1,565,599	424,411	1,295,274	366,352	439,119	1,646,917	2,086,036	(541,466)			
e,		5,869	23,977	949	5,869	24,926	30,795	(2,624)	2010	10/10	3-3
e, CA		4,967	19,728	3,690	4,982	23,403	28,385	(8,158)	1971	12/02	3-3
im,		15,925	63,712	5,469	15,925	69,181	85,106	(4,704)	2009	12/10	3-3
nd,		3,924	11,862	271	3,924	12,133	16,057	(86)	1988	10/12	3-3
, CA		5,405	33,585	518	5,405	34,103	39,508	(3,659)	2010	08/10	3-3
es,		5,401	21,803	517	5,401	22,320	27,721	(1,347)	2011	08/11	3-3
		4,446	10,290	2,250	4,473	12,513	16,986	(3,635)	1974	10/06	3-3

ont,										
sco,	21,771	50,800	80	21,771	50,880	72,651	(212	)	2004	12/12	3-3
, CA	2,496	9,913	1,584	2,503	11,490	13,993	(4,124	)	1983	12/02	3-3
ont,	3,520	8,182	10,469	3,580	18,591	22,171	(9,989	)	1978	01/96	3-3
nd,	1,500	5,930	5,304	1,531	11,203	12,734	(5,243	)	1986	10/97	3-3
vale,	5,278	11,853	2,033	5,293	13,871	19,164	(7,384	)	1989	01/97	3-3
ale,	8,557	34,235	756	8,557	34,991	43,548	(2,448	)	2009	12/10	3-3
es,	11,498	27,871	7,472	11,639	35,202	46,841	(15,732	)	1968	03/98	3-3
e,	6,937	20,679	364	6,939	21,041	27,980	(3,941	)	2006	06/07	3-3
CA	497	1,973	324	498	2,296	2,794	(831	)	1965	12/02	3-3
ton,	3,337	13,320	6,230	4,048	18,839	22,887	(6,863	)	1961	09/01	3-3
astle,	4,149	16,028	2,097	4,833	17,441	22,274	(9,292	)	1997	12/97	3-3
, CA	6,283	24,000	2,418	6,288	26,413	32,701	(6,800	)	1962	01/06	3-3
iego,	3,405	7,743	14,218	3,442	21,924	25,366	(5,977	)	1974	06/97	3-3
ue,	5,543	16,442	3,572	5,652	19,905	25,557	(6,150	)	1984	01/05	3-3
CA	6,582	15,689	955	6,582	16,644	23,226	(2,602	)	2002	07/08	3-3
bell,	12,555	29,307	3,566	12,556	32,872	45,428	(3,067	)	1973	07/10	3-3
nd,	5,801	17,415	852	5,801	18,267	24,068	(1,373	)	1978	11/10	3-3
side,	4,174	16,583	2,443	4,187	19,013	23,200	(6,884	)	1976	12/02	3-3
ond,	7,470	22,511	561	7,470	23,072	30,542	(773	)	2005/2011	12/11	3-3
, CA	3,470	13,786	2,282	3,482	16,056	19,538	(5,780	)	1988	12/02	3-3
ue,	3,449	7,801	2,828	3,449	10,629	14,078	(6,697	)	1987	11/94	3-3
Ana,	21,537	146,099	463	21,537	146,562	168,099	(3,536	)	2008	04/12	3-3
nd,	3,566	13,395	3,346	3,649	16,658	20,307	(8,384	)	1990	06/97	3-3
ort , CA	-	7,850	4,218	9	12,059	12,068	(4,634	)	1972	06/99	3-3

ue,	2,435	9,821	30,872	2,440	40,688	43,128	(18,651)	1978	03/90	3-3
n,	5,875	13,992	4,360	5,964	18,263	24,227	(9,093)	1985	02/97	3-3
n,	3,731	14,530	1,212	3,731	15,742	19,473	(5,132)	1998	10/03	3-3

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ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
FINANCIAL STATEMENT SCHEDULE III
December 31 2012
(Dollars in thousands)

		Initial cost		Costs capitalized subsequent	Gross amount carried at close of period						
cation	Encumbrance	Land	Buildings and improvements	to acquisition	Land and improvements	Buildings and improvements	Total(1)	Accumulated depreciation	Date of construction	Date acquired	Live (year
tle, WA		6,702	27,306	4,214	6,985	31,237	38,222	(13,626)	2000	03/00	3-3
keley,		8,879	52,351	1,821	8,879	54,172	63,051	(5,429)	2010	04/10	3-3
Mateo,		22,000	94,681	17,407	22,244	111,844	134,088	(23,317)	1948	09/06	3-3
a bara, CA		4,078	16,877	2,291	4,208	19,038	23,246	(3,366)	1965	03/07	3-3
tle, WA		14,558	69,417	2,473	14,558	71,890	86,448	(7,421)	2010	03/10	3-3
a Clara,		9,359	21,845	3,675	9,359	25,520	34,879	(1,590)	1971	03/11	3-3
eles,		4,023	9,527	7,646	4,031	17,165	21,196	(7,801)	1979	06/97	3-3
a Clara,		3,090	7,421	10,766	3,092	18,185	21,277	(9,041)	1975	02/94	3-3
tle, WA		4,374	11,588	1,886	4,202	13,646	17,848	(5,673)	1994	06/00	3-3
tura, CA		1,570	3,912	4,197	1,618	8,061	9,679	(3,461)	1971	06/97	3-3
nyvale,		-	5,430	210	-	5,640	5,640	(1,080)	2001	06/07	3-3
na Del CA		-	28,167	6,696	-	34,863	34,863	(10,453)	1971	01/04	3-3
a Clara,		5,320	16,431	8,311	5,324	24,738	30,062	(13,558)	1974	06/94	3-3
ard, CA		1,555	6,103	1,748	1,562	7,844	9,406	(3,476)	1987	05/00	3-3
Valley,		7,852	18,592	5,498	7,898	24,044	31,942	(12,206)	1986	11/96	3-3
remont,		1,888	7,498	1,001	1,894	8,493	10,387	(2,890)	1963	12/02	3-3
Mesa,		7,165	28,459	7,652	7,186	36,090	43,276	(14,088)	1982	12/02	3-3
eles,		7,791	23,075								