ESSEX PROPERTY TRUST INC
Form 10-Q
November 07, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from ________to _________

Commission file number 001-13106

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

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 34,124,039 shares of Common Stock as of November 3, 2011.

ESSEX PROPERTY TRUST, INC.
FORM 10-Q
INDEX

Index

Part I -- Financial Information

Item 1: Condensed Financial Statements (Unaudited)

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

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

Index

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

Assets	September 30, 2011	December 31, 2010
Real estate:		
Rental properties:		
Land and land improvements	$836,134	$802,325
Buildings and improvements	3,331,463	3,265,014
	4,167,597	4,067,339
Less accumulated depreciation	(883,024)	(878,331)
	3,284,573	3,189,008
Real estate under development	145,226	217,531
Co-investments	275,410	107,840
	3,705,209	3,514,379
Cash and cash equivalents-unrestricted	9,020	13,753
Cash and cash equivalents-restricted	23,997	21,941
Marketable securities	75,624	92,310
Notes and other receivables	51,599	49,444
Prepaid expenses and other assets	22,225	25,188
Deferred charges, net	17,491	15,872
Total assets	$3,905,165	$3,732,887
Liabilities and Equity		
Mortgage notes payable	$1,750,439	$1,832,745
Lines of credit	244,775	426,000
Unsecured bonds	265,000	-
Accounts payable and accrued liabilities	63,006	44,750
Construction payable	10,589	9,023
Dividends payable	39,015	36,405
Derivative liabilities	1,634	5,633
Other liabilities	20,135	18,968
Total liabilities	2,394,593	2,373,524
Commitments and contingencies		
Cumulative convertible preferred stock; $.0001 par value:		
4.875% Series G - 5,980,000 issued and 178,249 outstanding	4,349	4,349
Stockholders' equity and noncontrolling interest:		
Common stock, $.0001 par value, 641,702,178 shares authorized 33,381,506 and 31,324,808 shares issued and outstanding	3	3
Cumulative redeemable preferred stock at liquidation value	73,750	25,000
Additional paid-in capital	1,776,546	1,515,468
Distributions in excess of accumulated earnings	(386,752)	(313,308)
Accumulated other comprehensive (loss) income	(75,237)	(77,217)
Total stockholders' equity	1,388,310	1,149,946
Noncontrolling interest	117,913	205,068
Total stockholders' equity and noncontrolling interest	1,506,223	1,355,014

Total liabilities and equity	$3,905,165	$3,732,887

See accompanying notes to the unaudited condensed consolidated financial statements.

Index

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Rental and other property	$118,118	$103,368	$345,984	$301,804
Management and other fees from affiliates	1,940	959	4,585	3,458
	120,058	104,327	350,569	305,262
Expenses:				
Property operating, excluding real estate taxes	30,048	27,600	87,616	77,259
Real estate taxes	11,301	10,106	32,896	29,306
Depreciation	38,137	31,531	112,563	93,068
General and administrative	6,066	6,175	18,551	17,988
Impairment and other charges	-	1,615	-	1,615
	85,552	77,027	251,626	219,236
Earnings from operations	34,506	27,300	98,943	86,026
Interest expense before amortization	(22,096)	(21,025)	(66,612)	(61,085)
Amortization expense	(2,936)	(1,177)	(8,527)	(2,958)
Interest and other income	2,741	5,788	12,357	20,730
Equity income (loss) in co-investments	317	(626)	(330)	(1,027)
Loss on early retirement of debt	(567)	-	(820)	(10)
Income before discontinued operations	11,965	10,260	35,011	41,676
Income (loss) from discontinued operations	(880)	166	4,637	478
Net income	11,085	10,426	39,648	42,154
Net income attributable to noncontrolling interest	(2,031)	(3,506)	(7,882)	(11,540)
Net income attributable to controlling interest	9,054	6,920	31,766	30,614
Dividends to preferred stockholders	(1,367)	(543)	(3,385)	(1,628)
Excess of cash paid to redeem preferred stock and units over the carrying value	-	-	(1,949)	-
Net income available to common stockholders	$7,687	$6,377	$26,432	$28,986
Per common share data:				
Basic:				
Income available to common stockholders	$0.26	$0.21	$0.69	$0.97
(Loss) income from discontinued operations	(0.03)	-	0.13	0.02
Net income available to common stockholders	$0.23	$0.21	$0.82	$0.99
Weighted average number of common shares outstanding during the period	33,121,728	29,690,910	32,215,549	29,334,359
Diluted:				
Income before discontinued operations available to common stockholders	$0.26	$0.21	$0.69	$0.97

(Loss) income from discontinued operations	(0.03)	-	0.13	0.02
Net income available to common stockholders	$0.23	$0.21	$0.82	$0.99
Weighted average number of common shares outstanding during the period	33,209,289	29,762,420	32,304,686	29,398,637
Dividend per common share	$1.040	$1.033	$3.120	$3.098

See accompanying notes to the unaudited condensed consolidated financial statements.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity, Noncontrolling Interest, and
Comprehensive Income for the nine months ended September 30, 2011
(Unaudited)
(Dollars and shares in thousands)

	Series F Preferred stock		Series H Preferred stock		Common stock		Additional paid-in	Distributions in excess of accumulated	Accumulated other comprehensive income	Noncontrolling	
	Shares	Amount	Shares	Amount	Shares	Amount	capital	earnings	(loss)	Interest	T
Balances at December 31, 2010	1,000	$25,000	-	$-	31,325	$3	$1,515,468	$(313,308)	$(77,217)	$205,068	$1,3
Comprehensive income:											
Net income	-	-	-	-	-	-	-	31,766	-	7,882	39,
Reversal of unrealized gains upon the sale of marketable securites	-	-	-	-	-	-	-	-	(4,109)	(293)	(4,4
Change in fair value of cash flow hedges and amortization of swap settlements	-	-	-	-	-	-	-	-	6,469	448	6,9
Change in fair value of marketable securities	-	-	-	-	-	-	-	-	(380)	(18)	(39
Comprehensive income (loss)											41,
Issuance of common stock under:											
Stock option and restricted stock plans	-	-	-	-	97	-	7,591	-	-	-	7,5
Sale of common stock	-	-	-	-	1,960	-	256,790	-	-	-	256
Equity based compensation costs	-	-	-	-	-	-	-	-	-	804	804
Equity related issuance costs	-	-	-	-	-	-	(828)	-	-	-	(82

Issuance of Series H Preferred	-	-	2,950	73,750	-	-	(2,541)	-	-	-	71,
Redemption of Series F Preferred	(1,000)	(25,000)	-	-	-	-	-	-	-	-	(25
Contributions from noncontrolling interest	-	-	-	-			-	-	-	800	800
Distributions to noncontrolling interest	-	-	-	-	-	-	-	-	-	(13,268)	(13
Dividends declared	-	-	-	-	-	-	-	(105,210)	-	-	(10
Redemption of Series B Preferred	-	-	-	-	-	-	1,200	-	-	(80,000)	(78
Redemptions of noncontrolling interest	-	-	-	-	-	-	(1,134)	-	-	(3,510)	(4,6
Balances at September 30, 2011	-	$-	2,950	$73,750	33,382	$3	$1,776,546	$(386,752)	$(75,237)	$117,913	$1,5

See accompanying notes to the unaudited condensed consolidated financial statements.

6

Index

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net Income	$39,648	$42,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of real estate	(5,051)	-
Gain on sale of marketable securities	(4,543)	(9,041)
Loss on early retirement of debt	820	10
Equity in co-investments	3,963	1,027
Amortization of discount on exchangeable bonds	-	58
Amortization of discount on marketable securities	(3,492)	(2,853)
Amortization of deferred interest from settlement of swaps	6,517	-
Amortization of discount on notes receivables	(1,316)	(3,435)
Depreciation	112,678	93,385
Amortization of deferred financing costs	2,201	2,437
Stock-based compensation	1,618	2,360
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,720)	1,450
Accounts payable and accrued liabilities	18,205	19,018
Other liabilities	1,166	1,714
Net cash provided by operating activities	170,694	148,284
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions	(43,328)	(96,596)
Improvements to recent acquisitions	(14,768)	(2,266)
Redevelopment expenditures	(26,929)	(8,966)
Revenue generating capital expenditures	(4,706)	(788)
Non-revenue generating capital expenditures	(13,946)	(19,169)
Proceeds from dispositions of real estate	15,972	-
Additions to real estate under development	(72,816)	(110,972)
Changes in restricted cash and refundable deposits	(1,165)	(3,046)
Purchases of marketable securities	(8,048)	(18,294)
Sales and maturities of marketable securities	27,997	65,889
Purchases of and advances under notes and other receivables	-	(21,026)
Collections of notes and other receivables	643	1,832
Contributions to co-investments	(121,450)	(78,513)
Distributions from co-investments	4,032	40,397
Net cash used in investing activities	(258,512)	(251,518)
Cash flows from financing activities:		
Borrowings under mortgage notes payable, lines of credit and bonds	872,041	616,385
Repayment under mortgage notes payable, lines of credit and bonds	(891,734)	(487,152)
Additions to deferred charges	(4,464)	(1,832)
Retirement of exchangeable bonds	-	(1,842)

Settlement of forward-starting swaps	(2,395)	(16,667)
Net proceeds from stock options exercised	6,714	3,108
Net proceeds from issuance of Series H preferred stock	71,209	-
Redemption of Series F preferred stock	(25,000)	-
Retirement of Series B preferred units	(78,800)	-
Net proceeds from issuance of common stock	257,008	116,641
Equity related issuance costs	(765)	-
Contributions from noncontrolling interest	-	3,990
Distributions to noncontrolling interest	(13,295)	(19,694)
Redemptions of noncontrolling interest	(4,644)	(23,745)
Common and preferred stock dividends paid	(102,790)	(91,950)
Net cash provided by financing activities	83,085	97,242
Net decrease in cash and cash equivalents	(4,733)	(5,992)
Cash and cash equivalents at beginning of period	13,753	20,660
Cash and cash equivalents at end of period	$9,020	$14,668

(Continued)

Index

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

Supplemental disclosure of cash flow information:		
Cash paid for interest, net of $6.9 million and $7.3 million capitalized in 2011 and 2010, respectively	$66,629	$61,595
Supplemental disclosure of noncash investing and financing activities:		
Change in accrual of dividends	$2,610	$1,397
Change in value of derivative liabilities	$1,760	$24,945
Change in unrealized gain of marketable securities	$398	$3,208
Mortgage notes assumed in connection with purchase of real estate including the loan premiums recorded	$20,927	$87,540
Non-cash contribution from noncontrolling interest	$800	-
Change in construction payable	$1,566	$714
Transfer of real estate under development to rental properties	$86,995	$-
Transfer of real estate under development to co-investments	$54,472	$-

See accompanying notes to the unaudited condensed consolidated financial statements

8

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

(1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. (the "Company"), which include the accounts of the Company and Essex Portfolio, L.P. (the "Operating Partnership," which holds the operating assets of the Company) and are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature, except as otherwise noted. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

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

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 include the accounts of the Company and the Operating Partnership. The Company is the sole general partner in the Operating Partnership, with a 93.7% general partnership interest as of September 30, 2011. Total Operating Partnership units outstanding were 2,227,730 and 2,200,907 as of September 30, 2011 and December 31, 2010, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled $267.4 million and $251.4 million, as of September 30, 2011 and December 31, 2010, respectively.

As of September 30, 2011, the Company owned or had ownership interests in 155 apartment communities, aggregating 32,076 units, excluding the Company's ownership in preferred interest co-investments, (collectively, the "Communities", and individually, a "Community"), six commercial buildings and five active development projects (collectively, the "Portfolio"). The Communities are located in Southern California (Los Angeles, Orange, Riverside, Santa Barbara, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan area.

Fund Activities

Essex Apartment Value Fund II, L.P. ("Fund II") is an investment fund formed by the Company to add value through rental growth and asset appreciation, utilizing the Company's development, redevelopment and asset management capabilities. Fund II has eight institutional investors, and the Company, with combined partner equity contributions of $265.9 million. The Company contributed $75.0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fund II utilized leverage equal to approximately 55% upon the initial acquisition of the underlying real estate. Fund II invested in apartment communities in the Company's targeted West Coast markets and, as of September 30, 2011, owned 14 apartment communities and 2,971 units. The Company records revenue for its asset management, property management, development and redevelopment services when earned, and promote income when realized if Fund II exceeds certain financial return benchmarks.

In 2011, the Company entered into a 50/50 programmatic joint venture, Wesco I, LLC ("Wesco"), with an institutional partner for a total equity commitment of $200 million. Each partner's equity commitment is $100 million, and Wesco will utilize leverage equal to approximately 50% to 60%. The Company has contributed $56.8 million to Wesco, and as of September 30, 2011, Wesco owned 4 apartment communities with 1,693 units. Investments must meet certain criteria to qualify for inclusion in the joint venture and both partners must approve any new acquisitions and material dispositions. The joint venture has an investment period of up to two years. The Company will receive asset and property management fees, and may earn a promoted interest. The Company accounts for this joint venture on the equity method.

Marketable Securities

The Company reports its available for sale securities at fair value, based on quoted market prices (Level 2 for the unsecured bonds and Level 1 for the common stock and investment funds, as defined by the Financial Accounting Standards Board (“FASB”) standard entitled “Fair Value Measurements and Disclosures”), and any unrealized gain or loss is recorded as other comprehensive income (loss). There were no impairment charges for the three and nine months ended September 30, 2011 and 2010, respectively. Realized gains and losses and interest income are included in interest and other income on the condensed consolidated statement of operations. Amortization of purchase discounts are included in interest income.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

As of September 30, 2011, marketable securities consisted primarily of common stock and investments in mortgage backed securities and investment funds that invest in U.S. treasury or agency securities. As of September 30, 2011, the Company classified its investments in mortgage backed securities, which mature in November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost of $45.5 million. The estimated fair values of the mortgage backed securities (Level 2 securities) are approximately equal to the carrying values.

As of September 30, 2011 the Company classified the following marketable securities as available for sale (dollars in thousands):

	September 30, 2011		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Fair Value
Investment-grade unsecured bonds	$ 3,611	$ 373	$ 3,984
Investment funds - US treasuries	11,789	145	11,934
Common stock	14,513	(319)	14,194
Total	$ 29,913	$ 199	$ 30,112

	December 31, 2010		
	Amortized Cost	Gross Unrealized Gain	Fair Value
Investment-grade unsecured bonds	$ 22,243	$ 4,403	$ 26,646
Investment funds - US treasuries	14,345	582	14,927
Common stock	8,638	112	8,750
Total	$ 45,226	$ 5,097	$ 50,323

The Company uses the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other comprehensive income for securities sold. For the nine months ended September 30, 2011 and 2010, the proceeds from sales of available for sale securities totaled $26.8 million and $64.7 million, respectively. These sales all resulted in gains, which totaled $4.5 million and $9.0 million for the nine months ended September 30, 2011 and 2010, respectively.

Variable Interest Entities

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities) since the Company is the primary beneficiary of these variable interest entities (“VIEs”). Total DownREIT units outstanding were 1,068,693 and 1,096,871 as of September 30, 2011 and December 31, 2010, respectively, and the redemption value of the units, based on the closing price of the Company’s common stock totaled $128.3 million and $125.3 million, as of September 30, 2011 and December 31, 2010, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately $215.9 million and $172.4 million, respectively, as of September 30, 2011 and $217.3 million and $168.0 million, respectively, as of December 31, 2010. Interest holders in VIEs consolidated by the Company are allocated net income equal to the cash payments made to those interest holders or distributions from cash flow. The remaining results of operations are generally allocated to the Company. As of September 30, 2011 and December 31, 2010, the Company did not have any VIE's for which it was not deemed to be the primary beneficiary.

Stock-Based Compensation

The Company accounts for share based compensation using the fair value method of accounting. The estimated fair value of stock options granted by the Company is being amortized over the vesting period of the stock options. The estimated grant date fair values of the long term incentive plan units (discussed in Note 13, "Stock Based Compensation Plans," in the Company's Form 10-K for the year ended December 31, 2010) are being amortized over the expected service periods.

Stock-based compensation expense for options and restricted stock totaled $0.3 million for the three months ended September 30, 2011 and 2010, and $1.0 million and $0.7 million for the nine months ended September 30, 2011 and 2010, respectively. The intrinsic value of the stock options exercised during the three months ended September 30, 2011 and 2010 totaled $0.6 million and $0.4 million and $3.6 million and $1.9 million for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the intrinsic value of the stock options outstanding totaled $6.9 million. As of September 30, 2011, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled $3.7 million. The cost is expected to be recognized over a weighted-average period of 1 to 6 years for the stock option plans and is expected to be recognized straight-line over 7 years for the restricted stock awards.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

The Company has adopted an incentive program involving the issuance of Series Z and Series Z-1 Incentive Units (collectively referred to as "Z Units") of limited partnership interest in the Operating Partnership. Stock-based compensation expense for Z Units totaled $0.2 million and $0.4 million for the three months ended September 30, 2011 and 2010, respectively, and $0.7 million and $1.8 million for the nine months ended September 30, 2011 and 2010, respectively. On January 1, 2011, 131,409 Series Z Units were converted into common units of the Operating Partnership.

Stock-based compensation for Z units capitalized totaled $0.1 million for the three months ended September 30, 2011, and 2010, and $0.3 million and $0.6 million for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the intrinsic value of the Z-1 Units subject to future vesting totaled $15.6 million. As of September 30, 2011, total unrecognized compensation cost related to Z-1 Units subject to future vesting totaled $6.3 million. The unamortized cost is expected to be recognized over the next year to fourteen years subject to the achievement of the stated performance criteria.

Fair Value of Financial Instruments

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

Management believes that the carrying amounts of its amounts outstanding under lines of credit, notes receivable and notes and other receivables approximate fair value as of September 30, 2011 and December 31, 2010, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for similar instruments. Management has estimated that the fair value of the Company's $1.77 billion of fixed rate debt, including unsecured bonds, at September 30, 2011 is approximately $1.88 billion and the fair value of the Company's $242.2 million of variable rate debt, excluding borrowings under the lines of credit, at September 30, 2011 is $224.9 million based on the terms of existing mortgage notes payable, unsecured bonds and variable rate demand notes compared to those available in the marketplace. Management believes that the carrying amounts of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, construction payables, other liabilities and dividends payable approximate fair value as of September 30, 2011 due to the short-term maturity of these instruments. The fair values of the Company's investments in mortgage backed securities are approximately equal to the amortized cost carrying value of these securities. Marketable securities and both the note payable and the swap related to multifamily revenue refunding bonds for the 101 San Fernando apartment community, are carried at fair value as of September 30, 2011, as discussed above and in Note 8.

Preferred Equity Transactions

In April, the Company issued 2,950,000 shares of 7.125% Series H Cumulative Redeemable Preferred Stock ("Series H") at a price of $25.00 per share for net proceeds of $71.4 million, net of costs and original issuance discounts. The Series H has no maturity date and generally may not be called by the Company before April 13, 2016. Net proceeds from the Series H offering were used to redeem all of the 7.875% Series B Cumulative Redeemable Preferred Units of Essex Portfolio, L.P. ("Series B") with a liquidation value 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 and original issuance discounts.

In June, the Company redeemed its 7.8125% Series F Preferred Stock ("Series F") 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 due to deferred offering costs and original issuance discounts.

Accounting Estimates and Reclassifications

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

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

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

(2) Significant Transactions During the Third Quarter of 2011 and Subsequent Events

Acquisition

In September, the Company acquired the Bernard, a 63-unit community located in the Lower Queen Anne district of Seattle, Washington for $13.8 million. As part of the transaction, the Company assumed a $9.4 million loan secured by the property at a fixed rate of 6.0% which matures in January 2019. The interest rate was unfavorable compared to currently available market rates for mortgage loans, and thus the Company recorded a $1.1 million loan premium to reflect the debt at fair value along with a corresponding increase to the carrying value of the property. This results in an effective interest rate for this loan of 4.0%.

Dispositions

During the quarter, the Company sold its preferred stock investment in Multifamily Technology Solutions, Inc, which owns MyNewPlace.com, a real estate technology company, for net proceeds of $1.6 million and a realized gain of $0.9 million.

Also, during the quarter, the Company also sold the View Pointe land parcel located in Newcastle, Washington for net proceeds of $1.4 million and a realized gain of $0.2 million.

Development

In September, the Company entered into a development joint venture with a regional developer for the construction of Fountain at La Brea, a 187-unit community with approximately 18,200 square feet of retail located in West Hollywood, California. The regional developer contributed the land and the Company contributed approximately $9.0 million in cash for a 50% interest in the venture. The joint venture acquired bond financing for the project in the amount of $54.5 million with a maturity date of October 2046 and entered into an interest rate swap transaction with respect to the bonds that terminates in September 2016 at a rate of SIFMA + 1.50. As of September 30, 2011, $13.5 million of the bonds were outstanding. The Company does not consolidate this joint venture and will account for it under the equity method of accounting.

During the quarter, the Company entered into a joint venture with the Canada Pension Plan Investment Board (“CPPIB”) to develop its 309-unit community located in West Dublin, California.   The Company contributed the land to the joint venture, and the Company will account for this joint venture on the equity method. The Company will hold a 55% interest in the venture and will earn development, asset and property management fees, and may earn a promoted interest.

In October, the Company acquired the remaining 15% interest of a development joint venture for $0.8 million with the former land owner of a 12.6 acre operating retail site located in Santa Clara, California. The Company previously purchased an 85% interest in the venture in April, and the Company plans to entitle the 7.6 acre mixed-use site for 494 units, and an adjacent 5 acre parcel for retail. The former joint venture partner has an option to purchase the retail parcel.

Co-investments

In July, the Company acquired Reveal (formerly Millennium at Warner Center), a 438-unit community located in the Canoga Park area of Los Angeles through the Wesco joint venture. The property, which was completed in 2010, was acquired for $132.9 million. Wesco obtained a mortgage loan for $78.7 million at LIBOR + 1.9% secured by Reveal with a maturity of two years with two 1-year extensions.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

In September, the Company acquired Redmond Hill, a group of four communities built between 1985 and 2003 consisting of 882-units in Redmond, Washington. The properties, which will be operated as two separate communities, were acquired for $151.3 million through the Company's previously announced programmatic joint venture, Wesco. The Company intends to renovate portions of each property, beginning with building exteriors and community amenities, to be followed by apartment interior upgrades for a total cost of approximately $11.7 million. In conjunction with the acquisition, Wesco obtained two 10-year loans totaling $97.1 million secured by Redmond Hill at a fixed rate of 4.06%.

Common Stock, Preferred Stock and Preferred Units

During the quarter, the Company sold 647,787 shares of common stock for $88.2 million, net of commissions, at an average per share price of $137.83. Year to date through September, the Company has sold 1,959,411 shares of common stock for $256.8 million, net of commissions, at an average price of $132.65, and no stock has been sold to date in the fourth quarter. The Company may sell an additional 1,066,889 shares under the current equity distribution program.

Bonds

During the quarter, the Company repaid tax-exempt bonds for $9.8 million associated with the Boulevard community, and in conjunction with this repayment of the bonds 35 apartment units were released from an affordable rent bond program. The Company wrote-off $0.2 million of unamortized deferred charges related to the bonds.

Line of Credit

In August, the Company gave notice to terminate the $250 million secured line of credit facility with Freddie Mac which matures in December 2013. As of September 30, 2011, $174.0 million is outstanding under this line of credit and the Company intends to repay this using proceeds form other borrowings. The 11 properties that are the security for this secured facility will be unencumbered upon termination of the secured facility. Due to the early termination of the credit facility the Company has accelerated the amortization of the deferred facility charges, and the result is that an additional $0.3 million in amortization of deferred charges was recorded in the third quarter and another $0.3 million will be recorded in the fourth quarter of 2011.

In September, the Company amended the existing unsecured line of credit facility to increase the capacity to $425 million from $275 million with an accordion feature to expand the facility to $500 million. The borrowing rate is LIBOR + 1.25% and an annual facility fee of 0.25%. Interest on the credit facility floats at a margin over LIBOR plus a facility fee, which are tied to the Company's senior unsecured credit ratings. The term of the amended facility is three years and provides for two, 1-year extension options.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

(3) Co-investments

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

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

	September 30, 2011	December 31, 2010
Investments in joint ventures accounted for under the equity method of accounting:		
Partnership interest in Fund II	$64,505	$66,000
Membership interest in Wesco	55,444	-
Membership interest in a limited liability company that owns Essex Skyline at MacArthur Place	25,781	29,187
Total operating co-investments	145,730	95,187
Membership interest in a limited liability company that owns and is developing Cadence and West Dublin	68,368	-
Membership interest in a limited liability company that owns and is developing Queen Anne	17,000	-
Membership interest in a limited liability company that owns and is developing Fountain at La Brea	9,186	-
Total development co-investments	94,554	-
Preferred interests in limited liability companies that own apartment communities in downtown Los Angeles with preferred returns of 9% and 10%	22,792	-
Preferred interest in a related limited liability company that owns Madison Park at Anaheim with a preferred return of 13%	12,334	12,014
Total preferred interest investments	35,126	12,014
Investments accounted for under the cost method of accounting:		
Series A and B-2 Preferred Stock interests in Multifamily Technology Solutions, Inc.	-	639
Total co-investments	$275,410	$107,840

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2011 and 2010
(Unaudited)

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

	September 30, 2011	December 31, 2010
Balance sheets:		
Rental properties and real estate under development	$ 1,405,295	$ 750,808
Other assets	58,806	15,864
Total assets	$ 1,464,101	$ 766,672