ESSEX PROPERTY TRUST INC
Form 10-Q
November 06, 2014

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, 2014

OR

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

For the transition period from ________to _________

Commission file number 001-13106

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

Maryland (Essex Property Trust, Inc.) California (Essex Portfolio, L.P.)	77-0369576 (Essex Property Trust, Inc.) 77-0369575 (Essex Portfolio, L.P.)
(State or Other Jurisdiction of Incorporation or Organization)	(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.

Essex Property Trust, Inc. Yes x No o Essex Portfolio, L.P. 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).

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

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):

Essex Property Trust, Inc.:

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

Essex Portfolio, L.P.:

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

Essex Property Trust, Inc. Yes o No x Essex Portfolio, L.P. 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: 63,942,115 shares of Common Stock ($0.0001 par value) of Essex Property Trust, Inc. were outstanding as of November 5, 2014.

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the three and nine months period ended September 30, 2014 of Essex Property Trust, Inc. and Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to "Essex" mean Essex Property Trust, Inc., a Maryland corporation that operates as a self-administered and self-managed real estate investment trust ("REIT "), and references to "EPLP" mean Essex Portfolio, L.P. (the "Operating Partnership"). References to the "Company," "we," "us" or "our" mean collectively Essex, EPLP and those entities/subsidiarie owned or controlled by Essex and/or EPLP. References to the "Operating Partnership" mean collectively EPLP and those entities/subsidiaries owned or controlled by EPLP.

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

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

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

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

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

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

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

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

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

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

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

ESSEX PROPERTY TRUST, INC.
ESSEX PORTFOLIO, L.P.
FORM 10-Q
INDEX

Index
Part I – Financial Information

Item 1. Condensed Financial Statements

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

ASSETS	September 30, 2014	December 31, 2013
Real estate:		
Rental properties:		
Land and land improvements	$2,453,093	$1,083,552
Buildings and improvements	8,820,657	4,360,205
	11,273,750	5,443,757
Less accumulated depreciation	(1,469,991)	(1,254,886)
	9,803,759	4,188,871
Real estate under development	363,193	50,430
Co-investments	1,043,277	677,133
Real estate held for sale, net	107,772	-
	11,318,001	4,916,434
Cash and cash equivalents-unrestricted	17,877	18,491
Cash and cash equivalents-restricted	70,123	35,275
Marketable securities	108,147	90,084
Notes and other receivables	22,973	68,255
Acquired in place lease value and other assets	98,381	33,781
Deferred charges, net	31,060	24,519
Total assets	$11,666,562	$5,186,839
LIABILITIES AND EQUITY		
Mortgage notes payable	$2,258,010	$1,404,080
Unsecured debt	2,745,487	1,410,023
Lines of credit	222,628	219,421
Accounts payable and accrued liabilities	167,160	67,183
Construction payable	38,453	8,047
Dividends payable	87,609	50,627
Other liabilities	32,330	24,871
Total liabilities	5,551,677	3,184,252
Commitments and contingencies		
Redeemable noncontrolling interest	21,442	-
Cumulative convertible Series G preferred stock	-	4,349
Equity:		
Cumulative redeemable Series H preferred stock at liquidation value	73,750	73,750
Common stock, $0.0001 par value, 656,020,000 shares authorized 63,229,790 and 37,421,219 shares issued and outstanding	6	4
Additional paid-in capital	6,569,442	2,345,763
Distributions in excess of accumulated earnings	(608,498)	(474,426)

Accumulated other comprehensive loss, net	(51,408)	(60,472)
Total stockholders' equity	5,983,292	1,884,619
Noncontrolling interest	110,151	113,619
Total equity	6,093,443	1,998,238
Total liabilities and equity	$11,666,562	$5,186,839

See accompanying notes to the unaudited condensed consolidated financial statements.

2

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental and other property	$268,118	$152,177	$683,749	$446,017
Management and other fees	2,361	1,771	6,856	5,812
	270,479	153,948	690,605	451,829
Expenses:				
Property operating, excluding real estate taxes	55,900	35,787	145,410	102,170
Real estate taxes	31,768	14,535	77,452	42,773
Depreciation	102,184	48,227	254,211	142,687
General and administrative	11,479	6,263	28,621	19,852
Merger and integration expenses	3,857	-	46,413	-
Acquisition and dispositions costs	51	237	1,555	792
	205,239	105,049	553,662	308,274
Earnings from operations	65,240	48,899	136,943	143,555
Interest expense	(45,830)	(29,192)	(117,021)	(86,661)
Interest and other income	2,992	2,387	8,685	9,326
Equity income in co-investments	4,910	40,802	21,065	52,295
Gains on sale of real estate and land	31,372	-	39,640	1,503
Gain (loss) on early retirement of debt	-	(178)	-	846
Income from continuing operations	58,684	62,718	89,312	120,864
Income from discontinued operations	-	13,157	-	14,289
Net income	58,684	75,875	89,312	135,153
Net income attributable to noncontrolling interest	(3,720)	(5,719)	(8,971)	(12,112)
Net income attributable to controlling interest	54,964	70,156	80,341	123,041
Dividends to preferred stockholders	(1,296)	(1,368)	(3,977)	(4,104)
Net income available to common stockholders	$53,668	$68,788	$76,364	$118,937
Comprehensive income	$61,139	$76,112	$98,749	$142,206
Comprehensive income attributable to noncontrolling interest	(3,789)	(5,732)	(9,345)	(12,493)
Comprehensive income attributable to controlling interest	$57,350	$70,380	$89,404	$129,713
Per common share data:				
Basic:				
Income from continuing operations	$0.85	$1.51	$1.41	$2.84
Income from discontinued operations	-	0.33	-	0.36
Net income available to common stockholders	$0.85	$1.84	$1.41	$3.20
Weighted average number of common shares outstanding during the period	62,892,601	37,320,562	54,250,104	37,206,895
Diluted:				

Income from continuing operations	$0.85	$1.51	$1.40	$2.83
Income from discontinued operations	-	0.33	-	0.36
Net income available to common stockholders	$0.85	$1.84	$1.40	$3.19
Weighted average number of common shares outstanding during the period	63,069,772	37,436,983	54,443,227	37,295,691
Dividend per common share	$1.30	$1.21	$3.81	$3.63

See accompanying notes to the unaudited condensed consolidated financial statements.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Equity for the nine months ended September 30, 2014

(Unaudited)

(Dollars and shares in thousands)

	Series H Preferred stock		Common stock		Additional paid-in	Distributions in excess of accumulated	Accumulated other comprehensive	Noncontrolling	
	Shares	Amount	Shares	Amount	capital	earnings	loss, net	Interest	Total
Balances at December 31, 2013	2,950	$73,750	37,421	$ 4	$2,345,763	$(474,426)	$(60,472)	$113,619	$1,998,238
Net income	-	-	-	-	-	80,341	-	8,971	89,312
Reversal of unrealized gains upon the sale of marketable securities	-	-	-	-	-	-	(841)	(45)	(886)
Change in fair value of derivatives and amortization of swap settlements	-	-	-	-	-	-	7,426	306	7,732
Change in fair value of marketable securities	-	-	-	-	-	-	2,479	112	2,591
Issuance of common stock under:									
Stock consideration in the Merger, net	-	-	23,093	2	3,777,644	-	-	-	3,777,646
Stock option and restricted stock plans	-	-	154	-	6,511	-	-	-	6,511
Equity distribution agreements, net	-	-	2,527	-	449,499	-	-	-	449,499
Equity based compensation costs	-	-	-	-	5,756	-	-	1,672	7,428
Reclassification of noncontrolling interest to redeemable	-	-	-	-	(19,823)	-	-	(1,067)	(20,890)

noncontrolling interest									
Changes in value of redemption value of redeemable noncontrolling interest					2,126				2,126
Conversion of Series G preferred stock	-	-	34	-	4,349	-	-	-	4,349
Contributions from noncontrolling interest	-	-	-	-		-	-	1,419,816	1,419,816
Retirement of noncontrolling interest	-	-	-	-	-	-	-	(1,419,816)	(1,419,816)
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(12,821)	(12,821)
Redemptions of noncontrolling interest	-	-	-	-	(2,383)	-	-	(596)	(2,979)
Common and preferred stock dividends	-	-	-	-		(214,413)	-	-	(214,413)
Balances at September 30, 2014	2,950	$73,750	63,229	$ 6	$6,569,442	$(608,498)	$(51,408)	$110,151	$6,093,443

See accompanying notes to the unaudited condensed consolidated financial statements.

Index

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$89,312	$135,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	254,211	143,662
Amortization of discount on marketable securities	(6,555)	(4,664)
Amortization of premium and debt financing costs, net	(4,987)	8,111
Gain on sale of marketable securities	(886)	(1,767)
Company's share of gain on the sales of co-investment	(3,213)	(41,252)
Gain on the sales of real estate and land	(39,640)	(14,161)
Non-cash merger expense	7,562	-
Equity in income in co-investments, net	(14,903)	(1,892)
Equity-based compensation	4,996	3,137
Gain on early retirement of debt	-	(846)
Changes in operating assets and liabilities:		
Acquired in place lease value and other assets	8,923	(19,689)
Accounts payable and accrued liabilities	44,775	19,091
Other liabilities	1,393	199
Net cash provided by operating activities	340,988	225,082
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(409,018)	(205,539)
Improvements to recent acquisitions	(13,512)	(14,374)
Redevelopment	(35,361)	(32,488)
Revenue generating capital expenditures	(20,560)	(2,165)
Lessor required capital expenditures	(7,562)	(4,320)
Non-revenue generating capital expenditures	(29,070)	(21,885)
Acquisitions of and additions to real estate under development	(108,659)	(13,963)
Proceeds from insurance claim for property damage	29,160	-
BRE merger consideration paid	(555,826)	-
Dispositions of real estate	61,331	33,666
Dispositions of co-investments	13,900	-
Contributions to co-investments	(128,268)	(150,852)
Distributions from co-investments	40,421	117,103
Changes in restricted cash and deposits	(39,482)	(17,246)
Purchases of marketable securities	(15,516)	(16,442)
Sales and maturities of marketable securities	6,275	22,830
Purchases of and advances under notes and other receivables	-	(56,750)
Collections of notes and other receivables	76,585	53,438
Net cash used in investing activities	(1,135,162)	(308,987)
Cash flows from financing activities:		
Borrowings under debt agreements	1,737,322	641,892
Principal repayment of debt	(1,327,840)	(536,926)

Additions to deferred and financing costs	(16,941)	(3,836)
Proceeds from issuance of common stock	450,812	122,905
Equity related issuance cost of common stock	(1,348)	(616)
Proceeds from stock options exercises	6,526	4,756
Distributions to noncontrolling interest	(13,217)	(14,108)
Redemption of noncontrolling interest	(4,707)	(5,113)
Common and preferred stock dividends paid	(177,400)	(134,146)
Net cash provided by financing activities	653,207	74,808
Net decrease in cash and cash equivalents-unrestricted	(140,967)	(9,097)
Cash acquired in the BRE merger	140,353	-
Cash and cash equivalents-unrestricted at beginning of period	18,491	18,606
Cash and cash equivalents-unrestricted at end of period	$17,877	$9,509

(Continued)

5

Index

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

	Nine Months Ended September 30, 2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of $17.8 million, and $12.7 million capitalized in 2014 and 2013, respectively	$93,342	$76,596
Supplemental disclosure of noncash investing and financing activities:		
Issuance of Operating Partnership units for contributed properties	$1,419,816	$-
Retirement of Operating Partnership units	$(1,419,816)	$-
Transfer from real estate under development to land and building	$71,496	$68
Transfer from real estate under development to co-investments	$81,332	$27,906
Mortgage notes (excluding BRE merger) assumed in connection with purchases of real estate including the loan premiums recorded	$70,480	$-
Change in accrual of dividends	$45,605	$5,434
Change in fair value of derivative liabilities	$(1,175)	$3,649
Change in fair value of marketable securities	$2,186	$2,958
Change in construction payable	$30,405	$1,544
Reclassification to redeemable noncontrolling interest from additional paid in capital and noncontrolling interest	$18,764	$-
Assets acquired and liabilities assumed in BRE merger:		
Cash assumed in merger	$140,353	$-
Rental properties and real estate under development	$5,618,067	$-
Real estate held for sale, net	$107,772	$-
Co-investments	$218,402	$-
Acquired in-place lease value	$80,358	$-
Other assets	$15,676	$-
Mortgage notes payable and unsecured debt	$1,747,382	$-
Other liabilities	$94,976	$-
Redeemable noncontrolling interest	$4,798	$-
Consideration issued	$3,777,646	$-

See accompanying notes to the unaudited condensed consolidated financial statements

Index
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except unit amounts)

	September 30, 2014	December 31, 2013
ASSETS		
Real estate:		
Rental properties:		
Land and land improvements	$2,453,093	$1,083,552
Buildings and improvements	8,820,657	4,360,205
	11,273,750	5,443,757
Less accumulated depreciation	(1,469,991)	(1,254,886)
	9,803,759	4,188,871
Real estate under development	363,193	50,430
Co-investments	1,043,277	677,133
Real estate held for sale, net	107,772	-
	11,318,001	4,916,434
Cash and cash equivalents-unrestricted	17,877	18,491
Cash and cash equivalents-restricted	70,123	35,275
Marketable securities	108,147	90,084
Notes and other receivables	22,973	68,255
Acquired in place lease value and other assets	98,381	33,781
Deferred charges, net	31,060	24,519
Total assets	$11,666,562	$5,186,839
LIABILITIES AND CAPITAL		
Mortgage notes payable.	$2,258,010	$1,404,080
Unsecured debt	2,745,487	1,410,023
Lines of credit	222,628	219,421
Accounts payable and accrued liabilities	167,160	67,183
Construction payable	38,453	8,047
Distributions payable	87,609	50,627
Other liabilities	32,330	24,871
Total liabilities	5,551,677	3,184,252
Commitments and contingencies		
Redeemable noncontrolling interest	21,442	-
Cumulative convertible Series G preferred interest (liquidation value of $4,456)	-	4,349
Capital:		
General Partner:		
Common equity (63,229,790 and 37,421,219 units issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	5,963,493	1,873,882
Series H Preferred interest (liquidation value of $73,750)	71,209	71,209
	6,034,702	1,945,091
Limited Partners:		
Common equity (2,155,783 and 2,149,802 units issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	45,439	45,957
Accumulated other comprehensive loss	(49,503)	(58,940)

Total partners' capital	6,030,638	1,932,108
Noncontrolling interest	62,805	66,130
Total capital	6,093,443	1,998,238
Total liabilities and capital	$11,666,562	$5,186,839

See accompanying notes to the unaudited condensed consolidated financial statements

7

Index

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)
(In thousands, except unit and per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental and other property	$268,118	$152,177	$683,749	$446,017
Management and other fees	2,361	1,771	6,856	5,812
	270,479	153,948	690,605	451,829
Expenses:				
Property operating, excluding real estate taxes	55,900	35,787	145,410	102,170
Real estate taxes	31,768	14,535	77,452	42,773
Depreciation	102,184	48,227	254,211	142,687
General and administrative	11,479	6,263	28,621	19,852
Merger and integration expenses	3,857	-	46,413	-
Acquisition and dispositions costs	51	237	1,555	792
	205,239	105,049	553,662	308,274
Earnings from operations	65,240	48,899	136,943	143,555
Interest expense	(45,830)	(29,192)	(117,021)	(86,661)
Interest and other income	2,992	2,387	8,685	9,326
Equity income in co-investments	4,910	40,802	21,065	52,295
Gain (loss) on early retirement of debt	-	(178)	-	846
Gains on sale of real estate and land	31,372	-	39,640	1,503
Income from continuing operations	58,684	62,718	89,312	120,864
Income from discontinued operations	-	13,157	-	14,289
Net income	58,684	75,875	89,312	135,153
Net income attributable to noncontrolling interest	(1,904)	(1,730)	(5,529)	(5,075)
Net income attributable to controlling interest	56,780	74,145	83,783	130,078
Preferred interest distributions	(1,296)	(1,368)	(3,977)	(4,104)
Net income available to common unitholders	$55,484	$72,777	$79,806	$125,974
Comprehensive income	$61,139	$76,112	$98,749	$142,206
Comprehensive income attributable to noncontrolling interest	(1,904)	(1,730)	(5,529)	(5,075)
Comprehensive income attributable to controlling interest	$59,235	$74,382	$93,220	$137,131
Per common unit data:				
Basic:				
Income from continuing operations	$0.85	$1.51	$1.41	$2.84
Income from discontinued operations	-	0.33	-	0.36
Net income available to common unitholders	$0.85	$1.84	$1.41	$3.20
Weighted average number of common units outstanding during the period	65,057,157	39,467,492	56,484,589	39,333,100
Diluted:				

Income from continuing operations	$0.85	$1.51	$1.41	$2.84
Income from discontinued operations	-	0.33	-	0.36
Net income available to common unitholders	$0.85	$1.84	$1.41	$3.20
Weighted average number of common units outstanding during the period	65,234,328	39,583,913	56,677,712	39,421,896
Distribution per common unit	$1.30	$1.21	$3.81	$3.63

See accompanying notes to the unaudited condensed consolidated financial statements

8

Index

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Condensed Consolidated Statement of Capital for the nine months ended September 30, 2014
(Dollars and units in thousands)
(Unaudited)

	General Partner		Preferred	Limited Partners		Accumulated Other		
	Common Equity		Equity	Common Equity		Comprehensive (Loss)	Noncontrolling	
	Units	Amount	Amount	Units	Amount	Income	Interest	Total
Balances at December 31, 2013	37,421	$ 1,873,882	$ 71,209	2,150	$ 45,957	$ (58,940)	$ 66,130	$ 1,998,238
Comprehensive income:								
Net income	-	76,364	3,977	-	3,442	-	5,529	89,312
Reversal of unrealized gains upon the sale of marketable securities	-	-	-	-	-	(886)	-	(886)
Change in fair value of derivatives and amortization of swap settlements	-	-	-	-	-	7,732	-	7,732
Change in fair value of marketable securities	-	-	-	-	-	2,591	-	2,591
Issuance of common units under:								
Common stock issued as consideration by general partner in merger	23,093	3,777,646	-	-	-	-	-	3,777,646
General partner's stock based compensation	154	6,511	-	-	-	-	-	6,511
Sale of common stock by general partner	2,527	449,499	-	-	-	-	-	449,499
Equity based compensation costs	-	5,756	-	29	1,672	-	-	7,428
Reclassification of noncontrolling interest to redeemable noncontrolling interest	-	(19,823)	-	(23)	4,017	-	(5,084)	(20,890)
		2,126						2,126

Changes in value of redemption value of redeemable Non-Controlling Interest								
Conversion of Series G preferred stock	34	4,349	-	-	-	-	-	4,349
Contributions from noncontrolling interest	-	-	-	8,561	1,419,816	-	-	1,419,816
Retirement of noncontrolling interest	-	-	-	(8,561)	(1,419,816)	-	-	(1,419,816)
Distributions to noncontrolling interest	-	-	-	-	-	-	(3,462)	(3,462)
Redemptions	-	(2,382)	-	-	(291)	-	(308)	(2,981)
Distributions declared	-	(210,435)	(3,977)	-	(9,358)	-	-	(223,770)
Balances at September 30, 2014	63,229	$5,963,493	$71,209	2,156	$45,439	$ (49,503)	$ 62,805	$6,093,443

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$89,312	$135,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	254,211	143,662
Amortization of discount on marketable securities	(6,555)	(4,664)
Amortization of premium and debt financing costs, net	(4,987)	8,111
Gain on sale of marketable securities	(886)	(1,767)
Operating Partnership's share of gain on the sales of co-investment	(3,213)	(41,252)
Gain on the sales of real estate and land	(39,640)	(14,161)
Non-cash merger expense	7,562	-
Equity in income in co-investments, net	(14,903)	(1,892)
Equity-based compensation	4,996	3,137
Gain on early retirement of debt	-	(846)
Changes in operating assets and liabilities:		
Acquired in place lease value and other assets	8,923	(19,689)
Accounts payable and accrued liabilities	44,775	19,091
Other liabilities	1,393	199
Net cash provided by operating activities	340,988	225,082
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(409,018)	(205,539)
Improvements to recent acquisitions	(13,512)	(14,374)
Redevelopment	(35,361)	(32,488)
Revenue generating capital expenditures	(20,560)	(2,165)
Lessor required capital expenditures	(7,562)	(4,320)
Non-revenue generating capital expenditures	(29,070)	(21,885)
Acquisitions of and additions to real estate under development	(108,659)	(13,963)
Proceeds from insurance claim for property damage	29,160	-
BRE merger consideration paid	(555,826)	-
Dispositions of real estate	61,331	33,666
Changes in restricted cash and deposits	(39,482)	(17,246)
Purchases of marketable securities	(15,516)	(16,442)
Sales and maturities of marketable securities	6,275	22,830
Purchases of and advances under notes and other receivables	-	(56,750)
Collections of notes and other receivables	76,585	53,438
Dispositions of co-investments	13,900	-
Contributions to co-investments	(128,268)	(150,852)
Distributions from co-investments	40,421	117,103
Net cash used in investing activities	(1,135,162)	(308,987)
Cash flows from financing activities:		
Borrowings under debt agreements	1,737,322	641,892
Principal repayment of debt	(1,327,840)	(536,926)

Additions to deferred charges	(16,941)	(3,836)
Equity related issuance cost of common stock	(1,348)	(616)
Proceeds from stock options exercises	6,526	4,756
Net proceeds from issuance of common units	450,812	122,905
Distributions to noncontrolling interest	(3,462)	(6,234)
Redemption of noncontrolling interest	(308)	(1,819)
Common units and preferred units and preferred interests distributions paid	(191,554)	(145,314)
Net cash provided by financing activities	653,207	74,808
Net decrease in cash and cash equivalents-unrestricted	(140,967)	(9,097)
Cash acquired in the BRE merger	140,353	-
Cash and cash equivalents-unrestricted at beginning of period	18,491	18,606
Cash and cash equivalents-unrestricted at end of period	$17,877	$9,509

(Continued)

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

	Nine Months Ended September 30, 2014	2013
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of $17.8 million, and $12.7 million capitalized in 2014 and 2013, respectively	$93,342	$76,596
Supplemental disclosure of noncash investing and financing activities:		
Issuance of limited partner common units for contributed properties	$1,419,816	$-
Retirement of limited partner common units	$(1,419,816)	-
Transfer from real estate under development to land and building	$71,496	$68
Transfer from real estate under development to co-investments	$81,332	$27,906
Mortgage notes (excluding BRE merger) assumed in connection with purchases of real estate including the loan premiums recorded	$70,480	$-
Change in accrual of distributions	$45,605	$5,434
Change in fair value of derivative liabilities	$(1,175)	$3,649
Change in fair value of marketable securities	$2,186	$2,958
Change in construction payable	$30,405	$1,544
Reclassification to redeemable noncontrolling interest from general partner and limited partners common units	$(18,764)	$-
Assets acquired and liabilities assumed in BRE merger:		
Cash assumed in merger	$140,353	$-
Rental properties and real estate under development	$5,618,067	$-
Real estate held for sale, net	$107,772	$-
Co-investments	$218,402	$-
Acquired in-place lease value	$80,358	$-
Other assets	$15,676	$-
Mortgage notes payable and unsecured debt	$1,747,382	$-
Other liabilities	$94,976	$-
Redeemable noncontrolling interest	$4,798	$-
Consideration issued	$3,777,646	$-

See accompanying notes to the unaudited condensed consolidated financial statements

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. ("Essex" or the "Company"), which include the accounts of the Company and Essex Portfolio, L.P. and subsidiaries (the "Operating Partnership," which holds the operating assets of the Company), prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

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

On April 1, 2014, Essex completed the merger with BRE Properties, Inc. ("BRE"). In connection with the closing of the merger, (1) BRE merged into a wholly owned subsidiary of Essex, and (2) each outstanding share of BRE common stock was converted into (i) 0.2971 shares (the "Stock Consideration") of Essex common stock, and (ii) $7.18 in cash, (the "Cash Consideration"), plus cash in lieu of fractional shares for total consideration of approximately $4.3 billion. The Cash Consideration was adjusted as a result of the authorization and declaration of a special distribution to the stockholders of BRE of $5.15 per share of BRE common stock payable to BRE stockholders of record as of the close of business on March 31, 2014 (the "Special Dividend"). The Special Dividend was payable as a result of the closing of the sale of certain interests in assets of BRE to certain parties, which closed on March 31, 2014. Pursuant to the terms of the merger agreement, the amounts payable as a Special Dividend reduced the Cash Consideration of $12.33 payable by Essex in the merger to $7.18 per share of BRE common stock.

Essex issued approximately 23.1 million shares of Essex common stock as Stock Consideration in the merger. For purchase accounting, the value of the common stock issued by Essex upon the consummation of the merger was determined based on the closing price of BRE's common stock on the closing date of the merger. As a result of Essex being admitted to the S&P 500 on the same date as the closing of the merger, Essex's common stock price experienced significantly higher than usual trading volume and the closing price of $174 per share was significantly higher than its volume-weighted average trading price for the days before and after April 1, 2014. BRE's common stock did not experience the same proportionate increase in common stock price leading up to April 1, 2014. As a result, given that a substantial component of the purchase price is an exchange of equity instruments, Essex used the closing price of BRE's common stock on April 1, 2014 of $61 per share, less the Cash Consideration, as the fair value of the equity consideration. After deducting the Special Dividend and the Cash Consideration per share, this resulted in a value of $48.67 per share of BRE common stock which is the equivalent of approximately $164 per share of Essex common stock issued.

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2014 and 2013 include the accounts of the Company and the Operating Partnership. Essex is the sole general partner in the Operating Partnership, with a 96.7% general partnership interest as of September 30, 2014. Total OP units outstanding were 2,155,783 and 2,149,802 as of September 30, 2014 and December 31, 2013, respectively, and the redemption value of the OP units, based on the closing price of the Company's common stock totaled $385.3 million and $308.5 million, as of September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014, the Company owned or had ownership interests in 239 apartment communities, aggregating 56,622 units, excluding the Company's ownership in preferred interest co-investments, (collectively, the "Communities", and individually, a "Community"), five commercial buildings and fourteen active developments (collectively, the "Portfolio"). The Communities are located in Southern California (Los Angeles, Orange, Riverside, San Diego, Santa Barbara, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle and Phoenix metropolitan areas.

Cyber-intrusion Expenses

In the third quarter of 2014, the Company reported that certain of its computer networks containing personal and proprietary information have been compromised by a cyber-intrusion. Essex has confirmed that evidence exists of exfiltration of data on Company systems. The precise nature of the data has not yet been identified and the Company does not presently have any evidence that data belonging to the Company has been misused.

After detecting unusual activity, the Company took immediate steps to assess and contain the intrusion and secure its systems. The Company has retained independent forensic computer experts to analyze the impacted data systems and is consulting with law enforcement. The investigation into this cyber-intrusion is ongoing, and Essex is working as quickly as possible to identify whether any employee or tenant data may be at risk. When the analysis is complete, the Company will promptly notify any affected parties, as appropriate.

The Company has recorded $1.2 million in cyber-intrusion expenses in the third quarter of 2014 and are included in general and administrative expense line item on the condensed consolidated statement of operations and comprehensive income.

Marketable Securities

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

As of September 30, 2014 and December 31, 2013, marketable securities consisted primarily of investment-grade unsecured bonds, common stock, investments in mortgage backed securities and investment funds that invest in equities and U.S. treasury or agency securities. As of September 30, 2014 and December 31, 2013, the Company classified its investments in mortgage backed securities, which mature through November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost. As of September 30, 2014 and December 31, 2013, marketable securities consist of the following ($ in thousands):

	September 30, 2014		
	Cost/ Amortized Cost	Gross Unrealized Gain	Carrying Value
Available for sale:			
Investment-grade unsecured bonds	$14,396	$ (51)	$14,345
Investment funds - US treasuries	5,018	7	5,025
Common stock	22,523	957	23,480
Held to maturity:			
Mortgage backed securities	65,297	-	65,297
Total	$107,234	$ 913	$108,147

	December 31, 2013		
	Cost/ Amortized Cost	Gross Unrealized Gain (Loss)	Carrying Value
Available for sale:			

Investment-grade unsecured bonds	$15,446	$ 509	$15,955
Investment funds - US treasuries	3,675	3	3,678
Common stock	13,104	(1,304)	11,800
Held to maturity:			
Mortgage backed securities	58,651	-	58,651
Total	$90,876	$ (792)	$90,084

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, 2014 and 2013, the proceeds from sales of available for sale securities totaled $6.3 million and $22.8 million, respectively, which resulted in realized gains of $0.9 million and $1.8 million, respectively.

Variable Interest Entities

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities) since the Company is the primary beneficiary of these variable interest entities ("VIEs"). Total DownREIT units outstanding were 991,983 and 1,007,879 as of September 30, 2014 and December 31, 2013 respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$177.3 million and \$144.6 million, as of September 30, 2014 and December 31, 2013, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately \$234.7 million and \$224.4 million, respectively, as of September 30, 2014 and \$194.9 million and \$178.3 million, respectively, as of December 31, 2013. Interest holders in VIEs consolidated by the Company are allocated income equal to the cash distributions made to those interest holders. The remaining results of operations are allocated to the Company. As of September 30, 2014 and December 31, 2013, the Company did not have any other VIEs of which it was deemed to be the primary beneficiary.

Equity Based Compensation

The Company accounts for equity based compensation using the fair value method of accounting. The estimated fair value of stock options granted by the Company is being amortized over the vesting period of the stock options. The estimated grant date fair values of the long term incentive plan units (discussed in Note 13, "Equity Based Compensation Plans," in the Company's Form 10-K for the year ended December 31, 2013) are being amortized over the expected service periods.

Stock-based compensation expense for options and restricted stock totaled \$0.7 million and \$0.5 million for the three months ended September 30, 2014 and 2013, respectively, and \$2.9 million and \$1.6 million for the nine months ended September 30, 2014 and 2013, respectively. The intrinsic value of the stock options exercised during the three months ended September 30, 2014 and 2013 totaled \$1.0 million and \$0.1 million, respectively, and \$4.2 million and \$2.9 million for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, the intrinsic value of the stock options outstanding and fully vested totaled \$15.7 million. As of September 30, 2014, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled \$5.7 million. The cost is expected to be recognized over a weighted-average period of 1 to 5 years for the stock option plans and is expected to be recognized straight-line over a period of 1 to 7 years for the restricted stock awards.

The Company has adopted an incentive program involving the issuance of Series Z-1 Incentive Units of limited partnership interest in the Operating Partnership. The Operating Partnership also issued 50,500 units under the 2014 Long-Term Incentive Plan Award agreements in December 2013. Pursuant to the 2014 Long-Term Incentive Plan Awards, each recipient was initially granted a number of 2014 Long-Term Incentive Plan Units (the "2014 LTIP Units"), 90% of which are subject to performance-based vesting, and 10% of which are subject to service-based vesting based on continued employment. One-third of the performance-based vesting of the 2014 LTIP Units initially granted will be eligible to be earned by recipients based on Essex's absolute total stockholder return and two-thirds will be eligible to be earned based on Essex's relative total stockholder return, in each case, during a one-year performance period beginning on the initial grant date of the awards. All 2014 LTIP Units that are earned vest over a four year period commencing on the grant date.

Stock-based compensation expense for Z-1 Units and 2014 LTIP Units totaled $0.4 million and $0.5 million for the three months ended September 30, 2014 and 2013, respectively, and $1.5 million for the nine months ended September 30, 2014 and 2013. As of September 30, 2014, the intrinsic value of the Z-1 Units and 2014 LTIP Units subject to future vesting totaled $23.5 million. As of September 30, 2014, total unrecognized compensation cost related to Z-1 Units and 2014 LTIP Units subject to future vesting totaled $6.7 million. The unamortized cost is expected to be recognized over 6 years subject to the achievement of the stated performance criteria.

Fair Value of Financial Instruments

Management believes that the carrying amounts of outstanding lines of credit, and notes and other receivables approximate fair value as of September 30, 2014 and December 31, 2013, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for similar instruments. Management has estimated that the fair value of the Company’s $4.3 billion of fixed rate debt, including unsecured bonds, at September 30, 2014 is approximately $4.5 billion and the fair value of the Company’s $539.2 million of variable rate debt, excluding borrowings under the lines of credit, at September 30, 2014 is $520.4 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, 2014 due to the short-term maturity of these instruments. Marketable securities, except mortgage backed securities that are held to maturity, and derivatives are carried at fair value as of September 30, 2014.

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

At September 30, 2014, the Company's investments in mortgage backed securities had a carrying value of $65.3 million and the Company estimated the fair value to be approximately $93.7 million. At December 31, 2013, the Company's investments in mortgage backed securities had a carrying value of $58.7 million and the Company estimated the fair value to be approximately $86.2 million. The Company determines the fair value of the mortgage backed securities based on unobservable inputs (level 3 of the fair value hierarchy) considering the assumptions that market participants would make in valuing these securities. Assumptions such as estimated default rates and discount rates are used to determine expected discounted cash flows to estimate the fair value.

Capitalization of Costs

The Company's capitalized internal costs related to development and redevelopment projects totaled $2.9 million and $1.8 million during the three months ended September 30, 2014 and 2013, respectively, and $7.6 million and $5.1 million during the nine months ended September 30, 2014 and 2013, respectively, most of which relates to development projects. These totals include capitalized salaries of $2.4 million and $0.8 million for the three months ended September, 2014 and 2013, respectively, and $6.7 million and $2.0 million for the nine months ended September 30, 2014 and 2013, respectively. The Company capitalizes leasing commissions associated with the lease-up of a development community and amortizes the costs over the life of the leases. The amounts capitalized for leasing commissions are immaterial for all periods presented.

Co-investments

The Company owns investments in joint ventures ("co-investments") in which it has significant influence, but its ownership interest does not meet the criteria for consolidation in accordance with U.S. GAAP. Therefore, the Company accounts for co-investments using the equity method of accounting. The equity method employs the accrual basis for recognizing the investor's share of investee income or losses. In addition, distributions received from the investee are treated as a reduction in the investment account, not as income. The significant accounting policies of the Company's co-investment entities are consistent with those of the Company in all material respects.

Upon the acquisition of a controlling interest of a co-investment, the co-investment entity is consolidated and a gain or loss is recognized upon the remeasurement of co-investments in the condensed consolidated statement of operations equal to the amount by which the fair value of the co-investment interest the Company previously owned exceeds its carrying value. A majority of the co-investments, excluding the preferred equity investments, compensate the Company for its asset management services and may provide promote income if certain financial return benchmarks are achieved. Asset management fees are recognized when earned, and promote fees are recognized when the earnings events have occurred and the amount is determinable and collectible. Any promote fees are reflected in equity income in co-investments.

Changes in Accumulated Other Comprehensive Loss, Net by Component

Essex Property Trust, Inc.
(in thousands):

	Change in fair	Unrealized	Total

	value and amortization of derivatives	gains/(losses) on available for sale securities	
Balance at December 31, 2013	$ (59,724)	$ (748)	$(60,472)
Other comprehensive income before reclassification	1,428	2,479	3,907
Amounts reclassified from accumulated other comprehensive loss	5,997	(841)	5,156
Net other comprehensive income	7,425	1,638	9,063
Balance at September 30, 2014	$ (52,298)	$ 890	$(51,408)

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

Essex Portfolio, L.P.
(in thousands):

	Change in fair value and amortization of derivatives	Unrealized gains/(losses) on available for sale securities	Total
Balance at December 31, 2013	$ (58,148)	$ (792)	$(58,940)
Other comprehensive income before reclassification	1,487	2,591	4,078
Amounts reclassified from accumulated other comprehensive loss	6,245	(886)	5,359
Net other comprehensive income	7,732	1,705	9,437
Balance at September 30, 2014	$ (50,416)	$ 913	$(49,503)

Amounts reclassified from accumulated other comprehensive loss in connection with derivatives are recorded in interest expense on the condensed consolidated statement of operations and comprehensive income. Realized gains and losses on available for sale securities are included in interest and other income on the condensed consolidated statement of operations and comprehensive income.

Accounting Estimates

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

Discontinued Operations

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU, No. 2014-018, Presentation of Financial Statements, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-018 changes the requirements for reporting discontinued operation under Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations. The amendment updates the definition of discontinued operations and defines discontinued operations to be those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. This ASU is effective for disposals of components of an entity that occur within annual periods beginning on or after December 15, 2014 with early adoption permitted, but only for disposals that have not been reported in financial statements previously issued.

The Company adopted ASU 2014-018 in its first quarter of 2014. In the first quarter of 2014, Essex sold Vista Capri North, a 106 unit community located in San Diego, California for $14.4 million. The total gain on sale was $7.9

million.

The Company did not sell any properties in the second quarter of 2014.

During the third quarter of 2014, the Company sold Coldwater Canyon, a 39 unit community located in Studio City, CA for $9.5 million. The total gain on sale was $2.2 million. Also during the third quarter, the Company sold Mt. Sutro, a 99 unit community located in San Francisco, CA for $39.5 million. The total gain on sale was $29.2 million.

The Company determined that the disposals through the nine months ended September 30, 2014 were not a discontinued operation in accordance with ASU 2014-018. The gains related to these disposals are recorded in gains on sale of real estate and land in the condensed consolidated statements of operations and comprehensive income.

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

BRE Merger

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

Cash assumed	$140
Rental properties and real estate under development	5,618
Real estate held for sale, net	108
Co-investments	218
Acquired in-place lease value	80
Other assets	16
Mortgage notes payable and unsecured debt	(1,747)
Other liabilities	(94)
Redeemable noncontrolling interest	(5)
	4,334
Cash consideration for BRE merger	$556
Equity consideration for BRE merger	3,778
Total consideration for BRE merger	$4,334

During the quarter ended September 30, 2014, the Company recorded an adjustment to increase the preliminary fair value of personal property by $100.9 million with an estimated useful life of 5 years with an offsetting decrease in real property with an estimated useful life of 30 years, all of which are classified within rental properties and real estate under development. This resulted in additional depreciation expense of $4.2 million and $8.5 million for the three and nine months ended September 30, 2014. The changes in estimates were the result of additional accounting information identified by management. The Company believes that the information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change further. The Company expects to complete the purchase accounting process as soon as practicable but no later than one year from the acquisition date.

The unaudited pro forma financial information set forth below is based on Essex's historical condensed consolidated statement of operations and comprehensive income for the three and nine months ended September 30, 2014 and September 30, 2013, adjusted to give effect to the merger with BRE including the 14 BRE properties acquired on March 31, 2014, as if they occurred on January 1, 2013. The unaudited pro forma adjustments primarily relate to merger expenses, depreciation expense on acquired buildings and improvements, amortization of acquired intangibles, and estimated interest expense related to assumed debt.

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

Essex Property Trust, Inc.

	Pro forma (unaudited) three months ended September 30 (in thousands, except per share data)	
	2014	2013
Total revenue	$270,479	$238,668
Net income available to common stockholders (1)	$59,341	$59,361
Earnings per share, diluted (1)	$0.91	$0.95

	Pro forma (unaudited) nine months ended September 30 (in thousands, except per share data)	
	2014	2013
Total revenue	$776,761	$699,701
Net income available to common stockholders (1) (2)	$214,549	$66,806
Earnings per share, diluted (1)	$3.34	$1.07

Essex Portfolio, L.P.

	Pro forma (unaudited) three months ended September 30 (in thousands, except per unit data)	
	2014	2013
Total revenue	$270,479	$238,668
Net income available to common unitholders (1)	$59,341	$59,361
Earnings per unit, diluted (1)	$0.91	$0.95

	Pro forma (unaudited) nine months ended September 30 (in thousands, except per unit data)	
	2014	2013

Total revenue	$776,761	$699,701
Net income available to common unitholders (1) (2)	$214,549	$66,690
Earnings per unit, diluted (1)	$3.34	$1.07

(1) The supplemental unaudited pro forma net income available to common stockholders were adjusted to exclude $3.9 million and $46.4 million of merger related costs incurred by Essex during the three and nine months ended September 30, 2014. The 2013 supplemental unaudited pro forma net income available to common stockholders was adjusted to include the above adjustments plus $4.3 million of merger related costs incurred by Essex during the three months ended December 31, 2013. The supplemental 2014 and 2013 unaudited proforma earnings per share, diluted, was adjusted by approximately 23.1 million shares due to the common stock issued in connection with the merger.

(2) The supplemental unaudited pro forma net income available to common stockholders for the nine months ended September 30, 2014, include approximately $105 million from discontinued operations related to the sale of three BRE properties during the quarter ended March 31, 2014 that are non-recurring transactions.

Revenues of approximately $95.2 million and net loss of approximately $6.0 million associated with properties acquired in 2014 in the BRE merger are included in the condensed consolidated statements of operations and comprehensive income for the three months ended September 30, 2014 for both the Company and Operating Partnership. Revenues of approximately $186.7 million and net loss of approximately $14.2 million associated with properties acquired in 2014 in the BRE merger are included in the condensed consolidated statements of operations and comprehensive income for the nine months ended September 30, 2014 for both the Company and Operating Partnership.

Real estate classified as held for sale as of September 30, 2014 were $108 million. The carrying value of real estate held for sale represents fair values determined in the preliminary allocation of the recently completed BRE merger, adjusted for operating activity since April 1, 2014. The fair values were determined based on standard valuation techniques with inputs that are unobservable and significant to the overall fair value measurement.

(2) Significant Transactions During the Third Quarter of 2014 and Subsequent Events

Significant Transactions

Acquisitions

In July 2014, the Company acquired Paragon Apartments located in Fremont, CA for $111.0 million. The property was built in 2013 and has 301 apartment homes. Paragon Apartments is conveniently located near the Fremont Bart station and high paying jobs in Silicon Valley. For further discussion, see Note 5, Related Party Transactions.

In August 2014 the Company acquired Apex, a 366 unit community located in Milpitas, CA for $150.0 million. Also in August, the Company also acquired Ellington at Bellevue, a 220 unit community located in Bellevue, WA for $58.8 million.

Common Stock

During the third quarter, the Company issued 801,909 shares of common stock at an average price of $190.06 for proceeds of $151.4 million excluding professional costs. For the nine months ended September 30, 2014, the Company has issued approximately 2.6 million shares of common stock at an average price of $177.83 for proceeds of $450.8 million.

Subsequent Events

In October 2014, the Company purchased a 50% interest in Palm Valley Apartments located in San Jose, California for a contract price of $180 million. The property is encumbered by a mortgage loan, bearing interest at 5.5% per annum and maturing in February 2017, of which Essex’s pro-rata share is approximately $110 million.

Also in October 2014, the Company received cash of approximately $101 million for its share of the redemption of the Wesco II preferred equity investment located in San Francisco, CA. In the fourth quarter 2014, the Company will realize $5.3 million of income from redemption penalties due to the early redemption of the preferred equity investment. The redemption penalties income will be excluded from Core FFO.

In November 2014, the Company sold the remaining community in the Essex Apartment Value Fund II ("Fund II") for approximately $23.5 million. The Company has a 28.2% ownership stake in Fund II and promote income of $5.5 million will be recognized in the fourth quarter 2014. The promote income will be excluded from Core FFO.

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

(3) Co-investments

The Company has co-investments, which are accounted for under the equity method. The co-investments own, operate and develop apartment communities. The following table details the Company's co-investments (in thousands):

	September 30, 2014	December 31, 2013
Membership interest/Partnership interest in:		
Wesco I	$135,875	$142,025
Wesco III	53,411	39,073
Fund II	2,578	4,166
Expo	8,305	12,041
The Huxley	11,784	11,224
Connolly Station	47,661	45,242
Wesco IV	95,338	-
BEXAEW	89,504	-
Total operating co-investments	444,456	253,771
Membership interest in:		
Limited liability companies with CPPIB that own and are developing Epic, Mosso I and II, Park 20, The Emme, and The Owens & Hacienda (1)	364,779	256,296
One South Market	30,498	17,115
The Dylan	8,396	7,321
Century Towers	13,491	-
Total development co-investments	417,164	280,732
Membership interest in Wesco II that owns a preferred equity interest in Parkmerced with a preferred return of 10.1%	95,934	94,711
Preferred interest in related party limited liability company that owns Sage at Cupertino with a preferred return of 9.5%	16,471	15,775
Preferred interest in a related party limited liability company that owns Madison Park at Anaheim with a preferred return of 9%	13,824	13,824
Preferred interest in related party limited liability company that owns an apartment development in Redwood City with a preferred return of 12%	10,148	9,455
Preferred interest in a limited liability company that owns an apartment development in San Jose with a preferred return of 12%	9,710	8,865
Preferred interest in a limited liability company that owns 8th & Thomas with a preferred return of 10.0%	12,816	-
Preferred interest in a limited liability company that owns Newbury Park with a preferred return of 12.0%	12,754	-

Preferred interest in a limited liability company that owns Century Towers with a preferred return of 10.0%	10,000	-
Total preferred interest co-investments	181,657	142,630
Total co-investments	$1,043,277	$677,133

(1) Epic Phase I and II are currently in operations. The co-investment will be moved to operating co-investment with the completion of Phase III.

20

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

The combined summarized balance sheet and statements of operations for co-investments are as follows (in thousands).

	September 30, 2014	December 31, 2013
Balance sheets:		
Rental properties and real estate under development	$3,084,852	$1,953,328
Other assets	110,752	61,578
Total assets	$3,195,604	$2,014,906
Debt	$1,285,954	$667,641
Other liabilities	83,344	125,479
Equity	1,826,306	1,221,786
Total liabilities and equity	$3,195,604	$2,014,906
Company's share of equity	$1,043,277	$677,133

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Statements of operations:				
Property revenues	$51,725	$24,796	$128,469	$78,913
Property operating expenses	(18,759)	(10,170)	(48,875)	(29,872)
Net property operating income	32,966	14,626	79,594	49,041
Gain on sale of real estate	-	137,845	11,369	146,663
Interest expense	(9,838)	(6,052)	(25,283)	(18,924)
General and administrative	(1,840)	(1,419)	(5,039)	(4,472)
Equity income from co-investments	4,808	-	14,351	-
Depreciation and amortization	(21,357)	(8,718)	(49,935)	(29,314)
Net income	$4,739	$136,282	$25,057	$142,994
Company's share of net income	$4,910	$40,802	$21,065	$52,295

Wesco IV and BEXAEW

On April 1, 2014, in connection with the merger, the Company acquired a 50% interest in Wesco IV LLC ("Wesco IV") and a 50% interest in BEXAEW LLC ("BEXAEW"). Wesco IV and BEXAEW's remaining 50% interest is owned by an institutional partner. Wesco IV and BEXAEW expect to utilize debt targeted at approximately 50% and 60%, respectively, of the cost to acquire and improve real estate. Under the terms of Wesco IV's and BEXAEW's operating agreements, Essex is entitled to asset management, property management, development and redevelopment service fees. In addition, Essex is entitled to its 50% pro rata share of the income or loss generated by these entities and upon the achievement of certain performance measures, is entitled to promote income. As of September 30, 2014, Wesco IV owned five apartment communities with 1,116 units with an aggregate carrying value of approximately $297.8 million. As of September 30, 2014, BEXAEW owned nine apartment communities with 2,723 units with an aggregate carrying value of approximately $516.7 million.

Index

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

(4) Notes and Other Receivables

Notes receivable secured by real estate and other receivables consist of the following as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Notes receivable, secured, bearing interest at 4.0% per annum, principal and accrued interest due December 2014 (1)	$ 3,212	$ 3,212
Notes and other receivables from affiliates (2)	9,086	60,968
Other receivables (3)	10,675	4,075
	$ 22,973	$ 68,255

(1) The borrower funds an impound account for capital replacement.
(2) The Company had $9.1 million of short-term loans outstanding and due from various legacy and BRE joint ventures. See Note 5, Related Party Transaction, for additional details.
(3) The Company has BRE and legacy receivables for utilities, rents and other tenant receivables.

(5) Related Party Transactions

Fees earned from affiliates include management, development and redevelopment fees from co-investments of $4.1 million and $3.0 million during the three months ended September 30, 2014 and 2013, respectively, of which $1.7 million and $1.2 million were classified as a reduction to general and administrative expenses. Fees earned were $11.7 million and $9.1 million during the nine months ended September 30, 2014 and 2013, respectively, of which $4.9 million and $3.3 million were classified as a reduction to general and administrative expenses. All of these fees are net of intercompany amounts eliminated by the Company.

The Company's Chairman and founder, Mr. George Marcus, is the Chairman of the Marcus & Millichap Company ("MMC"), which is a parent company of a diversified group of real estate service, investment, and development firms. Mr. Marcus is also the Co-Chairman of Marcus & Millichap, Inc. ("MMI"), and Mr. Marcus owns a controlling interest in MMI a national brokerage firm listed on the NYSE. During the third quarter of 2013, the Company restructured the terms of a preferred equity investment on a property located in Anaheim, California, reducing the rate from 13% to 9%, while extending the maximum term by one year. The Company recorded $0.4 million of income related to the restructured preferred equity investment. The entity that owns the property is an affiliate of MMC. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the restructuring of the investment in this entity.

In July 2014, the Company acquired Paragon Apartments, a 301 apartment community located in Fremont, CA for $111.0 million from an entity that was partially owned by an affiliate of MMC. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the acquisition of Paragon Apartments.

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

As described in Note 4, the Company has provided short-term bridge loans to affiliates. As of September 30, 2014, $9.1 million of short-term loans remained outstanding due from various legacy and BRE joint ventures.

(6) Debt and Lines of Credit

The Company does not have indebtedness as debt is incurred by the Operating Partnership. The Company guarantees the Operating Partnership's unsecured debt including the revolving credit facilities for the full term of such debt. In April 2014, the Company, through its Operating Partnership, assumed $900.0 million aggregate principal amount of BRE senior notes and $711.3 million principal balance mortgage notes payable with remaining loan terms ranging from one to seven years and a 3.3% weighted average interest rate. The Company recorded the debt assumed at its fair value in accordance with the authoritative guidance for accounting for a business combination. As a result, a premium of $124.5 million was recorded to increase the carrying value of the debt, which is being amortized as a reduction of interest expense over the term of the related debt using the effective interest method.

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

In August 2014, the Company acquired a 220 unit apartment community located in Bellevue, Washington with cash and the assumption of the mortgage note securing the community with a principal balance of $21.5 million with a remaining term to maturity of ten years and a fixed interest rate of 5.5%. The recording of the mortgage note at fair value upon assumption resulted in a premium of $2.1 million which is being amortized as a reduction in interest expense over the term of the debt using the effective interest method.

Debt and lines of credit consist of the following (in thousands):

	September 30, 2014	December 31, 2013	Weighted Average Maturity In Years
Bonds private placement - fixed rate	$465,000	$465,000	4.5
Term loan - variable rate	350,000	350,000	2.4
Unsecured Bonds - fixed rate	1,930,487	595,023	7.3
Unsecured debt	2,745,487	1,410,023	
Mortgage notes	2,258,010	1,404,080	5.8
Lines of credit	222,628	219,421	4.5
Total debt (1)	$5,226,125	$3,033,524	
Weighted average interest rate on fixed rate unsecured bonds	3.6 %	4.0 %	
Weighted average interest rate on variable rate term loan	2.4 %	2.5 %	
Weighted average interest rate on line of credit	1.7 %	2.2 %	
Weighted average interest rate on mortgage notes	4.6 %	4.7 %	

(1) Includes total unamortized premium of $118,940 and $6,553 as of September 30, 2014 and December 31, 2013, respectively.

The aggregate scheduled principal payments of the Company’s outstanding debt as of September 30, 2014 are as follows (excluding lines of credit):

Remaining in 2014	$7,388
2015	94,580
2016	391,481
2017	688,683
2018	320,080
Thereafter	3,382,345
	$4,884,557

(7) Segment Information

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

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

The revenues, net operating income, and assets for each of the reportable operating segments are summarized as follows for the three and nine months ended September, 2014 and 2013 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Southern California	$118,242	$65,805	$302,380	$195,272
Northern California	94,643	54,189	238,564	156,983
Seattle Metro	47,066	27,212	120,089	79,443
Other real estate assets	8,167	4,971	22,716	14,319
Total property revenues	$268,118	$152,177	$683,749	$446,017
Net operating income:				
Southern California	$76,725	$43,237	$198,873	$130,398
Northern California	66,287	37,466	166,983	108,481
Seattle Metro	31,715	18,047	80,125	52,453
Other real estate assets	5,723	3,105	14,906	9,742
Total net operating income	180,450	101,855	460,887	301,074
Management and other fees	2,361	1,771	6,856	5,812
Depreciation	(102,184)	(48,227)	(254,211)	(142,687)
General and administrative	(11,479)	(6,263)	(28,621)	(19,852)
Merger and integration expenses	(3,857)	-	(46,413)	-
Acquisition and disposition costs	(51)	(237)	(1,555)	(792)
Interest expense	(45,830)	(29,192)	(117,021)	(86,661)
Interest and other income	2,992	2,387	8,685	9,326
Equity income from co-investments	4,910	40,802	21,065	52,295
Gain (loss) on early retirement of debt	-	(178)	-	846
Gains on sale of real estate and land	31,372	-	39,640	1,503
Income from continuing operations	$58,684	$62,718	$89,312	$120,864

Total assets for each of the reportable operating segments are summarized as follows as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Assets:		
Southern California	$4,323,148	$1,746,434
Northern California	3,698,020	1,614,159
Seattle Metro	1,635,274	741,533
Other real estate assets	147,317	86,745
Net reportable operating segment - real estate assets	9,803,759	4,188,871

Real estate under development	363,193	50,430
Co-investments	1,043,277	677,133
Real estate held for sale, net	107,772	-
Cash and cash equivalents, including restricted cash	88,000	53,766
Marketable securities	108,147	90,084
Notes and other receivables	22,973	68,255
Other non-segment assets	129,441	58,300
Total assets	$11,666,562	$5,186,839

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

(8) Net Income Per Common Share

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

Essex Property Trust, Inc.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Income	Weighted-average Common Shares	Per Common Share Amount	Income	Weighted-average Common Shares	Per Common Share Amount
Basic:						
Income from continuing operations available to common stockholders	$53,668	62,893	$ 0.85	$56,347	37,321	$ 1.51
Income from discontinued operations available to common stockholders	-	62,893	-	12,441	37,321	0.33
	$53,668		$ 0.85	$68,788		$ 1.84
Effect of Dilutive Securities (1)	-	177		54	116	
Diluted:						
Income from continuing operations available to common stockholders	$53,668	63,070	$ 0.85	$56,401	37,437	$ 1.51
Income from discontinued operations available to common stockholders	-	63,070	-	12,441	37,437	0.33
	$53,668		$ 0.85	$68,842		$ 1.84

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Income	Weighted Average Common Shares	Per Common Share Amount	Income	Weighted Average Common Shares	Per Common Share Amount
Basic:						
Income before discontinued operations available to common stockholders	$76,364	54,250	$ 1.41	$105,421	37,207	$ 2.84
Income from discontinued operations available to common stockholders	-	54,250	-	13,516	37,207	0.36
	76,364		$ 1.41	118,937		$ 3.20
Effect of Dilutive Securities (1)	-	193		-	89	
Diluted:						

Income from continuing operations available to common stockholders (1)	76,364	54,443	1.40	$105,421	37,296	2.83
Income from discontinued operations available to common stockholders	-	54,443	-	13,516	37,296	0.36
	$76,364		$ 1.40	$118,937		$ 3.19

(1) Weighted average convertible limited partnership units of 2,164,556 and 2,146,929 which include vested Series Z-1 incentive units, for the three months ended September 30, 2014, and 2013, respectively, were not included in the determination of diluted EPS because they were anti-dilutive. Income allocated to convertible limited partnership units, which includes vested Series Z-1 units, aggregating $1.8 million and $4.0 million for the three months ended September 30, 2014 and 2013, respectively, and $3.4 million and $7.0 million for the nine months ended September 30, 2014 and 2013, respectively have been excluded from income available to common stockholders for the calculation of diluted income per common share since these units are excluded from the diluted weighted average common shares for the period as the effect was anti-dilutive. The Company has the ability to redeem DownREIT limited partnership units for cash and does not consider them to be potentially dilutive securities.

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

Stock options of 8,343 and 42,518 for the three and nine months ended September 30, 2014, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive. Stock options of 38,825 and 38,825 for the three and nine months ended September 30, 2013, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive.

Essex Portfolio, L.P.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Income	Weighted-average Common Units	Per Common Unit Amount	Income	Weighted-average Common Units	Per Common Unit Amount
Basic:						
Income from continuing operations available to common unitholders	$55,484	65,057	$ 0.85	$59,620	39,467	$ 1.51
Income from discontinued operations	-	65,057	-	13,157	39,467	0.33
Income available to common unitholders	$55,484		$ 0.85	$72,777		$ 1.84
Effect of Dilutive Securities (1)	-	177		54	116	
Diluted:						
Income from continuing operations available to common unitholders (1)	$55,484	65,234	$ 0.85	$59,674	39,583	$ 1.51
Income from discontinued operations	-	65,234	-	13,157	39,583	0.33
Income available to common unitholders	$55,484		$ 0.85	$72,831		$ 1.84

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Income	Weighted-average Common Units	Per Common Unit Amount	Income	Weighted-average Common Units	Per Common Unit Amount
Basic:						
Income from continuing operations available to common unitholders	$79,806	56,485	$ 1.41	$111,685	39,333	$ 2.84
Income from discontinued operations	-	56,485	-	14,289	39,333	0.36
Income available to common unitholders	$79,806		$ 1.41	$125,974		$ 3.20
Effect of Dilutive Securities (1)	-	193		-	89	
Diluted:						
Income from continuing operations available to common unitholders (1)	$79,806	56,678	$ 1.41	$111,685	39,422	$ 2.84

Income from discontinued operations	-	56,678	-	14,289	39,422	0.36
Income available to common unitholders	$79,806		$ 1.41	$125,974		$ 3.20

(1) The Operating Partnership has the ability to redeem DownREIT limited partnership units for cash and does not consider them to be potentially dilutive securities.

(2) Stock options of 8,343 and 42,518 for the three and nine months ended September 30, 2014, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive. Stock options of 38,825 and 38,825 for the three and nine months ended September 30, 2013, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive.

26

Index
ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

(9) Derivative Instruments and Hedging Activities

As of September 30, 2014, the Company has entered into interest rate swap contracts with an aggregate notional amount of $300 million that effectively fixed the interest rate on $300 million of the $350 million unsecured term loan at 2.4%. These derivatives qualify for hedge accounting.

As of September 30, 2014, the Company also had nine interest rate cap contracts totaling a notional amount of $156.9 million that qualify for hedge accounting as they effectively limit the Company's exposure to interest rate risk by providing a ceiling on the underlying variable interest rate for substantially all of the Company's tax exempt variable rate debt.

As of September 30, 2014 and December 31, 2013, the aggregate carrying value of the interest rate swap contracts was a liability of $1.4 million and $2.7 million, respectively, which is classified in other liabilities on the condensed consolidated balance sheet.

(10) Commitments and Contingencies

To the extent that an environmental matter arises or is identified in the future that has other than a remote risk of having a material impact on the condensed consolidated financial statements, the Company will disclose the estimated range of possible outcomes, and, if an outcome is probable, accrue an appropriate liability for remediation and other potential liability. The Company will consider whether such occurrence results in an impairment of value on the affected property and, if so, impairment will be recognized.

The Company provided payment and completion guarantees to the counterparties in relation to the total return swaps entered into by the joint venture responsible for certain co-investment development communities. The outstanding balance for the loans is included in the debt line item in the summarized balance sheet of the co-investments included in Note 3. The payment guarantee is for the payment of the amounts due to the counterparty related to the total return swaps which are scheduled to mature in September and December 2016. The maximum exposure of the guarantee as of September 30, 2014 was $114.4 million based on the aggregate outstanding debt amount.

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

The following discussion should be read in conjunction with the Company's Condensed Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with the Company's 2013 Annual Report on Form 10-K for the year ended December 31, 2013.

In the third quarter ended September 30, 2014, the Company reported that certain of its computer networks containing personal and proprietary information had been compromised by a cyber-intrusion. The Company has confirmed that evidence exists of exfiltration of data on Company systems. The precise nature of the data has not yet been identified and the Company does not presently have any evidence that data belonging to the Company has been misused.

After detecting unusual activity, the Company took immediate steps to assess and contain the intrusion and secure its systems. The Company has retained independent forensic computer experts to analyze the impacted data systems and is consulting with law enforcement. The investigation into this cyber-intrusion is ongoing, and the Company is working as quickly as possible to identify whether any employee or tenant data may be at risk. When the analysis is complete, the Company will promptly notify any affected parties, as appropriate.

The Company has recorded $1.2 million in cyber-intrusion expenses in the third quarter ended September 30, 2014 which are included in general and administrative expense line item on the condensed consolidated statement of operations and comprehensive income.

On April 1, 2014, Essex completed the merger with BRE Properties, Inc. ("BRE"). In connection with the closing of the merger, (1) BRE merged into a wholly owned subsidiary of Essex, and (2) each outstanding share of BRE common stock was converted into (i) 0.2971 shares (the "Stock Consideration") of Essex common stock, and (ii) $7.18 in cash, (the "Cash Consideration"), plus cash in lieu of fractional shares for total consideration of approximately $4.3 billion. The Cash Consideration was adjusted as a result of the authorization and declaration of a special distribution to the stockholders of BRE of $5.15 per share of BRE common stock payable to BRE stockholders of record as of the close of business on March 31, 2014 (the "Special Dividend"). The Special Dividend was payable as a result of the closing of the sale of certain interests in assets of BRE to certain parties, which closed on March 31, 2014. Pursuant to the terms of the merger agreement, the amounts payable as a Special Dividend reduced the Cash Consideration of $12.33 payable by Essex in the merger to $7.18 per share of BRE common stock.

Index

Essex issued approximately 23.1 million shares of Essex common stock as Stock Consideration in the merger. For purchase accounting, the value of the common stock issued by Essex upon the consummation of the merger was determined based on the closing price of BRE's common stock on the closing date of the merger. As a result of Essex being admitted to the S&P 500 on the same date as the closing of the merger, Essex's common stock price experienced significantly higher than usual trading volume and the closing price of $174 per share was significantly higher than its volume-weighted average trading price for the days before and after April 1, 2014. BRE's common stock did not experience the same proportionate increase in common stock price leading up to April 1, 2014. As a result, given that a substantial component of the purchase price is an exchange of equity instruments, Essex used the closing price of BRE's common stock on April 1, 2014 of $61 per share, less the Cash Consideration, as the fair value of the equity consideration. After deducting the Special Dividend and the Cash Consideration per share, this resulted in a value of $48.67 per share of BRE common stock which is the equivalent of approximately $164 per share of Essex common stock issued. The net assets and results of operations of BRE are included in these condensed consolidated financial statements as of April 1, 2014.

The Company is a fully integrated Real Estate Investment Trust ("REIT"), and its property revenues are generated primarily from apartment community operations. The Company's investment strategy has two components: constant monitoring of existing markets, and evaluation of new markets in the Company's current three geographical regions to identify areas with the characteristics that underlie rental growth. The Company's strong financial condition supports its investment strategy by enhancing its ability to quickly shift the Company's acquisition, development, and disposition activities to markets that will optimize the performance of the portfolio.

As of September 30, 2014, the Company had ownership interests in 239 apartment communities, comprising 56,622 apartment units, excluding the Company's ownership in preferred equity interest co-investments, and the Company also had ownership interests in five commercial buildings with approximately 457,500 square feet. The Company's apartment communities are located in the following major West Coast regions:

Southern California (Los Angeles, Orange, Riverside, San Diego, Santa Barbara, and Ventura counties)
Northern California (the San Francisco Bay Area)
Seattle Metro (Seattle metropolitan area)
Phoenix Metro (Phoenix metropolitan area)

As of September 30, 2014, the Company's development pipeline was comprised of three consolidated projects under development and eleven unconsolidated joint venture projects under development, all aggregating 3,101 apartment units, with total incurred costs of $1.1 billion, and estimated remaining project costs of $0.5 billion for total estimated project costs of $1.6 billion.

The Company's consolidated apartment communities are as follows:

	As of September 30, 2014		As of September 30, 2013	
	Apartment Units	%	Apartment Units	%
Southern California	22,168	46 %	13,656	46 %
Northern California	14,601	31 %	9,427	32 %
Seattle Metro	10,216	21 %	6,645	22 %
Arizona	902	2 %	-	-
Total	47,887	100%	29,728	100%

Co-investments, including Wesco I, LLC ("Wesco I"), Wesco III, LLC ("Wesco III"), Wesco IV, LLC (“Wesco IV”), and BEXAEW, LLC (“BEXAEW”) communities, and preferred equity interest co-investment communities are not included in the table presented above for both periods.

Comparison of the Three Months Ended September 30, 2014 to the Three Months Ended September 30, 2013

The Company’s average financial occupancies for the Company’s stabilized apartment communities or “Quarterly Same-Property” (stabilized properties consolidated by the Company for the quarters ended September 30, 2014 and 2013) increased 20 basis points to 95.9% as of September 30, 2014 from 95.7% as of September 30, 2013. Financial occupancy is defined as the percentage resulting from dividing actual rental revenue by total possible rental revenue. Actual rental revenue represents contractual rental revenue pursuant to leases without considering delinquency and concessions. Total possible rental revenue represents the value of all apartment units, with occupied units valued at contractual rental rates pursuant to leases and vacant units valued at estimated market rents. We believe that financial occupancy is a meaningful measure of occupancy because it considers the value of each vacant unit at its estimated market rate.

Index

Market rates are determined using the recently signed effective rates on new leases at the property and are used as the starting point in the determination of the market rates of vacant units. The Company may increase or decrease these rates based on the supply and demand in the apartment community's market. The Company will check the reasonableness of these rents based on its position within the market and compare the rents against the asking rents by comparable properties in the market. Financial occupancy may not completely reflect short-term trends in physical occupancy and financial occupancy rates, as disclosed by other REITs, may not be comparable to the Company's calculation of financial occupancy.

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

The regional breakdown of the Company's Quarterly Same-Property portfolio for financial occupancy for the three months ended September 30, 2014 and 2013 is as follows:

	Three months ended September 30,	
	2014	2013
Southern California	95.9%	95.7%
Northern California	96.3%	95.6%
Seattle Metro	95.5%	95.7%

The following table provides a breakdown of revenue amounts, including revenues attributable to the Quarterly Same-Property portfolio:

	Number of Properties	Three Months Ended September 30, 2014	2013	Dollar Change	Percentage Change	
Property Revenues (dollars in thousands)						
Quarterly Same-Property:						
Southern California	59	$67,230	$63,560	$3,670	5.8	%
Northern California	38	55,377	50,498	4,879	9.7	
Seattle Metro	34	29,106	27,200	1,906	7.0	
Total Quarterly Same-Property revenues	131	151,713	141,258	10,455	7.4	
Quarterly Non-Same Property Revenues (1)		21,173	10,919	10,254	93.9	
Legacy BRE Portfolio Property Revenues (2)		95,232	-	95,232	-	
Total property revenues		$268,118	$152,177	$115,941	76.2	%

(1) Includes eleven communities acquired after January 1, 2013, two sold communities and one redevelopment community.

(2) Includes 55 properties acquired from BRE as of April 1, 2014.

Quarterly Same-Property Revenues increased by $10.5 million or 7.4% to $151.7 million in the third quarter of 2014 from $141.3 million in the third quarter of 2013. The increase was primarily attributable to an increase in scheduled rents of $10.0 million as reflected in an increase of 7.3% in average rental rates from $1,641 per unit in the third quarter of 2013 to $1,760 per unit in the third quarter of 2014. Scheduled rents increased by 5.5%, 9.4%, and 7.4% in Southern California, Northern California, and Seattle Metro, respectively. On a sequential basis the Company experienced Quarterly Same-Property revenue growth from the second quarter of 2014 to the third quarter of 2014 of $3.8 million or 2.6%, resulting from sequential revenue growth in all three regions mainly driven by a 2.8% increase in scheduled rents offset by an decrease of 20 basis points in occupancy compared to the second quarter of 2014.

Quarterly Non-Same Property Revenues increased by $10.3 million or 93.9% to $21.2 million in the third quarter of 2014 from $10.9 million in the third quarter of 2013. The increase was primarily due to revenue generated from eleven communities acquired since January 1, 2013 (Apex, Avery, Bennett Lofts, Collins on Pine, Domain, Ellington at Bellevue, Fox Plaza, Paragon, Piedmont, Slater 116 and Vox).

Index

Management and other fees increased by $0.6 million in the third quarter of 2014 as compared to the third quarter of 2013. The increase is primarily due to a fees related to services provide to AEW and Wesco IV.

Property operating expenses, excluding real estate taxes increased $20.1 million to $55.9 million in the third quarter of 2014 from $35.8 million in the third quarter of 2013, primarily due to the BRE merger and the acquisition of eleven communities. Quarterly Same-Property operating expenses, excluding real estate taxes, increased by $0.8 million or 2.3% for the third quarter of 2014 compared to the third quarter of 2013, primarily due to a $0.7 million increase in utility expense.

Real estate taxes increased by $17.2 million for the third quarter of 2014 compared to the third quarter of 2013 due primarily to the BRE merger and the acquisition of eleven communities. Quarterly Same-Property real estate taxes increased by $0.7 million or 5.6% for third quarter of 2014 compared to the third quarter of 2013 due to $0.3 million or a 12.5% increase in property taxes for the Seattle Metro due to higher assessed values for 2014, and the allowed annual increase in assessed values for the majority of the properties located in California. In connection with the BRE merger, the Company has increased its property taxes accrual due to BRE acquired properties based on estimated assessed values. In California, county assessor offices usually issue a supplemental property tax assessment within a year following a change of ownership to reflect new assessed valuations. The Company has engaged independent consultants to assist in the estimation of assessed values resulting from the change of ownership from the BRE merger and its resulting property tax obligation. The Company bases its estimates on 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.

Depreciation expense increased by $54.0 million for the third quarter of 2014 compared to the third quarter of 2013, due to the BRE merger and the acquisition of eleven communities. Also, the increase was due to the capitalization of approximately $106.1 million in additions to rental properties through the third quarter of 2014, including $35.4 million spent on redevelopment, $29.1 million on non-revenue generating capital expenditures; and $20.6 million on revenue generating capital expenditures, and the capitalization of approximately $104.2 million in additions to rental properties in 2013, including $42.0 million spent on redevelopment, $21.2 million on improvements to recent acquisitions, $8.6 million on lessor required capital expenditures, and $5.3 million spent on revenue generating capital expenditures.

General and administrative expense increased $5.2 million or 83.3% for the third quarter of 2014 compared to the third quarter of 2013 primarily due to additional corporate employees from the BRE merger and $1.2 million in cyber-intrusion expenses.

Merger and integration expenses include, but are not limited to, advisor fees, legal, and accounting fees related to the merger with BRE. Merger expenses were $3.9 million for the third quarter of 2014 and zero for the third quarter of 2013. In the third quarter of 2014, merger expenses primarily included $1.8 million of compensation associated with the acquisition of BRE, $0.9 million of professional fees and $0.5 million of stock based compensation.

Interest expense increased $16.6 million for the third quarter of 2014 compared to the third quarter of 2013, due to an increase in average outstanding debt primarily due to assumed debt in connection with the BRE merger offset by an increase in capitalized interest of $1.5 million related to development activity.

Interest and other income increased by $0.6 million for the third quarter of 2014 compared to the third quarter of 2013 primarily due to higher interest income attributable to an increase in an estimated return on mortgage backed securities.

Equity income in co-investments decreased $35.9 million for the third quarter of 2014 compared to the third quarter of 2013 primarily due to the third quarter of 2013 recognition of a $36.4 million gain on the sale of a joint venture properties partially offset by income recognized for three preferred equity investments entered into in the third quarter of 2014.

Comparison of the Nine Months Ended September 30, 2014 to the Nine Months Ended September 30, 2013

Our average financial occupancies for the Company's stabilized apartment communities or "2014/2013 Same-Property" (stabilized properties consolidated by the Company for the nine months ended September 30, 2014 and 2013) increased 10 basis points to 96.2% for the nine months ended September 30, 2014 from 96.1% for the nine months ended September 30, 2013.

Index

The regional breakdown of the Company’s 2014/2013 Same-Property portfolio for financial occupancy for the nine months ended September 30, 2014 and 2013 is as follows:

	Nine Months Ended September 30,	
	2014	2013
Southern California	96.2%	96.0%
Northern California	96.3%	96.1%
Seattle Metro	96.0%	96.1%

The following table provides a breakdown of revenue amounts, including revenues attributable to the 2014/2013 Same-Property portfolio:

	Number of Properties	Nine Months Ended September 30, 2014	2013	Dollar Change	Percentage Change
Property Revenues (dollars in thousands)					
2014/2013 Same-Properties:					
Southern California	59	$198,488	$188,423	$10,065	5.3 %
Northern California	38	161,368	147,422	13,946	9.5
Seattle Metro	34	85,419	79,431	5,988	7.5
Total 2014/2013 Same-Property revenues.	131	445,275	415,276	29,999	7.2
2014/2013 Non-Same Property Revenues (1)		52,605	30,741	21,864	71.1
Legacy BRE Portfolio Property Revenues (2)		185,869	-	185,869	-
Total property revenues		$683,749	$446,017	$237,732	53.3 %

(1) Includes eleven communities acquired after January 1, 2013, three sold communities and one redevelopment community.

(2) Includes 55 properties acquired from BRE on April 1, 2014 and March 31, 2014.

2014/2013 Same-Property Revenues increased by $30.0 million or 7.2% to $445.3 million for the nine months ended September 30, 2014 from $415.3 million for the nine months ended September 30, 2013. The increase was primarily attributable to an increase in scheduled rents of $28.3 million as reflected in an increase of 6.9% in average rental rates from $1,606 per unit for the nine months ended September 30, 2013 to $1,717 per unit for the nine months ended September 30, 2014. Scheduled rents increased by 5.0%, 9.2%, and 7.5% in Southern California, Northern California, and Seattle Metro, respectively. Income from utility billings and other income also increased $2.7 million, compared to the nine months ended September 30, 2013.

2014/2013 Non-Same Property Revenues increased by $21.9 million or 71.1% to $52.6 million for the nine months ended September 30, 2014 from $30.7 million for the nine months ended September 30, 2013. The increase was primarily due to revenue generated from eleven communities acquired since January 1, 2013 (Apex, Avery, Bennett Lofts, Collins on Pine, Domain, Ellington at Bellevue, Fox Plaza, Paragon, Piedmont, Slater 116 and Vox) and $1.8 million of utility reimbursement in connection with conforming BRE accounting to the accrual method of accounting for utility reimbursement in the second quarter of 2014.

Management and Other Fees increased by $1.0 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase is primarily due to asset and management fees related to services provided to the BEXAEW, Wesco IV and CPPIB communities offset by a reduction of in asset and property management fees from the sale of Fund II communities in 2013 and 2014. Four communities owned by Fund II were sold in the third quarter of 2013 and one community was sold during the first quarter of 2014.

Property operating expenses, excluding real estate taxes increased $43.2 million to $145.4 million for the nine months ended September 30, 2014 from $102.2 million for the nine months ended September 30, 2013, primarily due to BRE merger, the acquisition of eleven communities and $1.3 million of charges related to earthquake damages at one of our properties in Southern California. Quarterly Same-Property operating expenses, excluding real estate taxes, increased by $2.7 million or 2.9% for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily due to a $1.4 million increase in utility expense and a $0.9 million increase in maintenance and repairs.

Index

Real Estate taxes increased by $34.7 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, due primarily to the BRE merger and the acquisition of eleven communities. During the years 2014/2013, Same-Property real estate taxes increased by $2.1 million or 5.5% for the nine months ended September 30, 2014 compared to September 30, 2013 due to $1.0 million or a 12.8% increase in property taxes for the Seattle Metro due to higher assessed values for 2014, and the allowed annual increase in assessed values for the majority of the properties located in California.. In connection with the BRE merger, the Company has increased its property taxes accrual due to BRE acquired properties based on estimated assessed values. In California, county assessor offices usually issue a supplemental property tax assessment within a year following a change of ownership to reflect new assessed valuations. The Company has engaged independent consultants to assist in the estimation of assessed values resulting from the change of ownership from the BRE merger and its resulting property tax obligation. The Company bases its estimates on 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.

Depreciation expense increased by $111.5 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, due to the BRE merger and the acquisition of eleven communities. Also, the increase was due to the capitalization of approximately $106.1 million in additions to rental properties through the third quarter of 2014, including $35.4 million spent on redevelopment, $29.1 million on non-revenue generating capital expenditures; and $20.6 million on revenue generating capital expenditures, and the capitalization of approximately $104.2 million in additions to rental properties in 2013, including $42.0 million spent on redevelopment, $21.2 million on improvements to recent acquisitions, $8.6 million on lessor required capital expenditures, and $5.3 million spent on revenue generating capital expenditures.

General and administrative expense increased $8.8 million or 44.2% for nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily to additional corporate employees from the BRE merger and $1.2 million in cyber-intrusion expenses.

Merger and integration expenses include, but are not limited to, advisor fees, legal, and accounting fees related to the merger with BRE. Merger expenses were $46.4 million for the nine months ended September 30, 2014 and zero for the nine months ended September 30, 2013. For the nine months ended September 30, 2014, merger expenses primarily included $15.1 million of advisor fees, $8.7 million of transfer taxes, and $6.2 million of professional fees, compensation associated with the acquisition of BRE and termination costs for loans established in contemplation for the merger.

Acquisition and disposition costs increased $0.8 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 primarily due to internal disposition costs related to the sale of Vista Capri North.

Interest expense increased $30.4 million for nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, due to an increase in average outstanding debt primarily due to assumed debt in connection with the BRE merger and amounts used to fund the BRE merger offset by an increase in capitalized interest of $5.1 million related to development.

Interest and other income decreased by $0.6 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, due to income in 2013 from a gain of $1.8 million from the sales of marketable securities, $0.8 million earned from the change in estimate for the discount related to the Reserves Lofts note receivable repaid during the first quarter of 2013, and increased income from notes receivable. The decrease was partially offset by higher interest income in the nine months ended September 30, 2014 attributable to an increase in an estimated return on mortgage backed securities.

Equity income in co-investments decreased $31.2 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, primarily due to the recognition of a $36.4 million gain on the sale of a joint venture properties in the nine months ended September 30, 2013. During the nine months ended September 30, 2014, the Company recorded $4.9 million of promote income from the sale of certain joint venture properties.

Gains on sale of real estate and land increased $38.1 million in the nine months ended September 30, 2014 compared to the nine months ended September 30, of 2013 primarily due to a $7.9 million gain on the sale of Vista Capri North; a $2.2 million gain on the sale of Coldwater Canyon; and a $29.2 million gain on the sale of Mt. Sutro.

Liquidity and Capital Resources

Essex's business is operated primarily through the Operating Partnership. Essex issues public equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by the Operating Partnership. Essex itself does not hold any indebtedness, and its only material asset is its ownership of partnership interests of the Operating Partnership. Essex's principal funding requirement is the payment of dividends on its common stock and preferred stock. Essex's principal source of funding for its dividend payments is distributions it receives from the Operating Partnership.

Index

Essex also guarantees some of the Operating Partnership's debt, as discussed further in note 6 of the notes to condensed consolidated financial statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger the Essex's guarantee obligations, then Essex will be required to fulfill its cash payment commitments under such guarantees. However, Essex's only significant asset is its investment in the Operating Partnership.

For Essex to maintain its qualification as a REIT, it must pay dividends to its stockholders aggregating annually at least 90% of its taxable income, excluding net capital gains. While historically Essex has satisfied this distribution requirement by making cash distributions to its stockholders, it may choose to satisfy this requirement by making distributions of cash or other property, including, in limited circumstances, Essex's own stock. As a result of this distribution requirement, the Operating Partnership cannot rely on retained earnings to fund its ongoing operations to the same extent that other companies whose parent companies are not REITs can. Essex may need to continue to raise capital in the equity markets to fund the Operating Partnership's working capital needs, acquisitions and developments.

As of September 30, 2014, the Company had $17.9 million of unrestricted cash and cash equivalents and $108.1 million in marketable securities, of which $42.9 million were available for sale. We believe that cash flows generated by our operations, existing cash, cash equivalents, and marketable securities balances, availability under existing lines of credit, access to capital markets and the ability to generate cash from the disposition of real estate are sufficient to meet all of our reasonably anticipated cash needs during the next twelve months. The timing, source and amounts of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates and other fluctuations in the capital markets environment, which can affect our plans for acquisitions, dispositions, development and redevelopment activities.

Fitch Ratings ("Fitch"), Moody's Investor Service, and Standard and Poor's ("S&P") credit agencies rate Essex Property Trust, Inc. and Essex Portfolio, L.P. BBB+/Stable, Baa2/Stable, and BBB/Stable, respectively.

The Company has two lines of unsecured credit aggregating $1.0 billion. As of September 30, 2014, there was a $205 million balance outstanding on the $1.0 billion unsecured line. The facility includes an accordion feature pursuant to which the Company could expand the line's capacity to $1.5 billion. The underlying interest rate is based on a tiered rate structure tied to the Company's credit ratings on the credit facility and the rate was LIBOR plus 0.95% as of September 30, 2014. This facility matures in December 2017 with one 18-month extension, exercisable at the Company's option. The Company has a working capital unsecured line of credit agreement for $25.0 million. This facility matures in January 2016. As of September 30, 2014, there was a $17.6 million outstanding balance on the $25 million unsecured line. The underlying interest rate on the $25.0 million line is based on a tiered rate structure tied to Fitch and S&P ratings on the credit facility of LIBOR plus 0.95%.

In April 2014, the Company, through its operating partnership, assumed $900 million aggregate principal amount of BRE's 5.500% senior notes due 2017; 5.200% senior notes due 2021; and 3.375% senior notes due 2023 and mortgage notes payable with a principal balance of $711.3 million with remaining loan terms ranging from one to seven years and a weighted average interest rate of 3.3%. The Company recorded the debt assumed at fair value in accordance with purchase accounting. As a result, a premium of $124.5 million was recorded to increase the debt carrying value to its estimated fair value.

In April 2014, the Company issued $400 million of 3.875% senior unsecured notes that mature in May 2024. The interest is payable semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2014 until the maturity date in May 2024. The Company used the net proceeds of this offering to repay indebtedness under the Company's $1.0 billion unsecured line of credit facility and for other general corporate purposes. In connection with this issuance, the Company entered into a registration rights agreement, pursuant to which it has filed and completed a registration statement to exchange the notes for identical notes registered under the Securities Act of 1933, as amended.

The Company has entered into equity distribution agreements with Cantor Fitzgerald & Co, Barclays Capital Inc., BMO Capital Markets Corp., BNP Paribas Securities Corp., Jefferies Group, JP Morgan, Liquidnet, Inc., Mitsubishi UFJ Securities (USA), Inc., Citigroup Global Markets Inc. and UBS Investment Bank. For the nine months ended September 30, 2014, the Company sold approximately 2.6 million shares of common stock for $450.8 million, net of commissions, at an average per share price of $177.83. During the fourth quarter of 2014 through November 5, 2014, the Company has not sold shares of common stock through the equity distribution program. Under this program, the Company may from time to time sell shares of common stock into the existing trading market at current market prices, and the Company anticipates using the net proceeds to potentially acquire, develop, or redevelop properties, which primarily will be apartment communities, to make other investments and for working capital or general corporate purposes, which may include the repayment of indebtedness. As of November 5, 2014, the Company may sell an additional 3,603,897 shares under the current equity distribution program.

Essex pays quarterly dividends from cash available for distribution. Until it is distributed, cash available for distribution is invested by the Company primarily in investment grade securities held available for sale or is used by the Company to reduce balances outstanding under its line of credit. As a result of the 23.1 million shares of common stock issued on April 1, 2014 in connection with the BRE merger, the Company anticipates an increase in cash outflows as a result of the increased dividend payment requirements. The Company anticipates funding the dividends from increased cash flows generated from the properties acquired in the merger.

Index

Development and Predevelopment Pipeline

The Company defines development activities as new properties that are being constructed, or are newly constructed and, in the case of development communities, are in a phase of lease-up and have not yet reached stabilized operations. As of September 30, 2014, the Company's development pipeline was comprised of three consolidated projects under development and eleven unconsolidated joint venture projects under development, all aggregating 3,101 units, with total incurred costs of $1.1 billion, and estimated remaining project costs of approximately $0.5 billion for total estimated project costs of $1.6 billion.

The Company expects to fund the development and predevelopment pipeline by using a combination of some or all of the following sources: its working capital, amounts available on its lines of credit, net proceeds from public and private equity and debt issuances, and proceeds from the disposition of assets, if any.

Derivative Activity

The Company uses interest rate swaps and interest rate cap contracts to manage certain interest rate risks. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

As of September 30, 2014 and December 31, 2013 the aggregate carrying value of the interest rate swap contracts was a liability of $1.4 million and $2.7 million, respectively. The aggregate carrying value of the interest rate cap contracts was zero on the balance sheet as of September 30, 2014 and December 31, 2013.

Alternative Capital Sources

Fund II invested in apartment communities in the Company's targeted West Coast markets and, as of September 30 2014, owned one apartment community. Four communities were sold during 2013 from Fund II, one additional property was sold through September 30, 2014, and the Company sold the remaining community in October 2014.

Wesco I is a 50/50 programmatic joint venture with an institutional partner formed in 2011. Initially, Wesco I utilized debt as leverage equal to approximately 50% of the underlying real estate. As of September 30, 2014, Wesco I owned nine apartment communities with 2,713 units with an aggregate historical cost carrying value of $680.2 million.

Wesco III is a 50/50 programmatic joint venture with an institutional partner formed in 2012. Initially, Wesco III utilized debt as leverage equal to approximately 50% of the underlying real estate. As of September 30, 2014, Wesco III owned six apartment communities with 993 units with an aggregate historical cost carrying value of $229.5 million.

On April 1, 2014, in connection with the merger, the Company acquired a 50% interest in Wesco IV LLC ("Wesco IV") and a 50% interest in BEXAEW LLC ("BEXAEW"). Wesco IV and BEXAEW's remaining 50% interest is owned by an institutional partner. Wesco IV and BEXAEW utilized debt targeted at approximately 50% and 60%, respectively, of the cost to acquire and improve real estate. Under the terms of Wesco IV's and BEXAEW's operating agreements, the Company is entitled to asset management, property management, development and redevelopment service fees. In addition, the Company is entitled to its 50% pro rata share of the income or loss generated by these entities and upon the achievement of certain performance measures, is entitled to promote income. As of September 30, 2014, Wesco IV owned five apartment communities with 1,116 units with an aggregate carrying value of approximately $297.8 million. As of September 30, 2014, BEXAEW owned nine apartment communities with 2,723 units with an aggregate carrying value of approximately $516.7 million.

Critical Accounting Policies and Estimates

The preparation of condensed consolidated financial statements, in accordance with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The Company defines critical accounting policies as those accounting policies that require the Company's management to exercise their most difficult, subjective and complex judgments. The Company's critical accounting policies and estimates relate principally to the following key areas: (i) consolidation under applicable accounting standards for entities that are not wholly owned; (ii) assessing the carrying values of our real estate properties and investments in and advances to joint ventures and affiliates; (iii) internal cost capitalization; and (iv) qualification as a 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 differ from those estimates made by management.

Index

The Company’s critical accounting policies and estimates have not changed materially from information reported in Note 2, “Summary of Critical and Significant Accounting Policies,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, except as listed below.

Business combinations