

ESSEX PROPERTY TRUST INC
Form 10-Q
October 31, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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)
1100 Park Place, Suite 200
San Mateo, California 94403
(Address of Principal Executive Offices including Zip Code)

(650) 655-7800
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

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Essex Property Trust, Inc.:

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

Essex Portfolio, L.P.:

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 65,517,428 shares of Common Stock (\$0.0001 par value) of Essex Property Trust, Inc. were outstanding as of October 27, 2016.

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the three and nine month period ended September 30, 2016 of Essex Property Trust, Inc. and Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to “Essex” mean Essex Property Trust, Inc., a Maryland corporation that operates as a self-administered and self-managed real estate investment trust (“REIT”), and references to “EPLP” mean Essex Portfolio, L.P. (the “Operating Partnership”). References to the “Company,” “we,” “us” or “our” mean collectively Essex, EPLP and those entities/subsidiaries owned or controlled by Essex and/or EPLP. References to the “Operating Partnership” mean collectively EPLP and those entities/subsidiaries owned or controlled by EPLP.

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

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

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

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

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

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

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

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

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

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

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

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

Item 1. Condensed Financial Statements

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share amounts)

	September 30, 2016	December 31, 2015
ASSETS		
Real estate:		
Rental properties:		
Land and land improvements	\$2,573,923	\$2,522,842
Buildings and improvements	10,139,823	9,808,627
	12,713,746	12,331,469
Less accumulated depreciation	(2,269,834)	(1,949,892)
	10,443,912	10,381,577
Real estate under development	170,972	242,326
Co-investments	1,122,913	1,036,047
Real estate held for sale, net	—	26,879
	11,737,797	11,686,829
Cash and cash equivalents-unrestricted	195,167	29,683
Cash and cash equivalents-restricted	15,888	93,372
Marketable securities	153,703	137,485
Notes and other receivables	22,941	19,285
Prepaid expenses and other assets	51,700	38,437
Total assets	\$12,177,196	\$12,005,091
LIABILITIES AND EQUITY		
Unsecured debt, net	\$3,375,610	\$3,088,680
Mortgage notes payable, net	2,209,077	2,215,077
Lines of credit, net	—	11,707
Accounts payable and accrued liabilities	185,185	131,415
Construction payable	34,918	40,953
Dividends payable	110,223	100,266
Other liabilities	34,172	34,518
Total liabilities	5,949,185	5,622,616
Commitments and contingencies		
Redeemable noncontrolling interest	44,109	45,452
Equity:		
Common stock; \$0.0001 par value, 670,000,000 shares authorized; 65,522,585 and 65,379,359 shares issued and outstanding, respectively	6	6
Cumulative redeemable 7.125% Series H preferred stock at liquidation value	—	73,750
Additional paid-in capital	7,024,827	7,003,317
Distributions in excess of accumulated earnings	(896,120)	(797,329)
Accumulated other comprehensive loss, net	(40,095)	(42,011)
Total stockholders' equity	6,088,618	6,237,733
Noncontrolling interest	95,284	99,290
Total equity	6,183,902	6,337,023
Total liabilities and equity	\$12,177,196	\$12,005,091

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues:				
Rental and other property	\$327,078	\$302,522	\$958,818	\$876,852
Management and other fees from affiliates	2,093	2,104	6,145	6,809
	329,171	304,626	964,963	883,661
Expenses:				
Property operating, excluding real estate taxes	63,781	60,528	185,390	173,547
Real estate taxes	35,580	33,591	104,540	97,820
Depreciation and amortization	110,467	116,308	329,847	336,946
General and administrative	9,647	11,129	28,527	31,223
Merger and integration expenses	—	—	—	3,798
Acquisition and investment related costs	284	381	1,379	1,357
	219,759	221,937	649,683	644,691
Earnings from operations	109,412	82,689	315,280	238,970
Interest expense	(56,693)	(50,053)	(164,727)	(148,401)
Total return swap income	3,143	—	9,080	—
Interest and other income	4,943	7,367	19,560	14,820
Equity income in co-investments	9,568	7,179	38,932	15,962
Loss on early retirement of debt	(211)	—	(211)	—
Gain on sale of real estate and land	—	—	20,258	7,112
Deferred tax expense on gain on sale of real estate and land	—	—	(4,279)	—
Gain on remeasurement of co-investment	—	—	—	34,014
Net income	70,162	47,182	233,893	162,477
Net income attributable to noncontrolling interest	(4,601)	(3,545)	(14,483)	(11,295)
Net income attributable to controlling interest	65,561	43,637	219,410	151,182
Dividends to preferred stockholders	—	(1,314)	(1,314)	(3,941)
Excess of redemption value of preferred stock over the carrying value	—	—	(2,541)	—
Net income available to common stockholders	\$65,561	\$42,323	\$215,555	\$147,241
Comprehensive income	\$73,173	\$46,970	\$235,874	\$163,609
Comprehensive income attributable to noncontrolling interest	(4,700)	(3,538)	(14,548)	(11,332)
Comprehensive income attributable to controlling interest	\$68,473	\$43,432	\$221,326	\$152,277
Per share data:				
Basic:				
Net income available to common stockholders	\$1.00	\$0.65	\$3.29	\$2.28
Weighted average number of shares outstanding during the period	65,507,669	65,138,868	65,455,004	64,714,994
Diluted:				
Net income available to common stockholders	\$1.00	\$0.65	\$3.29	\$2.27
Weighted average number of shares outstanding during the period	65,617,551	65,297,550	65,578,661	64,892,770
Dividend per common share	\$1.60	\$1.44	\$4.80	\$4.32

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Equity for the nine months ended September 30, 2016

(Unaudited)

(Dollars and shares in thousands)

	Series H Preferred stock		Common stock		Additional paid-in capital	Distributions in excess of accumulated earnings	Accumulated other comprehensive loss, net	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balances at December 31, 2015	2,950	\$73,750	65,379	\$ 6	\$7,003,317	\$(797,329)	\$(42,011)	\$ 99,290	\$6,337,023
Net income	—	—	—	—	—	219,410	—	14,483	233,893
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	—	3,367	114	3,481
Change in fair value of marketable securities, net	—	—	—	—	—	—	(1,451)	(49)	(1,500)
Issuance of common stock under:									
Stock option and restricted stock plans, net	—	—	130	—	17,878	—	—	—	17,878
Sale of common stock, net	—	—	—	—	(382)	—	—	—	(382)
Equity based compensation costs	—	—	—	—	2,662	—	—	1,774	4,436
Redemption of Series H preferred stock	(2,950)	(73,750)	—	—	2,541	(2,541)	—	—	(73,750)
Changes in the redemption value of redeemable noncontrolling interest	—	—	—	—	785	—	—	558	1,343
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(20,425)	(20,425)
Redemptions of noncontrolling interest	—	—	14	—	(1,974)	—	—	(461)	(2,435)
Common and preferred stock dividends	—	—	—	—	—	(315,660)	—	—	(315,660)
Balances at September 30, 2016	—	\$—	65,523	\$ 6	\$7,024,827	\$(896,120)	\$(40,095)	\$ 95,284	\$6,183,902

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$233,893	\$162,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	329,847	336,946
Amortization of discount on marketable securities and other investments	(10,771)	(9,012)
Amortization of (premium) discount and debt financing costs, net	(11,432)	(15,064)
Gain on sale of marketable securities	(2,876)	(598)
Company's share of gain on the sales of co-investments	(13,046)	—
Earnings from co-investments	(25,886)	(15,962)
Operating distributions from co-investments	45,342	28,632
Gain on the sale of real estate and land	(20,258)	(7,112)
Equity-based compensation	4,436	5,511
Loss on early retirement of debt	211	—
Gain on remeasurement of co-investments	—	(34,014)
Changes in operating assets and liabilities:		
Prepaid expenses, receivables and other assets	656	(1,851)
Accounts payable and accrued liabilities	49,739	36,480
Other liabilities	420	1,475
Net cash provided by operating activities	580,275	487,908
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate and acquisition related capital expenditures	(124,054)	(327,799)
Redevelopment	(62,983)	(66,783)
Development acquisitions of and additions to real estate under development	(58,575)	(138,101)
Capital expenditures on rental properties	(40,503)	(42,809)
Acquisition of membership interest in co-investments	—	(115,724)
Investments in notes receivable	(4,375)	—
Proceeds from insurance for property losses	3,288	12,044
Proceeds from dispositions of real estate	48,008	74,485
Contributions to co-investments	(121,972)	(119,120)
Changes in restricted cash and refundable deposits	65,858	38,282
Purchases of marketable securities	(18,779)	(14,300)
Sales and maturities of marketable securities and other investments	14,708	7,566
Non-operating distributions from co-investments	34,564	31,938
Net cash used in investing activities	(264,815)	(660,321)
Cash flows from financing activities:		
Borrowings under debt agreements	821,097	1,068,032
Repayment of debt	(580,956)	(924,844)
Repayment of cumulative redeemable preferred stock	(73,750)	—
Additions to deferred charges	(5,300)	(4,320)
Net proceeds from issuance of common stock	(382)	307,835
Net proceeds from stock options exercised	17,878	22,173
Distributions to noncontrolling interest	(19,844)	(15,789)

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Redemption of noncontrolling interest	(2,435)	(2,621)
Common and preferred stock dividends paid	(306,284)	(272,000)
Net cash (used in) provided by financing activities	(149,976)	178,466
Cash acquired in consolidation of co-investment	—	4,005

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	Nine Months Ended September 30,	
	2016	2015
Net increase in cash and cash equivalents	165,484	10,058
Cash and cash equivalents at beginning of period	29,683	25,610
Cash and cash equivalents at end of period	\$195,167	\$35,668
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$9.4 million and \$12.2 million capitalized in 2016 and 2015, respectively	\$140,183	\$135,736
Supplemental disclosure of noncash investing and financing activities:		
Transfers between real estate under development to rental properties, net	\$106,255	\$308,069
Transfer from real estate under development to co-investments	\$8,332	\$5,913
Reclassifications (from) to redeemable noncontrolling interest to or from additional paid in capital and noncontrolling interest	\$(1,343)	\$1,333
Debt assumed in connection with acquisition	\$48,832	\$114,435

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except unit amounts)

	September 30, 2016	December 31, 2015
ASSETS		
Real estate:		
Rental properties:		
Land and land improvements	\$2,573,923	\$2,522,842
Buildings and improvements	10,139,823	9,808,627
	12,713,746	12,331,469
Less accumulated depreciation	(2,269,834)	(1,949,892)
	10,443,912	10,381,577
Real estate under development	170,972	242,326
Co-investments	1,122,913	1,036,047
Real estate held for sale, net	—	26,879
	11,737,797	11,686,829
Cash and cash equivalents-unrestricted	195,167	29,683
Cash and cash equivalents-restricted	15,888	93,372
Marketable securities	153,703	137,485
Notes and other receivables	22,941	19,285
Prepaid expenses and other assets	51,700	38,437
Total assets	\$12,177,196	\$12,005,091
LIABILITIES AND CAPITAL		
Unsecured debt, net	\$3,375,610	\$3,088,680
Mortgage notes payable, net	2,209,077	2,215,077
Lines of credit, net	—	11,707
Accounts payable and accrued liabilities	185,185	131,415
Construction payable	34,918	40,953
Distributions payable	110,223	100,266
Other liabilities	34,172	34,518
Total liabilities	5,949,185	5,622,616
Commitments and contingencies		
Redeemable noncontrolling interest	44,109	45,452
Capital:		
General Partner:		
Common equity (65,522,585 and 65,379,359 units issued and outstanding, respectively)	6,128,713	6,208,535
Series H 7.125 % preferred interest (liquidation value of 0 and 73,750, respectively)	—	71,209
	6,128,713	6,279,744
Limited Partners:		
Common equity (2,219,268 and 2,214,545 units issued and outstanding, respectively)	45,493	47,235
Accumulated other comprehensive loss	(37,617)	(39,598)
Total partners' capital	6,136,589	6,287,381
Noncontrolling interest	47,313	49,642
Total capital	6,183,902	6,337,023
Total liabilities and capital	\$12,177,196	\$12,005,091

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except unit and per unit amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues:				
Rental and other property	\$327,078	\$302,522	\$958,818	\$876,852
Management and other fees from affiliates	2,093	2,104	6,145	6,809
	329,171	304,626	964,963	883,661
Expenses:				
Property operating, excluding real estate taxes	63,781	60,528	185,390	173,547
Real estate taxes	35,580	33,591	104,540	97,820
Depreciation and amortization	110,467	116,308	329,847	336,946
General and administrative	9,647	11,129	28,527	31,223
Merger and integration expenses	—	—	—	3,798
Acquisition and investment related costs	284	381	1,379	1,357
	219,759	221,937	649,683	644,691
Earnings from operations	109,412	82,689	315,280	238,970
Interest expense	(56,693)	(50,053)	(164,727)	(148,401)
Total return swap income	3,143	—	9,080	—
Interest and other income	4,943	7,367	19,560	14,820
Equity income in co-investments	9,568	7,179	38,932	15,962
Loss on early retirement of debt	(211)	—	(211)	—
Gain on sale of real estate and land	—	—	20,258	7,112
Deferred tax expense on gain on sale of real estate and land	—	—	(4,279)	—
Gain on remeasurement of co-investment	—	—	—	34,014
Net income	70,162	47,182	233,893	162,477
Net income attributable to noncontrolling interest	(2,378)	(2,074)	(7,026)	(6,180)
Net income attributable to controlling interest	67,784	45,108	226,867	156,297
Preferred interest distributions	—	(1,314)	(1,314)	(3,941)
Excess of redemption value of preferred units over the carrying value	—	—	(2,541)	—
Net income available to common unitholders	\$67,784	\$43,794	\$223,012	\$152,356
Comprehensive income	\$73,173	\$46,970	\$235,874	\$163,609
Comprehensive income attributable to noncontrolling interest	(2,378)	(2,074)	(7,026)	(6,180)
Comprehensive income attributable to controlling interest	\$70,795	\$44,896	\$228,848	\$157,429
Per unit data:				
Basic:				
Net income available to common unitholders	\$1.00	\$0.65	\$3.30	\$2.28
Weighted average number of common units outstanding during the period	67,728,621	67,316,498	67,679,240	66,896,293
Diluted:				
Net income available to common unitholders	\$1.00	\$0.65	\$3.29	\$2.27
Weighted average number of common units outstanding during the period	67,838,503	67,475,180	67,802,897	67,074,069
Distribution per common unit	\$1.60	\$1.44	\$4.80	\$4.32

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statement of Capital for the nine months ended September 30, 2016

(Dollars and units in thousands)

(Unaudited)

	General Partner Common Equity		Series H Preferred Interest	Limited Partners Common Equity		Accumulated other comprehensive loss	Noncontrolling Interest	Total
	Units	Amount		Units	Amount			
Balances at December 31, 2015	65,379	\$6,208,535	\$71,209	2,215	\$47,235	\$ (39,598)	\$ 49,642	\$6,337,023
Net income	—	215,555	3,855	—	7,457	—	7,026	233,893
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	3,481	—	3,481
Change in fair value of marketable securities, net	—	—	—	—	—	(1,500)	—	(1,500)
Issuance of common units under:								
General partner's stock based compensation, net	130	17,878	—	—	—	—	—	17,878
Sale of common stock by general partner, net	—	(382)	—	—	—	—	—	(382)
Equity based compensation costs	—	2,662	—	18	1,774	—	—	4,436
Redemption of Series H preferred units	—	—	(73,750)	—	—	—	—	(73,750)
Changes in redemption value of redeemable noncontrolling interest	—	785	—	—	—	—	558	1,343
Distributions to noncontrolling interest	—	—	—	—	—	—	(9,502)	(9,502)
Redemptions	14	(1,974)	—	(14)	(50)	—	(411)	(2,435)
Distributions declared	—	(314,346)	(1,314)	—	(10,923)	—	—	(326,583)
Balances at September 30, 2016	65,523	\$6,128,713	\$—	2,219	\$45,493	\$ (37,617)	\$ 47,313	\$6,183,902

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$233,893	\$162,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	329,847	336,946
Amortization of discount on marketable securities and other investments	(10,771)	(9,012)
Amortization of (premium) discount and debt financing costs, net	(11,432)	(15,064)
Gain on sale of marketable securities	(2,876)	(598)
Company's share of gain on the sales of co-investments	(13,046)	—
Earnings from co-investments	(25,886)	(15,962)
Operating distributions from co-investments	45,342	28,632
Gain on the sales of real estate and land	(20,258)	(7,112)
Equity-based compensation	4,436	5,511
Loss on early retirement of debt	211	—
Gain on remeasurement of co-investments	—	(34,014)
Changes in operating assets and liabilities:		
Prepaid expense, receivables and other assets	656	(1,851)
Accounts payable and accrued liabilities	49,739	36,480
Other liabilities	420	1,475
Net cash provided by operating activities	580,275	487,908
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate and acquisition related capital expenditures	(124,054)	(327,799)
Redevelopment	(62,983)	(66,783)
Development acquisitions of and additions to real estate under development	(58,575)	(138,101)
Capital expenditures on rental properties	(40,503)	(42,809)
Acquisition of membership interest in co-investments	—	(115,724)
Investments in notes receivable	(4,375)	—
Proceeds from insurance for property losses	3,288	12,044
Proceeds from dispositions of real estate	48,008	74,485
Contributions to co-investments	(121,972)	(119,120)
Changes in restricted cash and refundable deposits	65,858	38,282
Purchases of marketable securities	(18,779)	(14,300)
Sales and maturities of marketable securities and other investments	14,708	7,566
Non-operating distributions from co-investments	34,564	31,938
Net cash used in investing activities	(264,815)	(660,321)
Cash flows from financing activities:		
Borrowings under debt agreements	821,097	1,068,032
Repayment of debt	(580,956)	(924,844)
Repayment of cumulative redeemable preferred stock	(73,750)	—
Additions to deferred charges	(5,300)	(4,320)
Net proceeds from issuance of common units	(382)	307,835
Net proceeds from stock options exercised	17,878	22,173
Distributions to noncontrolling interest	(5,171)	(6,455)

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Redemption of noncontrolling interest	(2,435)	(2,621)
Common and preferred units and preferred interest distributions paid	(320,957)	(281,334)
Net cash (used in) provided by financing activities	(149,976)	178,466
Cash acquired in consolidation of co-investment	—	4,005

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	Nine Months Ended September 30,	
	2016	2015
Net increase in cash and cash equivalents	165,484	10,058
Cash and cash equivalents at beginning of period	29,683	25,610
Cash and cash equivalents at end of period	\$195,167	\$35,668
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$9.4 million and \$12.2 million capitalized in 2016 and 2015, respectively	\$140,183	\$135,736
Supplemental disclosure of noncash investing and financing activities:		
Transfers between real estate under development to rental properties, net	\$106,255	\$308,069
Transfer from real estate under development to co-investments	\$8,332	\$5,913
Reclassifications (from) to redeemable noncontrolling interest to or from general partner capital and noncontrolling interest	\$(1,343)	\$1,333
Debt assumed in connection with acquisition	\$48,832	\$114,435

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2016 and 2015

(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, 2015.

All significant intercompany accounts and transactions have been eliminated in the unaudited condensed consolidated financial statements. Certain reclassifications have been made to conform to the current year's presentation.

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2016 and 2015 include the accounts of the Company and the Operating Partnership. Essex is the sole general partner in the Operating Partnership, with a 96.7% general partnership interest as of September 30, 2016. Total Operating Partnership limited partnership units outstanding were 2,219,268 and 2,214,545 as of September 30, 2016 and December 31, 2015, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$494.2 million and \$530.2 million, as of September 30, 2016 and December 31, 2015, respectively.

As of September 30, 2016, the Company owned or had ownership interests in 244 stabilized apartment communities, aggregating 59,290 apartment homes, excluding the Company's ownership in preferred interest co-investments, (collectively, the "Communities", and individually, a "Community"), three operating commercial buildings and six active developments (collectively, the "Portfolio"). The Communities are located in Southern California (primarily Los Angeles, Orange, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan areas.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers." The new standard provides a single comprehensive revenue recognition model for contracts with customers (excluding certain contracts, such as lease contracts) to improve comparability within industries. The new standard requires an entity to recognize revenue to reflect the transfer of goods or services to customers at an amount the entity expects to be paid in exchange for those goods and services and provide enhanced disclosures, all to provide more comprehensive guidance for transactions such as service revenue and contract modifications. In August 2015, the FASB deferred the effective date of the new standard by one year, and it is now effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted but not before the original effective date. The new standard may be applied using either a full retrospective or a modified approach upon adoption. The Company has not yet selected a transition method and is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

In January 2016, the FASB issued ASU No. 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities", which requires changes to the classification and measurement of investments in certain equity securities and to the presentation of certain fair value changes for financial liabilities measured at fair value. The new standard will be effective for the Company beginning on January 1, 2018 and earl