

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

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-13106

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

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

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

(I.R.S. Employer Identification Number)

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

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

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

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

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Essex Property Trust, Inc. Yes  No

Essex Portfolio, L.P. Yes  No

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

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Essex Property Trust, Inc.:

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

Essex Portfolio, L.P.:

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

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

Essex Property Trust, Inc. Yes  No

Essex Portfolio, L.P. Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 65,352,146 shares of Common Stock (\$0.0001 par value) of Essex Property Trust, Inc. were outstanding as of May 5, 2015.

## EXPLANATORY NOTE

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

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

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

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

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

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

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

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

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

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

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

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

ESSEX PROPERTY TRUST, INC.  
 ESSEX PORTFOLIO, L.P.  
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## Part I – Financial Information

## Item 1. Condensed Financial Statements

## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share amounts)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

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

(Unaudited)

(Dollars and shares in thousands)

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

Common and  
preferred stock  
dividends

Balances at March 31, 2015	2,950	\$73,750	64,620	\$6	\$6,848,255	\$(684,436)	\$(50,868)	)	\$114,149	\$6,300,856
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See accompanying notes to the unaudited condensed consolidated financial statements.

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## ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

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

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

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

See accompanying notes to the unaudited condensed consolidated financial statements



## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except unit amounts)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements

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## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except unit and per unit amounts)

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

See accompanying notes to the unaudited condensed consolidated financial statements

## ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

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

(Dollars and units in thousands)

(Unaudited)

	General Partner		Preferred Equity	Limited Partners		Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total
	Common Equity Units	Amount		Common Equity Units	Amount			
Balances at December 31, 2014	63,683	\$6,002,915	\$71,209	2,168	\$48,665	\$ (49,356 )	\$ 62,635	\$6,136,068
Net income	—	59,363	1,314	—	2,111	—	1,965	64,753
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	—	—	—