

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 001-13106

ESSEX PROPERTY TRUST, INC.

(Exact name of Registrant as Specified in its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

77-0369576

(I.R.S. Employer Identification Number)

**925 East Meadow Drive
Palo Alto, California 94303**

(Address of Principal Executive Offices including Zip Code)

(650) 494-3700

(Registrant's Telephone Number, Including Area Code)

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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). 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: **36,414,318 shares of Common Stock as of August 2, 2012.**



ESSEX PROPERTY TRUST, INC.
FORM 10-Q
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Part I -- Financial Information

Item 1: Condensed Financial Statements (Unaudited)

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

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands, except per share amounts)

	June 30, 2012	December 31, 2011
<u>Assets</u>		
Real estate:		
Rental properties:		
Land and land improvements	\$ 901,942	\$ 860,661
Buildings and improvements	3,702,631	3,452,403
	4,604,573	4,313,064
Less accumulated depreciation	(995,311)	(920,026)
	3,609,262	3,393,038
Real estate under development	55,343	44,280
Co-investments	436,230	383,412
	4,100,835	3,820,730
Cash and cash equivalents-unrestricted	4,132	12,889
Cash and cash equivalents-restricted	23,678	22,574
Marketable securities	114,166	74,275
Notes and other receivables	50,895	66,369
Prepaid expenses and other assets	26,859	22,682
Deferred charges, net	18,551	17,445
Total assets	<u>\$ 4,339,116</u>	<u>\$ 4,036,964</u>
<u>Liabilities and Equity</u>		
Mortgage notes payable	\$ 1,615,645	\$ 1,745,858
Unsecured debt	615,000	465,000
Lines of credit	257,102	150,000
Accounts payable and accrued liabilities	62,636	48,324
Construction payable	3,575	6,505
Dividends payable	43,708	39,611
Derivative liabilities	6,022	3,061
Other liabilities	20,724	20,528
Total liabilities	2,624,412	2,478,887
Commitments and contingencies		
Cumulative convertible Series G preferred stock	4,349	4,349
Equity:		
Cumulative redeemable Series H preferred stock at liquidation value	73,750	73,750
Common stock, \$.0001 par value, 656,020,000 shares authorized 35,070,620 and 33,888,082 shares issued and outstanding	3	3
Additional paid-in capital	2,017,445	1,844,611
Distributions in excess of accumulated earnings	(425,058)	(408,066)
Accumulated other comprehensive loss, net	(72,915)	(72,771)
Total stockholders' equity	1,593,225	1,437,527
Noncontrolling interest	117,130	116,201
Total equity	1,710,355	1,553,728
Total liabilities and equity	<u>\$ 4,339,116</u>	<u>\$ 4,036,964</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Rental and other property	\$ 129,765	\$ 114,906	\$ 255,238	\$ 226,114
Management and other fees	2,796	1,420	5,240	2,645
	<u>132,561</u>	<u>116,326</u>	<u>260,478</u>	<u>228,759</u>
Expenses:				
Property operating, excluding real estate taxes	30,718	28,946	59,470	56,783
Real estate taxes	11,699	10,825	23,112	21,412
Depreciation	41,801	37,250	82,535	73,908
General and administrative	5,764	5,385	11,164	10,659
Cost of management and other fees	1,611	1,073	3,251	1,997
	<u>91,593</u>	<u>83,479</u>	<u>179,532</u>	<u>164,759</u>
Earnings from operations	<u>40,968</u>	<u>32,847</u>	<u>80,946</u>	<u>64,000</u>
Interest expense before amortization	(24,659)	(22,710)	(49,316)	(44,518)
Amortization expense	(2,882)	(2,736)	(5,754)	(5,590)
Interest and other income	5,455	2,628	7,868	9,616
Equity income (loss) in co-investments	3,111	726	5,451	(647)
Gain on remeasurement of co-investment	21,947	-	21,947	-
Loss on early retirement of debt	(1,450)	(253)	(1,450)	(253)
Income from continuing operations	<u>42,490</u>	<u>10,502</u>	<u>59,692</u>	<u>22,608</u>
Income from discontinued operations	-	5,551	10,037	5,952
Net income	<u>42,490</u>	<u>16,053</u>	<u>69,729</u>	<u>28,560</u>
Net income attributable to noncontrolling interest	<u>(4,044)</u>	<u>(2,304)</u>	<u>(7,193)</u>	<u>(5,851)</u>
Net income attributable to controlling interest	<u>38,446</u>	<u>13,749</u>	<u>62,536</u>	<u>22,709</u>
Dividends to preferred stockholders	<u>(1,368)</u>	<u>(1,475)</u>	<u>(2,736)</u>	<u>(2,017)</u>
Excess of cash paid to redeem preferred stock and units over the carrying value	-	(1,949)	-	(1,949)
Net income available to common stockholders	<u>\$ 37,078</u>	<u>\$ 10,325</u>	<u>\$ 59,800</u>	<u>\$ 18,743</u>
Comprehensive income	\$ 39,983	\$ 19,122	\$ 69,575	\$ 31,020
Comprehensive income attributable to noncontrolling interest	<u>(3,887)</u>	<u>(2,506)</u>	<u>(7,183)</u>	<u>(6,011)</u>
Comprehensive income attributable to controlling interest	<u>\$ 36,096</u>	<u>\$ 16,616</u>	<u>\$ 62,392</u>	<u>\$ 25,009</u>
Per common share data:				
Basic:				
Income from continuing operations	\$ 1.07	\$ 0.16	\$ 1.47	\$ 0.41
Income from discontinued operations	-	0.16	0.27	0.18
Net income available to common stockholders	<u>\$ 1.07</u>	<u>\$ 0.32</u>	<u>\$ 1.74</u>	<u>\$ 0.59</u>
Weighted average number of common shares outstanding during the period	<u>34,570,772</u>	<u>32,040,904</u>	<u>34,299,331</u>	<u>31,754,949</u>
Diluted:				
Income from continuing operations	\$ 1.07	\$ 0.16	\$ 1.47	\$ 0.41
Income from discontinued operations	-	0.16	0.27	0.18
Net income available to common stockholders	<u>\$ 1.07</u>	<u>\$ 0.32</u>	<u>\$ 1.74</u>	<u>\$ 0.59</u>
Weighted average number of common shares outstanding during the period	<u>34,708,420</u>	<u>32,135,064</u>	<u>34,430,571</u>	<u>31,844,002</u>
Dividend per common share	<u>\$ 1.10</u>	<u>\$ 1.04</u>	<u>\$ 2.20</u>	<u>\$ 2.08</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Equity for the six months ended June 30, 2012
(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, 2011	2,950	\$ 73,750	33,888	\$ 3	\$ 1,844,611	\$ (408,066)	\$ (72,771)	\$ 116,201	\$ 1,553,728
Comprehensive income:									
Net income	-	-	-	-	-	62,536	-	7,193	69,729
Change in fair value of cash flow hedges and amortization of swap settlements	-	-	-	-	-	-	648	42	690
Change in fair value of marketable securities	-	-	-	-	-	-	(792)	(52)	(844)
Issuance of common stock under:									
Stock option and restricted stock plans	-	-	42	-	2,240	-	-	-	2,240
Sale of common stock	-	-	1,141	-	170,944	-	-	-	170,944
Equity based compensation costs	-	-	-	-	(350)	-	-	1,161	811
Contributions from noncontrolling interest	-	-	-	-	-	-	-	2,400	2,400
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(9,134)	(9,134)
Redemptions of noncontrolling interest	-	-	-	-	-	-	-	(681)	(681)
Common and preferred stock dividends	-	-	-	-	-	(79,528)	-	-	(79,528)
Balances at June 30, 2012	<u>2,950</u>	<u>\$ 73,750</u>	<u>35,071</u>	<u>\$ 3</u>	<u>\$ 2,017,445</u>	<u>\$ (425,058)</u>	<u>\$ (72,915)</u>	<u>\$ 117,130</u>	<u>\$ 1,710,355</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 69,729	\$ 28,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of marketable securities	(521)	(4,543)
Gain on remeasurement of co-investment	(21,947)	-
Loss on early retirement of debt	1,450	253
Co-investments	3,770	2,120
Amortization expense	5,754	5,590
Amortization of discount on notes receivables	(917)	(878)
Amortization of discount on marketable securities	(2,518)	(2,297)
Gain on the sales of real estate	(10,870)	(5,853)
Depreciation	82,629	74,541
Equity-based compensation	1,925	1,056
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(4,420)	(697)
Accounts payable and accrued liabilities	5,133	5,299
Other liabilities	195	1,200
Net cash provided by operating activities	<u>129,392</u>	<u>104,351</u>
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(80,502)	(38,958)
Improvements to recent acquisitions	(3,569)	(11,804)
Redevelopment	(17,223)	(16,296)
Revenue generating capital expenditures	(1,638)	(1,220)
Non-revenue generating capital expenditures	(7,040)	(7,711)
Acquisitions of and additions to real estate under development	(17,166)	(65,695)
Acquisition of membership interest in co-investment	(85,000)	-
Dispositions of real estate	27,800	15,972
Changes in restricted cash and refundable deposits	(1,805)	(3,210)
Purchases of marketable securities	(34,363)	(6,805)
Sales and maturities marketable securities	5,070	27,997
Collections of notes and other receivables	6,574	368
Contributions to co-investments	(114,746)	(43,207)
Distributions from co-investments	7,430	450
Net cash used in investing activities	<u>(316,178)</u>	<u>(150,119)</u>
Cash flows from financing activities:		
Borrowings under debt agreements	762,580	645,419
Repayment of debt	(671,153)	(661,193)
Additions to deferred charges	(2,622)	(1,441)
Payment to settle derivative instruments	-	(2,395)
Net proceeds from issuance of Preferred stock, Series H	-	71,427
Retirement of Series B preferred units	-	(78,800)
Redemption of Series F preferred stock	-	(25,000)
Equity related issuance cost	(274)	(591)
Net proceeds from stock options exercised	1,400	5,983
Net proceeds from issuance of common stock	170,944	168,592
Contributions from noncontrolling interest	2,400	-
Distributions to noncontrolling interest	(9,134)	(9,667)
Redemption of noncontrolling interest	(681)	(4,019)
Common and preferred stock dividends paid	<u>(75,431)</u>	<u>(67,491)</u>
Net cash provided by financing activities	<u>178,029</u>	<u>40,824</u>
Net (decrease) in cash and cash equivalents	<u>(8,757)</u>	<u>(4,944)</u>
Cash and cash equivalents at beginning of year	12,889	13,753
Cash and cash equivalents at end of year	<u>\$ 4,132</u>	<u>\$ 8,809</u>

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$3.9 million, and \$4.5 million capitalized in 2012 and 2011, respectively.	\$ 47,575	\$ 43,594
Supplemental disclosure of noncash investing and financing activities:		
Transfer from real estate under development to rental properties	\$ 4,294	\$ 40,784
Transfer from real estate under development to co-investments	\$ 148,053	\$ 48,886
Mortgage notes assumed in connection with purchases of real estate including the loan premiums recorded	\$ 30,298	\$ 10,500
Contribution of note receivable to co-investment	\$ 12,325	\$ -
Change in accrual of dividends	\$ 4,097	\$ 1,570
Change in fair value of derivative liabilities	\$ 2,841	\$ 1,836
Purchase of marketable securities pending settlement	\$ 8,340	\$ -
Change in fair value of marketable securities	\$ 845	\$ 2,283
Change in construction payable	\$ 2,930	\$ 2,041
Non-cash contribution from noncontrolling interest	\$ -	\$ 800

See accompanying notes to the unaudited condensed consolidated financial statements

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 and 2011
(Unaudited)

(1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. (the “Company”), which include the accounts of the Company and Essex Portfolio, L.P. (the “Operating Partnership,” which holds the operating assets of the Company) and are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature. 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, 2011.

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

The unaudited condensed consolidated financial statements for the three and six months ended June 30, 2012 and 2011 include the accounts of the Company and the Operating Partnership. The Company is the sole general partner in the Operating Partnership, with a 94.0% general partnership interest as of June 30, 2012. Total Operating Partnership units outstanding were 2,238,571 and 2,229,230 as of June 30, 2012 and December 31, 2011, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$344.6 million and \$313.2 million, as of June 30, 2012 and December 31, 2011, respectively.

As of June 30, 2012, the Company owned or had ownership interests in 160 apartment communities, aggregating 33,015 units, excluding the Company's ownership in preferred interest co-investments, (collectively, the “Communities”, and individually, a “Community”), five commercial buildings and nine active development projects (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 metropolitan area.

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 as discussed later in Note 1), 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 June 30, 2012 and December 31, 2011, marketable securities consisted primarily of investment-grade unsecured bonds, common stock, investments in mortgage backed securities and investment funds that invest in U.S. treasury or agency securities. As of June 30, 2012 and December 31, 2011, the Company classified its investments in mortgage backed securities, which mature in November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost. The estimated fair values of the mortgage backed securities (Level 2 securities) are approximately equal to the carrying values.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 and 2011
(Unaudited)

As of June 30, 2012 and December 31, 2011 marketable securities consist of the following (\$ in thousands):

	June 30, 2012		
	Cost/ Amortized Cost	Gross Unrealized Gain(Loss)	Fair Value
<i>Available for sale:</i>			
Investment-grade unsecured bonds	\$ 5,227	\$ (22)	\$ 5,205
Investment funds - US treasuries	15,383	593	15,976
Common stock	42,970	721	43,691
<i>Held to maturity:</i>			
Mortgage backed securities	49,294	-	49,294
Total	\$ 112,874	\$ 1,292	\$ 114,166

	December 31, 2011		
	Cost/ Amortized Cost	Gross Unrealized Gain	Fair Value
<i>Available for sale:</i>			
Investment-grade unsecured bonds	\$ 3,615	\$ 399	\$ 4,014
Investment funds - US treasuries	11,783	121	11,904
Common stock	10,067	1,552	11,619
<i>Held to maturity:</i>			
Mortgage backed securities	46,738	-	46,738
Total	\$ 72,203	\$ 2,072	\$ 74,275

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 three months ended June 30, 2012, the proceeds from sales of available for sales securities totaled \$5.1 million which resulted in a \$0.5 million gain. For the six months ended June 30, 2012 and 2011, the proceeds from sales of available for sale securities totaled \$5.1 million and \$28.0 million, respectively, which resulted in gains of \$0.5 million and \$4.5 million, respectively.

Variable Interest Entities

The Company evaluates its investments in entities to determine whether such entities may be a variable interest entity, or VIE, and, if a VIE, whether it is the primary beneficiary and therefore should consolidate the VIE. Generally, an entity is determined to be a VIE when either: (1) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support, (2) the equity holders, as a group, lack any of the following three characteristics: (i) the power, through voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance, (ii) the obligation to absorb the expected losses of the entity, (iii) the right to receive the expected residual returns of the entity, or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities) since the Company is the primary beneficiary of these variable interest entities ("VIEs"). Total DownREIT units outstanding were 1,061,848 and 1,063,848 as of June 30, 2012 and December 31, 2011, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$163.4 million and \$149.5 million, as of June 30, 2012 and December 31, 2011, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately \$201.4 million and \$174.0 million, respectively, as of June 30, 2012 and \$199.8 million and \$171.5 million, respectively, as of December 31, 2011. Interest holders in VIEs consolidated by the Company are allocated income equal to the cash payments made to those interest holders. The remaining results of operations are generally allocated to the Company. As of June 30, 2012 and December 31, 2011, the Company did not have any other VIEs of which it was deemed to be the primary beneficiary.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2012 and 2011
(Unaudited)

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, 2011) are being amortized over the expected service periods.

Stock-based compensation expense for options and restricted stock totaled \$0.4 million for the three months ended June 30, 2012 and 2011, and \$0.8 million and \$0.7 million for the six months ended June 30, 2012 and 2011, respectively. The intrinsic value of the stock options exercised during the three months ended June 30, 2012 and 2011 totaled \$0.7 million and \$2.0 million, respectively and \$1.8 million and \$3.0 million for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the intrinsic value of the stock options outstanding totaled \$16.3 million. As of June 30, 2012, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled \$4.9 million. The cost is expected to be recognized over a weighted-average period of 1 to 6 years for the stock option plans and is expected to be recognized straight-line over 7 years for the restricted stock awards.

The Company has adopted an incentive program involving the issuance of Series Z-1 Incentive Units of limited partnership interest in the Operating Partnership. Stock-based compensation expense for Z-1 Units totaled \$0.5 million and \$0.3 million for the three months ended June 30, 2012 and 2011, respectively and \$1.1 million and \$0.5 million for the six months ended June 30, 2012 and 2011, respectively. Stock-based compensation for Z-1 units capitalized totaled \$0.2 million and \$0.1 million for the three months ended June 30, 2012, and 2011, respectively and \$0.3 million and \$0.2 million for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the intrinsic value of the Z-1 Units subject to future vesting totaled \$22.8 million. As of June 30, 2012, total unrecognized compensation cost related to Z-1 Units subject to future vesting totaled \$9.2 million. The unamortized cost is expected to be recognized over the next fourteen years subject to the achievement of the stated performance criteria.

Fair Value of Financial Instruments

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

Management believes that the carrying amounts of its amounts outstanding under lines of credit, notes receivable and notes and other receivables approximate fair value as of June 30, 2012 and December 31, 2011, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for similar instruments. Management has estimated that the fair value of the Company's \$1.79 billion of fixed rate debt, including unsecured bonds, at June 30, 2012 is approximately \$1.90 billion and the fair value of the Company's \$439.0 million of variable rate debt, excluding borrowings under the lines of credit, at June 30, 2012 is \$417.7 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 June 30, 2012 due to the short-term maturity of these instruments. The fair values of the Company's investments in mortgage backed securities are approximately equal to the amortized cost carrying value of these securities. Marketable securities and both the note payable and the swap related to multifamily revenue refunding bonds for the 101 San Fernando apartment community, are carried at fair value as of June 30, 2012, as discussed above and in Note 8.

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Capitalization Policy

The Company capitalizes all direct and certain indirect costs, including interest and real estate taxes, incurred during development and redevelopment activities. Interest is capitalized on real estate assets that require a period of time to get them ready for their intended use. The amount of interest capitalized is based upon the average amount of accumulated development expenditures during the reporting period. Included in capitalized costs are management's accounting estimates of the direct and incremental personnel costs and indirect project costs associated with the Company's development and redevelopment activities. Indirect project costs consist primarily of personnel costs associated with construction administration and development, including accounting, legal fees, and various office costs that clearly relate to projects under development. The Company's capitalized internal costs related to development and redevelopment projects totaled \$1.1 million during each of the three months ended June 30, 2012 and 2011, respectively, and \$2.2 million and \$2.0 million for the six months ended June 30, 2012 and 2011, respectively, most of which relates to development projects. These totals include capitalized salaries of \$0.6 million for both the three months ended June 30, 2012 and 2011, respectively, and \$1.3 million and \$1.1 million for six months ended June 30, 2012 and 2011, respectively.

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 the accounting standards. Therefore, the Company accounts for these investments using the equity method of accounting. Under the equity method of accounting, the investment is carried at the cost of assets contributed, plus the Company's equity in earnings less distributions received and the Company's share of losses. The significant accounting policies of the Company's co-investments entities are consistent with those of the Company in all material respects. For preferred equity investments the Company recognizes its preferred interest as equity in earnings.

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 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 distributions 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.

Accounting Estimates and Reclassifications

The preparation of condensed consolidated financial statements, in accordance with U.S. generally accepted accounting principles, requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate 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.

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

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(2) Significant Transactions During the Second Quarter of 2012 and Subsequent Events

Acquisitions

In April, the Company purchased the joint venture partner's membership interest in the co-investment Essex Skyline at MacArthur Place, a 349-unit premier high-rise apartment community containing luxury amenities located in Santa Ana, California, for a total purchase price of \$85.0 million. During the second quarter, the Company recorded promote income of \$2.3 million included in interest and other income on the condensed consolidated statements of operations, earned as a result of achieving certain performance hurdles as defined in the joint venture agreement. Upon the acquisition of partner's membership interest, the property was consolidated and a gain on remeasurement of the Company co-investment interest of \$21.9 million was recorded equal to the amount by which the fair value of the Company's previously owned noncontrolling interest exceeded its carrying value. The secured \$80.0 million loan was repaid early as part of this transaction, and the property is now an unencumbered asset.

In June, the Company purchased Park Catalina, a 90-unit property located in the Koreatown submarket of Los Angeles, California containing a mix of studio, one and two bedrooms apartments, for a total purchase price of \$23.7 million. Also, at the end of June, the Company purchased The Huntington, a 276-unit property located in Huntington Beach, California containing a pool, spa, fitness center and clubhouse, for a purchase price of \$48.3 million. The Company assumed a \$30.3 million loan secured by the property at a fixed rate of 5.7% for seven years. The interest rate on the loan was unfavorable compared to currently available market rates for mortgage loans, and thus in conjunction with the purchase price allocation, the Company recorded a \$4.3 million loan premium to reflect the debt at fair value. This resulted in an effective interest rate for this loan of 3.3%.

In July, the Company purchased Montebello, a 248-unit property located in Kirkland, Washington, containing a mix of one, two and three bedroom units and townhomes, for a purchase price of \$52.0 million from a related party entity. The Company assumed a \$26.5 million mortgage loan secured by the property at a fixed rate of 5.6% for eight years. The interest rate on the loan was unfavorable compared to currently available market rates for mortgage loans, and thus in conjunction with the purchase price allocation, the Company is expected to record a \$4.1 million loan premium to reflect the debt at fair value. This results in an effective interest rate for this loan of 3.1%.

Development

In April, the Company acquired an entity that owns a land parcel in Emeryville, California for the development of a 190-unit apartment and total estimated costs of \$58.2 million. Initial occupancy is expected in the third quarter of 2014.

In June, the Company in a co-investment partnership with the Canada Pension Plan Investment Board ("CPPIB"), acquired two adjacent land parcels in San Francisco, California for the development of two nine story apartment communities containing a total of 463 units and approximately 9,300 square feet of retail space. The Company expects initial occupancy in the second quarter of 2014 for a total estimated cost of \$250 million. The Company holds a 55% noncontrolling interest in the venture and will earn customary management fees and may earn a promoted interest if certain performance hurdles as defined in the joint venture agreement are achieved.

In July, the Company entered into an agreement to purchase a 121-unit community under construction in Valley Village a district of Los Angeles, California. The Company made a \$1.0 million deposit and will take ownership of the property upon receipt of a temporary certificate of occupancy for total estimated costs of \$37.6 million, which is expected in the first quarter of 2014.

Co-investments

In early July, the Company made a \$14.0 million preferred equity investment in a related party entity that owns an apartment community located in Cupertino, California. The investment has a preferred return of 9.5% and matures in May 2016. The Company will invest an additional \$4.0 million in preferred equity to fund renovation costs.

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Common Stock

During the second quarter, the Company sold 920,281 shares of common stock for \$139.4 million, net of commissions, at an average per share price of \$152.94. Year to date through July, the Company has sold 1,769,989 shares of common stock for \$268.2 million, net of commissions, at an average price of \$153.01.

Mortgage Notes Payable

During late June, the Company repaid \$137.7 million in secured mortgage loans with a weighted average interest rate of 5.6% related to eight communities with the net proceeds from the unsecured note offering announced in March 2012. Also, the \$80.0 million Essex Skyline secured loan was repaid in April. The Company incurred \$1.5 million in losses from early retirement of debt, and these nine communities are now unencumbered assets.

Unsecured Term Loan

In July, the Company increased the capacity of its five-year, \$200 million unsecured term loan to \$350 million, and the tiered pricing structure was reduced from LIBOR + 142.5 basis points to LIBOR + 130 basis points. The \$150 million of additional funds can be drawn between August and December 31, 2012.

Unsecured Line of Credit

In May, the Company amended its \$425 million unsecured revolving credit facility by increasing the borrowing capacity to \$500 million. The amended facility, which matures in December 2015, contains two one-year extension options and an accordion feature that allows the Company to borrow up to \$600 million. Based on the Company's current BBB credit rating, the facility carries an interest rate of LIBOR + 120 basis points and a facility fee of 20 basis points.

Interest Rate Swaps

During the second quarter, the Company entered into interest rate swap contracts with an aggregate notional amount of \$125 million. The first \$50 million notional amount effectively converted the interest rate on the remaining \$50 million of the \$200 million term loan originated in the fourth quarter of 2011 to a fixed rate of 2.46%. The remaining \$75 million notional amount effectively fixed \$75 million of the Company's unsecured line of credit at 2.2%.

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(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 (dollars in thousands):

	June 30, 2012	December 31, 2011
Investments in joint ventures accounted for under the equity method of accounting:		
Membership interest in Wesco I	\$ 83,919	\$ 75,588
Partnership interest in Fund II	61,560	64,294
Membership interest in a limited liability company that owns Essex Skyline at MacArthur Place	-	24,063
Total operating co-investments	<u>145,479</u>	<u>163,945</u>
Membership interests in limited liability companies that own and are developing Epic, Lync, Elkhorn, and Folsom and Fifth	130,870	62,897
Membership interest in a limited liability company that owns and is developing Expo	18,518	17,981
Membership interests in limited liability companies that own and are developing Fountain at La Brea and Santa Monica at La Brea	15,830	15,194
Total development co-investments	<u>165,218</u>	<u>96,072</u>
Membership interest in Wesco II that owns a preferred equity interest in Parkmerced with a preferred return of 10.1%	89,986	88,075
Preferred interests in limited liability companies that own apartment communities in downtown Los Angeles with preferred returns of 9% and 10%	22,792	22,792
Preferred interest in a related party limited liability company that owns Madison Park at Anaheim with a preferred return of 13%	12,755	12,528
Total preferred interest investments	<u>125,533</u>	<u>123,395</u>
Total co-investments	<u>\$ 436,230</u>	<u>\$ 383,412</u>

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

	June 30, 2012	December 31, 2011		
Balance sheets:				
Rental properties and real estate under development	\$ 1,625,272	\$ 1,659,078		
Other assets	77,879	63,847		
Total assets	<u>\$ 1,703,151</u>	<u>\$ 1,722,925</u>		
Debt	\$ 838,003	\$ 900,095		
Other liabilities	59,915	48,518		
Equity	805,233	774,312		
Total liabilities and equity	<u>\$ 1,703,151</u>	<u>\$ 1,722,925</u>		
Company's share of equity	<u>\$ 436,230</u>	<u>\$ 383,412</u>		
	Three Months Ended June 30,	Six Months Ended June 30,	2012	2011
Statements of operations:				
Property revenues	\$ 28,233	\$ 24,084	\$ 62,556	\$ 42,596
Property operating expenses	(10,029)	(9,719)	(23,166)	(17,695)
Net property operating income	18,204	14,365	39,390	24,901
Interest expense	(7,792)	(10,549)	(16,337)	(15,410)
General and administrative	(920)	(38)	(1,716)	(1,022)
Depreciation and amortization	(8,876)	(9,943)	(22,772)	(18,006)
Net income (loss)	<u>\$ 616</u>	<u>\$ (6,165)</u>	<u>\$ (1,435)</u>	<u>\$ (9,537)</u>
Company's share of net income (loss)	<u>\$ 3,111</u>	<u>\$ 726</u>	<u>\$ 5,451</u>	<u>\$ (647)</u>

(4) Notes and Other Receivables

Notes receivable secured by real estate, and other receivables consist of the following as of June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012	December 31, 2011
Note receivable, secured, bearing interest at 9.8%, paid in full January 2012	\$ -	\$ 7,331
Note receivable, secured, bearing interest at 5.0%, due November 2012 ⁽¹⁾	875	12,428
Note receivable, secured, bearing interest at 8.8%, due December 2012	10,924	10,928
Note receivable, secured, bearing interest at LIBOR + 8.0%, due December 2012	6,372	6,422
Note receivable, secured, bearing interest at 8.0%, due November 2013	971	971
Note receivable, secured, effective interest at 9.6%, due February 2014	18,075	17,646
Note receivable, secured, bearing interest at 4.0%, due December 2014 ⁽²⁾	3,212	3,221
Note and other receivables from affiliates	4,683	2,734
Other receivables	5,783	4,688
	<u>\$ 50,895</u>	<u>\$ 66,369</u>

(1) \$12.4 million note receivable was contributed to the Elkhorn co-investment during the first quarter of 2012. An additional \$0.9 million note was funded in the second quarter of 2012 which was contributed to the co-investment in the third quarter.

(2) During the first quarter 2012, the Company amended the loan secured by Vacationer RV Park to extend the maturity date to December

2014. Beginning January 1, 2012 the note which has a carrying value of \$3.2 million, bears interest at a rate of 4%, and the borrower will fund an impound account for capital replacement.

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(5) Related Party Transactions

Management and other fees from affiliates include management, development and redevelopment fees from co-investments of \$2.8 million and \$1.4 million during the three months ended June 30, 2012 and 2011, respectively, and \$5.2 million and \$2.6 million for the six months ended June 30, 2012 and 2011, respectively. 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, which is a holding company for certain real estate brokerage services and other subsidiary companies including Pacific Urban Residential ("PUR"). During July 2012, the Company invested \$14.0 million as a preferred equity interest investment in an entity affiliated with PUR that owns an apartment community in Cupertino, California. The investment has a preferred return of 9.5% and matures in May 2016. The Company will invest an additional \$4.0 million in preferred equity to fund renovation costs. Independent directors on the Company's Board of Directors approved the investment in this entity.

Also during July 2012, the Company acquired Montebello, a 248 unit apartment community in Kirkland, Washington for \$52.0 million from an entity affiliated with PUR. The Company assumed a \$26.5 million mortgage loan secured by the property at a fixed rate of 5.6% for eight years. Independent directors on the Company's Board of Directors approved the acquisition of this apartment community.

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(6) 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 co-investments, real estate under development, cash and cash equivalents, marketable securities, notes receivable, other assets and deferred charges.

The revenues, net operating income, and assets for each of the reportable operating segments are summarized as follows for the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Southern California	\$ 61,356	\$ 55,330	\$ 119,916	\$ 109,193
Northern California	42,570	36,550	84,192	71,867
Seattle Metro	22,668	20,210	44,977	39,966
Other real estate assets	3,171	2,816	6,153	5,088
Total property revenues	<u>\$ 129,765</u>	<u>\$ 114,906</u>	<u>\$ 255,238</u>	<u>\$ 226,114</u>
Net operating income:				
Southern California	\$ 41,107	\$ 36,173	\$ 80,937	\$ 71,559
Northern California	29,225	24,099	58,168	47,438
Seattle Metro	14,841	12,774	29,673	25,331
Other real estate assets	2,175	2,089	3,878	3,591
Total net operating income	<u>87,348</u>	<u>75,135</u>	<u>172,656</u>	<u>147,919</u>
Management and other fees from affiliates	2,796	1,420	5,240	2,645
Depreciation	(41,801)	(37,250)	(82,535)	(73,908)
General and administrative	(5,764)	(5,385)	(11,164)	(10,659)
Cost of management and other fees	(1,611)	(1,073)	(3,251)	(1,997)
Interest expense before amortization	(24,659)	(22,710)	(49,316)	(44,518)
Amortization expense	(2,882)	(2,736)	(5,754)	(5,590)
Interest and other income	5,455	2,628	7,868	9,616
Equity income (loss) from co-investments	3,111	726	5,451	(647)
Gain on remeasurement of co-investment	21,947	-	21,947	-
Loss on early retirement of debt	(1,450)	(253)	(1,450)	(253)
Income from continuing operations	<u>\$ 42,490</u>	<u>\$ 10,502</u>	<u>\$ 59,692</u>	<u>\$ 22,608</u>

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Total assets for each of the reportable operating segments are summarized as follows as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Assets:		
Southern California	\$ 1,682,453	\$ 1,478,018
Northern California	1,247,579	1,241,320
Seattle Metro	589,653	579,612
Other real estate assets	89,577	94,088
Net reportable operating segment - real estate assets	3,609,262	3,393,038
Real estate under development	55,343	44,280
Cash and cash equivalents	27,810	35,463
Marketable securities	114,166	74,275
Co-investments	436,230	383,412
Notes and other receivables	50,895	66,369
Other non-segment assets	45,410	40,127
Total assets	<u>\$ 4,339,116</u>	<u>\$ 4,036,964</u>

(7) Net Income Per Common Share

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

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
	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	\$ 37,078	34,571	\$ 1.07	\$ 5,135	32,041	\$ 0.16
Income from discontinued operations available to common stockholders	-	34,571	-	5,190	32,041	0.16
	<u>37,078</u>		<u>\$ 1.07</u>	<u>10,325</u>		<u>\$ 0.32</u>
Effect of Dilutive Securities (1)	<u>54</u>	<u>137</u>		<u>-</u>	<u>94</u>	
Diluted:						
Income from continuing operations available to common stockholders	37,132	34,708	\$ 1.07	5,135	32,135	\$ 0.16
Income from discontinued operations available to common stockholders	-	34,708	-	5,190	32,135	0.16
	<u>\$ 37,132</u>		<u>\$ 1.07</u>	<u>\$ 10,325</u>		<u>\$ 0.32</u>

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	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
		Weighte d Average Common Shares	Per Common Share Amount		Weighte d Average Common Shares	Per Common Share Amount
	Income			Income		
Basic:						
Income before discontinued operations available to common stockholders	\$ 50,379	34,299	\$ 1.47	\$ 13,183	31,755	\$ 0.41
Income from discontinued operations available to common stockholders	9,421	34,299	0.27	5,560	31,755	0.18
	<u>59,800</u>		<u>\$ 1.74</u>	<u>18,743</u>		<u>\$ 0.59</u>
Effect of Dilutive Securities (1)	<u>108</u>	<u>132</u>		<u>-</u>	<u>89</u>	
Diluted:						
Income from continuing operations available to common stockholders (1)	50,487	34,431	1.47	\$ 13,183	31,844	0.41
Income from discontinued operations available to common stockholders	9,421	34,431	0.27	5,560	31,844	0.18
	<u>\$ 59,908</u>		<u>\$ 1.74</u>	<u>\$ 18,743</u>		<u>\$ 0.59</u>

- (1) Weighted average convertible limited partnership units of 2,239,057 and 2,230,354, which includes vested Series Z incentive units, for the three months ended June 30, 2012, and 2011, respectively, and 2,242,112 and 2,230,354 for the six months ended June 30, 2012 and 2011, 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 units, aggregating \$2.5 million and \$1.0 million for the three months ended June 30, 2012 and 2011, respectively, and \$4.1 million and \$1.6 million for the six months ended June 30, 2012 and 2011, respectively, have been excluded from income available to common stock holders 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.

Stock options of 29,500 and 41,250 for the three and six months ended June 30, 2011, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive.

All shares of Series G cumulative convertible preferred stock have been excluded in diluted earnings per share for the three and six months ended June 30, 2011, as the effect was anti-dilutive.

(8) Derivative Instruments and Hedging Activities

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.

During the fourth quarter of 2011, the Company entered into four interest rate swap contracts with an aggregate notional amount of \$150 million that effectively fixed the interest rate on \$150 million of the \$200 million unsecured term loan at 2.66% through November 2016. During the second quarter, the Company entered into interest rate swap contracts with an aggregate notional amount of \$125 million. The first \$50 million notional amount effectively converted the interest rate on the remaining \$50 million of the \$200 million term loan originated in fourth quarter of 2011 to a fixed rate of 2.46%. The remaining \$75 million notional amount effectively fixed \$75 million of the Company's unsecured line of credit at 2.2%. These derivatives qualify for hedge accounting.

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As of June 30, 2012 the Company also had twelve interest rate cap contracts totaling a notional amount of \$187.8 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 \$202.3 million of the Company's tax exempt variable rate debt. As of June 30, 2012 and December 31, 2011 the aggregate carrying value of the interest rate swap contracts was a liability of \$5.0 million and \$1.4 million, respectively, and the aggregate carrying value of the interest rate cap contracts was an asset of \$0.1 million and \$0.2 million, respectively.

During July 2010, the Company entered into a swap transaction (the "Swap") with respect to \$38.0 million of tax-exempt bonds for the 101 San Fernando apartment community (the "Bonds") with Citibank, N.A. ("Citibank"). This swap is not designated as a hedge; accordingly the change in fair value of the swap is recorded as a gain or loss in the Company's consolidated statement of operations. Under the terms of the Swap, the Company pays a variable amount equal to the SIFMA Index plus a fixed spread on a notional amount that starts at \$35.2 million and over the three-year term of the Swap increases ratably to \$38.0 million. In return, Citibank pays an amount equal to the coupon on the Bonds multiplied by the outstanding par value of the Bonds, \$38.0 million. The Swap has a termination date of July 12, 2013 and may be terminated by the Company at anytime commencing in July 2011 and by Citibank if certain events occur. Upon termination of the Swap, whether early or on the stated termination date, a payment based on the change in value of the Bonds will occur. Should the Bonds decline in value from the \$35.2 million value of the Bonds at the inception of the Swap, the Company will be obligated to make a payment equal to 100% of the price depreciation. Should the Bonds increase in value, Citibank will be obligated to make a payment equal to approximately 85% of the price appreciation. As of June 30, 2012 and December 31, 2011 the fair value of the Swap was a liability of \$1.1 million and \$1.8 million, respectively.

(9) Discontinued Operations

The Company classifies real estate as "held for sale" when the sale is considered to be probable.

During the first quarter of 2012, the Company sold Tierra Del Sol/Norte, a 156 unit community located in the San Diego, California for \$17.2 million for a gain of \$7.0 million. Also in the first quarter, the Company sold Alpine Country, a 108 unit community located in San Diego metropolitan area, for \$11.1 million for a gain of \$3.9 million.

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets, as described above (dollars in thousands).

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Rental revenues	\$ -	\$ 1,006	\$ 608	\$ 2,347
Property operating expenses	-	(459)	(260)	(1,024)
Depreciation and amortization	-	(261)	(94)	(636)
Income from real estate sold	-	286	254	687
Gain on sale	-	5,854	10,870	5,854
Internal disposition costs	-	(589)	(1,087)	(589)
Income from discontinued operations	<u>\$ -</u>	<u>\$ 5,551</u>	<u>\$ 10,037</u>	<u>\$ 5,952</u>

(10) Commitments and Contingencies

As of June 30, 2012, the Company had six non-cancelable ground leases for certain apartment communities and buildings that expire between 2027 and 2080. Land lease payments are typically the greater of a stated minimum or a percentage of gross rents generated by these apartment communities. Total minimum lease commitments, under land leases and operating leases, are approximately \$1.6 million per year for the next five years.

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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 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.

Except with respect to three communities, the Company has no indemnification agreements from third parties for potential environmental clean-up costs at its communities. The Company has no way of determining at this time the magnitude of any potential liability to which it may be the subject, arising out of unknown environmental conditions or violations with respect to the communities formerly owned by the Company. No assurance can be given that existing environmental studies with respect to any of the communities reveal all environmental liabilities, that any prior owner or operator of a Property did not create any material environmental condition not known to the Company, or that a material environmental condition does not otherwise exist as to any one or more of the communities. The Company has limited insurance coverage for the types of environmental liabilities described above.

The Company may enter into transactions that may require the Company to pay the tax liabilities of the partners in the Operating Partnership or in the DownREIT entities. These transactions are within the Company's control. Although the Company plans to hold the contributed assets or defer recognition of gain on their sale pursuant to like-kind exchange rules under Section 1031 of the Internal Revenue Code, the Company can provide no assurance that it will be able to do so and if such tax liabilities are incurred they may have a material impact on the Company's financial position.

There have been a number of lawsuits in recent years against owners and managers of apartment communities alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. The Company has been sued for mold related matters and has settled some, but not all, of such matters. Insurance carriers have reacted to mold related liability awards by excluding mold related claims from standard policies and pricing mold endorsements at prohibitively high rates. The Company has, however, purchased pollution liability insurance, which includes some coverage for mold. The Company has adopted policies for promptly addressing and resolving reports of mold when it is detected, and to minimize any impact mold might have on residents of the property. The Company believes its mold policies and proactive response to address any known existence, reduces its risk of loss from these cases. There can be no assurances that the Company has identified and responded to all mold occurrences, but the company promptly addresses all known reports of mold. Liabilities resulting from such mold related matters are not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows. As of June 30, 2012, potential liabilities for mold and other environmental liabilities are not considered probable or the loss cannot be quantified or estimated.

The Company carries comprehensive liability, fire, extended coverage and rental loss insurance for each of the communities. Insured risks for comprehensive liabilities covers claims in excess of \$100,000 per incident, and property casualty insurance covers losses in excess of a \$1.0 million deductible per incident. There are, however, certain types of extraordinary losses, such as, for example, losses from terrorism and earthquake, for which the Company does not have insurance. Substantially all of the communities are located in areas that are subject to earthquakes.

The Company provides loan and construction completion guarantees in order to fulfill the lenders' standard financing requirements related to the construction of the Company's co-investment developments. The Company provided a payment guarantee to the counterparties in relation to the total return swaps entered into by the joint venture responsible for the development of the Fountain at La Brea and Santa Monica at La Brea communities. Further the Company has guaranteed completion of development and made certain debt service guarantees for Fountain at La Brea and Santa Monica at La Brea. The outstanding balance for the loans is included in the debt line item in the 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 total return swaps which are scheduled to mature in September and December 2016. The maximum exposure of the guarantee as of June 30, 2012 was \$38.7 million based on the aggregate outstanding debt amount.

The outstanding balance for the construction loan is included in the debt line item in the balance sheet of the co-investments included in Note 3. The construction completion guarantee is for the life of the loan, which is scheduled to mature on July 1, 2014, with two, one-year extension options at the Expo joint venture's option. As of June 30, 2012, the Company was in compliance with all terms of the construction loan and the construction of the community is expected to be completed on time and within budget. The maximum exposure of the guarantee as of June 30, 2012 was \$76.0 million based on the construction costs that were budgeted to be incurred to complete the construction.

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The Company is subject to various other lawsuits in the normal course of its business operations. Such lawsuits are not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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 2011 Annual Report on Form 10-K for the year ended December 31, 2011.

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 June 30, 2012, the Company had ownership interests in 160 apartment communities, comprising 33,015 apartment units, excluding the Company's ownership in preferred interest co-investments. 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)

As of June 30, 2012, the Company also had ownership interests in five commercial buildings with approximately 315,900 square feet.

As of June 30, 2012, the Company's development pipeline was comprised of two consolidated projects under development, seven unconsolidated joint venture projects under development, one unconsolidated joint venture predevelopment project and three consolidated land parcels held for future development or sale aggregating 2,985 units, with total incurred costs of \$403.2 million, and estimated remaining project costs of approximately \$595.5 million for total estimated project costs of \$998.7 million.

The Company's consolidated apartment communities are as follows:

	As of June 30, 2012		As of June 30, 2011	
	Apartment Units	%	Apartment Units	%
Southern California	13,656	49%	13,068	49%
Northern California	8,206	29%	7,817	29%
Seattle Metro	6,168	22%	5,979	22%
Total	28,030	100%	26,864	100%

Co-investments including Fund II and Wesco I communities, and preferred equity co-investment communities are not included in the table presented above for both periods.

Comparison of the Three Months Ended June 30, 2012 to the Three Months Ended June 30, 2011

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 June 30, 2012 and 2011) decreased 60 basis points to 96.2% as of June 30, 2012 from 96.8% as of June 30, 2011. 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.

Market rates are determined using a variety of factors such as effective rental rates at the property based on recently signed leases and asking rates for comparable properties in the market. The recently signed effective rates at the property are used as the starting point in the determination of the market rates of vacant units. The Company then increases or decreases 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, 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 quarter ended March 31, 2012 and 2011 is as follows:

	Three months ended June 30,	
	2012	2011
Southern California	95.9%	96.6%
Northern California	96.6%	97.2%
Seattle Metro	96.1%	96.7%

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

	Number of Properties	Three Months Ended June 30,		Dollar Change	Percentage Change
		2012	2011		
Property Revenues (dollars in thousands)					
Quarterly Same-Property:					
Southern California	60	\$ 56,437	\$ 54,542	\$ 1,895	3.5%
Northern California	33	39,420	35,956	3,464	9.6
Seattle Metro	28	21,060	19,510	1,550	7.9
Total Quarterly Same-Property revenues	121	116,917	110,008	6,909	6.3
Quarterly Non-Same Property Revenues (1)		12,848	4,898	7,950	162.3
Total property revenues		\$ 129,765	\$ 114,906	\$ 14,859	12.9%

(1) Includes seven communities acquired after January 1, 2011, one redevelopment community, five development communities, and three commercial buildings.

Quarterly Same-Property Revenues increased by \$6.9 million or 6.3% to \$116.9 million in the second quarter of 2012 from \$110.0 million in the second quarter of 2011. The increase was primarily attributable to an increase in scheduled rents of \$7.2 million as reflected in an increase of 6.8% in average rental rates from \$1,371 per unit in the second quarter of 2011 to \$1,464 per unit in the second quarter of 2012. Scheduled rents increased by 3.9%, 10.1%, and 8.9% in Southern California, Northern California, and Seattle Metro, respectively. Income from utility billings and other income also increased \$0.3 million and \$0.2 million, respectively, compared to the second quarter of 2011. Quarterly Same-Property financial occupancy decreased 60 basis points which contributed to a decrease of \$1.2 million in revenues. On a sequential basis the Company experienced quarterly same-property revenue growth from the first quarter of 2012 to the second quarter of 2012 of 1.0%, resulting from sequential revenue growth in all three regions mainly driven by a 1.8% increase in scheduled rent offset by a 70 basis point decrease in occupancy compared to the first quarter of 2012.

Quarterly Non-Same Property Revenues increased by \$8.0 million or 162% to \$12.8 million in the second quarter of 2012 from \$4.9 million in the second quarter of 2011. The increase was primarily due to revenue generated from five development communities (Via, Allegro, Bellerive, Muse, and Santee Village) seven communities acquired or consolidated since January 1, 2011 (Bernard, 1000 Kiely, Delano/Bon Terra, Reed Square, Park Catalina, The Huntington, and Essex Skyline at MacArthur Place).

Management and Other Fees increased by \$1.4 million in the second quarter of 2012 as compared to the first quarter of 2011. The increase is primarily due to the asset and property management fees earned from Wesco I and II co-investments formed during 2011, and development fees earned from the joint ventures formed in 2011 and 2012 to develop Epic, Expo, Lync, Elkhorn, Folsom and Fifth, Fountain at La Brea, and Santa Monica at La Brea development projects.

Property operating expenses, excluding real estate taxes increased \$1.8 million or 6.1% to \$30.7 million in the second quarter of 2012 from \$28.9 million in the second quarter of 2011, primarily due to the acquisition of seven communities and the lease-up of five development properties. Quarterly Same-Property operating expenses excluding real estate taxes, were consistent with the prior year and only increased by \$0.1 million or 0.4% for the second quarter of 2012 compared to the second quarter of 2011.

Real Estate taxes increased by \$0.9 million or 8.1% for the second quarter of 2012 compared to the second quarter of 2011, due primarily to the acquisition of seven communities and expensing property taxes instead of capitalizing the cost for communities that were previously under development. Quarterly Same-Property real estate taxes increased by \$0.2 million or 1.8% for second quarter of 2012 compared to the second quarter of 2011 due to an increase of 2% in property taxes for the majority of the properties located in California regulated by Prop. 13 as offset by a reduction in assessed property valuations for select communities located in California.

Depreciation expense increased by \$4.6 million or 12.2% for the second quarter of 2012 compared to the second quarter of 2011, due to the acquisition of seven communities and the lease-up of five development properties. Also, the increase is due to the capitalization of approximately \$17.3 million in additions to rental properties in the second quarter of 2012, including \$9.0 million spent on redevelopment, \$1.0 million spent on revenue generating capital and \$1.1 million spent on recent acquisitions, and the capitalization of approximately \$95.3 million in additions to rental properties for 2011, including \$45.1 million spent on redevelopment, \$16.4 million spent on improvements to recent acquisitions, and \$7.6 million spent on revenue generating capital.

Cost of management and other fees increased \$0.5 million for the second quarter of 2012 compared to 2011 primarily due to an increase in administrative costs due to hiring of additional staff to assist with the management of the Company's co-investments including Wesco I and II and the development joint ventures formed in 2011 and 2012.

Interest expense before amortization increased by \$1.9 million or 8.6% for the second quarter of 2012 compared to the second quarter of 2011, primarily due to the payoff of the \$250 million secured line of credit in the fourth quarter of 2011 which had an average interest rate of 1.3%. The Company replaced the secured line with debt at an average interest rate of 2.6%. Also, on March 31, 2011, the Company sold \$150 million of unsecured bonds with an interest rate of 4.4%, and thus the increase in interest expense is also due to an increase in average outstanding debt in the second quarter of 2012 as compared to the second quarter of 2011. Finally, there was a decrease of \$0.1 million in capitalized interest in the second quarter of 2012 compared to the second quarter of 2011.

Interest and other income increased by \$2.8 million for the second quarter of 2012 compared to the second quarter of 2011 due to \$2.3 million of promote income earned from achieving certain performance hurdles related to the Essex Skyline co-investment and the sale of marketable securities for a gain of \$0.5 million in the second quarter of 2012.

Equity income (loss) in co-investments increased \$2.4 million in the second quarter of 2012 to income of \$3.1 million compared to \$0.7 million in the second quarter of 2012 primarily due to the income of \$3.2 million related to the Company's preferred equity investments made in 2011 including the Wesco II preferred equity investment made in the fourth quarter of 2011 which earned \$2.2 million in the second quarter of 2012.

Gain on remeasurement of co-investment of \$21.9 million recorded in the second quarter of 2012 relates to the acquisition of the joint venture partner's membership interest of the Essex Skyline co-investment and consolidation of the property. A gain of \$21.9 million was recorded due to the remeasurement of the Company's co-investment interest which was equal to the amount by which the fair value of the Company's previously owned noncontrolling interest exceeds its carrying value.

Income from discontinued operations for the second quarter of 2012 was \$0 as compared to \$5.5 million for the second quarter of 2011 due to the sale of Woodlawn Colonial for \$16.0 million at a gain of \$5.2 million, net of internal disposition costs.

Excess of the carrying amount of preferred stock redeemed over the cash paid to redeem preferred stock for the second quarter of 2011 was \$1.9 million due to the redemption of all of the Series B preferred units, which resulted in excess of cash paid of \$1.0 million over the carrying value of Series B preferred units and the redemption of Series F preferred stock which resulted in excess of cash paid of \$0.9 million over the carrying value of Series F preferred stock due to deferred offering costs and original issuance discounts.

Comparison of the Six Months Ended June 30, 2012 to the Six Months Ended June 30, 2011

Our average financial occupancies for the Company's stabilized apartment communities or "2012/2011 Same-Properties" (stabilized properties consolidated by the Company for the six months ended June 30, 2012 and 2011) decreased 20 basis points to 96.5% for the six months ended June 30, 2012 from 96.7% for the six months ended June 30, 2011. The regional breakdown of the Company's 2012/2011 Same-Property portfolio for financial occupancy for the six months ended June 30, 2012 and 2011 is as follows:

The regional breakdown of the Company's Quarterly Same-Property portfolio for financial occupancy for the six months ended June 30, 2012 and 2011 is as follows:

	Six Months Ended June 30,	
	2012	2011
Southern California	96.3%	96.4%
Northern California	97.0%	97.1%
Seattle Metro	96.4%	96.7%

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

	Number of Properties	Six Months Ended June 30,		Dollar Change	Percentage Change
		2012	2011		
Property Revenues (dollars in thousands)					
2012/2011 Same-Properties:					
Southern California	60	\$ 112,627	\$ 108,238	\$ 4,389	4.1%
Northern California	33	78,227	71,259	6,968	9.8
Seattle Metro	28	41,853	38,592	3,261	8.4
Total 2012/2011 Same-Property revenues	121	232,707	218,089	14,618	6.7
2012/2011 Non-Same Property Revenues (1)		22,531	8,025	14,506	180.8
Total property revenues		\$ 255,238	\$ 226,114	\$ 29,124	12.9%

(1) Includes seven communities acquired after January 1, 2011, one redevelopment community, five development communities, and three commercial buildings.

2012/2011 Same-Property Revenues increased by \$14.6 million or 6.7% to \$232.7 million for the six months ended June 30, 2012 from \$218.1 million for the six months ended June 30, 2011. The increase was primarily attributable to an increase in scheduled rents of \$13.9 million as reflected in an increase of 6.6% in average rental rates from \$1,362 per unit for the six months ended June 30, 2011 to \$1,451 per unit for the six months ended June 30, 2012. Scheduled rents increased by 3.7%, 9.8%, and 8.6% in Southern California, Northern California, and Seattle Metro, respectively. Income from utility billings and other income also increased \$0.7 million and \$0.6 million, respectively, compared to the six months ended June 30, 2011. 2012/2011 Same-Property financial occupancy decreased 20 basis points which contributed to a decrease of \$1.1 million in revenues.

2012/2011 Non-Same Property Revenues increased by \$14.5 million or 181% to \$22.5 million for the six months ended June 30, 2012 from \$8.0 million for the six months ended June 30, 2011. The increase was primarily due to revenue generated from five development communities (Via, Allegro, Bellerive, Muse, and Santee Village), seven communities acquired or consolidated since January 1, 2011 (Bernard, 1000 Kiely, Delano/Bon Terra, Reed Square, Park Catalina, The Huntington, and Essex Skyline at MacArthur Place) and the acquisition of the Santa Clara retail center.

Management and Other Fees increased by \$2.6 million for the six months ended June 30, 2012 as compared to for the six months ended June 30, 2011. The increase is primarily due to the asset and property management fees earned from Wesco I and II co-investments formed during 2011, and development fees earned from the joint ventures formed in 2011 and 2012 to develop Epic, Expo, Lync, Elkhorn, Folsom and Fifth, Fountain at La Brea, and Santa Monica at La Brea development projects.

Property operating expenses, excluding real estate taxes increased \$2.7 million or 4.7% to \$59.5 million for the six months ended June 30, 2012 from \$56.8 million for the six months ended June 30, 2011, primarily due to the acquisition of seven communities and one retail center, and the lease-up of five development properties. 2012/2011 Same-Property operating expenses excluding real estate taxes, decreased by \$0.2 million or 0.4% for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, due mainly to a decrease of \$0.2 million in utility expense.

Real Estate taxes increased by \$1.7 million or 7.9% for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, due primarily to the acquisition of seven communities and one retail center and expensing property taxes instead of capitalizing the cost for communities that were previously under development. 2012/2011 Same-Property real estate taxes increased by \$0.3 million or 1.4% for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to an increase of 2.0% in property taxes for the majority of the properties located in California regulated by Prop. 13 as offset by a reduction in assessed property valuations for select communities located in California.

Depreciation expense increased by \$8.6 million or 11.7% for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, due to the acquisition of seven communities and one retail center and the lease-up of five development properties. Also, the increase is due to the capitalization of approximately \$27.6 million in additions to rental properties during the first six months of 2012, including \$17.1 million spent on redevelopment, \$3.6 million spent on recent acquisitions, and \$1.6 million of revenue generating capital, and the capitalization of approximately \$95.3 million in additions to rental properties for 2011, including \$45.1 million spent on redevelopment, \$16.4 million spent on improvements to recent acquisitions, and \$7.6 million on revenue generating capital.

Cost of management and other fees increased \$1.3 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to an increase in administrative costs due to hiring of additional staff to assist with the management of the Company's co-investments including Wesco I and II and the development joint ventures formed in 2011 and 2012.

Interest expense before amortization increased by \$4.8 million or 10.8% for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, primarily due to the payoff of the \$250 million secured line of credit in the fourth quarter of 2011 which had an average interest rate of 1.3%. The Company replaced the secured line with debt at an average interest rate of 2.6%. Also, on March 31, 2011, the Company sold \$150 million of unsecured bonds with an interest rate of 4.4%, and thus the increase in interest expense is also due to an increase in average outstanding debt in the first half of 2012 compared to the first half of 2011. Finally, there was a decrease of \$0.6 million in capitalized interest for the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Interest and other income decreased by \$1.7 million for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, due to \$2.3 million of promote income earned from achieving certain performance hurdles related to the Essex Skyline co-investment and the sale of marketable securities for a gain of \$0.5 million for the six months ended June 30, 2012, compared to a gain of \$4.5 million from the sale of marketable securities for the six months ended June 30, 2011.

Equity income (loss) in co-investments increased \$6.1 million for the six months ended June 30, 2012 to income of \$5.5 million compared to a loss of \$0.6 million for the six months ended June 30, 2011 primarily due to the income of \$6.5 million related to the Company's preferred equity investments made in 2011 including the Wesco II preferred equity investment made in the fourth quarter of 2011 which earned \$4.4 million for the six months ended June 30, 2012.

Income from discontinued operations for the six months ended June 30, 2012 was \$10.0 million and included a gain of \$9.8 million from the sale of Tierra del Sol/Norte and Alpine Country along with the operating results for these properties net internal disposition costs. For the six months ended June 30, 2011, discontinued operations was \$6.0 million and included a gain of \$5.2 million from the sale of Woodlawn Colonial net of internal disposition costs, and the operating results of these two properties sold in 2012.

Excess of the carrying amount of preferred stock redeemed over the cash paid to redeem preferred stock for the six months ended June 30, 2011 was \$1.9 million due to the redemption of all of the Series B preferred units, which resulted in excess of cash paid of \$1.0 million over the carrying value of Series B preferred units and the redemption of Series F preferred stock which resulted in excess of cash paid of \$0.9 million over the carrying value of Series F preferred stock due to deferred offering costs and original issuance discounts.

Liquidity and Capital

As of June 30, 2012, Standard and Poor's ("S&P") and Moody's Investors Service credit agencies rated Essex Property Trust, Inc. and Essex Portfolio, L.P. BBB/Stable and Baa2/Stable, respectively. Also, Fitch Ratings ("Fitch") assigned a BBB issuer rating to Essex Portfolio, L.P., and the rating outlook is positive.

As of June 30, 2012, the Company had \$4.1 million of unrestricted cash and cash equivalents and \$114.2 million in marketable securities, of which \$64.9 million were held 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.

The Company has two lines of credit aggregating \$525 million as of June 30, 2012. The Company has a \$500 million unsecured line of credit with an accordion option to \$600 million. As of June 30, 2012 there was a \$240 million balance on this unsecured line. The underlying interest rate on the \$500 million line is based on a tiered rate structure tied to the Company's credit ratings on the credit facility and the rate was LIBOR 1.20% as of June 30, 2012. This facility matures in December 2015 with two one-year extensions, exercisable by the Company. The Company has a working capital unsecured line of credit agreement for \$25 million. As of June 30, 2012 there was a \$17.1 million balance outstanding on this unsecured line. The underlying interest rate on the \$25 million line is based on a tiered rate structure tied to the Company's credit ratings on the credit facility of LIBOR + 1.20%.

During the six months ended June 30, 2012, the Company entered into an agreement for \$200 million of private placement unsecured notes for a term of 9-years at an all-in rate of 4.3%. During the second quarter, the Company issued \$150 million of these private placement unsecured notes \$100 million at a rate of 4.27% and \$50 million at a rate of 4.30%. The notes were forward funded with the remaining \$50 million to close at the end of August of 2012 at a rate of 4.37%.

The net proceeds from the note offering were used to prepay secured mortgage debt prior to coming due in late 2012 and 2013 at an average rate of 5.6%. As a result of the prepayment of the Skyline loan and the prepayment of secured debt coming due in 2012 and 2013, the Company incurred \$1.5 million of prepayment penalties and write-offs of deferred charges during the second quarter of 2012. The Company expects to use additional proceeds from the unsecured private placement note offering announced in March 2012 to repay secured debt maturing in 2013 related to five communities. As a result, the Company expects to incur up to \$1.0 million of prepayment penalties and write-offs of deferred charges in the third quarter, and these five communities will become unencumbered assets.

In July, the Company increased the capacity of its \$200 million unsecured term loan originated in the fourth quarter of 2011 to \$350 million, and the tiered pricing structure was reduced from LIBOR + 142.5 basis points to LIBOR + 130 basis points. The \$150 million of additional funds can be drawn between August and December 31, 2012.

During the second quarter, the Company entered into interest rate swap contracts with an aggregate notional amount of \$125 million. The first \$50 million notional amount effectively converted the interest rate on \$50 million of the \$200 million term loan originated in fourth quarter of 2011 to a fixed rate of 2.46%. The remaining \$75 million notional amount effectively fixed \$75 million of the Company's unsecured line of credit at 2.2%, and the Company expects to use these interest rate swap contracts to hedge the variable rate \$150 million unsecured term loan when the proceeds are drawn before the end of 2012. These derivatives qualify for hedge accounting.

In January 2011, additional banks entered into equity distribution agreements with the Company including Barclays Capital Inc., BMO Capital Markets Corp., Liquidnet, Inc., and Mitsubishi UFJ Securities (USA), Inc., and in 2012 Citigroup Global Markets Inc. Pursuant to its equity distribution program the Company issued 2,459,947 shares of common stock for \$323.9 million, net of fees and commissions, during the year ended December 31, 2011. During the second quarter of 2012, the Company sold 920,281 shares of common stock for \$139.4 million, net of commissions, at an average per share price of \$152.94. From December 31, 2011 through August 2, 2012, the Company has sold 1,769,989 shares of common stock for \$268.2 million, net of commissions at an average price of \$153.01.

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 pay down debt, acquire apartment communities and fund the development pipeline. As of August 2, 2012, the Company may sell an additional 2,841,590 shares under the current equity distribution program.

As of June 30, 2012, the Company's mortgage notes payable totaled \$1.6 billion which consisted of \$1.4 billion in fixed rate debt with interest rates varying from 4.3% to 6.4% and maturity dates ranging from 2012 to 2021 and \$239.0 million of variable rate debt with a weighted average interest rate of 1.8% (\$202.3 million of the variable debt is tax-exempt variable rate demand notes). The tax-exempt variable rate demand notes have maturity dates ranging from 2025 to 2039, and \$187.8 million are subject to interest rate caps.

The Company 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.

The Company has benefited from borrowing from Fannie Mae and Freddie Mac, and there are no assurances that these entities will lend to the Company in the future. To the extent that the Company's access to capital and credit is at a higher cost than the Company has experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing) the Company's ability to make acquisitions, develop communities, obtain new financing, and refinance existing borrowing at competitive rates could be adversely impacted.

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.

During the fourth quarter of 2011, the Company entered into four interest rate swap contracts with an aggregate notional amount of \$150 million that effectively fixed the interest rate on \$150 million of the \$200 million unsecured term loan at 2.66% through November 2016. During April 2012, the Company entered into additional interest rate swap contracts with a notional amount totaling \$50 million, which effectively converted the interest rate on \$50 million of the term loan to fixed rate of 2.46%. These derivatives qualify for hedge accounting. During the second quarter, the Company entered into interest rate swap contracts with an aggregate notional amount of \$125 million. The first \$50 million notional amount effectively converted the interest rate on \$50 million of the \$200 million term loan originated in fourth quarter of 2011 to a fixed rate of 2.46%. The remaining \$75 million notional amount effectively fixed \$75 million of the Company's unsecured line of credit at 2.2%, and the Company expects to use these interest rate swap contracts to hedge the variable rate \$150 million unsecured term loan when the proceeds are drawn before the end of 2012. These derivatives qualify for hedge accounting.

As of June 30, 2012 the Company also had twelve interest rate cap contracts totaling a notional amount of \$187.8 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 \$202.3 million of the Company's tax exempt variable rate debt. As of June 30, 2012 and December 31, 2011 the aggregate carrying value of the interest rate swap contracts was a liability of \$5.0 million and \$1.4 million, respectively, and the aggregate carrying value of the interest rate cap contracts was an asset of \$0.1 million and \$0.2 million, respectively.

During July 2010, the Company entered into a swap transaction (the "Swap") with respect to \$38.0 million of tax-exempt bonds for the 101 San Fernando apartment community (the "Bonds") with Citibank, N.A. ("Citibank"). This swap is not designated as a hedge; accordingly the change in fair value of the swap is recorded as a gain or loss in the Company's consolidated statement of operations. Under the terms of the Swap, the Company pays a variable amount equal to the SIFMA Index plus a fixed spread on a notional amount that starts at \$35.2 million and over the three-year term of the Swap increases ratably to \$38.0 million. In return, Citibank pays an amount equal to the coupon on the Bonds multiplied by the outstanding par value of the Bonds, \$38.0 million. The Swap has a termination date of July 12, 2013 and may be terminated by the Company at any time commencing in July 2011 and by Citibank if certain events occur. Upon termination of the Swap, whether early or on the stated termination date, a payment based on the change in value of the Bonds will occur. Should the Bonds decline in value from the \$35.2 million value of the Bonds at the inception of the Swap, the Company will be obligated to make a payment equal to 100% of the price depreciation. Should the Bonds increase in value, Citibank will be obligated to make a payment equal to approximately 85% of the price appreciation. As of June 30, 2012 and December 31, 2011 the fair value of the Swap was a liability of \$1.1 million and \$1.8 million, respectively.

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 June 30, 2012, the Company had two consolidated development projects, and seven unconsolidated joint venture development projects aggregating 2,495 units for an estimated cost of \$934.4 million, of which \$595.5 million remains to be expended.

The Company owned one predevelopment project consisting of 192 units with an aggregate carrying value of \$19.8 million as of June 30, 2012. In addition, the Company owned three land parcels held for future development or sale aggregating an estimated 298 units as of June 30, 2012. The aggregate carrying value for these three land parcels was \$44.5 million as of June 30, 2012. 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 properties, if any.

In August, the Company's co-investment partnership with CPPIB expects to acquire a land parcel located in San Mateo, California on which the joint venture currently holds a note receivable secured by the land. The joint venture expects to develop a 197-unit community on the site for a total estimated cost of \$76.1 million, and initial occupancy is expected in the second quarter of 2014. The Company holds a 55% noncontrolling interest in the venture and will earn customary management fees and may earn a promoted interest if certain performance hurdles as defined in the joint venture agreement are achieved.

Redevelopment

The Company defines redevelopment activities as existing properties owned or recently acquired, which have been targeted for additional investment by the Company with the expectation of increased financial returns through property improvement. The Company's redevelopment strategy strives to improve the financial and physical aspects of the Company's redevelopment apartment communities and to target at least an 8 to 10 percent return on the incremental renovation investment. Many of the Company's properties are older and in excellent neighborhoods, providing lower density with large floor plans that represent attractive redevelopment opportunities. During redevelopment, apartment units may not be available for rent and, as a result, may have less than stabilized operations. As of June 30, 2012, the Company had five redevelopment communities aggregating 1,056 apartment units with estimated redevelopment costs of \$63.5 million, of which approximately \$28.1 million remains to be expended.

Alternative Capital Sources

Fund II has eight institutional investors, and the Company, with combined partner equity contributions of \$265.9 million that were fully contributed as of 2008. The Company contributed \$75.0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fund II utilized leverage equal to approximately 55% upon the initial acquisition of the underlying real estate. Fund II invested in apartment communities in the Company's targeted West Coast markets and, as of June 30, 2012, owned fourteen apartment communities. The Company records revenue for its asset management, property management, development and redevelopment services when earned, and promote income when realized if Fund II exceeds certain financial return benchmarks.

In 2011, the Company entered into a 50/50 programmatic joint venture, Wesco I, with an institutional partner for a total equity commitment of \$200 million. Each partner's equity commitment is \$100 million, and Wesco I will utilize leverage equal to approximately 50% to 60%. The Company has contributed \$88.2 million to Wesco I, and as of June 30, 2012, Wesco owned six apartment communities with 2,013 units. Investments must meet certain criteria to qualify for inclusion in the joint venture and both partners must approve any new acquisitions and material dispositions. The joint venture has an investment period of up to two years. The Company will receive asset and property management fees, and may earn a promoted interest. The Company accounts for this joint venture on the equity method.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements, in accordance with U.S. generally accepted accounting principles requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. 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.

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, 2011.

Forward Looking Statements

Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this quarterly report on Form 10-Q which are not historical facts may be considered forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, including statements regarding the Company's expectations, hopes, intentions, beliefs and strategies regarding the future. Forward looking statements include statements regarding the Company's expectations as to the total projected costs of predevelopment, development and redevelopment projects, the Company's reduced risk of loss from mold cases, beliefs as to our ability to meet our cash needs during the next twelve months, expectations as to the sources for funding the Company's development and redevelopment pipeline and statements regarding the Company's financing activities.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors including, but not limited to, that the Company will fail to achieve its business objectives, that the total projected costs of current predevelopment, development and redevelopment projects exceed expectations, that such development and redevelopment projects will not be completed, that development and redevelopment projects and acquisitions will fail to meet expectations, that estimates of future income from an acquired property may prove to be inaccurate, that future cash flows will be inadequate to meet operating requirements, that there may be a downturn in the markets in which the Company's properties are located, that the terms of any refinancing may not be as favorable as the terms of existing indebtedness, and that mold lawsuits will be more costly than anticipated, as well as those risks, special considerations, and other factors referred to in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and those risk factors and special considerations set forth in the Company's other filings with the Securities and Exchange Commission (the "SEC") which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All forward-looking statements are made as of the date hereof, and the Company assumes no obligation to update this information.

Funds from Operations ("FFO")

FFO is a financial measure that is commonly used in the REIT industry. The Company presents funds from operations as a supplemental operating performance measure. FFO is not used by the Company as, nor should it be considered to be, an alternative to net earnings computed under GAAP as an indicator of the Company's operating performance or as an alternative to cash from operating activities computed under GAAP as an indicator of the Company's ability to fund its cash needs.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor does it intend to present, a complete picture of the Company's financial condition and operating performance. The Company believes that net earnings computed under GAAP remain the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings. The Company considers FFO and FFO excluding non-recurring items (referred to as "Core FFO") to be useful financial performance measurements of an equity REIT because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate operating performance and ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures and ability to pay dividends. Further, the Company believes that its consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of its financial condition and its operating performance.

In calculating FFO, the Company follows the definition for this measure published by the National Association of REITs ("NAREIT"), which is a REIT trade association. The Company believes that, under the NAREIT FFO definition, the two most significant adjustments made to net income are (i) the exclusion of historical cost depreciation and (ii) the exclusion of gains and losses (including impairment charges on depreciable real estate) from the sale of previously depreciated properties. The Company agrees that these two NAREIT adjustments are useful to investors for the following reason:

- (a) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on Funds from Operations "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.

- (b) REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses (including impairment charges on depreciable real estate) from the sales of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in comparing those operating results between periods.

Management believes that it has consistently applied the NAREIT definition of FFO to all periods presented. However, there is judgment involved and other REITs' calculation of FFO may vary from the NAREIT definition for this measure, and thus their disclosure of FFO may not be comparable to the Company's calculation.

The following table sets forth the Company's calculation of FFO and Core FFO for the three and six months ended June 30, 2012 and 2011 (in thousands except for per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income available to common stockholders	\$ 37,078	\$ 10,325	\$ 59,800	\$ 18,743
Adjustments:				
Depreciation and amortization	41,801	37,511	82,629	74,544
Gains not included in FFO, net of internal disposition costs	(21,947)	(5,265)	(31,730)	(5,265)
Depreciation add back from unconsolidated co-investments	3,312	1,957	7,643	4,838
Noncontrolling interests related to Operating Partnership units	2,502	987	4,092	1,619
Depreciation attributable to third party of co-investments	(303)	(261)	(592)	(523)
Funds from operations	<u>\$ 62,443</u>	<u>\$ 45,254</u>	<u>\$ 121,842</u>	<u>\$ 93,956</u>
Funds from operations per share - diluted	<u>\$ 1.69</u>	<u>\$ 1.32</u>	<u>\$ 3.32</u>	<u>\$ 2.76</u>
Non-core items:				
Co-investment promote income	(2,299)	-	(2,299)	-
Loss on early retirement of debt	1,450	253	1,450	253
Gain on sales of marketable securities	(521)	-	(521)	(4,543)
Acquisition costs	312	510	498	840
Excess of cash paid to redeem preferred stock and units over the carrying value	-	1,949	-	1,949
Core Funds from operations	<u>\$ 61,385</u>	<u>\$ 47,966</u>	<u>\$ 120,970</u>	<u>\$ 92,455</u>
Core Funds from operations per share-diluted	<u>\$ 1.66</u>	<u>\$ 1.40</u>	<u>\$ 3.30</u>	<u>\$ 2.71</u>
Weighted average number shares outstanding diluted ⁽¹⁾	<u>36,947,477</u>	<u>34,365,418</u>	<u>36,672,683</u>	<u>34,079,471</u>

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

Net Operating Income (“NOI”)

Same-property net operating income (“NOI”) is considered by management to be an important supplemental performance measure to earnings from operations included in the Company’s consolidated statements of operations. The presentation of same-property NOI assists with the presentation of the Company’s operations prior to the allocation of depreciation and any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual communities or groups of communities. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. The Company defines same-property NOI as same-property revenue less same-property operating expenses, including property taxes. Please see the reconciliation of earnings from operations to same-property NOI, which in the table below is the NOI for stabilized properties consolidated by the Company for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Earnings from operations	\$ 40,968	\$ 32,847	\$ 80,946	\$ 64,000
Adjustments:				
General and administrative	5,764	5,385	11,164	10,659
Cost of management and other fees	1,611	1,073	3,251	1,997
Depreciation	41,801	37,250	82,535	73,908
Management and other fees from affiliates	(2,796)	(1,420)	(5,240)	(2,645)
Net operating income	87,348	75,135	172,656	147,919
Less: Non same-property net operating income	(8,693)	(3,092)	(15,009)	(4,853)
Same-property net operating income	<u>\$ 78,655</u>	<u>\$ 72,043</u>	<u>\$ 157,647</u>	<u>\$ 143,066</u>

Item 3: Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Hedging Activities

The Company’s objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company uses interest rate swaps as part of its cash flow hedging strategy. As of June 30, 2012, the Company has entered into nine interest rate swap contracts to mitigate the risk of changes in the interest-related cash outflows on \$275.0 million of the variable rate five-year unsecured term debt. As of June 30, 2012, the Company also had \$202.3 million of variable rate indebtedness, of which \$187.8 million is subject to interest rate cap protection. All of the Company’s derivative instruments are designated as cash flow hedges, and the Company does not have any fair value hedges as of June 30, 2012. The following table summarizes the notional amount, carrying value, and estimated fair value of the Company’s derivative instruments used to hedge interest rates as of June 30, 2012. The notional amount represents the aggregate amount of a particular security that is currently hedged at one time, but does not represent exposure to credit, interest rates or market risks. The table also includes a sensitivity analysis to demonstrate the impact on the Company’s derivative instruments from an increase or decrease in 10-year Treasury bill interest rates by 50 basis points, as of June 30, 2012.

(Dollars in thousands)	Notional Amount	Maturity Date Range	Carrying and Estimate Fair Value	Estimated Carrying Value	
				+ 50 Basis Points	- 50 Basis Points
Cash flow hedges:					
Interest rate swaps	\$ 275,000	2016-2017	\$ (4,976)	1,264	(10,241)
Interest rate caps	187,787	2013-2016	30	157	2
Total cash flow hedges	<u>\$ 462,787</u>	<u>2013-2017</u>	<u>\$ (4,946)</u>	<u>\$ 1,421</u>	<u>\$ (10,239)</u>

Interest Rate Sensitive Liabilities

The Company is exposed to interest rate changes primarily as a result of its lines of credit and long-term tax exempt variable rate debt and unsecured term debt. The Company’s interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives the Company borrows primarily at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks in order to mitigate its interest rate risk on a related financial instrument. The Company does not enter into derivative or interest rate transactions for speculative purposes.

The Company's interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts and weighted average interest rates by year of expected maturity to evaluate the expected cash flows.

For the Years Ended	2012	2013	2014	2015	2016	Thereafter	Total	Fair value
(In thousands)								
Fixed rate debt	\$ 12,051	58,410	66,076	69,624	162,783	1,422,746	\$1,791,690	\$1,897,510
Average interest rate	4.9%	5.6%	5.4%	5.3%	4.4%	5.3%	5.1%	
Variable rate debt	\$ -	36,650	17,102	240,000 ⁽¹⁾	200,000 ⁽²⁾	202,305 ⁽³⁾	\$ 696,057	\$ 674,792
Average interest rate	-%	1.7%	1.6%	2.1%	2.6%	1.9%	2.1%	

(1) \$75.0 million subject to interest rate swap agreements.

(2) \$200.0 million subject to interest rate swap agreements.

(3) \$187.8 million subject to interest rate caps.

The table incorporates only those exposures that exist as of June 30, 2012; it does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations and hedging strategies would depend on the exposures that arise prior to settlement.

Item 4: Controls and Procedures

As of June 30, 2012, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2012, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting, that occurred during the quarter ended June 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II -- Other Information

Item 1: Legal Proceedings

Recently there has been an increasing number of lawsuits against owners and managers of apartment communities alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. The Company has been sued for mold related matters and has settled some, but not all, of such matters. Insurance carriers have reacted to mold related liability awards by excluding mold related claims from standard policies and pricing mold endorsements at prohibitively high rates. The Company has, however, purchased pollution liability insurance, which includes some coverage for mold. The Company has adopted policies for promptly addressing and resolving reports of mold when it is detected, and to minimize any impact mold might have on residents of the property. The Company believes its mold policies and proactive response to address any known existence, reduces its risk of loss from these cases. There can be no assurances that the Company has identified and responded to all mold occurrences, but the Company promptly addresses all known reports of mold. Liabilities resulting from such mold related matters are not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows. As of June 30, 2012, no potential liabilities for mold and other environmental liabilities are quantifiable and an estimate of possible loss cannot be made.

The Company carries comprehensive liability, fire, extended coverage and rental loss insurance for each of the Company's communities. Insured risks for comprehensive liability covers claims in excess of \$100,000 per incident, and property insurance covers losses in excess of a \$1.0 million deductible per incident. There are, however, certain types of extraordinary losses, such as, for example, losses for terrorism and earthquake, for which the Company does not have insurance. Substantially all of the Properties are located in areas that are subject to earthquakes.

The Company is subject to various other lawsuits in the normal course of its business operations. Such lawsuits could, but are not expected to, have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 1A: Risk Factors

There were no material changes to the Risk Factors disclosed in Item IA of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the SEC and available at www.sec.gov.

Item 6: Exhibits

A. Exhibits

10.1	First Amendment to Amended and Restated Revolving Credit Agreement, dated May 31, 2012.
10.2	Modification Agreement, dated July 30, 2012.
12.1	Ratio of Earnings to Fixed Charges.
31.1	Certification of Michael J. Schall, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Michael T. Dance, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Michael J. Schall, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Michael T. Dance, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

*XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not part of a registration statement or Prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ESSEX PROPERTY TRUST, INC.
(Registrant)

Date: August 3, 2012

By: /S/ BRYAN G. HUNT

Bryan G. Hunt
First Vice President, Chief Accounting Officer

By: /S/ MICHAEL T. DANCE

Michael T. Dance
Executive Vice President, Chief Financial Officer
(Authorized Officer, Principal Financial Officer)

FIRST AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this " First Amendment ") is made as of May 31, 2012 (the " Effective Date "), by and among ESSEX PORTFOLIO, L.P., a California limited partnership (" Borrower "), the lenders which are parties hereto (collectively, " Lenders ") and PNC BANK, NATIONAL ASSOCIATION, as administrative agent under the Credit Agreement (in such capacity, " Administrative Agent ") and L/C Issuer.

BACKGROUND

A. Administrative Agent, Lenders, and Borrower entered into that certain Amended and Restated Revolving Credit Agreement, dated as of September 16, 2011 (the " Credit Agreement "), pursuant to which Lenders agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to Four Hundred Twenty Five Million Dollars (\$425,000,000) (the " Credit Line ").

B. Borrower has requested that Lenders and Administrative Agent modify the Credit Agreement to, among other things, (i) increase the Credit Line to the maximum principal amount of Five Hundred Million Dollars (\$500,000,000) (the " Increased Commitment Amount "), (ii) to extend the Original Maturity Date, and (iii) to increase the Commitment of certain existing Lenders under the Credit Agreement (collectively, the " Existing Lenders " and each, an " Existing Lender ") and to add additional Lenders under the Credit Agreement (collectively, the " Additional Lenders "). The Existing Lenders and the Additional Lenders are identified on Exhibit A attached hereto. Lenders and Administrative Agent are willing to make such modifications to the Credit Agreement and to modify certain other provisions of the Credit Agreement, all on the terms and subject to the conditions herein set forth.

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

AGREEMENT

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) The definition of "Applicable Committed Loan Margin" in Article 1 is hereby amended and restated to read in full as follows:

" Applicable Committed Loan Margin " means the Applicable LIBOR Committed Loan Margin or the Applicable Reference Rate Committed Margin determined from the following pricing grid based on the current published or private ratings of Guarantor's senior unsecured long term debt, as provided below:

TIER	GUARANTOR'S SENIOR UNSECURED LONG TERM DEBT RATING	APPLICABLE LIBOR COMMITTED LOAN MARGIN (BPS)	FACILITY FEE (BPS PER ANNUM)	APPLICABLE REFERENCE RATE COMMITTED LOAN MARGIN (BPS)
I	BBB+ and/or Baa1 or better	107.5	17.5	7.5
II	BBB and/or Baa2	120	20	20
III	BBB- and/or Baa3	155	25	55
IV	Less than BBB- and/or Baa3	205	25	105

Borrower shall provide to Administrative Agent written evidence of the current rating or ratings on Guarantor's senior unsecured long term debt by any of Moody's, S&P and/or Fitch, if such rating agency has provided to Guarantor a rating on such senior unsecured long term debt, which evidence shall be reasonably acceptable to Administrative Agent; provided, that, at a minimum, Guarantor must provide such a rating from either Moody's or S&P. In the event that Guarantor has a rating on its senior unsecured long term debt provided by (a) both Moody's and S&P, (b) both Moody's and Fitch, (c) both S&P and Fitch, or (d) each of Moody's, S&P and Fitch, and there is a difference in rating between such rating agencies, the Applicable Committed Loan Margin shall be based on the higher rating. Changes in the Applicable Committed Loan Margin shall become effective on the first day following the date on which any of Moody's, S&P or Fitch that has provided Guarantor a rating on Guarantor's senior unsecured long term debt changes such rating. Borrower shall notify Administrative Agent of any such changes in Guarantor's senior unsecured long term debt pursuant to and in accordance with Section 6.4(i) On the Effective Date, the Applicable Committed Loan Margin shall be based on Tier II."

(b) The definition of "Capitalization Rate" in Article 1 IS hereby amended and restated to read in full as follows:

"" Capitalization Rate " means (i) with respect to the properties which are located in Core Markets: (A) 6.00% from the Effective Date through the Original Maturity Date and (ii) 6.50% during the Extension Periods (if exercised) and (ii) with respect to the properties which are not located in Core Markets: (A) 6.50% from the Effective Date through the Original Maturity Date and (ii) 6.75% during the Extension Periods (if exercised)."

(c) The definition of "Maximum Commitment Amount" in Article 1 is hereby amended and restated to read in full as follows:

"" Maximum Commitment Amount " means, at any time, an amount equal to Five Hundred Million Dollars (\$500,000,000), subject to increase pursuant to, and on the terms and subject to the conditions set forth in, Section 2.17, and to decrease pursuant to the provisions of Section 2.7."

(d) The definition of "Original Maturity Date" in Article 1 is hereby amended and restated to read in full as follows:

"Original Maturity Date" means December 18, 2015."

(e) The defined term "Core Markets" is hereby added to Article 1 to read in full as follows:

" Core Markets " shall mean the State of California and the metropolitan area of Seattle, Washington."

(f) Section 2.17.1 of the Credit Agreement is hereby amended and restated to read in full as follows:

"" Request for Increase . Subject to the provisions of Section 2.7, on the terms and subject to the conditions set forth in this Section 2.17, Borrower shall have (A) a one time right prior to the Original Maturity Date and (B) a one time right during each of the First Extension Period and the Second Extension Period, by written notice to Administrative Agent, to request an increase in the Maximum Commitment Amount by (i) first permitting any Lender to increase its Commitment (and accordingly increase the Maximum Commitment Amount by such amount), or (ii) thereafter inviting any Eligible Assignee that has previously been approved by Administrative Agent in writing to become a Lender under this Agreement and to provide a commitment to lend hereunder (and accordingly increase the Maximum Commitment Amount by such amount); provided, however, that in no event shall such actions cause the Maximum Commitment Amount to increase above \$600,000,000."

(g) Section 8.1(k) of the Credit Agreement is hereby amended and restated to read in full as follows:

"Borrower, Guarantor or a subsidiary of Borrower or Guarantor defaults (taking into account applicable notice and cure periods, if any) in connection with any credit such Person has with any holder of Indebtedness of such Person, (i) and such default consists of the failure to make a payment when due on one or more obligations that are recourse to Borrower, Guarantor or a subsidiary of Borrower or Guarantor whose outstanding principal amount exceeds \$50,000,000 individually or in the aggregate and such default has not been waived by the holder of such Indebtedness, or (ii) as result of such default, one or more obligations that are recourse to Borrower, Guarantor or a subsidiary of Borrower or Guarantor whose outstanding principal amount exceeds \$50,000,000 individually or in the aggregate have been accelerated; or

(h) Clause (iii) of Section 10.5(b) of the Credit Agreement is hereby amended and restated to read in full as follows:

"(iii) any assignment of a Commitment must be approved by Administrative Agent, the L/C Issuer and the Swing Line Lender (which consent will not be unreasonably withheld or delayed) unless the Person that is the proposed assignee is itself a Lender or an Affiliate of a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee);"

(i) To give effect to the increase in the Maximum Commitment Amount hereunder, the joinder of the Additional Lenders and the changes in the Commitments of the Existing Lenders, Schedule 1.1 to the Credit Agreement is hereby amended and replaced with Schedule 1.1 attached hereto.

3. Loan Documents. Except where the context clearly requires otherwise, all references to the Credit Agreement in any other Loan Document shall be to the Credit Agreement as amended by this First Amendment.

4. Borrower's Ratification. Borrower agrees that it has no defenses or set-offs against Lenders or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. Borrower hereby ratifies and confirms its obligations under the Loan Documents and agrees that the execution and delivery of this First Amendment does not in any way diminish or invalidate any of its obligations thereunder.

5. Guarantor Ratification. Guarantor agrees that it has no defenses or set-offs against Lenders or their respective officers, directors, employees, agents or attorneys, with respect to the Guaranty, which is in full force and effect, and that all of the terms and conditions of the Guaranty not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. Guarantor hereby ratifies and confirms its obligations under the Guaranty and agrees that the execution and delivery of this First Amendment does not in any way diminish or invalidate any of its obligations thereunder.

6. Representations and Warranties. Borrower hereby represents and warrants to Lenders that:

(a) The representations and warranties made in the Credit Agreement, as amended by this First Amendment, are true and correct in all material respects as of the date hereof;

(b) After giving effect to this First Amendment, no Default or Event of Default under the Credit Agreement or the other Loan Documents exists on the date hereof;

(c) This First Amendment has been duly authorized, executed and delivered by Borrower so as to constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with its terms, except as the same may be limited by insolvency, bankruptcy, reorganization or other laws relating to or affecting the enforcement of creditors' rights or by general equitable principles;

(d) The Joinder Pages to this First Amendment have been duly authorized, executed and delivered by Guarantor; and

(e) No material adverse change in the business, assets, operations, condition (financial or otherwise) or prospects of Borrower, Guarantor or any of their subsidiaries or Affiliates has occurred since the date of the last financial statements of the afore mentioned entities which were delivered to Administrative Agent.

All of the above representations and warranties shall survive the making of this First Amendment.

7. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of Administrative Agent and its counsel, of the following conditions precedent:

(a) Borrower shall have delivered to Administrative Agent the following, all of which shall be in form and substance satisfactory to Administrative Agent and shall be duly completed and executed (as applicable):

(i) This First Amendment;

(ii) Replacement Notes and the Additional Notes, as more fully set forth in Section 8 below;

(iii) If requested by Administrative Agent, evidence that the execution, delivery and performance by Borrower and Guarantor, as the case may be, of this First Amendment have been duly authorized, executed and delivered by Responsible Officers of Borrower and Guarantor, as the case may be; and

(iv) Such additional documents, certificates and information as Administrative Agent may require pursuant to the terms hereof or otherwise reasonably request.

(b) The representations and warranties set forth in the Credit Agreement shall be true and correct in all material respects on and as of the date hereof.

(c) After giving effect to this First Amendment, no Default or Event of Default shall have occurred and be continuing as of the date hereof.

(d) Borrower shall have paid to Administrative Agent, (i) any fees required to be paid by Borrower to Administrative Agent for its benefit or the benefit of the Lenders in connection with the Increased Commitment Amount as agreed to by Borrower and Administrative Agent; and (ii) all other costs and expenses of Administrative Agent in connection with preparing and negotiating this First, including, but not limited to, reasonable attorney's fees and costs.

8. Replacement and Additional Notes . Concurrently with the execution and delivery of this First Amendment, Borrower shall execute and deliver (i) to each Existing Lender, a replacement Revolving Note in the face amount of the Increased Commitment of such Existing Lender as set forth on Exhibit A attached hereto and (ii) to each Additional Lender, a Revolving Note in the face amount of the Commitment of such Additional Lender as set forth on Exhibit A attached hereto, in each case in the form of Exhibit G-1 attached to the Credit Agreement. The replacement Revolving Note to the applicable Existing Lender shall evidence any outstanding Loans of such Existing Lender and upon receipt thereof the existing Revolving Note to such Existing Lender shall be cancelled and returned to Borrower.

9. Joinder by Additional Lenders . Effective on the Effective Date, each Additional Lender hereby joins in and becomes a party to the Credit Agreement with the Commitment set forth opposite its name on Exhibit A attached hereto, agrees to be bound by the provisions of the Credit Agreement and shall have the rights and obligations of a Lender thereunder and under any other document issued in connection therewith. Each Additional Lender hereby makes and agrees to be bound by all of the terms and conditions set forth in Section 10.5 (b) of the Credit Agreement as if it were an assignee of its Commitment under the provisions of Section 10.5 of the Credit Agreement.

10. Adjusting Payments . As of the Effective Date, Administrative Agent shall notify each Lender as to the adjusting payments which will be required to be made to the outstanding Loans of each Lender in order to give effect to the increase in the Maximum Commitment Amount and the increase to and addition of the individual Commitments of certain Lenders pursuant to this First Amendment so that after such adjusting payments are made each Lender's outstanding Loans evidenced by such Lender's Revolving Note shall be in an amount equal to its Pro Rata Share of all outstanding Loans. On the Effective Date each Lender agrees to pay to the other Lenders the amounts, if any, specified by Administrative Agent in such notice.

11. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to Administrative Agent in connection therewith shall remain unaltered and in full force and effect except as modified or amended hereby. To the extent that any term or provision of this First Amendment is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other executed in connection therewith, the terms and provisions hereof shall control.

(b) Except as expressly provided herein, the execution, delivery and effectiveness of this First Amendment shall neither operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under any of the Loan Documents nor constitute a waiver of any Default or Event of Default thereunder.

(c) This First Amendment constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements.

(d) In the event any provisions of this First Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

(e) This First Amendment shall be governed by and construed according to the laws of the State of California, without giving effect to any of its choice of law rules.

(f) This First Amendment shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns and may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(g) The headings used in this First Amendment are for convenience of reference only, do not form a part of this First Amendment and shall not affect in any way the meaning or interpretation of this First Amendment.

[Signatures commence on the next page]

IN WITNESS WHEREOF, Borrower, Administrative Agent and Lenders have caused this First Amendment to be executed by their duly authorized officers as of the date first above written.

ESSEX PORTFOLIO, L.P.,
a California limited partnership

BY: ESSEX PROPERTY TRUST, INC.,
a Maryland corporation, its general partner

By: s/ Jordan E. Ritter
Jordan E. Ritter
Senior Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

PNC BANK, NATIONAL ASSOCIATION,
as Administrative Agent

By: /s/ Nicolas Zitelli

Nicolas Zitelli, Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

PNC BANK, NATIONAL ASSOCIATION,
as L/C Issuer, Swing Line Lender and Lender

By: /s/ Nicolas Zitelli

Nicolas Zitelli, Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

UNION BANK, N.A.,
as Lender

By: /s/ Thomas E Little
Thomas E Little
Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

COMERICA BANK, a Texas Banking Association
as Lender

By :/s/SAM F. MEEHAN

Name: SAM F. MEEHAN

Title: VICE PRESIDENT

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

KEYBANK NATIONAL ASSOCIATION,
as Lender

By: /s/ Jason R. Weaver

Name: Jason R. Weaver

Title: Senior Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

US BANK, NATIONAL ASSOCIATION,
as Lender

By: /s/ Jeffrey Hoppen

Name: Jeffrey Hoppen

Title: Senior Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

CAPITAL ONE, N.A.
(successor by merger to Chevy Chase Bank, F.S.B.) as Lender

By: /s/Frederick H. Denecke
Name: Frederick H. Denecke
Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

BANK OF THE WEST,
as Lender

By: /s/Irina Galiena

Name: Irina Galiena

Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

BANK OF THE WEST,
as Lender

By: /s/Benjamin Amayo
Name: Benjamin Amayo
Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Lender

By: /s/Carl Skanderup
Name: Carl Skanderup
Title: V.P.

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

BANK OF MONTREAL, as Lender

By:/s/Lloyd Baron
Name:Lloyd Baron
Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

COMPASS BANK, as Lender

By:/s/ Brian Tueff
Name: Brian Tueff
Title: SVP

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

CITIBANK, as Lender

By:/s/John C. Rowland

Name: John C. Rowland

Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

HSBC BANK USA, NA, as Lender

By:/s/Karen Kokame
Name:Karen Kokame
Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to First Amendment to Amended and Restated Credit Agreement]

JOINDER PAGE

Essex Property Trust, Inc., a Maryland corporation, as the "Guarantor" under the Credit Agreement hereby joins in the execution of this First Amendment to make the affirmations set forth in Section 5 of this First Amendment and to evidence its agreement to be bound by the terms and conditions of this First Amendment applicable to it. The party executing this Joinder Page on behalf of Guarantor has the requisite power and authority, and has been duly authorized, to execute this Joinder Page on behalf of Guarantor.

ESSEX PROPERTY TRUST, INC.,
a Maryland corporation, as Guarantor

By: /s/Jordan E. Ritter

Name: Jordan E. Ritter

Title: Senior Vice President

EXHIBIT A TO FIRST AMENDMENT

EXISTING LENDERS

Existing Lenders	Original Commitment	Increased Commitment
PNC Bank, National Association	\$ 65,000,000	\$ 75,000,000
Bank of West	\$ 40,000,000	\$ 40,000,000
Union Bank, N.A.	\$ 50,000,000	\$ 60,000,000
Wells Fargo, National Association	\$ 50,000,000	\$ 60,000,000
Capital One, N.A.	\$ 30,000,000	\$ 30,000,000
Comerica Bank	\$ 30,000,000	\$ 30,000,000
US Bank, National Association	\$ 50,000,000	\$ 60,000,000
Keybank, N.A.	\$ 40,000,000	\$ 40,000,000
Compass Bank	\$ 30,000,000	\$ 30,000,000
Bank of Montreal	\$ 40,000,000	\$ 40,000,000
TOTAL:	\$ 425,000,000	\$ 465 000 000

ADDITIONAL LENDERS

Additional Lenders	Commitment
Citibank	\$ 25,000,000
HSBC Bank USA, N.A.	\$ 10,000,000

SCHEDULE 1.1 TO CREDIT AGREEMENT
LENDERS' NAMES, COMMITMENTS AND PRO RATA SHARES

Lender	Commitment	Pro Rata Share
PNC Bank, National Association	\$ 75,000,000	15.00%
Bank of West	\$ 40,000,000	8.00%
Union Bank, N.A.	\$ 60,000,000	12.00%
Wells Fargo, National Association	\$ 60,000,000	12.00%
Capital One, N.A.	\$ 30,000,000	6.00%
Comerica Bank	\$ 30,000,000	6.00%
US Bank, National Association	\$ 60,000,000	12.00%
Keybank, N.A.	\$ 40,000,000	8.00%
Compass Bank	\$ 30,000,000	6.00%
Bank of Montreal	\$ 40,000,000	8.00%
Citibank	\$ 25,000,000	5.00%
HSBC Bank USA, N.A.	\$ 10,000,000	2.00%
Total	\$500,000,000	100.00%

MODIFICATION AGREEMENT

This Modification Agreement (" Agreement ") is made as of July 30, 2012, by and among ESSEX PORTFOLIO, L.P., a California limited partnership (" Borrower "), U.S. BANK NATIONAL ASSOCIATION, a national banking association, as administrative agent (" Agent "), under the Loan Agreement described below, U.S. BANK NATIONAL ASSOCIATION, a national banking association, as a Lender (" U.S. Bank "), and each of the other Lenders set forth on the signature pages hereof (and together with any other bank that becomes a party to the Loan Agreement in the future, collectively, " Lenders ").

Factual Background

A. Under a Term Loan Agreement dated November 15, 2011 (the " Loan Agreement "), certain of the Lenders agreed to make an unsecured term loan of up to \$200,000,000 (with an additional \$100,000,000 "accordion" feature) to Borrower (the " Loan "), subject to the terms and conditions specified therein.

Borrower's obligations under the Loan are currently evidenced by (i) a Note dated November 15, 2011 made payable to U.S. Bank National Association in the stated principal amount of Thirty-Two Million Five Hundred Thousand Dollars (\$32,500,000), (ii) a Note dated November 15, 2011 made payable to Bank of the West in the stated principal amount of Fifteen Million Dollars (\$15,000,000), (iii) a Note dated November 15, 2011 made payable to Bank of Montreal in the stated principal amount of Fifteen Million Dollars (\$15,000,000), (iv) a Note dated November 15, 2011 made payable to PNC Bank National Association in the stated principal amount of Twenty-Five Million Dollars (\$25,000,000), (v) a Note dated November 15, 2011 made payable to Comerica Bank in the stated principal amount of Ten Million Dollars (\$10,000,000), (vi) a Note dated November 15, 2011 made payable to Capital One, N.A. in the stated principal amount of Ten Million Dollars (\$10,000,000), (vii) a Note dated November 15, 2011 made payable to Compass Bank in the stated principal amount of Ten Million Dollars (\$10,000,000), (viii) a Note dated November 15, 2011 made payable to Union Bank, N.A. in the stated principal amount of Twenty Seven Million Five Hundred Thousand Dollars (\$27,500,000), (ix) a Note dated November 15, 2011 made payable to Key Bank National Association in the stated principal amount of Fifteen Million Dollars (\$15,000,000), (x) a Note dated November 15, 2011 made payable to Wells Fargo Bank National Association in the stated principal amount of Twenty-Five Million Dollars (\$25,000,000), and (xi) a Note dated November 15, 2011 made payable to HSBC Bank USA, N.A. in the stated principal amount of Fifteen Million Dollars (\$15,000,000) (collectively, the "Note").

B. As of the date of this Agreement the principal balance outstanding under the Loan is \$200,000,000.

C. In connection with the Loan, Essex Property Trust, Inc., a Maryland corporation (" Guarantor "), executed in favor of Agent and Lenders that certain Payment Guaranty dated as of November 15, 2011 (the " Guaranty ").

D. Subject to the terms and conditions of this Agreement, Borrower, Agent and Lenders have agreed to modify the terms of the Loan to, among other things, extend the term of a portion of the Loan, modify the interest rate payable under the Loan, and make additional Loan proceeds available under the Loan (so that the total available principal amount of the Loan shall be \$350,000,000, with a \$150,000,000 "accordion" feature), as more fully set forth herein.

E. As used in this Agreement, the term "**Loan Documents**" means the Loan Agreement, the Note, the Guaranty and the other "**Loan Documents**" described in the Loan Agreement, all as amended or modified hereby. This Agreement shall also constitute a Loan Document. Capitalized terms used herein without definition have the meanings ascribed to them in the Loan Agreement.

Agreement

Therefore, Borrower, Agent and Lenders agree as follows:

1. **Recitals**. The recitals set forth above in the Factual Background are true, accurate and correct, and such recitals hereby are incorporated herein as an agreement of Borrower, Agent and Lenders.

2. **Reaffirmation of Obligations**. Borrower reaffirms all of its Obligations under the Loan Documents, and Borrower acknowledges that it has no claims, offsets or defenses with respect to the payment of sums due under the Note or any other Loan Document. Without limiting the foregoing, Borrower (a) reaffirms Agent's right, following the occurrence of any Event of Default, subject only to the terms and conditions of the Loan Agreement, to apply any and all payments made by Borrower or otherwise received by Agent or Lenders with respect to the Loan to the obligations owing by Borrower under the Loan Documents in such order and manner deemed appropriate by Agent in its sole discretion (subject only, as between Agent and Lenders, to the provisions of the Loan Agreement governing the application of payments as between Agent and Lenders), and (b) expressly waives all of its rights under applicable law or otherwise to direct Agent as to such application or to designate the portion of the obligations to be satisfied.

3. **Increased Availability**. The Loan Documents are hereby amended as follows:

(a) On the Effective Date (as defined below), Lenders shall make available to or for the benefit of Borrower additional sums so that the total principal amount available to be borrowed by Borrower under the Loan Agreement and the Note shall be Three Hundred Fifty Million Dollars (\$350,000,000) (inclusive of the amounts currently owing under the Loan Agreement). As used herein and in the other Loan Documents going forward following the Effective Date, the term "Loan" shall be deemed to include the additional commitment described above.

(b) On or immediately following the Effective Date, the Lenders that shall be the Lenders under the Loan Agreement following the Effective Date shall, in accordance with their Pro Rata Shares of the new Maximum Commitment Amount, repay to each of the existing Lenders (or reallocate between the existing Lenders, other than the "Exiting Lender" described below, and the "New Lender" described below, in a manner which Agent determines would minimize any LIBOR breakage fees or costs) the amounts currently owing under the Loan Agreement and other Loan Documents (i.e., 200,000,000, plus interest accrued thereon through the date of payment at the interest rates previously in effect prior to the Effective Date under the Loan Agreement, and all other sums owing thereunder), and following this first disbursement of the Loan under the modified Loan Agreement, Borrower may thereafter borrow from the Lenders the additional committed sums specified herein (i.e., an additional \$150,000,000 in new commitments), subject to the satisfaction of the terms and conditions to advances set forth in the Loan Agreement and other Loan Documents, including without limitation Sections 2 and 5 of the Loan Agreement, and subject to the additional conditions and terms specified below in Section 9 of this Agreement. Advances of the additional commitments (other than the "accordion" amounts as set forth in Section 3(c) below and in Section 2.17 of the Loan Agreement) will be available in up to a maximum of three borrowings, which may be drawn down by no later than December 31, 2012, and may only be borrowed in minimum amounts of Twenty-Five Million Dollars or more. To the extent repaid, advances under the Loan Agreement may not be reborrowed.

(c) Following the Effective Date, the accordion feature more fully described in Section 2.17 of the Loan Agreement shall be increased from One Hundred Million Dollars (\$100,000,000) to One Hundred Fifty Million Dollars (\$150,000,000), so that, should the accordion feature be fully exercised in accordance with the provisions of Section 2.17 of the Loan Agreement, the Maximum Commitment Amount may be increased to (but not above) a maximum aggregate amount of Five Hundred Million Dollars (\$500,000,000), subject to the satisfaction of all of the terms and conditions specified in Section 2.17 of the Loan Agreement and any other applicable provisions thereof.

4. New Lenders. On the Effective Date, Citibank, N.A. shall be added as a new Lender under the Loan Agreement ("New Lender"), and Compass Bank (the "Exiting Lender") shall be repaid the sums owing to it currently by the Borrower under the Loan Agreement and other Loan Documents, and shall cease to be a Lender under the Loan Agreement and other Loan Documents. By their execution of this Modification Agreement, the New Lender (as well as the existing Lenders) shall be deemed to have agreed to and be bound by all obligations and agreements applicable to the "Lenders" under the Loan Agreement, and other Loan Documents, as modified by this Modification Agreement, as if they had executed both the original Loan Agreement and other Loan Documents and this Modification Agreement. The Commitment of the New Lender (as well as the modified Commitments of the existing Lenders that shall remain Lenders under the Loan Agreement following the Effective Date) shall be as set forth in the new Schedule 1.1 attached to this Modification Agreement, effective as of the Effective Date.

5. New Definitions. The "Definitions" section of the Loan Agreement is hereby amended by adding the following definitions, in appropriate alphabetical order:

" Core Markets": Shall mean the State of California and the metropolitan area of Seattle, Washington.

" Delayed Draw Availability Period": Means the period from the Effective Date (as defined in the Modification Agreement) through December 31, 2012.

" **Modification Agreement** ": Means that certain Modification Agreement dated as of July 30, 2012 executed by and among Borrower, Administrative Agent and the Lenders.

" **New Fee Letter** ": Means that certain letter dated as of July 30, 2012 executed by and among Borrower, Administrative Agent, and U.S. Bank and Wells Fargo Bank, as the joint Lead Arrangers. From and after the Effective Date of the Modification Agreement, as used in the Loan Documents, the term "Fee Letter" shall mean the New Fee Letter.

6. Existing Definitions.

(a) The definition of " **Applicable Committed Loan Margin** " contained in the "Definitions" section of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

" **Applicable Committed Loan Margin** means the Applicable LIBOR Committed Loan Margin or the Applicable Reference Rate Committed Loan Margin determined from the following pricing grid based on the current published or private ratings of Guarantor's senior unsecured long term debt, as provided below:

TIER	GUARANTOR'S SENIOR UNSECURED LONG TERM DEBT RATING	APPLICABLE LIBOR COMMITTED LOAN MARGIN	APPLICABLE REFERENCE RATE COMMITTED LOAN MARGIN
I	A- and/or A3 or better	1.10%	.10%
II	BBB+ and/or Baa1	1.20%	.20%
III	BBB and/or Baa2	1.30%	.30%
IV	BBB- and/or Baa3	1.70%	.70%
v	Less than BBB- and/or Baa3	2.25%	1.25%

Borrower shall provide to Administrative Agent written evidence of the current rating or ratings on Guarantor's senior unsecured long term debt by any of Moody's, S&P and/or Fitch, if such rating agency has provided to Guarantor a rating on such senior unsecured long term debt, which evidence shall be reasonably acceptable to Administrative Agent; provided, that, at a minimum, Guarantor must provide such a rating from either Moody's or S&P. In the event that Guarantor has a rating on its senior unsecured long term debt provided by (a) both Moody's and S&P, (b) both Moody's and Fitch, (c) both S&P and Fitch, or (d) each of Moody's, S&P and Fitch, and there is a difference in rating between such rating agencies, the Applicable Committed Loan Margin shall be based on the higher rating. Changes in the Applicable Committed Loan Margin shall become effective on the first day following the date on which any of Moody's, S&P or Fitch that has provided Guarantor a rating on Guarantor's senior unsecured long term debt changes such rating. Borrower shall notify Administrative Agent of any such changes in Guarantor's senior unsecured long term debt pursuant to and in accordance with Section 6.4(i); provided, however, that any increase in the Applicable Committed Loan Margin that results from a change in the rating of Guarantor's senior unsecured long term debt shall become effective on the first day following the date on which the rating agency changes such rating, as provided in the immediately preceding sentence, whether or not Borrower has notified Administrative Agent of any such change. On the Closing Date, the Applicable Committed Loan Margin shall be based on Tier III."

(b) The definition of "Capitalization Rate" contained in the "Definitions" section of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

" Capitalization Rate means (i) with respect to the properties which are located in Core Markets: (A) 6.00% from the Effective Date (as defined in the Modification Agreement) through November 15, 2014 and (B) 6.50% thereafter, and (ii) with respect to the properties which are not located in Core Markets: (A) 6.50% from the Effective Date through November 15, 2014 and (B) 6.75% thereafter."

(c) The definition of " Maturity Date " contained in the "Definitions" section of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

" Maturity Date August 1, 2017."

(d) The definition of " Maximum Commitment Amount " contained in the "Definitions" section of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

" Maximum Commitment Amount means, at any time, an amount equal to Three Hundred Fifty Million Dollars (\$350,000,000); provided, however, that from and after November 15, 2016 through the Maturity Date, the Maximum Commitment Amount shall be reduced to, and shall mean, the then total Outstanding Amount as of November 15, 2016 minus \$200,000,000. The Maximum Commitment Amount shall be subject to increase pursuant to, and on the terms and subject to the conditions set forth in, Section 2.17. "

7. Further Modifications to the Loan Agreement. The Loan Documents are hereby further amended as follows:

(a) Without limiting the requirements of Section 2.8.3 (Mandatory Repayments) of the Loan Agreement, Borrower understands and agrees that since the Maximum Commitment Amount shall decrease (as set forth in the definition of Maximum Commitment Amount) on November 15, 2016, Borrower shall be required to repay to Agent, for the benefit of Lenders, the amount by which the Outstanding Amount exceeds the Availability as of such date.

(b) Notwithstanding the titles or designations set forth in the existing Loan Agreement, the following Lenders shall have the following titles under the Loan Agreement and with respect to the Loan from and after the Effective Date: (i) U.S. Bank National Association shall remain as Administrative Agent, (ii) U.S. Bank National Association and Wells Fargo Securities, LLC, shall be the joint "Lead Arrangers", and the "Joint Book Runners"; and (iii) Wells Fargo Bank National Association, PNC Bank National Association, Union Bank, N.A. and Bank of Montreal, shall be "Co-Documentation Agents".

(c) Effective as of the Effective Date, Schedule 1.1 to the Loan Agreement is hereby deleted, and the new Schedule 1.1 attached to this Modification Agreement is hereby substituted in place thereof, and the new Schedule 1.1 attached hereto shall, from and after the Effective Date, be the governing Schedule for the Commitments and the Pro Rata Shares of the Lenders under the Loan Agreement and with respect to the Loan.

(d) In order to properly reflect and evidence the new Commitments and Pro Rata Shares of each of the Lenders under the Loan Agreement as modified by this Modification Agreement, Borrower shall execute and deliver new Notes to each of the Lenders in the amount of their new Commitments, substantially in the same form of Note as previously executed by Borrower in connection with the existing Loan Agreement, with such changes thereto as Agent shall reasonably require. Following receipt of the new Notes, each of the superseded old Notes shall be marked "cancelled" and returned to the Borrower.

(e) **Unused Fee.** To the extent that the Facility is not fully drawn immediately following the Effective Date (i.e.; to the extent that there is less than \$350,000,000 outstanding immediately following the closing of the Modification Agreement), Borrower shall pay to Agent, for the prorata benefit of the Lenders, in addition to all other fees set forth in the New Fee Letter, a fee in an amount equal to 0.20% (twenty basis points) per annum of the average daily unused (undisbursed) amount of the aggregate Commitments of all the Lenders, which shall accrue during the Delayed Draw Availability Period (and such unused fee shall cease accruing following the end of the Delayed Draw Availability Period), and shall be payable quarterly in arrears, as of the first day of each calendar quarter.

(f) The figure "\$300,000,000" set forth in Section 2.17.1 of the Loan Agreement is hereby deleted and in its place the figure "\$500,000,000" is hereby inserted.

(g) Section 8.1(k) of the Loan Agreement is hereby amended and restated in its entirety to provide as follows:

"Borrower, Guarantor or a subsidiary of Borrower or Guarantor defaults (taking into account applicable notice and cure periods, if any) in connection with any credit such Person has with any holder of Indebtedness of such Person, (i) and such default consists of the failure to make a payment when due on one or more obligations that are recourse to Borrower, Guarantor or a subsidiary of Borrower or Guarantor whose outstanding principal amount exceeds \$50,000,000 individually or in the aggregate and such default has not been waived by the holder of such Indebtedness, or (ii) as a result of such default, one or more obligations that are recourse to Borrower, Guarantor or a subsidiary of Borrower or Guarantor whose outstanding principal amount exceeds \$50,000,000 individually or in the aggregate have been accelerated; or"

(h) No Other Modifications . Except as expressly set forth in this Agreement, the Loan Documents shall be and remain unmodified and in full force and effect.

8. General Release. As further inducement to Agent and Lenders to enter into this Agreement, Borrower and Guarantor hereby release Agent and Lenders as follows:

(a) Borrower and Guarantor and their heirs, successors and assigns (collectively, the "**Releasing Parties**") do hereby release, acquit and forever discharge Agent and Lenders of and from any and all claims, demands, obligations, liabilities, indebtedness, breaches of contract, breaches of duty or any relationship, acts, omissions, misfeasance, malfeasance, cause or causes of action, debts, sums of money, accounts, compensation, contracts, controversies, promises, damages, costs, losses and expenses of every type, kind, nature, description, or character, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length, which in any way, have, prior to the Effective Date, arisen out of, are connected with or related to the Loan Documents, this Agreement or any earlier and/or other agreement or document referred to therein (collectively, the "**Released Claims**").

(b) The agreement of the Releasing Parties, as set forth in the preceding subparagraph (a) shall inure to the benefit of the successors, assigns, insurers, administrators, agents, employees, and representatives of Agent and Lenders.

(c) The Releasing Parties have read the foregoing release, fully understand the legal consequences thereof and have obtained the advice of counsel with respect thereto. The Releasing Parties further warrant and represent that they are authorized to make the foregoing release.

(d) Each Releasing Party acknowledges that the foregoing release shall extend to Released Claims which the Releasing Party does not know or suspect to exist in Releasing Party's favor at the time of executing this Agreement, regardless of whether such Released Claims, if known by such Releasing Party, would have materially affected such Releasing Party's decision to enter into this Agreement. Each Releasing Party acknowledges that they are familiar with Section 1542 of the Civil Code of the State of California which provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Each Releasing Party waives and relinquishes any right or benefit which it has or may have under Section 1542 of the Civil Code of the State of California and any similar provision of the statutory or non-statutory law of any other jurisdiction, to the full extent that it may lawfully waive all such rights and benefits. In connection with such waiver and relinquishment, each Releasing Party acknowledges that it is aware that it or its attorneys or agents may hereafter discover facts in addition to or different from those which it now knows or believes to exist with respect to the subject matter of this **Section 7** or the other parties hereto, but that each Releasing Party intends hereby fully, finally and forever to settle, waive and release all of the Released Claims, known or unknown, suspected or unsuspected, which now exist or may exist hereafter between Releasing Parties and Agent and Lenders in connection with the Loan, except as otherwise expressly provided in this **Section 7**. This foregoing release shall be and remain in effect notwithstanding the discovery or existence of any such additional or different facts.

(e) Each Releasing Party warrants and represents that it is the sole and lawful owner of all right, title and interest in and to all of the respective Released Claims released hereby and that it has not heretofore voluntarily, by operation of law or otherwise, assigned or transferred or purported to assign or transfer to any person or entity any such claim or any portion thereof.

(f) This release is not to be construed and does not constitute an admission of liability on the part of Agent or Lenders. This release shall constitute an absolute bar to any Released Claim of any kind, whether such claim is based on contract, tort, warranty, mistake or any other theory, whether legal, statutory or equitable. The Releasing Parties specifically agree that any attempt to assert a claim barred hereby shall subject each of them to the provisions of applicable law setting forth the remedies for the bringing of groundless, frivolous or baseless claims or causes of action.

Borrower's Initials

Guarantor's Initials

9. Conditions Precedent. Before this Agreement becomes effective and any party becomes obligated under it, all of the following conditions shall have been satisfied in a manner acceptable to Agent in the exercise of Agent's sole judgment (except as waived or reserved by Agent in writing):

(a) Agent shall have received fully executed originals of this Agreement, the new Notes for each Lender (as specified in Section 7(d) above of this Agreement), the New Fee Letter and any other documents which Agent may reasonably require or request in accordance with this Agreement or the other Loan Documents (including, without limitation, pertaining to the Patriot Act).

(b) Guarantor shall have executed and delivered to Agent the attached Consent of Guarantor.

(c) Borrower shall have paid to Agent all fees set forth in the New Fee Letter.

(d) Agent and Lenders shall have received reimbursement, in immediately available funds, of all reasonable actual, out-of-pocket costs and expenses incurred by Agent and Lenders in connection with the Loan or this Agreement, including the legal fees, charges and expenses of Agent's counsel (determined on the basis of such counsel's generally applicable rates, which may be higher than the rates such counsel charges Agent in certain matters).

(e) Agent shall have received all documents evidencing the formation, organization and valid existence of the Borrower and Guarantor (to the extent such documents have been amended or modified since the original Closing Date) and the authorization for the execution, delivery, and performance of the Agreement.

(f) No change shall have occurred in the financial condition of Borrower or Guarantor, which would have, in Agent's sole judgment, a material adverse effect on Borrower's or Guarantor's ability to repay the Loan or otherwise perform its obligations under the Loan Documents.

(g) Agent shall have received from in-house counsel for Borrower an opinion as to Borrower's power and authority to execute, deliver and perform this Agreement, in form and substance acceptable to Agent.

(h) Borrower's representations and warranties set forth in Section 10 below are true and correct in all respects.

(i) The conditions precedent shall have been satisfied prior to August 10, 2012 unless waived or reserved by Agent in writing.

(j) Each of the Lenders shall have received credit approval from the appropriate credit committee or other authority within that Lender as to its Commitment and performance of its obligations under the Loan Agreement and other Loan Documents, as modified by this Agreement.

10. Borrower's Representations and Warranties. Borrower represents and warrants to Agent and Lenders as follows:

(a) Loan Documents. Except as previously disclosed to Agent in writing, all representations and warranties made and given by Borrower in the Loan Documents are true, accurate and correct in all material respects. Borrower is in compliance with all covenants, terms and conditions in effect and as required under the Loan Documents (as modified by this Agreement).

(b) No Default. No Event of Default has occurred and is continuing, and no event has occurred and is continuing which, with notice or the passage of time or both, would be an Event of Default.

(c) Borrowing Entity. Borrower is a limited partnership which is duly organized, validly existing and in good standing under the laws of the State of California and is duly qualified to conduct business, and is in good standing, in the State of California and, to the extent legally required, in each other state in which it conducts business. Except as previously disclosed in writing by Borrower to Agent, there have been no changes in the organization, composition, ownership structure or formation documents of Borrower since the Closing Date. Borrower's execution and delivery of this Agreement and the continued performance by Borrower of its obligations under the Loan Documents to which it is a party have been duly authorized by all necessary action on the part of Borrower and any other required parties. This Agreement has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

11. Incorporation. This Agreement shall form a part of each Loan Document, and all references to a given Loan Document shall mean that document as modified pursuant to this Agreement. For purposes of this Agreement, the "**Effective Date**" shall be the date that Agent notifies Borrower that all of the conditions precedent set forth in Section 9 hereof have been satisfied in a manner acceptable to Agent in the exercise of Agent's sole judgment, or waived or reserved by Agent in writing.

12. No Prejudice; Reservation of Rights. Except as expressly set forth herein, this Agreement shall not prejudice any rights or remedies of Agent or Lenders under the Loan Documents. Agent and Lenders reserve, without limitation, all rights which it has against any endorser of the Note.

13. No Impairment. Except as specifically hereby amended, the Loan Documents shall each remain unaffected by this Agreement and all such documents shall remain in full force and effect.

14. Integration. The Loan Documents, including this Agreement: (a) integrate all the terms and conditions mentioned in or incidental to the Loan Documents; (b) supersede all oral negotiations and prior and other writings with respect to their subject matter; and (c) are intended by the parties as the final expression of the agreement with respect to the terms and conditions set forth in those documents and as the complete and exclusive statement of the terms agreed to by the parties. If there is any conflict between the terms, conditions and provisions of this Agreement and those of any other agreement or instrument in effect as of the Effective Date, including any of the other Loan Documents, the terms, conditions and provisions of this Agreement shall prevail.

15. Miscellaneous. This Agreement and any attached consents or exhibits requiring signatures may be executed in counterparts, and all counterparts shall constitute but one and the same document. If any court of competent jurisdiction determines any provision of this Agreement or any of the other Loan Documents to be invalid, illegal or unenforceable, that portion shall be deemed severed from the rest, which shall remain in full force and effect as though the invalid, illegal or unenforceable portion had never been a part of the Loan Documents. This Agreement shall be governed by the laws of the State of California, without regard to the choice of law rules of that State. As used here, the word "include(s)" means "includes(s), without limitation," and the word "including" means "including, but not limited to."

[Signatures on following page]

Borrower:

ESSEX PORTFOLIO, L.P.,
a California limited partnership

By: ESSEX PROPERTY TRUST, INC.,
a Maryland corporation, its general partner

By:/s/ Mark J. Mikl

Name : Mark J. Mikl

Title: Senior Vice President

925 East Meadow Drive

Palo Alto, CA 94303

Attn: Mark J. Mikl (facsimile: (650) 843-1514)

Jorden E. Ritter (facsimile: (650) 858-1372)

Michael T. Dance (facsimile: (650) 858-0139)

Internet Website: www.essexpropertytrust.com

Agent:

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent

By: _____

Jeffrey G. Hoppen, Senior Vice
President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

Borrower:

ESSEX PORTFOLIO, L.P.,
a California limited partnership

By: ESSEX PROPERTY TRUST, INC.,
a Maryland corporation, its general partner

By: _____
Name : _____
Title: _____

925 East Meadow Drive
Palo Alto, CA 94303
Attn: Mark J. Mikl (facsimile: (650) 843-1514)
Jorden E. Ritter (facsimile: (650) 858-1372)
Michael T. Dance (facsimile: (650) 858-0139)
Internet Website: www.essexpropertytrust.com

Agent:

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent

By: /s/ Jeffrey G. Hoppen
Jeffrey G. Hoppen, Senior Vice
President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

Lenders:

U.S. BANK NATIONAL ASSOCIATION,
as Lender

By: /s/ Jeffrey G. Hoppen
Jeffrey G. Hoppen, Senior Vice
President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Lender

By: /s/ Carl Skanderup
Carl Skanderup, Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

UNION BANK, N.A.,
as Lender

By: /s/ Thomas E. Little
Thomas E. Little, Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

PNC BANK, NATIONAL ASSOCIATION,
as Lender

By: /s/ Nicolas Zitelli

Nicolas Zitelli,
Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

BANK OF MONTREAL,
as Lender

By: /s/ Aaron Lanski
Aaron Lanski,
Managing Director

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

BANK OF THE WEST,
as Lender

By: /s/ Lynn Foster
Lynn Foster, Senior Vice President

By: _____
Name: _____
Title: _____

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

BANK OF THE WEST,
as Lender

By: _____
Name: _____
Title: _____

By: Ben Arroyo
Name: Ben Arroyo
Title: Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

HSBC BANK USA, NATIONAL ASSOCIATION,
as Lender

By: /s/ Karen K. Kokame
Karen K. Kokame
Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

KEYBANK NATIONAL ASSOCIATION,
as Lender

By: /s/ Jason R. Weaver
Jason R. Weaver, Senior Vice
President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

CAPITAL ONE, N.A.,
as Lender

By: /s/ Frederick H. Denecke
Frederick H. Denecke, Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

CITIBANK, N.A.,
as Lender

By: /s/ Michael Chlopak
Michael Chlopak, Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

COMERICA BANK,
a Texas banking association,
as Lender

By: /s/ Sam F. Meehan
Sam F. Meehan, Vice President

[Signatures Continue on the Next Page]

[Signature Page to Term Loan Agreement]

CONSENT OF GUARANTOR

The undersigned, having read and understood the foregoing Modification Agreement ("**Agreement**"), hereby (i) consents to all of the terms, conditions and provisions of the Agreement and the transactions contemplated by the Agreement, including, but not limited to, **Sections 2 through 8, inclusive**, thereof, (ii) agrees that the Agreement does not terminate any of the obligations of the undersigned to Agent and Lenders under the Guaranty, (iii) reaffirms its obligations under the Guaranty in light of the Agreement (including, but not limited to, **Sections 2 through 8, inclusive**, thereof), and (iv) acknowledges and agrees that the total principal amount available to be borrowed by Borrower under the Loan Agreement and the Note has been increased to \$350,000,000 (with possible further increases to \$500,000,000) and acknowledges and agrees that the Guaranty shall cover and guarantee the repayment of all such increased sums. The undersigned, having reread the Guaranty and with advice of its own counsel, hereby reaffirm and restate all waivers, authorizations, agreements and understandings set forth in the Guaranty, as though set forth in full herein. Capitalized terms used in this consent but not otherwise defined shall have the meanings ascribed to such terms in the Agreement.

Dated as of July 30, 2012.

"Guarantor"

ESSEX PROPERTY TRUST, INC.,
a Maryland corporation

By: /s/ Mark J. Mikl

Name : Mark J. Mikl

Title : Senior Vice President

CONSENT

SCHEDULE 1.1

LENDERS NAMES, COMMITMENTS AND PRO RATA SHARES

LENDER	TERM COMMITMENT	PRO RATA SHARE
US Bank National Association	\$ 53,500,000.00	15.285714285714%
Wells Fargo Bank, National Association	\$ 48,500,000.00	13.857142857143%
Union Bank, N.A.	\$ 46,000,000.00	13.142857142857%
PNC Bank, National Association	\$ 46,000,000.00	13.142857142857%
Bank of Montreal	\$ 36,000,000.00	10.285714285714%
Bank of the West	\$ 25,000,000.00	7.142857142857%
HSBC Bank USA, N.A.	\$ 25,000,000.00	7.142857142857%
KeyBank National Association	\$ 25,000,000.00	7.142857142857%
Capital One, N.A.	\$ 20,000,000.00	5.714285714286%
Citibank, N.A.	\$ 15,000,000.00	4.285714285714%
Comerica Bank	\$ 10,000,000.00	2.857142857143%
TOTAL	\$ 350,000,000.00	100.000000000000%

SCHEDULE 1.1

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Schedule of computation of Ratio and Earnings to Fixed Charges and Preferred Stock Dividends
(Dollars in thousands, except ratios)

	Quarter ended June 30	Years ended December 31				
	2012	2011 ⁽¹⁾	2010 ⁽¹⁾	2009 ⁽¹⁾	2008 ⁽¹⁾	2007 ⁽¹⁾
Earnings:						
Income before discontinued operations	\$ 42,490	\$ 48,868	\$ 49,163	\$ 43,279	\$ 78,556	\$ 54,819
Gain on sales of real estate	-	-	-	(103)	(4,578)	-
Interest and amortization expense	27,541	103,168	87,585	86,016	85,063	85,896
Total earnings	\$ 70,031	\$ 152,036	\$ 136,748	\$ 129,192	\$ 159,041	\$ 140,715
Fixed charges:						
Interest and amortization expense	\$ 27,541	\$ 103,168	\$ 87,585	\$ 86,016	\$ 85,063	\$ 85,896
Capitalized interest	2,319	8,240	9,486	10,463	10,908	5,134
Preferred stock dividends	1,368	4,753	2,170	4,860	9,241	9,174
Perpetual preferred unit distributions	-	1,650	6,300	6,300	9,909	10,238
Total fixed charges and preferred stock dividends	\$ 31,228	\$ 117,811	\$ 105,541	\$ 107,639	\$ 115,121	\$ 110,442
Ratio of earnings to fixed charges (excluding preferred stock dividends and preferred unit distributions)						
	<u>2.35</u> X	<u>1.36</u> X	<u>1.41</u> X	<u>1.34</u> X	<u>1.66</u> X	<u>1.55</u> X
Ratio of earnings to combined fixed charges and preferred stock dividends						
	<u>2.24</u> X	<u>1.29</u> X	<u>1.30</u> X	<u>1.20</u> X	<u>1.38</u> X	<u>1.27</u> X

(1) The results of operations for 2007-2011 have been reclassified and restated to reflect discontinued operations.

ESSEX PROPERTY TRUST, INC.
Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael J. Schall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essex Property Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2012

/s/ Michael J. Schall

Michael J. Schall
Chief Executive Officer and President, and Director
Essex Property Trust, Inc.

ESSEX PROPERTY TRUST, INC.
Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael T. Dance, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essex Property Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2012

/s/ Michael T. Dance

Michael T. Dance
Chief Financial Officer, Executive Vice President,
Essex Property Trust, Inc.

ESSEX PROPERTY TRUST, INC.
Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350 as adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, chapter 63 of title 18, United States Code), I, Michael J. Schall, hereby certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended June 30, 2012 (the "Form 10-Q") of Essex Property Trust, Inc. fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Essex Property Trust, Inc. at the dates of and for the periods presented.

Date: August 3, 2012

/s/ Michael J. Schall

Michael J. Schall

Chief Executive Officer and President, and Director,
Essex Property Trust, Inc.

ESSEX PROPERTY TRUST, INC.
Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350 as adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, chapter 63 of title 18, United States Code), I, Michael T. Dance, hereby certify, to the best of my knowledge, that the Quarterly Report on Form 10-Q for the period ended June 30, 2012 (the "Form 10-Q") of Essex Property Trust, Inc. fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Essex Property Trust, Inc. at the dates of and for the periods presented.

Date: August 3, 2012

/s/ Michael T. Dance

Michael T. Dance
Chief Financial Officer, Executive Vice President,
Essex Property Trust, Inc.
