

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 September 30, 2014

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.
ESSEX PORTFOLIO, L.P.

(Exact name of Registrant as Specified in its Charter)

Maryland (Essex Property Trust, Inc.)
California (Essex Portfolio, L.P.)

(State or Other Jurisdiction of Incorporation or Organization)

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

(I.R.S. Employer Identification Number)

925 East Meadow Drive
Palo Alto, California 94303

(Address of Principal Executive Offices including Zip Code)

(650) 494-3700

(Registrant's Telephone Number, Including Area Code)

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

Essex Property Trust, Inc. Yes ☒ No ☐

Essex Portfolio, L.P. Yes ☒ No ☐

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

Essex Property Trust, Inc. Yes ☒ No ☐

Essex Portfolio, L.P. Yes ☒ No ☐

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

Essex Property Trust, Inc.:
Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check
if a smaller reporting company)

Smaller reporting company ☐

Essex Portfolio, L.P.:
Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (Do not
check if a smaller reporting company)
(Do not check if a smaller reporting
company)

Smaller reporting company ☐

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

Essex Property Trust, Inc. Yes ☐ No ☒

Essex Portfolio, L.P. Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 63,942,115 shares of Common Stock (\$0.0001 par value) of Essex Property Trust, Inc. were outstanding as of November 5, 2014.

EXPLANATORY NOTE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1. Condensed Financial Statements

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share amounts)

	September 30, 2014	December 31, 2013
<u>ASSETS</u>		
Real estate:		
Rental properties:		
Land and land improvements	\$ 2,453,093	\$ 1,083,552
Buildings and improvements	8,820,657	4,360,205
	<u>11,273,750</u>	<u>5,443,757</u>
Less accumulated depreciation	(1,469,991)	(1,254,886)
	<u>9,803,759</u>	<u>4,188,871</u>
Real estate under development	363,193	50,430
Co-investments	1,043,277	677,133
Real estate held for sale, net	107,772	-
	<u>11,318,001</u>	<u>4,916,434</u>
Cash and cash equivalents-unrestricted	17,877	18,491
Cash and cash equivalents-restricted	70,123	35,275
Marketable securities	108,147	90,084
Notes and other receivables	22,973	68,255
Acquired in place lease value and other assets	98,381	33,781
Deferred charges, net	31,060	24,519
Total assets	<u>\$ 11,666,562</u>	<u>\$ 5,186,839</u>
<u>LIABILITIES AND EQUITY</u>		
Mortgage notes payable	\$ 2,258,010	\$ 1,404,080
Unsecured debt	2,745,487	1,410,023
Lines of credit	222,628	219,421
Accounts payable and accrued liabilities	167,160	67,183
Construction payable	38,453	8,047
Dividends payable	87,609	50,627
Other liabilities	32,330	24,871
Total liabilities	<u>5,551,677</u>	<u>3,184,252</u>
Commitments and contingencies		
Redeemable noncontrolling interest	21,442	-
Cumulative convertible Series G preferred stock	-	4,349
Equity:		
Cumulative redeemable Series H preferred stock at liquidation value	73,750	73,750
Common stock, \$0.0001 par value, 656,020,000 shares authorized 63,229,790 and 37,421,219 shares issued and outstanding	6	4
Additional paid-in capital	6,569,442	2,345,763
Distributions in excess of accumulated earnings	(608,498)	(474,426)
Accumulated other comprehensive loss, net	(51,408)	(60,472)
Total stockholders' equity	<u>5,983,292</u>	<u>1,884,619</u>
Noncontrolling interest	110,151	113,619
Total equity	<u>6,093,443</u>	<u>1,998,238</u>
Total liabilities and equity	<u>\$ 11,666,562</u>	<u>\$ 5,186,839</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)
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental and other property	\$ 268,118	\$ 152,177	\$ 683,749	\$ 446,017
Management and other fees	2,361	1,771	6,856	5,812
	<u>270,479</u>	<u>153,948</u>	<u>690,605</u>	<u>451,829</u>
Expenses:				
Property operating, excluding real estate taxes	55,900	35,787	145,410	102,170
Real estate taxes	31,768	14,535	77,452	42,773
Depreciation	102,184	48,227	254,211	142,687
General and administrative	11,479	6,263	28,621	19,852
Merger and integration expenses	3,857	-	46,413	-
Acquisition and dispositions costs	51	237	1,555	792
	<u>205,239</u>	<u>105,049</u>	<u>553,662</u>	<u>308,274</u>
Earnings from operations	65,240	48,899	136,943	143,555
Interest expense	(45,830)	(29,192)	(117,021)	(86,661)
Interest and other income	2,992	2,387	8,685	9,326
Equity income in co-investments	4,910	40,802	21,065	52,295
Gains on sale of real estate and land	31,372	-	39,640	1,503
Gain (loss) on early retirement of debt	-	(178)	-	846
Income from continuing operations	58,684	62,718	89,312	120,864
Income from discontinued operations	-	13,157	-	14,289
Net income	58,684	75,875	89,312	135,153
Net income attributable to noncontrolling interest	(3,720)	(5,719)	(8,971)	(12,112)
Net income attributable to controlling interest	54,964	70,156	80,341	123,041
Dividends to preferred stockholders	(1,296)	(1,368)	(3,977)	(4,104)
Net income available to common stockholders	<u>\$ 53,668</u>	<u>\$ 68,788</u>	<u>\$ 76,364</u>	<u>\$ 118,937</u>
Comprehensive income	\$ 61,139	\$ 76,112	\$ 98,749	\$ 142,206
Comprehensive income attributable to noncontrolling interest	(3,789)	(5,732)	(9,345)	(12,493)
Comprehensive income attributable to controlling interest	<u>\$ 57,350</u>	<u>\$ 70,380</u>	<u>\$ 89,404</u>	<u>\$ 129,713</u>
Per common share data:				
Basic:				
Income from continuing operations	\$ 0.85	\$ 1.51	\$ 1.41	\$ 2.84
Income from discontinued operations	-	0.33	-	0.36
Net income available to common stockholders	<u>\$ 0.85</u>	<u>\$ 1.84</u>	<u>\$ 1.41</u>	<u>\$ 3.20</u>
Weighted average number of common shares outstanding during the period	<u>62,892,601</u>	<u>37,320,562</u>	<u>54,250,104</u>	<u>37,206,895</u>
Diluted:				
Income from continuing operations	\$ 0.85	\$ 1.51	\$ 1.40	\$ 2.83
Income from discontinued operations	-	0.33	-	0.36
Net income available to common stockholders	<u>\$ 0.85</u>	<u>\$ 1.84</u>	<u>\$ 1.40</u>	<u>\$ 3.19</u>
Weighted average number of common shares outstanding during the period	<u>63,069,772</u>	<u>37,436,983</u>	<u>54,443,227</u>	<u>37,295,691</u>
Dividend per common share	<u>\$ 1.30</u>	<u>\$ 1.21</u>	<u>\$ 3.81</u>	<u>\$ 3.63</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Equity for the nine months ended September 30, 2014
(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, 2013	2,950	\$ 73,750	37,421	\$ 4	\$ 2,345,763	\$ (474,426)	\$ (60,472)	\$ 113,619	\$ 1,998,238
Net income	-	-	-	-	-	80,341	-	8,971	89,312
Reversal of unrealized gains upon the sale of marketable securities	-	-	-	-	-	-	(841)	(45)	(886)
Change in fair value of derivatives and amortization of swap settlements	-	-	-	-	-	-	7,426	306	7,732
Change in fair value of marketable securities	-	-	-	-	-	-	2,479	112	2,591
Issuance of common stock under:									
Stock consideration in the Merger, net	-	-	23,093	2	3,777,644	-	-	-	3,777,646
Stock option and restricted stock plans	-	-	154	-	6,511	-	-	-	6,511
Equity distribution agreements, net	-	-	2,527	-	449,499	-	-	-	449,499
Equity based compensation costs	-	-	-	-	5,756	-	-	1,672	7,428
Reclassification of noncontrolling interest to redeemable noncontrolling interest	-	-	-	-	(19,823)	-	-	(1,067)	(20,890)
Changes in value of redemption value of redeemable noncontrolling interest					2,126				2,126
Conversion of Series G preferred stock	-	-	34	-	4,349	-	-	-	4,349
Contributions from noncontrolling interest	-	-	-	-	-	-	-	1,419,816	1,419,816
Retirement of noncontrolling interest	-	-	-	-	-	-	-	(1,419,816)	(1,419,816)
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(12,821)	(12,821)
Redemptions of noncontrolling interest	-	-	-	-	(2,383)	-	-	(596)	(2,979)
Common and preferred stock dividends	-	-	-	-	-	(214,413)	-	-	(214,413)
Balances at September 30, 2014	<u>2,950</u>	<u>\$ 73,750</u>	<u>63,229</u>	<u>\$ 6</u>	<u>\$ 6,569,442</u>	<u>\$ (608,498)</u>	<u>\$ (51,408)</u>	<u>\$ 110,151</u>	<u>\$ 6,093,443</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 89,312	\$ 135,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	254,211	143,662
Amortization of discount on marketable securities	(6,555)	(4,664)
Amortization of premium and debt financing costs, net	(4,987)	8,111
Gain on sale of marketable securities	(886)	(1,767)
Company's share of gain on the sales of co-investment	(3,213)	(41,252)
Gain on the sales of real estate and land	(39,640)	(14,161)
Non-cash merger expense	7,562	-
Equity in income in co-investments, net	(14,903)	(1,892)
Equity-based compensation	4,996	3,137
Gain on early retirement of debt	-	(846)
Changes in operating assets and liabilities:		
Acquired in place lease value and other assets	8,923	(19,689)
Accounts payable and accrued liabilities	44,775	19,091
Other liabilities	1,393	199
Net cash provided by operating activities	<u>340,988</u>	<u>225,082</u>
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(409,018)	(205,539)
Improvements to recent acquisitions	(13,512)	(14,374)
Redevelopment	(35,361)	(32,488)
Revenue generating capital expenditures	(20,560)	(2,165)
Lessor required capital expenditures	(7,562)	(4,320)
Non-revenue generating capital expenditures	(29,070)	(21,885)
Acquisitions of and additions to real estate under development	(108,659)	(13,963)
Proceeds from insurance claim for property damage	29,160	-
BRE merger consideration paid	(555,826)	-
Dispositions of real estate	61,331	33,666
Dispositions of co-investments	13,900	-
Contributions to co-investments	(128,268)	(150,852)
Distributions from co-investments	40,421	117,103
Changes in restricted cash and deposits	(39,482)	(17,246)
Purchases of marketable securities	(15,516)	(16,442)
Sales and maturities of marketable securities	6,275	22,830
Purchases of and advances under notes and other receivables	-	(56,750)
Collections of notes and other receivables	76,585	53,438
Net cash used in investing activities	<u>(1,135,162)</u>	<u>(308,987)</u>
Cash flows from financing activities:		
Borrowings under debt agreements	1,737,322	641,892
Principal repayment of debt	(1,327,840)	(536,926)
Additions to deferred and financing costs	(16,941)	(3,836)
Proceeds from issuance of common stock	450,812	122,905
Equity related issuance cost of common stock	(1,348)	(616)
Proceeds from stock options exercises	6,526	4,756
Distributions to noncontrolling interest	(13,217)	(14,108)
Redemption of noncontrolling interest	(4,707)	(5,113)
Common and preferred stock dividends paid	(177,400)	(134,146)
Net cash provided by financing activities	<u>653,207</u>	<u>74,808</u>
Net decrease in cash and cash equivalents-unrestricted	<u>(140,967)</u>	<u>(9,097)</u>
Cash acquired in the BRE merger	140,353	-
Cash and cash equivalents-unrestricted at beginning of period	18,491	18,606
Cash and cash equivalents-unrestricted at end of period	<u>\$ 17,877</u>	<u>\$ 9,509</u>

(Continued)

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

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

See accompanying notes to the unaudited condensed consolidated financial statements

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except unit amounts)

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
<u>ASSETS</u>		
Real estate:		
Rental properties:		
Land and land improvements	\$ 2,453,093	\$ 1,083,552
Buildings and improvements	8,820,657	4,360,205
	11,273,750	5,443,757
Less accumulated depreciation	(1,469,991)	(1,254,886)
	9,803,759	4,188,871
Real estate under development	363,193	50,430
Co-investments	1,043,277	677,133
Real estate held for sale, net	107,772	-
	11,318,001	4,916,434
Cash and cash equivalents-unrestricted	17,877	18,491
Cash and cash equivalents-restricted	70,123	35,275
Marketable securities	108,147	90,084
Notes and other receivables	22,973	68,255
Acquired in place lease value and other assets	98,381	33,781
Deferred charges, net	31,060	24,519
Total assets	<u>\$ 11,666,562</u>	<u>\$ 5,186,839</u>
<u>LIABILITIES AND CAPITAL</u>		
Mortgage notes payable.	\$ 2,258,010	\$ 1,404,080
Unsecured debt	2,745,487	1,410,023
Lines of credit	222,628	219,421
Accounts payable and accrued liabilities	167,160	67,183
Construction payable	38,453	8,047
Distributions payable	87,609	50,627
Other liabilities	32,330	24,871
Total liabilities	5,551,677	3,184,252
Commitments and contingencies		
Redeemable noncontrolling interest	21,442	-
Cumulative convertible Series G preferred interest (liquidation value of \$4,456)	-	4,349
Capital:		
General Partner:		
Common equity (63,229,790 and 37,421,219 units issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	5,963,493	1,873,882
Series H Preferred interest (liquidation value of \$73,750)	71,209	71,209
	6,034,702	1,945,091
Limited Partners:		
Common equity (2,155,783 and 2,149,802 units issued and outstanding at September 30, 2014 and December 31, 2013, respectively)	45,439	45,957
Accumulated other comprehensive loss	(49,503)	(58,940)
Total partners' capital	6,030,638	1,932,108
Noncontrolling interest	62,805	66,130
Total capital	6,093,443	1,998,238
Total liabilities and capital	<u>\$ 11,666,562</u>	<u>\$ 5,186,839</u>

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Rental and other property	\$ 268,118	\$ 152,177	\$ 683,749	\$ 446,017
Management and other fees	2,361	1,771	6,856	5,812
	<u>270,479</u>	<u>153,948</u>	<u>690,605</u>	<u>451,829</u>
Expenses:				
Property operating, excluding real estate taxes	55,900	35,787	145,410	102,170
Real estate taxes	31,768	14,535	77,452	42,773
Depreciation	102,184	48,227	254,211	142,687
General and administrative	11,479	6,263	28,621	19,852
Merger and integration expenses	3,857	-	46,413	-
Acquisition and dispositions costs	51	237	1,555	792
	<u>205,239</u>	<u>105,049</u>	<u>553,662</u>	<u>308,274</u>
Earnings from operations	65,240	48,899	136,943	143,555
Interest expense	(45,830)	(29,192)	(117,021)	(86,661)
Interest and other income	2,992	2,387	8,685	9,326
Equity income in co-investments	4,910	40,802	21,065	52,295
Gain (loss) on early retirement of debt	-	(178)	-	846
Gains on sale of real estate and land	31,372	-	39,640	1,503
Income from continuing operations	58,684	62,718	89,312	120,864
Income from discontinued operations	-	13,157	-	14,289
Net income	58,684	75,875	89,312	135,153
Net income attributable to noncontrolling interest	(1,904)	(1,730)	(5,529)	(5,075)
Net income attributable to controlling interest	56,780	74,145	83,783	130,078
Preferred interest distributions	(1,296)	(1,368)	(3,977)	(4,104)
Net income available to common unitholders	<u>\$ 55,484</u>	<u>\$ 72,777</u>	<u>\$ 79,806</u>	<u>\$ 125,974</u>
Comprehensive income	\$ 61,139	\$ 76,112	\$ 98,749	\$ 142,206
Comprehensive income attributable to noncontrolling interest	(1,904)	(1,730)	(5,529)	(5,075)
Comprehensive income attributable to controlling interest	<u>\$ 59,235</u>	<u>\$ 74,382</u>	<u>\$ 93,220</u>	<u>\$ 137,131</u>
Per common unit data:				
Basic:				
Income from continuing operations	\$ 0.85	\$ 1.51	\$ 1.41	\$ 2.84
Income from discontinued operations	-	0.33	-	0.36
Net income available to common unitholders	<u>\$ 0.85</u>	<u>\$ 1.84</u>	<u>\$ 1.41</u>	<u>\$ 3.20</u>
Weighted average number of common units outstanding during the period	<u>65,057,157</u>	<u>39,467,492</u>	<u>56,484,589</u>	<u>39,333,100</u>
Diluted:				
Income from continuing operations	\$ 0.85	\$ 1.51	\$ 1.41	\$ 2.84
Income from discontinued operations	-	0.33	-	0.36
Net income available to common unitholders	<u>\$ 0.85</u>	<u>\$ 1.84</u>	<u>\$ 1.41</u>	<u>\$ 3.20</u>
Weighted average number of common units outstanding during the period	<u>65,234,328</u>	<u>39,583,913</u>	<u>56,677,712</u>	<u>39,421,896</u>
Distribution per common unit	<u>\$ 1.30</u>	<u>\$ 1.21</u>	<u>\$ 3.81</u>	<u>\$ 3.63</u>

See accompanying notes to the unaudited condensed consolidated financial statements

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

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

(Dollars and units in thousands)

(Unaudited)

	General Partner			Limited Partners		Accumulated		
	Common Equity		Preferred Equity	Common Equity		Other Comprehensive	Noncontrolling	
	Units	Amount	Amount	Units	Amount	(Loss) Income	Interest	Total
Balances at December 31, 2013	37,421	\$ 1,873,882	\$ 71,209	2,150	\$ 45,957	\$ (58,940)	\$ 66,130	\$ 1,998,238
Comprehensive income:								
Net income	-	76,364	3,977	-	3,442	-	5,529	89,312
Reversal of unrealized gains upon the sale of marketable securities	-	-	-	-	-	(886)	-	(886)
Change in fair value of derivatives and amortization of swap settlements	-	-	-	-	-	7,732	-	7,732
Change in fair value of marketable securities	-	-	-	-	-	2,591	-	2,591
Issuance of common units under:								
Common stock issued as consideration by general partner in merger	23,093	3,777,646	-	-	-	-	-	3,777,646
General partner's stock based compensation	154	6,511	-	-	-	-	-	6,511
Sale of common stock by general partner	2,527	449,499	-	-	-	-	-	449,499
Equity based compensation costs	-	5,756	-	29	1,672	-	-	7,428
Reclassification of noncontrolling interest to redeemable noncontrolling interest	-	(19,823)	-	(23)	4,017	-	(5,084)	(20,890)
Changes in value of redemption value of redeemable Non-Controlling Interest		2,126						2,126
Conversion of Series G preferred stock	34	4,349	-	-	-	-	-	4,349
Contributions from noncontrolling interest	-	-	-	8,561	1,419,816	-	-	1,419,816
Retirement of noncontrolling interest	-	-	-	(8,561)	(1,419,816)	-	-	(1,419,816)
Distributions to noncontrolling interest	-	-	-	-	-	-	(3,462)	(3,462)
Redemptions	-	(2,382)	-	-	(291)	-	(308)	(2,981)
Distributions declared	-	(210,435)	(3,977)	-	(9,358)	-	-	(223,770)
Balances at September 30, 2014	63,229	\$ 5,963,493	\$ 71,209	2,156	\$ 45,439	\$ (49,503)	\$ 62,805	\$ 6,093,443

See accompanying notes to the unaudited condensed consolidated financial statements

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 89,312	\$ 135,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	254,211	143,662
Amortization of discount on marketable securities	(6,555)	(4,664)
Amortization of premium and debt financing costs, net	(4,987)	8,111
Gain on sale of marketable securities	(886)	(1,767)
Operating Partnership's share of gain on the sales of co-investment	(3,213)	(41,252)
Gain on the sales of real estate and land	(39,640)	(14,161)
Non-cash merger expense	7,562	-
Equity in income in co-investments, net	(14,903)	(1,892)
Equity-based compensation	4,996	3,137
Gain on early retirement of debt	-	(846)
Changes in operating assets and liabilities:		
Acquired in place lease value and other assets	8,923	(19,689)
Accounts payable and accrued liabilities	44,775	19,091
Other liabilities	1,393	199
Net cash provided by operating activities	340,988	225,082
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate	(409,018)	(205,539)
Improvements to recent acquisitions	(13,512)	(14,374)
Redevelopment	(35,361)	(32,488)
Revenue generating capital expenditures	(20,560)	(2,165)
Lessor required capital expenditures	(7,562)	(4,320)
Non-revenue generating capital expenditures	(29,070)	(21,885)
Acquisitions of and additions to real estate under development	(108,659)	(13,963)
Proceeds from insurance claim for property damage	29,160	-
BRE merger consideration paid	(555,826)	-
Dispositions of real estate	61,331	33,666
Changes in restricted cash and deposits	(39,482)	(17,246)
Purchases of marketable securities	(15,516)	(16,442)
Sales and maturities of marketable securities	6,275	22,830
Purchases of and advances under notes and other receivables	-	(56,750)
Collections of notes and other receivables	76,585	53,438
Dispositions of co-investments	13,900	-
Contributions to co-investments	(128,268)	(150,852)
Distributions from co-investments	40,421	117,103
Net cash used in investing activities	(1,135,162)	(308,987)
Cash flows from financing activities:		
Borrowings under debt agreements	1,737,322	641,892
Principal repayment of debt	(1,327,840)	(536,926)
Additions to deferred charges	(16,941)	(3,836)
Equity related issuance cost of common stock	(1,348)	(616)
Proceeds from stock options exercises	6,526	4,756
Net proceeds from issuance of common units	450,812	122,905
Distributions to noncontrolling interest	(3,462)	(6,234)
Redemption of noncontrolling interest	(308)	(1,819)
Common units and preferred units and preferred interests distributions paid	(191,554)	(145,314)
Net cash provided by financing activities	653,207	74,808
Net decrease in cash and cash equivalents-unrestricted	(140,967)	(9,097)
Cash acquired in the BRE merger	140,353	-
Cash and cash equivalents-unrestricted at beginning of period	18,491	18,606
Cash and cash equivalents-unrestricted at end of period	\$ 17,877	\$ 9,509

(Continued)

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

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

See accompanying notes to the unaudited condensed consolidated financial statements

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

1) Organization and Basis of Presentation

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

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

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

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

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

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

Cyber-intrusion Expenses

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

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

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

Marketable Securities

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

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

September 30, 2014			
	Cost/ Amortized Cost	Gross Unrealized Gain	Carrying Value
<i>Available for sale:</i>			
Investment-grade unsecured bonds	\$ 14,396	\$ (51)	\$ 14,345
Investment funds - US treasuries	5,018	7	5,025
Common stock	22,523	957	23,480
<i>Held to maturity:</i>			
Mortgage backed securities	65,297	-	65,297
Total	<u>\$ 107,234</u>	<u>\$ 913</u>	<u>\$ 108,147</u>
December 31, 2013			
	Cost/ Amortized Cost	Gross Unrealized Gain (Loss)	Carrying Value
<i>Available for sale:</i>			
Investment-grade unsecured bonds	\$ 15,446	\$ 509	\$ 15,955
Investment funds - US treasuries	3,675	3	3,678
Common stock	13,104	(1,304)	11,800
<i>Held to maturity:</i>			
Mortgage backed securities	58,651	-	58,651
Total	<u>\$ 90,876</u>	<u>\$ (792)</u>	<u>\$ 90,084</u>

The Company uses the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other comprehensive income for securities sold. For the nine months ended September 30, 2014 and 2013, the proceeds from sales of available for sale securities totaled \$6.3 million and \$22.8 million, respectively, which resulted in realized gains of \$0.9 million and \$1.8 million, respectively.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
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Variable Interest Entities

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

Equity Based Compensation

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

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

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

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

Fair Value of Financial Instruments

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

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

Capitalization of Costs

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

Co-investments

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

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

Changes in Accumulated Other Comprehensive Loss, Net by Component

Essex Property Trust, Inc.
(in thousands):

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

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
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Essex Portfolio, L.P.
(in thousands):

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

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

Accounting Estimates

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

Discontinued Operations

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

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

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

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

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

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BRE Merger

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

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

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

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

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Essex Property Trust, Inc.

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

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

Essex Portfolio, L.P.

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

Pro forma (unaudited) nine months ended September 30 <i>(in thousands, except per unit data)</i>		
	2014	2013
Total revenue	\$ 776,761	\$ 699,701
Net income available to common unitholders (1) (2)	\$ 214,549	\$ 66,690
Earnings per unit, diluted (1)	\$ 3.34	\$ 1.07

- (1) The supplemental unaudited pro forma net income available to common stockholders were adjusted to exclude \$3.9 million and \$46.4 million of merger related costs incurred by Essex during the three and nine months ended September 30, 2014. The 2013 supplemental unaudited pro forma net income available to common stockholders was adjusted to include the above adjustments plus \$4.3 million of merger related costs incurred by Essex during the three months ended December 31, 2013. The supplemental 2014 and 2013 unaudited proforma earnings per share, diluted, was adjusted by approximately 23.1 million shares due to the common stock issued in connection with the merger.
- (2) The supplemental unaudited pro forma net income available to common stockholders for the nine months ended September 30, 2014, include approximately \$105 million from discontinued operations related to the sale of three BRE properties during the quarter ended March 31, 2014 that are non-recurring transactions.

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

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

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

Significant Transactions

Acquisitions

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

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

Common Stock

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

Subsequent Events

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

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

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

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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 (in thousands):

	September 30, 2014	December 31, 2013
Membership interest/Partnership interest in:		
Wesco I	\$ 135,875	\$ 142,025
Wesco III	53,411	39,073
Fund II	2,578	4,166
Expo	8,305	12,041
The Huxley	11,784	11,224
Connolly Station	47,661	45,242
Wesco IV	95,338	-
BEXAEW	89,504	-
Total operating co-investments	<u>444,456</u>	<u>253,771</u>
Membership interest in:		
Limited liability companies with CPPIB that own and are developing Epic, Mosso I and II, Park 20, The Emme, and The Owens & Hacienda (1)	364,779	256,296
One South Market	30,498	17,115
The Dylan	8,396	7,321
Century Towers	13,491	-
Total development co-investments	<u>417,164</u>	<u>280,732</u>
Membership interest in Wesco II that owns a preferred equity interest in Parkmerced with a preferred return of 10.1%	95,934	94,711
Preferred interest in related party limited liability company that owns Sage at Cupertino with a preferred return of 9.5%	16,471	15,775
Preferred interest in a related party limited liability company that owns Madison Park at Anaheim with a preferred return of 9%	13,824	13,824
Preferred interest in related party limited liability company that owns an apartment development in Redwood City with a preferred return of 12%	10,148	9,455
Preferred interest in a limited liability company that owns an apartment development in San Jose with a preferred return of 12%	9,710	8,865
Preferred interest in a limited liability company that owns 8th & Thomas with a preferred return of 10.0%	12,816	-
Preferred interest in a limited liability company that owns Newbury Park with a preferred return of 12.0%	12,754	-
Preferred interest in a limited liability company that owns Century Towers with a preferred return of 10.0%	10,000	-
Total preferred interest co-investments	<u>181,657</u>	<u>142,630</u>
Total co-investments	<u>\$ 1,043,277</u>	<u>\$ 677,133</u>

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

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

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

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

Wesco IV and BEXAEW

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

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(4) Notes and Other Receivables

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

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

(1) The borrower funds an impound account for capital replacement.

(2) The Company had \$9.1 million of short-term loans outstanding and due from various legacy and BRE joint ventures. See Note 5, Related Party Transaction, for additional details.

(3) The Company has BRE and legacy receivables for utilities, rents and other tenant receivables.

(5) Related Party Transactions

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

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

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

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

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

(6) Debt and Lines of Credit

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

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

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

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

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

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

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

(7) Segment Information

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

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

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

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

	September 30, 2014	December 31, 2013
Assets:		
Southern California	\$ 4,323,148	\$ 1,746,434
Northern California	3,698,020	1,614,159
Seattle Metro	1,635,274	741,533
Other real estate assets	<u>147,317</u>	<u>86,745</u>
Net reportable operating segment - real estate assets	9,803,759	4,188,871
Real estate under development	363,193	50,430
Co-investments	1,043,277	677,133
Real estate held for sale, net	107,772	-
Cash and cash equivalents, including restricted cash	88,000	53,766
Marketable securities	108,147	90,084
Notes and other receivables	22,973	68,255
Other non-segment assets	<u>129,441</u>	<u>58,300</u>
Total assets	<u>\$ 11,666,562</u>	<u>\$ 5,186,839</u>

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(8) Net Income Per Common Share

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

Essex Property Trust, Inc.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Income	Weighted-average Common Shares	Per Common Share Amount	Income	Weighted-average Common Shares	Per Common Share Amount
Basic:						
Income from continuing operations available to common stockholders	\$ 53,668	62,893	\$ 0.85	\$ 56,347	37,321	\$ 1.51
Income from discontinued operations available to common stockholders	-	62,893	-	12,441	37,321	0.33
	<u>\$ 53,668</u>		<u>\$ 0.85</u>	<u>\$ 68,788</u>		<u>\$ 1.84</u>
Effect of Dilutive Securities (1)	-	177		54	116	
Diluted:						
Income from continuing operations available to common stockholders	\$ 53,668	63,070	\$ 0.85	\$ 56,401	37,437	\$ 1.51
Income from discontinued operations available to common stockholders	-	63,070	-	12,441	37,437	0.33
	<u>\$ 53,668</u>		<u>\$ 0.85</u>	<u>\$ 68,842</u>		<u>\$ 1.84</u>
	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Income	Weighted Average Common Shares	Per Common Share Amount	Income	Weighted Average Common Shares	Per Common Share Amount
Basic:						
Income before discontinued operations available to common stockholders	\$ 76,364	54,250	\$ 1.41	\$ 105,421	37,207	\$ 2.84
Income from discontinued operations available to common stockholders	-	54,250	-	13,516	37,207	0.36
	<u>76,364</u>		<u>\$ 1.41</u>	<u>118,937</u>		<u>\$ 3.20</u>
Effect of Dilutive Securities (1)	-	193		-	89	
Diluted:						
Income from continuing operations available to common stockholders (1)	76,364	54,443	1.40	\$ 105,421	37,296	2.83
Income from discontinued operations available to common stockholders	-	54,443	-	13,516	37,296	0.36
	<u>\$ 76,364</u>		<u>\$ 1.40</u>	<u>\$ 118,937</u>		<u>\$ 3.19</u>

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

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

Essex Portfolio, L.P.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Income	Weighted- average Common Units	Per Common Unit Amount	Income	Weighted- average Common Units	Per Common Unit Amount
Basic:						
Income from continuing operations available to common unitholders	\$ 55,484	65,057	\$ 0.85	\$ 59,620	39,467	\$ 1.51
Income from discontinued operations	-	65,057	-	13,157	39,467	0.33
Income available to common unitholders	<u>\$ 55,484</u>		<u>\$ 0.85</u>	<u>\$ 72,777</u>		<u>\$ 1.84</u>
Effect of Dilutive Securities (1)	-	177		54	116	
Diluted:						
Income from continuing operations available to common unitholders (1)	\$ 55,484	65,234	\$ 0.85	\$ 59,674	39,583	\$ 1.51
Income from discontinued operations	-	65,234	-	13,157	39,583	0.33
Income available to common unitholders	<u>\$ 55,484</u>		<u>\$ 0.85</u>	<u>\$ 72,831</u>		<u>\$ 1.84</u>
	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Income	Weighted- average Common Units	Per Common Unit Amount	Income	Weighted- average Common Units	Per Common Unit Amount
Basic:						
Income from continuing operations available to common unitholders	\$ 79,806	56,485	\$ 1.41	\$ 111,685	39,333	\$ 2.84
Income from discontinued operations	-	56,485	-	14,289	39,333	0.36
Income available to common unitholders	<u>\$ 79,806</u>		<u>\$ 1.41</u>	<u>\$ 125,974</u>		<u>\$ 3.20</u>
Effect of Dilutive Securities (1)	-	193		-	89	
Diluted:						
Income from continuing operations available to common unitholders (1)	\$ 79,806	56,678	\$ 1.41	\$ 111,685	39,422	\$ 2.84
Income from discontinued operations	-	56,678	-	14,289	39,422	0.36
Income available to common unitholders	<u>\$ 79,806</u>		<u>\$ 1.41</u>	<u>\$ 125,974</u>		<u>\$ 3.20</u>

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

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

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(9) Derivative Instruments and Hedging Activities

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

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

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

(10) Commitments and Contingencies

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

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

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

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

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

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

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

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

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

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

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

Southern California (Los Angeles, Orange, Riverside, San Diego, Santa Barbara, and Ventura counties)

Northern California (the San Francisco Bay Area)

Seattle Metro (Seattle metropolitan area)

Phoenix Metro (Phoenix metropolitan area)

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

The Company's consolidated apartment communities are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

Development and Predevelopment Pipeline

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

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

Derivative Activity

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

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

Alternative Capital Sources

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

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

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

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

Critical Accounting Policies and Estimates

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

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

Business combinations

The Company accounts for its business combinations, including the merger and other acquisitions of investments in real estate, in accordance with ASC 805-10, Business Combinations, which requires the acquired tangible and intangible assets and liabilities to be recorded at fair value, with excess purchase price, if any, recorded to goodwill. The Company must make significant assumptions in determining the fair value of the tangible and intangible assets and liabilities acquired and consideration transferred. The use of different assumptions in estimating the fair value could affect the measurement and timing of recognition of acquired assets and liabilities and related expenses.

The consideration transferred in a business combination is generally measured at fair value. For debt assumed by the Company, the fair value is determined using estimated market interest rates for debt with comparable terms in place at the time of the acquisition. For equity issued by the Company, the fair value is generally based on the fair value of the Company's equity interests at the date of issuance.

The fair value of the tangible assets, which principally includes land and building, is determined first by valuing the property as a whole as if it were vacant, using stabilized net operating income and market specific capitalization rates. The fair value of the land and building is then assigned using market data regarding land and construction costs to value these tangible assets.

In calculating the fair value of identified intangible assets of an acquired property, the in-place leases are valued based on in-place rent rates and estimated time and cost to lease a unit.

The initial purchase accounting is based on the Company's preliminary assessment, which may differ when additional information becomes available. Subsequent adjustments made to the initial purchase accounting, if any, are made within the measurement period, which will be finalized within one year of the acquisition date.

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 increased dividends resulting from the BRE merger and 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, 2013, 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 is 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 and acquisition costs (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 nine months ended September 30, 2014 and 2013 (in thousands except for share and per share data):

Essex Property Trust, Inc.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income available to common stockholders	\$ 53,668	\$ 68,788	\$ 76,364	\$ 118,937
Adjustments:				
Depreciation	102,184	48,487	254,211	143,662
Gains not included in FFO, net of internal disposition costs	(31,372)	(49,044)	(41,664)	(51,410)
Depreciation add back from unconsolidated co-investments	9,986	3,723	23,060	11,342
Noncontrolling interest related to Operating Partnership units	1,816	3,989	3,442	7,037
Depreciation attributable to third party ownership	(335)	(327)	(996)	(981)
Funds from operations	\$ 135,947	\$ 75,616	\$ 314,417	\$ 228,587
Funds from operations per share - diluted	\$ 2.08	\$ 1.91	\$ 5.55	\$ 5.79
Non-core items:				
Merger and integration expenses	3,857	-	46,413	-
Cyber intrusion expenses	1,249	-	1,249	-
Acquisition and disposition costs	51	237	768	792
Gain on sales of marketable securities and note prepayment	-	-	(886)	(2,611)
Co-investment promote income	-	-	(4,904)	-
Utility reimbursement income accrual	-	-	(1,807)	-
Acquisition fee income	-	-	(500)	-
Gain on sale of land	-	-	(400)	(1,503)
Earthquake related and other	-	-	1,571	-
Loss on early retirement of debt, add back from unconsolidated co-investments	-	-	197	-
Loss (gain) on early retirement of debt	-	178	-	(846)
Income from early redemption of preferred equity investments	-	(412)	-	(1,358)
Core FFO	\$ 141,104	\$ 75,619	\$ 356,118	\$ 223,061
Core FFO per share-diluted	\$ 2.16	\$ 1.91	\$ 6.28	\$ 5.65
Weighted average number shares outstanding diluted ⁽¹⁾	65,234,328	39,583,912	56,677,712	39,456,163

(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:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Earnings from operations	\$ 65,240	\$ 48,899	\$ 136,943	\$ 143,555
Adjustments:				
Depreciation	102,184	48,227	254,211	142,687
General and administrative	11,479	6,263	28,621	19,852
Merger and integration expenses	3,857	-	46,413	-
Acquisition and dispositions costs	51	237	1,555	792
Management and other fees	(2,361)	(1,771)	(6,856)	(5,812)
NOI	180,450	101,855	460,887	301,074
Less: Non same-property NOI	(14,178)	(6,550)	(33,495)	(19,194)
Less: Legacy BRE Portfolio NOI	(62,004)	-	(120,375)	-
Same-property NOI	<u>\$ 104,268</u>	<u>\$ 95,305</u>	<u>\$ 307,017</u>	<u>\$ 281,880</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 September 30, 2014, the Company has entered into ten interest rate swap contracts to mitigate the risk of changes in the interest-related cash outflows on \$300.0 million of the variable rate five-year unsecured term debt. As of September 30, 2014, the Company also had \$189.2 million of variable rate indebtedness, of which \$156.9 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 September 30, 2014. 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 September 30, 2014. 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 September 30 2014.

	Notional Amount	Maturity Date Range	Carrying and Estimated Fair Value	Estimated Carrying Value + 50 Basis Points	- 50 Basis Points
(in thousands)					
Cash flow hedges:					
Interest rate swaps	\$ 300,000	2016-2017	\$ (1,406)	\$ 1,772	\$ (4,804)
Interest rate caps	156,904	2014-2018	-	3	-
Total cash flow hedges	<u>\$ 456,904</u>	2014-2018	<u>\$ (1,406)</u>	<u>\$ 1,775</u>	<u>\$ (4,804)</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	2014	2015	2016	2017	2018	Thereafter	Total	Fair value
(in thousands, except for interest rates)								
Fixed rate debt	\$ 7,388	94,580	191,481	538,683	320,080	3,193,126	\$ 4,345,338	\$ 4,464,278
Average interest rate	4.6%	5.1%	4.5%	3.3%	5.5%	4.2%	4.2%	
Variable rate debt	\$ -	-	200,000 ⁽¹⁾	150,000 ⁽¹⁾	-	189,219 ⁽²⁾	\$ 539,219	\$ 520,370
Average interest rate	-	-	2.4%	2.4%	-	1.9%	2.2%	

(1) \$300.0 million subject to interest rate swap agreements.

(2) \$156.9 million subject to interest rate caps.

The table incorporates only those exposures that exist as of September 30, 2014; 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**Essex Property Trust, Inc.**

As of September 30, 2014, Essex carried out an evaluation, under the supervision and with the participation of management, including Essex's 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, Essex's Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2014, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by Essex in the reports that Essex files 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 Essex's management, including Essex's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in Essex's internal control over financial reporting, that occurred during the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Essex's internal control over financial reporting.

Essex Portfolio, L.P.

As of September 30, 2014, the Operating Partnership carried out an evaluation, under the supervision and with the participation of management, including the 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, the Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2014, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Operating Partnership in the reports that the Operating Partnership files 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 the Operating Partnership's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in the Operating Partnership's internal control over financial reporting, that occurred during the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Part II -- Other Information

Item 1: Legal Proceedings

There have 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 to promptly address and resolve 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 September 30, 2014, potential liabilities for mold and other environmental liabilities are not 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 communities. There are, however, certain types of extraordinary losses, such as, for example, losses from terrorism or earthquakes, for which the Company does not have comprehensive insurance coverage. Substantially all of the communities are located in areas that are subject to earthquake activity. The Company has established a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI"). Through PWI, the Company is predominately self-insured as it relates to earthquake related losses. Additionally, since January 2008, PWI has provided property and casualty insurance coverage for the first \$5.0 million of the Company's property level insurance claims per incident. As of September 30, 2014, PWI has cash and marketable securities of approximately \$42.9 million. These assets are consolidated in the Company's financial statements.

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

The following risk factors have been updated from those set forth in Item 1A. of Part I of the Annual Report on Form 10-K for the year ended December 31, 2013, and are included herein in their entirety. For purposes of this section, the term "stockholders" means the holders of shares of Essex Property Trust, Inc.'s common stock and preferred stock. Set forth below are the risks that we believe are material to of Essex Property Trust, Inc.'s stockholders and Essex Portfolio, L.P.'s unit holders. You should carefully consider the following factors in evaluating our company, our properties and our business. Our business, operating results, cash flows and financial condition are subject to various risks and uncertainties, including, without limitation, those set forth below, any one of which could cause our actual operating results to vary materially from recent results or from our anticipated future results.

Risks Related to Our Business

The Company depends on its key personnel. The Company's success depends on its ability to attract and retain executive officers, senior officers and company managers. There is substantial competition for qualified personnel in the real estate industry and the loss of any of the Company's key personnel could have an adverse effect on the Company.

Short-term leases expose us to the effects of declining market rents. Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

Capital and credit market conditions may affect the Company's access to sources of capital and/or the cost of capital, which could negatively affect the Company's business, results of operations, cash flows and financial condition. In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to the Company may be adversely affected. The Company's strong balance sheet, the debt capacity available on the unsecured line of credit with a bank group and access to the public debt and private placement markets and Fannie Mae and Freddie Mac secured debt financing provides some insulation from volatile markets. 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. For the past two years the Company has primarily issued unsecured debt and repaid secured debt when it has matured to place less reliance on mortgage debt financing.

Debt financing has inherent risks. At September 30, 2014, the Company had approximately \$5.2 billion of indebtedness (including \$189.2 million of variable rate indebtedness, of which \$156.9 million is subject to interest rate cap protection). In connection with Essex's merger with BRE, which was completed on April 1, 2014, the Company, through its Operating Partnership, assumed \$900.0 million aggregate principal amount of BRE's 5.500% senior notes due 2017; 5.200% senior notes due 2021; and 3.375% senior notes due 2023 and secured debt with a principal balance of \$711.3 million. The Company is subject to the risks normally associated with debt financing, including the following:

- cash flow may not be sufficient to meet required payments of principal and interest;
- inability to refinance maturing indebtedness on encumbered apartment communities;
- inability to comply with debt covenants could cause an acceleration of the maturity date; and
- paying debt before the scheduled maturity date could result in prepayment penalties.

The Company may not be able to refinance its indebtedness. This indebtedness includes secured mortgages, and the communities subject to these mortgages could be foreclosed upon or otherwise transferred to the lender. This could cause the Company to lose income and asset value. The Company may be required to refinance the debt at higher interest rates or on terms that may not be as favorable as the terms of existing indebtedness.

Debt financing of communities may result in insufficient cash flow to service debt. Where appropriate, the Company intends to continue to use leverage to increase the rate of return on the Company's investments and to provide for additional investments that the Company could not otherwise make. There is a risk that the cash flow from the communities will be insufficient to meet both debt payment obligations and the distribution requirements of the real estate investment trust provisions of the Internal Revenue Code of 1986, as amended (the "Code"). The Company may obtain additional debt financing in the future through mortgages on some or all of the communities. These mortgages may be recourse, non-recourse, or cross-collateralized.

Our ability to make payments on and to refinance our indebtedness and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. To a certain extent, our cash flow is subject to general economic, industry, regional, financial, competitive, operating, legislative, regulatory, taxation and other factors, many of which are beyond our control.

As of September 30, 2014, the Company had 68 consolidated communities encumbered by debt. With respect to the 68 communities encumbered by debt, all of them are secured by deeds of trust relating solely to those communities. The holders of this indebtedness will have rights with respect to these communities and lenders may seek foreclosure of communities which would reduce the Company's income and net asset value, and its ability to service other debt.

Rising interest rates may affect the Company's costs of capital and financing activities and results of operation. Interest rates could increase, which could result in higher interest expense on the Company's variable rate indebtedness or increase interest rates when refinancing maturing fixed rate debt. Prolonged interest rate increases could negatively impact the Company's ability to make acquisitions and develop apartment communities with positive economic returns on investment and the Company's ability to refinance existing borrowings.

Essex may not realize the expected benefits of its merger with BRE because of transition difficulties and other challenges. The Combined Company (the combination of Essex and BRE pursuant to the merger) will face various additional risks, including, among others, the following:

- the Combined Company has incurred substantial expenses related to the merger;
- the Combined Company may be unable to integrate the businesses of Essex and BRE successfully and realize the anticipated synergies and other benefits of the merger or do so within the anticipated timeframe;
- the future results of the Combined Company will suffer if the Combined Company does not effectively manage its expanded operations following the merger;
- counterparties to certain significant agreements with Essex or BRE may exercise contractual rights under such agreements in connection with the merger; and

- the Combined Company's joint ventures, including joint ventures entered into in connection with the merger, could be adversely affected by the Combined Company's lack of sole decision-making authority, its reliance on its joint venture partner's financial condition and disputes between the Combined Company and its joint venture partner.

Any of these risks could adversely affect the business and financial results of the Combined Company.

We may pursue acquisitions, dispositions, investments and joint ventures, which could adversely affect our results of operations. We may make acquisitions of and investments in, businesses that offer complementary properties and communities to augment our market coverage, or enhance our property offerings, such as our recent acquisitions of BRE. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities, that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be successful. In addition, our original estimates and assumptions used in assessing any acquisition that we make may be inaccurate and we may not realize the expected financial or strategic benefits of any such acquisition. From time to time, we may also divest portions of our business that are no longer strategically important or exit minority investments, which could materially affect our FFO, cash flows and results of operations for the period in which such events occur.

These transactions or any other acquisitions or dispositions involve risks and uncertainties. For example, the integration of acquired businesses may not be successful and could result in disruption to other parts of our business. In addition, any such integration may require that we incur significant restructuring charges, including as a result of streamlining, or divesting non-core portions of, acquired businesses. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The difficulties of these integrations may be further complicated by such factors as the size of the business or entity acquired, geographic distances, lack of experience operating in the geographic market or industry sector of the acquired business, delays and challenges associated with integrating the business with our existing businesses, diversion of management's attention from daily operations of the business, potential loss of key employees and customers of the acquired business, the potential for deficiencies in internal controls at the acquired or combined business, performance problems with the acquired business' technology, difficulties in entering markets in which we have no or limited direct prior experience, exposure to unanticipated liabilities of the acquired business, insufficient revenues to offset increased expenses associated with the acquisition, and our potential inability to achieve the growth prospects and synergies expected from any such acquisition. Even when an acquired business has already developed and marketed properties, there can be no assurance that property enhancements will be made in a timely fashion or that all pre-acquisition due diligence will have identified all material issues that might arise with respect to such acquired business.

Any acquisition may also cause us to assume liabilities and ongoing lawsuits, acquire goodwill and other non-amortizable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortization expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. In addition, if the businesses or properties that we acquire have a different pricing or cost structure than we do, such acquisitions may adversely affect our profitability and reduce our overall margin. Failure to manage and successfully integrate the acquisitions we make or to improve margins of the acquired businesses and products could materially harm our business, operating results and margins. Any dispositions we may make may also result in ongoing obligations to us following any such divestiture, for example as a result of any transition services or indemnities we agree to provide to the purchaser in any such transaction, which may result in additional expenses and may adversely affect our financial condition and results of operation.

Any future acquisitions we make may also require significant additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially affect our credit ratings and, in the case of equity or equity-linked financing, would be dilutive to our existing stockholders. We also assumed a significant amount of debt in connection with our acquisition of BRE, which is secured by the substantial majority of the properties acquired. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. As a result of the foregoing, we also may not be able to complete acquisitions or other strategic transactions in the future to the same extent as in the past, or at all. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations. All of the above factors apply to our acquisition of BRE.

Interest rate hedging arrangements may result in losses. Periodically, the Company has entered into agreements to reduce the risks associated with increases in interest rates, and may continue to do so. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to the Company if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness that is hedged, the Company may be exposed to losses to the extent that the rate governing the indebtedness and the rate governing the hedging arrangement change independently of each other. Finally, nonperformance by the other party to the hedging arrangement may subject the Company to increased credit risks. In order to minimize counterparty credit risk, the Company enters into hedging arrangements only with financial institutions that have a current rating of A or higher.

Bond compliance requirements may limit income from certain communities. At September 30, 2014, the Company had approximately \$179.2 million of variable rate tax-exempt financing. This tax-exempt financing provides for certain deed restrictions and restrictive covenants. The Company expects to engage in tax-exempt financings in the future. The Code and rules and regulations thereunder impose various restrictions, conditions and requirements in order to allow the note holder to exclude interest on qualified bond obligations from gross income for federal income tax purposes. The Code also requires that at least 20% of apartment units be made available to residents with gross incomes that do not exceed a specified percentage, generally 50%, of the median income for the applicable family size as determined by the Housing and Urban Development Department of the federal government. Certain state and local authorities may impose additional rental restrictions. These restrictions may limit income from the tax-exempt financed communities if the Company is required to lower rental rates to attract residents who satisfy the median income test. If the Company does not reserve the required number of apartment homes for residents satisfying these income requirements, the tax-exempt status of the bonds may be terminated, the obligations under the bond documents may be accelerated and the Company may be subject to additional contractual liability.

General real estate investment risks may adversely affect property income and values. Real estate investments are subject to a variety of risks. If the communities do not generate sufficient income to meet operating expenses, including debt service and capital expenditures, cash flow and the ability to make distributions to stockholders will be adversely affected. Income from the communities may be further adversely affected by, among other things, the following factors:

- the general economic climate;
- local economic conditions in which the communities are located, such as oversupply of housing or a reduction in demand for rental housing;
- the attractiveness of the communities to tenants;
- competition from other available housing; and
- the Company's ability to provide for adequate maintenance and insurance.

As leases at the communities expire, tenants may enter into new leases on terms that are less favorable to the Company. Income and real estate values also may be adversely affected by such factors as applicable laws (e.g., the Americans with Disabilities Act of 1990 and tax laws). Real estate investments are relatively illiquid and, therefore, the Company's ability to vary its portfolio promptly in response to changes in economic or other conditions may be quite limited.

National and regional economic environments can negatively impact the Company's operating results. During recent years, a confluence of factors has resulted in job losses, turmoil and volatility in the capital markets, and caused a national and global recession. The Company's forecast for the national economy assumes growth of the gross domestic product of the national economy and the economies of the western states. In the event of another recession, the Company could incur reduction in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising and turnover expenses.

Inflation/Deflation may affect rental rates and operating expenses. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses.

Acquisitions of communities may fail to meet expectations. The Company intends to continue to acquire apartment communities. However, there are risks that acquisitions will fail to meet the Company's expectations. The Company's estimates of future income, expenses and the costs of improvements or redevelopment that is necessary to allow the Company to market an acquired apartment community as originally intended may prove to be inaccurate. The Company expects to finance future acquisitions, in whole or in part, under various forms of secured or unsecured financing or through the issuance of partnership units by the Operating Partnership or related partnerships or additional equity by the Company. The use of equity financing, rather than debt, for future developments or acquisitions could dilute the interest of the Company's existing stockholders. If the Company finances new acquisitions under existing lines of credit, there is a risk that, unless the Company obtains substitute financing, the Company may not be able to secure further lines of credit for new development or such lines of credit may be not available on advantageous terms.

Development and redevelopment activities may be delayed, not completed, and/or not achieve expected results. The Company pursues development and redevelopment projects and these projects generally require various governmental and other approvals, which have no assurance of being received. The Company's development and redevelopment activities generally entail certain risks, including the following:

- funds may be expended and management's time devoted to projects that may not be completed;

- construction costs of a project may exceed original estimates possibly making the project economically unfeasible;
- projects may be delayed due to, without limitation, adverse weather conditions, labor or material shortage;
- occupancy rates and rents at a completed project may be less than anticipated; and
- expenses at completed development projects may be higher than anticipated.

These risks may reduce the funds available for distribution to the Company's stockholders. Further, the development and redevelopment of communities is also subject to the general risks associated with real estate investments. For further information regarding these risks, please see the risk factor "General real estate investment risks may adversely affect property income and values."

The geographic concentration of the Company's communities and fluctuations in local markets may adversely impact the Company's financial condition and operating results. The Company generated significant amounts of rental revenues for the quarter ended September 30, 2014, from the Company's communities concentrated in Southern California (Los Angeles, Orange, Santa Barbara, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area), and the Seattle metropolitan area. For the quarter ended September 30, 2014, 79% of the Company's rental revenues were generated from communities located in California. This geographic concentration could present risks if local property market performance falls below expectations. The economic condition of these markets could affect occupancy, property revenues, and expenses, from the communities and their underlying asset values. The financial results of major local employers also may impact the cash flow and value of certain of the communities. This could have a negative impact on the Company's financial condition and operating results, which could affect the Company's ability to pay expected dividends to its stockholders and the Operating Partnership's ability to pay expected distributions to unit holders.

Competition in the apartment community market may adversely affect operations and the rental demand for the Company's communities. There are numerous housing alternatives that compete with the Company's communities in attracting residents. These include other apartment communities and single-family homes that are available for rent in the markets in which the communities are located. If the demand for the Company's communities is reduced or if competitors develop and/or acquire competing apartment communities, rental rates may drop, which may have a material adverse effect on the Company's financial condition and results of operations. The Company also faces competition from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of apartment communities. This competition may result in an increase in costs and prices of apartment communities that the Company acquires and/or develops.

The price per share of the Company's stock may fluctuate significantly. The market price per share of the Company's common stock may fluctuate significantly in response to many factors, including without limitation:

- regional, national and global economic conditions;
- actual or anticipated variations in the Company's quarterly operating results or dividends;
- changes in the Company's funds from operations or earnings estimates;
- issuances of common stock, preferred stock or convertible debt securities;
- publication of research reports about the Company or the real estate industry;
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate based companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of the Company's stock to demand a higher annual yield from dividends;
- availability to capital markets and cost of capital;
- a change in analyst ratings or the Company's credit ratings;
- terrorist activity may adversely affect the markets in which the Company's securities trade, possibly increasing market volatility and causing erosion of business and consumer confidence and spending; and
- Natural disasters such as earthquakes.

Many of the factors listed above are beyond the Company's control. These factors may cause the market price of shares of the Company's common stock to decline, regardless of the Company's financial condition, results of operations, or business prospects.

The Company's future issuances of common stock, preferred stock or convertible debt securities could adversely affect the market price of the Company's common stock. In order to finance the Company's acquisition and development activities, the Company has issued and sold common stock, preferred stock and convertible debt securities. For example, during the nine months ended September 30, 2014 and the year ended December 31, 2013, the Company issued 2.6 million and 0.9 million shares of common stock for \$450.8 million and \$138.4 million, net of fees and commissions, respectively. The Company may in the future sell further shares of common stock, including pursuant to its equity distribution programs with Cantor Fitzgerald & Co., Barclays Capital Inc., BMO Capital Markets Corp., Liquidnet, Inc., Mitsubishi UFJ Securities (USA), Inc, Citigroup Global Markets Inc, BNP Paribas Securities Corp., Jefferies LLC ("Jefferies"), J.P. Morgan Securities LLC ("JP Morgan") and UBS Securities LLC ("UBS").

In 2014, the Company filed a new shelf registration statement with the SEC, allowing the Company to sell an undetermined number of equity and debt securities as defined in the prospectus. Future sales of common stock, preferred stock or convertible debt securities may dilute stockholder ownership in the Company and could adversely affect the market price of the common stock.

The indentures governing our notes contain restrictive covenants that limit our operating flexibility. The indentures that govern our publicly registered notes, as well as the notes that we issued pursuant to a private placement in April 2014, contain financial and operating covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest, including restrictions on our ability to:

- consummate a merger, consolidation or sale of all or substantially all of our assets; and
- incur additional secured and unsecured indebtedness.

The instruments governing our other unsecured indebtedness require us to meet specified financial covenants, including covenants relating to net worth, fixed charge coverage, debt service coverage, the amounts of total indebtedness and secured indebtedness, leverage and certain investment limitations. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these provisions and those contained in the indentures governing the notes, may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events adversely impacting us. The breach of any of these covenants, including those contained in our indentures, could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

A downgrade in the Company's investment grade credit rating could materially and adversely affect its business and financial condition. The Company plans to manage its operations to maintain its investment grade credit rating with a capital structure consistent with its current profile, but there can be no assurance that it will be able to maintain its current credit ratings. Any downgrades in terms of ratings or outlook by any of the rating agencies could have a material adverse impact on the Company's cost and availability of capital, which could in turn have a material adverse impact on its financial condition, results of operations and liquidity.

The Company's Chairman is involved in other real estate activities and investments, which may lead to conflicts of interest. The Company's Chairman, George M. Marcus is not an employee of the Company, and is involved in other real estate activities and investments, which may lead to conflicts of interest. Mr. Marcus owns interests in various other real estate-related businesses and investments. He is the Chairman of the Marcus & Millichap Company ("MMC"), which is a parent company of a diversified group of real estate service, investment and development firms. Mr. Marcus is also the Co-Chairman of Marcus & Millichap, Inc. ("MMI"), and Mr. Marcus owns a controlling interest in MMI. MMI is a national brokerage firm listed on the NYSE that underwent its initial public offering in 2013.

Mr. Marcus has agreed not to divulge any confidential or proprietary information that may be received by him in his capacity as Chairman of the Company to any of his affiliated companies and that he will absent himself from any and all resolutions by the Company Board of Directors regarding any proposed acquisition and/or development of an apartment community where it appears that there may be a conflict of interest with any of his affiliated companies. Notwithstanding this agreement, Mr. Marcus and his affiliated entities may potentially compete with the Company in acquiring and/or developing apartment communities, which competition may be detrimental to the Company. In addition, due to such potential competition for real estate investments, Mr. Marcus and his affiliated entities may have a conflict of interest with the Company, which may be detrimental to the interests of the Company's stockholders.

The influence of executive officers, directors and significant stockholders may be detrimental to holders of common stock. As of September 30, 2014, George M. Marcus, the Chairman of the Company's Board of Directors, wholly or partially owned 1.6 million shares of common stock (including shares issuable upon exchange of limited partnership interests in the Operating Partnership and certain other partnerships and assuming exercise of all vested options), respectively. Mr. Marcus currently does not have majority control over the Company. However, he currently has, and likely will continue to have, significant influence with respect to the election of directors and approval or disapproval of significant corporate actions. Consequently, his influence could result in decisions that do not reflect the interests of all the Company's stockholders.

Under the partnership agreement of the Operating Partnership, the consent of the holders of limited partnership interests is generally required for certain amendments of the agreement and for certain extraordinary actions. Through their ownership of limited partnership interests and their positions with the Company, the Company's directors and executive officers, including Mr. Marcus, have substantial influence on the Company. Consequently, their influence could result in decisions that do not reflect the interests of all stockholders.

The voting rights of preferred stock may allow holders of preferred stock to impede actions that otherwise benefit holders of common stock. Essex currently has outstanding shares of 7.125% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock"). In general, the holders of the Company's outstanding shares of Series H Preferred Stock do not have any voting rights. However, if full distributions are not made on outstanding Series H Preferred Stock for six quarterly distributions periods, the holders of Series H Preferred Stock, together with holders of other series of preferred stock upon which like voting rights have been conferred, will have the right to elect two additional directors to serve on Essex's Board of Directors.

These voting rights continue until all distributions in arrears and distributions for the current quarterly period on the Series H Preferred Stock have been paid in full. At that time, the holders of the Series H Preferred Stock are divested of these voting rights, and the term of office of the directors so elected immediately terminates. While any shares of the Company's Series H Preferred Stock are outstanding, the Company may not, without the consent of the holders of two-thirds of the outstanding shares of Series H Preferred Stock:

- authorize or create any class or series of stock that ranks senior to the Series H Preferred Stock with respect to the payment of dividends, rights upon liquidation, dissolution or winding-up of the Company's business; or
- amend, alter or repeal the provisions of the Company's Charter, including by merger or consolidation, that would materially and adversely affect the rights of the Series H Preferred Stock; provided that in the case of a merger or consolidation, so long as the Series H Preferred Stock remains outstanding with the terms thereof materially unchanged or the holders of shares of Series H Preferred Stock receive shares of stock or other equity securities with rights, preferences, privileges and voting powers substantially similar to that of the Series H Preferred Stock, the occurrence of such merger or consolidation shall not be deemed to materially and adversely affect the rights of the holders of the Series H Preferred Stock.

These voting rights of the holders of the Series H Preferred Stock and of other preferred stock may allow such holders to impede or veto actions that would otherwise benefit the holders of the Company's common stock.

The Maryland business combination law may not allow certain transactions between the Company and its affiliates to proceed without compliance with such law. Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as any person (and certain affiliates of such person) who beneficially owns ten percent or more of the voting power of the then-outstanding voting stock. The law also requires a supermajority stockholder vote for such transactions. This means that the transaction must be approved by at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares; and
- Two-thirds of the votes entitled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder with whom the business combination is to be effected.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that the interested stockholder becomes an interested stockholder. These voting provisions do not apply if the stockholders receive a minimum price, as defined under Maryland law. As permitted by the statute, the Board of Directors of the Company irrevocably has elected to exempt any business combination by the Company, George M. Marcus, who is the chairman of the Company, and MMC or any entity owned or controlled by Mr. Marcus and MMC. Consequently, the five-year prohibition and supermajority vote requirement described above will not apply to any business combination between the Company, Mr. Marcus, or MMC. As a result, the Company may in the future enter into business combinations with Mr. Marcus and MMC, without compliance with the supermajority vote requirements and other provisions of the Maryland Business Combination Act.

Anti-takeover provisions contained in the Operating Partnership agreement, charter, bylaws, and certain provisions of Maryland law could delay, defer or prevent a change in control. While the Company is the sole general partner of the Operating Partnership, and generally has full and exclusive responsibility and discretion in the management and control of the Operating Partnership, certain provisions of the Operating Partnership agreement place limitations on the Company's ability to act with respect to the Operating Partnership. Such limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the Company's stock or otherwise be in the best interest of the stockholders or that could otherwise adversely affect the interest of the Company's stockholders. The partnership agreement provides that if the limited partners own at least 5% of the outstanding units of partnership interest in the Operating Partnership, the Company cannot, without first obtaining the consent of a majority-in-interest of the limited partners in the Operating Partnership, transfer all or any portion of the Company's general partner interest in the Operating Partnership to another entity. Such limitations on the Company's ability to act may result in the Company's being precluded from taking action that the Board of Directors believes is in the best interests of the Company's stockholders.

The Company's Charter authorizes the issuance of additional shares of common stock or preferred stock and the setting of the preferences, rights and other terms of such preferred stock without the approval of the holders of the common stock. The Company may establish one or more series of preferred stock that could delay, defer or prevent a transaction or a change in control. Such a transaction might involve a premium price for the Company's stock or otherwise be in the best interests of the holders of common stock. Also, such a class of preferred stock could have dividend, voting or other rights that could adversely affect the interest of holders of common stock.

The Company's Charter contains other provisions that may delay, defer or prevent a transaction or a change in control that might be in the best interest of the Company's stockholders. The Charter contains ownership provisions limiting the transferability and ownership of shares of capital stock, which may have the effect of delaying, deferring or preventing a transaction or a change in control. For example, subject to receiving an exemption from the Board of Directors, potential acquirers may not purchase more than 6% in value of the stock (other than qualified pension trusts which can acquire 9.9%). This may discourage tender offers that may be attractive to the holders of common stock and limit the opportunity for stockholders to receive a premium for their shares of common stock.

The Maryland General Corporation Law restricts the voting rights of shares deemed to be "control shares." Under the Maryland General Corporation Law, "control shares" are those which, when aggregated with any other shares held by the acquirer, entitle the acquirer to exercise voting power within specified ranges. Although the Bylaws exempt the Company from the control share provisions of the Maryland General Corporation Law, the Board of Directors may amend or eliminate the provisions of the Bylaws at any time in the future. Moreover, any such amendment or elimination of such provision of the Bylaws may result in the application of the control share provisions of the Maryland General Corporation Law not only to control shares which may be acquired in the future, but also to control shares previously acquired. If the provisions of the Bylaws are amended or eliminated, the control share provisions of the Maryland General Corporation Law could delay, defer or prevent a transaction or change in control that might involve a premium price for the stock or otherwise be in the best interests of the Company's stockholders.

The Company's Charter and bylaws also contain other provisions that may impede various actions by stockholders without approval of the Company's board of directors, which in turn may delay, defer or prevent a transaction, including a change in control. Those provisions include:

- directors may be removed, without cause, only upon a two-thirds vote of stockholders, and with cause, only upon a majority vote of stockholders;
- the Company's board can fix the number of directors and fill vacant directorships upon the vote of a majority of the directors;
- stockholders must give advance notice to nominate directors or propose business for consideration at a stockholders' meeting; and
- for stockholders to call a special meeting, the meeting must be requested by not less than a majority of all the votes entitled to be cast at the meeting.

The Company's joint ventures and joint ownership of communities and partial interests in corporations and limited partnerships could limit the Company's ability to control such communities and partial interests. Instead of purchasing and developing apartment communities directly, the Company has invested and may continue to invest in joint ventures. Joint venture partners often have shared control over the development and operation of the joint venture assets. Therefore, it is possible that a joint venture partner in an investment might become bankrupt, or have economic or business interests or goals that are inconsistent with the Company's business interests or goals, or be in a position to take action contrary to the Company's instructions or requests, or its policies or objectives. Consequently, a joint venture partners' actions might subject property owned by the joint venture to additional risk. Although the Company seeks to maintain sufficient influence over any joint venture to achieve its objectives, the Company may be unable to take action without its joint venture partners' approval, or joint venture partners could take actions binding on the joint venture without its consent. A joint venture partner might fail to approve decisions that are in the Company's best interest. Should a joint venture partner become bankrupt, the Company could become liable for such partner's share of joint venture liabilities. In some instances, the Company and the joint venture partner may each have the right to trigger a buy-sell arrangement, which could cause the Company to sell its interest, or acquire a partner's interest, at a time when the Company otherwise would have not have initiated such a transaction.

From time to time, the Company, through the Operating Partnership, invests in corporations, limited partnerships, limited liability companies or other entities that have been formed for the purpose of acquiring, developing, financing, or managing real property. In certain circumstances, the Operating Partnership's interest in a particular entity may be less than a majority of the outstanding voting interests of that entity. Therefore, the Operating Partnership's ability to control the daily operations of such an entity may be limited. Furthermore, the Operating Partnership may not have the power to remove a majority of the board of directors (in the case of a corporation) or the general partner or partners (in the case of a limited partnership) of such an entity in the event that its operations conflict with the Operating Partnership's objectives. The Operating Partnership may not be able to dispose of its interests in such an entity. In the event that such an entity becomes insolvent, the Operating Partnership may lose up to its entire investment in and any advances to the entity. The Company may also incur losses if any guarantees were made by the Company. The Company has, and in the future may, enter into transactions that could require the Company to pay the tax liabilities of partners, which contribute assets into joint ventures or the Operating Partnership, in the event that certain taxable events, which are within the Company's control, occur. Although the Company plans to hold the contributed assets or defer recognition of gain on sale pursuant to the like-kind exchange rules under Section 1031 of the Code, the Company can provide no assurance that the Company will be able to do so and if such tax liabilities were incurred they could have a material impact on its financial position.

Investments in mortgages and other real estate securities could affect the Company's ability to make distributions to stockholders. The Company may invest in securities related to real estate, which could adversely affect the Company's ability to make distributions to stockholders. The Company may purchase securities issued by entities which own real estate and invest in mortgages or unsecured debt obligations. These mortgages may be first, second or third mortgages that may or may not be insured or otherwise guaranteed. In general, investments in mortgages include the following risks:

- that the value of mortgaged property may be less than the amounts owed, causing realized or unrealized losses;
- the borrower may not pay indebtedness under the mortgage when due, requiring the Company to foreclose, and the amount recovered in connection with the foreclosure may be less than the amount owed;
- that interest rates payable on the mortgages may be lower than the Company's cost of funds; and
- in the case of junior mortgages, that foreclosure of a senior mortgage could eliminate the junior mortgage.

If any of the above were to occur, it could adversely affect cash flows from operations and the Company's ability to make expected dividends to stockholders and the Operating Partnership's ability to make expected distributions to unit holders.

A breach of the Company's privacy or information security systems could materially adversely affect the Company's business and financial condition. The protection of customer, employee, and company data is critically important to the Company. Our business requires us to use and store personally identifiable information of its customers and employees. This may include names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers, and payment account information. The collection and use of personally identifiable information is governed by federal and state laws and regulations. Privacy and information security laws continue to evolve and may be inconsistent from one jurisdiction to another. Compliance with all such laws and regulations may increase the Company's operating costs and adversely impact the Company's ability to market the Company's properties and services.

The security measures put in place by the Company cannot provide absolute security, and our information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents due to employee error, malfeasance, or other vulnerabilities. Any such incident could compromise the Company's networks, and the information stored by the Company could be accessed, misused, publicly disclosed, corrupted, lost, or stolen resulting in fraud or other harm. Moreover, if a data security incident or breach affects the Company's systems or results in the unauthorized release of personally identifiable information, the Company's reputation and brand could be materially damaged and the Company may be exposed to a risk of loss or litigation and possible liability, which could result in a material adverse effect on the Company's business, results of operations, and financial condition.

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

After detecting unusual activity, the Company took immediate steps to assess and contain the intrusion and secure its systems. The Company retained independent forensic computer experts to analyze the impacted data systems and is consulting with law enforcement. The investigation into this cyber-intrusion is ongoing, and the Company is working as quickly as possible to identify whether any employee or resident data may be at risk. As a precaution, the Company has purchased identity protection services for all current residents and employees.

The Company has recorded \$1.2 million in cyber-intrusion expenses in the third quarter of 2014, including legal fees, investigative fees, costs of communications with the Company's residents and employees, and identity protection services. The Company expects to incur additional costs as investigation and remediation efforts continue. Such costs are not currently estimable but could be material to the Company's future operating results.

Privacy and information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. In light of this recent network intrusion, we have dedicated additional Company resources to strengthening the security of the Company's computer systems. In the future, the Company may be required to expend additional resources to continue to enhance the Company's information security measures and/or to investigate and remediate any information security vulnerabilities. Despite these steps, there can be no assurance that the Company will not suffer a similar data security incident in the future, that unauthorized parties will not gain access to sensitive data stored on the Company's systems, or that any such incident will be discovered in a timely manner. Further, the techniques used by criminals to obtain unauthorized access to sensitive data are often novel or change frequently; accordingly, the Company may be unable to anticipate these techniques or implement adequate preventative measures.

Compliance with laws benefiting disabled persons may require the Company to make significant unanticipated expenditures or impact the Company's investment strategy. A number of federal, state and local laws (including the Americans with Disabilities Act) and regulations exist that may require modifications to existing buildings or restrict certain renovations by requiring improved access to such buildings by disabled persons and may require other structural features which add to the cost of buildings under construction. Legislation or regulations adopted in the future may impose further burdens or restrictions on the Company with respect to improved access by disabled persons. The costs of compliance with these laws and regulations may be substantial.

The Company's Portfolio may have environmental liabilities. Under various federal, state and local laws, ordinances and regulations, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on, in, to or migrating from such property. Such laws often impose liability without regard as to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow using such property as collateral. Persons exposed to such substances, either through soil vapor or ingestion of the substances may claim personal injury damages. Persons who arrange for the disposal or treatment of hazardous or toxic substances or wastes also may be liable for the costs of removal or remediation of such substances at the disposal or treatment facility to which such substances or wastes were sent, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air, and third parties may seek recovery from owners or operators of apartment communities for personal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development of apartment communities, the Company could be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and costs related to injuries of persons and property.

Investments in real property create a potential for environmental liabilities on the part of the owner of such real property. The Company carries certain limited insurance coverage for this type of environmental risk. The Company has conducted environmental studies which revealed the presence of groundwater contamination at certain communities. Such contamination at certain of these apartment communities was reported to have migrated on-site from adjacent industrial manufacturing operations. The former industrial users of the communities were identified as the source of contamination. The environmental studies noted that certain communities are located adjacent to or possibly down gradient from sites with known groundwater contamination, the lateral limits of which may extend onto such apartment communities. The environmental studies also noted that at certain of these apartment communities, contamination existed because of the presence of underground fuel storage tanks, which have been removed. In general, in connection with the ownership, operation, financing, management and development of apartment communities, the Company may be potentially liable for removal or clean-up costs, as well as certain other costs and environmental liabilities. The Company may also be subject to governmental fines and costs related to injuries to persons and property.

There have 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 assurance that the Company has identified and responded to all mold occurrences. 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 September 30, 2014, potential liabilities for mold and other environmental liabilities are not quantifiable and an estimate of possible loss cannot be made.

California has enacted legislation commonly referred to as “Proposition 65” requiring that “clear and reasonable” warnings be given to consumers who are exposed to chemicals known to the State of California to cause cancer or reproductive toxicity, including tobacco smoke. Although the Company has sought to comply with Proposition 65 requirements, the Company cannot assure you that the Company will not be adversely affected by litigation relating to Proposition 65.

Methane gas is a naturally-occurring gas that is commonly found below the surface in several areas, particularly in the Southern California coastal areas. Methane is a non-toxic gas, but can be ignitable in confined spaces. Although naturally-occurring, methane gas is not regulated at the state or federal level, however some local governments, such as the County of Los Angeles, have imposed requirements that new buildings install detection systems in areas where methane gas is known to be located. Methane gas is also associated with certain industrial activities, such as former municipal waste landfills. Radon is also a naturally-occurring gas that is found below the surface. The Company cannot assure you that it will not be adversely affected by costs related to its compliance with methane or radon gas related requirements or litigation costs related to methane or radon gas.

The Company has almost 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 subject arising out of environmental conditions or violations with respect to 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 an apartment community did not create any material environmental condition not known to the Company, or that a material environmental condition does not 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 incur general uninsured losses. The Company carries comprehensive liability, fire, extended coverage and rental loss insurance for each of the communities. There are, however, certain types of extraordinary losses, such as, for example, losses from terrorism or earthquakes, for which the Company does not have insurance coverage. Substantially all of the communities are located in areas that are subject to earthquake activity. The Company has established a wholly owned insurance subsidiary, Pacific Western Insurance LLC (“PWI”). Through PWI, the Company is self-insured as it relates to earthquake related losses. Additionally, since January 2008, PWI has provided property and casualty insurance coverage for the first \$5.0 million of the Company’s property level insurance claims per incident. As of September 30, 2014, PWI has cash and marketable securities of approximately \$42.9 million. These assets are consolidated in the Company’s financial statements. Beginning in 2013, the Company has obtained limited third party seismic insurance on selected assets in which it holds an ownership interest.

Although the Company may carry insurance for potential losses associated with its communities, employees, residents, and compliance with applicable laws, it may still incur losses due to uninsured risks, deductibles, copayments or losses in excess of applicable insurance coverage and those losses may be material. In the event of a substantial loss, insurance coverage may not be able to cover the full replacement cost of the Company’s lost investment, or the insurance carrier may become insolvent and not be able to cover the full amount of the insured losses. Changes in building codes and ordinances, environmental considerations and other factors might also affect the Company’s ability to replace or renovate an apartment community after it has been damaged or destroyed.

Adverse changes in laws may affect the Company’s liability relating to its properties and its operations. Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to residents or users in the form of higher rents, and may adversely affect the Company’s cash available for distribution and its ability to make distributions to its stockholders and pay amounts due on its debt. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which could have a material adverse effect on the Company and its ability to make distributions to its stockholders and pay amounts due on our debt. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing may reduce rental revenues or increase operating costs.

Changes in the Company’s financing policy may lead to higher levels of indebtedness. The Company has adopted a policy of maintaining a limit on debt financing consistent with the existing covenants required to maintain the Company’s unsecured line of credit bank facility, unsecured debt and senior unsecured bonds. The Company’s organizational documents do not limit the amount or percentage of indebtedness that may be incurred. If the Company changed this policy, the Company could incur more debt, resulting in an increased risk of default on the Company’s obligations and the obligations of the Operating Partnership, and an increase in debt service requirements that could adversely affect the Company’s financial condition and results of operations. Such increased debt could exceed the underlying value of the communities.

The Company is subject to various tax risks. The Company has elected to be taxed as a REIT under the Code. The Company's qualification as a REIT requires it to satisfy numerous requirements (some on an annual and a quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within the Company's control. Although the Company intends that its current organization and method of operation enable it to qualify as a REIT, it cannot assure you that it so qualifies or that it will be able to remain so qualified in the future. Future legislation, new regulations, administrative interpretations or court decisions (any of which could have retroactive effect) could adversely affect the Company's ability to qualify as a REIT or adversely affect the Company's stockholders. If the Company fails to qualify as a REIT in any taxable year, the Company would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on the Company's taxable income at corporate rates, and the Company would not be allowed to deduct dividends paid to its stockholders in computing its taxable income. The Company would also be disqualified from treatment as a REIT for the four taxable years following the year in which the Company failed to qualify. The additional tax liability would reduce its net earnings available for investment or distribution to stockholders, and the Company would no longer be required to make distributions to its stockholders. Even if the Company continues to qualify as a REIT, it will continue to be subject to certain federal, state and local taxes on the Company's income and property.

The Company has established several taxable REIT subsidiaries ("TRSs"). Despite its qualification as a REIT, the Company's TRSs must pay U.S. federal income tax on their taxable income. While the Company will attempt to ensure that its dealings with its TRSs do not adversely affect its REIT qualification, it cannot provide assurance that it will successfully achieve that result. Furthermore, it may be subject to a 100% penalty tax, or its TRSs may be denied deductions, to the extent its dealings with its TRSs are not deemed to be arm's length in nature. No assurances can be given that the Company's dealings with its TRSs will be arm's length in nature.

From time to time, the Company may transfer or otherwise dispose of some of its properties. Under the Code, any gain resulting from transfers of properties that the Company holds as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since the Company acquires properties for investment purposes, it does not believe that its occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by the Company are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then the Company would be required to pay a 100% penalty tax on any gain allocable to it from the prohibited transaction and the Company's ability to retain future gains on real property sales may be jeopardized. Income from a prohibited transaction might adversely affect the Company's ability to satisfy the income tests for qualification as a REIT for U.S. federal income tax purposes. Therefore, no assurances can be given that the Company will be able to satisfy the income tests for qualification as a REIT if the Company transferred or disposed of property in a transaction treated as a prohibited transaction.

Dividends received from REITs are generally not eligible to be taxed at the preferential qualified dividend income rates (the current maximum rate is 20%) applicable to individual U.S. stockholders who receive dividends from taxable subchapter C corporations. With limited exceptions, dividends received by individual U.S. stockholders from the Company that are not designated as capital gain dividends will continue to be taxed at rates applicable to ordinary income, which are as high as 39.6%. This may cause investors to view REIT investments to be less attractive than investments in non-REIT corporations, which in turn may adversely affect the value of stock in REITs, including the Company's stock.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities; Essex Portfolio, L.P.

During the three months ended September 30, 2014, the Operating Partnership issued partnership units in private placements in reliance on the exemption from registration provided by Section 4(2) of the Securities Act, in the amounts and for the consideration set forth below:

During the three months ended September 30, 2014, Essex Property Trust, Inc. issued an aggregate of 813,809 of its common stock upon the exercise of stock options, the vesting of restricted stock awards and the issuances of common stock into the public market pursuant to its equity distribution program. Essex Property Trust, Inc. contributed the proceeds from the option exercises and issuances of common stock pursuant to its equity distribution of \$152.7 million for the three months ended September 30, 2014 to our Operating Partnership in exchange for an aggregate of 813,809 common operating partnership units ("common units"), as required by the Operating Partnership's partnership agreement.

Item 5: Other Information

The Company issued a press release on August 6, 2014, announcing its results for the second quarter ended June 30, 2014, and on August 7, 2014, at 1:00 pm EDT or Eastern Daylight Time, held a conference call accessible to the public through a webcast to discuss those results. However, due to an inadvertent error, a Current Report on Form 8-K furnishing the press release pursuant to Item 2.02 thereof was not filed.

Furnished herewith as Exhibits 99.1, 99.2 and 99.3, respectively, are the Company's press release issued August 6, 2014, reporting the Company's second quarter 2014 financial results, the supplemental information that the Company also released with the press release and the transcript of its subsequent conference call discussing the second quarter results. The earnings call is also archived for playback (for 90 days after the August 7 conference call) at the Company's website, <http://www.essex.com>. Exhibits 99.1, 99.2 and 99.3 are being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall such exhibits be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act.

Item 6: Exhibits*A. Exhibits*

10.1	Form of Equity Distribution Agreement between Essex Property Trust, Inc. and various entities, dated August 28, 2014, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 2, 2014, and incorporated herein by reference.
10.2	Form of Amended & Restated Equity Distribution Agreement between Essex Property Trust, Inc. and various entities, dated August 28, 2014 , attached as Exhibit 10.2 to the Company's Current Report on Form 8-K, filed September 2, 2014, and incorporated herein by reference.
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.
31.3	Certification of Michael J. Schall, Principal Executive Officer of General Partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Michael T. Dance, Principal Financial Officer of General Partner, 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.
32.3	Certification of Michael J. Schall, Principal Executive Officer of General Partner, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4	Certification of Michael T. Dance, Principal Financial Officer of General Partner, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release issued by Essex Property Trust, Inc. dated August 6, 2014, announcing the financial results for the second quarter of 2014 (furnished pursuant to Item 2.02 of Form 8- K).
99.2	Supplemental Information issued by Essex Property Trust on August 6, 2014 and accompanying August 6, 2014 earnings release (furnished pursuant to Item 2.02 of Form 8-K).
99.3	Transcript of the conference call discussing the second quarter of 2014 results (furnished pursuant to Item 2.02 of Form 8-K).

SIGNATURE

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

ESSEX PROPERTY TRUST, INC.
(Registrant)

Date: November 6, 2014

By: /S/ MICHAEL T. DANCE

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

ESSEX PORTFOLIO, L.P.
By Essex Property Trust, Inc., its general partner
(Registrant)

Date: November 6, 2014

By: /S/ MICHAEL T. DANCE

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

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 September 30	Years ended December 31,				
	2014	2013	2012	2011	2010	2009
Earnings:						
Income from continuing operations	\$ 58,684	\$ 140,882	\$ 127,653	\$ 46,958	\$ 47,424	\$ 41,244
Gain on sales of real estate	-	-	-	-	-	(103)
Interest and amortization expense	45,830	116,524	111,888	103,168	87,584	86,016
Total earnings	\$ 104,514	\$ 257,406	\$ 239,541	\$ 150,126	\$ 135,008	\$ 127,157
Fixed charges:						
Interest and amortization expense	\$ 45,830	\$ 116,524	\$ 111,888	\$ 103,168	\$ 87,584	\$ 86,016
Capitalized interest	6,187	16,486	10,346	8,240	9,486	10,463
Preferred stock dividends	1,296	5,472	5,472	4,753	2,170	4,860
Perpetual preferred unit distributions	-	-	-	1,650	6,300	6,300
Total fixed charges and preferred stock dividends and preferred unit distributions	\$ 53,313	\$ 138,482	\$ 127,706	\$ 117,811	\$ 105,540	\$ 107,639
Ratio of earnings to fixed charges (excluding preferred stock dividends and preferred unit distributions)	2.01X	1.94X	1.96X	1.35X	1.39X	1.32X
Ratio of earnings to combined fixed charges and preferred stock dividends and preferred unit distributions	1.96X	1.86X	1.88X	1.27X	1.28X	1.18X

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Schedule of computation of Ratio and Earnings to Fixed Charges and Preferred Unit Distributions
(Dollars in thousands, except ratios)

	Quarter ended September 30	Years ended December 31,				
	2014	2013	2012	2011	2010	2009
Earnings:						
Income from continuing operations	\$ 58,684	\$ 140,882	\$ 127,653	\$ 46,958	\$ 47,424	\$ 41,244
Gain on sales of real estate	-	-	-	-	-	(103)
Interest and amortization expense	45,830	116,524	111,888	103,168	87,584	86,016
Total earnings	\$ 104,514	\$ 257,406	\$ 239,541	\$ 150,126	\$ 135,008	\$ 127,157
Fixed charges:						
Interest and amortization expense	\$ 45,830	\$ 116,524	\$ 111,888	\$ 103,168	\$ 87,584	\$ 86,016
Capitalized interest	6,187	16,486	10,346	8,240	9,486	10,463
Preferred interest distributions	1,296	5,472	5,472	4,753	2,170	4,860
Preferred unit distributions	-	-	-	1,650	6,300	6,300
Total fixed charges and preferred interests and preferred unit distributions	\$ 53,313	\$ 138,482	\$ 127,706	\$ 117,811	\$ 105,540	\$ 107,639
Ratio of earnings to fixed charges (excluding preferred interests and preferred unit distributions)	2.01X	1.94X	1.96X	1.35X	1.39X	1.32X
Ratio of earnings to combined fixed charges and preferred interests and preferred unit distributions	1.96X	1.86X	1.88X	1.27X	1.28X	1.18X

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: November 6, 2014

/s/ Michael J. Schall

Michael J. Schall
Chief Executive Officer and President
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: November 6, 2014

/s/ Michael T. Dance

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

ESSEX PORTFOLIO, L.P.
Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael J. Schall, certify that:

3. I have reviewed this quarterly report on Form 10-Q of Essex Portfolio, L.P.;
4. 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;
5. 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;
6. 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;
 - f) 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
 - g) 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
6. 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
 - c) 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: November 6, 2014

/s/ Michael J. Schall

Michael J. Schall

Chief Executive Officer and President

Essex Property Trust, Inc., general partner of

Essex Portfolio, L.P.

ESSEX PORTFOLIO, L.P.
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 Portfolio, L.P.;
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:
 - e) 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;
 - f) 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;
 - g) 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
 - h) 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: November 6, 2014

/s/ Michael T. Dance

Michael T. Dance
 Chief Financial Officer, Executive Vice President
 Essex Property Trust, Inc., general partner of
 Essex Portfolio, L.P.

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 September 30, 2014 (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: November 6, 2014

/s/ Michael J. Schall

Michael J. Schall
Chief Executive Officer and President
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 September 30, 2014 (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: November 6, 2014

/s/ Michael T. Dance

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

ESSEX PORTFOLIO, L.P.
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 September 30, 2014 (the "Form 10-Q") of Essex Portfolio, L.P. 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 Portfolio, L.P. at the dates of and for the periods presented.

Date: November 6, 2014

/s/ Michael J. Schall

Michael J. Schall
Chief Executive Officer and President
Essex Property Trust, Inc., general partner of
Essex Portfolio, L.P.

ESSEX PORTFOLIO, L.P.
Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350 as adopted
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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 September 30, 2014 (the "Form 10-Q") of Essex Portfolio, L.P. 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 Portfolio, L.P. at the dates of and for the periods presented.

Date: November 6, 2014

/s/ Michael T. Dance

Michael T. Dance
Chief Financial Officer, Executive Vice President
Essex Property Trust, Inc., general partner of
Essex Portfolio, L.P.

ESSEX

PROPERTY TRUST, INC.

Essex Announces Second Quarter 2014 Results Core FFO Guidance Increased as Same-Property NOI Grows 9.1% in the Second Quarter

Palo Alto, California—August 6, 2014—Essex Property Trust, Inc. (NYSE:ESS) announced today its second quarter 2014 earnings results and related business activities.

Funds from Operations (“FFO”) and Net Income per diluted share for the quarter and six months ended June 30, 2014 are detailed below. FFO and Net Income for the quarter and six months ended June 30, 2014 includes \$26.5 million and \$42.6 million in merger related expenses, respectively. Core FFO excludes merger expenses, acquisition costs and non-routine items.

	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change		
	2014	2013			2014	2013				
<u>Per Diluted Share</u>										
Total FFO	\$	1.72	\$	1.91	-9.8%	\$	3.41	\$	3.88	-12.2%
Core FFO	\$	2.08	\$	1.88	11.1%	\$	4.11	\$	3.74	9.7%
Earnings per Share	\$	0.08	\$	0.67	-88.1%	\$	0.54	\$	1.35	-60.0%

Second Quarter Highlights:

- Selected to be included in the S&P 500 as of April 1, 2014.
- Grew Core FFO per diluted share by 11.1% compared to Q2 2013, which is ahead of initial guidance assumptions.
- Increased same-property gross revenues and net operating income (“NOI”) by 7.2% and 9.1%, respectively, compared to Q2 2013.
- Realized a sequential increase in same-property revenue growth of 1.6%.
- Achieved pro forma same-property revenue growth of 6.7% in the legacy BRE portfolio, narrowing the revenue growth differential to the Essex portfolio from 1.6% to 0.5% from the first quarter 2014 to the second quarter 2014, respectively.
- Increased financial occupancy in the legacy BRE same-property portfolio by 92 basis points to 95.3% in Q2 ‘14 compared to Q2 ‘13 and 76 basis points since Q1 ‘14.
- Completed the lease-up of four development communities and began the lease-up of two additional properties.
- Increased the Essex portfolio full year same-property revenue growth guidance range to 6.4% to 6.8%, raising the midpoint by 100 basis points and increasing the same-property NOI growth range to 7.7% to 8.4%.
- Raised the full year Core FFO per diluted share guidance range to \$8.31 to \$8.47, raising the midpoint by \$0.09 per share. Established Core FFO guidance range for the third quarter of 2014 of \$2.05 to \$2.11 per diluted share.

925 East Meadow Drive Palo Alto California 94303 telephone 650 494 3700 facsimile 650 494 8743
www.essexpropertytrust.com

“We are pleased to report another exceptional quarter, with Core FFO per share \$0.08 above the midpoint of our guidance range established last quarter. Robust economic conditions in Northern California and Seattle and continued improvements in Southern California underlie same-property revenue growth in excess of the high end of our 2014 guidance range. Other notable contributing factors to our results include a 110 basis point reduction in the revenue growth differential between the ESS and legacy BRE portfolios, and strong initial leasing activities related to our \$1.3 billion development pipeline,” commented Michael Schall, President and Chief Executive Officer of the Company. Mr. Schall continued, “The integration of BRE continues to proceed as planned and we continue to see opportunities to increase revenue while creating a more efficient operating platform given our substantial footprint in the best apartment markets on the West Coast.”

SAME-PROPERTY OPERATIONS

Essex same-property operating results exclude properties that are not comparable for the periods presented, including all properties acquired in the merger with BRE. The table below illustrates the percentage change in same-property gross revenues for the quarter ended June 30, 2014 compared to the quarter ended June 30, 2013, and the sequential percentage change for the quarter ended June 30, 2014 versus the quarter ended March 31, 2014 by submarket for the Company:

	Q2 2014 vs. Q2 2013	Q2 2014 vs. Q1 2014	% of Total Q2 2014 Revenues
Southern California			
Los Angeles County	5.5%	1.1%	17.2%
Ventura County	5.5%	1.3%	8.9%
Orange County	4.7%	0.7%	11.1%
San Diego County	5.9%	1.8%	5.6%
Other Southern California	5.9%	-0.4%	1.7%
Total Southern California	5.4%	1.1%	44.5%
Northern California			
Santa Clara County	9.1%	2.0%	18.4%
Contra Costa County	7.6%	1.5%	6.4%
Alameda County	11.4%	2.5%	5.9%
Other Northern California	9.9%	2.4%	5.7%
Total Northern California	9.4%	2.1%	36.4%
Seattle Metro	7.3%	1.9%	19.1%
Same-Property Portfolio	7.2%	1.6%	100.0%
Year Over Year Growth			
Q2 2014 compared to Q2 2013			
	Gross Revenues	Operating Expenses	NOI
Southern California	5.4%	3.2%	6.4%
Northern California	9.4%	2.4%	12.4%
Seattle Metro	7.3%	4.0%	9.1%
Same-Property Portfolio	7.2%	3.1%	9.1%

Sequential Growth			
Q2 2014 compared to Q1 2014			
	Gross Revenues	Operating Expenses	NOI
Southern California	1.1%	1.2%	1.0%
Northern California	2.1%	2.3%	2.0%
Seattle Metro	1.9%	0.8%	2.4%
Same-Property Portfolio	1.6%	1.5%	1.6%

Financial Occupancies			
Quarter Ended			
	6/30/2014	3/31/2014	6/30/2013
Southern California	96.3%	96.4%	95.8%
Northern California	96.0%	96.5%	96.1%
Seattle Metro	96.0%	96.5%	96.1%
Same-Property Portfolio	96.1%	96.5%	96.0%

LEGACY BRE SAME-PROPERTY REVENUE

The table below represents the second quarter 2014 results for the legacy BRE portfolio acquired in the merger with BRE, excluding the 17 properties contributed to joint ventures, compared on a pro forma same-property basis to the results for the second quarter 2013 while owned by BRE. Certain re-classifications were made to make the results comparable. These properties will be eligible for inclusion in the Essex same-property portfolio beginning in April 2015.

	Q2 2014 vs. Q2 2013	Q2 2014 vs. Q1 2014	% of Total Q2 2014 Revenues
Southern California			
Los Angeles County	6.0%	2.4%	15.8%
Orange County	3.7%	0.8%	18.8%
San Diego County	5.8%	2.4%	17.1%
Other Southern California	2.0%	-0.2%	1.0%
Total Southern California	5.1%	1.8%	52.7%
Northern California			
Santa Clara County	8.7%	3.1%	5.5%
Contra Costa County	8.0%	0.6%	4.3%
Alameda County	11.1%	3.1%	8.6%
Other Northern California	9.8%	1.8%	12.5%
Total Northern California	9.7%	2.2%	30.9%
Seattle Metro	6.6%	1.7%	16.4%
Same-Property Portfolio	6.7%	1.9%	100.0%
Joint Venture Portfolio (1)	5.3%	1.0%	

- (1) The joint venture portfolio includes 17 properties, containing 4,175 apartment homes, which were contributed to three joint ventures in connection with the merger with BRE.

INVESTMENT ACTIVITY

In May, the Company purchased Piedmont Apartments located in Bellevue, WA for \$76.8 million. Please see our first quarter earnings release dated May 7, 2014 for additional details about the transaction.

The Company acquired Collins on Pine, a 76 unit community in Seattle, WA, for \$29.2 million in May. The property was completed in December 2013 and is located in the Capitol Hill District, a short distance from our Vox Apartment community acquired in October 2013.

Subsequent to quarter end, the Company acquired Paragon Apartments located in Fremont, CA for \$111.0 million. The property was built in 2013 and has 301 apartment homes. Paragon Apartments is condo mapped and is conveniently located near the Fremont Bart station and high paying jobs in Silicon Valley.

DEVELOPMENT ACTIVITY

During the quarter, the Company stabilized four development communities and, subsequent to quarter end, began the lease up of two additional properties, Radius and Mosso I. The table below represents the percentage of units leased for each lease-up community as of July 30, 2014.

Project Name	Location	Total Units	ESS Ownership	% Leased as of 7/30/14
Epic Phase II	San Jose, CA	289	55%	97.6%
The Avery	Los Angeles, CA	121	100%	97.5%
The Huxley	Los Angeles, CA	187	50%	94.7%
Solstice	Sunnyvale, CA	280	100%	98.9%
Wilshire at La Brea	Los Angeles, CA	478	100%	68.8%
Radius	Redwood City, CA	264	100%	36.0%
Mosso I	San Francisco, CA	181	55%	42.5%
Total/Average % Leased		1,800		75.3%

As referenced in the first quarter 2014 earnings press release dated May 7, 2014, Phase II of the Mission Bay 360 development community (MB 360), located in San Francisco, CA, sustained significant fire damage on March 11, 2014. Phase I of MB 360, containing 188 apartment homes, was not affected by the fire. The reconstruction effort for Phase II is expected to commence in the third quarter of 2014. The total estimated cost for Phase II of MB 360 shown on S-9 of the Supplemental Financial Information (MB 360 Estimated Cost) has been adjusted for the estimated insurance reimbursement in the amount of \$45 million. At this time, we have not reached an agreement on the amounts to be recovered from insurance providers and other responsible parties. Therefore, the expected insurance proceeds could be subject to change.

In June, The Emme, a 190 unit community located in Emeryville, CA, was contributed to a joint venture with the Canada Pension Plan Investment Board ("CPPIB"). The Company has a 55% ownership interest in the joint venture. The Emme will begin leasing in the fourth quarter of 2014.

Subsequent to quarter end, the Company entered into a joint venture to develop a multifamily community containing 376 apartment homes located in San Jose, CA. Essex has a 50% ownership interest in the development which has a projected total cost of \$170 million. The joint venture has obtained a \$90 million construction loan that floats at LIBOR plus 175 basis points for a three year term with two one year extension options. The development is expected to begin construction during the third quarter of 2014. The Company has made a \$27 million preferred equity investment in the project, which accrues an annualized preferred return of 8.1%.

OTHER INVESTMENTS

Subsequent to quarter end, the Company made a \$12.5 million preferred equity investment in a multifamily development project located in Seattle, WA. The investment has a preferred return of 10% for a four year term.

LIQUIDITY AND BALANCE SHEET

Common Stock

During the second quarter, the Company issued 792,700 shares of common stock at an average price of \$179.50 for net proceeds of \$141.4 million. Subsequent to quarter end, the Company has issued 362,532 shares of common stock at an average price of \$187.28, for net proceeds of \$67.5 million. Year to date, the Company has issued 2,115,887 shares of common stock at an average price of \$174.82 for net proceeds of \$366.9 million.

Balance Sheet

In April, the Company issued \$400 million of 3.875% senior unsecured notes that mature in May 2024. Please see the press release dated April 8, 2014 for additional details about the notes offering.

At the end of July, the Company had \$855 million available on its \$1.025 billion revolving lines of credit.

Change in Accounting Policy

During the quarter, in connection with the merger with BRE, the Company evaluated existing accounting policies and adopted the accrual method of accounting for utility reimbursement income, which is consistent with U.S. GAAP and industry practices. As a result, the Company recorded a one-time accrual of \$1.8 million of revenues in the quarter, which has been excluded from Core FFO.

GUIDANCE

The Company is increasing its full-year 2014 Core FFO guidance to \$8.31 to \$8.47, raising the midpoint by \$0.09 to \$8.39 per diluted share. The reason for the increase primarily relates to revised same-property NOI growth. See page S-13 of the Supplemental Financial Information, which accompanies this press release, for the assumptions used to calculate the low and high end of the 2014 Core FFO guidance range. For the third quarter of 2014, the Company expects Core FFO per diluted share to range from \$2.05 to \$2.11. The following table provides a reconciliation of the midpoint of Q2 Core FFO guidance compared to the first quarter 2014 earnings release distributed in May 2014.

	Per Share
Projected Midpoint Core FFO per share for Q2 2014	\$ 2.00
NOI from ESS consolidated communities	.03
NOI from BRE consolidated communities	.02
Co-Investment income	.01
Interest expense and other	.02
Core FFO per share Q2 2014, reported	\$ 2.08

CONFERENCE CALL WITH MANAGEMENT

The Company will host an earnings conference call with management to discuss its quarterly results on Thursday August 7, 2014 at 10 a.m. PDT (1 p.m. EDT), which will be broadcast live via the Internet at www.essex.com, and accessible via phone by dialing (877) 407-0784, no passcode is necessary.

A rebroadcast of the live call will be available online for 90 days and digitally for 7 days. To access the replay online, go to www.essex.com and select the second quarter earnings link. To access the replay digitally, dial (877) 870-5176 using the replay pin number 13585667. If you are unable to access the information via the Company's website, please contact the Investor Relations Department at investors@essex.com or by calling (650) 494-3700.

CORPORATE PROFILE

Essex Property Trust, Inc., an S&P 500 company, is a fully integrated real estate investment trust (REIT) that acquires, develops, redevelops, and manages multifamily residential properties in selected West Coast markets. Essex currently has ownership interests in 240 apartment communities with an additional 11 properties in various stages of active development. Additional information about Essex can be found on the Company's web site at www.essex.com.

This press release and accompanying supplemental financial information will be filed electronically on Form 8-K with the Securities and Exchange Commission and can be accessed from the Company's Web site at www.essex.com. If you are unable to obtain the information via the Web, please contact the Investor Relations Department at (650) 494-3700.

FUNDS FROM OPERATIONS ("FFO") RECONCILIATION

FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT"), is generally considered by industry analysts as an appropriate measure of performance of an equity REIT. Generally, FFO adjusts the net income of equity REITs for non-cash charges such as depreciation and amortization of rental properties, impairment charges, gains/losses on sales of real estate and extraordinary items. Management considers FFO and FFO which excludes merger and acquisition costs and items that are non-recurring or not related to the Company's core business activities, which is referred to as ("Core FFO"), to be useful financial performance measurements of an equity REIT because, together with net income and cash flows, FFO and Core FFO provide investors with an additional basis to evaluate the operating performance and ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures and the ability to pay dividends.

FFO does not represent net income or cash flows from operations as defined by U.S. generally accepted accounting principles ("GAAP") and is not intended to indicate whether cash flows will be sufficient to fund cash needs. It should not be considered as an alternative to net income as an indicator of the REIT's operating performance or to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all cash needs including principal amortization, capital improvements and distributions to shareholders. FFO also does not represent cash flows generated from operating, investing or financing activities as defined under GAAP. Management 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 disclosures of FFO may not be comparable to the Company's calculation.

The following table sets forth the Company's calculation of diluted FFO and Core FFO for the quarters ended June 30, 2014 and 2013:

	Three Month Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Funds from Operations (In thousands)				
Net income available to common stockholders	\$ 4,989	\$ 24,946	\$ 26,901	\$ 50,149
Adjustments:				
Depreciation	97,510	48,031	147,822	95,175
Gains not included in FFO, net of internal disposition costs	--	(2,366)	(10,292)	(2,366)
Depreciation add back from unconsolidated co-investments	8,314	3,777	13,074	7,619
Noncontrolling interest related to Operating Partnership units	209	1,547	1,626	3,048
Depreciation attributable to third party ownership	(332)	(327)	(661)	(654)
Funds from Operations	\$ 110,690	\$ 75,608	\$ 178,470	\$ 152,971
Merger expenses	26,497	--	42,556	--
Acquisition and disposition costs	529	168	717	555
Gain on sales of marketable securities and note prepayment	(459)	--	(886)	(2,611)
Co-investment promote income	(1,056)	--	(4,904)	--
Utility reimbursement income accrual	(1,807)	--	(1,807)	--
Acquisition fee income	(500)	--	(500)	--
Gain on sale of land	--	--	(400)	(1,503)
Earthquake related and other	--	--	1,571	--
Loss on early retirement of debt add back from unconsolidated co-investments	--	--	197	--
Gain on early retirement of debt	--	(1,024)	--	(1,024)
Income from early redemption of preferred equity investments	--	(523)	--	(946)
Core Funds from Operations	\$ 133,894	\$ 74,229	\$ 215,014	\$ 147,442

SAFE HARBOR STATEMENT UNDER THE PRIVATE LITIGATION REFORM ACT OF 1995:

This press release includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include statements and estimates on page 1 and under the caption “Guidance” on page 5 with respect to Core FFO and same-property NOI growth for the third quarter 2014 and for the full year 2014, statements about the integration with BRE, estimates about 2014 same-property revenue growth and regarding construction and leasing dates of development properties, and statements and estimates set forth under the captions “Development Pipeline—June 30, 2014” and “Redevelopment Pipeline and Capital Expenditures—June 30, 2014” on pages S-9 and S-10 of the Company’s Supplemental Financial Information Package, which accompanies this press release, regarding estimated costs of property development and redevelopment and regarding the anticipated timing of redevelopments and of the construction start, initial occupancy and stabilization of property development and the various financial estimates and assumptions set forth in the columns “2014 Revised Guidance Range” on page S-13 of the Company’s Supplemental Financial Information Package and the forecasts, set forth on page S-15 of the Company’s Supplemental Financial Information Package, of residential supply, jobs, and rent growth in various areas. The Company’s actual results may differ materially from those projected in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, changes in market demand for rental units and the impact of competition and competitive pricing, unanticipated difficulties in integrating the businesses of Essex and BRE and realizing anticipated synergies, changes in economic conditions, unexpected delays in the development and stabilization of development projects, unexpected difficulties in leasing of development projects, total costs of development investments exceeding the Company’s projections and other risks detailed in the Company’s filings with the Securities and Exchange Commission (SEC). All forward-looking statements are made as of today, and the Company assumes no obligation to update this information. For more details relating to risk and uncertainties that could cause actual results to differ materially from those anticipated in our forward-looking statements, and risks to our business in general, please refer to our SEC filings, including the Company’s Report on Form 10-K for the year ended December 31, 2013.

Contact Information

Barb Pak
Director of Investor Relations
(650) 494-3700
bpak@essex.com

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ESSEX PROPERTY TRUST, INC.
Consolidated Operating Results
(Dollars in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Rental and other property	\$ 256,614	\$ 148,781	\$ 415,631	\$ 293,839
Management and other fees	2,836	2,034	4,495	4,041
	<u>259,450</u>	<u>150,815</u>	<u>420,126</u>	<u>297,880</u>
Expenses:				
Property operating	83,220	48,296	135,192	94,623
Depreciation	97,510	47,673	147,822	94,459
General and administrative	9,558	6,589	17,142	13,588
Merger expenses	26,497	-	42,556	-
Acquisition and disposition costs	529	168	1,504	555
	<u>217,314</u>	<u>102,726</u>	<u>344,216</u>	<u>203,225</u>
Earnings from operations	42,136	48,089	75,910	94,655
Interest expense	(42,151)	(29,327)	(71,192)	(57,468)
Interest and other income	2,814	1,917	5,693	6,939
Equity income from co-investments	5,629	7,282	16,155	11,493
Gain on early retirement of debt	-	1,024	-	1,024
Gain on sale of real estate and land	-	-	8,268	1,503
Income before discontinued operations	8,428	28,985	34,834	58,146
Income from discontinued operations	-	590	-	1,132
Net income	8,428	29,575	34,834	59,278
Net income attributable to noncontrolling interest	(2,125)	(3,261)	(5,251)	(6,393)
Net income attributable to controlling interest	6,303	26,314	29,583	52,885
Dividends to preferred stockholders	(1,314)	(1,368)	(2,682)	(2,736)
Net income available to common stockholders	<u>\$ 4,989</u>	<u>\$ 24,946</u>	<u>\$ 26,901</u>	<u>\$ 50,149</u>
Net income per share - basic	<u>\$ 0.08</u>	<u>\$ 0.67</u>	<u>\$ 0.54</u>	<u>\$ 1.35</u>
Shares used in income per share - basic	<u>61,884,963</u>	<u>37,292,720</u>	<u>49,857,233</u>	<u>37,149,120</u>
Net income per share - diluted	<u>\$ 0.08</u>	<u>\$ 0.67</u>	<u>\$ 0.54</u>	<u>\$ 1.35</u>
Shares used in income per share - diluted	<u>62,059,762</u>	<u>37,390,987</u>	<u>50,087,161</u>	<u>37,241,968</u>

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.
**Consolidated Operating Results
Selected Line Item Detail**
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Rental and other property				
Rental	\$ 237,920	\$ 138,746	\$ 385,914	\$ 274,258
Other property	18,694	10,035	29,717	19,581
Rental and other property	<u>\$ 256,614</u>	<u>\$ 148,781</u>	<u>\$ 415,631</u>	<u>\$ 293,839</u>
Property operating expenses				
Real estate taxes	\$ 30,345	\$ 14,165	\$ 45,684	\$ 28,238
Administrative and insurance	17,567	11,313	31,064	22,029
Maintenance and repairs	15,740	10,397	25,961	19,748
Utilities	14,538	9,123	24,007	18,065
Property management	5,030	3,298	8,476	6,543
Property operating expenses	<u>\$ 83,220</u>	<u>\$ 48,296</u>	<u>\$ 135,192</u>	<u>\$ 94,623</u>
Interest and other income				
Marketable securities and other interest income	\$ 2,314	\$ 1,863	\$ 4,725	\$ 3,487
Notes receivable	41	54	82	841
Gain from sale of marketable securities and note prepayment	459	-	886	2,611
Interest and other income	<u>\$ 2,814</u>	<u>\$ 1,917</u>	<u>\$ 5,693</u>	<u>\$ 6,939</u>
Equity income from co-investments				
Equity income from co-investments	\$ 1,061	\$ 586	\$ 1,043	\$ 545
Income from preferred equity investments	3,512	3,807	6,997	7,636
Gain on sale of co-investment	-	2,366	3,211	2,366
Co-investment promote income	1,056	-	4,904	-
Income from early redemption of preferred equity investments	-	523	-	946
Equity income from co-investments	<u>\$ 5,629</u>	<u>\$ 7,282</u>	<u>\$ 16,155</u>	<u>\$ 11,493</u>
Noncontrolling interest				
Limited partners of Essex Portfolio, L.P.	\$ 209	\$ 1,547	\$ 1,626	\$ 3,048
DownREIT limited partners' distributions	1,211	1,169	2,355	2,344
Third-party ownership interest	705	545	1,270	1,001
Noncontrolling interest	<u>\$ 2,125</u>	<u>\$ 3,261</u>	<u>\$ 5,251</u>	<u>\$ 6,393</u>

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.
Consolidated Funds From Operations
(Dollars in thousands, except share and per share amounts)

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2014	2013		2014	2013	
Funds from operations						
Net income available to common stockholders	\$ 4,989	\$ 24,946		\$ 26,901	\$ 50,149	
Adjustments:						
Depreciation	97,510	48,031		147,822	95,175	
Gains not included in FFO, net of internal disposition costs	-	(2,366)		(10,292)	(2,366)	
Depreciation add back from unconsolidated co-investments	8,314	3,777		13,074	7,619	
Noncontrolling interest related to Operating Partnership units	209	1,547		1,626	3,048	
Depreciation attributable to third party ownership	(332)	(327)		(661)	(654)	
Funds from operations	\$ 110,690	\$ 75,608		\$ 178,470	\$ 152,971	
FFO per share-diluted	\$ 1.72	\$ 1.91	-9.8%	\$ 3.41	\$ 3.88	-12.2%

Components of the change in FFO
Non-core items:

Acquisition and disposition costs	529	168		717	555	
Gain on sale of marketable securities and note prepayment	(459)	-		(886)	(2,611)	
Gain on sale of land	-	-		(400)	(1,503)	
Utility reimbursement income accrual	(1,807)	-		(1,807)	-	
Earthquake related and other	-	-		1,571	-	
Loss on early retirement of debt add back from unconsolidated co-investments	-	-		197	-	
Gain on early retirement of debt	-	(1,024)		-	(1,024)	
Acquisition fee income	(500)	-		(500)	-	
Merger expenses	26,497	-		42,556	-	
Co-investment promote income	(1,056)	-		(4,904)	-	
Income from early redemption of preferred equity investments	-	(523)		-	(946)	
Core funds from operations	133,894	74,229		215,014	147,442	
Core FFO per share-diluted	\$ 2.08	\$ 1.88	11.1%	\$ 4.11	\$ 3.74	9.7%

Changes in core items:

Same-property NOI	\$ 8,552			\$ 16,320		
Non-same property NOI	62,550			64,667		
Management and other fees, net	302			(46)		
Equity income from co-investments	4,717			5,511		
Interest and other income	438			479		
Interest expense	(12,824)			(13,724)		
General and administrative	(2,969)			(3,554)		
Discontinued operations	(947)			(1,847)		
Other items, net	(154)			(234)		
	\$ 59,665			\$ 67,572		

Weighted average number of shares outstanding diluted (1)	64,233,304	39,576,663		52,357,189	39,391,820	
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(1) Assumes conversion of the weighted average operating partnership interests in the Operating Partnership into shares of the Company's common stock.

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.
Consolidated Balance Sheets
(Dollars in thousands)

	June 30, 2014	December 31, 2013
Real Estate:		
Land and land improvements	\$ 2,354,585	\$ 1,083,552
Buildings and improvements	8,517,728	4,360,205
	<u>10,872,313</u>	<u>5,443,757</u>
Less: accumulated depreciation	(1,384,726)	(1,254,886)
	<u>9,487,587</u>	<u>4,188,871</u>
Real estate under development	422,372	50,430
Co-investments	964,970	677,133
Real estate held for sale, net	107,772	-
	<u>10,982,701</u>	<u>4,916,434</u>
Cash and cash equivalents	47,538	53,766
Marketable securities	106,358	90,084
Notes and other receivables	66,522	68,255
Acquired in place lease value and other assets	145,244	58,300
Total assets	<u>\$ 11,348,363</u>	<u>\$ 5,186,839</u>
Mortgage notes payable	\$ 2,250,510	\$ 1,404,080
Unsecured debt	2,748,494	1,410,023
Lines of credit	66,975	219,421
Other liabilities	286,636	150,728
Total liabilities	<u>5,352,615</u>	<u>3,184,252</u>
Redeemable noncontrolling interest	23,566	-
Cumulative convertible preferred stock, carrying value	-	4,349
Equity:		
Common stock	6	4
Cumulative redeemable preferred stock, liquidation value	73,750	73,750
Additional paid-in-capital	6,414,258	2,345,763
Distributions in excess of accumulated earnings	(575,772)	(474,426)
Accumulated other comprehensive loss	(53,794)	(60,472)
Total stockholders' equity	<u>5,858,448</u>	<u>1,884,619</u>
Noncontrolling interest	113,734	113,619
Total equity	<u>5,972,182</u>	<u>1,998,238</u>
Total liabilities and equity	<u>\$ 11,348,363</u>	<u>\$ 5,186,839</u>

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Debt Summary - June 30, 2014 (Dollars in thousands)

					Scheduled principal payments and unamortized premiums (excludes lines of credit) are as follows:					
	Percentage of Total Debt	Balance Outstanding	Weighted Average Interest Rate	Maturity In Years		Secured	Unsecured	Total	Weighted Average Interest Rate	Percentage of Total Debt
Mortgage Notes Payable										
Fixed rate - secured	41%	\$ 2,061,321	4.9%	5.0	2014	\$ -	\$ -	\$ -	-	-
Variable rate - secured (1)	4%	189,189	1.8%	18.7	2015	66,694	-	66,694	5.3%	1.3%
Total mortgage notes payable	45%	2,250,510	4.6%	6.1	2016	12,250	350,000	362,250	3.3%	7.2%
					2017	181,396	518,888	700,284	3.0%	14.0%
Unsecured Debt					2018	317,634	-	317,634	5.6%	6.4%
Bonds private - fixed rate	9%	465,000	4.5%	4.7	2019	633,433	75,000	708,433	4.3%	14.2%
Bonds public - fixed rate	38%	1,933,494	3.5%	7.5	2020	805,983	-	805,983	4.8%	16.1%
Term loan (2)	7%	350,000	2.4%	2.7	2021	47,377	524,410	571,787	4.3%	11.4%
	54%	2,748,494	3.5%	6.4	2022	-	297,462	297,462	3.8%	6.0%
Unsecured Lines of Credit					2023	-	585,733	585,733	3.7%	11.7%
Line of credit (3)	1%	60,000	1.7%		2024	-	397,000	397,000	4.0%	8.0%
Line of credit (4)	-	6,975	1.7%		Thereafter	174,168	11,576	185,744	1.7%	3.7%
Total lines of credit	1%	66,975	1.7%							
					Total	2,238,935	2,760,069	4,999,004	4.0%	100.0%
Total debt	100%	5,065,979	4.0%							

Capitalized interest for the three and six months ended June 30 2014 was approximately \$8.3 million and \$11.7 million, respectively.

- (1) Variable rate debt of \$179.2 million is tax exempt to the note holders and \$156.9 million is subject to interest rate protection agreements.
- (2) The unsecured term loan has a variable interest rate of LIBOR plus 1.05%. The Company has entered into interest rate swap contracts with a notional amount totaling \$300 million, which effectively converts the interest rate on \$300 million of the term loan to a fixed rate of 2.4%.
- (3) The unsecured line of credit facility is \$1 billion and the line matures in December 2017 with one 18-month extension, exercisable at the Company's option. The underlying interest rate on this line is based on a tiered rate structure tied to the Company's corporate ratings and is currently at LIBOR plus 0.95%.
- (4) The unsecured line of credit facility is \$25 million and matures in January 2016. The underlying interest rate on this line is based on a tiered rate structure tied to the Company's corporate ratings and is currently at LIBOR plus 0.95%.

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Capitalization Data, Public Bond Covenants, Credit Ratings and Selected Credit Ratios - June 30, 2014

(Dollars and shares in thousands, except per share amounts)

<u>Capitalization Data</u>			<u>Public Bond Covenants</u>	<u>Actual</u>	<u>Requirement</u>
Total debt	\$	5,065,979	Debt to Total Assets:	40%	< 65%
Common stock and potentially dilutive securities					
Common stock outstanding		62,301			
Limited partnership units (1)		2,171			
Options-treasury method		204	Secured Debt to Total Assets:	18%	< 40%
Total shares of common stock and potentially dilutive securities		64,676			
Common stock price per share as of June 30, 2014	\$	184.91	Interest Coverage:	356%	> 150%
Market value of common stock and potentially dilutive securities	\$	11,959,239	Unsecured Debt Ratio (1) :	286%	> 150%
Preferred stock	\$	73,750			
Total equity capitalization	\$	12,032,989			
Total market capitalization	\$	17,098,968	<u>Selected Credit Ratios</u>	<u>Actual</u>	
Ratio of debt to total market capitalization		29.6%	Indebtedness Divided by Adjusted EBITDA (2):	7.4x	
(1) Assumes conversion of all outstanding operating partnership interests in the Operating Partnership into shares of the Company's common stock.			Unencumbered NOI to Total NOI:	63%	
<u>Credit Ratings</u>			(1) Unsecured Debt Ratio is unsecured assets (excluding investments in co-investments) divided by unsecured indebtedness.		
Rating Agency	Rating	Outlook	(2) Adjusted EBITDA is annualized current quarter NOI adjusted for non-recurring items and proforma NOI for current quarter acquisitions.		
Fitch	BBB+	Stable			
Moody's	Baa2	Stable			
Standard & Poors	BBB	Stable			

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Property Operating Results - Quarters ended June 30, 2014 and 2013

(Dollars in thousands, except per unit amounts)

	Southern California			Northern California			Seattle Metro			Other real estate assets (1)				
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change	2014	2013	2014	2013	% Change
Revenues:														
Same-property revenue	\$ 66,176	\$62,808	5.4%	\$54,159	\$49,528	9.4%	\$28,418	\$26,480	7.3%	\$ -	\$ -	\$148,753	\$138,816	7.2%
Non-same property revenue (2)(8)	4,571	2,295		4,024	3,561		2,126	-		6,505	4,109	17,226	9,965	
Legacy BRE portfolio property revenue (3)	44,096	-		30,015	-		13,838	-		2,686	-	90,635	-	
Total Revenues	\$114,843	\$65,103		\$88,198	\$53,089		\$44,382	\$26,480		\$9,191	\$4,109	\$256,614	\$148,781	
Property operating expenses:														
Same-property operating expenses														
Real estate taxes	\$ 5,689	\$ 5,496		\$ 4,973	\$ 4,825		\$ 2,891	\$ 2,539		\$ -	\$ -	\$ 13,553	\$ 12,860	5.4%
Administrative and insurance	5,785	5,668		3,120	3,159		1,951	1,981		-	-	10,856	10,808	0.4%
Maintenance and repairs	4,509	4,409		3,323	3,181		1,846	1,892		-	-	9,678	9,482	2.1%
Utilities	3,689	3,464		3,021	2,966		1,991	1,952		-	-	8,701	8,382	3.8%
Management fees	1,422	1,394		1,028	971		750	706		-	-	3,200	3,071	4.2%
Total same-property operating expenses	21,094	20,431	3.2%	15,465	15,102	2.4%	9,429	9,070	4.0%	-	-	45,988	44,603	3.1%
Non-same property operating expenses (2)	2,141	976		1,483	1,525		658	-		696	1,192	4,978	3,693	
Legacy BRE portfolio property operating expenses (3)	16,277	-		10,027	-		4,931	-		1,019	-	32,254	-	
Total property operating expenses	\$ 39,512	\$21,407		\$26,975	\$16,627		\$15,018	\$ 9,070		\$1,715	\$1,192	\$ 83,220	\$ 48,296	
Net operating income (NOI):														
Same-property NOI	\$ 45,082	\$42,377	6.4%	\$38,694	\$34,426	12.4%	\$18,989	\$17,410	9.1%	\$ -	\$ -	\$102,765	\$ 94,213	9.1%
Non-same property NOI (2)														
Legacy BRE portfolio (3)	27,819	-		19,988	-		8,907	-		1,667	-	58,381	-	
Redevelopment communities	1,457	1,319		-	-		-	-		-	-	1,457	1,319	
Development communities - 2014 (4)	95	-		-	-		-	-		-	-	95	-	
Acquired communities - 2013 (5)	878	-		2,541	2,036		598	-		-	-	4,017	2,036	
Acquired communities - 2014 (6)	-	-		-	-		870	-		-	-	870	-	
Other real estate assets (1)	-	-		-	-		-	-		5,809	2,917	5,809	2,917	
Total non-same property NOI	30,249	1,319		22,529	2,036		10,375	-		7,476	2,917	70,629	6,272	
Total NOI	\$ 75,331	\$43,696		\$61,223	\$36,462		\$29,364	\$17,410		\$7,476	\$2,917	\$173,394	\$100,485	
Same-property operating margin														
	68%	67%		71%	70%		67%	66%				69%	68%	
Annualized same-property turnover percentage														
	56%	55%		52%	55%		48%	57%				53%	56%	
Average same-property concessions per turn (7)														
	\$ 140	\$ 90		\$ 129	\$ 117		\$ 98	\$ 72				\$ 128	\$ 94	
Reconciliation of apartment units at end of period														
Same-property apartment units	12,914			8,840			6,537			-		28,291		
Consolidated apartment units	13,870	13,656		9,430	9,431		7,175	6,720				30,475	29,807	
Legacy BRE portfolio (3)	8,337	-		4,339	-		2,821	-		902	-	16,399	-	

Joint venture (9)	<u>4,957</u>	<u>2,039</u>	<u>2,066</u>	<u>1,378</u>	<u>1,958</u>	<u>1,290</u>	<u>-</u>	<u>-</u>	<u>8,981</u>	<u>4,707</u>
Under development	<u>184</u>	<u>492</u>	<u>2,035</u>	<u>1,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,219</u>	<u>2,220</u>
Total apartment units at end of period	<u>27,348</u>	<u>16,187</u>	<u>17,870</u>	<u>12,537</u>	<u>11,954</u>	<u>8,010</u>	<u>902</u>	<u>-</u>	<u>58,074</u>	<u>36,734</u>
Percentage of total	<u>46%</u>	<u>44%</u>	<u>31%</u>	<u>34%</u>	<u>21%</u>	<u>22%</u>	<u>2%</u>	<u>-</u>	<u>100%</u>	<u>100%</u>
Average same-property financial occupancy	<u>96.3%</u>	<u>95.8%</u>	<u>96.0%</u>	<u>96.1%</u>	<u>96.0%</u>	<u>96.1%</u>			<u>96.1%</u>	<u>96.0%</u>

- (1) Other real estate assets consists mainly of retail space, commercial properties, boat slips, two Phoenix properties acquired as part of the merger with BRE and properties sold during 2014. The operating results are classified in non-same property results.
- (2) Includes properties which subsequent to January 1, 2013 were either acquired or in a stage of development or redevelopment without stabilized operations.
- (3) Properties acquired as part of the BRE Properties merger on April 1, 2014, excluding 17 properties contributed to joint ventures.
- (4) In March 2014, the Company purchased The Avery, a pre sale development community that is in lease up.
- (5) Acquired communities during 2013 includes Fox Plaza, Bennett Lofts, Slater 116, Vox, and Domain.
- (6) Acquired communities during 2014 includes Collins on Pine and Piedmont.
- (7) Average same-property concessions per turn is the dollar amount per unit resulting from the same-property concessions divided by the product of the same property turnover percentage for the quarter times the same-property apartment units.
- (8) Other real estate asset revenues for the three months ended June 30, 2014, includes \$1.8 million related to a change in accounting policy related to accrual of utility reimbursement revenue.
- (9) Includes BRE properties contributed to joint ventures.

See Company's 10-Q for additional disclosures

Property Operating Results - Six months ended June 30, 2014 and 2013
(Dollars in thousands, except per unit amounts)

	Southern California			Northern California			Seattle Metro			Other real estate assets (1)		Total		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change	2014	2013	2014	2013	% Change
Revenues:														
Same-property revenue	\$131,651	125,239	5.1%	\$107,213	97,989	9.4%	\$56,313	52,231	7.8%	\$ -	-	\$295,177	\$275,459	7.2%
Non-same property revenue (2)(8)	8,783	4,604		7,915	5,870		2,872	-		10,249	7,906	29,819	18,380	
Legacy BRE portfolio property revenue (3)	44,096	-		30,015	-		13,838	-		2,686	-	90,635	-	
Total Revenues	\$184,530	\$129,843		\$145,143	\$103,859		\$73,023	\$52,231		\$12,935	\$7,906	\$415,631	\$293,839	
Property operating expenses:														
Same-property operating expenses														
Real estate taxes	\$ 11,410	11,007		\$ 9,963	9,643		\$ 5,800	5,137		\$ -	-	\$ 27,173	\$ 25,787	5.4%
Administrative and insurance	11,541	11,264		6,104	6,118		3,821	3,815		-	-	21,466	21,197	1.3%
Maintenance and repairs	8,835	8,520		6,463	6,176		3,649	3,529		-	-	18,947	18,225	4.0%
Utilities	7,319	6,814		5,999	5,817		4,011	3,932		-	-	17,329	16,563	4.6%
Management fees	2,843	2,788		2,050	1,938		1,500	1,412		-	-	6,393	6,138	4.2%
Total same-property operating expenses	41,948	40,393	3.8%	30,579	29,692	3.0%	18,781	17,825	5.4%	-	-	91,308	87,910	3.9%
Non-same property operating expenses (2)(8)	3,908	2,045		2,960	2,421		902	-		3,860	2,247	11,630	6,713	
Legacy BRE portfolio property operating expenses (3)	16,277	-		10,027	-		4,931	-		1,019	-	32,254	-	
Total property operating expenses	\$ 62,133	\$ 42,438		\$ 43,566	\$ 32,113		\$24,614	\$17,825		\$ 4,879	\$2,247	\$135,192	\$ 94,623	
Net operating income (NOI):														
Same-property NOI	\$ 89,703	\$ 84,846	5.7%	\$ 76,634	\$ 68,297	12.2%	\$37,532	\$34,406	9.1%	\$ -	\$ -	\$203,869	\$187,549	8.7%
Non-same property NOI (2)														
Legacy BRE portfolio (3)	27,819	-		19,988	-		8,907	-		1,667	-	58,381	-	
Redevelopment communities	2,911	2,559		-	-		-	-		-	-	2,911	2,559	
Development communities - 2014 (4)	82	-		-	-		-	-		-	-	82	-	
Acquired communities - 2013 (5)	1,882	-		4,955	3,449		1,100	-		-	-	7,937	3,449	
Acquired communities - 2014 (6)	-	-		-	-		870	-				870	-	
Other real estate assets (1)	-	-		-	-		-	-		6,389	5,659	6,389	5,659	
Total non-same property NOI	32,694	2,559		24,943	3,449		10,877	-		8,056	5,659	76,570	11,667	
Total NOI	\$122,397	\$ 87,405		\$101,577	\$ 71,746		\$48,409	\$34,406		\$ 8,056	\$5,659	\$280,439	\$199,216	
Same-property operating margin	68%	68%		71%	70%		67%	66%				69%	68%	
Annualized same-property turnover percentage	51%	50%		49%	50%		43%	47%				48%	49%	
Average same-														

**property concessions
per turn (7)**

<u>\$ 130</u>	<u>116</u>	<u>\$ 149</u>	<u>145</u>	<u>\$ 111</u>	<u>95</u>	<u>\$ 132</u>	<u>121</u>
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**Average same-
property financial
occupancy**

<u>96.4%</u>	<u>96.2%</u>	<u>96.3%</u>	<u>96.3%</u>	<u>96.3%</u>	<u>96.3%</u>	<u>96.3%</u>	<u>96.3%</u>
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- (1) Other real estate assets consists mainly of retail space, commercial properties, boat slips, two Phoenix properties acquired as part of the merger with BRE and properties sold during 2014. The operating results are classified in non-same property results.
- (2) Includes properties which subsequent to January 1, 2013 were either acquired or in a stage of development or redevelopment without stabilized operations.
- (3) Properties acquired as part of the BRE Properties merger on April 1, 2014, excluding 17 properties contributed to joint ventures.
- (4) In March 2014, the Company purchased The Avery, a pre sale development community that is in lease up.
- (5) Acquired communities during 2013 includes Fox Plaza, Slater 116, Vox, and Domain.
- (6) Acquired communities during 2014 includes Collins on Pine and Piedmont.
- (7) Average same-property concessions per turn is the dollar amount per unit resulting from the same-property concessions divided by the product of the same property turnover percentage for the quarter times the same-property apartment units.
- (8) Other real estate asset revenues for the six months ended June 30, 2014, includes \$1.8 million related to a change in accounting policy related to accrual of utility reimbursement revenue. Other real estate asset expenses for the six months ended June 30, 2014, includes \$1.6 million related to earthquake and flood damage at two communities.

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Revenue by County - Quarters ended June 30, 2014, June 30, 2013 and March 31, 2014
(Dollars in thousands, except average property rental rates)

Region						Three months ended		Three months ended		Three months ended	
						June 30, 2014		June 30 2013		March 31, 2014	
	Average Property Rental Rates										
	Units	QTD 2014	QTD 2013	% Change	Property Revenue	Financial Occupancy	Property Revenue	Financial Occupancy	Property Revenue % Change	Property Revenue	Sequential % Change
Southern California											
Los Angeles County	4,439	\$1,891	\$1,810	4.5%	\$ 25,517	96.4%	\$ 24,186	95.6%	5.5%	\$ 25,237	1.1%
Ventura County	2,898	1,467	1,394	5.2%	13,185	96.5%	12,496	96.5%	5.5%	13,016	1.3%
Orange County	2,887	1,917	1,821	5.3%	16,582	95.8%	15,840	95.7%	4.7%	16,467	0.7%
San Diego County	2,067	1,294	1,235	4.8%	8,334	96.4%	7,870	95.5%	5.9%	8,186	1.8%
Santa Barbara County	347	1,762	1,679	4.9%	1,880	98.3%	1,775	97.3%	5.9%	1,892	-0.6%
Riverside County	276	800	801	-0.1%	678	96.1%	641	91.3%	5.8%	677	0.1%
Total same-property	12,914	1,679	1,602	4.8%	66,176	96.3%	62,808	95.8%	5.4%	65,475	1.1%
Los Angeles County	3,499	2,034			18,842		2,295				
Orange County	2,899	1,680			14,631		-				
San Diego County	2,895	1,785			15,194		-				
Non-same property	9,293	1,846			48,667		2,295				
Northern California											
Santa Clara County	4,279	2,136	1,960	9.0%	27,539	95.6%	25,231	95.8%	9.1%	26,992	2.0%
Contra Costa County	1,720	1,806	1,677	7.7%	9,446	95.9%	8,776	96.4%	7.6%	9,305	1.5%
Alameda County	1,542	1,806	1,619	11.6%	8,719	97.2%	7,826	97.1%	11.4%	8,504	2.5%
San Mateo County	768	2,198	2,003	9.7%	5,189	96.3%	4,799	97.4%	8.1%	5,106	1.6%
San Francisco MSA	301	2,278	2,058	10.7%	2,064	95.5%	1,774	91.7%	16.3%	1,968	4.9%
Other	230	1,712	1,596	7.3%	1,202	97.3%	1,122	97.1%	7.1%	1,179	2.0%
Total same-property	8,840	2,014	1,843	9.3%	54,159	96.0%	49,528	96.1%	9.4%	53,054	2.1%
Santa Clara County	1,229	2,505			8,458		-				
Contra Costa County	550	2,125			3,355		-				
Alameda County	1,295	2,225			8,417		-				
San Mateo County	1,094	2,683			8,533		-				
San Francisco MSA	590	2,336			4,024		3,561				
Other	171	2,344			1,252		-				
Non-same property	4,929	2,403			34,039		3,561				
Seattle Metro											
King County	6,072	1,402	1,306	7.4%	26,903	95.9%	25,146	96.2%	7.0%	26,409	1.9%
Snohomish County	465	1,012	949	6.6%	1,515	96.9%	1,334	93.1%	13.6%	1,487	1.9%
Total same-property	6,537	1,374	1,280	7.4%	28,418	96.0%	26,480	96.1%	7.3%	27,896	1.9%
King County	2,951	1,526			13,507		-				
Snohomish County	508	1,549			2,457		-				
Non-same property	3,459	1,529			15,964		-				
Other real estate assets (1) (2)	902				9,191		4,109				
Total same-property revenue	28,291	\$1,713	\$1,603	6.9%	\$148,753	96.1%	\$138,816	96.0%	7.2%	\$146,425	1.6%
Total non-same property revenue	18,583	\$1,845			\$107,861		\$ 9,965				

- (1) Other real estate assets consists mainly of retail space, commercial properties, boat slips, and two Phoenix properties acquired as part of the merger with BRE.
(2) Other real estate asset revenues for the three months ended June 30, 2014, includes \$1.8 million related to a change in accounting policy related to accrual of utility reimbursement revenue.

See Company's 10-Q for additional disclosures

Revenue by County - Six months ended June 30, 2014 and 2013
(Dollars in thousands, except average property rental rates)

[illegible]

property revenue	<u>28,291</u>	<u>\$ 1,696</u>	<u>\$ 1,588</u>	<u>6.8%</u>	<u>\$ 295,177</u>	<u>96.3%</u>	<u>\$ 275,459</u>	<u>96.3%</u>	<u>7.2%</u>
Total non-same property revenue	<u>18,583</u>	<u>\$ 1,544</u>			<u>\$ 120,454</u>		<u>\$ 18,380</u>		

- (1) Other real estate assets consists mainly of retail space, commercial properties, boat slips, and two Phoenix properties acquired as part of the merger with BRE.
- (2) Other real estate asset revenues for the three months ended June 30, 2014, includes \$1.8 million related to a change in accounting policy related to accrual of utility reimbursement revenue.

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Development Pipeline - June 30, 2014

(Dollars in millions, except per unit amounts in thousands)

		Ownership %	Estimated Units	Estimated Retail sq. feet	Incurred to Date	Remaining Costs	Estimated Total Cost	Essex Share of Estimated Total Cost	Apartment Cost per Unit	Construction Start	Initial Occupancy	Stabilized Operations
Development Projects - Consolidated (2) (3)												
	Project Name	Location										
	MB 360 (4) (5)	San Francisco, CA	100%	360	11,500	195	80	275	275 (1)	744		
	Radius	Redwood City, CA	100%	264	-	151	20	171	171	649	Q2 2012	Q3 2014
	Total Development Projects - Consolidated			624	11,500	346	100	446	446	715		Q1 2015

Land Held for Future Development - Consolidated

	Project Name	Location										
	Other Projects	various	100%	-	-	76	-	76	76			
	Total Development Pipeline - Consolidated			624	11,500	422	100	522	522			

Development Projects/Land Held for Future Development - Joint Venture (2) (3)

	Project Name	Location										
	Epic - Phase III	San Jose, CA	55%	200	-	44	52	96	53	480	Q3 2013	Q3 2015
	The Dylan	West Hollywood, CA	50%	184	12,750	75	-	75	38 (1)	363	Q4 2011	Q3 2014
	Mosso I	San Francisco, CA	55%	181	5,030	86	15	101	56 (1)	538	Q2 2012	Q2 2014
	Mosso II	San Francisco, CA	55%	282	4,270	134	16	150	82 (1)	525	Q2 2012	Q3 2014
	Park 20	San Mateo, CA	55%	197	-	60	16	76	42	386	Q3 2012	Q4 2014
	One South Market	San Jose, CA	55%	312	6,000	63	82	145	80 (1)	458	Q2 2013	Q3 2015
	The Village	Walnut Creek, CA	50%	49	35,000	50	31	81	41 (1)	769	Q3 2013	Q3 2015
	Emme	Emeryville, CA	55%	190	-	46	16	62	34	326	Q3 2012	Q4 2014
	Total Development Projects - Joint Venture			1,595	63,050	558	228	786	426	\$ 449		
	Grand Total - Development Pipeline			2,219	74,550	\$ 980	\$ 328	\$ 1,308	948			
	Essex Cost Incurred to Date								(722)			
	Essex Remaining Commitment								\$ 226			

(1) Excludes the estimated allocation to retail square feet.

(2) The company incurred \$8.0 million of capitalized interest, \$1.8M of capitalized overhead and \$1.3M of co-investment development fees related to development in Q2 2014.

(3) Epic Phase II, Avery and the Huxley were completed during Q2 2014 and transferred from development to land and building. The total cost of such transfers was approximately \$210M. Solstice and Wilshire La Brea, development properties acquired as part of the BRE transaction, were completed during Q2 2014 and transferred from development to land and building. The total cost of such transfers was approximately \$437M.

(4) The cost incurred to date includes \$45M of expected insurance proceeds related to the fire.

(5)

	Construction Start	Initial Occupancy	Stabilized Operations
MB Phase I	Q2 2012	Q4 2014	Q2 2015
MB Phase II	Q3 2014	Q3 2015	Q1 2016

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Redevelopment Pipeline and Capital Expenditures - June 30, 2014

(Dollars in thousands, except per unit amounts)

Region/Project Name	Units	Total Incurred To Date	Estimated Remaining Cost	Estimated Total Cost	Project Start Date	NOI For the six months ended 2014	NOI For the six months ended 2013
Same-property - Redevelopment Projects							
(1) (2) (3)							
Southern California							
Hamptons	215	\$ 120	\$ 19,361	\$ 19,481	Q1 2014		
Monterras	292	2,209	24,174	26,383	Q1 2014		
Total Same-Property - Redevelopment Projects	507	\$ 2,329	\$ 43,535	\$ 45,864		\$ 3,721	\$ 3,581
Same-Property Redevelopment Vacancy Loss							
						\$ 1,269	\$ 1,309
Non-same property - Redevelopment Projects							
Southern California							
Bunker Hill Towers, Los Angeles	456	5,353	70,791	76,144	Q3 2013		
Total Non-Same Property - Redevelopment Projects	456	\$ 5,353	\$ 70,791	\$ 76,144		\$ 2,959	\$ 2,560

- (1) Redevelopment activities are ongoing at these communities, but the communities have stabilized operations, therefore results are classified in same-property operations.
- (2) The Company incurred \$0.8 million of vacancy loss for the same-property portfolio, and \$1.0 million of vacancy loss for the total portfolio during the three months ended June 30, 2014. The Company completed the redevelopment of interiors totaling 437 units for the same-property portfolio and 693 units for the total portfolio, during the three months ended June 30, 2014.
- (3) The company incurred \$0.4 million of capitalized interest, \$1.8M of capitalized overhead and \$0.1M of co-investment redevelopment fees related to redevelopment in Q2 2014.

Non-revenue Generating Capital Expenditures	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Non-revenue generating capital expenditures	\$ 10,623	\$ 4,416	\$ 5,153	\$ 9,536
Average apartment units in quarter	34,158	29,886	29,833	29,646
Capital expenditures per apartment unit in the quarter	\$ 311	\$ 148	\$ 173	\$ 322
Capital expenditures per apartment unit-trailing four quarters	\$ 870	\$ 918	\$ 906	\$ 1,235

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Co-investments - June 30, 2014 (Dollars in thousands)	Essex Ownership Percentage	Units	Total Undepreciated Book Value	Debt Amount	Essex Book Value	Weighted Average Borrowing Rate	Remaining Term of Debt/(in Years)	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
								2014	2013	2014	2013
Operating Non-consolidated Joint Ventures								Net Operating Income			
Essex Apartment Value Fund II, L.P. (Fund II) (1)											
	28.2%	96	\$ 14,428	\$ 6,261	\$ 2,484	5.6%	0.4	\$ 312	\$ 4,042	\$ 617	\$ 8,067
Wesco I, LLC (2)	50.0%	2,713	676,638	367,241	136,100	4.0%	9.0	9,185	8,363	18,124	16,455
Wesco III, LLC (2)	50.0%	993	228,369	119,830	54,059	3.2%	6.4	2,911	801	4,880	1,430
Wesco IV, LLC (2)	50.0%	1,116	297,683	148,000	97,840	3.2%	6.7	3,757	-	3,813	-
BEXAEW, LLC (2)	50.0%	2,723	516,105	295,000	94,958	3.2%	6.7	6,922	-	7,030	-
CPPIB (3)	55.0%	878	253,544	-	168,447	-	-	3,175	-	5,027	-
Other (4)	50.0%	462	135,680	105,535	23,146	2.0%	6.2	1,403	920	2,519	1,305
Total Operating Non-consolidated Joint Ventures		8,981	\$ 2,122,447	\$1,041,867	577,034	3.4%	7.4	\$27,665	\$14,126	\$ 42,010	\$27,257
								Essex Portion of NOI and Expenses			
NOI								\$13,923	\$ 6,182	\$ 21,122	\$11,870
Depreciation								(8,314)	(3,777)	(13,074)	(7,619)
Interest expense and other								(4,548)	(1,804)	(7,005)	(3,691)
Gain and promote income								1,056	2,366	8,115	2,366
Net income from operating co-investments								\$ 2,117	\$ 2,967	\$ 9,158	\$ 2,926
Development Joint Ventures (5) (6)	50/55%	1,595	\$ 558,240	\$ 59,900	243,127	1.5%	32.4	\$ -	\$ (15)	\$ -	\$ (15)
						Weighted Average Preferred Return	Weighted Average Expected Term	Income from Preferred Equity Investments			
Preferred Equity Investments					144,809	10.2%	3.6	\$ 3,512	\$ 4,330	\$ 6,997	\$ 8,582
Total Co-investments					\$964,970			\$ 5,629	\$ 7,282	\$ 16,155	\$11,493

- (1) The Company has a 28.2% interest as a general partner and limited partner in Fund II, and may earn promote income if Fund II exceeds certain financial return benchmarks. As of Q2 2014, 13 of the 14 properties in Fund II were sold. The remaining property is expected to be sold in 2014.
- (2) The Company has a 50% interest in Wesco I, III, IV, BEXAEW and the Company may earn promote income if the co-investment exceeds certain financial benchmarks.
- (3) The Company has a 55% interest in CPPIB, and the Company may earn promote income if the co-investment exceeds certain financial benchmarks.
- (4) The Company has a 50% interest in other various joint ventures, and the Company may earn promote income if the co-investment exceeds certain financial benchmarks.
- (5) The Company has interests in eight development co-investments, which are detailed on S-9.
- (6) The Dylan has a \$59.9 million long-term tax-exempt bond debt that is subject to a total return swap that will mature in 2016.

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Summary of Consolidated Co-Investments and Noncontrolling Interest - June 30, 2014

(Dollars in thousands)

The Company enters into co-investment transactions with third party developers, owners and investors of apartment communities. In accordance with GAAP, the Company consolidates certain of these co-investment transactions, resulting in noncontrolling interests corresponding to the ownership interest of the third-party developer, owner or investor.

The following table summarizes the consolidated co-investments and noncontrolling interest:

	Balance as of June 30, 2014				Operations for the six months ended June 30, 2014		
	Investment in	Related	Noncontrolling	DownREIT	Operating		
	Real Estate	Debt	Interest	Units Outstanding (1)	Revenue	Expenses	NOI
Noncontrolling Interest - DownREIT:							
Barkley Apartments	\$ 8,170	\$ 16,402	\$ 1,696	74,248	\$ 1,373	\$ 477	\$ 896
Avery (2)	36,558	10,000	2,568	58,884	402	319	83
Brookside Oaks	31,526	19,483	2,183	78,903	2,083	402	1,681
Capri at Sunny Hills	15,782	-	2,945	158,665	1,319	356	963
Hidden Valley (3)	36,343	30,040	6,089	62,647	2,863	882	1,981
Highridge Apartments	29,459	44,807	2,746	262,505	3,528	752	2,776
Montejo Apartments	7,684	12,938	1,216	29,319	978	261	717
The Elliot at Mukilteo	15,102	10,750	1,212	100,713	1,888	660	1,228
Magnolia Square	36,771	17,958	6,101	54,938	2,039	519	1,520
Fairhaven Apartments	12,296	16,791	2,951	67,728	1,386	378	1,008
Valley Park Apartments	13,042	21,966	30	2,156	1,579	565	1,014
Villa Angelina Apartments	18,935	26,779	1,593	43,552	2,129	513	1,616
	<u>\$ 261,668</u>	<u>\$ 227,914</u>	<u>31,330</u>	<u>994,258</u>	<u>\$ 21,567</u>	<u>\$ 6,084</u>	<u>\$ 15,483</u>
Other Components of Noncontrolling Interest:							
Hillsdale Garden Apartments (4)	\$ 106,027		21,645		\$ 9,278	\$ 2,831	\$ 6,447
Operating Partnership Units and Other			<u>60,759</u>				
Total Noncontrolling Interest			<u>\$ 113,734</u>				

(1) Generally, DownREIT units are redeemed for cash at a value equal to Essex's common stock.

(2) Avery was acquired on March 28, 2014 as the replacement property for Brentwood which completed a 1031 exchange transaction. Attributable to the 1031 exchange, the partnership underlying the noncontrolling interest remains in place. The Avery is in lease-up.

(3) The DownREIT has a 75% interest in this community and a joint venture partner has a 25% interest.

(4) The Company has an 81.5% interest in this community and the joint venture partner has an 18.5% interest.

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Assumptions for 2014 FFO Guidance Range
Q2 2014 Earnings Results Supplement

(\$'s in thousands, except share and per share data)

	YTD Actuals	2014 Revised Guidance Range		Changes from Q1 '14 Guidance
		Low End	High End	
Net Operating Income ("NOI")				
				Increased same-property revenue growth to a range of 6.4% to 6.8% and NOI range to 7.7% to 8.4%. Updated to reflect acquisitions occurring subsequent to quarter end.
Total NOI from consolidated communities	\$ 280,203	\$ 636,700	641,700	
Management Fees	3,995	8,100	8,700	Excludes dev. and redev. fees which are now an offset to G&A.
Interest Expense				
				Interest expense dependent on timing of capital markets activities.
Interest expense, before capitalized interest	(82,856)	(187,400)	(185,400)	
Projected interest capitalized	11,664	20,300	21,700	
Net interest expense	(71,192)	(167,100)	(163,700)	
Recurring Income and Expenses				
Interest and other income	4,807	9,600	10,000	
FFO from co-investments	21,311	51,700	53,100	Updated to reflect investment made through July.
General and administrative expense	(17,142)	(36,600)	(38,000)	Reduced G&A by dev. and redev. fees from co-investments which were previously recorded as mgmt fee revenues.
Preferred dividends and non-controlling interest	(6,968)	(14,000)	(14,000)	
	2,008	10,701	11,101	
Non-Core Income and Expenses				
Promote income from co-investment	4,904	6,000	7,000	
Gains on sales of marketable securities, land, note prepayment	1,286	1,286	1,286	
Earthquake related and other	(1,571)	(1,571)	(1,571)	
Loss on early retirement of debt	(197)	(197)	(197)	
Merger and integration expenses	(42,556)	(73,000)	(67,000)	
Utility reimbursement income accrual and acquisition fee	2,307	2,307	2,307	
Acquisition costs	(717)	(1,100)	(1,600)	
	(36,544)	(66,275)	(59,775)	
Funds from Operations	\$ 178,470	422,126	438,026	
Funds from Operations per diluted Share	\$ 3.41	7.18	7.45	
% Change - Funds from Operations	-55.1%	-5.4%	-1.9%	
Funds from Operations excluding non-core items	\$ 215,014	488,401	497,801	
Core Funds from Operations per diluted Share	\$ 4.11	8.31	8.47	
% Change - Core Funds from Operations	-46.0%	9.3%	11.4%	
Weighted average shares outstanding	52,357	58,800	58,800	

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC.

Summary of Apartment Community Acquisitions and Dispositions Activity

Six months ended June 30, 2014 and Q3 2014 to date

(Dollars in thousands)

Acquisitions								
Property Name	Location	Units	Essex Ownership Percentage	Entity	Date	Purchase Price	Price per Unit	Average Rent
The Avery	Los Angeles, CA	121	100%	EPLP	Mar-14	35,000	289	2,386
Q1 2014 Total		<u>121</u>				<u>\$ 35,000</u>	<u>\$ 289</u>	
Piedmont	Bellevue, WA	396	100%	EPLP	May-14	76,750	194	1,386
Collins on Pine	Seattle, WA	76	100%	EPLP	May-14	29,200	384	1,884
Q2 2014 Total		<u>472</u>				<u>\$ 105,950</u>	<u>\$ 224</u>	
Paragon	Fremont, CA	301	100%	EPLP	Jul-14	111,000	369	2,090
Q3 2014 to date		<u>301</u>				<u>\$ 111,000</u>	<u>\$ 369</u>	
Dispositions								
		Units	Essex Ownership Percentage	Entity	Date	Sales Price	Price per Unit	
Vista Capri		106	100.0%	EPLP	Jan-14	14,350	135	
Davey Glen		69	28.2%	Fund II	Mar-14	23,750	344	
Q1 2014 Total		<u>175</u>				<u>\$ 38,100</u>	<u>\$ 218</u>	
Pinnacle at Queen's Creek		252	35.0%	EPLP	Jun-14	33,300	132	
Q2 2014 Total		<u>252</u>				<u>\$ 33,300</u>	<u>\$ 132</u>	

BRE Properties Contributed to Joint Ventures as of April 1, 2014

	Location	Units	Essex Ownership Percentage	Entity	MSA	Purchase Price
Regency at Palm Court	Los Angeles, CA	116	50.0%	Wesco III	Los Angeles	
The Summit	Chino Hills, CA	125	50.0%	Wesco III	Los Angeles	
Windsor Court	Los Angeles, CA	95	50.0%	Wesco III	Los Angeles	
Wesco III Total		<u>336</u>				
Bridgeport Coast	Santa Clarita, CA	188	50.0%	Wesco IV	Los Angeles	
City Centre	Hayward, CA	192	50.0%	Wesco IV	San Francisco	
Fairways at Westridge	Valencia, CA	234	50.0%	Wesco IV	Los Angeles	
Verandas	Union City, CA	282	50.0%	Wesco IV	San Francisco	
Vistas of West Hills	Valencia, CA	220	50.0%	Wesco IV	Los Angeles	
Wesco IV Total		<u>1,116</u>				
Ballinger Commons	Seattle, WA	485	50.0%	AEW	Seattle	
Bothell Ridge	Bothell, WA	214	50.0%	AEW	Seattle	
Canyon Creek	Northridge, CA	200	50.0%	AEW	Los Angeles	
City Walk	Seattle, WA	102	50.0%	AEW	Seattle	
Enclave at Town Square	Chino Hills, CA	124	50.0%	AEW	Los Angeles	
Esplanade	San Diego, CA	616	50.0%	AEW	San Diego	
Parkside Court	Santa Ana, CA	210	50.0%	AEW	Orange County	
The Havens	Fountain Valley, CA	440	50.0%	AEW	Orange County	
The Heights	Chino Hills, CA	332	50.0%	AEW	Los Angeles	
AEW Total		<u>2,723</u>				
Total Joint Ventures		<u>4,175</u>				<u>\$ 888,000</u>

See Company's 10-Q for additional disclosures

ESSEX PROPERTY TRUST, INC

2014 MSA Level Forecasts: Supply, Jobs and Apartment Market Conditions

Market	Residential Supply ⁽¹⁾				Job Forecast ⁽²⁾		Market Forecast ⁽³⁾	
	New MF Supply	New SF Supply	Total Supply	% of MF Supply to MF Stock	% of Total Supply to Total Stock	Est.New Jobs Dec-Dec	% Growth	Estimated Rent Growth
Los Angeles	9,000	4,100	13,100	0.6%	0.4%	87,000	2.2%	5.3%
Ventura	650	400	1,050	1.0%	0.4%	5,100	1.8%	4.3%
Orange	3,550	3,600	7,150	0.9%	0.7%	29,000	2.0%	4.6%
San Diego	4,000	2,700	6,700	0.9%	0.6%	29,000	2.3%	4.4%
So. Cal.	17,200	10,800	28,000	0.8%	0.5%	150,100	2.1%	4.8%
San Francisco	4,500	600	5,100	1.2%	0.7%	32,650	3.1%	8.0%
Oakland	2,000	3,100	5,100	0.6%	0.5%	20,850	2.1%	8.1%
San Jose	4,300	1,800	6,100	1.7%	0.9%	33,300	3.5%	7.9%
No. Cal.	10,800	5,500	16,300	1.3%	0.7%	86,800	3.0%	8.0%
Seattle ^(2a)	8,500	6,500	15,000	1.9%	1.3%	42,600	2.8%	5.6%
Weighted Average (4)	36,500	22,800	59,300	1.2%	0.7%	279,500	2.6%	6.2%

All data are based on Essex Property Trust, Inc. forecasts.

U.S. Economic Assumptions: 2014 G.D.P. Growth: **2.8%** , 2014 Job Growth: **1.8%**

(1) **New Residential Supply** : MF reflects Company's internal estimate of actual multifamily deliveries; SF is based on 12 month single family trailing permits reported by the US Census Bureau.

(2) **Job Forecast**: refers to the difference between total non-farm industry employment (not seasonally adjusted) projected through Dec 2014 over estimated Dec 2013, expressed as total new jobs and growth rates.

(2a) **Seattle Job Forecast**: Includes Microsoft layoffs announced July 2014, of which 1,500 loss of jobs is anticipated to impact Seattle.

(3) **Market Forecast** : the estimated rent growth represents the forecasted change in effective market rents for Q4 2014 vs Q4 2013 (excludes submarkets not targeted by Essex).

(4) **Weighted Average** : markets weighted by economic rent in the Company's portfolio.

See Company's 10-Q for additional disclosures

Essex Property Trust, Inc.
Second Quarter 2014 Financial Results Conference Call
August 7, 2014

Operator: Greetings and welcome to the Essex Property Trust, Incorporated Second Quarter 2014 Financial Results. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

Statements made on this conference call regarding expected operating results and other future events are forward-looking statements that involve risks and uncertainties. Forward-looking statements are made based on current expectations, assumptions, and beliefs, as well as information available to the Company at this time. A number of factors could cause actual results to differ materially from those anticipated. Further information about these risks can be found in the Company's filings with the SEC.

It is now my pleasure to introduce your host, Mr. Michael Schall, President and Chief Executive Officer for Essex Property Trust. Thank you, Mr. Schall. You may begin.

Michael J. Schall: Thank you. I'd like to start by welcoming you to our second quarter earnings call. Mike Dance and Erik Alexander will follow me with comments. John Eudy and John Burkart are also in attendance for Q&A. I'll cover the following topics on the call: First, second quarter results; second, an update on the merger with BRE; and third, the status of key priorities.

So, on to the first topic. Yesterday, we were pleased to report an exceptional quarter, driven by an undersupplied housing environment emanating from the robust economies on the West Coast. Our reported 7.2% same property revenue growth matched Q3 2012 and Q1 2014 for the highest revenue growth rate achieved since the Great Recession. Southern California continued the expected steady, but slow, improvement in its revenue growth rate, which exceeded 5% quarter-over-quarter for the first time since the Great Recession. Northern California and Seattle continued to perform at the expected high level.

Our market update on page S15 of the supplement reflects a nominal increase in total housing supply from last quarter, still representing about 0.7% of the total stock of rental and for-sale housing in our target markets. It is notable that the for-sale housing construction remains at very muted levels, while apartment supplies continue to gradually increase.

Our 2014 job forecast improved from last quarter, with an increase of 35,100 jobs in 2014, moving our job growth forecast to 2.6%. While all areas continue to perform well, Microsoft's recently announced layoffs and growing apartment supply in Seattle will cause us to be more cautious in the Puget Sound region. Overall, the forecasted 2.6% job growth, with total 2014 housing supply increasing by 0.7%, indicates a shortage of housing that is apparent in our results.

Now, on to the second topic, the merger update. It has now been four months since the closing of the BRE merger and I can report that much has been accomplished and that we still have plenty of heavy lifting ahead of us. To the E-team members listening today, please accept my sincere thanks and appreciation for your incredible effort, dedication, and skill, as we become a stronger and more capable organization. I am pleased to report that the Management transition at the properties has proceeded well and included a recent realignment of portfolio assignments based on geography rather than premerger ownership. Major systems integration to one platform is underway, beginning with HRIS and other systems.

The conversion of the property operations and accounting platforms is the most important part of the systems integration and it has been the subject of extensive planning and coordination. While both BRE and Essex use Yardi for property management and accounting, a host of specialized subsystems support the Yardi platform. At this point, we expect Yardi and related subsystems to be merged on a phased basis beginning in Q4.

Considerable effort has been invested in our long-term strategic vision. We are truly a unique company with clusters of property located in or near the best apartment markets on the West Coast. In downtown LA and north San Jose, for example, we own more than 14 properties within five miles of each other, requiring new approaches to service delivery, while providing opportunities for improvements in leasing, pricing, staff effectiveness, customer relations, and marketing. This part of the integration planning will be a multiyear phased effort that we're excited to pursue.

Finally, third topic, update on near-term priorities. Last quarter, I commented on the need to remain focused on our most important priorities. Following is a brief update on the short to mid-term priorities outlined last quarter.

The first priority was to reduce the growth differential between the BRE and Essex portfolios, while taking advantage of the strength of the 2014 peak leasing season. In Q1 2014, Essex generated quarter-over-quarter revenue growth of 7.2% versus 5.6% for BRE, for a 1.6% differential. In the second quarter, that differential was reduced to about half of 1%, comprised mostly of 1.2% higher scheduled rent for Essex compared to BRE, offset by BRE's approximately 0.7% improvement in occupancy relative to Essex. BRE's higher turnover, shorter lease durations, and lower financial occupancy make us believe that further improvements will be achieved in the coming quarters.

The second priority was to vigorously pursue integration of systems and processes, which remains a key Management focus. My previous comments have already addressed this topic.

Finally, the third priority was to ramp up investment activity, given relatively stable apartment cap rates at a time of declining capital costs, with debt rates declining and Essex stock hitting all-time highs. To avoid resource problems, our senior executive team meets every Monday morning, discussing issues and opportunities, including how investment activity might impact other priorities, especially merger integration. We came to the conclusion that we have capacity for a few larger acquisitions, mostly focused on Northern California. So far this year, we have acquired \$217 million in apartments, we currently have 385 million in non-contingent acquisitions in process which we expect to close in the third quarter. Therefore, we expect to exceed our acquisition guidance of 3 to 400 million in 2014.

That concludes my comments. Thank you for joining the call. I'll now turn the call over to Erik.

Erik J. Alexander: Thank you, Mike. We're very pleased with our results this quarter, especially when coupled with the progress Essex has made in integration items. The focus on property fundamentals by operations and the corporate teams has been superb and we applaud those efforts.

The changes in Management that Mike was talking about provided us with some important insights on integration items. Our regional leadership team has been able to share a fresh perspective on existing systems and processes from both companies. This has led to valuable recommendations on system strengths and challenges and, as a result, we have been able to accelerate some of those decisions.

We've not changed our overall timeline for integration, but we have been able to better organize some of the components because of feedback provided by our internal customers. Most notably, we will be migrating to a single revenue management system ahead of schedule, which will allow us to better attack opportunities to lower turnover, increase occupancy, and improve our daily pricing review. These changes will also allow us to enhance our customer experience and improve satisfaction and retention.

So, as expected, leasing activity continued to accelerate throughout the second quarter for the entire portfolio. With respect to performance of the Essex portfolio, strong occupancy positions reported in May allowed for solid scheduled rent growth beyond our initial expectations for the second quarter. In fact, the sequential growth in scheduled rent for the second quarter was 2.1%, which is the largest second quarter gain since before the Great Recession. July scheduled rent gains were also impressive and should set us up for a solid third quarter.

Strong markets certainly fueled our revenue growth, as economic rent levels in the Essex portfolio were up 8.3% year-over-year. Higher market rents helped push our renewal pricing, which contributed to our stronger than expected revenue growth, as residents renewed their leases at a rate 6.3% higher than their old rate. Looking forward, we expect renewal activity to continue to support strong revenue results, as offered rates for August and September are in the mid-6% range. As of yesterday, physical occupancy in the Essex same store portfolio was 96%, with a net to lease of 6.3%. We expect to lower our net availability to 6% by the end of the third quarter and sustain occupancy above 96%.

Turning now to the BRE portfolio, the real story has been the rapid gain that we made in occupancy during the quarter, having increased physical occupancy by nearly 100 basis points by the end of May, and holding that level through June. This translates to a 76 basis point gain in financial occupancy, compared to the first quarter of this year, and a 92% improvement—92% basis point gain over the second quarter of last year. I am confident that we are on the right path, as the BRE portfolio was occupied at 96.1%, with a net availability of just 5.5% earlier this week. However, given BRE's higher turnover during the second and third quarter, we expect it will take a couple more quarters to truly close the gap in financial occupancy with the Essex portfolio and a full year to bring turnover rates more in line with our expectations. We also have evidence that we are making meaningful strides in this area, as the annualized turnover for the second quarter was slightly lower than the turnover ratio recorded last year, this despite facing 7% more expirations. Furthermore, through a modified renewal strategy, we have been able to extend the lease terms residents are willing to accept to 11.5 months in June and July. This is about five weeks longer than historical average over the past 18 months and should represent a structural change in the expiration profile of turnover results next year. Reducing turnover is an important part of our goal for achieving parity in occupancy with the Essex portfolio and gaining pricing power to drive better revenue results.

So now a quick rundown of the new development lease-up activity, which continues to demonstrate strength of demand in both Northern and Southern California.

Essex continued to lease apartments at a rapid pace during the second quarter and stabilized in June, nearly two months ahead of plan. We accelerated leasing activity at Solstice, occupied an average of 38 apartments per month during the period, and stabilized the property. Radius opened at the beginning of June with very limited preleasing activity and has already achieved an absorption rate greater than 40 leases per month. Mosso, which many of you have seen, is leasing very well despite its under-construction condition and has inked 111 (ph) leases to-date. This result is a testament to the strength of the San Francisco market and things should only improve for us as we begin to deliver a very nice complement of amenities.

In Southern California, Avery stabilized according to plan and is nearly 100% leased, while Wilshire La Brea continues to lease at a rate of 35 to 40 apartments per month, and the collaboration with a half-a-dozen of our nearby communities, including Huxley and Dylan, has proven to be beneficial. Huxley is now stabilized and Dylan will officially open next week and we expect this property to lease as well if not better than Huxley, given its preferred location.

I'll provide leasing results next quarter, along with comments about Park 20 and Emme.

Now for some highlights of each region, starting with Seattle. June unemployment growth at 3%, unemployment below 5%, Seattle continues to perform well above the national average. Amazon continues to grow by adding over 700,000 square feet of office space in the CBD. Boeing Commercial Airplanes captured 17 billion of net orders during the quarter and the backlog has now reached a new record high of 377 billion. This represents 5,200 aircraft and equates to approximately seven years of production. Rent growth in Seattle has again led by the east side with year-over-year rent growth above 9%. Seattle CBD at 5% is underperforming the rest of Seattle as supply continues to impact our properties operating in this market, particularly the A product. Given the concentration of expected deliveries in CBD this year, and a similar number next year, we don't expect to see additional rent growth in this submarket in the near term. However, please keep in mind that the CBD market comprises less than 20% of our total same store portfolio in Seattle and less than 4% of the total Essex same store portfolio.

Now, looking at Northern California, job growth in Northern California was 3.2% for June, with San Jose leading the way at 3.4%. Google recently announced an additional 336,000 square foot office in San Francisco, and the Silicon Valley has a year-to-date absorption of 1.3 million square feet of commercial space with another 3.5 million under construction. Levi Stadium, home of our San Francisco 49ers, opened this past weekend, and development around the stadium is currently planned for up to 8 million square feet of commercial retail, hospitality, and housing, and in the East Bay, Amazon announced plans for a 574,000 square foot distribution center. So, all of this activity continues to fuel the jobs in the greater Bay Area.

Economic rent levels continue to outperform in all submarkets, with San Jose, San Francisco, and Alameda leading the way with year-over-year growth north of 10%. These markets have had little trouble absorbing new supply thus far in 2014, despite relatively higher deliveries in San Francisco and San Jose than we've seen in prior years. We continue to believe that the demand is comfortably outpacing the supply.

Now, finally, in Southern California, Los Angeles, Orange County, San Diego, all posted year-over-year job growth in June above 2%, and LA's jobless rate has dropped to 8.1%, compared to 8.7 in March. Orange County's employment growth was tempered somewhat by layoff announcements from Allergan and Broadcom, while job additions in Los Angeles are coming from education and health, professional business service sectors, with the information sector growing 6%, which is the highest growth post-recession. Commercial activity improved during the quarter, as Orange County absorbed 1.1 million square feet of office, and another 500,000 square feet of office projects are under construction within just a few miles of our Hollywood and mid-Wilshire assets. We saw rent growth accelerate in all of our Southern California properties beginning in April and continuing through July. As of the end of July, year-over-year economic rents were at least 6% higher in Los Angeles, Orange, San Diego, and Ventura Counties. Modest deliveries and steadily improving jobs picture should help to continue respectable economic rent growth in the broader region.

So, beyond the strong markets and healthy outlooks across the entire portfolio, I'm encouraged even more now that I have seen the new Essex team work together to achieve excellent results during a demanding and anxious transition period. I am eager to work through the balance of the integration in order to realize true team unity and put Essex in a position to deliver top-tier results again next year.

Thank you for your time and support, and I'll now turn the call over to Mike Dance.

Michael T. Dance: Thanks, Erik. Today, I will provide commentary on our second quarter results, the revisions to our guidance to core funds from operations, review changes to the income statement presentation in the supplement, and will close with a few remarks on the balance sheet.

The second quarter exceeded by \$0.08 the midpoint of our guidance range for core FFO per share. This outperformance was predominantly from better-than-forecasted property operations, as we saw strong net operating income growth in all three regions, and have revised the midpoint of same property NOI growth to approximately 8%. Our revised full-year forecast for revenue growth of 6.6% at the midpoint does not represent decelerating rent growth. It simply reflects the seasonality of our business with the highest rent growth occurring during the months beginning in March through July.

Please recall that in 2014, we also have a very difficult second half comparison to the second half of 2013. In the second half of 2013, we achieved greater than 6.5% rent growth compared to the second half of '12. For the second half of '14, the year-over-year rent growth for the same property BRE legacy portfolio is expected to be slightly better than the year-over-year same property rent revenue growth in Essex portfolio as a result of the forecasted gains in occupancy at the legacy BRE communities. We expect to achieve similar financial occupancy in the two portfolios by the end of the year.

The midpoint of our same property operating expenses increase remains unchanged at 3.5% for 2014. On our last conference call, we actually forecasted second quarter same property expenses to increase by 5%, compared to the actual results of 3.1%. This \$0.02 per share savings in expenses was due to timing, and we are now forecasting these expenses to occur in the second half of the year.

Moving on to our guidance change, we have increased the full-year core FFO per diluted share by \$0.09 to a midpoint of 8.39 per share, resulting in core FFO growth of nearly 11% for the full year. The guidance change was limited to \$0.09, as our original estimate—as our original guidance—first, we already assumed robust revenue expectations for the second half of the year; second, our expectations for the timing of operating expenses previously noted; and lastly, general and administrative costs should increase over the Q2 run rate, based on anticipated increases to headcount and incentive compensation tied to achieving the forecasted results.

Now I want to review the changes to accounting that impacted the financial information included in our supplemental presentation this quarter.

First, we reduced general and administrative costs by approximately \$1.4 million, with the development and redevelopment fees paid to Essex from our co-investment partners. In Q1, we had approximately \$1 million in development and redevelopment fees which were accounted for as revenues in Q1, but in Q2 we have reclassified the prior quarter's expense—revenues as an offset to general administrative expenses to be consistent with this quarter's presentation. This accounting change has no impact on FFO and will reduce the fluctuation in management fee income and G&A expenses that occur, solely based on whether the development communities are owned on balance sheet or partially owned with partners. By accounting for these fees as an offset to G&A, our overhead costs will be more comparable between quarters. This accounting treatment depicts the economic reality that these fees are principally reimbursement for the cost of providing these services to our partners.

The second change is that we have temporarily discontinued the allocation of the cost of G&A activities related to property and asset management fees as a separate expense line item on the income statement. Again, this accounting change has no impact on FFO results, and the allocations will be revisited after we merge the Essex and BRE accounting systems in the fourth quarter.

The third accounting change was noted in our press release and relates to the accrual of the utility reimbursements from residents. This receivable was becoming material and is considered a preferred accounting method than the accounting for the revenues on a cash basis. This change resulted in a one-time increase to revenue and FFO of 1.8 million, which has been excluded from the same property revenue and excluded from core FFO.

The last change was mentioned on our Q1 conference call and was contemplated in our revised guidance provided in Q1. Essex has adopted the BRE's accounting, which follows generally accepted accounting principles; the amortization of lease concessions over the initial lease term. This accounting only applies at Essex when it is offered to new residents at a development community. This change increased FFO by \$0.01 (ph) in the second quarter and reduced the dilution from the development pipeline. The accounting change will also better reflect the effective rent growth from these communities when the assets enter the same property portfolio.

I will now wrap up with a few comments on our balance sheet. As a result of the merger, five of the six debt metrics presented in our supplement on S6 have improved over the same metrics prior to the merger. As we successfully lease up the development communities and grow the net operating income in the same property portfolio, we are on plan to reduce the total debt to annualized EBITDA to below seven times before the end of March 2015. Year-to-date, we have issued 366 million on equity to match fund our external growth opportunities, and we are committed to a strong balance sheet, as demonstrated by reducing our line balance in April by issuing \$400 million of unsecured bonds with a 10-year maturity.

This end my comments and I will now turn the call back over to the Operator for questions.

Operator: Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Nick Yulico with UBS. Please proceed with your question.

Nick Yulico: Turning first to BRE; a couple questions. Should we assume that the second half BRE same store numbers and growth looks similar to what you achieved in the first half of the year, since you mentioned you still had some of the occupancy benefit coming?

Michael T. Dance: Yes, this is Mike Dance. We're looking at about 6.6% revenue growth year-over-year for the second half of '14 compared to '13, primarily, as you mentioned, due to the occupancy gains that we can achieve in that portfolio that we've already achieved in the Essex portfolio.

Nick Yulico: Okay, and then if I turn to, you know, page S7 in the supplemental, you give the legacy BRE property revenue, NOI, et cetera. If I do the math, it looks like the margin on the BRE portfolio is like 64.5% and your same store margin 69%. How should we think about that gap and how much do you think you could close there?

Michael T. Dance: That's predominantly Proposition 13 write-ups in their portfolio so those were basically estimating Prop 13 at this time, based on advice we're getting from consultants, but that's to be determined. We think we're doing a good job estimating those, but more to tell as we get supplemental tax bills from the county assessors.

Nick Yulico: Okay. Then, just lastly, on the development pipeline, can you remind us where you think the expected yields are on the pipeline underway today, and then separately for what was just completed in the second quarter; and I was also hoping to get updated thoughts on Wilshire La Brea, that's a bigger asset, how you think about the stabilized yield there, and what the NOI contribution might be for 2014, since you still have some lease-up. Thanks.

Michael T. Dance: This is Mike Dance. Let me just comment briefly on the BRE portfolio and then I'll hand it back to John or Mike on the Essex portfolio. On the BRE portfolio, as part of business accommodation accounting, we're required to assign fair values to all of the assets, and when we look at the state of completion there relative to cost to complete, the assets that are delivering in 2014, we pretty much bought in at a low floor cap rate, so those will be stabilized in the low floor rate plus the rent growth we're achieving in those markets.

I'll let John or Mike now talk about the Essex portfolio.

John D. Eudy: Hi, this is John Eudy. On the existing portfolio on the Essex side, the cap rates we have estimated on our stabilization is in the mid to high 6 range, and the ones that we turned over to operations fully this quarter were actually slightly on the high side of that range.

Nick Yulico: All right. Thanks.

Michael J. Schall: Nice work, John.

Operator: Thank you. Our next question comes from the line of Nick Joseph with Citigroup. Please proceed with your question.

Nick Joseph: Thanks. When do you expect the same store revenue growth gap between the legacy Essex and legacy BRE portfolios to only reflect the different submarket allocation and not redevelopment contribution, the occupancy gains you talked about, and other income differentials?

Michael J. Schall: Hi, Nick. This is Mike Schall. I'm not sure there's a real easy answer to that, because we approach each part of the businesses separately. I think we've reported on in prior calls that we have discontinued a lot of the redevelopment activity on the BRE side pending, you know, transferring it over to the Essex way of looking at things. Just to give you an idea of what differences there are, we take an asset-by-asset approach on redevelopment, we look at each asset separately within its market, try to determine what things we get paid for and what things we just want to turn. We don't use a cookie-cutter approach, we use a customized asset plan for each one. So, we expect to start layering in redevelopment activity back into the BRE portfolio sometime in the third quarter.

Actually, there's one large asset in Emeryville, that there was some significant damage that was subject to an insurance claim, where BRE got \$20 million back. We're going to do an extensive rebuild, you know, reconstruction on that and pull it out of the same property pool, for example. But, I guess to answer the question, it'll probably take a year before there's a full redevelopment, you know, plan on the BRE side. It'll start right away, but it will be building up over the next year.

Does that answer your question?

Nick Joseph: That does, thanks. Then, just going to the acquisitions you mentioned, primarily in Northern California, is that a result of more assets on the market there, a strategic decision to grow that market, or shorter term opportunity you see?

Michael J. Schall: It's really all of the above. We try to find the best markets, obviously, we try to measure growth rates, cap rates, try to look for the best opportunities within our portfolio. I'd say, as a general rule, the lowest risk and highest return opportunity is still in redevelopment. However, moving large dollars in redevelopment is difficult, because of what I just said, which is, you know, a specific asset-by-asset planning process, and it is difficult to deploy redevelopment dollars in a high-quality manner without trying to have just basically systematic redos of many things. So, we're going to continue to be focused on redevelopment, we think that that is our highest total return, but we're not going to be able to move huge amounts of money in that area.

Within the development side, we want to continue to be a developer, an active developer. We got up about as high as 10% of enterprise value in our development pipeline at the bottom of the cycle and we think at this point in the cycle we're unable to exactly figure out what's going to grow faster, NOIs or construction costs, and, therefore, we're going to be more conservative at this point in the cycle and we may reduce our development exposure to somewhere around 5% of enterprise value, just to give you some idea, and so we'll find opportunities within that spectrum, and we continue to see some pretty interesting development deals that we're working on.

Then, so, finally, on the acquisition side, we still think Northern California and we're comparing a lot of deals back and forth. We have passed on some deals in Southern California. We have gravitated to, rather than, let's say, the super A market within Northern California, finding opportunities that might be in a B plus city, near a transit-oriented site, transit-oriented district, where someone can get on, for example, BART or light rail and commute into town, because we believe, given how expensive it's getting in some of the core areas, that there's a logical transition to still good locations that have good transit options as being the best total return in the acquisition area. Does that make sense?

Nick Joseph: It does, and then, I guess, just between kind of those A locations and the B plus locations, what kind of growth differential are you underwriting?

Michael J. Schall: Well, again, this is the important distinction. I mean, typically, as you come out of a recession, the A areas are going to grow the fastest and the B areas are going to essentially get the benefit of the second wave, and so we think we're in that second part of things. We're actually—if you look at our own results, you'll see Alameda County, for example, which is mainly the B assets, growing actually better than some of the A areas. So, we're starting to see the transition from really expensive areas, people being forced to move out of the really expensive areas, and that is benefiting, again, the still good areas, but, you know, not downtown San Francisco, for example.

Nick Joseph: Great. Thanks.

Michael J. Schall: Thank you.

Operator: Thank you. Our next question comes from the line of Alexander Goldfarb with Sandler O'Neill. Please proceed with your question.

Alexander Goldfarb: Good morning out there.

Michael J. Schall: Hey, Alex.

Alexander Goldfarb: Hey, how are you?

Michael J. Schall: Good.

Alexander Goldfarb: Just quickly, just some questions here. The turnover difference between BRE and Essex, if you could just comment a little bit more on this. Was this more the way that the BRE tenants were managed from Corporate or was there a more active approach to try and, I don't know, I guess not retain people, if you could just give some color, and, you know, just because that seems rather glaring; and then also maybe a little bit on what the duration difference was, if you guys are going for 11.5—I think you said you're going for 11.5, or maybe it's now 11.5, but if you could just give some color on the difference of the duration strategy.

Erik J. Alexander: Hey, Alex, it's Erik. I think one of the biggest drivers was not so much the focus, I think BRE, like everybody, wants to retain people as much as they can. I think the strategy of how—what you offer the residents in terms of their length of stay, and so what we saw, you know, as Essex is in the 11.5 average term range on the renewals, and for the past 18 months the BRE portfolio had seen closer to 10-month renewals, and that was really based on the offers, the offers favored a 10-month renewal, where typically the renewals in the Essex portfolio favored a 12 or a 13-month lease, from a pricing perspective. So, what we saw in June and July was the result of changing that, trying to push the longer term lease with an eye on managing our lease expiration, so we set ourselves up good for next year and just get in a better position for pricing.

Alexander Goldfarb: Okay. So, there wasn't like an active part on BRE to get people to move out. It was more just how they did their duration of the lease renewal?

Erik J. Alexander: Yes, I don't believe there was an active plan to try to move them out.

Alexander Goldfarb: Okay. Then, on the operations side, if we just use, you know, EQR Archstone as sort of a template, it seems like there are two stages to getting synergies. There's one, the initial, which you guys have outlined and sounds like may take a year, and then there's the next stages, which is as you operate the portfolio, the properties in close proximity, there are efficiencies that you get above and beyond. So, can you just give us a sense for sort of—if you take sort of on a 1 to 10 scale and say 10 is full integration, everything going, how much do you think you will integrate over the next year for efficiency improvement, and then how much—by default, you know, what you think is then left over the longer term?

Michael J. Schall: Hey, Alex, it's Mike Schall. That's an interesting question. I would say that this first year is going to be picking-the-low-hanging-fruit-oriented, which means lowering the turnover ratio, focusing on occupancy, building pricing power, training the people so we all think alike and approach the business the same way, implement all the systems and the integrations so that we are one company. An interesting note during the quarter was it took us a couple months to reconcile the definition of financial occupancy, because they were different between the two companies, for example. So, there's a tremendous amount of detail and we're trying to work through that. I think that's going to take a good year.

We are at the same time accumulating lists—and Mr. Burkart has a lot of this and he may want to comment—creating lists of opportunities that we see that we want to pursue at some point in time down the road, when we get back to just, you know, I referred to in my comments as sort of a re-visioning of how we provide the service, and, again, given the proximity of properties in certain clusters—you know, notably in my call, North San Jose and downtown LA—we know that in certain cases, for example, price optimizers compete with from property to property without considering that the same owner may own both, for example, and situations like that have got to be resolved. I think we get to none of that during this first year. We may want leasing offices that are open until 9:00 at night within the main clusters, for example. We may want more specialized maintenance so that you have sort of a cluster maintenance group, some which are highly skilled in plumbing and other—variety of other tasks. Essentially, all that stuff that's out there, that is the broader how we are going to provide the service in the future, we will not get to in this first year. We are, as a general statement, really busy trying to keep our eyes focused on the things ahead of us. We all recognize that these are not annuities, they are businesses.

The world changes quickly, as we saw in our mea culpa moment in Q3 2011, which lives in infamy around here, and we remain vigilant in trying to make sure that we react appropriately to changing conditions, that the communication up and down the organization is appropriate, that we're monitoring things appropriately with reports, and that we are prepared to react if conditions change.

Alexander Goldfarb: Okay, okay, that's helpful. Thank you, Mike.

Michael J. Schall: Thanks, Alex.

Operator: Thank you. Our next question comes from the line of Jana Galan with Merrill Lynch. Please proceed with your question.

Jana Galan: Thank you. I was wondering if you could provide an update on condo conversion activity in your markets this summer.

John F. Burkart: Sure. This is John Burkart. As it relates to—let me talk about condos in general. So, clearly, when we look at the markets, in all of the markets, the condo pricing is moving as it is in most of the for-sale housing. The hottest market, no doubt, is San Francisco. San Francisco, Bosa’s actually building a couple of towers, one in San Francisco and a couple in Seattle. To put it in some context, the San Francisco tower of 267 units, about 200 of them have sold out in a very short period of time. Compare that to, say, Seattle, where they’re selling about 15 a month for a 700-unit tower. So, all of the markets, it’s moving forward. San Francisco, it’s at its closest point. However, we’re still not at the point where it’s, you might say, frothy, at the point where we would say it makes sense to convert, because at the same time as we have the condo price moving, we also have rents and apartment values moving. So, again, it’s not a just condo price issue, it’s a where is the arbitrage opportunity where we can find the chance that someone will pay, perhaps, a half to a cap more for our apartments and value it as a condo. So, we’re not quite there yet. We’re monitoring it very closely. We’re engaged in numerous conversations and we’ll react, as Mike says, to the market when it—as it gets there, but it’s definitely moving forward.

Jana Galan: Thanks, John. And, Erik, I’m sorry if I missed this in your comments. Did you provide move-outs to home ownership this quarter and maybe an update on rent to income?

Erik J. Alexander: No, I hadn’t provided that. It hadn’t materially changed since the last quarter. It stands around 11% for the portfolio overall, highest in the Pacific Northwest and lowest in Southern California.

Michael J. Schall: This is Mike. Let’s see, rent to median incomes, you know, not a whole lot of change there. We track the current rent to median income against the long-term average from 1990 to 2013, and those relationships look pretty healthy. I’ll go through a couple of them for the sake of discussion.

In Seattle, for example, rent to median income, because incomes are doing very well in Seattle, 16.9% versus the long-term average, 1990 to 2013, of 17.4%, so that looks good. San Francisco, currently at 25.1%, against a long-term average of 24.4. San Jose, 20.8% versus 20.3% long-term average. Let me do one more. LA, 20.4% currently, against 22.4 long-term average.

Again, I think the thing that is different about the West Coast is we are adding so many jobs that are professional in nature, that have high income levels, and it has the effect of pushing income levels up, and therefore the affordabilities are not becoming stretched.

Jana Galan: Great. Thank you very much.

Michael J. Schall: Thanks.

Operator: Thank you. Our next question comes from the line of David Toti with Cantor Fitzgerald. Please proceed with your question.

David Toti: Thanks. Good morning, guys.

Michael J. Schall: Good morning, David.

David Toti: I just have two simple questions. I might have missed this, but the portfolio metrics were a little odd in that turnover declined. Occupancy was relatively stable but concessions rose, which I was a little surprised. I would think that that number would follow turnover. Can you just provide a little bit of detail on that dynamic?

Erik J. Alexander: I might not be clear on the concession part. If you're referring to the...

Michael J. Schall: They rose nominally. I mean, they didn't rise a lot, and I think most of it was one asset that is competing against a new community, or actually several new communities—I think it was the 5600 Wilshire asset. So, I think that accounts for almost all of the concession number, right, Erik?

Erik J. Alexander: Yes, that was a big concession number. (Cross talking).

Michael J. Schall: I'd also comment that again the turnover number, where BRE's was in the, what, 63% range, I mean, that's a function of a high turnover, high lease expiration period during—intentionally during the peak leasing season and it takes time for us to bring that number down. We have to be there for a full cycle of implementing our view of how you do renewals and a little bit longer lease terms, as Erik mentioned, and a variety of things. So, again, some of these things just take time to implement.

David Toti: Okay, that's helpful. I was just curious on the mechanics. My other question—and this is maybe for Mike Dance. I would have thought we'd see greater levels of dispositions given asset pricing. How are you guys thinking about asset sales relative to other costs of capital, in terms of sort of a funding source, and why aren't you sort of—why aren't you maybe disposing more at this point in the cycle?

Michael J. Schall: Hi, David, it's Mike Schall. It's a topic that we are talking about a lot these days, but I would suggest to you that we have done the calculations and we have concluded that using a combination of stock and debt on a—essentially a balance sheet—near balance sheet-neutral type of basis is better than using recycled asset proceeds, and there's a couple of caveats to that. One is that we, all things being equal, don't want to operate in Phoenix, and so there is a pretty good likelihood that we will sell out of that market, and the other caveat is keep in mind that, because of Prop 13, the buyer and seller essentially have different cap rates, because the buyer is going to have a reassessment and therefore his NOI is going to be lower than it is on our books, and, therefore, that acts as an impediment, in effect, to sell, not—and, again, not that we won't sell, we're just going to be careful about time, but in our view, right now, with debt costs rallying 50 basis points or so and the stock hitting all-time highs, we are better off issuing stock to fund new acquisitions than using dispo proceeds.

David Toti: Great. I can't say I disagree. Thanks for the detail.

Michael J. Schall: Thanks.

Operator: Thank you. Our next question comes from the line of Rich Anderson with Mizuho Securities. Please proceed with your question.

Rich Anderson: Thanks and good morning.

Michael J. Schall: Hey, welcome back, Rich.

Rich Anderson: Hey, thanks, Mike. So, just a couple questions on BRE. What is the difference between their second and third quarter lease expiration schedule now versus yours?

Erik J. Alexander: This is Erik. So, the third quarter has a higher turnover expiration than Essex, so we were—they were 63% in the second quarter and we were in the low 50s the last couple of years. That profile was 70% for BRE and kind of mid-50s for Essex. So, we're seeing basically the same thing and we're doing—like I said, we're offering the longer term leases and we're doing some advanced renewals to try to bring that all under control, and I think that the physical occupancies so far are evidence that it's working. The fourth quarter is more similar to ours and we don't expect a big issue there.

Rich Anderson: That's actually good information but not quite the question I was asking. When it comes to, like, the percentage of your leases expiring in the second and third quarter—I'm sure it's more than 50% of the total, right, you try to target that—what is that number for Essex, not turnover but just the raw expiration, and what is the number for BRE?

Erik J. Alexander: I'm sorry, Rich. I'll have to get back to you with a specific number for both those portfolios.

Richard Anderson: Okay. Mike Schall, or whomever, when you think about the combination of BRE, they bring more Southern California to the mix at the margin than you had originally. Do you think that that's a particular opportunity, given that Southern California hasn't started to have that ramp-up yet, or is that kind of just splitting hairs?

Michael J. Schall: That's another good question. In a normal world, I would think that we would expect Southern California to have that ramp-up, but I think this is a very unique recovery period. This recovery period is really being dominated by tech, life sciences, and energy, and that, we think, is going to continue to favor the north, Seattle and Northern California, whereas Southern California is more of a diversified economy, and we think it will still do well, but unless the recovery broadens out, or let's say until the recovery broadens out, we think that we have a distinct advantage in Northern California and Seattle.

Obviously, we don't know and we're trying to, you know, make decisions that are going to benefit the Company over the long haul. I still think Southern California is a very, very strong market, very limited supply, we still think good things are going to happen in Southern California, and, actually, I'd also mentioned, because of the tech and life science influence in Northern California, it can be—and Seattle, it can be a little more volatile than Southern California overall. So, I think having a balanced portfolio, as we have, and as you know, we—of the 4,175 units that were used to form a joint venture, they were predominantly Southern California-focused, so that we maintain more of the Northern California/Seattle flavor to the overall portfolio, and we think that that's about the right balance at this point in time. Again, it could change in the future depending upon what happens in the broader economy.

Rich Anderson: Okay. Then, on the topic of synergies, last quarter you had operating G&A synergies ranging from 24 to 27 million for a full-year run rate. You beat—on the BRE side in the second quarter, you mentioned \$0.02 better than expected. How come you didn't adjust the synergy target, or did you and you're just now waiting for somebody to ask?

Michael T. Dance: Rich, it's Mike Dance. There are a number of vacant positions in G&A that we're going to be filling here in the second half of the year. So, I believe it was some of the turnover that wasn't expected, we're going to be filling those positions. So, that, and I think I mentioned in my remarks that we're having a great year and we're hoping that we get rewarded for that in compensation level, so that is going to also be adding to the second half of the year's G&A.

Rich Anderson: So, the operating is outperforming, G&A might be a little bit higher and the net is no change at this point?

Michael T. Dance: That's right.

Rich Anderson: Okay. Then the last question, Mike, for you then, did you give any consideration to the accounting change, in particular, the amortization of concessions over the life of the lease, moving in that direction, did you give any consideration to taking it all upfront? I'm just curious what your thought process was for not doing it that way.

Michael T. Dance: We are doing lease concessions on GAAP for the development communities. That's where it's material. Again, it's a lot of work. We're not doing it for the same property portfolio. We decided to make that change when we looked at all the BRE assets that were being delivered in 2014. So we are—we did change our policy to recognize concessions upfront and amortize that over the initial term of the lease, and that did benefit Q2 by about \$700,000 in FFO. So, that was all contemplated in Q1's guidance. Does that answer your question?

Rich Anderson: Yes, that's fine. All right, thank you very much.

Michael J. Schall: Thanks, Rich.

Operator: Thank you. Our next question comes from the line of Haendel St. Juste with Morgan Stanley. Please proceed with your question.

Haendel St. Juste: Hey, guys. Thanks for taking my question. Erik, I guess I wanted to get some color from you on the Essex same store revenue growth in Southern California, well above your peers. I'm just curious how much of that would you say is location and price point driven versus upside in the BRE portfolio?

Erik J. Alexander: Yes, I think it's some of all of that. We had good results in Ventura County, where we moved occupancy in the first quarter, so we got some price gains there. Los Angeles, I think, you know, fundamentally, has been better, I think evidenced by some of the lease-up activity that I mentioned, so that's carrying over into our stabilized assets where we're seeing some better pricing. Then, we have made occupancy gains, I think, particularly, not just in the BRE portfolio but also in Essex San Diego. So, all those things have contributed.

Haendel St. Juste: Okay, and one or two more for you while you're there. Overall turnover in your portfolio is relatively unchanged year-over-year, but we did see almost a 10 percentage point year-over-year decline in Seattle. Is that you guys being more cautious sort of given the ramping supply you referenced earlier in the call in the Seattle metro area, and then given the near-term outlook for Seattle you provided also earlier, could we perhaps see SoCal revenue growth exceed Seattle's by perhaps next year this time?

Erik J. Alexander: So, in the first part, the turnover was a little higher in Seattle last year due to some renovation activities that are not the same this year, and then we also see a higher conversion this year on renewal offers in Seattle, part of that related to our renewal strategy and some of the self-limiting increases that we've set.

Then, with respect to Southern California beating Seattle, next year did you say?

Haendel St. Juste: Well, maybe you tell me.

Erik J. Alexander: What I'm hoping for is that it ties the same level that Seattle is this year. We're both enjoying that kind of growth. But I do think that you're seeing maybe a little more consistency in the growth in Southern California, very anxious to see how the third quarter turns out, and hope that this is less bumpy and more sustainable and that it moves towards those levels.

Haendel St. Juste: Okay, last one now, speaking of renewals, and maybe I missed it, but could you give us the new and renewals, perhaps by region, if you could, for 2Q, and then also the early reads—well, July actuals and early August, what you're asking for?

Erik J. Alexander: Yes, the early—sorry, the August and the September is 6.5 for the Essex portfolio and 5.7 for the BRE portfolio, and I think I had commented in the—in my comments about the second quarter being 6.3 overall for Essex. That number for BRE was 5. Again, that's probably a little bit lower than it would have been, but, again, we're pushing a renewal strategy to extend leases, to reduce turnover, to bring that occupancy up and get into a better position later.

Haendel St. Juste: Could you, perhaps, give those by region, the renewal and new for the—during the quarter?

Erik J. Alexander: I don't have it right in front of me, Haendel.

Haendel St. Juste: Great. All right, we can follow up. Thank you.

Michael J. Schall: Thanks, Haendel.

Operator: Thank you. Our next question comes from the line of George Hoglund with Jefferies. Please proceed with your question.

George Hoglund: Hi, guys. Most of my questions have been answered, but I guess one thing. I'm looking at your preferred equity investments. Is there the chance that any of those might turn into acquisition opportunities over the next 12 months?

Michael J. Schall: Hey, George, it's Mike Schall here. You know, I don't know what the opportunity to do that, it's obviously on our mind, and part of the reason that we are in that business, not just for the return, but to be part of the discussion at the term of the preferred equity investments, but at this point in time there are no discussions ongoing about taking any of them out.

George Hoglund: Okay. Thanks, guys.

Michael J. Schall: Thanks.

Operator: Thank you. Our next question comes from the line of Michael Salinsky with RBC Capital Markets. Please proceed with your question.

Michael Salinsky: Good afternoon, guys. Erik, you gave a whole bunch of leasing statistics just at quarter end. Where is the loss to lease there? I didn't talk about moderation, but are you seeing that gap actually widen as you're capturing a lot of this rent?

Erik J. Alexander: Yes, we are. It's getting pretty big. I mean, July has been a good month, and for Essex, it's around 8%, and for BRE, it's just shy of 6%, and it's a double-digit number in the Bay Area. So, yes, it's growing.

Michael Salinsky: Impressive. Second question. I believe you talked a little bit about redevelopment, but now that you've got the portfolio for four months, you know the properties a little bit better, you've got a handle on the lease-up, what's kind of the scope or scale you see of redevelopment opportunities across the BRE portfolio? Is it greater than that of the Essex portfolio?

John F. Burkart: Mike, this is John speaking. It's actually pretty similar to the Essex portfolio overall. However, the BRE assets are a little bit newer. So, Essex, we tend to have a little bit more infrastructure, you know, plus the outside finishes, and for BRE, it's a little bit more of the outside finishes, but the opportunity is pretty significant. As Mike said, we've had teams of people go through each and every asset, we've had multiple off-site meetings and we're really rolling it into our portfolio plan we expect to come out over the next year, and it will be about the same level as what we're doing with the Essex portfolio right now.

Michael Salinsky: Okay, that's helpful. Third question, possibly for Mike Schall. The 385 million you referenced, I mean, how should we think about that? Is that mostly B property, is that A property? What's kind of the acquisition strategy right now? Is there a focus on A versus B or is it really more submarket driven, no differential between A versus B right now?

Michael J. Schall: Yes, it's actually a little bit more submarket driven at this point in time. There were assets that traded that we dropped out of the bidding process when the cap rates for—I would say these are A assets and A locations—went sub-four. We're really not all that interested in participating in some of those transactions, and, again, we would rather play this—what typically happens when you have a very tight apartment condition, where people are forced to move out to the next area. So, we're trying to go to transit-oriented areas in still good cities, that are still near the jobs and where rents are lower and cap rates are higher, and try to anticipate that trend of people that will be moving out, or will not be able to find an apartment in the best areas and they're willing to get on a BART train or whatever and commute in.

Michael Salinsky: Okay. So, this is more suburban-type product that you're acquiring here?

Michael J. Schall: I'll give you an example. A couple of these buildings are within 10 miles of north San Jose, where all the jobs are, for example. We're not talking about going to the hinterlands. We're talking about going to good cities, Fremont, for example, again, with transit options, given that the traffic in the Bay Area is becoming more problematic over time, and again we're trying to find those places where people want to live, offer a good quality of life, can access the employment nodes, and provide the appropriate return to us.

Michael Salinsky: Okay. Then, finally, at your Investor Day last year, you provided a three-year outlook that assumed pretty healthy growth there. The growth that we're seeing obviously is tracking above that. Are you seeing growth in addition to what you had expected or are you seeing a compression of the cycle?

Michael J. Schall: That's—you know, I think that they can work together. I'm not sure that you're seeing compression in the cycle. We would expect a longer cycle, as we suggested there. We went back and looked at all the recovery periods for the last 50 years and we concluded that when you have major financial recession-type periods, the recovery periods tend to be longer, and we certainly think that that is a key part of this. The other part of it, though, is what's going on with incomes? I mean, as long as incomes continue to grow, and the overall affordability equation is tolerable to the consumer, we think that this can go on longer than we might otherwise have expected.

I think the difference between this cycle and several of the previous cycles are the number of high-quality high-paying jobs is different. The amount of wealth that is being created is also different, in that you have companies that are very profitable, as opposed to if you go back to, for example, the late '90s, where you had companies with no operating history whatsoever, that were able to raise a billion dollars in the market and operate a (inaudible) type of company. It's a much different scenario to that.

I mean, we see at this point in time real jobs, income levels doing very well. For example, the Microsoft announcement of 18,000 jobs essentially being let go, and somewhere around 1,500 of them in the Seattle area is what we're expecting, a lot of these people are highly skilled, and again, there's a number of companies that are looking for those skill sets. We're not sure exactly what impact that's going to have, but I feel like it might be more muted than you might otherwise think, given the magnitude of the losses.

Michael Salinsky: Great. Thank you much.

Michael J. Schall: Thanks.

Operator: Thank you. Our final question today will come from the line of Nick Joseph with Citigroup. Please proceed with your question.

Michael Bilerman: Final, wow, that's a high hurdle. It's Michael Bilerman.

Michael J. Schall: Michael.

Michael Bilerman: Yes. So, I noticed your marketable securities balance went up about \$6 million to 106 million, and I wasn't sure if that was the purchase of additional stocks, if that was increases in market value. I know there's a bunch of bonds in there, but there is, like, I don't know, 22, \$23 million of common stocks, and I didn't know if that was something of a strategic opportunity on the come that we need to be mindful of.

Michael T. Dance: Michael, this is Mike Dance. I assure you it is not a strategic opportunity. We do have a captive insurance company that continues to have no losses but continues to collect premiums. That's some of it. Some of it's increases in market values, but no strategic investment.

Michael J. Schall: Just to be clear, Mike, the captive insurance entity, I think it has around \$40 million in it...

Michael T. Dance: Forty-five million.

Michael J. Schall: Forty-five million dollars in it. We have a tiered investment scheme which has—the first couple tiers are very safe, and then it becomes a little bit more, you know, discretionary and/or more like ETFs and that type of investment in those layers, but it’s really a function of that, wanting to remain liquid and have those reserves set aside in case there is a self-insurance type loss.

Michael Bilerman: We spent a lot of time on this call talking about how you’ve been able to influence the BRE portfolio and processes and things like that, but I’m curious if there’s been any influence at all on the Essex portfolio from anything that you’ve been able to garner either out of operations or any other sort of discipline that came from looking at BRE that had some influence on the Essex properties.

Michael J. Schall: Sure, there have been. I mean, I think the information’s gone both ways. I think we see a lot of it in the integration stuff. The systems that we’re changing, we’ve adopted some of those things that serve our internal customers. On the customer side, we’ll be adopting a customer care platform that was used by BRE, and a process that we think works well and we’ll adapt some ideas we have on that. Some things related to utility bill-back, we’re looking at. We’ve had some just great collaboration on stuff. I met with a manager in Seattle who transferred from a BRE community to an Essex community and she said, “I just love the way you do this, this simple renewal.” She said, “But gosh, there’s like 12 steps to get to the price. I have some ideas on how you can fix that,” and I’m like, “All right, let’s get together and talk about that with the right people.” So, again, people are really, I think, being encouraged and sharing ideas and I think that’s been a big part of the integration, is to constantly encourage that and don’t pretend that we have all the answers. So yes, we’re definitely getting ideas from all the people that are involved.

Michael Bilerman: Great. Have a great rest of the summer.

Michael J. Schall: Thanks, Michael. You, too.

Operator: Thank you. At this time, I’d like to return the floor back over to Management for closing remarks.

Michael J. Schall: Okay, thank you, Operator. In closing, we thank you for joining the call. This is truly an exciting time, if not exhausting time, at Essex. We appreciate your interest in the Company and look forward to updating you again next quarter. Good day.

Operator: Thank you. This concludes today’s teleconference. You may disconnect your lines at this time, and thank you for your participation.