

EQUITY RESIDENTIAL

Form 10-Q

November 06, 2014

Table of Contents

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: 1-12252 (Equity Residential)

Commission File Number: 0-24920 (ERP Operating Limited Partnership)

EQUITY RESIDENTIAL

ERP OPERATING LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

Maryland (Equity Residential)

13-3675988 (Equity Residential)

Illinois (ERP Operating Limited Partnership)

36-3894853 (ERP Operating Limited Partnership)

(State or other jurisdiction of incorporation or  
organization)

(I.R.S. Employer Identification No.)

Two North Riverside Plaza, Chicago, Illinois 60606

(312) 474-1300

(Address of principal executive offices) (Zip Code)

(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 such reports), and (2) has been subject to such filing requirements for the past 90 days.

Equity Residential Yes  No

ERP Operating Limited Partnership 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).

Equity Residential Yes  No

ERP Operating Limited Partnership 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.

Equity Residential:

Large accelerated filer

Accelerated filer

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

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

Smaller reporting  
company

ERP Operating Limited Partnership:

Large accelerated filer

Accelerated filer

Non-accelerated filer  (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).

Equity Residential Yes  No

ERP Operating Limited Partnership Yes  No

The number of EQR Common Shares of Beneficial Interest, \$0.01 par value, outstanding on October 31, 2014 was 362,363,189.

---

Table of Contents

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended September 30, 2014 of Equity Residential and ERP Operating Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “EQR” mean Equity Residential, a Maryland real estate investment trust (“REIT”), and references to “ERPOP” mean ERP Operating Limited Partnership, an Illinois limited partnership. References to the “Company,” “we,” “us” or “our” mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the “Operating Partnership” mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. The following chart illustrates the Company's and the Operating Partnership's corporate structure:

EQR is the general partner of, and as of September 30, 2014 owned an approximate 96.2% ownership interest in, ERPOP. The remaining 3.8% interest is owned by limited partners. As the sole general partner of ERPOP, EQR has exclusive control of ERPOP's day-to-day management.

The Company is structured as an umbrella partnership REIT (“UPREIT”) and contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, the Company receives a number of OP Units (see definition below) in the Operating Partnership equal to the number of Common Shares 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 shown above. Based on the terms of ERPOP's partnership agreement, OP Units can be exchanged with Common Shares on a one-for-one basis. The Company maintains a one-for-one relationship between the OP Units of the Operating Partnership issued to EQR and the Common Shares.

The Company believes that combining the reports on Form 10-Q of EQR and ERPOP 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 EQR consists of the same members as the management of ERPOP.

The Company believes it is important to understand the few differences between EQR and ERPOP in the context of how EQR and ERPOP operate as a consolidated company. All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR's primary function is acting as the general partner of ERPOP. EQR also issues equity from time to time and guarantees certain debt of ERPOP, as disclosed in this report. EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. 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



Table of Contents

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 Common Share 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 facility, the issuance of secured and unsecured debt and equity securities and proceeds received from disposition of certain properties and joint ventures.

Shareholders' equity, partners' capital and noncontrolling interests 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 financial statements and as noncontrolling interests in the Company's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in the Company's financial statements include the same noncontrolling interests at the Operating Partnership level and limited partner OP Unit holders of the Operating Partnership. The differences between shareholders' 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 each entity's debt, noncontrolling interests and shareholders' equity or partners' capital, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity.

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.

As general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes, and EQR essentially has no assets or liabilities other than its investment in ERPOP. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. 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.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I.</u>	
<u>Item 1. Financial Statements of Equity Residential:</u>	
<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	<u>2</u>
<u>Consolidated Statements of Operations and Comprehensive Income for the nine months and quarters ended September 30, 2014 and 2013</u>	<u>3 to 4</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	<u>5 to 7</u>
<u>Consolidated Statement of Changes in Equity for the nine months ended September 30, 2014</u>	<u>8 to 9</u>
<u>Financial Statements of ERP Operating Limited Partnership:</u>	
<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	<u>10</u>
<u>Consolidated Statements of Operations and Comprehensive Income for the nine months and quarters ended September 30, 2014 and 2013</u>	<u>11 to 12</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	<u>13 to 15</u>
<u>Consolidated Statement of Changes in Capital for the nine months ended September 30, 2014</u>	<u>16 to 17</u>
<u>Notes to Consolidated Financial Statements of Equity Residential and ERP Operating Limited Partnership</u>	<u>18 to 45</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46 to 70</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>70</u>
<u>Item 4. Controls and Procedures</u>	<u>70 to 71</u>
<u>PART II.</u>	
<u>Item 1. Legal Proceedings</u>	<u>72</u>
<u>Item 1A. Risk Factors</u>	<u>72</u>

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>72</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>72</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>72</u>
<u>Item 5. Other Information</u>	<u>72</u>
<u>Item 6. Exhibits</u>	<u>72</u>

---

Table of ContentsEQUITY RESIDENTIAL  
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except for share amounts)

(Unaudited)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Investment in real estate		
Land	\$6,329,907	\$6,192,512
Depreciable property	19,919,609	19,226,047
Projects under development	1,046,210	988,867
Land held for development	279,139	393,522
Investment in real estate	27,574,865	26,800,948
Accumulated depreciation	(5,314,260)	(4,807,709)
Investment in real estate, net	22,260,605	21,993,239
Cash and cash equivalents	31,478	53,534
Investments in unconsolidated entities	128,100	178,526
Deposits – restricted	84,945	103,567
Escrow deposits – mortgage	45,995	42,636
Deferred financing costs, net	60,530	58,486
Other assets	396,441	404,557
Total assets	\$23,008,094	\$22,834,545
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgage notes payable	\$5,090,960	\$5,174,166
Notes, net	5,420,646	5,477,088
Lines of credit	446,000	115,000
Accounts payable and accrued expenses	203,070	118,791
Accrued interest payable	86,472	78,309
Other liabilities	349,371	347,748
Security deposits	75,738	71,592
Distributions payable	188,266	243,511
Total liabilities	11,860,523	11,626,205
Commitments and contingencies		
Redeemable Noncontrolling Interests – Operating Partnership	430,149	363,144
Equity:		
Shareholders' equity:		
Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized; 1,000,000 shares issued and outstanding as of September 30, 2014 and December 31, 2013	50,000	50,000
Common Shares of beneficial interest, \$0.01 par value; 1,000,000,000 shares authorized; 362,208,087 shares issued and outstanding as of September 30, 2014 and 360,479,260 shares issued and outstanding as of December 31, 2013	3,622	3,605
Paid in capital	8,574,176	8,561,500
Retained earnings	1,915,344	2,047,258



Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Accumulated other comprehensive (loss)	(164,806	) (155,162	)
Total shareholders' equity	10,378,336	10,507,201	
Noncontrolling Interests:			
Operating Partnership	213,889	211,412	
Partially Owned Properties	125,197	126,583	
Total Noncontrolling Interests	339,086	337,995	
Total equity	10,717,422	10,845,196	
Total liabilities and equity	\$23,008,094	\$22,834,545	

See accompanying notes

2

---

Table of Contents

## EQUITY RESIDENTIAL

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per share data)

(Unaudited)

	Nine Months Ended September 30,		Quarter Ended September 30,	
	2014	2013	2014	2013
<b>REVENUES</b>				
Rental income	\$1,942,492	\$1,741,169	\$ 662,001	\$ 624,063
Fee and asset management	7,596	7,399	2,077	2,566
Total revenues	1,950,088	1,748,568	664,078	626,629
<b>EXPENSES</b>				
Property and maintenance	361,105	330,812	120,144	118,782
Real estate taxes and insurance	245,717	217,753	80,568	75,916
Property management	61,080	63,395	18,407	18,875
Fee and asset management	4,293	4,739	1,253	1,516
Depreciation	565,772	796,233	190,469	276,707
General and administrative	41,296	47,017	9,968	14,437
Total expenses	1,279,263	1,459,949	420,809	506,233
Operating income	670,825	288,619	243,269	120,396
Interest and other income	3,213	1,767	576	1,015
Other expenses	(7,161)	) (27,718)	) (4,971)	) (4,368)
Interest:				
Expense incurred, net	(347,224)	) (437,452)	) (118,251)	) (120,035)
Amortization of deferred financing costs	(8,554)	) (15,636)	) (2,628)	) (4,335)
Income (loss) before income and other taxes, (loss) from investments in unconsolidated entities, net gain (loss) on sales of land parcels, discontinued operations and net gain on sales of real estate properties	311,099	) (190,420)	) 117,995	) (7,327)
Income and other tax (expense) benefit	(1,146)	) (1,325)	) (260)	) (492)
(Loss) from investments in unconsolidated entities	(10,201)	) (57,749)	) (1,176)	) (3,209)
Net gain (loss) on sales of land parcels	1,846	12,179	1,052	(2,437)
Income (loss) from continuing operations	301,598	(237,315)	) 117,611	(13,465)
Discontinued operations, net	1,500	2,026,798	(62)	) 405,182
Income before net gain on sales of real estate properties	303,098	1,789,483	117,549	391,717
Net gain on sales of real estate properties	128,544	—	113,641	—
Net income	431,642	1,789,483	231,190	391,717
Net (income) loss attributable to Noncontrolling Interests:				
Operating Partnership	(16,273)	) (70,947)	) (8,738)	) (14,836)
Partially Owned Properties	(1,800)	) 1,101	(708)	) 311
Net income attributable to controlling interests	413,569	1,719,637	221,744	377,192

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Preferred distributions	(3,109	)	(3,109	)	(1,037	)	(1,037	)
Net income available to Common Shares	\$410,460		\$1,716,528		\$220,707		\$376,155	
Earnings per share – basic:								
Income (loss) from continuing operations available to Common Shares	\$1.13		\$(0.65	)	\$0.61		\$(0.04	)
Net income available to Common Shares	\$1.14		\$4.87		\$0.61		\$1.05	
Weighted average Common Shares outstanding	360,900		352,414		361,409		359,811	
Earnings per share – diluted:								
Income (loss) from continuing operations available to Common Shares	\$1.13		\$(0.65	)	\$0.61		\$(0.04	)
Net income available to Common Shares	\$1.13		\$4.87		\$0.61		\$1.05	
Weighted average Common Shares outstanding	377,228		352,414		377,954		359,811	
Distributions declared per Common Share outstanding	\$1.50		\$1.20		\$0.50		\$0.40	

See accompanying notes

3

---

Table of Contents

## EQUITY RESIDENTIAL

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

(Amounts in thousands except per share data)

(Unaudited)

	Nine Months Ended September 30,		Quarter Ended September 30,	
	2014	2013	2014	2013
Comprehensive income:				
Net income	\$431,642	\$1,789,483	\$231,190	\$391,717
Other comprehensive (loss) income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(21,784	) 8,737	97	(3,600 )
Losses reclassified into earnings from other comprehensive income	12,606	16,084	4,271	3,986
Other comprehensive income (loss) – other instruments:				
Unrealized holding gains (losses) arising during the period	—	554	—	(374 )
(Gains) realized during the period	—	(830	) —	(830 )
Other comprehensive (loss) – foreign currency:				
Currency translation adjustments arising during the period	(466	) (789	) (2,184	) (1,730 )
Other comprehensive (loss) income	(9,644	) 23,756	2,184	(2,548 )
Comprehensive income	421,998	1,813,239	233,374	389,169
Comprehensive (income) attributable to Noncontrolling Interests	(17,705	) (70,770	) (9,530	) (14,428 )
Comprehensive income attributable to controlling interests	\$404,293	\$1,742,469	\$223,844	\$374,741

See accompanying notes

4

Table of ContentsEQUITY RESIDENTIAL  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$431,642	\$1,789,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	565,772	830,097
Amortization of deferred financing costs	8,554	15,864
Amortization of above/below market leases	2,376	2,214
Amortization of discounts and premiums on debt	(8,750)	(37,612)
Amortization of deferred settlements on derivative instruments	12,205	15,683
Write-off of pursuit costs	2,067	3,969
Loss from investments in unconsolidated entities	10,201	57,749
Distributions from unconsolidated entities – return on capital	4,557	1,519
Net (gain) on sales of investment securities	(57)	(830)
Net (gain) on sales of land parcels	(1,846)	(12,179)
Net (gain) on sales of discontinued operations	(223)	(1,990,577)
Net (gain) on sales of real estate properties	(128,544)	—
Unrealized (gain) loss on derivative instruments	(66)	32
Compensation paid with Company Common Shares	24,647	29,019
Changes in assets and liabilities:		
(Increase) decrease in deposits – restricted	(2,223)	4,152
Decrease in mortgage deposits	1,638	271
Decrease in other assets	3,854	7,315
Increase in accounts payable and accrued expenses	76,331	65,001
Increase (decrease) in accrued interest payable	8,163	(2,175)
(Decrease) in other liabilities	(173)	(5,427)
Increase (decrease) in security deposits	4,146	(6,475)
Net cash provided by operating activities	1,014,271	767,093
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of Archstone, net of cash acquired	—	(4,000,875)
Investment in real estate – acquisitions	(404,658)	(108,308)
Investment in real estate – development/other	(380,691)	(256,965)
Capital expenditures to real estate	(133,181)	(96,866)
Non-real estate capital additions	(2,446)	(3,359)
Interest capitalized for real estate and unconsolidated entities under development	(38,140)	(32,946)
Proceeds from disposition of real estate, net	224,538	4,434,708
Investments in unconsolidated entities	(14,568)	(59,363)
Distributions from unconsolidated entities – return of capital	77,042	25,471
Proceeds from sale of investment securities	57	828
Decrease in deposits on real estate acquisitions and investments, net	20,845	147,890
Decrease in mortgage deposits	560	7,623

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Acquisition of Noncontrolling Interests – Partially Owned Properties	(5,501	) —
Net cash (used for) provided by investing activities	(656,143	) 57,838

See accompanying notes

5

---

Table of Contents

EQUITY RESIDENTIAL  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Debt financing costs	\$(10,598	) \$(18,254
Mortgage deposits	(5,557	) (3,769
Mortgage notes payable:		
Proceeds	—	5,951
Lump sum payoffs	(63,772	) (701,762
Scheduled principal repayments	(8,919	) (9,527
Notes, net:		
Proceeds	1,194,278	1,245,550
Lump sum payoffs	(1,250,000	) (400,000
Lines of credit:		
Proceeds	5,324,000	8,413,000
Repayments	(4,993,000	) (8,413,000
(Payments on) settlement of derivative instruments	(758	) (44,013
Proceeds from Employee Share Purchase Plan (ESPP)	2,728	2,973
Proceeds from exercise of options	56,554	16,044
Common Shares repurchased and retired	(1,777	) —
Payment of offering costs	—	(954
Other financing activities, net	(33	) (33
Contributions – Noncontrolling Interests – Partially Owned Properties	5,684	11,520
Contributions – Noncontrolling Interests – Operating Partnership	3	5
Distributions:		
Common Shares	(595,564	) (537,464
Preferred Shares	(3,109	) (3,109
Noncontrolling Interests – Operating Partnership	(23,582	) (22,216
Noncontrolling Interests – Partially Owned Properties	(6,762	) (5,702
Net cash (used for) financing activities	(380,184	) (464,760
Net (decrease) increase in cash and cash equivalents	(22,056	) 360,171
Cash and cash equivalents, beginning of period	53,534	612,590
Cash and cash equivalents, end of period	\$31,478	\$972,761

See accompanying notes

6

---



Table of Contents

EQUITY RESIDENTIAL  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest, net of amounts capitalized	\$335,646	\$451,495
Net cash paid for income and other taxes	\$866	\$1,064
Amortization of deferred financing costs:		
Investment in real estate, net	\$—	\$(152)
Deferred financing costs, net	\$8,554	\$16,016
Amortization of discounts and premiums on debt:		
Mortgage notes payable	\$(10,515)	\$(39,232)
Notes, net	\$1,765	\$1,620
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(401)	\$(401)
Accumulated other comprehensive income	\$12,606	\$16,084
Loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	\$7,684	\$51,907
Other liabilities	\$2,517	\$5,842
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	\$4,399	\$1,519
Other liabilities	\$158	\$—
Unrealized (gain) loss on derivative instruments:		
Other assets	\$11,409	\$(10,609)
Notes, net	\$(2,485)	\$(1,523)
Other liabilities	\$12,794	\$3,427
Accumulated other comprehensive income	\$(21,784)	\$8,737
Acquisition of Archstone, net of cash acquired:		
Investment in real estate, net	\$39,929	\$(8,710,242)
Investments in unconsolidated entities	\$(33,993)	\$(217,092)
Deposits – restricted	\$—	\$(474)
Escrow deposits – mortgage	\$—	\$(35,897)
Deferred financing costs, net	\$—	\$(25,780)
Other assets	\$(2,586)	\$(203,295)
Mortgage notes payable	\$—	\$3,076,876
Accounts payable and accrued expenses	\$(146)	\$17,576
Accrued interest payable	\$—	\$11,305
Other liabilities	\$(3,204)	\$117,068
Security deposits	\$—	\$10,949
Issuance of Common Shares	\$—	\$1,929,868
Noncontrolling Interests – Partially Owned Properties	\$—	\$28,263
Interest capitalized for real estate and unconsolidated entities under development:		
Investment in real estate, net	\$(38,086)	\$(31,648)
Investments in unconsolidated entities	\$(54)	\$(1,298)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	\$(5,118)	\$(9,317)

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Other liabilities	\$ (9,450	)	\$ (50,046	)
Other:				
Foreign currency translation adjustments	\$ 466		\$ 789	

See accompanying notes

7

---

Table of Contents

EQUITY RESIDENTIAL  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30, 2014	
<b>SHAREHOLDERS' EQUITY</b>		
<b>PREFERRED SHARES</b>		
Balance, beginning of year	\$50,000	
Balance, end of period	\$50,000	
<b>COMMON SHARES, \$0.01 PAR VALUE</b>		
Balance, beginning of year	\$3,605	
Conversion of OP Units into Common Shares	1	
Exercise of share options	14	
Share-based employee compensation expense:		
Restricted shares	2	
Balance, end of period	\$3,622	
<b>PAID IN CAPITAL</b>		
Balance, beginning of year	\$8,561,500	
Common Share Issuance:		
Conversion of OP Units into Common Shares	1,717	
Exercise of share options	56,540	
Employee Share Purchase Plan (ESPP)	2,728	
Share-based employee compensation expense:		
Restricted shares	8,392	
Share options	6,326	
ESPP discount	701	
Common Shares repurchased and retired	(1,777	)
Supplemental Executive Retirement Plan (SERP)	5,664	
Acquisition of Noncontrolling Interests – Partially Owned Properties	(2,308	)
Change in market value of Redeemable Noncontrolling Interests – Operating Partnership	(69,579	)
Adjustment for Noncontrolling Interests ownership in Operating Partnership	4,272	
Balance, end of period	\$8,574,176	
<b>RETAINED EARNINGS</b>		
Balance, beginning of year	\$2,047,258	
Net income attributable to controlling interests	413,569	
Common Share distributions	(542,374	)
Preferred Share distributions	(3,109	)
Balance, end of period	\$1,915,344	

See accompanying notes

8

---

Table of Contents

EQUITY RESIDENTIAL  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30, 2014	
SHAREHOLDERS' EQUITY (continued)		
ACCUMULATED OTHER COMPREHENSIVE (LOSS)		
Balance, beginning of year	\$(155,162	)
Accumulated other comprehensive (loss) – derivative instruments:		
Unrealized holding (losses) arising during the period	(21,784	)
Losses reclassified into earnings from other comprehensive income	12,606	
Accumulated other comprehensive (loss) – foreign currency:		
Currency translation adjustments arising during the period	(466	)
Balance, end of period	\$(164,806	)
NONCONTROLLING INTERESTS		
OPERATING PARTNERSHIP		
Balance, beginning of year	\$211,412	
Issuance of LTIP Units to Noncontrolling Interests	3	
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(1,718	)
Equity compensation associated with Noncontrolling Interests	11,144	
Net income attributable to Noncontrolling Interests	16,273	
Distributions to Noncontrolling Interests	(21,527	)
Change in carrying value of Redeemable Noncontrolling Interests – Operating Partnership	2,574	
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(4,272	)
Balance, end of period	\$213,889	
PARTIALLY OWNED PROPERTIES		
Balance, beginning of year	\$126,583	
Net income attributable to Noncontrolling Interests	1,800	
Contributions by Noncontrolling Interests	5,684	
Distributions to Noncontrolling Interests	(6,795	)
Acquisition of Noncontrolling Interests – Partially Owned Properties	(2,244	)
Other	169	
Balance, end of period	\$125,197	

See accompanying notes

Table of ContentsERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Investment in real estate		
Land	\$6,329,907	\$6,192,512
Depreciable property	19,919,609	19,226,047
Projects under development	1,046,210	988,867
Land held for development	279,139	393,522
Investment in real estate	27,574,865	26,800,948
Accumulated depreciation	(5,314,260	) (4,807,709
Investment in real estate, net	22,260,605	21,993,239
Cash and cash equivalents	31,478	53,534
Investments in unconsolidated entities	128,100	178,526
Deposits – restricted	84,945	103,567
Escrow deposits – mortgage	45,995	42,636
Deferred financing costs, net	60,530	58,486
Other assets	396,441	404,557
Total assets	\$23,008,094	\$22,834,545
<b>LIABILITIES AND CAPITAL</b>		
Liabilities:		
Mortgage notes payable	\$5,090,960	\$5,174,166
Notes, net	5,420,646	5,477,088
Lines of credit	446,000	115,000
Accounts payable and accrued expenses	203,070	118,791
Accrued interest payable	86,472	78,309
Other liabilities	349,371	347,748
Security deposits	75,738	71,592
Distributions payable	188,266	243,511
Total liabilities	11,860,523	11,626,205
Commitments and contingencies		
Redeemable Limited Partners	430,149	363,144
Capital:		
Partners' Capital:		
Preference Units	50,000	50,000
General Partner	10,493,142	10,612,363
Limited Partners	213,889	211,412
Accumulated other comprehensive (loss)	(164,806	) (155,162
Total partners' capital	10,592,225	10,718,613
Noncontrolling Interests – Partially Owned Properties	125,197	126,583
Total capital	10,717,422	10,845,196
Total liabilities and capital	\$23,008,094	\$22,834,545

See accompanying notes

10

---

Table of ContentsERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per Unit data)

(Unaudited)

	Nine Months Ended September		Quarter Ended September	
	30,	30,	30,	30,
	2014	2013	2014	2013
<b>REVENUES</b>				
Rental income	\$ 1,942,492	\$ 1,741,169	\$ 662,001	\$ 624,063
Fee and asset management	7,596	7,399	2,077	2,566
Total revenues	1,950,088	1,748,568	664,078	626,629
<b>EXPENSES</b>				
Property and maintenance	361,105	330,812	120,144	118,782
Real estate taxes and insurance	245,717	217,753	80,568	75,916
Property management	61,080	63,395	18,407	18,875
Fee and asset management	4,293	4,739	1,253	1,516
Depreciation	565,772	796,233	190,469	276,707
General and administrative	41,296	47,017	9,968	14,437
Total expenses	1,279,263	1,459,949	420,809	506,233
Operating income	670,825	288,619	243,269	120,396
Interest and other income	3,213	1,767	576	1,015
Other expenses	(7,161)	) (27,718)	) (4,971)	) (4,368)
Interest:				
Expense incurred, net	(347,224)	) (437,452)	) (118,251)	) (120,035)
Amortization of deferred financing costs	(8,554)	) (15,636)	) (2,628)	) (4,335)
Income (loss) before income and other taxes, (loss) from investments in unconsolidated entities, net gain (loss) on sales of land parcels, discontinued operations and net gain on sales of real estate properties	311,099	) (190,420)	) 117,995	) (7,327)
Income and other tax (expense) benefit	(1,146)	) (1,325)	) (260)	) (492)
(Loss) from investments in unconsolidated entities	(10,201)	) (57,749)	) (1,176)	) (3,209)
Net gain (loss) on sales of land parcels	1,846	12,179	1,052	(2,437)
Income (loss) from continuing operations	301,598	(237,315)	) 117,611	(13,465)
Discontinued operations, net	1,500	2,026,798	(62)	) 405,182
Income before net gain on sales of real estate properties	303,098	1,789,483	117,549	391,717
Net gain on sales of real estate properties	128,544	—	113,641	—
Net income	431,642	1,789,483	231,190	391,717
Net (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,800)	) 1,101	(708)	) 311
Net income attributable to controlling interests	\$ 429,842	\$ 1,790,584	\$ 230,482	\$ 392,028

## ALLOCATION OF NET INCOME:



Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Preference Units	\$3,109	\$3,109	\$1,037	\$1,037
General Partner	\$410,460	\$1,716,528	\$220,707	\$376,155
Limited Partners	16,273	70,947	8,738	14,836
Net income available to Units	\$426,733	\$1,787,475	\$229,445	\$390,991
Earnings per Unit – basic:				
Income (loss) from continuing operations available to Units	\$1.13	\$(0.65)	\$0.61	\$(0.04)
Net income available to Units	\$1.14	\$4.87	\$0.61	\$1.05
Weighted average Units outstanding	374,626	366,150	375,116	373,547
Earnings per Unit – diluted:				
Income (loss) from continuing operations available to Units	\$1.13	\$(0.65)	\$0.61	\$(0.04)
Net income available to Units	\$1.13	\$4.87	\$0.61	\$1.05
Weighted average Units outstanding	377,228	366,150	377,954	373,547
Distributions declared per Unit outstanding	\$1.50	\$1.20	\$0.50	\$0.40

See accompanying notes

11

---

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)  
(Amounts in thousands except per Unit data)  
(Unaudited)

	Nine Months Ended September		Quarter Ended September	
	30,	2013	30,	2013
	2014		2014	
Comprehensive income:				
Net income	\$431,642	\$1,789,483	\$231,190	\$391,717
Other comprehensive (loss) income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(21,784	) 8,737	97	(3,600 )
Losses reclassified into earnings from other comprehensive income	12,606	16,084	4,271	3,986
Other comprehensive income (loss) – other instruments:				
Unrealized holding gains (losses) arising during the period	—	554	—	(374 )
(Gains) realized during the period	—	(830	) —	(830 )
Other comprehensive (loss) – foreign currency:				
Currency translation adjustments arising during the period	(466	) (789	) (2,184	) (1,730 )
Other comprehensive (loss) income	(9,644	) 23,756	2,184	(2,548 )
Comprehensive income	421,998	1,813,239	233,374	389,169
Comprehensive (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,800	) 1,101	(708	) 311
Comprehensive income attributable to controlling interests	\$420,198	\$1,814,340	\$232,666	\$389,480

See accompanying notes

12

Table of ContentsERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$431,642	\$1,789,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	565,772	830,097
Amortization of deferred financing costs	8,554	15,864
Amortization of above/below market leases	2,376	2,214
Amortization of discounts and premiums on debt	(8,750)	(37,612)
Amortization of deferred settlements on derivative instruments	12,205	15,683
Write-off of pursuit costs	2,067	3,969
Loss from investments in unconsolidated entities	10,201	57,749
Distributions from unconsolidated entities – return on capital	4,557	1,519
Net (gain) on sales of investment securities	(57)	(830)
Net (gain) on sales of land parcels	(1,846)	(12,179)
Net (gain) on sales of discontinued operations	(223)	(1,990,577)
Net (gain) on sales of real estate properties	(128,544)	—
Unrealized (gain) loss on derivative instruments	(66)	32
Compensation paid with Company Common Shares	24,647	29,019
Changes in assets and liabilities:		
(Increase) decrease in deposits – restricted	(2,223)	4,152
Decrease in mortgage deposits	1,638	271
Decrease in other assets	3,854	7,315
Increase in accounts payable and accrued expenses	76,331	65,001
Increase (decrease) in accrued interest payable	8,163	(2,175)
(Decrease) in other liabilities	(173)	(5,427)
Increase (decrease) in security deposits	4,146	(6,475)
Net cash provided by operating activities	1,014,271	767,093
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of Archstone, net of cash acquired	—	(4,000,875)
Investment in real estate – acquisitions	(404,658)	(108,308)
Investment in real estate – development/other	(380,691)	(256,965)
Capital expenditures to real estate	(133,181)	(96,866)
Non-real estate capital additions	(2,446)	(3,359)
Interest capitalized for real estate and unconsolidated entities under development	(38,140)	(32,946)
Proceeds from disposition of real estate, net	224,538	4,434,708
Investments in unconsolidated entities	(14,568)	(59,363)
Distributions from unconsolidated entities – return of capital	77,042	25,471
Proceeds from sale of investment securities	57	828
Decrease in deposits on real estate acquisitions and investments, net	20,845	147,890

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Decrease in mortgage deposits	560	7,623
Acquisition of Noncontrolling Interests – Partially Owned Properties	(5,501	) —
Net cash (used for) provided by investing activities	(656,143	) 57,838

See accompanying notes

13

---

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Debt financing costs	\$(10,598	) \$(18,254
Mortgage deposits	(5,557	) (3,769
Mortgage notes payable:		
Proceeds	—	5,951
Lump sum payoffs	(63,772	) (701,762
Scheduled principal repayments	(8,919	) (9,527
Notes, net:		
Proceeds	1,194,278	1,245,550
Lump sum payoffs	(1,250,000	) (400,000
Lines of credit:		
Proceeds	5,324,000	8,413,000
Repayments	(4,993,000	) (8,413,000
(Payments on) settlement of derivative instruments	(758	) (44,013
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	2,728	2,973
Proceeds from exercise of EQR options	56,554	16,044
OP Units repurchased and retired	(1,777	) —
Payment of offering costs	—	(954
Other financing activities, net	(33	) (33
Contributions – Noncontrolling Interests – Partially Owned Properties	5,684	11,520
Contributions – Limited Partners	3	5
Distributions:		
OP Units – General Partner	(595,564	) (537,464
Preference Units	(3,109	) (3,109
OP Units – Limited Partners	(23,582	) (22,216
Noncontrolling Interests – Partially Owned Properties	(6,762	) (5,702
Net cash (used for) financing activities	(380,184	) (464,760
Net (decrease) increase in cash and cash equivalents	(22,056	) 360,171
Cash and cash equivalents, beginning of period	53,534	612,590
Cash and cash equivalents, end of period	\$31,478	\$972,761

See accompanying notes

14

---

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest, net of amounts capitalized	\$335,646	\$451,495
Net cash paid for income and other taxes	\$866	\$1,064
Amortization of deferred financing costs:		
Investment in real estate, net	\$—	\$(152 )
Deferred financing costs, net	\$8,554	\$16,016
Amortization of discounts and premiums on debt:		
Mortgage notes payable	\$(10,515	) \$(39,232 )
Notes, net	\$1,765	\$1,620
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(401	) \$(401 )
Accumulated other comprehensive income	\$12,606	\$16,084
Loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	\$7,684	\$51,907
Other liabilities	\$2,517	\$5,842
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	\$4,399	\$1,519
Other liabilities	\$158	\$—
Unrealized (gain) loss on derivative instruments:		
Other assets	\$11,409	\$(10,609 )
Notes, net	\$(2,485	) \$(1,523 )
Other liabilities	\$12,794	\$3,427
Accumulated other comprehensive income	\$(21,784	) \$8,737
Acquisition of Archstone, net of cash acquired:		
Investment in real estate, net	\$39,929	\$(8,710,242 )
Investments in unconsolidated entities	\$(33,993	) \$(217,092 )
Deposits – restricted	\$—	\$(474 )
Escrow deposits – mortgage	\$—	\$(35,897 )
Deferred financing costs, net	\$—	\$(25,780 )
Other assets	\$(2,586	) \$(203,295 )
Mortgage notes payable	\$—	\$3,076,876
Accounts payable and accrued expenses	\$(146	) \$17,576
Accrued interest payable	\$—	\$11,305
Other liabilities	\$(3,204	) \$117,068
Security deposits	\$—	\$10,949
Issuance of OP Units	\$—	\$1,929,868
Noncontrolling Interests – Partially Owned Properties	\$—	\$28,263
Interest capitalized for real estate and unconsolidated entities under development:		
Investment in real estate, net	\$(38,086	) \$(31,648 )

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Investments in unconsolidated entities	\$(54	)	\$(1,298	)
Investments in unconsolidated entities:				
Investments in unconsolidated entities	\$(5,118	)	\$(9,317	)
Other liabilities	\$(9,450	)	\$(50,046	)
Other:				
Foreign currency translation adjustments	\$466		\$789	

See accompanying notes

15

---



Table of Contents

ERP OPERATING LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended September 30, 2014	
<b>PARTNERS' CAPITAL</b>		
<b>PREFERENCE UNITS</b>		
Balance, beginning of year	\$ 50,000	
Balance, end of period	\$ 50,000	
<b>GENERAL PARTNER</b>		
Balance, beginning of year	\$ 10,612,363	
OP Unit Issuance:		
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	1,718	
Exercise of EQR share options	56,554	
EQR's Employee Share Purchase Plan (ESPP)	2,728	
Share-based employee compensation expense:		
EQR restricted shares	8,394	
EQR share options	6,326	
EQR ESPP discount	701	
OP Units repurchased and retired	(1,777	)
Net income available to Units – General Partner	410,460	
OP Units – General Partner distributions	(542,374	)
Supplemental Executive Retirement Plan (SERP)	5,664	
Acquisition of Noncontrolling Interests – Partially Owned Properties	(2,308	)
Change in market value of Redeemable Limited Partners	(69,579	)
Adjustment for Limited Partners ownership in Operating Partnership	4,272	
Balance, end of period	\$ 10,493,142	
<b>LIMITED PARTNERS</b>		
Balance, beginning of year	\$ 211,412	
Issuance of LTIP Units to Limited Partners	3	
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	(1,718	)
Equity compensation associated with Units – Limited Partners	11,144	
Net income available to Units – Limited Partners	16,273	
Units – Limited Partners distributions	(21,527	)
Change in carrying value of Redeemable Limited Partners	2,574	
Adjustment for Limited Partners ownership in Operating Partnership	(4,272	)
Balance, end of period	\$ 213,889	
<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS)</b>		
Balance, beginning of year	\$(155,162	)
Accumulated other comprehensive (loss) – derivative instruments:		
Unrealized holding (losses) arising during the period	(21,784	)
Losses reclassified into earnings from other comprehensive income	12,606	
Accumulated other comprehensive (loss) – foreign currency:		

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Currency translation adjustments arising during the period	(466	)
Balance, end of period	\$(164,806	)

See accompanying notes

16

---

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP  
 CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL (Continued)  
 (Amounts in thousands)  
 (Unaudited)

Nine Months Ended  
 September 30, 2014

NONCONTROLLING INTERESTS

NONCONTROLLING INTERESTS – PARTIALLY OWNED PROPERTIES

Balance, beginning of year	\$126,583	
Net income attributable to Noncontrolling Interests	1,800	
Contributions by Noncontrolling Interests	5,684	
Distributions to Noncontrolling Interests	(6,795)	)
Acquisition of Noncontrolling Interests – Partially Owned Properties	(2,244)	)
Other	169	
Balance, end of period	\$125,197	

See accompanying notes

17

---

Table of Contents

EQUITY RESIDENTIAL  
 ERP OPERATING LIMITED PARTNERSHIP  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

## 1. Business

Equity Residential (“EQR”), a Maryland real estate investment trust (“REIT”) formed in March 1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. ERP Operating Limited Partnership (“ERPOP”), an Illinois limited partnership, was formed in May 1993 to conduct the multifamily residential property business of Equity Residential. EQR has elected to be taxed as a REIT. References to the “Company,” “we,” “us” or “our” mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the “Operating Partnership” mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. Unless otherwise indicated, the notes to consolidated financial statements apply to both the Company and the Operating Partnership.

EQR is the general partner of, and as of September 30, 2014 owned an approximate 96.2% ownership interest in, ERPOP. All of the Company’s property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR issues public equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. 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.

As of September 30, 2014, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 396 properties located in 12 states and the District of Columbia consisting of 111,087 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Apartment Units
Wholly Owned Properties	368	99,789
Master-Leased Properties – Consolidated	3	853
Partially Owned Properties – Consolidated	19	3,771
Partially Owned Properties – Unconsolidated	4	1,669
Military Housing	2	5,005
	396	111,087

## 2. Summary of Significant Accounting Policies

## Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and certain reclassifications considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications did not have an impact on net income previously reported. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

In preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The balance sheets at December 31, 2013 have been derived from the audited financial statements at that date but do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Table of Contents

For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company's and the Operating Partnership's annual report on Form 10-K for the year ended December 31, 2013.

Income and Other Taxes

Due to the structure of EQR as a REIT and the nature of the operations of its operating properties, no provision for federal income taxes has been made at the EQR level. In addition, ERPOP generally is not liable for federal income taxes as the partners recognize their proportionate share of income or loss in their tax returns; therefore no provision for federal income taxes has been made at the ERPOP level. Historically, the Company has generally only incurred certain state and local income, excise and franchise taxes. The Company has elected Taxable REIT Subsidiary ("TRS") status for certain of its corporate subsidiaries and as a result, these entities will incur both federal and state income taxes on any taxable income of such entities after consideration of any net operating losses.

Deferred tax assets and liabilities applicable to the TRS are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company's deferred tax assets are generally the result of tax affected suspended interest deductions, net operating losses, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of September 30, 2014, the Company has recorded a deferred tax asset, which is fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

Other

The Company is the controlling partner in various consolidated partnerships owning 19 properties and 3,771 apartment units and various completed and uncompleted development properties having a noncontrolling interest book value of \$125.2 million at September 30, 2014. The Company is required to make certain disclosures regarding noncontrolling interests in consolidated limited-life subsidiaries. Of the consolidated entities described above, the Company is the controlling partner in limited-life partnerships owning six properties having a noncontrolling interest deficit balance of \$10.2 million. These six partnership agreements contain provisions that require the partnerships to be liquidated through the sale of their assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute the proceeds of liquidation to the Noncontrolling Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of their assets warrant a distribution based on the partnership agreements. As of September 30, 2014, the Company estimates the value of Noncontrolling Interest distributions for these six properties would have been approximately \$60.2 million ("Settlement Value") had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the six Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on September 30, 2014 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Noncontrolling Interests in the Company's Partially Owned Properties is subject to change. To the extent that the partnerships' underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Noncontrolling Interests in these Partially Owned Properties.

Effective January 1, 2013, companies are required to report, in one place, information about reclassifications out of accumulated other comprehensive income ("AOCI"). Companies are also required to report changes in AOCI balances. For significant items reclassified out of AOCI to net income in their entirety in the same reporting period,

reporting is required about the effect of the reclassifications on the respective line items in the statement where net income is presented. For items that are not reclassified to net income in their entirety in the same reporting period, a cross reference to other disclosures currently required under US GAAP is required in the notes. This does not have a material effect on the Company's consolidated results of operations or financial position. See Note 9 for further discussion.

Effective January 1, 2014, companies are required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount a company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount a company expects to pay on behalf of its co-obligors. Companies are required to disclose the nature and amount of the obligation as well as other information about those obligations. This does not have a material effect on the Company's consolidated results of operations or financial position.

Table of Contents

In April 2014, the Financial Accounting Standards Board (the "FASB") issued new guidance for reporting discontinued operations. Only disposals representing a strategic shift in operations that has a major effect on a company's operations and financial results will be presented as discontinued operations. Companies will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the discontinued operations. Companies will also be required to disclose the pre-tax income attributable to a disposal of a significant part of a company that does not qualify for discontinued operations reporting. Application of this guidance is prospective from the date of adoption and early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. The new standard is effective January 1, 2015, but the Company early adopted it as allowed effective January 1, 2014. Adoption of this standard did not have a material effect on the Company's overall consolidated results of operations or financial position. However, adoption will result in substantially fewer of the Company's dispositions meeting the discontinued operations qualifications. See Note 11 for further discussion.

In May 2014, the FASB issued a comprehensive new revenue recognition standard entitled Revenue from Contracts with Customers that will supersede nearly all existing revenue recognition guidance. The new standard specifically excludes lease contracts. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Companies will likely need to use more judgment and make more estimates than under current revenue recognition guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration, if any, to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard will be effective for the Company beginning on January 1, 2017 and early adoption is not permitted. The new standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company has not yet selected a transition method and is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

In August 2014, the FASB issued a new standard that will explicitly require management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. In connection with each annual and interim period, management will assess whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date. Disclosures will be required if conditions give rise to substantial doubt, however to determine the specific disclosures, management will need to assess whether its plans will alleviate substantial doubt. The new standard is effective for the annual period ending after December 15, 2016. The Company does not expect that this will have a material effect on its consolidated results of operations or financial position.

3. Equity, Capital and Other Interests

Equity and Redeemable Noncontrolling Interests of Equity Residential

The following tables present the changes in the Company's issued and outstanding Common Shares and "Units" (which includes OP Units and Long-Term Incentive Plan ("LTIP") Units) for the nine months ended September 30, 2014:



Table of Contents

	2014	
Common Shares		
Common Shares outstanding at January 1,	360,479,260	
Common Shares Issued:		
Conversion of OP Units	68,296	
Exercise of share options	1,476,512	
Employee Share Purchase Plan (ESPP)	56,945	
Restricted share grants, net	170,460	
Common Shares Other:		
Conversion of restricted shares to LTIP Units	(12,146	)
Repurchased and retired	(31,240	)
Common Shares outstanding at September 30,	362,208,087	
Units		
Units outstanding at January 1,	14,180,376	
LTIP Units, net	200,840	
Conversion of restricted shares to LTIP Units	12,146	
Conversion of OP Units to Common Shares	(68,296	)
Units outstanding at September 30,	14,325,066	
Total Common Shares and Units outstanding at September 30,	376,533,153	
Units Ownership Interest in Operating Partnership	3.8	%

The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of LTIP Units, are collectively referred to as the “Noncontrolling Interests – Operating Partnership”. Subject to certain exceptions (including the “book-up” requirements of LTIP Units), the Noncontrolling Interests – Operating Partnership may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Noncontrolling Interests – Operating Partnership (including redeemable interests) is allocated based on the number of Noncontrolling Interests – Operating Partnership Units in total in proportion to the number of Noncontrolling Interests – Operating Partnership Units in total plus the number of Common Shares. Net income is allocated to the Noncontrolling Interests – Operating Partnership based on the weighted average ownership percentage during the period.

The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Noncontrolling Interests – Operating Partnership Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Noncontrolling Interests – Operating Partnership Units for cash, EQR is obligated to deliver Common Shares to the exchanging holder of the Noncontrolling Interests – Operating Partnership Units.

The Noncontrolling Interests – Operating Partnership Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Noncontrolling Interests – Operating Partnership are differentiated and referred to as “Redeemable Noncontrolling Interests – Operating Partnership”. Instruments that require settlement in registered shares can not be classified in permanent equity as it is not always completely within an issuer’s control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Noncontrolling Interests – Operating Partnership are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Noncontrolling Interests – Operating Partnership Units that are classified in permanent equity at September 30, 2014 and December 31, 2013.

The carrying value of the Redeemable Noncontrolling Interests – Operating Partnership is allocated based on the number of Redeemable Noncontrolling Interests – Operating Partnership Units in proportion to the number of Noncontrolling Interests – Operating Partnership Units in total. Such percentage of the total carrying value of Units which is ascribed to the Redeemable Noncontrolling Interests – Operating Partnership is then adjusted to the greater of carrying value or fair market value as described above. As of September 30, 2014, the Redeemable Noncontrolling Interests – Operating Partnership have a redemption value of approximately \$430.1 million, which represents the value of Common Shares that would be issued in exchange with the Redeemable Noncontrolling Interests – Operating Partnership Units.

Table of Contents

The following table presents the changes in the redemption value of the Redeemable Noncontrolling Interests – Operating Partnership for the nine months ended September 30, 2014 (amounts in thousands):

	2014
Balance at January 1,	\$363,144
Change in market value	69,579
Change in carrying value	(2,574)
Balance at September 30,	\$430,149

Net proceeds from EQR Common Share and Preferred Share (see definition below) offerings are contributed by EQR to ERPOP. In return for those contributions, EQR receives a number of OP Units in ERPOP equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in ERPOP equal in number and having the same terms as the Preferred Shares issued in the equity offering). As a result, the net offering proceeds from Common Shares and Preferred Shares are allocated between shareholders' equity and Noncontrolling Interests – Operating Partnership to account for the change in their respective percentage ownership of the underlying equity of ERPOP.

The Company's declaration of trust authorizes it to issue up to 100,000,000 preferred shares of beneficial interest, \$0.01 par value per share (the "Preferred Shares"), with specific rights, preferences and other attributes as the Board of Trustees may determine, which may include preferences, powers and rights that are senior to the rights of holders of the Company's Common Shares.

The following table presents the Company's issued and outstanding Preferred Shares as of September 30, 2014 and December 31, 2013:

	Redemption Date (1)	Annual Dividend per Share (2)	Amounts in thousands	
			September 30, 2014	December 31, 2013
Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized; 8.29% Series K Cumulative Redeemable Preferred; liquidation value \$50 per share; 1,000,000 shares issued and outstanding at September 30, 2014 and December 31, 2013	12/10/26	\$4.145	\$50,000	\$50,000
			\$50,000	\$50,000

- (1) On or after the redemption date, redeemable preferred shares may be redeemed for cash at the option of the Company, in whole or in part, at a redemption price equal to the liquidation price per share, plus accrued and unpaid distributions, if any.
- (2) Dividends on Preferred Shares are payable quarterly.

#### Capital and Redeemable Limited Partners of ERP Operating Limited Partnership

The following tables present the changes in the Operating Partnership's issued and outstanding Units and in the limited partners' Units for the nine months ended September 30, 2014:

Table of Contents

	2014	
General and Limited Partner Units		
General and Limited Partner Units outstanding at January 1,	374,659,636	
Issued to General Partner:		
Exercise of EQR share options	1,476,512	
EQR's Employee Share Purchase Plan (ESPP)	56,945	
EQR's restricted share grants, net	170,460	
Issued to Limited Partners:		
LTIP Units, net	200,840	
OP Units Other:		
Repurchased and retired	(31,240	)
General and Limited Partner Units outstanding at September 30,	376,533,153	
Limited Partner Units		
Limited Partner Units outstanding at January 1,	14,180,376	
Limited Partner LTIP Units, net	200,840	
Conversion of EQR restricted shares to LTIP Units	12,146	
Conversion of Limited Partner OP Units to EQR Common Shares	(68,296	)
Limited Partner Units outstanding at September 30,	14,325,066	
Limited Partner Units Ownership Interest in Operating Partnership	3.8	%

The Limited Partners of the Operating Partnership as of September 30, 2014 include various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of LTIP Units. Subject to certain exceptions (including the "book-up" requirements of LTIP Units), Limited Partners may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Limited Partner Units (including redeemable interests) is allocated based on the number of Limited Partner Units in total in proportion to the number of Limited Partner Units in total plus the number of General Partner Units. Net income is allocated to the Limited Partner Units based on the weighted average ownership percentage during the period.

The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Limited Partner Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Limited Partner Units for cash, EQR is obligated to deliver Common Shares to the exchanging limited partner.

The Limited Partner Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Limited Partner Units are differentiated and referred to as "Redeemable Limited Partner Units". Instruments that require settlement in registered shares can not be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Limited Partner Units are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Limited Partner Units that are classified in permanent equity at September 30, 2014 and December 31, 2013.

The carrying value of the Redeemable Limited Partner Units is allocated based on the number of Redeemable Limited Partner Units in proportion to the number of Limited Partner Units in total. Such percentage of the total carrying value of Limited Partner Units which is ascribed to the Redeemable Limited Partner Units is then adjusted to the greater of carrying value or fair market value as described above. As of September 30, 2014, the Redeemable Limited Partner Units have a redemption value of approximately \$430.1 million, which represents the value of Common Shares that

would be issued in exchange with the Redeemable Limited Partner Units.

The following table presents the changes in the redemption value of the Redeemable Limited Partners for the nine months ended September 30, 2014 (amounts in thousands):

23

---

Table of Contents

	2014
Balance at January 1,	\$363,144
Change in market value	69,579
Change in carrying value	(2,574 )
Balance at September 30,	\$430,149

EQR contributes all net proceeds from its various equity offerings (including proceeds from exercise of options for Common Shares) to ERPOP. In return for those contributions, EQR receives a number of OP Units in ERPOP equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in ERPOP equal in number and having the same terms as the preferred shares issued in the equity offering).

The following table presents the Operating Partnership's issued and outstanding "Preference Units" as of September 30, 2014 and December 31, 2013:

	Redemption Date (1)	Annual Dividend per Unit (2)	Amounts in thousands	
			September 30, 2014	December 31, 2013
Preference Units:				
8.29% Series K Cumulative Redeemable Preference Units;				
liquidation value \$50 per unit; 1,000,000 units issued and outstanding at September 30, 2014 and December 31, 2013	12/10/26	\$4.145	\$50,000	\$50,000
			\$50,000	\$50,000

(1) On or after the redemption date, redeemable preference units may be redeemed for cash at the option of the Operating Partnership, in whole or in part, at a redemption price equal to the liquidation price per unit, plus accrued and unpaid distributions, if any, in conjunction with the concurrent redemption of the corresponding Company Preferred Shares.

(2) Dividends on Preference Units are payable quarterly.

## Other

On February 27, 2013, the Company issued 34,468,085 Common Shares to an affiliate of Lehman Brothers Holdings Inc. as partial consideration for the portion of the Archstone Portfolio acquired by the Company (as discussed in Note 4 below). The shares had a total value of \$1.9 billion based on the February 27, 2013 closing price of EQR Common Shares of \$55.99 per share. Concurrent with this transaction, ERPOP issued 34,468,085 OP Units to EQR. On March 7, 2013, EQR filed a shelf registration statement relating to the resale of these shares by the selling shareholders.

In September 2009, the Company announced the establishment of an At-The-Market ("ATM") share offering program which would allow EQR to sell Common Shares from time to time into the existing trading market at current market prices as well as through negotiated transactions. Per the terms of ERPOP's partnership agreement, EQR contributes the net proceeds from all equity offerings to the capital of ERPOP in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis). On July 30, 2013, the Board of Trustees approved an increase to the amount of shares which may be offered under the ATM program to 13.0 million Common Shares and extended the program maturity to July 2016. EQR has not issued any shares under this program since September 14, 2012.

Effective July 30, 2013, the Board of Trustees approved an increase and modification to the Company's share repurchase program to allow for the potential repurchase of up to 13.0 million Common Shares. Considering the repurchase activity for the nine months ended September 30, 2014 (see discussion below), EQR has remaining authorization to repurchase an additional 12,968,760 of its shares as of September 30, 2014.

During the nine months ended September 30, 2014, EQR repurchased 31,240 of its Common Shares at a price of \$56.87 per share for total consideration of approximately \$1.8 million. These shares were retired subsequent to the repurchases. Concurrent with these transactions, ERPOP repurchased and retired 31,240 OP Units previously issued to EQR. All of the shares repurchased during the nine months ended September 30, 2014 were repurchased from employees at the then current market price to cover the minimum statutory tax withholding obligations related to the vesting of employees' restricted shares.

During the nine months ended September 30, 2014, the Company acquired all of its partners' interests in one consolidated partially owned property consisting of 268 apartment units and one consolidated partially owned land parcel for \$5.5 million. In conjunction with these transactions, the Company reduced paid in capital (included in general partner's capital in the Operating

Table of Contents

Partnership's financial statements) by \$2.3 million, Noncontrolling Interests – Partially Owned Properties by \$2.2 million and other liabilities by \$1.0 million.

See Note 6 for a discussion of the Noncontrolling Interests assumed in conjunction with the acquisition of Archstone.

## 4. Real Estate and Lease Intangibles

The following table summarizes the carrying amounts for the Company's investment in real estate (at cost) as of September 30, 2014 and December 31, 2013 (amounts in thousands):

	September 30, 2014	December 31, 2013
Land	\$6,329,907	\$6,192,512
Depreciable property:		
Buildings and improvements	18,064,739	17,509,609
Furniture, fixtures and equipment	1,345,371	1,214,220
In-Place lease intangibles	509,499	502,218
Projects under development:		
Land	395,402	353,574
Construction-in-progress	650,808	635,293
Land held for development:		
Land	228,261	341,389
Construction-in-progress	50,878	52,133
Investment in real estate	27,574,865	26,800,948
Accumulated depreciation	(5,314,260	) (4,807,709
Investment in real estate, net	\$22,260,605	\$21,993,239

The following table summarizes the carrying amounts for the Company's above and below market ground and retail lease intangibles as of September 30, 2014 and December 31, 2013 (amounts in thousands):

Description	Balance Sheet Location	September 30, 2014	December 31, 2013
<b>Assets</b>			
Ground lease intangibles – below market	Other Assets	\$178,251	\$178,251
Retail lease intangibles – above market	Other Assets	1,260	1,260
Lease intangible assets		179,511	179,511
Accumulated amortization		(7,777	) (4,364
Lease intangible assets, net		\$171,734	\$175,147
<b>Liabilities</b>			
Ground lease intangibles – above market	Other Liabilities	\$2,400	\$2,400
Retail lease intangibles – below market	Other Liabilities	5,270	5,500
Lease intangible liabilities		7,670	7,900
Accumulated amortization		(1,968	) (1,161
Lease intangible liabilities, net		\$5,702	\$6,739

During the nine months ended September 30, 2014 and 2013, the Company amortized approximately \$3.2 million and \$2.5 million, respectively, of above and below market ground lease intangibles which is included (net increase) in property and maintenance expense in the accompanying consolidated statements of operations and comprehensive income and approximately \$0.9 million and \$0.3 million, respectively, of above and below market retail lease intangibles which is included (net increase) in rental income in the accompanying consolidated statements of



operations and comprehensive income. During the quarters ended September 30, 2014 and 2013, the Company amortized approximately \$1.0 million and \$1.1 million, respectively, of above and below market ground lease intangibles which is included (net increase) in property and maintenance expense in the accompanying consolidated statements of operations and comprehensive income and approximately \$0.3 million and \$0.1 million, respectively,

Table of Contents

of above and below market retail lease intangibles which is included (net increase) in rental income in the accompanying consolidated statements of operations and comprehensive income.

The weighted average amortization period for above and below market ground lease intangibles and retail lease intangibles is 49.8 years and 2.8 years, respectively.

The following table provides a summary of the aggregate amortization expense for above and below market ground lease intangibles and retail lease intangibles for each of the next five years (amounts in thousands):

	Remaining 2014	2015	2016	2017	2018	2019
Ground lease intangibles	\$1,080	\$4,321	\$4,321	\$4,321	\$4,321	\$4,321
Retail lease intangibles	(234)	) (939)	) (896)	) (540)	) (71)	) (71)
Total	\$846	\$3,382	\$3,425	\$3,781	\$4,250	\$4,250

## Archstone Acquisition

On February 27, 2013, the Company, AvalonBay Communities, Inc. ("AVB") and certain of their respective subsidiaries completed their previously announced acquisition (the "Archstone Acquisition" or the "Archstone Transaction") from Archstone Enterprise LP ("Enterprise") (which subsequently changed its name to Jupiter Enterprise LP), an affiliate of Lehman Brothers Holdings Inc. ("Lehman") and its affiliates, of all of the assets of Enterprise (including interests in various entities affiliated with Enterprise), constituting a portfolio of apartment properties and other assets (the "Archstone Portfolio").

The Company acquired assets representing approximately 60% of the Archstone Portfolio which consisted principally of high-quality apartment properties in major markets in the United States. The acquisition allowed the Company to accelerate the completion of its strategic shift into coastal apartment markets. Pursuant to the Archstone Transaction, the Company acquired directly or indirectly, 71 wholly owned, stabilized properties consisting of 20,160 apartment units, one partially owned and consolidated stabilized property consisting of 432 apartment units, one partially owned and unconsolidated stabilized property consisting of 336 apartment units, three consolidated master-leased properties consisting of 853 apartment units, four projects in various stages of construction (two consolidated and two unconsolidated) for 964 apartment units and fourteen land sites for approximately \$9.0 billion. During the nine months ended September 30, 2013, the Company recorded revenues and net operating income ("NOI") of \$358.0 million and \$244.2 million, respectively, from the acquired assets. During the quarter ended September 30, 2013, the Company recorded revenues and NOI of \$153.5 million and \$104.2 million, respectively, from the acquired assets.

The consideration paid by the Company in connection with the Archstone Acquisition consisted of cash of approximately \$4.0 billion (inclusive of \$2.0 billion of Archstone secured mortgage principal paid off in conjunction with the closing), 34,468,085 Common Shares (which shares had a total value of \$1.9 billion based on the February 27, 2013 closing price of EQR common shares of \$55.99 per share) issued to the seller and the assumption of approximately \$3.1 billion of mortgage debt (inclusive of a net mark-to-market premium of \$127.9 million) and approximately 60% of all of the other assets and liabilities related to the Archstone Portfolio. The cash consideration was funded with proceeds from the issuance of 21,850,000 Common Shares (which shares had a total value of approximately \$1.2 billion based on a price of \$54.75 per share) in the November/December 2012 public equity offering, asset sales of approximately \$4.5 billion that were completed during the year ended December 31, 2013, the Company's \$750.0 million unsecured term loan facility (which was subsequently paid off in the second quarter of 2014) and the Company's revolving credit facility.

The Company owns the building and improvements and leases the land underlying the improvements under long-term ground leases that expire beginning in 2042 and running through 2103 for nine of the operating properties acquired and discussed above. These properties are consolidated and reflected as real estate assets while the ground leases are accounted for as operating leases. The Company also leases the three master-leased properties discussed above to third party operators and earns monthly net rental income.

The Company accounted for the acquisition under the acquisition method in accordance with Accounting Standards Codification ("ASC") 805, Business Combinations ("ASC 805"), and the accounting for this business combination is complete and final. The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed, which the Company determined using Level 1, Level 2 and Level 3 inputs (amounts in thousands):

Table of Contents

Land	\$2,239,000	
Depreciable property:		
Buildings and improvements	5,765,538	
Furniture, fixtures and equipment	61,470	
In-Place lease intangibles	304,830	
Projects under development	36,583	
Land held for development	244,097	
Investments in unconsolidated entities	230,608	
Other assets	195,260	
Other liabilities	(108,997	)
Net assets acquired	\$8,968,389	

The allocation of fair values of the assets acquired and liabilities assumed has changed from the allocation reported in "Note 4 – Real Estate and Lease Intangibles" in the Notes to Consolidated Financial Statements included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014. The changes to our valuation assumptions were based on more accurate information concerning the subject assets and liabilities and resulted from information not readily available at the acquisition date, final purchase price settlement with our partner in accordance with the terms of the purchase agreement and reclassification adjustments for presentation. None of these changes had a material impact on our Consolidated Financial Statements. The Company's assessment of the fair values and the allocation of the purchase price to the identified tangible and intangible assets/liabilities at March 31, 2014 was its final and best estimate of fair value. As a result, the Company did not make any changes to its allocation of fair values of the assets acquired and liabilities assumed subsequent to the allocation reported in "Note 4 – Real Estate and Lease Intangibles" in the Notes to Consolidated Financial Statements included in Part I of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 8, 2014.

The fair values of investment in real estate were determined using internally developed models that were based on market assumptions and comparable sales data as well as external valuations performed by unrelated third parties. The market assumptions used as inputs to the Company's fair value model include construction costs, leasing assumptions, growth rates, discount rates, terminal capitalization rates and development yields. The Company used data on its existing portfolio of properties and its recent acquisition and development properties, as well as similar market data from third party sources, when available, in determining these inputs (Level 2 and 3). The fair value of Noncontrolling Interests was calculated similar to the investment in real estate described above. The fair value of mortgage debt was calculated using indicative rates, leverage and coverage provided by lenders of similar loans (Level 2). The Common Shares issued to an affiliate of Lehman Brothers Holdings Inc. were valued using the quoted market price of Common Shares (Level 1).

The following table summarizes the acquisition date fair values of the above and below market ground and retail lease intangibles, which we determined using Level 2 and Level 3 inputs (amounts in thousands):

Description	Balance Sheet Location	Fair Value
Ground lease intangibles – below market	Other Assets	\$ 178,251
Retail lease intangibles – above market	Other Assets	1,260
Ground lease intangibles – above market	Other Liabilities	2,400
Retail lease intangibles – below market	Other Liabilities	8,040

As of September 30, 2014, the Company has incurred cumulative Archstone-related expenses of approximately \$101.1 million, of which approximately \$13.5 million of this total was financing-related and approximately \$87.6 million was merger costs. During the nine months ended September 30, 2014, the Company expensed nominal amounts of direct merger costs. During the nine months ended September 30, 2013, the Company expensed \$19.7 million of direct merger costs primarily related to investment banking and legal/accounting fees, which were included in other expenses in the accompanying consolidated statements of operations and comprehensive income. During the nine months ended September 30, 2014 and 2013, the Company also expensed \$6.4 million and \$54.8 million, respectively, of indirect merger costs primarily related to severance and retention obligations, office leases and German operations/sales that were incurred through our 60% interest in unconsolidated joint ventures with AVB, which were included in (loss) from investments in unconsolidated entities in the accompanying consolidated statements of

Table of Contents

operations and comprehensive income. Finally, during the nine months ended September 30, 2013, the Company also expensed \$2.5 million of financing-related costs, which were included in interest expense in the accompanying consolidated statements of operations and comprehensive income.

## Unaudited Pro Forma Financial Information

## Equity Residential

The following table illustrates the effect on net income, earnings per share – basic and earnings per share – diluted as if the Company had consummated the Archstone Acquisition as of January 1, 2012 (amounts in thousands, except per share amounts):

	Nine Months Ended September 30, 2013	Quarter Ended September 30, 2013
Total revenues	\$1,854,509	\$629,446
Income from continuing operations	132,592	84,978
Discontinued operations, net	2,024,346	403,181
Net income	2,156,938	488,159
Net income available to Common Shares	2,070,153	468,959
Earnings per share - basic:		
Net income available to Common Shares	\$5.76	\$1.30
Weighted average Common Shares outstanding (1)	359,611	359,811
Earnings per share - diluted:		
Net income available to Common Shares	\$5.74	\$1.30
Weighted average Common Shares outstanding (1)	375,808	375,883

(1) Includes an adjustment for Common Shares issued to the public in November/December 2012 and to an affiliate of Lehman Brothers Holdings Inc. in February 2013 as partial consideration for the Archstone Acquisition.

## ERP Operating Limited Partnership

The following table illustrates the effect on net income, earnings per Unit – basic and earnings per Unit – diluted as if the Operating Partnership had consummated the Archstone Acquisition as of January 1, 2012 (amounts in thousands, except per Unit amounts):

	Nine Months Ended September 30, 2013	Quarter Ended September 30, 2013
Total revenues	\$1,854,509	\$629,446
Income from continuing operations	132,592	84,978
Discontinued operations, net	2,024,346	403,181
Net income	2,156,938	488,159
Net income available to Units	2,155,736	487,433
Earnings per Unit - basic:		
Net income available to Units	\$5.76	\$1.30
Weighted average Units outstanding (1)	373,347	373,547
Earnings per Unit - diluted:		

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Net income available to Units	\$5.74	\$1.30
Weighted average Units outstanding (1)	375,808	375,883

28

---

Table of Contents

Includes an adjustment for Common Shares issued to the public in November/December 2012 and to an affiliate of (1)Lehman Brothers Holdings Inc. in February 2013 as partial consideration for the Archstone Acquisition. Concurrent with these transactions, ERPOP issued the same number of OP Units to EQR.

For the nine months ended September 30, 2013, acquisition costs of \$19.7 million and severance/retention and other costs of \$53.6 million related to the Archstone Acquisition are not expected to have a continuing impact on the Company's financial results and therefore have been excluded from these pro forma results. The pro forma results also do not include the impact of any synergies or lower borrowing costs that the Company has or may achieve as a result of the acquisition or any strategies that management has or may consider in order to more efficiently manage the Company's operations, nor do they give pro forma effect to any other acquisitions, dispositions or capital markets transactions (excluding the equity offering in November/December 2012 which proceeds were used for the Archstone Acquisition) that the Company completed during the periods presented. These pro forma results are not necessarily indicative of the operating results that would have been obtained had the Archstone Acquisition occurred at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

## Other

During the nine months ended September 30, 2014, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties	4	1,080	\$375,610
Land Parcels (two)	—	—	28,790
Total	4	1,080	\$404,400

During the nine months ended September 30, 2014, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties	4	1,317	\$197,100
Land Parcels (two)	—	—	30,502
Total	4	1,317	\$227,602

The Company recognized a net gain on sales of real estate properties of approximately \$128.5 million and a net gain on sales of land parcels of approximately \$1.8 million on the above sales.

## 5. Commitments to Acquire/Dispose of Real Estate

The Company has entered into separate agreements to acquire the following (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties	1	161	\$61,000
Land Parcel	—	—	3,300
Total	1	161	\$64,300

In addition to the properties that were subsequently disposed of as discussed in Note 14, the Company has entered into separate agreements to dispose of the following (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties	3	529	\$124,400
Land Parcel	—	—	32,100



Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Total	3	529	\$156,500
-------	---	-----	-----------

The closings of these pending transactions are subject to certain conditions and restrictions, therefore, there can be no assurance that these transactions will be consummated or that the final terms will not differ in material respects from those summarized in the preceding paragraphs.

29

---

Table of Contents

## 6. Investments in Partially Owned Entities

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated). The following tables and information summarize the Company's investments in partially owned entities as of September 30, 2014 (amounts in thousands except for project and apartment unit amounts):

	Consolidated Development Projects Held for and/or Under Development			Unconsolidated Development Projects Held for and/or Under Development(3)			
	Operating	Total		Completed, Not Stabilized	Operating	Total	
Total projects (1)	—	19	19	—	1	3	4
Total apartment units (1)	—	3,771	3,771	—	444	1,225	1,669
Balance sheet information at 9/30/14 (at 100%):							
ASSETS							
Investment in real estate	\$324,997	\$679,956	\$1,004,953	\$61,037	\$155,413	\$186,779	\$403,229
Accumulated depreciation	—	(189,005 )	(189,005 )	—	(5,313 )	(12,185 )	(17,498 )
Investment in real estate, net	324,997	490,951	815,948	61,037	150,100	174,594	385,731
Cash and cash equivalents	2,953	15,820	18,773	66	1,975	4,486	6,527
Investments in unconsolidated entities	—	52,641	52,641	—	—	—	—
Deposits – restricted	31,236	300	31,536	—	—	189	189
Deferred financing costs, net	—	2,229	2,229	41	—	158	199
Other assets	6,679	26,927	33,606	—	50	1,039	1,089
Total assets	\$365,865	\$588,868	\$954,733	\$61,144	\$152,125	\$180,466	\$393,735
LIABILITIES AND EQUITY/CAPITAL							
Mortgage notes payable (2)	\$—	\$360,392	\$360,392	\$25,631	\$96,793	\$111,800	\$234,224
Accounts payable & accrued expenses	16,707	3,217	19,924	5,730	456	1,467	7,653
Accrued interest payable	—	1,266	1,266	51	464	269	784
Other liabilities	—	1,230	1,230	3	88	986	1,077
Security deposits	—	1,975	1,975	—	161	296	457
Total liabilities	16,707	368,080	384,787	31,415	97,962	114,818	244,195
Noncontrolling Interests – Partially Owned Properties/Partners' equity	117,351	7,846	125,197	27,858	47,223	46,639	121,720

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Company equity/General and Limited Partners' Capital	231,807	212,942	444,749	1,871	6,940	19,009	27,820
Total equity/capital	349,158	220,788	569,946	29,729	54,163	65,648	149,540
Total liabilities and equity/capital	\$365,865	\$588,868	\$954,733	\$61,144	\$152,125	\$180,466	\$393,735

Table of Contents

	Consolidated Development Projects			Unconsolidated Development Projects			
	Held for and/or Under Development	Operating	Total	Held for and/or Under Development	Completed, Not Stabilized (3)	Operating	Total
Operating information for the nine months ended 9/30/14 (at 100%):							
Operating revenue	\$—	\$65,565	\$65,565	\$—	\$6,874	\$14,499	\$21,373
Operating expenses	—	19,390	19,390	159	2,486	5,442	8,087
Net operating income (loss)	—	46,175	46,175	(159	) 4,388	9,057	13,286
Depreciation	—	16,202	16,202	—	4,903	6,102	11,005
General and administrative/other	1	34	35	—	1	205	206
Operating (loss) income	(1	) 29,939	29,938	(159	) (516	) 2,750	2,075
Interest and other income	—	10	10	—	—	—	—
Other expenses	—	(54	) (54	) —	—	—	—
Interest:							
Expense incurred, net	—	(11,708	) (11,708	) —	(3,905	) (3,422	) (7,327
Amortization of deferred financing costs	—	(266	) (266	) —	—	(81	) (81
(Loss) income before income and other taxes and (loss) from investments in unconsolidated entities	(1	) 17,921	17,920	(159	) (4,421	) (753	) (5,333
Income and other tax (expense) benefit	—	(45	) (45	) —	(7	) —	(7
(Loss) from investments in unconsolidated entities	—	(1,273	) (1,273	) —	—	—	—
Net (loss) income	\$(1	) \$16,603	\$16,602	\$(159	) \$(4,428	) \$(753	) \$(5,340

(1) Project and apartment unit counts exclude all uncompleted development projects until those projects are substantially completed.

(2) All debt is non-recourse to the Company with the exception of 50% of the current \$25.6 million outstanding debt balance on one unconsolidated development project.

(3) Projects included here are substantially complete. However, they may still require additional exterior and interior work for all units to be available for leasing.

Note: The above tables exclude the Company's interests in unconsolidated joint ventures entered into with AVB in connection with the Archstone Transaction. These ventures own certain non-core Archstone assets that are held

for sale and succeeded to certain residual Archstone liabilities, such as liability for various employment-related matters as well as responsibility for tax protection arrangements and third-party preferred interests in former Archstone subsidiaries. The preferred interests have an aggregate liquidation value of \$73.5 million at September 30, 2014. The ventures are owned 60% by the Company and 40% by AVB.

During the nine months ended September 30, 2014, the Company and its joint venture partner sold one consolidated partially owned land parcel and recognized a net gain on the sale of approximately \$1.1 million.

The Company is the controlling partner in various consolidated partnership properties and development properties having a noncontrolling interest book value of \$125.2 million at September 30, 2014. The Company does not have any VIEs.

#### Archstone Acquisition

On February 27, 2013, in conjunction with the Archstone Acquisition, the Company acquired interests in several joint ventures. Details of these interests follow by project:

Wisconsin Place – This project contains a mixed-use site located in Chevy Chase, Maryland consisting of residential, retail, office and accessory uses, including underground parking facilities. The Company has a 75% equity interest with an initial basis of \$198.5 million in the 432 unit residential component. The Company is the managing member, was responsible for constructing the residential project and its partner does not have substantive kick-out or participating rights. As a result, the entity that owns the residential component of this mixed-use site is required to be consolidated on the Company's balance sheet. Such entity also retains an unconsolidated interest in an entity that owns the land underlying the entire project and owns and operates the parking facility. The initial fair value of this investment is \$56.5 million. The Company does not have any ownership interest in the retail and office components.

Table of Contents

San Norterra – This venture developed certain land parcels into a 388 unit apartment building located in Phoenix, Arizona. The Company has an 85% equity interest with an initial basis of \$16.9 million. Total project costs were approximately \$52.8 million and construction was partially funded with a construction loan that was guaranteed by the partner and non-recourse to the Company. The loan has a maximum debt commitment of \$34.8 million and a current unconsolidated outstanding balance of \$33.0 million; the loan bears interest at LIBOR plus 2.00% and matures January 6, 2015. The partner is the managing member and developed the project. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

Waterton Tenside – This venture was formed to develop and operate a 336 unit apartment property located in Atlanta, Georgia. The Company has a 20% equity interest with an initial basis of \$5.1 million. The partner is the managing member and developed the project. The project is encumbered by a non-recourse mortgage loan that has a current outstanding balance of \$30.1 million, bears interest at 3.66% and matures December 1, 2018. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

Parc on Powell (formerly known as 1333 Powell) – This venture is currently developing certain land parcels into a 176 unit apartment building located in Emeryville, California. The Company has a 5% equity interest with an initial obligation of approximately \$2.1 million. Total project costs are expected to be approximately \$75.0 million and construction is being partially funded with a construction loan. The loan has a maximum debt commitment of \$39.5 million and a current unconsolidated outstanding balance of \$25.6 million; the loan bears interest at LIBOR plus 2.25% and matures August 14, 2015. The Company has given a repayment guaranty on the construction loan of 50% of the outstanding balance, up to a maximum of \$19.7 million, and has given certain construction cost overrun guarantees. The partner is the managing member. The Company does not have substantive kick-out or participating rights. As a result, the entity is unconsolidated and recorded using the equity method of accounting.

On February 27, 2013, in connection with the Archstone Acquisition, subsidiaries of the Company and AVB entered into three limited liability company agreements (collectively, the “Residual JV”). The Residual JV owns certain non-core Archstone assets, such as interests in a six property portfolio of apartment buildings and succeeded to certain residual Archstone liabilities, such as liability for various employment-related matters. The Residual JV is owned 60% by the Company and 40% by AVB and the Company's initial investment was \$147.6 million. The Residual JV is managed by a Management Committee consisting of two members from each of the Company and AVB. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Residual JV is unconsolidated and recorded using the equity method of accounting.

During the nine months ended September 30, 2014, the Company closed on the sale of its unconsolidated interest in the German portfolio fund, the German management company and the remaining wholly-owned German real estate assets. With these sales, all German real estate assets that were acquired by the Residual JV as part of the Archstone Acquisition have now been sold. The Company's pro rata share of the proceeds/distributions that have been repatriated to the Residual JV and received by the Company as a result of the German dispositions was approximately \$77.0 million during the nine months ended September 30, 2014 and \$95.9 million cumulatively since the closing of the Archstone Acquisition.

On February 27, 2013, in connection with the Archstone Acquisition, a subsidiary of the Company and AVB entered into a limited liability company agreement (the “Legacy JV”), through which they assumed obligations of Archstone in the form of preferred interests, some of which are governed by tax protection arrangements. During the year ended December 31, 2013, the Company purchased with AVB \$65.0 million (of which the Company's 60% share was \$39.0 million) of the preferred interests assumed by the Legacy JV. At September 30, 2014, the remaining preferred

interests have an aggregate liquidation value of \$73.5 million, our share of which is included in other liabilities in the accompanying consolidated balance sheets. Obligations of the Legacy JV are borne 60% by the Company and 40% by AVB. The Legacy JV is managed by a Management Committee consisting of two members from each of the Company and AVB. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Legacy JV is unconsolidated and recorded using the equity method of accounting.

Other

In December 2011, the Company and Toll Brothers (NYSE: TOL) jointly acquired a vacant land parcel at 400 Park Avenue South in New York City. The Company's and Toll Brothers' allocated portions of the purchase price were approximately \$76.1 million and \$57.9 million, respectively. The Company is the managing member and Toll Brothers does not have substantive kick-out or participating rights. Until the core and shell of the building is complete, the building and land will be owned jointly and are required to be consolidated on the Company's balance sheet. Thereafter, the Company will solely own and control the rental portion of the building (floors 2-22) and Toll Brothers will solely own and control the for sale portion of the building (floors 23-40). Once

Table of Contents

the core and shell are complete, the Toll Brothers' portion of the property will be deconsolidated from the Company's balance sheet. The acquisition was financed through contributions by the Company and Toll Brothers of approximately \$102.5 million and \$75.7 million, respectively, which included the land purchase noted above, restricted deposits and taxes and fees. As of September 30, 2014, the Company's and Toll Brothers' consolidated contributions to the joint venture were approximately \$331.8 million, of which Toll Brothers' noncontrolling interest balance totaled \$117.4 million.

The Company admitted an 80% institutional partner to two separate entities/transactions (Nexus Sawgrass in December 2010 and Domain in August 2011), each owning a developable land parcel, in exchange for \$40.1 million in cash and retained a 20% equity interest in both of these entities. These projects are now unconsolidated. Details of these projects follow:

Nexus Sawgrass – This development project was completed and stabilized during the quarter ended September 30, 2014. Total project costs were approximately \$78.6 million and construction was predominantly funded with a long-term, non-recourse secured loan from the partner. The mortgage loan has a maximum debt commitment of \$48.7 million and a current unconsolidated outstanding balance of \$48.6 million; the loan bears interest at 5.60% and matures January 1, 2021.

Domain – This development project is substantially complete. Total project costs are expected to be approximately \$155.8 million and construction was predominantly funded with a long-term, non-recourse secured loan from the partner. The mortgage loan has a maximum debt commitment of \$98.6 million and a current unconsolidated outstanding balance of \$96.8 million; the loan bears interest at 5.75% and matures January 1, 2022.

While the Company is the managing member of both of the joint ventures, was responsible for constructing both of the projects and has given certain construction cost overrun guarantees, the joint venture partner has significant participating rights and has active involvement in and oversight of the ongoing projects. The Company currently has no further funding obligations related to these projects.

7. Deposits – Restricted and Escrow Deposits –  
Mortgage

The following table presents the Company's restricted deposits as of September 30, 2014 and December 31, 2013 (amounts in thousands):

	September 30, 2014	December 31, 2013
Tax-deferred (1031) exchange proceeds	\$3,909	\$—
Earnest money on pending acquisitions	330	4,514
Restricted deposits on real estate investments	33,201	53,771
Resident security and utility deposits	47,000	44,777
Other	505	505
Totals	\$84,945	\$103,567

The following table presents the Company's escrow deposits as of September 30, 2014 and December 31, 2013 (amounts in thousands):

	September 30, 2014	December 31, 2013
Real estate taxes and insurance	\$2,049	\$3,687
Replacement reserves	3,669	4,229
Mortgage principal reserves/sinking funds	39,425	33,868



Other	852	852
Totals	\$45,995	\$42,636

8. Debt

EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. EQR guarantees the Operating Partnership's revolving credit facility up to the maximum amount and for the full term of the facility.

Mortgage Notes Payable

As of September 30, 2014, the Company had outstanding mortgage debt of approximately \$5.1 billion.

## Table of Contents

During the nine months ended September 30, 2014, the Company:

Repaid \$72.7 million of mortgage loans.

As of September 30, 2014, the Company had \$700.5 million of secured debt subject to third party credit enhancement.

As of September 30, 2014, scheduled maturities for the Company's outstanding mortgage indebtedness were at various dates through May 1, 2061. At September 30, 2014, the interest rate range on the Company's mortgage debt was 0.03% to 7.25%. During the nine months ended September 30, 2014, the weighted average interest rate on the Company's mortgage debt was 4.24%.

## Notes

As of September 30, 2014, the Company had outstanding unsecured notes of approximately \$5.4 billion.

During the nine months ended September 30, 2014, the Company:

Repaid \$500.0 million of 5.250% unsecured notes at maturity;

Repaid its \$750.0 million unsecured term loan facility in conjunction with the note issuances discussed below;

Issued \$450.0 million of five-year 2.375% fixed rate public notes, receiving net proceeds of \$449.6 million before underwriting fees and other expenses, at an all-in effective interest rate of 2.52% and swapped the notes to a floating interest rate in conjunction with the issuance (see Note 9 for further discussion); and

Issued \$750.0 million of thirty-year 4.50% fixed rate public notes, receiving net proceeds of \$744.7 million before underwriting fees, hedge termination costs and other expenses, at an all-in effective interest rate of 4.57% after termination of various forward starting swaps in conjunction with the issuance (see Note 9 for further discussion).

As of September 30, 2014, scheduled maturities for the Company's outstanding notes were at various dates through 2044. At September 30, 2014, the interest rate range on the Company's notes was 2.375% to 7.57%. During the nine months ended September 30, 2014, the weighted average interest rate on the Company's notes was 4.99%.

## Lines of Credit

On January 11, 2013, the Company replaced its existing \$1.75 billion facility with a \$2.5 billion unsecured revolving credit facility maturing April 1, 2018. The Company has the ability to increase available borrowings by an additional \$500.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. The interest rate on advances under the facility will generally be LIBOR plus a spread (currently 1.05%) and the Company pays an annual facility fee (currently 15 basis points). Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt.

As of September 30, 2014, the amount available on the credit facility was \$2.01 billion (net of \$44.0 million which was restricted/dedicated to support letters of credit and net of \$446.0 million outstanding). During the nine months ended September 30, 2014, the weighted average interest rate was 0.99%.

## 9. Derivative and Other Fair Value Instruments

The valuation of financial instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. The Company, where possible, bases the fair values of its financial instruments, including its derivative instruments, on listed market prices and third party quotes. Where these are not available, the Company

bases its estimates on current instruments with similar terms and maturities or on other factors relevant to the financial instruments.

The carrying values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately \$5.1 billion and \$5.9 billion, respectively, at September 30, 2014. The fair values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately \$5.1 billion (Level 2) and \$6.2 billion (Level 2), respectively, at September 30, 2014. The carrying values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately \$5.2 billion and \$5.6 billion, respectively, at December 31, 2013. The fair values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately \$5.1 billion (Level 2) and \$5.9 billion (Level 2), respectively, at December 31, 2013. The fair values of the Company's financial instruments (other than mortgage notes payable, unsecured notes, lines of credit and derivative instruments), including cash and cash equivalents and other financial instruments, approximate their carrying or contract values.

Table of Contents

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to manage these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments. The Company may also use derivatives to manage its exposure to foreign exchange rates or manage commodity prices in the daily operations of the business.

The following table summarizes the Company's consolidated derivative instruments at September 30, 2014 (dollar amounts are in thousands):

	Fair Value Hedges (1)	Forward Starting Swaps (2)		
Current Notional Balance	\$450,000	\$200,000		
Lowest Possible Notional	\$450,000	\$200,000		
Highest Possible Notional	\$450,000	\$200,000		
Lowest Interest Rate	2.375	% 2.689		%
Highest Interest Rate	2.375	% 3.191		%
Earliest Maturity Date	2019	2025		
Latest Maturity Date	2019	2025		

(1) Fair Value Hedges – Converts outstanding fixed rate unsecured notes (\$450.0 million 2.375% notes due July 1, 2019) to a floating interest rate of 90-Day LIBOR plus 0.61%.

(2) Forward Starting Swaps – Designed to partially fix interest rates in advance of a planned future debt issuance. These swaps have mandatory counterparty terminations in 2016, and are targeted to 2015 issuances.

A three-level valuation hierarchy exists for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data). Employee holdings other than Common Shares within the supplemental executive retirement plan (the "SERP") are valued using quoted market prices for identical assets and are included in other assets and other liabilities on the consolidated balance sheets. Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners are valued using the quoted market price of Common Shares. The fair values disclosed for mortgage notes payable and unsecured debt (including its line of credit) were calculated using indicative rates provided by lenders of similar loans in the case of mortgage notes payable and the private unsecured debt (including its line of credit) and quoted market prices for each underlying issuance in the case of the public unsecured notes.

The following tables provide a summary of the fair value measurements for each major category of assets and liabilities measured at fair value on a recurring basis and the location within the accompanying consolidated balance sheets at September 30, 2014 and December 31, 2013, respectively (amounts in thousands):

35

---

Table of Contents

Description	Balance Sheet Location	9/30/2014	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	Other Assets	\$ 678	\$—	\$ 678	\$—
Supplemental Executive Retirement Plan	Other Assets	98,350	98,350	—	—
Total		\$99,028	\$98,350	\$ 678	\$—
Liabilities					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Fair Value Hedges	Other Liabilities	\$2,485	\$—	\$2,485	\$—
Forward Starting Swaps	Other Liabilities	2,927	—	2,927	—
Supplemental Executive Retirement Plan	Other Liabilities	98,350	98,350	—	—
Total		\$103,762	\$98,350	\$5,412	\$—
Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners					
	Mezzanine	\$430,149	\$—	\$430,149	\$—

Description	Balance Sheet Location	12/31/2013	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	Other Assets	\$ 18,710	\$—	\$18,710	\$—
Supplemental Executive Retirement Plan	Other Assets	83,845	83,845	—	—
Total		\$102,555	\$83,845	\$18,710	\$—
Liabilities					

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Supplemental Executive Retirement Plan	Other Liabilities	\$ 83,845	\$ 83,845	\$—	\$—
Total		\$ 83,845	\$ 83,845	\$—	\$—

Redeemable Noncontrolling

Interests –

Operating

Partnership/Redeemable

Limited Partners	Mezzanine	\$ 363,144	\$—	\$363,144	\$—
------------------	-----------	------------	-----	-----------	-----

The following tables provide a summary of the effect of fair value hedges on the Company's accompanying consolidated statements of operations and comprehensive income for the nine months ended September 30, 2014 and 2013, respectively (amounts in thousands):

Table of Contents

September 30, 2014 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	\$ (2,485 )	Fixed rate debt	Interest expense	\$2,485
Total		\$ (2,485 )			\$2,485

September 30, 2013 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	\$ (1,524 )	Fixed rate debt	Interest expense	\$1,524
Total		\$ (1,524 )			\$1,524

The following tables provide a summary of the effect of cash flow hedges on the Company's accompanying consolidated statements of operations and comprehensive income for the nine months ended September 30, 2014 and 2013, respectively (amounts in thousands):

September 30, 2014 Type of Cash Flow Hedge	Effective Portion			Ineffective Portion	
	Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/ (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/ (Loss) Reclassified from Accumulated OCI into Income	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/ (Loss) Reclassified from Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps/Treasury Locks	\$ (21,693 )	Interest expense	\$ (12,606 )	Interest expense	\$91
Total	\$ (21,693 )		\$ (12,606 )		\$91

September 30, 2013 Type of Cash Flow Hedge	Effective Portion			Ineffective Portion	
	Amount of Gain/(Loss) Recognized in OCI	Location of Gain/ (Loss) Reclassified from	Amount of Gain/ (Loss) Reclassified from	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/ (Loss) Reclassified from



Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

	on Derivative	Accumulated OCI into Income	Accumulated OCI into Income	Accumulated OCI into Income
Derivatives designated as hedging instruments:				
Interest Rate Contracts:				
Forward Starting Swaps/Treasury Locks	\$8,737	Interest expense	\$(16,084 )	N/A
Total	\$8,737		\$(16,084 )	\$—

As of September 30, 2014 and December 31, 2013, there were approximately \$165.0 million and \$155.8 million in deferred losses, net, included in accumulated other comprehensive (loss), respectively, related to derivative instruments. Based on the estimated fair values of the net derivative instruments at September 30, 2014, the Company may recognize an estimated \$22.0 million of accumulated other comprehensive (loss) as additional interest expense during the twelve months ending September 30, 2015.

In June 2014, the Company paid a net \$2.0 million to settle seven forward starting ten-year swaps in conjunction with the issuance of \$750.0 million of thirty-year fixed rate public notes. The ineffective portion of approximately \$0.1 million was recorded as a decrease to interest expense and accrued interest of approximately \$1.3 million was recorded as an increase to interest expense. The remaining amount of approximately \$0.8 million will be deferred as a component of accumulated other comprehensive (loss) and recognized as an increase to interest expense over the first nine years and ten months of the notes.

Table of Contents

## 10. Earning Per Share and Earnings Per Unit

## Equity Residential

The following tables set forth the computation of net income per share – basic and net income per share – diluted for the Company (amounts in thousands except per share amounts):

	Nine Months Ended September 30,		Quarter Ended September 30,	
	2014	2013	2014	2013
Numerator for net income per share – basic:				
Income (loss) from continuing operations	\$301,598	\$(237,315 )	\$117,611	\$(13,465 )
Allocation to Noncontrolling Interests – Operating Partnership, net	(16,216 )	9,517	(8,740 )	521
Net gain on sales of real estate properties	128,544	—	113,641	—
Net (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,800 )	1,101	(708 )	311
Preferred distributions	(3,109 )	(3,109 )	(1,037 )	(1,037 )
Income (loss) from continuing operations available to Common Shares, net of Noncontrolling Interests	409,017	(229,806 )	220,767	(13,670 )
Discontinued operations, net of Noncontrolling Interests	1,443	1,946,334	(60 )	389,825
Numerator for net income per share – basic	\$410,460	\$1,716,528	\$220,707	\$376,155
Numerator for net income per share – diluted (1):				
Income from continuing operations	\$301,598		\$117,611	
Net gain on sales of real estate properties	128,544		113,641	
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,800 )		(708 )	
Preferred distributions	(3,109 )		(1,037 )	
Income from continuing operations available to Common Shares	425,233		229,507	
Discontinued operations, net	1,500		(62 )	
Numerator for net income per share – diluted (1)	\$426,733	\$1,716,528	\$229,445	\$376,155
Denominator for net income per share – basic and diluted (1):				
Denominator for net income per share – basic	360,900	352,414	361,409	359,811
Effect of dilutive securities:				
OP Units	13,726		13,707	
Long-term compensation shares/units	2,602		2,838	
Denominator for net income per share – diluted (1)	377,228	352,414	377,954	359,811
Net income per share – basic	\$1.14	\$4.87	\$0.61	\$1.05
Net income per share – diluted	\$1.13	\$4.87	\$0.61	\$1.05
Net income per share – basic:				
Income (loss) from continuing operations available to Common Shares, net of Noncontrolling Interests	\$1.133	\$(0.652 )	\$0.611	\$(0.038 )

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Discontinued operations, net of Noncontrolling Interests	0.004	5.523	—	1.083
Net income per share – basic	\$1.137	\$4.871	\$0.611	\$1.045
Net income per share – diluted (1):				
Income (loss) from continuing operations available to Common Shares	\$1.127	\$(0.652	) \$0.607	\$(0.038 )
Discontinued operations, net	0.004	5.523	—	1.083
Net income per share – diluted	\$1.131	\$4.871	\$0.607	\$1.045

(1) Potential common shares issuable from the assumed conversion of OP Units and the exercise/vesting of long-term compensation shares/units are automatically anti-dilutive and therefore excluded from the diluted earnings per share calculation as the Company had a loss from continuing operations for the nine months and quarter ended September 30, 2013.

Table of Contents

## ERP Operating Limited Partnership

The following tables set forth the computation of net income per Unit – basic and net income per Unit – diluted for the Operating Partnership (amounts in thousands except per Unit amounts):

	Nine Months Ended September 30,		Quarter Ended September 30,	
	2014	2013	2014	2013
Numerator for net income per Unit – basic and diluted (1):				
Income (loss) from continuing operations	\$301,598	\$(237,315 )	\$117,611	\$(13,465 )
Net gain on sales of real estate properties	128,544	—	113,641	—
Net (income) loss attributable to Noncontrolling Interests – Partially Owned Properties	(1,800 )	1,101	(708 )	311
Allocation to Preference Units	(3,109 )	(3,109 )	(1,037 )	(1,037 )
Income (loss) from continuing operations available to Units	425,233	(239,323 )	229,507	(14,191 )
Discontinued operations, net	1,500	2,026,798	(62 )	405,182
Numerator for net income per Unit – basic and diluted (1)	\$426,733	\$1,787,475	\$229,445	\$390,991
Denominator for net income per Unit – basic and diluted (1):				
Denominator for net income per Unit – basic	374,626	366,150	375,116	373,547
Effect of dilutive securities:				
Dilution for Units issuable upon assumed exercise/vesting of the Company's long-term compensation shares/units	2,602		2,838	
Denominator for net income per Unit – diluted (1)	377,228	366,150	377,954	373,547
Net income per Unit – basic	\$1.14	\$4.87	\$0.61	\$1.05
Net income per Unit – diluted	\$1.13	\$4.87	\$0.61	\$1.05
Net income per Unit – basic:				
Income (loss) from continuing operations available to Units	\$1.133	\$(0.652 )	\$0.611	\$(0.038 )
Discontinued operations, net	0.004	5.523	—	1.083
Net income per Unit – basic	\$1.137	\$4.871	\$0.611	\$1.045
Net income per Unit – diluted (1):				
Income (loss) from continuing operations available to Units	\$1.127	\$(0.652 )	\$0.607	\$(0.038 )
Discontinued operations, net	0.004	5.523	—	1.083
Net income per Unit – diluted	\$1.131	\$4.871	\$0.607	\$1.045

Potential Units issuable from the assumed exercise/vesting of the Company's long-term compensation shares/units are automatically anti-dilutive and therefore excluded from the diluted earnings per Unit calculation as the (1) Operating Partnership had a loss from continuing operations for the nine months and quarter ended September 30, 2013.

## 11. Discontinued Operations

The Company has presented separately as discontinued operations in all periods the results of operations for all consolidated assets disposed of and all properties held for sale, if any, for properties sold in 2013 and prior years. The amounts included in discontinued operations for the nine months and quarter ended September 30, 2014 represent trailing activity for properties sold in 2013 and prior years. None of the properties sold during the nine months and quarter ended September 30, 2014 met the new criteria for reporting discontinued operations. See Note 2 for further discussion.

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets for properties sold in 2013 and prior years during the nine months and quarters ended September 30, 2014 and 2013 (amounts in thousands).

Table of Contents

	Nine Months Ended September		Quarter Ended September 30,		
	2014	2013	2014	2013	
<b>REVENUES</b>					
Rental income	\$1,218	\$119,191	\$(57	) \$11,235	
Total revenues	1,218	119,191	(57	) 11,235	
<b>EXPENSES (1)</b>					
Property and maintenance	(125	) 35,571	(84	) 4,122	
Real estate taxes and insurance	146	11,602	152	735	
Property management	—	1	—	—	
Depreciation	—	33,864	—	2,902	
General and administrative	59	77	8	4	
Total expenses	80	81,115	76	7,763	
Discontinued operating income (loss)	1,138	38,076	(133	) 3,472	
Interest and other income	152	156	72	66	
Other expenses	—	(3	) —	—	
Interest (2):					
Expense incurred, net	—	(1,276	) —	(18	)
Amortization of deferred financing costs	—	(228	) —	—	
Income and other tax (expense) benefit	(13	) (504	) —	(41	)
Discontinued operations	1,277	36,221	(61	) 3,479	
Net gain on sales of discontinued operations	223	1,990,577	(1	) 401,703	
Discontinued operations, net	\$1,500	\$2,026,798	\$(62	) \$405,182	

(1) Includes expenses paid in the current period for properties sold in prior periods related to the Company's period of ownership.

(2) Includes only interest expense specific to secured mortgage notes payable for properties sold.

## 12. Commitments and Contingencies

The Company, as an owner of real estate, is subject to various Federal, state and local environmental laws. Compliance by the Company with existing laws has not had a material adverse effect on the Company. However, the Company cannot predict the impact of new or changed laws or regulations on its current properties or on properties that it may acquire in the future.

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans With Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys' fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company's defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit or a possible loss or a range of loss, and no amounts have been

accrued at September 30, 2014. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

The Company has established a reserve related to various litigation matters associated with its Massachusetts properties and periodically assesses the adequacy of the reserve and makes adjustments as necessary. During the nine months ended September 30, 2014, the Company recorded additional reserves relating to these matters of approximately \$4.0 million, resulting in total reserves of approximately \$6.0 million at September 30, 2014. While no assurances can be given, the Company does not believe that the ultimate resolution of these litigation matters, if adversely determined, would have a material adverse effect on the Company.

The Company does not believe there is any other litigation pending or threatened against it that, individually or in the aggregate, may reasonably be expected to have a material adverse effect on the Company.

Table of Contents

As of September 30, 2014, the Company has 12 consolidated projects (including Prism at Park Avenue South in New York City, which the Company is jointly developing with Toll Brothers as discussed below) totaling 4,017 apartment units in various stages of development with commitments to fund of approximately \$1.1 billion and estimated completion dates ranging through September 30, 2017, as well as other completed development projects that are in various stages of lease up or are stabilized. Some of the projects are being developed solely by the Company, while others are being co-developed with various third party development partners. The development venture agreements with these partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The Company is the "general" or "managing" partner of the development ventures.

As of September 30, 2014, the Company has one unconsolidated project totaling 176 apartment units under development with an estimated completion date of March 31, 2015, as well as other completed development projects that are in various stages of lease up or are stabilized. These projects are all being co-developed with various third party development partners. The development venture agreements with these partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The Company currently has no further funding obligations for Domain, Nexus Sawgrass and San Norterra. While the Company is the managing member of the Domain and Nexus Sawgrass joint ventures, was responsible for constructing both projects and has given certain construction cost overrun guarantees, the joint venture partner has significant participating rights and has active involvement in and oversight of the ongoing projects. The Domain and Nexus Sawgrass buy-sell arrangements contain provisions that provide the right, but not the obligation, for the Company to acquire the partner's interests or sell its interests at any time following the occurrence of certain pre-defined events (including at stabilization) described in the development venture agreements. The respective partner for San Norterra and Parc on Powell (formerly known as 1333 Powell) is the "general" or "managing" partner of the development venture, and the Company does not have substantive kick-out or participating rights. The Company has given a repayment guaranty on the construction loan for Parc on Powell of 50% of the outstanding balance, up to a maximum of \$19.7 million, and has given certain construction cost overrun guarantees.

In December 2011, the Company and Toll Brothers (NYSE: TOL) jointly acquired a vacant land parcel at 400 Park Avenue South in New York City. The Company's and Toll Brothers' allocated portions of the purchase price were approximately \$76.1 million and \$57.9 million, respectively. The Company is the managing member and Toll Brothers does not have substantive kick-out or participating rights. Until the core and shell of the building is complete, the building and land will be owned jointly and are required to be consolidated on the Company's balance sheet. Thereafter, the Company will solely own and control the rental portion of the building (floors 2-22) and Toll Brothers will solely own and control the for sale portion of the building (floors 23-40). Once the core and shell are complete, the Toll Brothers' portion of the property will be deconsolidated from the Company's balance sheet. The acquisition was financed through contributions by the Company and Toll Brothers of approximately \$102.5 million and \$75.7 million, respectively, which included the land purchase noted above, restricted deposits and taxes and fees. As of September 30, 2014, the Company's and Toll Brothers' consolidated contributions to the joint venture were approximately \$331.8 million, of which Toll Brothers' noncontrolling interest balance totaled \$117.4 million.

### 13. Reportable Segments

Operating segments are defined as components of an enterprise that engage in business activities from which they may earn revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker. The chief operating decision maker decides how resources are allocated and assesses performance on a recurring basis at least quarterly.

The Company's primary business is the acquisition, development and management of multifamily residential properties, which includes the generation of rental and other related income through the leasing of apartment units to



residents. The chief operating decision maker evaluates the Company's operating performance geographically by market and both on a same store and non-same store basis. The Company's operating segments located in its core markets represent its reportable segments (with the aggregation of Los Angeles, Orange County and San Diego into the Southern California reportable segment). The Company's operating segments located in its non-core markets that are not material have also been aggregated in the tables presented below.

The Company's fee and asset management and development (including its partially owned properties) activities are other business activities that do not constitute an operating segment and as such, have been aggregated in the "Other" category in the tables presented below.

All revenues are from external customers and there is no customer who contributed 10% or more of the Company's total revenues during the nine months and quarters ended September 30, 2014 and 2013, respectively.

Table of Contents

The primary financial measure for the Company's rental real estate segment is net operating income ("NOI"), which represents rental income less: 1) property and maintenance expense; 2) real estate taxes and insurance expense; and 3) property management expense (all as reflected in the accompanying consolidated statements of operations and comprehensive income). The Company believes that NOI is helpful to investors as a supplemental measure of its operating performance because it is a direct measure of the actual operating results of the Company's apartment communities. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The following tables present NOI for each segment from our rental real estate specific to continuing operations for the nine months and quarters ended September 30, 2014 and 2013, respectively, as well as total assets and capital expenditures at September 30, 2014 (amounts in thousands):

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Rental Income	Operating Expenses	NOI	Rental Income	Operating Expenses	NOI
Same store (1)						
Boston	\$188,509	\$61,195	\$127,314	\$182,143	\$59,373	\$122,770
Denver	82,392	23,263	59,129	76,796	23,095	53,701
New York	340,374	129,561	210,813	327,884	124,960	202,924
San Francisco	251,812	79,898	171,914	232,062	81,417	150,645
Seattle	116,581	38,649	77,932	108,789	37,108	71,681
South Florida	143,000	53,347	89,653	136,599	52,238	84,361
Southern California	314,247	104,996	209,251	300,788	104,211	196,577
Washington DC	335,154	108,931	226,223	337,270	107,547	229,723
Non-core	92,660	34,236	58,424	89,791	33,349	56,442
Total same store	1,864,729	634,076	1,230,653	1,792,122	623,298	1,168,824
Non-same store/other (2) (3)						
Boston	2,749	639	2,110	1,900	430	1,470
Seattle	8,608	3,014	5,594	2,855	813	2,042
South Florida	3,687	2,113	1,574	44	364	(320)
Southern California	28,005	12,737	15,268	9,824	4,554	5,270
Washington DC	17,324	6,005	11,319	9,109	3,276	5,833
Other (3)	17,390	9,318	8,072	17,738	15,954	1,784
Total non-same store/other	77,763	33,826	43,937	41,470	25,391	16,079
Archstone pre-ownership (4)	—	—	—	(92,423)	(36,729)	(55,694)
Total	\$1,942,492	\$667,902	\$1,274,590	\$1,741,169	\$611,960	\$1,129,209

Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2013, less (1) properties subsequently sold, which represented 99,686 apartment units. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

Non-same store primarily includes properties acquired after January 1, 2013, plus any properties in lease-up and (2) not stabilized as of January 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(3) Other includes development, other corporate operations and operations prior to sale for properties sold in 2014 that do not meet the new discontinued operations criteria.

(4) Represents pro forma Archstone pre-ownership results for the period January 1, 2013 to February 27, 2013 that is included in 2013 same store results.



Table of Contents

	Quarter Ended September 30, 2014			Quarter Ended September 30, 2013		
	Rental Income	Operating Expenses	NOI	Rental Income	Operating Expenses	NOI
Same store (1)						
Boston	\$63,485	\$19,781	\$43,704	\$61,687	\$19,721	\$41,966
Denver	28,269	8,164	20,105	26,303	8,109	18,194
New York	114,968	41,457	73,511	110,588	41,215	69,373
San Francisco	86,468	26,938	59,530	79,602	27,312	52,290
Seattle	41,575	13,428	28,147	38,786	12,992	25,794
South Florida	48,245	17,805	30,440	46,135	17,673	28,462
Southern California	106,974	35,543	71,431	102,422	35,062	67,360
Washington DC	114,478	36,841	77,637	114,793	36,905	77,888
Non-core	31,391	11,387	20,004	30,294	11,092	19,202
Total same store	635,853	211,344	424,509	610,610	210,081	400,529
Non-same store/other (2) (3)						
Boston	931	215	716	747	176	571
Seattle	2,464	645	1,819	—	—	—
South Florida	1,645	736	909	21	218	(197)
Southern California	11,889	4,653	7,236	4,413	1,962	2,451
Washington DC	4,899	1,654	3,245	2,458	1,003	1,455
Other (3)	4,320	(128)	4,448	5,814	133	5,681
Total non-same store/other	26,148	7,775	18,373	13,453	3,492	9,961
Total	\$662,001	\$219,119	\$442,882	\$624,063	\$213,573	\$410,490

Same store primarily includes all properties acquired or completed and stabilized prior to July 1, 2013, less (1) properties subsequently sold, which represented 100,196 apartment units. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

Non-same store primarily includes properties acquired after July 1, 2013, plus any properties in lease-up and not (2) stabilized as of July 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(3) Other includes development, other corporate operations and operations prior to sale for properties sold in 2014 that do not meet the new discontinued operations criteria.

Table of Contents

	Nine Months Ended September 30, 2014	
	Total Assets	Capital Expenditures
Same store (1)		
Boston	\$ 1,939,055	\$ 14,656
Denver	525,685	3,900
New York	4,683,104	14,802
San Francisco	2,736,460	20,234
Seattle	1,039,100	9,699
South Florida	1,145,788	11,377
Southern California	2,955,062	19,125
Washington DC	4,252,450	30,477
Non-core	575,000	4,967
Total same store	19,851,704	129,237
Non-same store/other (2) (3)		
Boston	48,570	690
Seattle	226,023	396
South Florida	68,528	—
Southern California	754,384	971
Washington DC	303,871	1,290
Other (3)	1,755,014	597
Total non-same store/other	3,156,390	3,944
Total	\$ 23,008,094	\$ 133,181

Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2013, less (1) properties subsequently sold, which represented 99,686 apartment units. Also includes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

Non-same store primarily includes properties acquired after January 1, 2013, plus any properties in lease-up and (2) not stabilized as of January 1, 2013, but excludes 18,465 stabilized apartment units acquired in the Archstone Acquisition that are owned and managed by the Company.

(3) Other includes development, other corporate operations and capital expenditures for properties sold.

Note: Markets/Metro Areas aggregated in the above Southern California and Non-core segments are as follows:

(a) Southern California – Los Angeles, Orange County and San Diego.

(b) Non-core – Inland Empire, CA, New England (excluding Boston), Orlando and Phoenix.

The following table presents a reconciliation of NOI from our rental real estate specific to continuing operations for the nine months and quarters ended September 30, 2014 and 2013, respectively (amounts in thousands):

	Nine Months Ended September 30,		Quarter Ended September 30,	
	2014	2013	2014	2013
Rental income	\$ 1,942,492	\$ 1,741,169	\$ 662,001	\$ 624,063
Property and maintenance expense	(361,105)	(330,812)	(120,144)	(118,782)
Real estate taxes and insurance expense	(245,717)	(217,753)	(80,568)	(75,916)
Property management expense	(61,080)	(63,395)	(18,407)	(18,875)
Total operating expenses	(667,902)	(611,960)	(219,119)	(213,573)
Net operating income	\$ 1,274,590	\$ 1,129,209	\$ 442,882	\$ 410,490