ESSEX PROPERTY TRUST INC
Form 10-Q
November 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ________to _________

Commission file number 001-13106

ESSEX PROPERTY TRUST, INC.
(Exact name of Registrant as Specified in its Charter)

Maryland	77-0369576
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

925 East Meadow Drive
Palo Alto, California 94303
(Address of Principal Executive Offices including Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 31,330,980 shares of Common Stock as of November 8, 2010.

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Part I -- Financial Information

Item 1: Condensed Financial Statements (Unaudited)

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

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

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands, except per share amounts)

Assets	September 30, 2010	December 31, 2009
Real estate:		
Rental properties:		
Land and land improvements	$ 747,125	$ 684,955
Buildings and improvements	3,025,220	2,727,975
	3,772,345	3,412,930
Less accumulated depreciation	(842,484)	(749,464)
	2,929,861	2,663,466
Real estate under development	239,910	274,965
Co-investments	108,894	70,783
	3,278,665	3,009,214
Cash and cash equivalents-unrestricted	14,668	20,660
Cash and cash equivalents-restricted	21,654	17,274
Marketable securities	95,933	134,844
Notes and other receivables	55,605	36,305
Prepaid expenses and other assets	22,842	21,349
Deferred charges, net	14,386	14,991
Total assets	$ 3,503,753	$ 3,254,637
Liabilities and Equity		
Mortgage notes payable	$ 1,711,242	$ 1,603,549
Lines of credit	348,000	239,000
Exchangeable bonds	3,209	4,893
Accounts payable and accrued liabilities	57,274	38,514
Construction payable	9,613	10,327
Dividends payable	35,148	33,750
Cash flow hedge liabilities	71,671	30,156
Other liabilities	18,272	16,558
Total liabilities	2,254,429	1,976,747
Commitments and contingencies		
Cumulative convertible preferred stock; $.0001 par value:		
4.875% Series G - 5,980,000 issued and 178,249 outstanding	4,349	4,349
Stockholders' equity and noncontrolling interest:		
Common stock, $.0001 par value, 649,702,178 shares authorized 30,085,469 and 28,849,779 shares issued and outstanding	3	3
Cumulative redeemable preferred stock; $.0001 par value:		
7.8125% Series F - 1,000,000 shares authorized,issued and outstanding, liquidation value	25,000	25,000
Additional paid-in capital	1,379,059	1,275,251
Distributions in excess of accumulated earnings	(285,699)	(222,952)
Accumulated other comprehensive (loss) income	(79,732)	(24,206)
Total stockholders' equity	1,038,631	1,053,096
Noncontrolling interest	206,344	220,445

Total stockholders' equity and noncontrolling interest	1,244,975	1,273,541
Total liabilities and equity	$ 3,503,753	$ 3,254,637

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Rental and other property	$103,822	$100,670	$303,142	$307,060
Management and other fees from affiliates	959	1,024	3,458	3,377
	104,781	101,694	306,600	310,437
Expenses:				
Property operating, excluding real estate taxes	27,747	26,893	77,692	75,818
Real estate taxes	10,140	9,216	29,416	27,248
Depreciation and amortization	31,638	29,843	93,385	87,711
General and administrative	6,175	6,086	17,988	18,135
Impairment and other charges	1,615	11,104	1,615	16,892
	77,315	83,142	220,096	225,804
Earnings from operations	27,466	18,552	86,504	84,633
Interest expense	(22,202)	(21,966)	(64,043)	(63,679)
Interest and other income	5,788	3,471	20,730	9,521
Equity (loss) income in co-investments	(626)	(32)	(1,027)	664
(Loss) gain on early retirement of debt	-	-	(10)	6,124
Gain on sale of real estate	-	-	-	103
Income before discontinued operations	10,426	25	42,154	37,366
Income from discontinued operations	-	2,324	-	5,772
Net income	10,426	2,349	42,154	43,138
Net income attributable to noncontrolling interest	(3,506)	(3,588)	(11,540)	(12,984)
Net income attributable to controlling interest	6,920	(1,239)	30,614	30,154
Dividends to preferred stockholders	(543)	(902)	(1,628)	(4,311)
Excess of the carrying amount of preferred stock redeemed over the cash paid to redeem preferred stock	-	23,880	-	49,575
Net income available to common stockholders	$6,377	$21,739	$28,986	$75,418
Per common share data:				
Basic:				
Income before discontinued operations available to common stockholders	$0.21	$0.71	$0.99	$2.61
Income from discontinued operations	-	0.08	-	0.19
Net income available to common stockholders	$0.21	$0.79	$0.99	$2.80
Weighted average number of common shares outstanding during the period	29,690,910	27,591,341	29,334,359	26,887,537
Diluted:				
Income before discontinued operations available to common stockholders	$0.21	$0.66	$0.99	$2.50

Income from discontinued operations	-	0.08	-	0.19
Net income available to common stockholders	$0.21	$0.74	$0.99	$2.69
Weighted average number of common shares outstanding during the period	29,762,420	30,070,076	29,398,637	29,360,710
Dividend per common share	$1.033	$1.030	$3.098	$3.090

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity, Noncontrolling Interest, and Comprehensive Income for the nine months ended September 30, 2010
(Unaudited)
(Dollars and shares in thousands)

	Series F Preferred stock		Common stock		Additional paid-in capital	Distributions in excess of accumulated earnings	Accumulated other comprehensive income (loss)	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balances at December 31, 2009	1,000	$25,000	28,849	$3	$1,275,251	$(222,952)	$(24,206)	$220,445	$1,273,541
Comprehensive income:									
Net income	-	-	-	-	-	30,614	-	11,540	42,154
Reversal of unrealized gains upon the sale of marketable securites	-	-	-	-	-	-	(7,981)	(654)	(8,635)
Change in fair value of cash flow hedges and amortization of swap settlements	-	-	-	-	-	-	(52,551)	(4,161)	(56,712)
Change in fair value of marketable securities	-	-	-	-	-	-	5,006	421	5,427
Comprehensive income (loss)									(17,766)
Issuance of common stock under:									
Stock option and restricted stock plans	-	-	98	-	3,828	-	-	-	3,828
Sale of common stock	-	-	1,138	-	116,641	-	-	-	116,641
Equity based compensation costs	-	-	-	-	(219)	-	-	1,861	1,642
Retirement of exchangeable	-	-	-	-	(95)	-	-	-	(95)

bonds									
Contributions from noncontrolling interest	-	-	-	-	-	-	-	3,990	3,990
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(19,700)	(19,700)
Dividends declared	-	-	-	-	-	(93,361)	-	-	(93,361)
Redemptions of noncontrolling interest	-	-	-	-	(16,347)	-	-	(7,398)	(23,745)
Balances at September 30, 2010	1,000	$ 25,000	30,085	$ 3	$ 1,379,059	$ (285,699)	$ (79,732)	$ 206,344	$ 1,244,975

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net cash provided by operating activities	$148,284	$147,662
Cash flows used in investing activities:		
Additions to real estate:		
Acquisitions	(96,596)	-
Improvements to recent acquisitions	(2,266)	(2,560)
Redevelopment expenditures	(8,966)	(20,345)
Revenue generating capital expenditures	(788)	(190)
Non-revenue generating capital expenditures	(19,169)	(14,989)
Additions to real estate under development	(110,972)	(68,763)
Dispositions of real estate	-	31,998
Changes in restricted cash and refundable deposits	(3,046)	17,702
Purchases of marketable securities	(18,294)	(106,444)
Sales and maturities of marketable securities	65,889	15,200
Proceeds from tax credit investor	-	3,762
Purchases of and advances under notes and other receivables	(21,026)	(1,566)
Collections of notes and other receivables	1,832	2,960
Contributions from co-investments	(78,513)	(270)
Distributions to co-investments	40,397	-
Net cash used in investing activities	(251,518)	(143,505)
Cash flows from financing activities:		
Borrowings under mortgage and other notes payable and lines of credit	616,385	304,563
Repayment of mortgage and other notes payable and lines of credit	(487,152)	(134,943)
Additions to deferred charges	(1,832)	(1,982)
Retirement of exchangeable bonds	(1,842)	(66,460)
Settlement of forward-starting swaps	(16,667)	-
Retirement of common stock	-	(20,271)
Retirement of preferred stock, Series G	-	(90,614)
Net proceeds from stock options exercised	3,108	704
Net proceeds from issuance of common stock	116,641	159,987
Contributions from noncontrolling interest	3,990	-
Distributions to noncontrolling interest	(19,694)	(16,782)
Redemptions of noncontrolling interest	(23,745)	(11,061)
Common and preferred stock dividends paid	(91,950)	(87,265)
Net cash provided by financing activities	97,242	35,876
Net (decrease) increase in cash and cash equivalents	(5,992)	40,033
Cash and cash equivalents at beginning of period	20,660	41,909
Cash and cash equivalents at end of period	$14,668	$81,942

Supplemental disclosure of cash flow information:		
Cash paid for interest, net of $7.3 million and $8.4 million capitalized in 2010 and 2009, respectively	$61,595	$59,350
Supplemental disclosure of noncash investing and financing activities:		
Change in accrual of dividends	$1,397	$1,626
Change in value of cash flow hedge liabilities	$24,945	$27,164
Change in unrealized gain of marketable securities	$3,208	$12,900
Mortgage notes assumed in connection with purchase of real estate including the loan premiums recorded	$87,540	$-
Change in construction payable	$714	$9,167

See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2010 and 2009
(Unaudited)

(1) Organization and Basis of Presentation

The unaudited condensed consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature, except as otherwise noted. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

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

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009 include the accounts of the Company and Essex Portfolio, L.P. (the "Operating Partnership", which holds the operating assets of the Company). The Company is the sole general partner in the Operating Partnership, with a 93.2% general partnership interest as of September 30, 2010. Total Operating Partnership units outstanding were 2,200,907 and 2,398,479 as of September 30, 2010 and December 31, 2009, respectively, and the redemption value of the units, based on the closing price of the Company’s common stock totaled $240.9 million and $200.6 million, as of September 30, 2010 and December 31, 2009, respectively.

As of September 30, 2010, the Company owned or had ownership interests in 139 apartment communities, (aggregating 28,702 units) (collectively, the “Communities”, and individually, a “Community”), five office and commercial buildings and four active development projects (collectively, the “Portfolio”). The Communities are located in Southern California (Los Angeles, Orange, Riverside, Santa Barbara, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan area.

Fund Activities

Essex Apartment Value Fund II, L.P. (“Fund II”) is an investment fund formed by the Company to add value through rental growth and asset appreciation, utilizing the Company’s development, redevelopment and asset management capabilities. Fund II has eight institutional investors, and the Company, with combined partner equity contributions of $265.9 million. The Company contributed $75.0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fund II utilized leverage equal to approximately 55% upon the initial acquisition of the underlying real estate. Fund II invested in apartment communities in the Company’s targeted West Coast markets and, as of September 30, 2010, owned 14 apartment communities. The Company records revenue for its asset management, property management, development and redevelopment services when earned, and promote income when realized if Fund II exceeds certain financial return benchmarks.

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Marketable Securities

As of September 30, 2010, marketable securities consisted primarily of investment-grade unsecured bonds, a mortgage backed security and investment funds that invest in U.S. treasury or agency securities. As of September 30, 2010, the Company classified its investment in the mortgage backed security, which matures November 2019, as held to maturity, and accordingly, this security is stated at its amortized cost of $18.2 million. The estimated fair vale of the mortgage backed security (a level 2 security) is approximately equal to the carrying value. As of September 30, 2010 the Company classified the following marketable securities as available for sale (dollars in thousands):

	September 30, 2010		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Fair Value
Investment-grade unsecured bonds	$ 53,671	$ 7,831	$ 61,502
Investment funds - US treasuries	15,683	511	16,194
Total	$ 69,354	$ 8,342	$ 77,696

	December 31, 2009		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Fair Value
Investment-grade unsecured bonds	$ 110,338	$ 12,718	$ 123,056
Investment funds - US treasuries	12,040	(252)	11,788
Total	$ 122,378	$ 12,466	$ 134,844

The Company uses the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other comprehensive income for securities sold. For the nine months ended September 30, 2010 and 2009, the proceeds from sales of available for sale securities totaled $64.7 million and $12.7 million, respectively. These sales all resulted in gains, which totaled $9.0 million and $1.0 for the nine months ended September 30, 2010 and 2009, respectively.

Contractual maturities of the marketable securities classified as available for sale as of September 30, 2010 were as follows:

	Amount
Due in 1-5 years	$ 47,198
Due in 5-10 years	30,498
Total	$ 77,696

The Company reports its available for sale securities at fair value, based on quoted market prices (Level 2 for the unsecured bonds and level 1 for the investment funds, as defined by the Financial Accounting Standards Board ("FASB") standard entitled "Fair Value Measurements and Disclosures" as discussed later in Note 1), and any unrealized gain or loss is recorded as other comprehensive income (loss). There were no impairment charges for the three and nine months ended September 30, 2010 and 2009. Realized gains and losses and interest income are included in interest and other income on the condensed consolidated statement of operations. Amortization of unearned discounts is included in interest income.

Variable Interest Entities

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities), an office building that is subject to loans made by the Company (the Company obtained the deed to the property in satisfaction of the outstanding loans during the third quarter 2010), and 55 low income housing units since the Company is the primary beneficiary of these variable interest entities ("VIEs"). Total DownREIT units outstanding were 1,100,899 and 1,129,205 as of September 30, 2010 and December 31, 2009 respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled $120.5 million and $94.5 million, as of September 30, 2010 and December 31, 2009, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately $215.9 million and $165.9 million, respectively, as of September 30, 2010 and $237.9 million and $164.4 million, respectively, as of December 31, 2009. Interest holders in VIEs consolidated by the Company are allocated net income equal to the cash payments made to those interest holders or distributions from cash flow. The remaining results of operations are generally allocated to the Company. As of September 30, 2010 and December 31, 2009, the Company did not have any VIE's of which it was not deemed to be the primary beneficiary.

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Stock-Based Compensation

The Company accounts for share based compensation using the fair value method of accounting. The estimated fair value of stock options granted by the Company is being amortized over the vesting period of the stock options. The estimated grant date fair values of the long term incentive plan units (discussed in Note 13, "Stock Based Compensation Plans," in the Company's Form 10-K for the year ended December 31, 2009) are being amortized over the expected service periods.

Stock-based compensation expense for options and restricted stock totaled $0.3 million and $0.2 million for the three months ended September 30, 2010 and 2009, respectively, and $0.7 million for the nine months ended September 30, 2010 and 2009, respectively. The intrinsic value of the stock options exercised during the three months ended September 30, 2010 and 2009 totaled $0.4 million and $0.1 million, and $1.9 million and $0.5 million for the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, the intrinsic value of the stock options outstanding and fully vested totaled $7.7 million. As of September 30, 2010, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled $3.4 million. The cost is expected to be recognized over a weighted-average period of 1 to 3 years for the stock option plans and is expected to be recognized straight-line over 7 years for the restricted stock awards.

The Company has adopted an incentive program involving the issuance of Series Z and Series Z-1 Incentive Units (collectively referred to as "Z Units") of limited partnership interest in the Operating Partnership. Stock-based compensation expense for Z Units totaled $0.4 million for the three months ended September 30, 2010 and 2009, respectively, and $1.8 million and $1.1 million for the nine months ended September 30, 2010 and 2009, respectively.

During June 2010, the Operating Partnership issued 108,000 Series Z-1 Incentive Units (the "2010 Z-1 Units") of limited partner interest to twenty executives of the Company in exchange for cash from seven executive officers of the Company, and a capital commitment from the remaining thirteen executives of $1.00 per 2010 Z-1 Unit. The 2010 Z-1 Units are convertible one-for-one into common units of the Operating Partnership (which, in turn, are convertible into common stock of the Company) upon the earlier to occur of 100 percent vesting of the units or the year 2025. The conversion ratchet (accounted for as vesting) of the 2010 Z-1 Units into common units, will increase to 20 percent effective January 1, 2011 if the Company achieves the FFO target of $4.75 per diluted share in 2010. Each year thereafter, vesting of the 2010 Z-1 Units will be consistent with the Company's annual FFO growth, but is not to be less than zero or greater than 14 percent. The 2010 Z-1 Unit holders are entitled to receive 10 percent of dividends distributed to common stockholders in 2010, and if the Company achieves the FFO target of $4.75 per diluted share in 2010, the 2010 Z-1 Unit holders will be entitled to 25 percent of annual dividends paid in 2011. Each year thereafter, the percent of distributions received by the 2010 Z-1 Unit holders will increase by the same percentage amounts that the 2010 Z-1 Units vesting increases, provided that once the 2010 Z-1 Units holders receive distributions of 30 percent, such distribution percentage will not increase further until the 2010 Z-1 Unit vesting is at the 30 percent level. Once such vesting percentage is at the 30 percent level, subsequent distributions for the 2010 Z-1 Unit holders will be equal to the vesting percentage with the 2010 Z-1 units.

Stock-based compensation capitalized totaled $0.1 million for the three months ended September 30, 2010 and 2009, respectively, and $0.6 million and $0.3 million for the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, the intrinsic value of the Z Units subject to future vesting totaled $16.7 million. As of September 30, 2010, total unrecognized compensation cost related to Z Units subject to future vesting totaled $7.8 million. The unamortized cost is expected to be recognized over the next year to fifteen years subject to the achievement of the stated performance criteria.

Fair Value of Financial Instruments

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

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Management believes that the carrying amounts of its amounts outstanding under lines of credit, notes receivable and other receivables from related parties, and notes and other receivables approximate fair value as of September 30, 2010 and December 31, 2009, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for similar instruments. Management has estimated that the fair value of the Company's $1.45 billion of fixed rate debt at September 30, 2010 is approximately $1.54 billion and the fair value of the Company's $265.0 million of variable rate debt, excluding borrowings under the lines of credit, at September 30, 2010 is $242.6 million based on the terms of existing mortgage notes payable and variable rate demand notes compared to those available in the marketplace. Management believes that the carrying amounts of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, other liabilities and dividends payable approximate fair value as of September 30, 2010 due to the short-term maturity of these instruments. Marketable securities, cash flow hedge liabilities, and the swap related to multifamily refunding bond for the 101 San Fernando apartment community, are carried at fair value as of September 30, 2010, as discussed further above and in Note 8.

Accounting Estimates and Reclassifications

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

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

New Accounting Pronouncements

In June 2009, the FASB issued an accounting standard entitled, "Amendments to FASB Interpretation No. 46(R)", that amends existing standards, which among other things, replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The Company adopted the standard on January 1, 2010 and there was no impact on the Company's condensed consolidated financial statements.

(2) Significant Transactions During the Third Quarter of 2010 and Subsequent Events

(a) Acquisitions

In July, the Company acquired 101 San Fernando, a 323-unit community with 9,200 square feet of retail located in downtown San Jose, California for $64.1 million, and The Commons, a 264-unit community located in Campbell, California for $42.5 million.

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(Unaudited)

In September, the Company acquired Bella Villagio, a 231-unit community located in San Jose, California for $54.0 million. The Company also acquired Muse, a 152-unit community under development located in the North Hollywood Arts District of Los Angeles, California for $39.1 million.

In October, the Company acquired Santee Court, a 165-unit adaptive re-use condominium community with 36,700 square feet of retail space located in downtown Los Angeles, California for $31.1 million. The Company also acquired two communities including Courtyard off Main, a 110-unit community with 7,500 square feet of retail located in Bellevue, Washington for $30.0 million and Magnolia Nest, a 97-unit condominium development located in the Valley Village district of Los Angeles, California for $29.9 million.

In November, the Company acquired Corbella at Juanita Bay, a 169-unit community located in Kirkland, Washington for $23.4 million.

(b) Equity

During the third quarter, the Company issued 495,900 shares of common stock at an average price of $109.81, for $53.6 million, net of fees and commissions.

During October the Company issued 491,100 shares of common stock at an average price of $112.89, for $54.6 million net of fees and commissions. Year to date through October, the Company has issued 1,629,200 shares of common stock at an average price of $106.71, for $171.3 million, net of fees and commissions.

(c) Debt

In July, the Company paid-off two maturing loans that were cross collateralized by five communities totaling $129.5 million, including a $73.6 million loan at a fixed rate of 8.2% and a $55.9 million loan at a fixed rate of 7.7%. The Company obtained fixed rate mortgage loans totaling $130.1 million for two of the communities that were part of the cross collateralized loan pool paid-off in July, secured by Hillcrest Park and Bel Air for $72.2 million and $57.9 million, respectively, which mature in July 2020, at a fixed rate of 4.6%. The Company settled $100.0 million in forward-starting swap contracts in July for $16.7 million in payments to the counterparties. The settlement of the forward-starting swaps increased the effective interest rate on the Hillcrest Park and Bel Air mortgage loans to 6.0%, and during the quarter, the Company incurred $1.6 million in expense related to the ineffectiveness of certain forward-starting swap hedges.

In conjunction with acquisition of Bella Villagio, the Company assumed a $35.6 million mortgage loan at a fixed rate of 6.1% which matures in October 2016. The interest rate was unfavorable compared to currently available market rates for mortgage loans, and thus the Company recorded a $4.0 million loan premium to reflect the debt at fair value along with a corresponding increase to the carrying value of the property. This results in an effective interest rate for this loan of 3.8%.

The joint venture that owns Essex Skyline at MacArthur Place obtained an $80.0 million secured loan in July, for a four year term plus a one year extension, at an interest rate of LIBOR plus 285 basis points. Also during July, the Company entered into a swap transaction with respect to $38.0 million of the multifamily revenue refunding bonds for the 101 San Fernando apartment community (the "Bonds") with Citibank, N.A. ("Citibank"). Under the terms of the

Swap, the Company pays a variable amount equal to the SIFMA Index plus a fixed spread on a notional amount that starts at $35.2 million and over the three-year term of the swap increases ratably to $38.0 million. In return, Citibank pays an amount equal to the coupon on the Bonds multiplied by the outstanding par value of the bonds, $38.0 million. The Swap has a termination date of July 12, 2013 and may be terminated by the Company at anytime commencing in one year and by Citibank if certain events occur. Upon termination of the swap, whether early or on the stated termination date, a payment based on the change in value of the Bonds will occur. Should the Bonds decline in value from the $35.2 million value of the Bonds at the inception of the swap, the Company will be obligated to make a payment equal to 100% of the price depreciation. Should the Bonds increase in value, Citibank will be obligated to make a payment equal to approximately 85% of the price appreciation.

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(3) Co-investments

The Company has joint venture investments in co-investments, which are accounted for under the equity method. The joint ventures own, operate and develop apartment communities. In August 2010, the Company invested $12.0 million as a preferred equity interest investment in a related party entity that owns a 768-unit apartment community in Anaheim, California. The following table details the Company's co-investments (dollars in thousands):

	September 30, 2010	December 31, 2009
Investments in joint ventures accounted for under the equity method of accounting:		
Limited partnership interest of 27.2% and general partner interest of 1% in Essex Apartment Value Fund II, L.P ("Fund II")	$ 67,167	$ 70,283
Membership interest in a limited liability company that owns Essex Skyline at MacArthur Place	29,212	-
Preferred interest in a related limited liability company that owns Madison Park at Anaheim	12,015	-
	108,394	70,283
Investments accounted for under the cost method of accounting:		
Series A Preferred Stock interest in Multifamily Technology Solutions, Inc.	500	500
Total co-investments	$ 108,894	$ 70,783

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

	September 30, 2010	December 31, 2009
Balance sheets:		
Rental properties and real estate under development	$ 755,300	$ 489,352
Other assets	19,660	30,458
Total assets	$ 774,960	$ 519,810
Mortgage notes	$ 451,806	$ 312,859
Other liabilities	19,051	6,645
Equity	304,103	200,306
Total liabilities and equity	$ 774,960	$ 519,810
Company's share of equity	$ 108,394	$ 70,283

	Three Months Ended September 30,	Nine Months Ended September 30,

	2010	2009	2010	2009
Statements of operations:				
Property revenues	$13,824	$11,684	$38,634	$35,395
Property operating expenses	(6,513)	(4,882)	(17,176)	(13,878)
Net property operating income	6,765	6,802	20,913	21,517
Interest expense	(3,262)	(2,878)	(9,174)	(7,723)
Depreciation and amortization	(5,419)	(4,066)	(14,628)	(11,447)
Total net (loss) income	$(1,370)	$(142)	$(2,344)	$2,347
Company's share of net (loss) income	$(626)	$(32)	$(1,027)	$664

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(4) Notes and Other Receivables

Notes receivable secured by real estate, and other receivables consist of the following as of September 30, 2010 and December 31, 2009 (dollars in thousands):

	September 30, 2010	December 31, 2009
Note receivable, secured, bearing interest at 4.95%, due October 2010	$ 24,568	$ -
Note receivable, secured, bearing interest at LIBOR + 4.75%, due March 2011	7,390	7,317
Note receivable, secured, bearing interest at LIBOR + 3.69%, due June 2011	6,506	6,742
Note receivable, secured, bearing interest at 6.5%, due August 2011	3,221	3,199
Note receivable, secured, bearing interest at 8.0%, due November 2011	971	971
Note receivable, secured, bearing interest at LIBOR + 3.25%, due December 2012	10,923	12,551
Other receivables	2,026	5,525
	$ 55,605	$ 36,305

In May, 2010, the Company purchased a loan secured by the community known as "Santee Court" located in Los Angeles, California. This $25.7 million loan was purchased at a discount for $21.0 million. The loan bears interest at 4.95%; however interest income is recorded based on the effective yield, which is substantially higher as a result of the discounted purchase price. In late October, the Company purchased the property for $31.1 million in a multiple bid process.

(5) Related Party Transactions

Management and other fees from affiliates include management, development and redevelopment fees from Fund II of $1.0 million for the three months ended September 30, 2010 and 2009, and $3.0 million and $3.4 million for the nine months ended September 30, 2010 and 2009 respectively and property acquisition fee of $0.5 million from the limited liability company that owns Skyline at MacArthur Place for the nine months ended September 30, 2010. All of these fees are net of intercompany amounts eliminated by the Company.

An Executive Vice President of the Company invested $4.0 million for a 6% limited partnership interest in a partnership with the Company that acquired a 50% interest in a limited liability company that acquired Essex Skyline at MacArthur Place. The Executive Vice President's investment is equal to a pro-rata share of the contributions, and distributions resulting from distributable cash generated by Essex Skyline at MacArthur Place will be calculated in the same manner as the calculation of distributions to the third party investor. The Executive Vice President does not participate in any promote interest or fees paid to the Company by the Essex Skyline at MacArthur Place joint venture.

During the quarter, the Company invested $12.0 million as a preferred equity interest investment in a related party entity that owns a 768-unit apartment community in Anaheim, California. The entity that owns the property is an affiliate of The Marcus & Millichap Company ("TMMC"), and TMCC's Chairman is the Chairman of the Company. The Company's independent directors or its Board of Director approved the investment in this entity. The preferred return for this investment during the first five years is 13% per annum and the preferred return increases to

15% thereafter.

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(6) Segment Information

The Company defines its reportable operating segments as the three geographical regions in which its apartment communities are located: Southern California, Northern California and Seattle Metro. Excluded from segment revenues are properties classified in discontinued operations, management and other fees from affiliates, and interest and other income. Non-segment revenues and net operating income included in the following schedule also consist of revenue generated from commercial properties which are primarily office buildings. Other non-segment assets include co-investments, real estate under development, cash and cash equivalents, marketable securities, notes receivable, other assets and deferred charges. The revenues, net operating income, and assets for each of the reportable operating segments are summarized as follows for the three months ended September 30, 2010 and 2009 (dollars in thousands):

	Three Months Ended September 30,	
	2010	2009
Revenues:		
Southern California	$ 51,119	$ 51,104
Northern California	32,770	30,126
Seattle Metro	17,932	17,345
Other real estate assets	2,001	2,095
Total property revenues	$ 103,822	$ 100,670
Net operating income:		
Southern California	$ 33,015	$ 33,627
Northern California	20,922	19,244
Seattle Metro	10,882	10,435
Other real estate assets	1,116	1,255
Total net operating income	65,935	64,561
Depreciation and amortization	(31,638)	(29,843)
Interest expense	(22,202)	(21,966)
Interest and other income	5,788	3,471
General and administrative	(6,175)	(6,086)
Management and other fees from affiliates	959	1,024
Equity (loss) income from co-investments	(626)	(32)
Impairment and other charges	(1,615)	(11,104)
Income before discontinued operations	$ 10,426	$ 25

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The revenues, net operating income, and assets of the reportable operating segments are summarized as follows or the nine months ended September 30, 2010 and 2009 (dollars in thousands):

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:		
Southern California	$ 152,999	$ 155,064
Northern California	92,731	91,465
Seattle Metro	51,377	54,146
Other real estate assets	6,035	6,385
Total property revenues	$ 303,142	$ 307,060
Net operating income:		
Southern California	$ 100,986	$ 104,386
Northern California	59,966	60,982
Seattle Metro	31,581	34,461
Other real estate assets	3,501	4,165
Total net operating income	196,034	203,994
Depreciation and amortization	(93,385)	(87,711)
Interest expense	(64,043)	(63,679)
General and administrative	(17,988)	(18,135)
Impairment and other charges	(1,615)	(16,892)
Management and other fees from affiliates	3,458	3,377
(Loss) gain on early retirement of debt	(10)	6,124
Interest and other income	20,730	9,521
Equity (loss) income from co-investments	(1,027)	664
Gain on sale of real estate	-	103
Income before discontinued operations	$ 42,154	$ 37,366

Total assets for each of the reportable operating segments are summarized as follows as of September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Assets:		
Southern California	$ 1,213,759	$ 1,239,657
Northern California	1,125,757	923,103
Seattle Metro	509,206	417,708
Other real estate assets	81,139	82,998
Net reportable operating segments - real estate assets	2,929,861	2,663,466
Real estate under development	239,910	274,965
Cash and cash equivalents	36,322	37,934

Marketable securities		95,933		134,844
Co-investments		108,894		70,783
Notes and other receivables		55,605		36,305
Other non-segment assets		37,228		36,340
Total assets	$	3,503,753	$	3,254,637

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(7) Net Income Per Common Share
(Amounts in thousands, except per share and unit data)

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Income	Weighted-average Common Shares	Per Common Share Amount	Income	Weighted-average Common Shares	Per Common Share Amount
Basic:						
Income from continuing operations available to common stockholders	$6,377	29,691	$0.21	$19,654	27,591	$0.71
Income (loss) from discontinued operations available to common stockholders	-	29,691	-	2,085	27,591	0.08
	6,377		$0.21	21,739		$0.79
Effect of Dilutive Securities (1)(2)	-	72		506	2,479	
Diluted:						
Income from continuing operations available to common stockholders	$6,377			$19,654		
Add: noncontrolling interests OP unitholders	-			267		
Adjusted income from continuing operations available to common stockholders (1)	6,377	29,763	$0.21	19,921	30,070	$0.66
Income from discontinued operations available to common stockholders	-			2,085		
Add: noncontrolling interests OP unitholders	-			239		
Adjusted income from discontinued operations available to common stockholders	-	29,763	-	2,324	30,070	0.08
	$6,377		$0.21	$22,245		$0.74

	Nine Months Ended	Nine Months Ended

	September 30, 2010			September 30, 2009		
	Income	Weighted Average Common Shares	Per Common Share Amount	Income	Weighted Average Common Shares	Per Common Share Amount
Basic:						
Income before discontinued operations available to common stockholders	$28,986	29,334	$0.99	$70,115	26,888	$2.61
Income (loss) from discontinued operations available to common stockholders	-	29,334	-	5,303	26,888	0.19
	28,986		$0.99	75,418		$2.80
Effect of Dilutive Securities (1)(2)	-	64		3,638	2,473	
Diluted:						
Income from continuing operations available to common stockholders (1)	$28,986		$	$70,115		$
Add: noncontrolling interests OP unitholders	-			3,169		
Adjusted income from continuing operations available to common stockholders (1)	28,986	29,398	0.99	$73,284	29,361	2.50
Income (loss) from discontinued operations available to common stockholders	-			5,303		
Add: noncontrolling interests OP unitholders	-			469		
Adjusted income from discontinued operations available to common stockholders	-	29,398	-	5,772	29,361	0.19
	$28,986		$0.99	$79,056		$2.69

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(1) Weighted average convertible limited partnership units of 2,200,907 and 2,325,220, which includes vested Series Z incentive units, for the three and nine months ended September 30, 2010, respectively, were not included in the determination of diluted EPS because they were anti-dilutive. Weighted average convertible limited partnership units of 2,449,704 and 2,448,169, which includes vested Series Z incentive units, for the three and nine months ended September 30, 2009, respectively, were included in the determination of diluted EPS because they were dilutive. The Company has the ability to redeem DownREIT limited partnership units for cash and does not consider them to be potentially dilutive securities.

The holders of the exchangeable notes may exchange, at the then applicable exchange rate, the notes for cash and, at the Company's option, a portion of the notes may be exchanged for Essex common stock; the exchange rate as of September 30, 2010 was $100.48 per share of Essex common stock. During the three months ended September 30, 2010 the weighted average common stock price exceeded the strike price and therefore common stock issuable upon exchange of the exchangeable notes of 1,518 shares were included in the diluted share count as the effect was dilutive. During the nine months ended September 30, 2010 the weighted average common stock price did not exceed the strike price and therefore common stock issuable upon exchange of the exchangeable notes were not included in the diluted share count as the effect was anti-dilutive.

Stock options of 116,747 and 243,313 for the three months ended September 30, 2010 and 2009, respectively, and 133,432 and 257,857 for the nine months ended September 30, 2010 and 2009, respectively, were not included in the diluted earnings per share calculation because the exercise price of the options were greater than the average market price of the common shares for the three and nine months ended and, therefore, were anti-dilutive. Stock options of 69,992 and 29,031 for the three months ended September 30, 2010 and 2009, respectively, and 64,278 and 25,003 for the nine months ended September 30, 2010 and 2009, respectively, were included in the determination of diluted EPS.

All shares of cumulative convertible preferred stock Series G have been excluded from diluted earnings per share for the three and nine months ended September 30, 2010 and 2009, as the effect of the approximately 33 thousand shares that would be issued upon conversion were anti-dilutive.

(2) For the three and nine months ended September 30, 2010, net income allocated to convertible limited partnership units and vested Series Z units aggregating $0.5 million and $2.4 million, respectively, have been excluded from income available to common stock holders for the calculation of net income per common share since these units are excluded from the diluted weighted average common shares for the period. For the three and nine months ended September 30, 2009, net income allocated to convertible limited partnership units and vested Series Z units aggregating $0.5 million and $3.6 million, respectively, have been included in income available to common stock holders for the calculation of net income per common share since these units are included in the diluted weighted average common shares for the period.

(8) Derivative Instruments and Hedging Activities

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

As of September 30, 2010 the Company had 5 forward-starting interest rate swap contracts totaling a notional amount of $275.0 million with interest rates ranging from 5.3% to 5.9% and settlements dates ranging from November 2010 to October 2011. These derivatives qualify for hedge accounting as they are expected to economically hedge the cash flows associated with future financing of debt between 2010 and 2011. The Company had twelve interest rate cap contracts totaling a notional amount of $191.9 million that qualify for hedge accounting as they effectively limit the Company's exposure to interest rate risk by providing a ceiling on the underlying variable interest rate for the Company's $213.5 million of tax exempt variable rate debt. The aggregate carrying value of the forward-starting interest rate swap contracts was a net liability of $71.8 million and the aggregate carrying value of the interest rate cap contracts was an asset of $0.1 million. The overall fair value of these derivatives changed by $24.9 million during the nine months ended September 30, 2010 to a net liability of $71.7 million as of September 30, 2010, and the derivative liability was recorded in cash flow hedge liabilities in the Company's condensed consolidated financial statements. During July, the Company settled $100 million of forward starting swaps for $16.7 million in payments to the counterparties which increased the effective interest rate on two mortgage loans obtained in July 2010 for $130.1 million from a fixed rate of 4.6% to an effective rate of 6.0%. The changes in the fair values of the derivatives are reflected in other comprehensive (loss) income in the Company's condensed consolidated financial statements. During the quarter ended September 30, 2010, the Company incurred $1.6 million in expense related to ineffectiveness of certain forward starting swaps.

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During July 2010, the Company entered into a swap transaction (the "swap") with respect to $38.0 million of multifamily revenue refunding bonds for the 101 San Fernando apartment community (the “Bonds”) with Citibank, N.A. (“Citibank”). This swap is not designated as a hedge; accordingly the change in fair value of the swap is recorded as a gain or loss in the Company’s consolidated statement of operations. Under the terms of the Swap, the Company pays a variable amount equal to the SIFMA Index plus a fixed spread on a notional amount that starts at $35.2 million and over the three-year term of the swap increases ratably to $38.0 million. In return, Citibank pays an amount equal to the coupon on the Bonds multiplied by the outstanding par value of the bonds, $38.0 million. The Swap has a termination date of July 12, 2013 and may be terminated by the Company at anytime commencing in one year and by Citibank if certain events occur. Upon termination of the swap, whether early or on the stated termination date, a payment based on the change in value of the Bonds will occur. Should the Bonds decline in value from the $35.2 million value of the Bonds at the inception of the swap, the Company will be obligated to make a payment equal to 100% of the price depreciation. Should the Bonds increase in value, Citibank will be obligated to make a payment equal to approximately 85% of the price appreciation. As of September 30, 2010, the fair value of the swap was approximately $0.

(9) Discontinued Operations

In the normal course of business, the Company will receive offers for sale of its communities, either solicited or unsolicited. For those offers that are accepted, the prospective buyer will usually require a due diligence period before consummation of the transaction. It is not unusual for matters to arise that result in the withdrawal or rejection of the offer during this process. The Company classifies real estate as "held for sale" when the sale is considered to be probable.

In the first quarter of 2009, the Company sold Carlton Heights Villas, a 70-unit property located in Santee, California and Grand Regency, a 60-unit property in Escondido, California for an aggregate gain of $2.4 million. During the second quarter of 2009, the Company sold Mountain View Apartments, a 106-unit community located in Camarillo, California for a gain of $0.8 million. During the third quarter of 2009, the Company sold Spring Lake, a 69-unit community located in Seattle, Washington. During the fourth quarter of 2009, the Company sold Maple Leaf, a 48-unit community located in Seattle, Washington. The operations for these sold communities are included in discontinued operations for the three and nine months ended September 30, 2009.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Rental revenues	$-	$218	$-	$1,871
Property operating expenses	-	(79)	-	(728)
Depreciation and amortization	-	(52)	-	(462)
Income from real estate sold	-	87	-	681
Gain on sale	-	2,467	-	5,708
Internal disposition costs (1)	-	(230)	-	(617)

		2,237	-	
Income from discontinued operations	$-	$2,324	$-	$5,772

(1) Internal disposition costs relate to a disposition incentive program established to pay incremental bonuses for the sale of certain of the Company's communities that are part of the program.

(10) Commitments and Contingencies

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

(11) Subsequent Events

On November 5, 2010, the Company entered into a 10-year $207.2 million credit facility with Fannie Mae encumbered by seven communities at a fixed rate of 4.3%. Communities may be substituted or outright released from the facility based on certain loan to value and debt service coverage ratios, as defined in the credit facility agreement. Two of the loans are expected to be funded in November 2010 totaling $104.5 million including City View for $65.3 million and Hillsborough Park for $39.2 million, and the existing City View mortgage loan for $49.1 million at a fixed rate of 6.8% was paid-off. The remaining loans are expected to be funded in late November 2010 and five existing mortgage loans totaling $49.9 million at an average interest rate of 7.0% will be paid-off. In conjunction with the new credit facility, the Company settled $225.0 million of forward-starting swaps for $60.5 million in payments to counterparties. The settlement of $100.0 million of forward-starting swaps in July and $225.0 million of forward-starting swaps in November increased the effective interest rate on the Hillcrest and Bel Air mortgage loans totaling $130.1 million with a fixed rate of 4.6% funded in July 2010 to an effective interest rate of 6.4%, and increased the effective interest rate on the Fannie Mae credit facility to 7.1%.

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

The following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2009 Annual Report on Form 10-K for the year ended December 31, 2009 and our Current Report on Form 10-Q for the quarter ended September 30, 2010.

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

As of September 30, 2010, we had ownership interests in 139 apartment communities, comprising 28,702 apartment units. Our apartment communities are located in the following major West Coast regions:

Southern California (Los Angeles, Orange, Riverside, Santa Barbara, San Diego and Ventura counties)
Northern California (the San Francisco Bay Area)
Seattle Metro (Seattle metropolitan area)

As of September 30, 2010, we also had ownership interests in five office and commercial buildings (with approximately 215,840 square feet).

As of September 30, 2010, our consolidated development pipeline was comprised of three development projects, two predevelopment projects, and four land parcels held for future development or sale aggregating 2,277 units, with total incurred costs of $239.9 million. The estimated remaining project costs are $68.4 million and the total active development project costs are $308.3 million.

The Company has one unconsolidated joint venture development project, Essex Skyline at MacArthur Place, a 349-unit high rise condominium project. As of September 30, 2010 total costs incurred are $132.4 million, with estimated remaining project costs of $2.3 million for total estimated costs of $134.7 million.

The Company's consolidated apartment communities are as follows:

	As of September 30, 2010			As of September 30, 2009		
	Apartment Units	%		Apartment Units	%	
Southern California	12,449	48	%	12,264	50	%
Northern California	7,684	30	%	6,695	28	%
Seattle Metro	5,701	22	%	5,297	22	%
Total	25,834	100	%	24,256	10	