

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 July 26, 2012 was 301,014,635.

Table of Contents

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended June 30, 2012 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 June 30, 2012 owned an approximate 95.4% ownership interest in, ERPOP. The remaining 4.6% 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 issued to the public.

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 public 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

Table of Contents

partnership with no publicly traded equity. Except for the net proceeds from equity offerings by the Company, which are contributed to the capital of the Operating Partnership in exchange for additional limited partnership interests in the Operating Partnership (“OP Units”) (on a one-for-one 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, including additional OP Units, 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 June 30, 2012 and December 31, 2011</u>	2
<u>Consolidated Statements of Operations for the six months and quarters ended June 30, 2012 and 2011</u>	3 to 4
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011</u>	5 to 7
<u>Consolidated Statement of Changes in Equity for the six months ended June 30, 2012</u>	8 to 9
<u>Financial Statements of ERP Operating Limited Partnership:</u>	
<u>Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>	10
<u>Consolidated Statements of Operations for the six months and quarters ended June 30, 2012 and 2011</u>	11 to 12
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011</u>	13 to 15
<u>Consolidated Statement of Changes in Capital for the six months ended June 30, 2012</u>	16 to 17
<u>Notes to Consolidated Financial Statements of Equity Residential and ERP Operating Limited Partnership</u>	18 to 40
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	41 to 62
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	62
<u>Item 4. Controls and Procedures</u>	62 to 63
<u>PART II.</u>	
<u>Item 1. Legal Proceedings</u>	64
<u>Item 1A. Risk Factors</u>	64

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
<u>Item 3. Defaults Upon Senior Securities</u>	64
<u>Item 4. Mine Safety Disclosures</u>	64
<u>Item 5. Other Information</u>	64
<u>Item 6. Exhibits</u>	64

Table of Contents

EQUITY RESIDENTIAL
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except for share amounts)
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Investment in real estate		
Land	\$4,565,646	\$4,367,816
Depreciable property	15,886,832	15,554,740
Projects under development	198,912	160,190
Land held for development	372,108	325,200
Investment in real estate	21,023,498	20,407,946
Accumulated depreciation	(4,777,887)	(4,539,583)
Investment in real estate, net	16,245,611	15,868,363
Cash and cash equivalents	44,585	383,921
Investments in unconsolidated entities	17,886	12,327
Deposits – restricted	193,892	152,237
Escrow deposits – mortgage	9,139	10,692
Deferred financing costs, net	41,854	44,608
Other assets	161,445	187,155
Total assets	\$16,714,412	\$16,659,303
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$4,004,496	\$4,111,487
Notes, net	5,354,768	5,609,574
Lines of credit	35,000	—
Accounts payable and accrued expenses	72,647	35,206
Accrued interest payable	82,695	88,121
Other liabilities	430,650	291,289
Security deposits	68,265	65,286
Distributions payable	109,463	179,079
Total liabilities	10,157,984	10,380,042
Commitments and contingencies		
Redeemable Noncontrolling Interests – Operating Partnership	452,203	416,404
Equity:		
Shareholders' equity:		
Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized; 1,600,000 shares issued and outstanding as of June 30, 2012 and December 31, 2011	200,000	200,000
Common Shares of beneficial interest, \$0.01 par value; 1,000,000,000 shares authorized; 300,961,645 shares issued and outstanding as of June 30, 2012 and 297,508,185 shares issued and outstanding as of December 31, 2011	3,010	2,975
Paid in capital	5,226,088	5,047,186

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Retained earnings	654,235	615,572
Accumulated other comprehensive (loss)	(198,075	) (196,718)
Total shareholders' equity	5,885,258	5,669,015
Noncontrolling Interests:		
Operating Partnership	144,521	119,536
Partially Owned Properties	74,446	74,306
Total Noncontrolling Interests	218,967	193,842
Total equity	6,104,225	5,862,857
Total liabilities and equity	\$16,714,412	\$16,659,303

See accompanying notes

2

Table of ContentsEQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2012	2011	2012	2011
REVENUES				
Rental income	\$1,063,162	\$939,121	\$541,569	\$478,419
Fee and asset management	4,276	3,754	2,212	1,948
Total revenues	1,067,438	942,875	543,781	480,367
EXPENSES				
Property and maintenance	218,004	202,157	107,024	98,571
Real estate taxes and insurance	118,768	106,610	63,126	54,803
Property management	44,417	43,148	21,008	20,767
Fee and asset management	2,487	1,957	1,180	1,009
Depreciation	346,079	311,891	172,338	154,452
General and administrative	27,082	22,341	13,394	10,908
Total expenses	756,837	688,104	378,070	340,510
Operating income	310,601	254,771	165,711	139,857
Interest and other income	431	1,288	259	277
Other expenses	(16,584)	) (6,790)	) (9,517)	) (4,630)
Interest:				
Expense incurred, net	(234,247)	) (240,443)	) (115,618)	) (119,997)
Amortization of deferred financing costs	(7,037)	) (7,401)	) (4,063)	) (4,396)
Income before income and other taxes, net gain on sales	53,164	1,425	36,772	11,111
of land parcels and discontinued operations				
Income and other tax (expense) benefit	(405)	) (386)	) (214)	) (202)
Net gain on sales of land parcels	—	4,217	—	4,217
Income from continuing operations	52,759	5,256	36,558	15,126
Discontinued operations, net	207,723	709,563	71,757	566,627
Net income	260,482	714,819	108,315	581,753
Net (income) attributable to Noncontrolling Interests:				
Operating Partnership	(11,150)	) (31,533)	) (4,732)	) (25,758)
Partially Owned Properties	(769)	) (31)	) (319)	) (71)
Net income attributable to controlling interests	248,563	683,255	103,264	555,924
Preferred distributions	(6,933)	) (6,933)	) (3,467)	) (3,467)
Net income available to Common Shares	\$241,630	\$676,322	\$99,797	\$552,457
Earnings per share – basic:				
Income (loss) from continuing operations available to Common Shares	\$0.14	\$ (0.01)	) \$0.10	\$0.04
Net income available to Common Shares	\$0.81	\$2.30	\$0.33	\$1.88

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Weighted average Common Shares outstanding	299,499	293,784	300,193	294,663
Earnings per share – diluted:				
Income (loss) from continuing operations available to Common Shares	\$0.14	\$(0.01	) \$0.10	\$0.04
Net income available to Common Shares	\$0.80	\$2.30	\$0.33	\$1.85
Weighted average Common Shares outstanding	316,457	293,784	317,648	312,199
Distributions declared per Common Share outstanding	\$0.6750	\$0.6750	\$0.3375	\$0.3375

See accompanying notes

3

Table of Contents

EQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
(Amounts in thousands except per share data)
(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2012	2011	2012	2011
Comprehensive income:				
Net income	\$260,482	\$714,819	\$108,315	\$581,753
Other comprehensive (loss):				
Other comprehensive (loss) – derivative instruments:				
Unrealized holding (losses) arising during the period	(8,642	) (25,119	) (11,860	) (31,201
Losses reclassified into earnings from other comprehensive income	7,203	1,891	3,640	935
Other comprehensive income – other instruments:				
Unrealized holding gains arising during the period	82	493	118	347
Other comprehensive (loss)	(1,357	) (22,735	) (8,102	) (29,919
Comprehensive income	259,125	692,084	100,213	551,834
Comprehensive (income) attributable to Noncontrolling Interests	(11,919	) (31,564	) (5,051	) (25,829
Comprehensive income attributable to controlling interests	\$247,206	\$660,520	\$95,162	\$526,005

See accompanying notes

4

Table of ContentsEQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$260,482	\$714,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	348,106	330,930
Amortization of deferred financing costs	7,037	8,048
Amortization of discounts and premiums on debt	(3,538)	) 851
Amortization of deferred settlements on derivative instruments	6,935	1,624
Write-off of pursuit costs	3,565	3,038
Distributions from unconsolidated entities – return on capital	240	42
Net (gain) on sales of land parcels	—	(4,217)
Net (gain) on sales of discontinued operations	(204,053	) (682,236)
Loss on debt extinguishments	272	—
Unrealized (gain) loss on derivative instruments	(1	) 2,569
Compensation paid with Company Common Shares	16,878	12,389
Changes in assets and liabilities:		
(Increase) decrease in deposits – restricted	(1,330	) 1,971
(Increase) in other assets	(23,017	) (4,456)
Increase in accounts payable and accrued expenses	35,794	35,165
(Decrease) in accrued interest payable	(5,426	) (6,047)
Increase (decrease) in other liabilities	141,090	(21,980)
Increase (decrease) in security deposits	2,979	(33)
Net cash provided by operating activities	586,013	392,477
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(520,775	) (475,397)
Investment in real estate – development/other	(78,210	) (63,558)
Improvements to real estate	(68,319	) (64,863)
Additions to non-real estate property	(4,700	) (3,987)
Interest capitalized for real estate and unconsolidated entities under development	(10,055	) (3,683)
Proceeds from disposition of real estate, net	333,015	1,194,005
Investments in unconsolidated entities	(5,420	) (412)
(Increase) in deposits on real estate acquisitions and investments, net	(40,539	) (171,152)
Decrease in mortgage deposits	1,553	1,688
Acquisition of Noncontrolling Interests – Partially Owned Properties	(87	) (8,575)
Net cash (used for) provided by investing activities	(393,537	) 404,066

See accompanying notes

5

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan and bond acquisition costs	\$(4,283	) \$(1,466
Mortgage notes payable:		
Proceeds	—	135,230
Restricted cash	214	(11,663
Lump sum payoffs	(198,763	) (632,477
Scheduled principal repayments	(7,575	) (8,366
Loss on debt extinguishments	(272) —
Notes, net:		
Lump sum payoffs	(253,858	) (93,096
Lines of credit:		
Proceeds	105,000	—
Repayments	(70,000) —
Proceeds from sale of Common Shares	152,058	154,508
Proceeds from Employee Share Purchase Plan (ESPP)	4,523	3,501
Proceeds from exercise of options	31,281	83,534
Payment of offering costs	(1,907	) (2,611
Other financing activities, net	(33	) (33
Contributions – Noncontrolling Interests – Partially Owned Properties	2,935	—
Contributions – Noncontrolling Interests – Operating Partnership	5	—
Distributions:		
Common Shares	(269,755	) (231,995
Preferred Shares	(6,933	) (6,933
Noncontrolling Interests – Operating Partnership	(12,224	) (10,866
Noncontrolling Interests – Partially Owned Properties	(2,225	) (454
Net cash (used for) financing activities	(531,812	) (623,187
Net (decrease) increase in cash and cash equivalents	(339,336	) 173,356
Cash and cash equivalents, beginning of period	383,921	431,408
Cash and cash equivalents, end of period	\$44,585	\$604,764

See accompanying notes

6

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	\$236,600	\$242,655
Net cash paid for income and other taxes	\$454	\$628
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	\$106,600	\$99,131
Valuation of OP Units issued	\$66,606	\$—
Amortization of discounts and premiums on debt:		
Mortgage notes payable	\$(4,664)	\$(3,816)
Notes, net	\$1,126	\$4,667
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(268)	\$(267)
Accumulated other comprehensive income	\$7,203	\$1,891
Unrealized (gain) loss on derivative instruments:		
Other assets	\$4,663	\$1,975
Mortgage notes payable	\$(2,589)	\$(226)
Notes, net	\$(2,074)	\$(501)
Other liabilities	\$8,641	\$26,440
Accumulated other comprehensive income	\$(8,642)	\$(25,119)
Interest capitalized for real estate and unconsolidated entities under development:		
Investment in real estate, net	\$(9,676)	\$(3,597)
Investments in unconsolidated entities	\$(379)	\$(86)
Other:		
Receivable on sale of Common Shares	\$28,457	\$—

See accompanying notes

7

Table of Contents

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

	Six Months Ended June 30, 2012	
SHAREHOLDERS' EQUITY		
PREFERRED SHARES		
Balance, beginning of year	\$200,000	
Balance, end of period	\$200,000	
COMMON SHARES, \$0.01 PAR VALUE		
Balance, beginning of year	\$2,975	
Conversion of OP Units into Common Shares	2	
Issuance of Common Shares	21	
Exercise of share options	10	
Employee Share Purchase Plan (ESPP)	1	
Share-based employee compensation expense:		
Restricted shares	1	
Balance, end of period	\$3,010	
PAID IN CAPITAL		
Balance, beginning of year	\$5,047,186	
Common Share Issuance:		
Conversion of OP Units into Common Shares	4,752	
Issuance of Common Shares	123,580	
Exercise of share options	31,271	
Employee Share Purchase Plan (ESPP)	4,522	
Share-based employee compensation expense:		
Restricted shares	5,115	
Share options	7,976	
ESPP discount	809	
Offering costs	(1,907))
Supplemental Executive Retirement Plan (SERP)	(5,473))
Acquisition of Noncontrolling Interests – Partially Owned Properties	1,219	
Change in market value of Redeemable Noncontrolling Interests – Operating Partnership	(32,391))
Adjustment for Noncontrolling Interests ownership in Operating Partnership	39,429	
Balance, end of period	\$5,226,088	
RETAINED EARNINGS		
Balance, beginning of year	\$615,572	
Net income attributable to controlling interests	248,563	
Common Share distributions	(202,967))
Preferred Share distributions	(6,933))
Balance, end of period	\$654,235	

See accompanying notes

8

Table of Contents

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

	Six Months Ended June 30, 2012	
SHAREHOLDERS' EQUITY (continued)		
ACCUMULATED OTHER COMPREHENSIVE (LOSS)		
Balance, beginning of year	\$(196,718)
Accumulated other comprehensive (loss) – derivative instruments:		
Unrealized holding (losses) arising during the period	(8,642)
Losses reclassified into earnings from other comprehensive income	7,203	
Accumulated other comprehensive income – other instruments:		
Unrealized holding gains arising during the period	82	
Balance, end of period	\$(198,075)
NONCONTROLLING INTERESTS		
OPERATING PARTNERSHIP		
Balance, beginning of year	\$119,536	
Issuance of OP Units to Noncontrolling Interests	66,606	
Issuance of LTIP Units to Noncontrolling Interests	5	
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(4,754)
Equity compensation associated with Noncontrolling Interests	4,211	
Net income attributable to Noncontrolling Interests	11,150	
Distributions to Noncontrolling Interests	(9,396)
Change in carrying value of Redeemable Noncontrolling Interests – Operating Partnership	(3,408)
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(39,429)
Balance, end of period	\$144,521	
PARTIALLY OWNED PROPERTIES		
Balance, beginning of year	\$74,306	
Net income attributable to Noncontrolling Interests	769	
Contributions by Noncontrolling Interests	2,935	
Distributions to Noncontrolling Interests	(2,258)
Acquisition of Noncontrolling Interests – Partially Owned Properties	(1,306)
Balance, end of period	\$74,446	

See accompanying notes

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Investment in real estate		
Land	\$4,565,646	\$4,367,816
Depreciable property	15,886,832	15,554,740
Projects under development	198,912	160,190
Land held for development	372,108	325,200
Investment in real estate	21,023,498	20,407,946
Accumulated depreciation	(4,777,887	) (4,539,583
Investment in real estate, net	16,245,611	15,868,363
Cash and cash equivalents	44,585	383,921
Investments in unconsolidated entities	17,886	12,327
Deposits – restricted	193,892	152,237
Escrow deposits – mortgage	9,139	10,692
Deferred financing costs, net	41,854	44,608
Other assets	161,445	187,155
Total assets	\$16,714,412	\$16,659,303
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable	\$4,004,496	\$4,111,487
Notes, net	5,354,768	5,609,574
Lines of credit	35,000	—
Accounts payable and accrued expenses	72,647	35,206
Accrued interest payable	82,695	88,121
Other liabilities	430,650	291,289
Security deposits	68,265	65,286
Distributions payable	109,463	179,079
Total liabilities	10,157,984	10,380,042
Commitments and contingencies		
Redeemable Limited Partners	452,203	416,404
Capital:		
Partners' Capital:		
Preference Units	200,000	200,000
General Partner	5,883,333	5,665,733
Limited Partners	144,521	119,536
Accumulated other comprehensive (loss)	(198,075	) (196,718
Total partners' capital	6,029,779	5,788,551
Noncontrolling Interests – Partially Owned Properties	74,446	74,306
Total capital	6,104,225	5,862,857
Total liabilities and capital	\$16,714,412	\$16,659,303

See accompanying notes

10

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2012	2011	2012	2011
REVENUES				
Rental income	\$1,063,162	\$939,121	\$541,569	\$478,419
Fee and asset management	4,276	3,754	2,212	1,948
Total revenues	1,067,438	942,875	543,781	480,367
EXPENSES				
Property and maintenance	218,004	202,157	107,024	98,571
Real estate taxes and insurance	118,768	106,610	63,126	54,803
Property management	44,417	43,148	21,008	20,767
Fee and asset management	2,487	1,957	1,180	1,009
Depreciation	346,079	311,891	172,338	154,452
General and administrative	27,082	22,341	13,394	10,908
Total expenses	756,837	688,104	378,070	340,510
Operating income	310,601	254,771	165,711	139,857
Interest and other income	431	1,288	259	277
Other expenses	(16,584)	) (6,790)	) (9,517)	) (4,630)
Interest:				
Expense incurred, net	(234,247)	) (240,443)	) (115,618)	) (119,997)
Amortization of deferred financing costs	(7,037)	) (7,401)	) (4,063)	) (4,396)
Income before income and other taxes, net gain on sales	53,164	1,425	36,772	11,111
of land parcels and discontinued operations				
Income and other tax (expense) benefit	(405)	) (386)	) (214)	) (202)
Net gain on sales of land parcels	—	4,217	—	4,217
Income from continuing operations	52,759	5,256	36,558	15,126
Discontinued operations, net	207,723	709,563	71,757	566,627
Net income	260,482	714,819	108,315	581,753
Net (income) attributable to Noncontrolling Interests –	(769)	) (31)	) (319)	) (71)
Partially Owned Properties				
Net income attributable to controlling interests	\$259,713	\$714,788	\$107,996	\$581,682
ALLOCATION OF NET INCOME:				
Preference Units	\$6,933	\$6,933	\$3,467	\$3,467
General Partner	\$241,630	\$676,322	\$99,797	\$552,457
Limited Partners	11,150	31,533	4,732	25,758
Net income available to Units	\$252,780	\$707,855	\$104,529	\$578,215

Earnings per Unit – basic:

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Income (loss) from continuing operations available to Units	\$0.14	\$(0.01	) \$0.10	\$0.04
Net income available to Units	\$0.81	\$2.30	\$0.33	\$1.88
Weighted average Units outstanding	313,133	307,106	314,255	307,954
Earnings per Unit – diluted:				
Income (loss) from continuing operations available to Units	\$0.14	\$(0.01	) \$0.10	\$0.04
Net income available to Units	\$0.80	\$2.30	\$0.33	\$1.85
Weighted average Units outstanding	316,457	307,106	317,648	312,199
Distributions declared per Unit outstanding	\$0.6750	\$0.6750	\$0.3375	\$0.3375

See accompanying notes

11

Table of Contents

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

	Six Months Ended June 30,		Quarter Ended June 30,	
	2012	2011	2012	2011
Comprehensive income:				
Net income	\$260,482	\$714,819	\$108,315	\$581,753
Other comprehensive (loss):				
Other comprehensive (loss) – derivative instruments:				
Unrealized holding (losses) arising during the period	(8,642	) (25,119	) (11,860	) (31,201
Losses reclassified into earnings from other comprehensive income	7,203	1,891	3,640	935
Other comprehensive income – other instruments:				
Unrealized holding gains arising during the period	82	493	118	347
Other comprehensive (loss)	(1,357	) (22,735	) (8,102	) (29,919
Comprehensive income	259,125	692,084	100,213	551,834
Comprehensive (income) attributable to Noncontrolling Interests – Partially Owned Properties	(769	) (31	) (319	) (71
Comprehensive income attributable to controlling interests	\$258,356	\$692,053	\$99,894	\$551,763

See accompanying notes

12

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$260,482	\$714,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	348,106	330,930
Amortization of deferred financing costs	7,037	8,048
Amortization of discounts and premiums on debt	(3,538)	) 851
Amortization of deferred settlements on derivative instruments	6,935	1,624
Write-off of pursuit costs	3,565	3,038
Distributions from unconsolidated entities – return on capital	240	42
Net (gain) on sales of land parcels	—	(4,217)
Net (gain) on sales of discontinued operations	(204,053)	) (682,236)
Loss on debt extinguishments	272	—
Unrealized (gain) loss on derivative instruments	(1)	) 2,569
Compensation paid with Company Common Shares	16,878	12,389
Changes in assets and liabilities:		
(Increase) decrease in deposits – restricted	(1,330)	) 1,971
(Increase) in other assets	(23,017)	) (4,456)
Increase in accounts payable and accrued expenses	35,794	35,165
(Decrease) in accrued interest payable	(5,426)	) (6,047)
Increase (decrease) in other liabilities	141,090	(21,980)
Increase (decrease) in security deposits	2,979	(33)
Net cash provided by operating activities	586,013	392,477
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(520,775)	) (475,397)
Investment in real estate – development/other	(78,210)	) (63,558)
Improvements to real estate	(68,319)	) (64,863)
Additions to non-real estate property	(4,700)	) (3,987)
Interest capitalized for real estate and unconsolidated entities under development	(10,055)	) (3,683)
Proceeds from disposition of real estate, net	333,015	1,194,005
Investments in unconsolidated entities	(5,420)	) (412)
(Increase) in deposits on real estate acquisitions and investments, net	(40,539)	) (171,152)
Decrease in mortgage deposits	1,553	1,688
Acquisition of Noncontrolling Interests – Partially Owned Properties	(87)	) (8,575)
Net cash (used for) provided by investing activities	(393,537)	) 404,066

See accompanying notes

13

Table of Contents

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

	Six Months Ended June 30,		
	2012	2011	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Loan and bond acquisition costs	\$ (4,283)	) \$ (1,466))
Mortgage notes payable:			
Proceeds	—	135,230	
Restricted cash	214	(11,663))
Lump sum payoffs	(198,763)	) (632,477))
Scheduled principal repayments	(7,575)	) (8,366))
Loss on debt extinguishments	(272)) —)
Notes, net:			
Lump sum payoffs	(253,858)	) (93,096))
Lines of credit:			
Proceeds	105,000	—	
Repayments	(70,000)) —)
Proceeds from sale of OP Units	152,058	154,508	
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	4,523	3,501	
Proceeds from exercise of EQR options	31,281	83,534	
Payment of offering costs	(1,907)	) (2,611))
Other financing activities, net	(33)	) (33))
Contributions – Noncontrolling Interests – Partially Owned Properties	2,935	—	
Contributions – Limited Partners	5	—	
Distributions:			
OP Units – General Partner	(269,755)	) (231,995))
Preference Units	(6,933)	) (6,933))
OP Units – Limited Partners	(12,224)	) (10,866))
Noncontrolling Interests – Partially Owned Properties	(2,225)	) (454))
Net cash (used for) financing activities	(531,812)	) (623,187))
Net (decrease) increase in cash and cash equivalents	(339,336)	) 173,356)
Cash and cash equivalents, beginning of period	383,921	431,408	
Cash and cash equivalents, end of period	\$ 44,585	\$ 604,764	

See accompanying notes

14

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	\$236,600	\$242,655
Net cash paid for income and other taxes	\$454	\$628
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	\$106,600	\$99,131
Valuation of OP Units issued	\$66,606	\$—
Amortization of discounts and premiums on debt:		
Mortgage notes payable	\$(4,664)	\$(3,816)
Notes, net	\$1,126	\$4,667
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(268)	\$(267)
Accumulated other comprehensive income	\$7,203	\$1,891
Unrealized (gain) loss on derivative instruments:		
Other assets	\$4,663	\$1,975
Mortgage notes payable	\$(2,589)	\$(226)
Notes, net	\$(2,074)	\$(501)
Other liabilities	\$8,641	\$26,440
Accumulated other comprehensive income	\$(8,642)	\$(25,119)
Interest capitalized for real estate and unconsolidated entities under development:		
Investment in real estate, net	\$(9,676)	\$(3,597)
Investments in unconsolidated entities	\$(379)	\$(86)
Other:		
Receivable on sale of OP Units	\$28,457	\$—

See accompanying notes

15

Table of Contents

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

	Six Months Ended June 30, 2012	
PARTNERS' CAPITAL		
PREFERENCE UNITS		
Balance, beginning of year	\$ 200,000	
Balance, end of period	\$ 200,000	
GENERAL PARTNER		
Balance, beginning of year	\$ 5,665,733	
OP Unit Issuance:		
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	4,754	
Issuance of OP Units	123,601	
Exercise of EQR share options	31,281	
EQR's Employee Share Purchase Plan (ESPP)	4,523	
Share-based employee compensation expense:		
EQR restricted shares	5,116	
EQR share options	7,976	
EQR ESPP discount	809	
Offering costs	(1,907))
Net income available to Units – General Partner	241,630	
OP Units – General Partner distributions	(202,967))
Supplemental Executive Retirement Plan (SERP)	(5,473))
Acquisition of Noncontrolling Interests – Partially Owned Properties	1,219	
Change in market value of Redeemable Limited Partners	(32,391))
Adjustment for Limited Partners ownership in Operating Partnership	39,429	
Balance, end of period	\$ 5,883,333	
LIMITED PARTNERS		
Balance, beginning of year	\$ 119,536	
Issuance of OP Units to Limited Partners	66,606	
Issuance of LTIP Units to Limited Partners	5	
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	(4,754))
Equity compensation associated with Units – Limited Partners	4,211	
Net income available to Units – Limited Partners	11,150	
Units – Limited Partners distributions	(9,396))
Change in carrying value of Redeemable Limited Partners	(3,408))
Adjustment for Limited Partners ownership in Operating Partnership	(39,429))
Balance, end of period	\$ 144,521	
ACCUMULATED OTHER COMPREHENSIVE (LOSS)		
Balance, beginning of year	\$(196,718))
Accumulated other comprehensive (loss) – derivative instruments:		
Unrealized holding (losses) arising during the period	(8,642))

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

Losses reclassified into earnings from other comprehensive income	7,203	
Accumulated other comprehensive income – other instruments:		
Unrealized holding gains arising during the period	82	
Balance, end of period	\$(198,075)

See accompanying notes

16

Table of Contents

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

Six Months Ended
 June 30, 2012

NONCONTROLLING INTERESTS

NONCONTROLLING INTERESTS – PARTIALLY OWNED PROPERTIES

Balance, beginning of year	\$74,306	
Net income attributable to Noncontrolling Interests	769	
Contributions by Noncontrolling Interests	2,935	
Distributions to Noncontrolling Interests	(2,258))
Acquisition of Noncontrolling Interests – Partially Owned Properties	(1,306))
Balance, end of period	\$74,446	

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 June 30, 2012 owned an approximate 95.4% 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 June 30, 2012, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 421 properties located in 14 states and the District of Columbia consisting of 120,355 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Apartment Units
Wholly Owned Properties	398	111,500
Partially Owned Properties – Consolidated	21	3,916
Military Housing	2	4,939
	421	120,355

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 promulgated under the Securities Act of 1933, as amended. 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. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2011 have been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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, 2011.

Table of Contents

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 differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of June 30, 2012, the Company has recorded a deferred tax asset of approximately \$31.7 million, 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 21 properties and 3,916 apartment units and various completed and uncompleted development properties having a noncontrolling interest book value of \$74.4 million at June 30, 2012. 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 \$5.0 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 June 30, 2012, the Company estimates the value of Noncontrolling Interest distributions for these six properties would have been approximately \$36.7 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 June 30, 2012 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, 2011, companies are required to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. 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, 2012, companies are required to separately disclose the amounts and reasons for any transfers of assets and liabilities into and out of Level 1 and Level 2 of the fair value hierarchy. For fair value measurements using significant unobservable inputs (Level 3), companies are required to disclose quantitative information about the significant unobservable inputs used for all Level 3 measurements and a description of the Company’s valuation

processes in determining fair value. In addition, companies are required to provide a qualitative discussion about the sensitivity of recurring Level 3 measurements to changes in the unobservable inputs disclosed, including the interrelationship between inputs. Companies are also required to disclose information about when the current use of a non-financial asset measured at fair value differs from its highest and best use and the hierarchy classification for items whose fair value is not recorded on the balance sheet but is disclosed 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.

Table of Contents

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 six months ended June 30, 2012:

	2012	
Common Shares		
Common Shares outstanding at January 1,	297,508,185	
Common Shares Issued:		
Conversion of OP Units	135,823	
Issuance of Common Shares	2,078,310	
Exercise of share options	1,014,585	
Employee Share Purchase Plan (ESPP)	91,872	
Restricted share grants, net	132,870	
Common Shares outstanding at June 30,	300,961,645	
Units		
Units outstanding at January 1,	13,492,543	
LTIP Units, net	70,235	
OP Units issued through acquisitions	1,081,797	
Conversion of OP Units to Common Shares	(135,823)
Units outstanding at June 30,	14,508,752	
Total Common Shares and Units outstanding at June 30,	315,470,397	
Units Ownership Interest in Operating Partnership	4.6	%

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 June 30, 2012 and December 31, 2011. 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

Table of Contents

above. As of June 30, 2012, the Redeemable Noncontrolling Interests – Operating Partnership have a redemption value of approximately \$452.2 million, which represents the value of Common Shares that would be issued in exchange with the Redeemable Noncontrolling Interests – Operating Partnership Units.

The following table presents the change in the redemption value of the Redeemable Noncontrolling Interests – Operating Partnership for the six months ended June 30, 2012 (amounts in thousands):

	2012
Balance at January 1,	\$416,404
Change in market value	32,391
Change in carrying value	3,408
Balance at June 30,	\$452,203

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 June 30, 2012 and December 31, 2011:

			Amounts in thousands	
	Redemption Date (1)	Annual Dividend per Share (2)	June 30, 2012	December 31, 2011
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 June 30, 2012 and December 31, 2011	12/10/26	\$4.145	\$50,000	\$50,000
6.48% Series N Cumulative Redeemable Preferred; liquidation value \$250 per share; 600,000 shares issued and outstanding at June 30, 2012 and December 31, 2011 (3)(4)	06/19/08	\$16.20	150,000	150,000
			\$200,000	\$200,000

On or after the redemption date, redeemable preferred shares (Series K and N) may be redeemed for cash at the (1) 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 all series of Preferred Shares are payable quarterly at various pay dates. The dividend listed for Series N is a Preferred Share rate and the equivalent Depositary Share annual dividend is \$1.62 per share.

(3) The Series N Preferred Shares have a corresponding depositary share that consists of ten times the number of shares and one-tenth the liquidation value and dividend per share.

Edgar Filing: EQUITY RESIDENTIAL - Form 10-Q

The Series N Preferred Shares have been called for redemption effective August 20, 2012. As a result of this (4) redemption, the Company will record the write-off of approximately \$5.1 million in original issuance costs as a premium on the redemption of Preferred Shares during the third quarter of 2012.

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 six months ended June 30, 2012:

21

Table of Contents

	2012	
General and Limited Partner Units		
General and Limited Partner Units outstanding at January 1,	311,000,728	
Issued to General Partner:		
Issuance of OP Units	2,078,310	
Exercise of EQR share options	1,014,585	
EQR's Employee Share Purchase Plan (ESPP)	91,872	
EQR's restricted share grants, net	132,870	
Issued to Limited Partners:		
LTIP Units, net	70,235	
OP Units issued through acquisitions	1,081,797	
General and Limited Partner Units outstanding at June 30,	315,470,397	
Limited Partner Units		
Limited Partner Units outstanding at January 1,	13,492,543	
Limited Partner LTIP Units, net	70,235	
Limited Partner OP Units issued through acquisitions	1,081,797	
Conversion of Limited Partner OP Units to EQR Common Shares	(135,823)
Limited Partner Units outstanding at June 30,	14,508,752	
Limited Partner Units Ownership Interest in Operating Partnership	4.6	%

The Limited Partners of the Operating Partnership as of June 30, 2012 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 June 30, 2012 and December 31, 2011.

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 June 30, 2012, the Redeemable Limited Partner Units have a redemption value of approximately \$452.2 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 change in the redemption value of the Redeemable Limited Partners for the six months ended June 30, 2012 (amounts in thousands):

22

Table of Contents

	2012
Balance at January 1,	\$416,404
Change in market value	32,391
Change in carrying value	3,408
Balance at June 30,	\$452,203

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 June 30, 2012 and December 31, 2011:

			Amounts in thousands	
	Redemption Date (1)	Annual Dividend per Unit (2)	June 30, 2012	December 31, 2011
Preference Units:				
8.29% Series K Cumulative Redeemable Preference Units;				
liquidation value \$50 per unit; 1,000,000 units issued and outstanding at June 30, 2012 and December 31, 2011	12/10/26	\$4.145	\$50,000	\$50,000
6.48% Series N Cumulative Redeemable Preference Units;				
liquidation value \$250 per unit; 600,000 units issued and outstanding at June 30, 2012 and December 31, 2011 (3)(4)	06/19/08	\$16.20	150,000	150,000
			\$200,000	\$200,000

(1) On or after the redemption date, redeemable preference units (Series K and N) 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 all series of Preference Units are payable quarterly at various pay dates. The dividend listed for Series N is a Preference Unit rate and the equivalent depositary unit annual dividend is \$1.62 per unit.

(3) The Series N Preference Units have a corresponding depositary unit that consists of ten times the number of units and one-tenth the liquidation value and dividend per unit.

(4) The Series N Preference Units have been called for redemption effective August 20, 2012, in conjunction with the concurrent redemption of the corresponding Company Preferred Shares. As a result of this redemption, the Operating Partnership will record the write-off of approximately \$5.1 million in original issuance costs as a premium on the redemption of Preference Units during the third quarter of 2012.

Other

In September 2009, the Company announced the establishment of an At-The-Market ("ATM") share offering program which would allow EQR to sell up to 17.0 million Common Shares from time to time over the next three years (later increased by 5.7 million Common Shares and extended to February 2014) 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). During the six months ended June 30, 2012, EQR issued approximately 2.1 million Common Shares at an average price of \$59.47 per share for total consideration of approximately \$123.6 million through the ATM program. Concurrent with these transactions, ERPOP issued approximately 2.1 million OP Units to EQR. EQR has 7.1 million Common Shares remaining available for issuance under the ATM program as of June 30, 2012.

EQR has a share repurchase program authorized by the Board of Trustees under which it has authorization to repurchase up to \$464.6 million of its shares as of June 30, 2012. No shares were repurchased during the six months ended June 30, 2012.

On April 18, 2012, the Operating Partnership issued 1,081,797 OP Units having a value of \$66.6 million (based on the closing price for Common Shares of \$61.57 on such date) as partial consideration for the acquisition of one rental property.

During the six months ended June 30, 2012, the Company acquired all of its partner's interest in one consolidated partially owned land parcel for no cash consideration. In conjunction with this transaction, the Company increased paid in capital (included in general partner's capital in the Operating Partnership's financial statements) by \$1.2 million (net of \$0.1 million of transaction

Table of Contents

costs) and reduced Noncontrolling Interests – Partially Owned Properties by \$1.3 million.

4. Real Estate

The following table summarizes the carrying amounts for the Company's investment in real estate (at cost) as of June 30, 2012 and December 31, 2011 (amounts in thousands):

	June 30, 2012	December 31, 2011
Land	\$4,565,646	\$4,367,816
Depreciable property:		
Buildings and improvements	14,550,970	14,262,616
Furniture, fixtures and equipment	1,335,862	1,292,124
Projects under development:		
Land	75,453	75,646
Construction-in-progress	123,459	84,544
Land held for development:		
Land	323,146	299,096
Construction-in-progress	48,962	26,104
Investment in real estate	21,023,498	20,407,946
Accumulated depreciation	(4,777,887	) (4,539,583
Investment in real estate, net	\$16,245,611	\$15,868,363

During the six months ended June 30, 2012, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties – Consolidated	5	1,356	\$669,969
Land Parcels (two)	—	—	23,740
Total	5	1,356	\$693,709

During the six months ended June 30, 2012, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties – Consolidated	12	3,184	\$336,250
Total	12	3,184	\$336,250

The Company recognized a net gain on sales of discontinued operations of approximately \$204.1 million on the above sales.

5. Commitments to Acquire/Dispose of Real Estate

In addition to the land parcel that was subsequently acquired as discussed in Note 14, the Company has entered into separate agreements to acquire the following (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties	5	708	\$231,983
Land Parcels (four)	—	—	112,000
Total	5	708	\$343,983

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):

24

Table of Contents

Properties

Apartment Units