

ESSEX PROPERTY TRUST INC  
Form 10-Q  
May 09, 2011

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-13106

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

Maryland  
(State or Other Jurisdiction of Incorporation or  
Organization)

77-0369576  
(I.R.S. Employer Identification Number)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 32,588,240 shares of Common Stock as of May 5, 2011.

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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, 2010.

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

Assets	March 31, 2011	December 31, 2010
Real estate:		
Rental properties:		
Land and land improvements	\$819,507	\$802,325
Buildings and improvements	3,340,600	3,265,014
	4,160,107	4,067,339
Less accumulated depreciation	(914,707 )	(878,331 )
	3,245,400	3,189,008
Real estate under development	204,927	217,531
Co-investments	133,161	107,840
	3,583,488	3,514,379
Cash and cash equivalents-unrestricted	97,683	13,753
Cash and cash equivalents-restricted	23,103	21,941
Marketable securities	74,779	92,310
Notes and other receivables	49,075	49,444
Prepaid expenses and other assets	22,921	25,188
Deferred charges, net	15,637	15,872
Total assets	\$3,866,686	\$3,732,887
<b>Liabilities and Equity</b>		
Mortgage notes payable	\$1,811,220	\$1,832,745
Lines of credit	409,000	426,000
Unsecured bonds	150,000	-
Accounts payable and accrued liabilities	54,221	44,750
Construction payable	10,452	9,023
Dividends payable	36,934	36,405
Derivative liabilities	3,351	5,633
Other liabilities	19,718	18,968
Total liabilities	2,494,896	2,373,524
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 31,679,993 and 31,324,808 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	1,555,416	1,515,468
Distributions in excess of accumulated earnings	(338,273 )	(313,308 )
Accumulated other comprehensive (loss) income	(77,785 )	(77,217 )
Total stockholders' equity	1,164,361	1,149,946
Noncontrolling interest	203,080	205,068

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Total stockholders' equity and noncontrolling interest	1,367,441	1,355,014
Total liabilities and equity	\$3,866,686	\$3,732,887

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 March 31,	
	2011	2010
Revenues:		
Rental and other property	\$112,549	\$99,706
Management and other fees from affiliates	1,224	1,478
	113,773	101,184
Expenses:		
Property operating, excluding real estate taxes	28,360	24,671
Real estate taxes	10,712	9,528
Depreciation and amortization	37,031	30,487
General and administrative	6,115	5,618
	82,218	70,304
Earnings from operations	31,555	30,880
Interest expense	(24,662 )	(20,836 )
Interest and other income	6,987	7,855
Equity (loss) income in co-investments	(1,373 )	(41 )
Net income	12,507	17,858
Net income attributable to noncontrolling interest	(3,546 )	(4,189 )
Net income attributable to controlling interest	8,961	13,669
Dividends to preferred stockholders	(543 )	(542 )
Net income available to common stockholders	\$8,418	\$13,127
Per common share data:		
Basic:		
Net income available to common stockholders	\$0.27	\$0.45
Weighted average number of common shares outstanding during the period	31,465,817	28,967,855
Diluted:		
Net income available to common stockholders	\$0.27	\$0.45
Weighted average number of common shares outstanding during the period	31,546,593	29,018,571
Dividend per common share	\$1.040	\$1.033

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 three months ended March 31, 2011  
(Unaudited)  
(Dollars and shares in thousands)

	Series F		Common		Additional paid-in capital	Distributions in excess of accumulated earnings	Accumulated other comprehensive income (loss)	Noncontrolling Interest	Total
	Preferred stock Shares	Amount	Shares	Amount					
Balances at December 31, 2010	1,000	\$ 25,000	31,325	\$ 3	\$ 1,515,468	\$ (313,308)	\$ (77,217)	\$ 205,068	\$ 1,355,014
Comprehensive income:									
Net income	-	-	-	-	-	8,961	-	3,546	12,507
Reversal of unrealized gains upon the sale of marketable securities	-	-	-	-	-	-	(4,109 )	(293 )	(4,402 )
Change in fair value of cash flow hedges and amortization of swap settlements	-	-	-	-	-	-	2,461	175	2,636
Change in fair value of marketable securities	-	-	-	-	-	-	1,080	77	1,157
Comprehensive income (loss)									11,898
Issuance of common stock under:									
Stock option and restricted stock plans	-	-	28	-	1,619	-	-	-	1,619
Sale of common stock	-	-	327	-	38,436	-	-	-	38,436
Equity based compensation costs	-	-	-	-	(107 )	-	-	276	169
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(5,028 )	(5,028 )



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Dividends declared	-	-	-	-	-	(33,926 )	-	-	(33,926 )
Redemptions of noncontrolling interest	-	-	-	-	-	-	-	(741 )	(741 )
Balances at March 31, 2011	1,000	\$ 25,000	31,680	\$ 3	\$ 1,555,416	\$ (338,273)	\$ (77,785)	\$ 203,080	\$ 1,367,441

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)

	Three Months Ended March 31,	
	2011	2010
Net cash provided by operating activities	\$57,307	\$52,975
Cash flows used in investing activities:		
Additions to real estate:		
Acquisitions	(31,400 )	-
Improvements to recent acquisitions	(8,881 )	(348 )
Redevelopment expenditures	(6,347 )	(2,636 )
Revenue generating capital expenditures	-	(37 )
Non-revenue generating capital expenditures	(2,933 )	(3,867 )
Additions to real estate under development	(29,171 )	(27,466 )
Changes in restricted cash and refundable deposits	1,136	(760 )
Purchases of marketable securities	(6,805 )	(18,256 )
Sales and maturities of marketable securities	26,798	42,241
Purchases of and advances under notes and other receivables	-	(17 )
Collections of notes and other receivables	184	149
Contributions to co-investments	(26,767 )	(66,498 )
Net cash used in investing activities	(84,186 )	(77,495 )
Cash flows from financing activities:		
Borrowings under mortgage notes payable, lines of credit and bonds	304,187	162,592
Repayment under mortgage notes payable, lines of credit and bonds	(191,542 )	(122,417 )
Additions to deferred charges	(474 )	(395 )
Settlement of forward-starting swaps	(2,395 )	-
Net proceeds from stock options exercised	1,361	1,094
Net proceeds from issuance of common stock	38,436	17,309
Contributions from noncontrolling interest	-	3,990
Distributions to noncontrolling interest	(5,028 )	(5,339 )
Redemptions of noncontrolling interest	(741 )	(637 )
Common and preferred stock dividends paid	(32,995 )	(30,025 )
Net cash provided by financing activities	110,809	26,172
Net increase in cash and cash equivalents	83,930	1,652
Cash and cash equivalents at beginning of period	13,753	20,660
Cash and cash equivalents at end of period	\$97,683	\$22,312
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	\$24,161	\$19,761
Supplemental disclosure of noncash investing and financing activities:		
Change in accrual of dividends	\$530	\$595
Change in value of derivative liabilities	\$61	\$8,462

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Change in unrealized gain of marketable securities	\$1,157	\$2,631
Change in construction payable	\$1,429	\$2,053
Transfer of real estate under development to rental properties	\$41,730	\$-

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  
March 31, 2011 and 2010  
(Unaudited)

(1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. (the "Company"), which include the accounts of the Company and Essex Portfolio, L.P. (the "Operating Partnership," which holds the operating assets of the Company) and are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature, 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, 2010.

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

The unaudited condensed consolidated financial statements for the three months ended March 31, 2011 and 2010 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 93.4% general partnership interest as of March 31, 2011. Total Operating Partnership units outstanding were 2,234,510 and 2,200,907 as of March 31, 2011 and December 31, 2010, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$277.1 million and \$251.4 million, as of March 31, 2011 and December 31, 2010, respectively.

As of March 31, 2011, the Company owned or had ownership interests in 149 apartment communities, aggregating 30,343 units, excluding the Company's ownership in preferred interest co-investments, (collectively, the "Communities", and individually, a "Community"), five 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 March 31, 2011, 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.

Marketable Securities

The Company reports its available for sale securities at fair value, based on quoted market prices (Level 2 for the unsecured bonds and Level 1 for the common stock and investment funds, as defined by the Financial Accounting Standards Board (“FASB”) standard entitled “Fair Value Measurements and Disclosures”), and any unrealized gain or loss is recorded as other comprehensive income (loss). There were no impairment charges for the three months ended March 31, 2011 and 2010, respectively. 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.

As of March 31, 2011, marketable securities consisted primarily of common stock and investments in mortgage backed securities and investment funds that invest in U.S. treasury or agency securities. As of March 31, 2011, the Company classified its investments in mortgage backed securities, which mature in November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost of \$43.2 million. The estimated fair values of the mortgage backed securities (Level 2 securities) are approximately equal to the carrying values.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES  
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March 31, 2011 and 2010  
(Unaudited)

As of March 31, 2011 the Company classified the following marketable securities as available for sale (dollars in thousands):

	March 31, 2011		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Fair Value
Investment-grade unsecured bonds	\$ 3,605	\$ 358	\$ 3,963
Investment funds - US treasuries	11,816	103	11,919
Common stock	14,513	1,233	15,746
Total	\$ 29,934	\$ 1,694	\$ 31,628

	December 31, 2010		
	Amortized Cost	Gross Unrealized Gain/(Loss)	Fair Value
Investment-grade unsecured bonds	\$ 22,243	\$ 4,403	\$ 26,646
Investment funds - US treasuries	14,345	582	14,927
Common stock	8,638	112	8,750
Total	\$ 45,226	\$ 5,097	\$ 50,323

The Company uses the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other comprehensive income for securities sold. For the three months ended March 31, 2011 and 2010, the proceeds from sales of available for sale securities totaled \$26.8 million and \$42.2 million, respectively. These sales all resulted in gains, which totaled \$4.5 million and \$5.0 million for the three months ended March 31, 2011 and 2010, respectively.

Contractual maturities of the marketable debt securities classified as available for sale as of March 31, 2011 were as follows:

	Amount
Due in 1-5 years	\$ 11,919
Due in 5-10 years	3,963
Total	\$ 15,882

#### Variable Interest Entities

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities) since the Company is the primary beneficiary of these variable interest entities ("VIEs"). Total DownREIT units outstanding were 1,091,116 and 1,096,871 as of March 31, 2011 and December 31, 2010 respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$135.3 million and \$125.3 million, as of March 31, 2011 and December 31, 2010, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately \$217.0 million and \$169.0 million, respectively, as of March 31, 2011 and \$217.3 million and \$168.0 million, respectively, as of December 31, 2010. 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 March 31, 2011 and December 31, 2010, the Company did not have any VIE's for 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, 2010) 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 March 31, 2011 and 2010, respectively. The intrinsic value of the stock options exercised during the three months ended March 31, 2011 and 2010 totaled \$1.0 million. As of March 31, 2011, the intrinsic value of the stock options outstanding and fully vested totaled \$9.0 million. As of March 31, 2011, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option and restricted stock plans totaled \$3.6 million. The cost is expected to be recognized over a weighted-average period of 1 to 6 years for the stock option plans and is expected to be recognized straight-line over 7 years for the restricted stock awards.

The Company has adopted an incentive program involving the issuance of Series Z 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-1 Units totaled \$0.3 million and Z and Z-1 Units totaled \$0.4 million for the three months ended March 31, 2011 and 2010, respectively. On January 1, 2011 131,409 Series Z Units were converted into common units of the Operating Partnership.

Stock-based compensation for Z-1 units capitalized totaled \$0.1 million for the three months ended March 31, 2011 and for Z and Z-1 units for the same period in 2010. As of March 31, 2011, the intrinsic value of the Z-1 Units subject to future vesting totaled \$17.0 million. As of March 31, 2011, total unrecognized compensation cost related to Z-1 Units subject to future vesting totaled \$7.0 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 derivative liabilities. 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.



Management believes that the carrying amounts of its amounts outstanding under lines of credit, notes receivable and notes and other receivables approximate fair value as of March 31, 2011 and December 31, 2010, 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 \$1.71 billion of fixed rate debt, including unsecured bonds, at March 31, 2011 is approximately \$1.80 billion and the fair value of the Company's \$254.8 million of variable rate debt, excluding borrowings under the lines of credit, at March 31, 2011 is \$232.4 million based on the terms of existing mortgage notes payable, unsecured bonds and variable rate demand notes compared to those available in the marketplace. Management believes that the carrying amounts of cash and cash equivalents, restricted cash, mortgage backed securities, accounts payable and accrued liabilities, construction payables, other liabilities and dividends payable approximate fair value as of March 31, 2011 due to the short-term maturity of these instruments. Marketable securities held available for sale and both the note payable and the swap related to multifamily refunding bond for the 101 San Fernando apartment community, are carried at fair value as of March 31, 2011, as discussed above and in Note 8.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

Accounting Estimates

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.

(2) Significant Transactions During the First Quarter of 2011

Acquisitions

In March, the Company acquired Santee Village, a 73-unit adaptive re-use condominium community located in downtown Los Angeles for \$17.0 million. This community is adjacent to the Santee Court apartments acquired in 2010. Estimated remaining costs for the investment to be available for rent are \$4.5 million, and initial occupancy is expected for June 2011.

In late March, the Company purchased Family Tree Apartments, a 121-unit garden-style community located in Santa Clara, California for \$31.4 million. The property consists of ten 2-story buildings with a mix of one, two and three bedroom units. The estimated cost of the planned renovations is \$2.0 million.

Development

The Company entered into a development joint venture with a partner that contributed a fee simple interest that is entitled for 275-units and 17,000 square feet of ground-floor retail development located in the Lower Queen Anne district of downtown Seattle, Washington in exchange for a 50 percent interest in the venture. Demolition at the site began in April with initial occupancy expected in April 2013.

The Company also completed the entitlement process for its Cadence site, a three-phase development consisting of 761 units located in San Jose, California.

Common Stock

During the quarter, the Company sold 326,642 shares of common stock for \$38.4 million, net of commissions at an average price of \$119.04, and during April the Company sold 157,711 shares of common stock for \$19.5 million, net of commissions at an average price of \$125.20.

Unsecured Bonds

During the quarter, the Company issued \$150 million of unsecured bonds at 4.36% through a private placement, with a maturity date is March 2016. The proceeds from the bond offering were used primarily to repay a portion of the \$275 million unsecured line of credit and repay the Joule construction loan of \$48.5 million.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES  
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March 31, 2011 and 2010  
(Unaudited)

## Mortgage Notes Payable

In February, the Company entered into a 10-year \$32.0 million loan secured by the Waterford Apartments at a fixed rate of 5.4%, and the Company settled \$20 million in forward-starting swaps for a \$2.3 million payment to the counterparty, which increased the effective rate on the loan to 6.2%. The Company has no forward-starting swap contracts outstanding as of the end of the quarter.

## (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 February 2011, the Company invested \$9.7 million as preferred equity investments in two apartment communities located in downtown Los Angeles. The investments are for ten years with a preferred return of 9% for five years, increasing to a minimum of 10% and a maximum of 12.5% thereafter. In March 2011, the Company entered into a development joint venture with a partner who contributed a land parcel development in return for a 50% interest in the venture. The 275-unit apartment community is located in Seattle, Washington.

The following table details the Company's co-investments (dollars in thousands):

	March 31, 2011	December 31, 2010
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")	\$ 66,045	\$ 66,000
Membership interest in a limited liability company that owns Essex Skyline at MacArthur Place	28,004	29,187
Membership interest in a limited liability company that owns and is developing Queen Anne	17,211	-
Preferred interest in a related limited liability company that owns Madison Park at Anaheim	11,586	12,014
Preferred interests in limited liability companies that own apartment communities in downtown Los Angeles	9,676	-
	132,522	107,201
Investments accounted for under the cost method of accounting:		
Series A Preferred Stock interest in Multifamily Technology Solutions, Inc.	639	639
Total co-investments	\$ 133,161	\$ 107,840

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES  
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March 31, 2011 and 2010  
(Unaudited)

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).

	March 31, 2011	December 31, 2010
Balance sheets:		
Rental properties and real estate under development	\$ 833,095	\$ 750,808
Other assets	36,290	15,864
<b>Total assets</b>	<b>\$ 869,385</b>	<b>\$ 766,672</b>
Mortgage notes	\$ 525,684	\$ 450,693
Other liabilities	12,685	7,076
Equity	331,016	308,903
<b>Total liabilities and equity</b>	<b>\$ 869,385</b>	<b>\$ 766,672</b>
Company's share of equity	\$ 132,522	\$ 107,201
	Three Months Ended March 31,	
	2011	2010
Statements of operations:		
Property revenues	\$ 18,512	\$ 12,328
Property operating expenses	(7,976 )	(5,007 )
Net property operating income	10,536	7,321
Interest expense	(4,861 )	(2,962 )
General and administrative	(984 )	-
Depreciation and amortization	(8,063 )	(4,453 )
<b>Total net loss</b>	<b>\$ (3,372 )</b>	<b>\$ (94 )</b>
Company's share of net (loss)	\$ (1,373 )	\$ (41 )

## (4) Notes and Other Receivables

Notes receivable secured by real estate, and other receivables consist of the following as of March 31, 2011 and December 31, 2010 (dollars in thousands):

	March 31, 2011	December 31, 2010
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Note receivable, secured, bearing interest at 6.5%, due August 2011	\$3,221	\$3,221
Note receivable, secured, bearing interest at 8.0%, due November 2011	971	971
Note receivable, secured, bearing interest at LIBOR + 4.8%, due March 2012	7,392	7,331
Note receivable, secured, bearing interest at LIBOR + 3.8%, due December 2012	10,927	10,930
Note receivable, secured, bearing interest at LIBOR + 8.0%, due December 2012	6,487	6,513
Note receivable, secured, bearing interest at 6.3%, due February 2014	16,875	16,708
Other receivables	3,202	3,770
	\$49,075	\$49,444

In the fourth quarter 2010, the Company purchased a mortgage note receivable at a discount to par value for \$16.6 million secured by Reserve Lofts, a 78-unit condominium community operated as a rental property, located in Los Angeles, California. Amounts outstanding under the terms of the loan totaled \$19.2 million. This note was amended during the first quarter of 2011 to accelerate the maturity date to February 2014 with an 18 month extension option at a stated interest rate of 6.3%; which resulted in a change in the effective yield to the Company from 8.4% to 9.6%.

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**(5) Related Party Transactions**

Management and other fees from affiliates include management, development and redevelopment fees from co-investments of \$1.2 million and \$1.0 million for the three months ended March 31, 2011 and 2010, respectively, and a property acquisition fee of \$0.5 million from the limited liability company that owns Skyline at MacArthur Place for the three months ended March 31, 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.

**(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 March 31, 2011 and 2010 (dollars in thousands):

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Southern California	\$ 55,084	\$ 50,926
Northern California	35,317	29,987
Seattle		