

EQUITY RESIDENTIAL  
Form 10-Q  
November 04, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended SEPTEMBER 30, 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: 1-12252 (Equity Residential)

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

**EQUITY RESIDENTIAL**

# ERP OPERATING LIMITED PARTNERSHIP

(Exact name of Registrant as Specified in Its Charter)

**Maryland (Equity Residential)**  
**Illinois (ERP Operating Limited Partnership)**  
(State or Other Jurisdiction of

**13-3675988 (Equity Residential)**  
**36-3894853 (ERP Operating Limited Partnership)**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**Two North Riverside Plaza, Chicago, Illinois 60606**  
(Address of Principal Executive Offices) (Zip Code)

**(312) 474-1300**  
(Registrant's Telephone Number, Including Area Code)

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

Equity Residential Yes  No  ERP Operating Limited Partnership Yes  No

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

Equity Residential Yes  No  ERP Operating Limited Partnership Yes  No

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

Equity Residential:

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
ERP Operating Limited Partnership:

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

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

Equity Residential Yes  No  ERP Operating Limited Partnership Yes  No

The number of EQR Common Shares of Beneficial Interest, \$0.01 par value, outstanding on October 27, 2011 was 296,628,624.

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**EXPLANATORY NOTE**

This report combines the reports on Form 10-Q for the quarterly period ended September 30, 2011 of Equity Residential and ERP Operating Limited Partnership. Unless stated otherwise or the context otherwise requires, references to EQR mean Equity Residential, a Maryland real estate investment trust ( REIT ), and references to ERPOP mean ERP Operating Limited Partnership, an Illinois limited partnership. References to the Company, we, us or our mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the Operating Partnership mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. The following chart illustrates the Company's and the Operating Partnership's corporate structure:

EQR is the general partner of, and as of September 30, 2011 owned an approximate 95.6% ownership interest in ERPOP. The remaining 4.4% 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. 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.

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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 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.

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**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands except for share amounts)

(Unaudited)

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Investment in real estate   |                       |                      |
| Land  | \$ 4,158,288          | \$ 4,110,275         |
| Depreciable property  | 15,055,570            | 15,226,512           |
| Projects under development  | 119,433               | 130,337              |
| Land held for development   | 205,476               | 235,247              |
| Investment in real estate   | 19,538,767            | 19,702,371           |
| Accumulated depreciation  | (4,405,479)           | (4,337,357)          |
| Investment in real estate, net  | 15,133,288            | 15,365,014           |
| Cash and cash equivalents   | 45,986                | 431,408              |
| Investments in unconsolidated entities  | 11,020                | 3,167                |
| Deposits restricted   | 369,461               | 180,987              |
| Escrow deposits mortgage  | 10,677                | 12,593               |
| Deferred financing costs, net   | 37,334                | 42,033               |
| Other assets  | 149,051               | 148,992              |
| <b>Total assets</b>   | <b>\$ 15,756,817</b>  | <b>\$ 16,184,194</b> |
| <b>LIABILITIES AND EQUITY</b>   |                       |                      |
| Liabilities:  |                       |                      |
| Mortgage notes payable  | \$ 4,136,848          | \$ 4,762,896         |
| Notes, net  | 4,614,323             | 5,185,180            |
| Lines of credit   | 26,000                |                      |
| Accounts payable and accrued expenses   | 97,845                | 39,452               |
| Accrued interest payable  | 69,895                | 98,631               |
| Other liabilities   | 409,591               | 304,202              |
| Security deposits   | 62,073                | 60,812               |
| Distributions payable   | 106,673               | 140,905              |
| <b>Total liabilities</b>  | <b>9,523,248</b>      | <b>10,592,078</b>    |
| <i>Commitments and contingencies</i>  |                       |                      |
| <b>Redeemable Noncontrolling Interests</b>  | <b>378,798</b>        | <b>383,540</b>       |
| 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 September 30, 2011 and December 31, 2010  | 200,000               | 200,000              |
| Common Shares of beneficial interest, \$0.01 par value; 1,000,000,000 shares authorized; 296,620,833 shares issued and outstanding as of September 30, 2011 and 290,197,242 shares issued and outstanding as of December 31, 2010 | 2,966                 | 2,902                |
| Paid in capital   | 5,032,863             | 4,741,521            |

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|  |                      |                      |
|--|----------------------|----------------------|
| Retained earnings                      | 684,902              | 203,581              |
| Accumulated other comprehensive (loss) | (185,032)            | (57,818)             |
| <b>Total shareholders' equity</b>      | <b>5,735,699</b>     | <b>5,090,186</b>     |
| Noncontrolling Interests:              |                      |                      |
| Operating Partnership                  | 120,786              | 110,399              |
| Partially Owned Properties             | (1,714)              | 7,991                |
| <b>Total Noncontrolling Interests</b>  | <b>119,072</b>       | <b>118,390</b>       |
| <b>Total equity</b>                    | <b>5,854,771</b>     | <b>5,208,576</b>     |
| <b>Total liabilities and equity</b>    | <b>\$ 15,756,817</b> | <b>\$ 16,184,194</b> |

See accompanying notes

**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED STATEMENTS OF OPERATIONS****(Amounts in thousands except per share data)****(Unaudited)**

|  | Nine Months Ended September 30, |              | Quarter Ended September 30, |            |
|--|---------------------------------|--------------|-----------------------------|------------|
|  | 2011                            | 2010         | 2011                        | 2010       |
| <b>REVENUES</b>  |                                 |              |                             |            |
| Rental income  | \$ 1,470,398                    | \$ 1,311,377 | \$ 509,030                  | \$ 451,832 |
| Fee and asset management   | 6,682                           | 7,596        | 2,928                       | 2,128      |
| Total revenues   | 1,477,080                       | 1,318,973    | 511,958                     | 453,960    |
| <b>EXPENSES</b>  |                                 |              |                             |            |
| Property and maintenance   | 314,768                         | 303,916      | 106,635                     | 104,259    |
| Real estate taxes and insurance  | 168,056                         | 160,307      | 59,083                      | 56,205     |
| Property management  | 62,389                          | 59,770       | 19,241                      | 19,014     |
| Fee and asset management   | 3,207                           | 4,242        | 1,250                       | 679        |
| Depreciation   | 482,039                         | 457,822      | 164,552                     | 158,318    |
| General and administrative   | 32,462                          | 31,029       | 10,121                      | 10,221     |
| Total expenses   | 1,062,921                       | 1,017,086    | 360,882                     | 348,696    |
| Operating income   | 414,159                         | 301,887      | 151,076                     | 105,264    |
| Interest and other income  | 6,608                           | 5,045        | 5,317                       | 201        |
| Other expenses   | (9,318)                         | (9,513)      | (2,528)                     | (3,487)    |
| Interest:  |                                 |              |                             |            |
| Expense incurred, net  | (354,960)                       | (348,279)    | (113,370)                   | (121,116)  |
| Amortization of deferred financing costs   | (12,129)                        | (7,729)      | (4,721)                     | (2,437)    |
| Income (loss) before income and other taxes, (loss) income from investments in unconsolidated entities, net gain (loss) on sales of unconsolidated entities and land parcels and discontinued operations | 44,360                          | (58,589)     | 35,774                      | (21,575)   |
| Income and other tax (expense) benefit   | (669)                           | (283)        | (283)                       | (291)      |
| (Loss) income from investments in unconsolidated entities  |                                 | (735)        |                             | 188        |
| Net gain on sales of unconsolidated entities   |                                 | 28,101       |                             | 22,544     |
| Net gain (loss) on sales of land parcels   | 4,217                           | (1,161)      |                             | (1,161)    |
| Income (loss) from continuing operations   | 47,908                          | (32,667)     | 35,491                      | (295)      |
| Discontinued operations, net   | 779,888                         | 130,438      | 77,486                      | 30,121     |
| Net income   | 827,796                         | 97,771       | 112,977                     | 29,826     |
| Net (income) loss attributable to Noncontrolling Interests:  |                                 |              |                             |            |
| Operating Partnership  | (36,275)                        | (4,167)      | (4,742)                     | (1,231)    |
| Partially Owned Properties   | (418)                           | 623          | (387)                       | 188        |
| Net income attributable to controlling interests   | 791,103                         | 94,227       | 107,848                     | 28,783     |
| Preferred distributions  | (10,399)                        | (10,855)     | (3,466)                     | (3,617)    |
| Net income available to Common Shares  | \$ 780,704                      | \$ 83,372    | \$ 104,382                  | \$ 25,166  |



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**Earnings per share basic:**

|   |    |         |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|----|---------|
| Income (loss) from continuing operations available to Common Shares | \$ | 0.12    | \$ | (0.15)  | \$ | 0.10    | \$ | (0.01)  |
| Net income available to Common Shares                               | \$ | 2.65    | \$ | 0.30    | \$ | 0.35    | \$ | 0.09    |
| Weighted average Common Shares outstanding                          |    | 294,474 |    | 281,867 |    | 295,831 |    | 282,717 |

**Earnings per share diluted:**

|   |    |         |    |         |    |         |    |         |
|---|----|---------|----|---------|----|---------|----|---------|
| Income (loss) from continuing operations available to Common Shares | \$ | 0.12    | \$ | (0.15)  | \$ | 0.10    | \$ | (0.01)  |
| Net income available to Common Shares                               | \$ | 2.62    | \$ | 0.30    | \$ | 0.35    | \$ | 0.09    |
| Weighted average Common Shares outstanding                          |    | 311,908 |    | 281,867 |    | 312,844 |    | 282,717 |
| Distributions declared per Common Share outstanding                 | \$ | 1.0125  | \$ | 1.0125  | \$ | 0.3375  | \$ | 0.3375  |

See accompanying notes

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

|   | <b>Nine Months Ended September 30,</b> |             | <b>Quarter Ended September 30,</b> |             |
|---|--|-------------|------------------------------------|-------------|
|   | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                        | <b>2010</b> |
| Comprehensive income (loss):                                      |  |             |                                    |             |
| Net income  | \$ 827,796                             | \$ 97,771   | \$ 112,977                         | \$ 29,826   |
| Other comprehensive (loss):                                       |  |             |                                    |             |
| Other comprehensive (loss) derivative instruments:                |  |             |                                    |             |
| Unrealized holding (losses) arising during the period             | (130,367)                              | (123,472)   | (105,248)                          | (37,726)    |
| Losses reclassified into earnings from other comprehensive income | 2,842                                  | 2,379       | 951                                | 914         |
| Other comprehensive income (loss) other instruments:              |  |             |                                    |             |
| Unrealized holding gains (losses) arising during the period       | 311                                    | (52)        | (182)                              | 14          |
| Other comprehensive (loss)  | (127,214)                              | (121,145)   | (104,479)                          | (36,798)    |
| Comprehensive income (loss)                                       | 700,582                                | (23,374)    | 8,498                              | (6,972)     |
| Comprehensive (income) attributable to Noncontrolling Interests   | (36,693)                               | (3,544)     | (5,129)                            | (1,043)     |
| Comprehensive income (loss) attributable to controlling interests | \$ 663,889                             | \$ (26,918) | \$ 3,369                           | \$ (8,015)  |

See accompanying notes

**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

|  | <b>Nine Months Ended September 30,</b> |                |
|--|--|----------------|
|  | <b>2011</b>                            | <b>2010</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |  |                |
| Net income   | \$ 827,796                             | \$ 97,771      |
| <i>Adjustments to reconcile net income to net cash provided by operating activities:</i> |  |                |
| Depreciation   | 496,383                                | 501,695        |
| Amortization of deferred financing costs   | 12,769                                 | 7,981          |
| Amortization of discounts and premiums on debt   | 144                                    | 1,454          |
| Amortization of deferred settlements on derivative instruments                           | 2,441                                  | 1,978          |
| Write-off of pursuit costs   | 4,052                                  | 3,512          |
| Income from technology investments   | (4,537)                                |                |
| Loss from investments in unconsolidated entities   |  | 735            |
| Distributions from unconsolidated entities – return on capital                           | 318                                    | 61             |
| Net (gain) on sales of unconsolidated entities   |  | (28,101)       |
| Net (gain) loss on sales of land parcels   | (4,217)                                | 1,161          |
| Net (gain) on sales of discontinued operations   | (759,100)                              | (69,538)       |
| Loss on debt extinguishments   |  | 158            |
| Unrealized loss on derivative instruments  |  | 1              |
| Compensation paid with Company Common Shares   | 16,722                                 | 14,716         |
| <i>Changes in assets and liabilities:</i>  |  |                |
| Decrease in deposits – restricted  | 5,101                                  | 75             |
| Decrease (increase) in other assets  | 3,239                                  | (6,385)        |
| Increase in accounts payable and accrued expenses  | 60,608                                 | 66,070         |
| (Decrease) in accrued interest payable   | (28,736)                               | (31,257)       |
| (Decrease) in other liabilities  | (20,193)                               | (4,150)        |
| Increase in security deposits  | 1,261                                  | 2,744          |
| <b>Net cash provided by operating activities</b>   | <b>614,051</b>                         | <b>560,681</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |  |                |
| Investment in real estate – acquisitions   | (634,581)                              | (1,108,014)    |
| Investment in real estate – development/other  | (93,761)                               | (98,282)       |
| Improvements to real estate  | (106,070)                              | (98,959)       |
| Additions to non-real estate property  | (4,879)                                | (1,022)        |
| Interest capitalized for real estate and unconsolidated entities under development       | (5,931)                                | (10,196)       |
| Proceeds from disposition of real estate, net  | 1,402,475                              | 134,603        |
| Investments in unconsolidated entities   | (865)                                  |                |
| Distributions from unconsolidated entities – return of capital                           |  | 26,924         |
| Proceeds from sale of investment securities  |  | 25,000         |
| Proceeds from technology investments   | 4,537                                  |                |
| (Increase) decrease in deposits on real estate acquisitions, net                         | (210,170)                              | 248,547        |
| Decrease (increase) in mortgage deposits   | 1,916                                  | (2,340)        |
| Consolidation of previously unconsolidated properties                                    |  | (26,854)       |
| Deconsolidation of previously consolidated properties                                    | 28,360                                 |                |
| Acquisition of Noncontrolling Interests – Partially Owned Properties                     | (12,809)                               | (1,936)        |

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Net cash provided by (used for) investing activities

368,222

(912,529)

See accompanying notes

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**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Amounts in thousands)

(Unaudited)

|   | Nine Months Ended September 30, |             |
|---|---------------------------------|-------------|
|   | 2011                            | 2010        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                      |                                 |             |
| Loan and bond acquisition costs                                   | \$ (8,070)                      | \$ (7,897)  |
| <i>Mortgage notes payable:</i>                                    |                                 |             |
| Proceeds  | 152,930                         | 124,020     |
| Restricted cash   | 16,595                          | 36,411      |
| Lump sum payoffs  | (859,066)                       | (491,100)   |
| Scheduled principal repayments                                    | (12,463)                        | (12,508)    |
| (Loss) on debt extinguishments                                    |                                 | (158)       |
| <i>Notes, net:</i>  |                                 |             |
| Proceeds  |                                 | 595,422     |
| Lump sum payoffs  | (575,641)                       |             |
| <i>Lines of credit:</i>   |                                 |             |
| Proceeds  | 213,000                         | 4,375,125   |
| Repayments  | (187,000)                       | (4,229,125) |
| (Payments on) settlement of derivative instruments                |                                 | (10,040)    |
| Proceeds from sale of Common Shares                               | 154,508                         | 73,356      |
| Proceeds from Employee Share Purchase Plan (ESPP)                 | 4,558                           | 4,251       |
| Proceeds from exercise of options                                 | 94,373                          | 57,933      |
| Common Shares repurchased and retired                             |                                 | (1,887)     |
| Payment of offering costs   | (2,770)                         | (730)       |
| Other financing activities, net                                   | (33)                            | (33)        |
| Contributions Noncontrolling Interests Partially Owned Properties | 64                              | 222         |
| <i>Distributions:</i>   |                                 |             |
| Common Shares   | (331,928)                       | (284,185)   |
| Preferred Shares  | (10,399)                        | (10,858)    |
| Noncontrolling Interests Operating Partnership                    | (15,464)                        | (14,187)    |
| Noncontrolling Interests Partially Owned Properties               | (889)                           | (1,812)     |
| Net cash (used for) provided by financing activities              | (1,367,695)                     | 202,220     |
| Net (decrease) in cash and cash equivalents                       | (385,422)                       | (149,628)   |
| Cash and cash equivalents, beginning of period                    | 431,408                         | 193,288     |
| Cash and cash equivalents, end of period                          | \$ 45,986                       | \$ 43,660   |

See accompanying notes

**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Amounts in thousands)

(Unaudited)

|  | Nine Months Ended September 30, |              |
|--|---------------------------------|--------------|
|  | 2011                            | 2010         |
| <b>SUPPLEMENTAL INFORMATION:</b>   |                                 |              |
| Cash paid for interest, net of amounts capitalized   | \$ 381,194                      | \$ 377,467   |
| Net cash paid (received) for income and other taxes  | \$ 607                          | \$ (2,892)   |
| <i>Real estate acquisitions/dispositions/other:</i>  |                                 |              |
| Mortgage loans assumed   | \$ 99,131                       | \$ 338,196   |
| Valuation of OP Units issued   | \$                              | \$ 7,433     |
| Mortgage loans (assumed) by purchaser  | \$                              | \$ (39,999)  |
| <i>Amortization of deferred financing costs:</i>   |                                 |              |
| Investment in real estate, net   | \$                              | \$ (1,824)   |
| Deferred financing costs, net  | \$ 12,769                       | \$ 9,805     |
| <i>Amortization of discounts and premiums on debt:</i>                                     |                                 |              |
| Mortgage notes payable   | \$ (6,116)                      | \$ (5,048)   |
| Notes, net   | \$ 6,260                        | \$ 6,502     |
| <i>Amortization of deferred settlements on derivative instruments:</i>                     |                                 |              |
| Other liabilities  | \$ (401)                        | \$ (401)     |
| Accumulated other comprehensive income   | \$ 2,842                        | \$ 2,379     |
| <i>Unrealized loss on derivative instruments:</i>  |                                 |              |
| Other assets   | \$ 5,217                        | \$ 13,788    |
| Mortgage notes payable   | \$ (464)                        | \$ 6         |
| Notes, net   | \$ (1,476)                      | \$ 9,835     |
| Other liabilities  | \$ 127,090                      | \$ 99,844    |
| Accumulated other comprehensive (loss)   | \$ (130,367)                    | \$ (123,472) |
| <i>Interest capitalized for real estate and unconsolidated entities under development:</i> |                                 |              |
| Investment in real estate, net   | \$ (5,760)                      | \$ (10,196)  |
| Investments in unconsolidated entities   | \$ (171)                        | \$           |

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*Consolidation of previously unconsolidated properties:*

|  |    |              |
|--|----|--------------|
| Investment in real estate, net         | \$ | \$ (105,065) |
| Investments in unconsolidated entities | \$ | \$ 7,376     |
| Deposits restricted                    | \$ | \$ (42,633)  |
| Mortgage notes payable                 | \$ | \$ 112,631   |
| Net other assets recorded              | \$ | \$ 837       |

*Deconsolidation of previously consolidated properties:*

|  |    |         |    |
|--|----|---------|----|
| Investment in real estate, net         | \$ | 35,495  | \$ |
| Investments in unconsolidated entities | \$ | (7,135) | \$ |

*(Payments on) settlement of derivative instruments:*

|                   |    |             |
|-------------------|----|-------------|
| Other liabilities | \$ | \$ (10,040) |
|-------------------|----|-------------|

*Other:*

|  |    |           |
|--|----|-----------|
| Receivable on sale of Common Shares                | \$ | \$ 37,550 |
| Transfer from notes, net to mortgage notes payable | \$ | \$ 35,600 |

See accompanying notes

**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Amounts in thousands)

(Unaudited)

|   | <b>Nine Months Ended<br/>September 30, 2011</b> |
|---|---|
| <b>SHAREHOLDERS' EQUITY</b>   |   |
| <b>PREFERRED SHARES</b>   |   |
| Balance, beginning of year  | \$ 200,000                                      |
| Balance, end of period  | \$ 200,000                                      |
| <b>COMMON SHARES, \$0.01 PAR VALUE</b>  |   |
| Balance, beginning of year  | \$ 2,902  |
| Conversion of OP Units into Common Shares   | 3   |
| Issuance of Common Shares   | 30  |
| Exercise of share options   | 29  |
| Employee Share Purchase Plan (ESPP)   | 1   |
| Conversion of restricted shares to LTIP Units   | (1)   |
| Share-based employee compensation expense:  |   |
| Restricted shares   | 2   |
| Balance, end of period  | \$ 2,966  |
| <b>PAID IN CAPITAL</b>  |   |
| Balance, beginning of year  | \$ 4,741,521                                    |
| Common Share Issuance:  |   |
| Conversion of OP Units into Common Shares   | 8,092   |
| Issuance of Common Shares   | 154,478   |
| Exercise of share options   | 94,344  |
| Employee Share Purchase Plan (ESPP)   | 4,557   |
| Conversion of restricted shares to LTIP Units   | (3,933)   |
| Share-based employee compensation expense:  |   |
| Restricted shares   | 7,275   |
| Share options   | 7,389   |
| ESPP discount   | 1,070   |
| Offering costs  | (2,770)   |
| Supplemental Executive Retirement Plan (SERP)   | 10,198  |
| Acquisition of Noncontrolling Interests - Partially Owned Properties                  | (4,784)   |
| Change in market value of Redeemable Noncontrolling Interests - Operating Partnership | 16,023  |
| Adjustment for Noncontrolling Interests ownership in Operating Partnership            | (597)   |
| Balance, end of period  | \$ 5,032,863                                    |
| <b>RETAINED EARNINGS</b>  |   |
| Balance, beginning of year  | \$ 203,581                                      |
| Net income attributable to controlling interests                                      | 791,103   |
| Common Share distributions  | (299,383)                                       |
| Preferred Share distributions   | (10,399)  |



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|   |    |           |
|---|----|-----------|
| Balance, end of period  | \$ | 684,902   |
| <b>ACCUMULATED OTHER COMPREHENSIVE (LOSS)</b>                     |    |           |
| Balance, beginning of year  | \$ | (57,818)  |
| Accumulated other comprehensive (loss) derivative instruments:    |    |           |
| Unrealized holding (losses) arising during the period             |    | (130,367) |
| Losses reclassified into earnings from other comprehensive income |    | 2,842     |
| Accumulated other comprehensive income other instruments:         |    |           |
| Unrealized holding gains arising during the period                |    | 311       |
| Balance, end of period  | \$ | (185,032) |

See accompanying notes

**Table of Contents****EQUITY RESIDENTIAL****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**

(Amounts in thousands)

(Unaudited)

|   | <b>Nine Months Ended<br/>September 30, 2011</b> |
|---|---|
| <b><u>NONCONTROLLING INTERESTS</u></b>  |   |
| <b>OPERATING PARTNERSHIP</b>  |   |
| Balance, beginning of year  | \$ 110,399                                      |
| Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner | (8,095)   |
| Conversion of restricted shares to LTIP Units   | 3,934   |
| Equity compensation associated with Noncontrolling Interests                                  | 2,734   |
| Net income attributable to Noncontrolling Interests   | 36,275  |
| Distributions to Noncontrolling Interests   | (13,777)  |
| Change in carrying value of Redeemable Noncontrolling Interests - Operating Partnership       | (11,281)  |
| Adjustment for Noncontrolling Interests ownership in Operating Partnership                    | 597   |
| Balance, end of period  | \$ 120,786                                      |
| <b>PARTIALLY OWNED PROPERTIES</b>   |   |
| Balance, beginning of year  | \$ 7,991  |
| Net income attributable to Noncontrolling Interests   | 418   |
| Contributions by Noncontrolling Interests   | 64  |
| Distributions to Noncontrolling Interests   | (922)   |
| Acquisition of Noncontrolling Interests - Partially Owned Properties                          | (8,025)   |
| Other   | (1,240)   |
| Balance, end of period  | \$ (1,714)                                      |

See accompanying notes

**Table of Contents****ERP OPERATING LIMITED PARTNERSHIP****CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

(Unaudited)

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>                          |                       |                      |
| Investment in real estate              |                       |                      |
| Land                                   | \$ 4,158,288          | \$ 4,110,275         |
| Depreciable property                   | 15,055,570            | 15,226,512           |
| Projects under development             | 119,433               | 130,337              |
| Land held for development              | 205,476               | 235,247              |
| Investment in real estate              | 19,538,767            | 19,702,371           |
| Accumulated depreciation               | (4,405,479)           | (4,337,357)          |
| Investment in real estate, net         | 15,133,288            | 15,365,014           |
| Cash and cash equivalents              | 45,986                | 431,408              |
| Investments in unconsolidated entities | 11,020                | 3,167                |
| Deposits restricted                    | 369,461               | 180,987              |
| Escrow deposits mortgage               | 10,677                | 12,593               |
| Deferred financing costs, net          | 37,334                | 42,033               |
| Other assets                           | 149,051               | 148,992              |
| <b>Total assets</b>                    | <b>\$ 15,756,817</b>  | <b>\$ 16,184,194</b> |
| <b>LIABILITIES AND CAPITAL</b>         |                       |                      |
| Liabilities:                           |                       |                      |
| Mortgage notes payable                 | \$ 4,136,848          | \$ 4,762,896         |
| Notes, net                             | 4,614,323             | 5,185,180            |
| Lines of credit                        | 26,000                |                      |
| Accounts payable and accrued expenses  | 97,845                | 39,452               |
| Accrued interest payable               | 69,895                | 98,631               |
| Other liabilities                      | 409,591               | 304,202              |
| Security deposits                      | 62,073                | 60,812               |
| Distributions payable                  | 106,673               | 140,905              |
| <b>Total liabilities</b>               | <b>9,523,248</b>      | <b>10,592,078</b>    |
| <i>Commitments and contingencies</i>   |                       |                      |
| <b>Redeemable Limited Partners</b>     | <b>378,798</b>        | <b>383,540</b>       |
| Capital:                               |                       |                      |
| Partners Capital:                      |                       |                      |
| Preference Units                       | 200,000               | 200,000              |
| General Partner                        | 5,720,731             | 4,948,004            |
| Limited Partners                       | 120,786               | 110,399              |
| Accumulated other comprehensive (loss) | (185,032)             | (57,818)             |

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|   |                      |                      |
|---|----------------------|----------------------|
| Total partners' capital                               | 5,856,485            | 5,200,585            |
| Noncontrolling Interests - Partially Owned Properties | (1,714)              | 7,991                |
| <b>Total capital</b>                                  | <b>5,854,771</b>     | <b>5,208,576</b>     |
| <b>Total liabilities and capital</b>                  | <b>\$ 15,756,817</b> | <b>\$ 16,184,194</b> |

See accompanying notes

**Table of Contents****ERP OPERATING LIMITED PARTNERSHIP****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands except per Unit data)

(Unaudited)

|  | Nine Months Ended September 30, |              | Quarter Ended September 30, |            |
|--|---------------------------------|--------------|-----------------------------|------------|
|  | 2011                            | 2010         | 2011                        | 2010       |
| <b>REVENUES</b>  |                                 |              |                             |            |
| Rental income  | \$ 1,470,398                    | \$ 1,311,377 | \$ 509,030                  | \$ 451,832 |
| Fee and asset management   | 6,682                           | 7,596        | 2,928                       | 2,128      |
| Total revenues   | 1,477,080                       | 1,318,973    | 511,958                     | 453,960    |
| <b>EXPENSES</b>  |                                 |              |                             |            |
| Property and maintenance   | 314,768                         | 303,916      | 106,635                     | 104,259    |
| Real estate taxes and insurance  | 168,056                         | 160,307      | 59,083                      | 56,205     |
| Property management  | 62,389                          | 59,770       | 19,241                      | 19,014     |
| Fee and asset management   | 3,207                           | 4,242        | 1,250                       | 679        |
| Depreciation   | 482,039                         | 457,822      | 164,552                     | 158,318    |
| General and administrative   | 32,462                          | 31,029       | 10,121                      | 10,221     |
| Total expenses   | 1,062,921                       | 1,017,086    | 360,882                     | 348,696    |
| Operating income   | 414,159                         | 301,887      | 151,076                     | 105,264    |
| Interest and other income  | 6,608                           | 5,045        | 5,317                       | 201        |
| Other expenses   | (9,318)                         | (9,513)      | (2,528)                     | (3,487)    |
| Interest:  |                                 |              |                             |            |
| Expense incurred, net  | (354,960)                       | (348,279)    | (113,370)                   | (121,116)  |
| Amortization of deferred financing costs   | (12,129)                        | (7,729)      | (4,721)                     | (2,437)    |
| Income (loss) before income and other taxes, (loss) income from investments in unconsolidated entities, net gain (loss) on sales of unconsolidated entities and land parcels and discontinued operations | 44,360                          | (58,589)     | 35,774                      | (21,575)   |
| Income and other tax (expense) benefit   | (669)                           | (283)        | (283)                       | (291)      |
| (Loss) income from investments in unconsolidated entities  |                                 | (735)        |                             | 188        |
| Net gain on sales of unconsolidated entities   |                                 | 28,101       |                             | 22,544     |
| Net gain (loss) on sales of land parcels   | 4,217                           | (1,161)      |                             | (1,161)    |
| Income (loss) from continuing operations   | 47,908                          | (32,667)     | 35,491                      | (295)      |
| Discontinued operations, net   | 779,888                         | 130,438      | 77,486                      | 30,121     |
| Net income   | 827,796                         | 97,771       | 112,977                     | 29,826     |
| Net (income) loss attributable to Noncontrolling Interests Partially Owned Properties  | (418)                           | 623          | (387)                       | 188        |
| Net income attributable to controlling interests   | \$ 827,378                      | \$ 98,394    | \$ 112,590                  | \$ 30,014  |
| <b>ALLOCATION OF NET INCOME:</b>   |                                 |              |                             |            |
| Preference Units   | \$ 10,399                       | \$ 10,855    | \$ 3,466                    | \$ 3,617   |

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|   |            |           |            |           |
|---|------------|-----------|------------|-----------|
| General Partner   | \$ 780,704 | \$ 83,372 | \$ 104,382 | \$ 25,166 |
| Limited Partners  | 36,275     | 4,167     | 4,742      | 1,231     |
| Net income available to Units                               | \$ 816,979 | \$ 87,539 | \$ 109,124 | \$ 26,397 |
| <b>Earnings per Unit basic:</b>                             |            |           |            |           |
| Income (loss) from continuing operations available to Units | \$ 0.12    | \$ (0.15) | \$ 0.10    | \$ (0.01) |
| Net income available to Units                               | \$ 2.65    | \$ 0.30   | \$ 0.35    | \$ 0.09   |
| Weighted average Units outstanding                          | 307,705    | 295,572   | 308,884    | 296,348   |
| <b>Earnings per Unit diluted:</b>                           |            |           |            |           |
| Income (loss) from continuing operations available to Units | \$ 0.12    | \$ (0.15) | \$ 0.10    | \$ (0.01) |
| Net income available to Units                               | \$ 2.62    | \$ 0.30   | \$ 0.35    | \$ 0.09   |
| Weighted average Units outstanding                          | 311,908    | 295,572   | 312,844    | 296,348   |
| Distributions declared per Unit outstanding                 | \$ 1.0125  | \$ 1.0125 | \$ 0.3375  | \$ 0.3375 |

See accompanying notes

**Table of Contents****ERP OPERATING LIMITED PARTNERSHIP****CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

(Amounts in thousands except per Unit data)

(Unaudited)

|   | Nine Months Ended September 30, |             | Quarter Ended September 30, |            |
|---|---------------------------------|-------------|-----------------------------|------------|
|   | 2011                            | 2010        | 2011                        | 2010       |
| Comprehensive income (loss):  |                                 |             |                             |            |
| Net income  | \$ 827,796                      | \$ 97,771   | \$ 112,977                  | \$ 29,826  |
| Other comprehensive (loss):   |                                 |             |                             |            |
| Other comprehensive (loss) derivative instruments:  |                                 |             |                             |            |
| Unrealized holding (losses) arising during the period   | (130,367)                       | (123,472)   | (105,248)                   | (37,726)   |
| Losses reclassified into earnings from other comprehensive income                               | 2,842                           | 2,379       | 951                         | 914        |
| Other comprehensive income (loss) other instruments:  |                                 |             |                             |            |
| Unrealized holding gains (losses) arising during the period                                     | 311                             | (52)        | (182)                       | 14         |
| Other comprehensive (loss)  | (127,214)                       | (121,145)   | (104,479)                   | (36,798)   |
| Comprehensive income (loss)   | 700,582                         | (23,374)    | 8,498                       | (6,972)    |
| Comprehensive (income) loss attributable to Noncontrolling Interests Partially Owned Properties | (418)                           | 623         | (387)                       | 188        |
| Comprehensive income (loss) attributable to controlling interests                               | \$ 700,164                      | \$ (22,751) | \$ 8,111                    | \$ (6,784) |

See accompanying notes

**Table of Contents**

**ERP OPERATING LIMITED PARTNERSHIP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

|  | Nine Months Ended September 30, |                |
|--|---------------------------------|----------------|
|  | 2011                            | 2010           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                 |                |
| Net income   | \$ 827,796                      | \$ 97,771      |
| <i>Adjustments to reconcile net income to net cash provided by operating activities:</i> |                                 |                |
| Depreciation   | 496,383                         | 501,695        |
| Amortization of deferred financing costs   | 12,769                          | 7,981          |
| Amortization of discounts and premiums on debt   | 144                             | 1,454          |
| Amortization of deferred settlements on derivative instruments                           | 2,441                           | 1,978          |
| Write-off of pursuit costs   | 4,052                           | 3,512          |
| Income from technology investments   | (4,537)                         |                |
| Loss from investments in unconsolidated entities   |                                 | 735            |
| Distributions from unconsolidated entities – return on capital                           | 318                             | 61             |
| Net (gain) on sales of unconsolidated entities   |                                 | (28,101)       |
| Net (gain) loss on sales of land parcels   | (4,217)                         | 1,161          |
| Net (gain) on sales of discontinued operations   | (759,100)                       | (69,538)       |
| Loss on debt extinguishments   |                                 | 158            |
| Unrealized loss on derivative instruments  |                                 | 1              |
| Compensation paid with Company Common Shares   | 16,722                          | 14,716         |
| <i>Changes in assets and liabilities:</i>  |                                 |                |
| Decrease in deposits – restricted  | 5,101                           | 75             |
| Decrease (increase) in other assets  | 3,239                           | (6,385)        |
| Increase in accounts payable and accrued expenses  | 60,608                          | 66,070         |
| (Decrease) in accrued interest payable   | (28,736)                        | (31,257)       |
| (Decrease) in other liabilities  | (20,193)                        | (4,150)        |
| Increase in security deposits  | 1,261                           | 2,744          |
| <b>Net cash provided by operating activities</b>   | <b>614,051</b>                  | <b>560,681</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                 |                |
| Investment in real estate – acquisitions   | (634,581)                       | (1,108,014)    |
| Investment in real estate – development/other  | (93,761)                        | (98,282)       |
| Improvements to real estate  | (106,070)                       | (98,959)       |
| Additions to non-real estate property  | (4,879)                         | (1,022)        |
| Interest capitalized for real estate and unconsolidated entities under development       | (5,931)                         | (10,196)       |
| Proceeds from disposition of real estate, net  | 1,402,475                       | 134,603        |
| Investments in unconsolidated entities   | (865)                           |                |
| Distributions from unconsolidated entities – return of capital                           |                                 | 26,924         |
| Proceeds from sale of investment securities  |                                 | 25,000         |
| Proceeds from technology investments   | 4,537                           |                |
| (Increase) decrease in deposits on real estate acquisitions, net                         | (210,170)                       | 248,547        |
| Decrease (increase) in mortgage deposits   | 1,916                           | (2,340)        |
| Consolidation of previously unconsolidated properties                                    |                                 | (26,854)       |
| Deconsolidation of previously consolidated properties                                    | 28,360                          |                |
| Acquisition of Noncontrolling Interests – Partially Owned Properties                     | (12,809)                        | (1,936)        |



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Net cash provided by (used for) investing activities

368,222

(912,529)

See accompanying notes

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**Table of Contents****ERP OPERATING LIMITED PARTNERSHIP****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Amounts in thousands)

(Unaudited)

|   | Nine Months Ended September 30, |             |
|---|---------------------------------|-------------|
|   | 2011                            | 2010        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                      |                                 |             |
| Loan and bond acquisition costs                                   | \$ (8,070)                      | \$ (7,897)  |
| <i>Mortgage notes payable:</i>                                    |                                 |             |
| Proceeds  | 152,930                         | 124,020     |
| Restricted cash   | 16,595                          | 36,411      |
| Lump sum payoffs  | (859,066)                       | (491,100)   |
| Scheduled principal repayments                                    | (12,463)                        | (12,508)    |
| (Loss) on debt extinguishments                                    |                                 | (158)       |
| <i>Notes, net:</i>  |                                 |             |
| Proceeds  |                                 | 595,422     |
| Lump sum payoffs  | (575,641)                       |             |
| <i>Lines of credit:</i>   |                                 |             |
| Proceeds  | 213,000                         | 4,375,125   |
| Repayments  | (187,000)                       | (4,229,125) |
| (Payments on) settlement of derivative instruments                |                                 | (10,040)    |
| Proceeds from sale of OP Units                                    | 154,508                         | 73,356      |
| Proceeds from EQR's Employee Share Purchase Plan (ESPP)           | 4,558                           | 4,251       |
| Proceeds from exercise of EQR options                             | 94,373                          | 57,933      |
| OP Units repurchased and retired                                  |                                 | (1,887)     |
| Payment of offering costs   | (2,770)                         | (730)       |
| Other financing activities, net                                   | (33)                            | (33)        |
| Contributions Noncontrolling Interests Partially Owned Properties | 64                              | 222         |
| <i>Distributions:</i>   |                                 |             |
| OP Units General Partner  | (331,928)                       | (284,185)   |
| Preference Units  | (10,399)                        | (10,858)    |
| OP Units Limited Partners   | (15,464)                        | (14,187)    |
| Noncontrolling Interests Partially Owned Properties               | (889)                           | (1,812)     |
| Net cash (used for) provided by financing activities              | (1,367,695)                     | 202,220     |
| Net (decrease) in cash and cash equivalents                       | (385,422)                       | (149,628)   |
| Cash and cash equivalents, beginning of period                    | 431,408                         | 193,288     |
| Cash and cash equivalents, end of period                          | \$ 45,986                       | \$ 43,660   |

See accompanying notes

**Table of Contents****ERP OPERATING LIMITED PARTNERSHIP****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Amounts in thousands)

(Unaudited)

|  | Nine Months Ended September 30, |              |
|--|---------------------------------|--------------|
|  | 2011                            | 2010         |
| <b>SUPPLEMENTAL INFORMATION:</b>   |                                 |              |
| Cash paid for interest, net of amounts capitalized   | \$ 381,194                      | \$ 377,467   |
| Net cash paid (received) for income and other taxes  | \$ 607                          | \$ (2,892)   |
| <i>Real estate acquisitions/dispositions/other:</i>  |                                 |              |
| Mortgage loans assumed   | \$ 99,131                       | \$ 338,196   |
| Valuation of OP Units issued   | \$                              | \$ 7,433     |
| Mortgage loans (assumed) by purchaser  | \$                              | \$ (39,999)  |
| <i>Amortization of deferred financing costs:</i>   |                                 |              |
| Investment in real estate, net   | \$                              | \$ (1,824)   |
| Deferred financing costs, net  | \$ 12,769                       | \$ 9,805     |
| <i>Amortization of discounts and premiums on debt:</i>                                     |                                 |              |
| Mortgage notes payable   | \$ (6,116)                      | \$ (5,048)   |
| Notes, net   | \$ 6,260                        | \$ 6,502     |
| <i>Amortization of deferred settlements on derivative instruments:</i>                     |                                 |              |
| Other liabilities  | \$ (401)                        | \$ (401)     |
| Accumulated other comprehensive income   | \$ 2,842                        | \$ 2,379     |
| <i>Unrealized loss on derivative instruments:</i>  |                                 |              |
| Other assets   | \$ 5,217                        | \$ 13,788    |
| Mortgage notes payable   | \$ (464)                        | \$ 6         |
| Notes, net   | \$ (1,476)                      | \$ 9,835     |
| Other liabilities  | \$ 127,090                      | \$ 99,844    |
| Accumulated other comprehensive (loss)   | \$ (130,367)                    | \$ (123,472) |
| <i>Interest capitalized for real estate and unconsolidated entities under development:</i> |                                 |              |
| Investment in real estate, net   | \$ (5,760)                      | \$ (10,196)  |
| Investments in unconsolidated entities   | \$ (171)                        | \$           |

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*Consolidation of previously unconsolidated properties:*

|  |    |    |           |
|--|----|----|-----------|
| Investment in real estate, net         | \$ | \$ | (105,065) |
| Investments in unconsolidated entities | \$ | \$ | 7,376     |
| Deposits restricted                    | \$ | \$ | (42,633)  |
| Mortgage notes payable                 | \$ | \$ | 112,631   |
| Net other assets recorded              | \$ | \$ | 837       |

*Deconsolidation of previously consolidated properties:*

|  |    |         |    |
|--|----|---------|----|
| Investment in real estate, net         | \$ | 35,495  | \$ |
| Investments in unconsolidated entities | \$ | (7,135) | \$ |

*(Payments on) settlement of derivative instruments:*

|                   |    |    |          |
|-------------------|----|----|----------|
| Other liabilities | \$ | \$ | (10,040) |
|-------------------|----|----|----------|

*Other:*

|  |    |    |        |
|--|----|----|--------|
| Receivable on sale of OP Units                     | \$ | \$ | 37,550 |
| Transfer from notes, net to mortgage notes payable | \$ | \$ | 35,600 |

See accompanying notes

**Table of Contents****ERP OPERATING LIMITED PARTNERSHIP****CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL**

(Amounts in thousands)

(Unaudited)

|   | <b>Nine Months Ended<br/>September 30, 2011</b> |
|---|---|
| <b><u>PARTNERS CAPITAL</u></b>  |   |
| <b>PREFERENCE UNITS</b>   |   |
| Balance, beginning of year  | \$ 200,000                                      |
| Balance, end of period  | \$ 200,000                                      |
| <b>GENERAL PARTNER</b>  |   |
| Balance, beginning of year  | \$ 4,948,004                                    |
| OP Unit Issuance:   |   |
| Conversion of OP Units held by Limited Partners into OP Units held by General Partner | 8,095   |
| Issuance of OP Units  | 154,508   |
| Exercise of EQR share options   | 94,373  |
| EQR s Employee Share Purchase Plan (ESPP)   | 4,558   |
| Conversion of EQR restricted shares to LTIP Units                                     | (3,934)   |
| Share-based employee compensation expense:  |   |
| EQR restricted shares   | 7,277   |
| EQR share options   | 7,389   |
| EQR ESPP discount   | 1,070   |
| Offering costs  | (2,770)   |
| Net income available to Units General Partner   | 780,704   |
| OP Units General Partner distributions  | (299,383)                                       |
| Supplemental Executive Retirement Plan (SERP)   | 10,198  |
| Acquisition of Noncontrolling Interests Partially Owned Properties                    | (4,784)   |
| Change in market value of Redeemable Limited Partners                                 | 16,023  |
| Adjustment for Limited Partners ownership in Operating Partnership                    | (597)   |
| Balance, end of period  | \$ 5,720,731                                    |
| <b>LIMITED PARTNERS</b>   |   |
| Balance, beginning of year  | \$ 110,399                                      |
| Conversion of OP Units held by Limited Partners into OP Units held by General Partner | (8,095)   |
| Conversion of EQR restricted shares to LTIP Units                                     | 3,934   |
| Equity compensation associated with Units Limited Partners                            | 2,734   |
| Net income available to Units Limited Partners  | 36,275  |
| Units Limited Partners distributions  | (13,777)  |
| Change in carrying value of Redeemable Limited Partners                               | (11,281)  |
| Adjustment for Limited Partners ownership in Operating Partnership                    | 597   |
| Balance, end of period  | \$ 120,786                                      |
| <b>ACCUMULATED OTHER COMPREHENSIVE (LOSS)</b>   |   |
| Balance, beginning of year  | \$ (57,818)                                     |
| Accumulated other comprehensive (loss) derivative instruments:                        |   |
| Unrealized holding (losses) arising during the period                                 | (130,367)                                       |

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|   |              |
|---|--------------|
| Losses reclassified into earnings from other comprehensive income | 2,842        |
| Accumulated other comprehensive income other instruments:         |              |
| Unrealized holding gains arising during the period                | 311          |
| Balance, end of period  | \$ (185,032) |

See accompanying notes

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## ERP OPERATING LIMITED PARTNERSHIP

## CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL (Continued)

(Amounts in thousands)

(Unaudited)

|   | Nine Months Ended<br>September 30,<br>2011 |
|---|--|
| <b><u>NONCONTROLLING INTERESTS</u></b>                                |  |
| <b>NONCONTROLLING INTERESTS    PARTIALLY OWNED PROPERTIES</b>         |  |
| Balance, beginning of year  | \$        7,991                            |
| Net income attributable to Noncontrolling Interests                   | 418  |
| Contributions by Noncontrolling Interests                             | 64   |
| Distributions to Noncontrolling Interests                             | (922)                                      |
| Acquisition of Noncontrolling Interests    Partially Owned Properties | (8,025)                                    |
| Other   | (1,240)                                    |
| Balance, end of period  | \$        (1,714)                          |

See accompanying notes

**Table of Contents****EQUITY RESIDENTIAL****ERP OPERATING LIMITED PARTNERSHIP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Business**

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

EQR is the general partner of, and as of September 30, 2011 owned an approximate 95.6% ownership interest in ERPOP. All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR issues public equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity.

As of September 30, 2011, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 417 properties located in 15 states and the District of Columbia consisting of 119,011 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

|                            | Properties | Apartment Units |
|----------------------------|------------|-----------------|
| Wholly Owned Properties    | 394        | 110,194         |
| Partially Owned Properties | 21         | 3,916           |
| Military Housing           | 2          | 4,901           |
|                            | 417        | 119,011         |

**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 nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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.



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The balance sheets at December 31, 2010 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.

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For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in each of the Company's and the Operating Partnership's annual reports on Form 10-K for the year ended December 31, 2010.

*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 entities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company's deferred tax assets are generally the result of tax affected amortization of goodwill, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of September 30, 2011, the Company has recorded a deferred tax asset of approximately \$38.7 million, which is fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

*Other*

Effective January 1, 2010, in an effort to improve financial standards for transfers of financial assets, more stringent conditions for reporting a transfer of a portion of a financial asset as a sale (e.g. loan participations) are required, the concept of a qualifying special-purpose entity and special guidance for guaranteed mortgage securitizations are eliminated, other sale-accounting criteria is clarified and the initial measurement of a transferor's interest in transferred financial assets is changed. This does not have a material effect on the Company's consolidated results of operations or financial position.

Effective January 1, 2010, the analysis for identifying the primary beneficiary of a Variable Interest Entity ( VIE ) has been simplified by replacing the previous quantitative-based analysis with a framework that is based more on qualitative judgments. The analysis requires the primary beneficiary of a VIE to be identified as the party that both (a) has the power to direct the activities of a VIE that most significantly impact its economic performance and (b) has an obligation to absorb losses or a right to receive benefits that could potentially be significant to the VIE. For the Company, this includes its consolidated development partnerships as the Company provides substantially all of the capital for these ventures (other than third party mortgage debt, if any). For the Company, these requirements affected only disclosures and had no impact on the Company's consolidated results of operations or financial position. See Note 6 for further discussion.

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 negative noncontrolling interest book value of \$1.7 million at September 30, 2011. 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. These six partnership agreements contain provisions that require the partnerships to be liquidated through the sale of their assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute the proceeds of liquidation to the Noncontrolling Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of their assets warrant a distribution based on the partnership agreements. As of September 30, 2011, the Company estimates the value of Noncontrolling Interest distributions for these six properties would have been approximately \$32.9 million ( Settlement Value ) had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the six Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on September 30, 2011 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

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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 will be 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 will be 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 will be 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 will also be 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. The Company does not expect this will have a material effect on its consolidated results of operations or financial position.

Effective January 1, 2009, issuers of certain convertible debt instruments that may be settled in cash on conversion were required to separately account for the liability and equity components of the instrument in a manner that reflects each issuer's nonconvertible debt borrowing rate. As the Company was required to apply this retrospectively, the accounting for its \$650.0 million 3.85% convertible unsecured notes that were issued in August 2006 with a final maturity in August 2026 was affected. On August 18, 2011, the Company redeemed these notes at par (\$482.5 million was outstanding on August 18, 2011) and no premium was paid. The Company recognized \$11.8 million and \$13.9 million in interest expense related to the stated coupon rate of 3.85% for the nine months ended September 30, 2011 and 2010, respectively. The amount of the conversion option as of the date of issuance calculated by the Company using a 5.80% effective interest rate was \$44.3 million and was amortized to interest expense over the expected life of the convertible notes (through the first put date on August 18, 2011). Total amortization of the cash discount and conversion option discount on the unsecured notes resulted in a reduction to earnings of approximately \$5.0 million and \$5.8 million, respectively, or \$0.02 per share/Unit and \$0.02 per share/Unit, respectively, for the nine months ended September 30, 2011 and 2010, and will result in a reduction to earnings of approximately \$5.0 million or \$0.02 per share/Unit during the full year of 2011. In addition, the Company decreased the January 1, 2009 balance of retained earnings (included in general partner's capital in the Operating Partnership's financial statements) by \$27.0 million, decreased the January 1, 2009 balance of notes by \$17.3 million and increased the January 1, 2009 balance of paid in capital (included in general partner's capital in the Operating Partnership's financial statements) by \$44.3 million. The carrying amount of the conversion option remaining in paid in capital (included in general partner's capital in the Operating Partnership's financial statements) was \$44.3 million at both September 30, 2011 and December 31, 2010. The cash and conversion option discounts were fully amortized at September 30, 2011 and the unamortized cash and conversion option discounts totaled \$5.0 million at December 31, 2010.

**3. Equity, Capital and Other Interests***Equity and Redeemable Noncontrolling Interests of Equity Residential*

The following tables present the changes in the Company's issued and outstanding Common Shares and Units (which includes OP Units and Long-Term Incentive Plan (LTIP) Units) for the nine months ended September 30, 2011:

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|   | 2011               |
|---|--------------------|
| <b><u>Common Shares</u></b>                                       |                    |
| Common Shares outstanding at January 1,                           | 290,197,242        |
| <b><u>Common Shares Issued:</u></b>                               |                    |
| Conversion of OP Units  | 324,649            |
| Issuance of Common Shares   | 3,038,980          |
| Exercise of share options   | 2,914,476          |
| Employee Share Purchase Plan (ESPP)                               | 98,766             |
| Restricted share grants, net                                      | 148,708            |
| <b><u>Common Shares Other:</u></b>                                |                    |
| Conversion of restricted shares to LTIP Units                     | (101,988)          |
| <b>Common Shares outstanding at September 30,</b>                 | <b>296,620,833</b> |
| <b><u>Units</u></b>   |                    |
| Units outstanding at January 1,                                   | 13,612,037         |
| LTIP Units, net   | 120,112            |
| Conversion of restricted shares to LTIP Units                     | 101,988            |
| Conversion of OP Units to Common Shares                           | (324,649)          |
| <b>Units outstanding at September 30,</b>                         | <b>13,509,488</b>  |
| <b>Total Common Shares and Units outstanding at September 30,</b> | <b>310,130,321</b> |

|   |      |
|---|------|
| Units Ownership Interest in Operating Partnership | 4.4% |
|---|------|

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

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

The Noncontrolling Interests Operating Partnership Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Noncontrolling Interests Operating Partnership are differentiated and referred to as Redeemable Noncontrolling Interests Operating Partnership. Instruments that require settlement in registered shares can not be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Noncontrolling Interests Operating Partnership are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Noncontrolling Interests Operating Partnership Units that are classified in permanent equity at September 30, 2011 and December 31, 2010.

The carrying value of the Redeemable Noncontrolling Interests Operating Partnership is allocated based on the number of Redeemable Noncontrolling Interests Operating Partnership Units in proportion to the number of Noncontrolling Interests Operating Partnership Units in total. Such percentage of the total carrying value of Units which is ascribed to the Redeemable Noncontrolling Interests Operating Partnership is then adjusted to the greater of carrying value or fair market value as described above. As of September 30, 2011, the Redeemable Noncontrolling Interests Operating Partnership have a redemption value of approximately \$378.8 million, which represents the value of Common Shares that would be issued in exchange with the Redeemable Noncontrolling Interests Operating Partnership Units.



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The following table presents the change in the redemption value of the Redeemable Noncontrolling Interests Operating Partnership for the nine months ended September 30, 2011 (amounts in thousands):

|                              | <i>2011</i>    |
|------------------------------|----------------|
| Balance at January 1,        | \$ 383,540     |
| Change in market value       | (16,023)       |
| Change in carrying value     | 11,281         |
| <br>Balance at September 30, | <br>\$ 378,798 |

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

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

The following table presents the Company's issued and outstanding Preferred Shares as of September 30, 2011 and December 31, 2010:

|   | <i>Redemption<br/>Date (1)</i> | <i>Annual<br/>Dividend per<br/>Share (2)</i> | <i>Amounts in thousands</i>   |                              |
|---|--------------------------------|--|-------------------------------|------------------------------|
|   |                                |  | <i>September 30,<br/>2011</i> | <i>December 31,<br/>2010</i> |
| Preferred Shares of beneficial interest, \$0.01 par value;<br>100,000,000 shares authorized:  |                                |  |                               |                              |
| 8.29% Series K Cumulative Redeemable Preferred;<br>liquidation value \$50 per share; 1,000,000 shares issued and<br>outstanding at September 30, 2011 and December 31, 2010 | 12/10/26                       | \$ 4.145                                     | \$ 50,000                     | \$ 50,000                    |
| 6.48% Series N Cumulative Redeemable Preferred;<br>liquidation value \$250 per share; 600,000 shares issued and<br>outstanding at September 30, 2011 and December 31, 2010  | 6/19/08                        | \$ 16.20                                     | 150,000                       | 150,000                      |
| (3)   |                                |  | \$ 200,000                    | \$ 200,000                   |

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

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

The following tables present the changes in the Operating Partnership's issued and outstanding Units and in the limited partners' Units for the nine months ended September 30, 2011:

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|   | 2011               |
|---|--------------------|
| <b>General and Limited Partner Units</b>                              |                    |
| General and Limited Partner Units outstanding at January 1,           | 303,809,279        |
| <b>Issued to General Partner:</b>                                     |                    |
| Issuance of OP Units  | 3,038,980          |
| Exercise of EQR share options   | 2,914,476          |
| EQR's Employee Share Purchase Plan (ESPP)                             | 98,766             |
| EQR restricted share grants, net                                      | 148,708            |
| <b>Issued to Limited Partners:</b>                                    |                    |
| LTIP Units, net   | 120,112            |
| <b>General and Limited Partner Units outstanding at September 30,</b> | <b>310,130,321</b> |
| <b>Limited Partner Units</b>  |                    |
| Limited Partner Units outstanding at January 1,                       | 13,612,037         |
| Limited Partner LTIP Units, net                                       | 120,112            |
| Conversion of EQR restricted shares to LTIP Units                     | 101,988            |
| Conversion of Limited Partner OP Units to EQR Common Shares           | (324,649)          |
| <b>Limited Partner Units outstanding at September 30,</b>             | <b>13,509,488</b>  |
| Limited Partner Units Ownership Interest in Operating Partnership     | 4.4%               |

The Limited Partners of the Operating Partnership as of September 30, 2011 include various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of LTIP Units. Subject to certain exceptions (including the book-up requirements of LTIP Units), Limited Partners may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Limited Partner Units (including redeemable interests) is allocated based on the number of Limited Partner Units in total in proportion to the number of Limited Partner Units in total plus the number of General Partner Units. Net income is allocated to the Limited Partner Units based on the weighted average ownership percentage during the period.

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

The Limited Partner Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Limited Partner Units are differentiated and referred to as Redeemable Limited Partner Units. Instruments that require settlement in registered shares can not be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Limited Partner Units are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Limited Partner Units that are classified in permanent equity at September 30, 2011 and December 31, 2010.

The carrying value of the Redeemable Limited Partner Units is allocated based on the number of Redeemable Limited Partner Units in proportion to the number of Limited Partner Units in total. Such percentage of the total carrying value of Limited Partner Units which is ascribed to the Redeemable Limited Partner Units is then adjusted to the greater of carrying value or fair market value as described above. As of September 30, 2011, the Redeemable Limited Partner Units have a redemption value of approximately \$378.8 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 nine months ended September 30, 2011 (amounts in thousands):

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|                          |             |
|--------------------------|-------------|
|                          | <i>2011</i> |
| Balance at January 1,    | \$ 383,540  |
| Change in market value   | (16,023)    |
| Change in carrying value | 11,281      |
| Balance at September 30, | \$ 378,798  |

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

The following table presents the Operating Partnership's issued and outstanding Preference Units as of September 30, 2011 and December 31, 2010:

|  | <i>Redemption<br/>Date (1)</i> | <i>Annual<br/>Dividend per<br/>Unit (2)</i> | <i>Amounts in thousands</i>   |                              |
|--|--------------------------------|---|-------------------------------|------------------------------|
|  |                                |   | <i>September 30,<br/>2011</i> | <i>December 31,<br/>2010</i> |
| <b>Preference Units:</b>   |                                |   |                               |                              |
| 8.29% Series K Cumulative Redeemable Preference Units;<br>liquidation value \$50 per unit; 1,000,000 units issued and<br>outstanding at September 30, 2011 and December 31, 2010       | 12/10/26                       | \$ 4.145                                    | \$ 50,000                     | \$ 50,000                    |
| 6.48% Series N Cumulative Redeemable Preference Units;<br>liquidation value \$250 per unit; 600,000 units issued and<br>outstanding at September 30, 2011 and December 31, 2010<br>(3) | 6/19/08                        | \$ 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.

*Other*

In September 2009, EQR 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 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 nine months ended September 30, 2011, EQR issued approximately 3.0 million Common Shares at an average price of \$50.84 per share for total consideration of approximately \$154.5 million through the ATM program. Concurrent with these transactions, ERPOP issued approximately 3.0 million OP Units to EQR. EQR has not issued any shares under this program since January 13, 2011. Including its February 2011 prospectus supplement which added approximately 5.7 million Common Shares, EQR has 10.0 million Common Shares remaining available for issuance under the ATM program as of September 30, 2011.

On June 16, 2011, the shareholders of EQR approved the Company's 2011 Share Incentive Plan (the 2011 Plan ). The 2011 Plan reserved 12,980,741 Common Shares for issuance. In conjunction with the approval of the 2011 Plan, no further awards may be granted under the 2002 Share Incentive Plan. The 2011 Plan expires on June 16, 2021.

EQR has a share repurchase program authorized by the Board of Trustees under which it has authorization to





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repurchase up to \$464.6 million of its shares as of September 30, 2011. No shares were repurchased during the nine months ended September 30, 2011.

During the nine months ended September 30, 2011, the Company acquired all of its partner's interest in three consolidated partially owned properties consisting of 1,351 apartment units for \$12.8 million. In conjunction with these transactions, the Company reduced paid in capital (included in general partner's capital in the Operating Partnership's financial statements) by \$4.8 million and Noncontrolling Interests - Partially Owned Properties by \$8.0 million.

**4. Real Estate**

The following table summarizes the carrying amounts for the Company's investment in real estate (at cost) as of September 30, 2011 and December 31, 2010 (amounts in thousands):

|                                   | September 30,<br>2011 | December 31,<br>2010 |
|-----------------------------------|-----------------------|----------------------|
| Land                              | \$ 4,158,288          | \$ 4,110,275         |
| Depreciable property:             |                       |                      |
| Buildings and improvements        | 13,822,345            | 13,995,121           |
| Furniture, fixtures and equipment | 1,233,225             | 1,231,391            |
| Projects under development:       |                       |                      |
| Land                              | 26,772                | 28,260               |
| Construction-in-progress          | 92,661                | 102,077              |
| Land held for development:        |                       |                      |
| Land                              | 162,355               | 198,465              |
| Construction-in-progress          | 43,121                | 36,782               |
| Investment in real estate         | 19,538,767            | 19,702,371           |
| Accumulated depreciation          | (4,405,479)           | (4,337,357)          |
| Investment in real estate, net    | \$ 15,133,288         | \$ 15,365,014        |

During the nine months ended September 30, 2011, 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 | 10         | 2,529           | \$ 701,748     |
| Land Parcels (three) (1)         |            |                 | 18,450         |
| Other (2)                        |            |                 | 11,750         |
| Total                            | 10         | 2,529           | \$ 731,948     |

(1) Includes entry into a long-term ground lease for a land parcel in New York City.

(2) Represents the acquisition of a 97,000 square foot commercial building adjacent to our Harbor Steps apartment property in downtown Seattle for potential redevelopment.

During the nine months ended September 30, 2011, the Company disposed of the following to unaffiliated parties (sales price in thousands):

|                                  | Properties | Apartment Units | Sales Price  |
|----------------------------------|------------|-----------------|--------------|
| Rental Properties - Consolidated | 45         | 13,528          | \$ 1,383,414 |
| Land Parcel (one) (1)            |            |                 | 22,786       |
| Total                            | 45         | 13,528          | \$ 1,406,200 |

- (1) Represents the sale of a land parcel, on which the Company no longer planned to develop, in suburban Washington, D.C.

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The Company recognized a net gain on sales of discontinued operations of approximately \$759.1 million and a net gain on sales of land parcels of approximately \$4.2 million on the above sales.

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

In addition to the properties that were 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    | 6          | 2,466           | \$ 354,825        |
| Land Parcels (seven) |            |                 | 157,987           |
| <b>Total</b>         | <b>6</b>   | <b>2,466</b>    | <b>\$ 512,812</b> |

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

|                   | Properties | Apartment Units | Sales Price      |
|-------------------|------------|-----------------|------------------|
| Rental Properties | 4          | 351             | \$ 15,550        |
| <b>Total</b>      | <b>4</b>   | <b>351</b>      | <b>\$ 15,550</b> |

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

**6. Investments in Partially Owned Entities**

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated). The following tables and information summarize the Company's investments in partially owned entities as of September 30, 2011 (amounts in thousands except for project and apartment unit amounts):

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|   | Consolidated                               |   |            |            |
|---|--|---|------------|------------|
|   | Development<br>and/or Under<br>Development | Projects (VIEs)<br>Held for<br>Completed<br>and<br>Stabilized | Other      | Total      |
| Total projects (1)                                  |  | 2   | 19         | 21         |
| Total apartments units (1)                          |  | 441   | 3,475      | 3,916      |
| Balance sheet information at 9/30/11 (at 100%):     |  |   |            |            |
| ASSETS  |  |   |            |            |
| Investment in real estate                           | \$ 25,071                                  | \$ 114,570  | \$ 447,939 | \$ 587,580 |
| Accumulated depreciation                            |  | (11,186)  | (140,444)  | (151,630)  |
| Investment in real estate, net                      | 25,071                                     | 103,384   | 307,495    | 435,950    |
| Cash and cash equivalents                           | 1,643                                      | 1,578   | 11,078     | 14,299     |
| Deposits restricted                                 |  | 2,367   | 15,177     | 17,544     |
| Escrow deposits mortgage                            |  | 50  |            | 50         |
| Deferred financing costs, net                       |  | 119   | 1,187      | 1,306      |
| Other assets  | 89   | 132   | 136        | 357        |
| Total assets  | \$ 26,803                                  | \$ 107,630  | \$ 335,073 | \$ 469,506 |
| LIABILITIES AND EQUITY/CAPITAL                      |  |   |            |            |
| Mortgage notes payable                              | \$   | \$ 84,153   | \$ 200,337 | \$ 284,490 |
| Accounts payable & accrued expenses                 | 179  | 1,327   | 2,960      | 4,466      |
| Accrued interest payable                            |  | 258   | 720        | 978        |
| Other liabilities                                   | 1,274                                      | 47  | 2,862      | 4,183      |
| Security deposits                                   |  | 110   | 1,482      | 1,592      |
| Total liabilities                                   | 1,453                                      | 85,895  | 208,361    | 295,709    |
| Noncontrolling Interests Partially Owned Properties | 2,243                                      | 1,079   | (5,036)    | (1,714)    |
| Company equity/General and Limited Partners Capital | 23,107                                     | 20,656  | 131,748    | 175,511    |
| Total equity/capital                                | 25,350                                     | 21,735  | 126,712    | 173,797    |
| Total liabilities and equity/capital                | \$ 26,803                                  | \$ 107,630  | \$ 335,073 | \$ 469,506 |
| Debt Secured (2):                                   |  |   |            |            |
| Company/Operating Partnership Ownership (3)         | \$   | \$ 84,153   | \$ 159,068 | \$ 243,221 |
| Noncontrolling Ownership                            |  |   | 41,269     | 41,269     |
| Total (at 100%)                                     | \$   | \$ 84,153   | \$ 200,337 | \$ 284,490 |

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|  | Consolidated   |   |           | Total     |
|--|--|---|-----------|-----------|
|  | Development<br>Held for<br>and/or Under<br>Development | Projects (VIEs)<br>Completed<br>and<br>Stabilized | Other     |           |
| Operating information for the nine months ended 9/30/11 (at 100%):   |  |   |           |           |
| Operating revenue  | \$   | \$ 6,649  | \$ 43,016 | \$ 49,665 |
| Operating expenses   | 207  | 3,083   | 14,487    | 17,777    |
| Net operating (loss) income  | (207)  | 3,566   | 28,529    | 31,888    |
| Depreciation   |  | 3,121   | 11,256    | 14,377    |
| General and administrative/other   | 115  | 6   | 50        | 171       |
| Operating (loss) income  | (322)  | 439   | 17,223    | 17,340    |
| Interest and other income  | 5  | 5   | 10        | 20        |
| Other expenses   | (289)  |   | (39)      | (328)     |
| Interest:  |  |   |           |           |
| Expense incurred, net  | (399)  | (2,465)   | (8,948)   | (11,812)  |
| Amortization of deferred financing costs   |  | (202)   | (341)     | (543)     |
| (Loss) income before income and other taxes and net gains on sales of land parcels and discontinued operations | (1,005)  | (2,223)   | 7,905     | 4,677     |
| Income and other tax (expense) benefit   | (57)   |   | (6)       | (63)      |
| Net gain on sales of land parcels  | 4,217  |   |           | 4,217     |
| Net gain on sales of discontinued operations   | 169  |   | 13,265    | 13,434    |
| Net income (loss)  | \$ 3,324   | \$ (2,223)  | \$ 21,164 | \$ 22,265 |

- (1) Project and apartment unit counts exclude all uncompleted development projects until those projects are substantially completed.
- (2) All debt is non-recourse to the Company.
- (3) Represents the Company's/Operating Partnership's current economic ownership interest.

The Company admitted an 80% institutional partner to two separate entities/transactions (one in December 2010 and the other in August 2011), each owning a developable land parcel, in exchange for \$40.1 million in cash and retained a 20% equity interest in both of these entities. These land parcels are now unconsolidated. Total project costs are approximately \$232.8 million and construction will be predominantly funded with long-term, non-recourse secured loans from the partner. While the Company is the managing member of both of the joint ventures, is responsible for constructing both of the projects and has given certain construction cost overrun guarantees, all major decisions are made jointly, the large majority of funding is provided by the partner and the partner has significant involvement in and oversight of the ongoing projects. The Company's remaining funding obligations are currently estimated at approximately \$6.6 million.

The Company is the controlling partner in various consolidated partnership properties and development properties having a negative noncontrolling interest book value of \$1.7 million at September 30, 2011. The Company has identified its development partnerships as VIEs as the Company provides substantially all of the capital for these ventures (other than third party mortgage debt, if any) despite the fact that each partner legally owns 50% of each venture. The Company is the primary beneficiary as it exerts the most significant power over the ventures, absorbs the majority of the expected losses and has the right to receive a majority of the expected residual returns. The assets net of liabilities of the Company's VIEs are restricted in their use to the specific VIE to which they relate and are not available for general corporate use. The Company does not have any unconsolidated VIEs.

**7. Deposits Restricted**

The following table presents the Company's restricted deposits as of September 30, 2011 and December 31, 2010 (amounts in thousands):

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|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Tax deferred (1031) exchange proceeds  | \$ 303,762            | \$ 103,887           |
| Earnest money on pending acquisitions  | 19,559                | 9,264                |
| Restricted deposits on debt            | 2,371                 | 18,966               |
| Resident security and utility deposits | 39,421                | 40,745               |
| Other                                  | 4,348                 | 8,125                |
| Totals                                 | \$ 369,461            | \$ 180,987           |

**8. Debt**

EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. EQR guarantees the Operating Partnership's \$500.0 million unsecured senior term loan and also guarantees the Operating Partnership's revolving credit facility up to the maximum amount and for the full term of the facility.

*Mortgage Notes Payable*

As of September 30, 2011, the Company had outstanding mortgage debt of approximately \$4.1 billion.

During the nine months ended September 30, 2011, the Company:

Repaid \$871.5 million of mortgage loans;

Obtained \$152.9 million of new mortgage loan proceeds; and

Assumed \$99.1 million of mortgage debt on three acquired properties.

The Company recorded approximately \$4.1 million of write-offs of unamortized deferred financing costs during the nine months ended September 30, 2011 as additional interest expense related to debt extinguishment of mortgages.

As of September 30, 2011, the Company had \$411.2 million of secured debt subject to third party credit enhancement.

As of September 30, 2011, scheduled maturities for the Company's outstanding mortgage indebtedness were at various dates through September 1, 2048. At September 30, 2011, the interest rate range on the Company's mortgage debt was 0.14% to 11.25%. During the nine months ended September 30, 2011, the weighted average interest rate on the Company's mortgage debt was 4.83%.

*Notes*

As of September 30, 2011, the Company had outstanding unsecured notes of approximately \$4.6 billion.

During the nine months ended September 30, 2011, the Company:

Repaid \$93.1 million of 6.95% unsecured notes at maturity;

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Exercised the second of its two one-year extension options for its \$500.0 million term loan facility and as a result, the maturity date is now October 5, 2012; and

Redeemed \$482.5 million of its 3.85% exchangeable unsecured notes with a final maturity of 2026 at par and no premium was paid. As of September 30, 2011, scheduled maturities for the Company's outstanding notes were at various dates through 2026. At September 30, 2011, the interest rate range on the Company's notes was 0.74% to 7.57%. During the nine months ended September 30, 2011, the weighted average interest rate on the Company's notes was 5.16%.

### *Lines of Credit*

In July 2011, the Company replaced its then existing unsecured revolving credit facility with a new \$1.25 billion unsecured revolving credit facility maturing on July 13, 2014, subject to a one-year extension option exercisable by the



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Company. The Company has the ability to increase available borrowings by an additional \$500.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. The interest rate on advances under the new credit facility will generally be LIBOR plus a spread (currently 1.15%) and the Company pays an annual facility fee of 0.2%. Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt. This facility replaced the Company's existing \$1.425 billion facility which was scheduled to mature in February 2012. The Company wrote-off \$0.2 million in unamortized deferred financing costs related to the old facility.

As of September 30, 2011, the amount available on the credit facility was \$1.14 billion (net of \$85.9 million which was restricted/dedicated to support letters of credit and net of \$26.0 million outstanding). During the nine months ended September 30, 2011, the weighted average interest rate was 1.32%.

**9. Derivative and Other Fair Value Instruments**

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

The carrying values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately \$4.1 billion and \$4.6 billion, respectively, at September 30, 2011. The fair values of the Company's mortgage notes payable and unsecured debt (including its line of credit) were approximately \$4.4 billion and \$5.0 billion, respectively, at September 30, 2011. The fair values of the Company's financial instruments (other than mortgage notes payable, unsecured notes, lines of credit, derivative instruments and investment securities) including cash and cash equivalents and other financial instruments, approximate their carrying or contract values.

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to manage these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments.

The following table summarizes the Company's consolidated derivative instruments at September 30, 2011 (dollar amounts are in thousands):

|                           | Fair Value<br>Hedges (1) | Forward<br>Starting<br>Swaps (2) |
|---------------------------|--------------------------|----------------------------------|
| Current Notional Balance  | \$ 315,693               | \$ 950,000                       |
| Lowest Possible Notional  | \$ 315,693               | \$ 950,000                       |
| Highest Possible Notional | \$ 317,694               | \$ 950,000                       |
| Lowest Interest Rate      | 2.009%                   | 3.478%                           |
| Highest Interest Rate     | 4.800%                   | 4.695%                           |
| Earliest Maturity Date    | 2012                     | 2021                             |
| Latest Maturity Date      | 2013                     | 2023                             |

- (1) Fair Value Hedges – Converts outstanding fixed rate debt to a floating interest rate.  
(2) Forward Starting Swaps – Designed to partially fix the interest rate in advance of a planned future debt issuance. These swaps have mandatory counterparty terminations from 2012 through 2014, and \$750.0 million and \$200.0 million are targeted to 2012 and 2013 issuances, respectively.

In June 2011, the Company's remaining development cash flow hedge matured.

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

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



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

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

The Company's derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data). Employee holdings other than Common Shares within the supplemental executive retirement plan (the SERP) are valued using quoted market prices for identical assets and are included in other assets and other liabilities on the consolidated balance sheet. The Company's investment securities are valued using quoted market prices or readily available market interest rate data. Redeemable Noncontrolling Interests Operating Partnership/Redeemable Limited Partners are valued using the quoted market price of Common Shares.

The following tables provide a summary of the fair value measurements for each major category of assets and liabilities measured at fair value on a recurring basis and the location within the accompanying Consolidated Balance Sheets at September 30, 2011 and December 31, 2010:

| Description                                       | Balance Sheet Location | 9/30/2011         | Fair Value Measurements at Reporting Date                                   |   |   |
|---|------------------------|-------------------|---|---|---|
|   |                        |                   | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Using Significant Other Observable Inputs (Level 2) | Using Significant Unobservable Inputs (Level 3) |
| <b><u>Assets</u></b>                              |                        |                   |   |   |   |
| Derivatives designated as hedging instruments:    |                        |                   |   |   |   |
| Interest Rate Contracts:                          |                        |                   |   |   |   |
| Fair Value Hedges                                 | Other Assets           | \$ 10,581         | \$  | \$ 10,581   | \$  |
| Supplemental Executive Retirement Plan            | Other Assets           | 66,444            | 66,444  |   |   |
| Available-for-Sale Investment Securities          | Other Assets           | 1,505             | 1,505   |   |   |
| <b>Total</b>                                      |                        | <b>\$ 78,530</b>  | <b>\$ 67,949</b>  | <b>\$ 10,581</b>                                    | <b>\$</b>                                       |
| <b><u>Liabilities</u></b>                         |                        |                   |   |   |   |
| Derivatives designated as hedging instruments:    |                        |                   |   |   |   |
| Interest Rate Contracts:                          |                        |                   |   |   |   |
| Forward Starting Swaps                            | Other Liabilities      | \$ 166,169        | \$  | \$ 166,169  | \$  |
| Supplemental Executive Retirement Plan            | Other Liabilities      | 66,444            | 66,444  |   |   |
| <b>Total</b>                                      |                        | <b>\$ 232,613</b> | <b>\$ 66,444</b>  | <b>\$ 166,169</b>                                   | <b>\$</b>                                       |
| Redeemable Noncontrolling Interests               |                        |                   |   |   |   |
| Operating Partnership/Redeemable Limited Partners | Mezzanine              | \$ 378,798        | \$  | \$ 378,798  | \$  |

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| Description                                    | Balance Sheet Location | 12/31/2010 | Fair Value Measurements at Reporting Date Using                             |   |   |
|--|------------------------|------------|---|---|---|
|  |                        |            | Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <b>Assets</b>                                  |                        |            |   |   |   |
| Derivatives designated as hedging instruments: |                        |            |   |   |   |
| Interest Rate Contracts:                       |                        |            |   |   |   |
| Fair Value Hedges                              | Other Assets           | \$ 12,521  | \$  | \$ 12,521                                     | \$  |
| Forward Starting Swaps                         | Other Assets           | 3,276      |   | 3,276   |   |
| Supplemental Executive Retirement Plan         | Other Assets           | 58,132     | 58,132  |   |   |
| Available-for-Sale Investment Securities       | Other Assets           | 1,194      | 1,194   |   |   |
| Total  |                        | \$ 75,123  | \$ 59,326   | \$ 15,797                                     | \$  |

**Liabilities**

|  |                   |           |           |           |    |
|--|-------------------|-----------|-----------|-----------|----|
| Derivatives designated as hedging instruments: |                   |           |           |           |    |
| Interest Rate Contracts:                       |                   |           |           |           |    |
| Forward Starting Swaps                         | Other Liabilities | \$ 37,756 | \$        | \$ 37,756 | \$ |
| Development Cash Flow Hedges                   | Other Liabilities | 1,322     |           | 1,322     |    |
| Supplemental Executive Retirement Plan         | Other Liabilities | 58,132    | 58,132    |           |    |
| Total  |                   | \$ 97,210 | \$ 58,132 | \$ 39,078 | \$ |

Redeemable Noncontrolling Interests

|                                  |           |            |    |            |    |
|----------------------------------|-----------|------------|----|------------|----|
| Operating Partnership/Redeemable |           |            |    |            |    |
| Limited Partners                 | Mezzanine | \$ 383,540 | \$ | \$ 383,540 | \$ |

The following tables provide a summary of the effect of fair value hedges on the Company's accompanying Consolidated Statements of Operations for the nine months ended September 30, 2011 and 2010, respectively (amounts in thousands):

| September 30, 2011                             | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | Hedged Item     | Income Statement Location of Hedged Item Gain/(Loss) | Amount of Gain/(Loss) Recognized in Income on Hedged Item |
|--|--|--|-----------------|--|---|
| Derivatives designated as hedging instruments: |  |  |                 |  |   |
| Interest Rate Contracts:                       |  |  |                 |  |   |
| Interest Rate Swaps                            | Interest expense   | \$ (1,940)   | Fixed rate debt | Interest expense                                     | \$ 1,940  |
| Total  |  | \$ (1,940)   |                 |  | \$ 1,940  |

| September 30, 2010                             | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Recognized in Income on Derivative | Hedged Item     | Income Statement Location of Hedged Item Gain/(Loss) | Amount of Gain/(Loss) Recognized in Income on Hedged Item |
|--|--|--|-----------------|--|---|
| Derivatives designated as hedging instruments: |  |  |                 |  |   |
| Interest Rate Contracts:                       |  |  |                 |  |   |
| Interest Rate Swaps                            | Interest expense   | \$ 9,842   | Fixed rate debt | Interest expense                                     | \$ (9,842)  |
| Total  |  | \$ 9,842   |                 |  | \$ (9,842)  |

The following tables provide a summary of the effect of cash flow hedges on the Company's accompanying Consolidated Statements of Operations for the nine months ended September 30, 2011 and 2010, respectively (amounts in thousands):



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| September 30, 2011                             | Amount of Gain/(Loss) Recognized in OCI on Derivative | Effective Portion   | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income | Ineffective Portion  |   |
|--|---|---|---|--|---|
|  |   | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income |   | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income |
| Type of Cash Flow Hedge                        |   |   |   |  |   |
| Derivatives designated as hedging instruments: |   |   |   |  |   |
| Interest Rate Contracts:                       |   |   |   |  |   |
| Forward Starting Swaps/Treasury Locks          | \$ (131,689)  | Interest expense  | \$ (2,842)  | N/A  | \$  |
| Development Interest Rate Swaps/Caps           | 1,322   | Interest expense  |   | N/A  |   |
| <b>Total</b>                                   | <b>\$ (130,367)</b>                                   |   | <b>\$ (2,842)</b>   |  | <b>\$</b>   |

| September 30, 2010                             | Amount of Gain/(Loss) Recognized in OCI on Derivative | Effective Portion   | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income | Ineffective Portion  |   |
|--|---|---|---|--|---|
|  |   | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income |   | Location of Gain/(Loss) Recognized in Income on Derivative | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income |
| Type of Cash Flow Hedge                        |   |   |   |  |   |
| Derivatives designated as hedging instruments: |   |   |   |  |   |
| Interest Rate Contracts:                       |   |   |   |  |   |
| Forward Starting Swaps/Treasury Locks          | \$ (124,908)  | Interest expense  | \$ (2,379)  | N/A  | \$  |
| Development Interest Rate Swaps/Caps           | 1,436   | Interest expense  |   | N/A  |   |
| <b>Total</b>                                   | <b>\$ (123,472)</b>                                   |   | <b>\$ (2,379)</b>   |  | <b>\$</b>   |

As of September 30, 2011 and December 31, 2010, there were approximately \$185.9 million and \$58.3 million in deferred losses, net, included in accumulated other comprehensive (loss), respectively, related to derivative instruments. Based on the estimated fair values of the net derivative instruments at September 30, 2011, the Company may recognize an estimated \$4.4 million of accumulated other comprehensive (loss) as additional interest expense during the twelve months ending September 30, 2012.

The following table sets forth the maturity, amortized cost, gross unrealized gains and losses, book/fair value and interest and other income of the various investment securities held as of September 30, 2011 (amounts in thousands):

| Security                                 | Maturity | Amortized Cost | Other Assets     |                   | Book/Fair Value | Interest and Other Income |
|--|----------|----------------|------------------|-------------------|-----------------|---------------------------|
|  |          |                | Unrealized Gains | Unrealized Losses |                 |                           |
| Available-for-Sale Investment Securities | N/A      | \$ 675         | \$ 830           | \$                | \$ 1,505        | \$                        |
| <b>Total</b>                             |          | <b>\$ 675</b>  | <b>\$ 830</b>    | <b>\$</b>         | <b>\$ 1,505</b> | <b>\$</b>                 |

**10. Earnings Per Share and Earnings Per Unit**

*Equity Residential*

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

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|  | Nine Months Ended September 30, |             | Quarter Ended September 30, |            |
|--|---------------------------------|-------------|-----------------------------|------------|
|  | 2011                            | 2010        | 2011                        | 2010       |
| <b>Numerator for net income per share basic:</b>   |                                 |             |                             |            |
| Income (loss) from continuing operations   | \$ 47,908                       | \$ (32,667) | \$ 35,491                   | \$ (295)   |
| Allocation to Noncontrolling Interests Operating Partnership, net                                    | (1,648)                         | 2,042       | (1,371)                     | 173        |
| Net (income) loss attributable to Noncontrolling Interests Partially Owned Properties                | (418)                           | 623         | (387)                       | 188        |
| Preferred distributions  | (10,399)                        | (10,855)    | (3,466)                     | (3,617)    |
| Income (loss) from continuing operations available to Common Shares, net of Noncontrolling Interests | 35,443                          | (40,857)    | 30,267                      | (3,551)    |
| Discontinued operations, net of Noncontrolling Interests   | 745,261                         | 124,229     | 74,115                      | 28,717     |
| Numerator for net income per share basic   | \$ 780,704                      | \$ 83,372   | \$ 104,382                  | \$ 25,166  |
| <b>Numerator for net income per share diluted (1):</b>   |                                 |             |                             |            |
| Income from continuing operations  | \$ 47,908                       |             | \$ 35,491                   |            |
| Net (income) attributable to Noncontrolling Interests Partially Owned Properties                     | (418)                           |             | (387)                       |            |
| Preferred distributions  | (10,399)                        |             | (3,466)                     |            |
| Income from continuing operations available to Common Shares   | 37,091                          |             | 31,638                      |            |
| Discontinued operations, net   | 779,888                         |             | 77,486                      |            |
| Numerator for net income per share diluted (1)   | \$ 816,979                      | \$ 83,372   | \$ 109,124                  | \$ 25,166  |
| <b>Denominator for net income per share basic and diluted (1):</b>                                   |                                 |             |                             |            |
| Denominator for net income per share basic   | 294,474                         | 281,867     | 295,831                     | 282,717    |
| Effect of dilutive securities:   |                                 |             |                             |            |
| OP Units   | 13,231                          |             | 13,053                      |            |
| Long-term compensation shares/units  | 4,203                           |             | 3,960                       |            |
| Denominator for net income per share diluted (1)   | 311,908                         | 281,867     | 312,844                     | 282,717    |
| Net income per share basic   | \$ 2.65                         | \$ 0.30     | \$ 0.35                     | \$ 0.09    |
| Net income per share diluted   | \$ 2.62                         | \$ 0.30     | \$ 0.35                     | \$ 0.09    |
| <b>Net income per share basic:</b>   |                                 |             |                             |            |
| Income (loss) from continuing operations available to Common Shares, net of Noncontrolling Interests | \$ 0.120                        | \$ (0.145)  | \$ 0.102                    | \$ (0.013) |
| Discontinued operations, net of Noncontrolling Interests   | 2.531                           | 0.441       | 0.251                       | 0.102      |
| Net income per share basic   | \$ 2.651                        | \$ 0.296    | \$ 0.353                    | \$ 0.089   |
| <b>Net income per share diluted (1):</b>   |                                 |             |                             |            |
| Income (loss) from continuing operations available to Common Shares                                  | \$ 0.119                        | \$ (0.145)  | \$ 0.101                    | \$ (0.013) |
| Discontinued operations, net   | 2.500                           | 0.441       | 0.248                       | 0.102      |
| Net income per share diluted   | \$ 2.619                        | \$ 0.296    | \$ 0.349                    | \$ 0.089   |

(1) Potential common shares issuable from the assumed conversion of OP Units and the exercise/vesting of long-term compensation shares/units are automatically anti-dilutive and therefore excluded from the diluted earnings per share calculation as the Company had a loss from continuing operations for the nine months and quarter ended September 30, 2010.

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*Convertible preferred shares/units that could be converted into 0 and 396,098 weighted average Common Shares for the nine months ended September 30, 2011 and 2010, respectively, and 0 and 393,724 weighted average Common Shares for the quarters ended September 30, 2011 and 2010, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. In addition, the effect of the Common Shares that could ultimately have been issued upon the conversion/exchange of the Company's \$650.0 million exchangeable senior notes (\$482.5 million outstanding were redeemed on August 18, 2011) was not included in the computation of diluted earnings per share because the effects would be anti-dilutive.*



**Table of Contents***ERP Operating Limited Partnership*

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

|  | Nine Months Ended September 30, |             | Quarter Ended September 30, |            |
|--|---------------------------------|-------------|-----------------------------|------------|
|  | 2011                            | 2010        | 2011                        | 2010       |
| <b>Numerator for net income per Unit basic and diluted (1):</b>  |                                 |             |                             |            |
| Income (loss) from continuing operations   | \$ 47,908                       | \$ (32,667) | \$ 35,491                   | \$ (295)   |
| Net (income) loss attributable to Noncontrolling Interests Partially Owned Properties                          | (418)                           | 623         | (387)                       | 188        |
| Allocation to Preference Units   | (10,399)                        | (10,855)    | (3,466)                     | (3,617)    |
| Income (loss) from continuing operations available to Units  | 37,091                          | (42,899)    | 31,638                      | (3,724)    |
| Discontinued operations, net   | 779,888                         | 130,438     | 77,486                      | 30,121     |
| Numerator for net income per Unit basic and diluted (1)  | \$ 816,979                      | \$ 87,539   | \$ 109,124                  | \$ 26,397  |
| <b>Denominator for net income per Unit basic and diluted (1):</b>  |                                 |             |                             |            |
| Denominator for net income per Unit basic  | 307,705                         | 295,572     | 308,884                     | 296,348    |
| Effect of dilutive securities:   |                                 |             |                             |            |
| Dilution for Units issuable upon assumed exercise/vesting of the Company's long-term compensation shares/units | 4,203                           |             | 3,960                       |            |
| Denominator for net income per Unit diluted (1)  | 311,908                         | 295,572     | 312,844                     | 296,348    |
| Net income per Unit basic  | \$ 2.65                         | \$ 0.30     | \$ 0.35                     | \$ 0.09    |
| Net income per Unit diluted  | \$ 2.62                         | \$ 0.30     | \$ 0.35                     | \$ 0.09    |
| <b>Net income per Unit basic:</b>  |                                 |             |                             |            |
| Income (loss) from continuing operations available to Units  | \$ 0.120                        | \$ (0.145)  | \$ 0.102                    | \$ (0.013) |
| Discontinued operations, net   | 2.531                           | 0.441       | 0.251                       | 0.102      |
| Net income per Unit basic  | \$ 2.651                        | \$ 0.296    | \$ 0.353                    | \$ 0.089   |
| <b>Net income per Unit diluted (1):</b>  |                                 |             |                             |            |
| Income (loss) from continuing operations available to Units  | \$ 0.119                        | \$ (0.145)  | \$ 0.101                    | \$ (0.013) |
| Discontinued operations, net   | 2.500                           | 0.441       | 0.248                       | 0.102      |
| Net income per Unit diluted  | \$ 2.619                        | \$ 0.296    | \$ 0.349                    | \$ 0.089   |

- (1) Potential Units issuable from the assumed exercise/vesting of the Company's long-term compensation shares/units are automatically anti-dilutive and therefore excluded from the diluted earnings per Unit calculation as the Operating Partnership had a loss from continuing operations for the nine months and quarter ended September 30, 2010.

*Convertible preference interests/units that could be converted into 0 and 396,098 weighted average Common Shares (which would be contributed to the Operating Partnership in exchange for OP Units) for the nine months ended September 30, 2011 and 2010, respectively, and 0 and 393,724 weighted average Common Shares (which would be contributed to the Operating Partnership in exchange for OP Units) for the quarters ended September 30, 2011 and 2010, respectively, were outstanding but were not included in the computation of diluted earnings per Unit because the effects would be anti-dilutive. In addition, the effect of the Common Shares/OP Units that could ultimately have been issued upon the conversion/exchange of the Company's \$650.0 million exchangeable senior notes (\$482.5 million outstanding were redeemed on August 18, 2011) was not included in the computation of diluted earnings per Unit because the effects would be anti-dilutive.*

**11. Discontinued Operations**

The Company has presented separately as discontinued operations in all periods the results of operations for all consolidated assets disposed of and all properties held for sale, if any.

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets during the nine months and quarters ended September 30, 2011 and 2010 (amounts in thousands).

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|  | Nine Months Ended September 30, |                | Quarter Ended September 30, |               |
|--|---------------------------------|----------------|-----------------------------|---------------|
|  | 2011                            | 2010           | 2011                        | 2010          |
| <b>REVENUES</b>                              |                                 |                |                             |               |
| Rental income                                | \$ 87,279                       | \$ 213,221     | \$ 3,764                    | \$ 75,310     |
| <b>Total revenues</b>                        | <b>87,279</b>                   | <b>213,221</b> | <b>3,764</b>                | <b>75,310</b> |
| <b>EXPENSES (1)</b>                          |                                 |                |                             |               |
| Property and maintenance                     | 46,177                          | 85,544         | 2,202                       | 31,051        |
| Real estate taxes and insurance              | 5,369                           | 17,162         | 151                         | 5,619         |
| Depreciation                                 | 14,344                          | 43,873         | 901                         | 15,701        |
| General and administrative                   | 49                              | 32             | 2                           | 13            |
| <b>Total expenses</b>                        | <b>65,939</b>                   | <b>146,611</b> | <b>3,256</b>                | <b>52,384</b> |
| Discontinued operating income                | 21,340                          | 66,610         | 508                         | 22,926        |
| Interest and other income                    | 140                             | 640            | 42                          | 7             |
| Interest (2):                                |                                 |                |                             |               |
| Expense incurred, net                        | (83)                            | (6,032)        | (21)                        | (2,056)       |
| Amortization of deferred financing costs     | (640)                           | (252)          |                             | (28)          |
| Income and other tax (expense) benefit       | 31                              | (66)           | 93                          | (13)          |
| Discontinued operations                      | 20,788                          | 60,900         | 622                         | 20,836        |
| Net gain on sales of discontinued operations | 759,100                         | 69,538         | 76,864                      | 9,285         |
| Discontinued operations, net                 | \$ 779,888                      | \$ 130,438     | \$ 77,486                   | \$ 30,121     |

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

(2) Includes only interest expense specific to secured mortgage notes payable for properties sold and/or held for sale.

For the properties sold during the nine months ended September 30, 2011, the investment in real estate, net of accumulated depreciation, and the mortgage notes payable balances at December 31, 2010 were \$623.7 million and \$50.9 million, respectively.

**12. Commitments and Contingencies**

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

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans With Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys' fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company's defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit or a possible loss or a range of loss, and no amounts have been accrued at September 30, 2011. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

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



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The Company had established a reserve and recorded a corresponding reduction to its net gain on sales of discontinued operations related to potential liabilities associated with its condominium conversion activities. The reserve covered potential product liability related to each conversion. The Company periodically assessed the adequacy of the reserve and made adjustments as necessary. During the nine months ended September 30, 2011, the Company recorded additional reserves of approximately \$0.1 million, paid approximately \$2.3 million in settlements and legal fees and released approximately \$1.1 million of remaining reserves. No amounts remain accrued at September 30, 2011 as the Company does not believe it has material exposure remaining for its past condominium conversion activities.

As of September 30, 2011, the Company has four consolidated projects totaling 747 apartment units in various stages of development with commitments to fund of approximately \$117.1 million and estimated completion dates ranging through September 30, 2013, as well as other completed development projects that are in various stages of lease up or are stabilized. The consolidated projects under development are being developed solely by the Company, while certain completed development projects were either developed solely by the Company or co-developed with various third party development partners. The development venture agreements with partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The partner is most often the general or managing partner of the development venture. The typical buy-sell arrangements contain appraisal rights and provisions that provide the right, but not the obligation, for the Company to acquire the partner's interest in the project at fair market value upon the expiration of a negotiated time period (typically two to five years after substantial completion of the project).

As of September 30, 2011, the Company has two unconsolidated projects totaling 945 apartment units under development with commitments to fund of approximately \$6.6 million and estimated completion dates ranging through June 30, 2013. While the Company is the managing member of both of the joint ventures, is responsible for constructing both projects and has given certain construction cost overrun guarantees, all major decisions are made jointly, the large majority of funding is provided by the partner and the partner has significant involvement in and oversight of the ongoing projects. The buy-sell arrangements contain provisions that provide the right, but not the obligation, for the Company to acquire the partner's interests or sell its interests at any time following the occurrence of certain pre-defined events (including at stabilization) described in the development venture agreements.

**13. Reportable Segments**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by senior management. Senior management decides how resources are allocated and assesses performance on a monthly basis.

The Company's primary business is the acquisition, development and management of multifamily residential properties, which includes the generation of rental and other related income through the leasing of apartment units to residents. Senior management evaluates the performance of each of our apartment communities individually and geographically, and both on a same store and non-same store basis; however, each of our apartment communities generally has similar economic characteristics, residents, products and services. The Company's operating segments have been aggregated by geography in a manner identical to that which is provided to its chief operating decision maker.

The Company's fee and asset management, development (including its partially owned properties) and condominium conversion activities are immaterial and do not individually meet the threshold requirements of a reportable segment and as such, have been aggregated in the Other segment in the tables presented below.

All revenues are from external customers and there is no customer who contributed 10% or more of the Company's total revenues during the nine months and quarters ended September 30, 2011 and 2010, respectively.

The primary financial measure for the Company's rental real estate segment is net operating income (NOI), which represents rental income less: 1) property and maintenance expense; 2) real estate taxes and insurance expense; and 3) property management expense (all as reflected in the accompanying consolidated statements of operations). The Company believes that NOI is helpful to investors as a supplemental measure of its operating performance because it is a direct measure of the actual operating results of the Company's apartment communities. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The following tables present NOI for each segment from our rental real estate specific to continuing operations for the nine months and quarters ended September 30, 2011 and 2010, respectively, as well as total assets at September 30, 2011 (amounts in thousands):

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|                                 | Nine Months Ended September 30, 2011 |                     |                     |                     |                     | Total                |
|---------------------------------|--------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
|                                 | Northeast                            | Northwest           | Southeast           | Southwest           | Other (3)           |                      |
| <b>Rental income:</b>           |                                      |                     |                     |                     |                     |                      |
| Same store (1)                  | \$ 440,444                           | \$ 255,986          | \$ 266,938          | \$ 320,840          | \$                  | \$ 1,284,208         |
| Non-same store/other (2) (3)    | 113,008                              | 28,544              | 11,283              | 30,069              | 3,286               | 186,190              |
| <b>Total rental income</b>      | <b>553,452</b>                       | <b>284,530</b>      | <b>278,221</b>      | <b>350,909</b>      | <b>3,286</b>        | <b>1,470,398</b>     |
| <b>Operating expenses:</b>      |                                      |                     |                     |                     |                     |                      |
| Same store (1)                  | 160,900                              | 91,053              | 106,223             | 109,768             |                     | 467,944              |
| Non-same store/other (2) (3)    | 43,631                               | 10,911              | 4,162               | 12,257              | 6,308               | 77,269               |
| <b>Total operating expenses</b> | <b>204,531</b>                       | <b>101,964</b>      | <b>110,385</b>      | <b>122,025</b>      | <b>6,308</b>        | <b>545,213</b>       |
| <b>NOI:</b>                     |                                      |                     |                     |                     |                     |                      |
| Same store (1)                  | 279,544                              | 164,933             | 160,715             | 211,072             |                     | 816,264              |
| Non-same store/other (2) (3)    | 69,377                               | 17,633              | 7,121               | 17,812              | (3,022)             | 108,921              |
| <b>Total NOI</b>                | <b>\$ 348,921</b>                    | <b>\$ 182,566</b>   | <b>\$ 167,836</b>   | <b>\$ 228,884</b>   | <b>\$ (3,022)</b>   | <b>\$ 925,185</b>    |
| <b>Total assets</b>             | <b>\$ 6,313,643</b>                  | <b>\$ 2,656,529</b> | <b>\$ 2,514,066</b> | <b>\$ 3,230,549</b> | <b>\$ 1,042,030</b> | <b>\$ 15,756,817</b> |

- (1) Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2010, less properties subsequently sold, which represented 102,129 apartment units.
- (2) Non-same store primarily includes properties acquired after January 1, 2010, plus any properties in lease-up and not stabilized as of January 1, 2010.
- (3) Other includes development, condominium conversion overhead of \$0.3 million and other corporate operations.

|                                 | Nine Months Ended September 30, 2010 |                   |                   |                   |                    | Total             |
|---------------------------------|--------------------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|
|                                 | Northeast                            | Northwest         | Southeast         | Southwest         | Other (3)          |                   |
| <b>Rental income:</b>           |                                      |                   |                   |                   |                    |                   |
| Same store (1)                  | \$ 417,347                           | \$ 240,767        | \$ 256,307        | \$ 310,950        | \$                 | \$ 1,225,371      |
| Non-same store/other (2) (3)    | 64,743                               | 10,698            | 6,429             | 7,629             | (3,493)            | 86,006            |
| <b>Total rental income</b>      | <b>482,090</b>                       | <b>251,465</b>    | <b>262,736</b>    | <b>318,579</b>    | <b>(3,493)</b>     | <b>1,311,377</b>  |
| <b>Operating expenses:</b>      |                                      |                   |                   |                   |                    |                   |
| Same store (1)                  | 158,351                              | 91,045            | 106,245           | 113,510           |                    | 469,151           |
| Non-same store/other (2) (3)    | 34,241                               | 4,531             | 2,728             | 3,490             | 9,852              | 54,842            |
| <b>Total operating expenses</b> | <b>192,592</b>                       | <b>95,576</b>     | <b>108,973</b>    | <b>117,000</b>    | <b>9,852</b>       | <b>523,993</b>    |
| <b>NOI:</b>                     |                                      |                   |                   |                   |                    |                   |
| Same store (1)                  | 258,996                              | 149,722           | 150,062           | 197,440           |                    | 756,220           |
| Non-same store/other (2) (3)    | 30,502                               | 6,167             | 3,701             | 4,139             | (13,345)           | 31,164            |
| <b>Total NOI</b>                | <b>\$ 289,498</b>                    | <b>\$ 155,889</b> | <b>\$ 153,763</b> | <b>\$ 201,579</b> | <b>\$ (13,345)</b> | <b>\$ 787,384</b> |

- (1) Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2010, less properties subsequently sold, which represented 102,129 apartment units.
- (2) Non-same store primarily includes properties acquired after January 1, 2010, plus any properties in lease-up and not stabilized as of January 1, 2010.
- (3) Other includes development, condominium conversion overhead of \$0.4 million and other corporate operations.



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|                                 | Quarter Ended September 30, 2011 |                  |                  |                  |                 | Total             |
|---------------------------------|----------------------------------|------------------|------------------|------------------|-----------------|-------------------|
|                                 | Northeast                        | Northwest        | Southeast        | Southwest        | Other (3)       |                   |
| <b>Rental income:</b>           |                                  |                  |                  |                  |                 |                   |
| Same store (1)                  | \$ 163,887                       | \$ 91,663        | \$ 90,979        | \$ 110,779       | \$              | \$ 457,308        |
| Non-same store/other (2) (3)    | 27,889                           | 6,657            | 3,773            | 10,862           | 2,541           | 51,722            |
| <b>Total rental income</b>      | <b>191,776</b>                   | <b>98,320</b>    | <b>94,752</b>    | <b>121,641</b>   | <b>2,541</b>    | <b>509,030</b>    |
| <b>Operating expenses:</b>      |                                  |                  |                  |                  |                 |                   |
| Same store (1)                  | 59,736                           | 32,455           | 35,861           | 38,160           |                 | 166,212           |
| Non-same store/other (2) (3)    | 9,163                            | 2,645            | 1,250            | 4,351            | 1,338           | 18,747            |
| <b>Total operating expenses</b> | <b>68,899</b>                    | <b>35,100</b>    | <b>37,111</b>    | <b>42,511</b>    | <b>1,338</b>    | <b>184,959</b>    |
| <b>NOI:</b>                     |                                  |                  |                  |                  |                 |                   |
| Same store (1)                  | 104,151                          | 59,208           | 55,118           | 72,619           |                 | 291,096           |
| Non-same store/other (2) (3)    | 18,726                           | 4,012            | 2,523            | 6,511            | 1,203           | 32,975            |
| <b>Total NOI</b>                | <b>\$ 122,877</b>                | <b>\$ 63,220</b> | <b>\$ 57,641</b> | <b>\$ 79,130</b> | <b>\$ 1,203</b> | <b>\$ 324,071</b> |

- (1) Same store primarily includes all properties acquired or completed and stabilized prior to July 1, 2010, less properties subsequently sold, which represented 104,922 apartment units.
- (2) Non-same store primarily includes properties acquired after July 1, 2010, plus any properties in lease-up and not stabilized as of July 1, 2010.
- (3) Other includes development, condominium conversion overhead of \$0.1 million and other corporate operations.

|                                 | Quarter Ended September 30, 2010 |                  |                  |                  |                   | Total             |
|---------------------------------|----------------------------------|------------------|------------------|------------------|-------------------|-------------------|
|                                 | Northeast                        | Northwest        | Southeast        | Southwest        | Other (3)         |                   |
| <b>Rental income:</b>           |                                  |                  |                  |                  |                   |                   |
| Same store (1)                  | \$ 155,119                       | \$ 84,969        | \$ 86,963        | \$ 106,457       | \$                | \$ 433,508        |
| Non-same store/other (2) (3)    | 12,963                           | 2,158            | 2,002            | 2,537            | (1,336)           | 18,324            |
| <b>Total rental income</b>      | <b>168,082</b>                   | <b>87,127</b>    | <b>88,965</b>    | <b>108,994</b>   | <b>(1,336)</b>    | <b>451,832</b>    |
| <b>Operating expenses:</b>      |                                  |                  |                  |                  |                   |                   |
| Same store (1)                  | 58,184                           | 32,805           | 36,219           | 39,173           |                   | 166,381           |
| Non-same store/other (2) (3)    | 10,321                           | 855              | 565              | 1,114            | 242               | 13,097            |
| <b>Total operating expenses</b> | <b>68,505</b>                    | <b>33,660</b>    | <b>36,784</b>    | <b>40,287</b>    | <b>242</b>        | <b>179,478</b>    |
| <b>NOI:</b>                     |                                  |                  |                  |                  |                   |                   |
| Same store (1)                  | 96,935                           | 52,164           | 50,744           | 67,284           |                   | 267,127           |
| Non-same store/other (2) (3)    | 2,642                            | 1,303            | 1,437            | 1,423            | (1,578)           | 5,227             |
| <b>Total NOI</b>                | <b>\$ 99,577</b>                 | <b>\$ 53,467</b> | <b>\$ 52,181</b> | <b>\$ 68,707</b> | <b>\$ (1,578)</b> | <b>\$ 272,354</b> |

- (1) Same store primarily includes all properties acquired or completed and stabilized prior to July 1, 2010, less properties subsequently sold, which represented 104,922 apartment units.
- (2) Non-same store primarily includes properties acquired after July 1, 2010, plus any properties in lease-up and not stabilized as of July 1, 2010.
- (3) Other includes development, condominium conversion overhead of \$0.1 million and other corporate operations.

Note: Markets included in the above geographic segments are as follows:



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- (a) Northeast New England (excluding Boston), Boston, New York Metro, DC Northern Virginia and Suburban Maryland.
- (b) Northwest Denver, Portland, San Francisco Bay Area and Seattle/Tacoma.
- (c) Southeast Atlanta, Jacksonville, Orlando and South Florida.
- (d) Southwest Inland Empire, Los Angeles, Orange County, Phoenix and San Diego.

The following table presents a reconciliation of NOI from our rental real estate specific to continuing operations for the nine months and quarters ended September 30, 2011 and 2010, respectively (amounts in thousands):

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|   | Nine Months Ended September 30, |                  | Quarter Ended September 30, |                  |
|---|---------------------------------|------------------|-----------------------------|------------------|
|   | 2011                            | 2010             | 2011                        | 2010             |
| Rental income                           | \$ 1,470,398                    | \$ 1,311,377     | \$ 509,030                  | \$ 451,832       |
| Property and maintenance expense        | (314,768)                       | (303,916)        | (106,635)                   | (104,259)        |
| Real estate taxes and insurance expense | (168,056)                       | (160,307)        | (59,083)                    | (56,205)         |
| Property management expense             | (62,389)                        | (59,770)         | (19,241)                    | (19,014)         |
| <b>Total operating expenses</b>         | <b>(545,213)</b>                | <b>(523,993)</b> | <b>(184,959)</b>            | <b>(179,478)</b> |
| Net operating income                    | \$ 925,185                      | \$ 787,384       | \$ 324,071                  | \$ 272,354       |

**14. Subsequent Events/Other***Subsequent Events*

Subsequent to September 30, 2011, the Company:

Acquired four properties containing 1,000 apartment units for \$253.9 million;

Sold one property containing 385 apartment units for \$30.1 million;

Assumed \$27.6 million of mortgage debt in conjunction with the acquisition of one property;

Repaid \$12.8 million in mortgage loans; and

Obtained \$38.0 million of new mortgage loan proceeds.

*Other*

During the nine months ended September 30, 2011 and 2010, the Company incurred charges of \$5.3 million and \$6.0 million, respectively, related to property acquisition costs, such as survey, title and legal fees, on the acquisition of operating properties and \$4.0 million and \$3.5 million, respectively, related to the write-off of various pursuit and out-of-pocket costs for terminated acquisition, disposition and development transactions. These costs, totaling \$9.3 million and \$9.5 million, respectively, are included in other expenses in the accompanying consolidated statements of operations.

During the nine months ended September 30, 2011, the Company received \$4.5 million for the termination of its royalty participation in LRO/Rainmaker, a revenue management system, which is included in interest and other income in the accompanying consolidated statements of operations. During the nine months ended September 30, 2010, the Company received \$5.2 million for the settlement of insurance/litigation claims, which is included in interest and other income in the accompanying consolidated statements of operations.

During the nine months ended September 30, 2011, the Company disposed of its corporate housing business for a sales price of approximately \$4.0 million, of which the Company provided \$2.0 million of seller financing to the buyer. The Company recognized a net gain on the sale of approximately \$1.0 million.

In 2010, a portion of the parking garage collapsed at one of the Company's rental properties (Prospect Towers in Hackensack, New Jersey). The Company estimates that the costs related to such collapse (both expensed and capitalized), including providing for residents' interim needs, lost revenue and garage reconstruction, will be approximately \$11.0 million, after insurance reimbursements of \$12.0 million. Costs to rebuild the garage are capitalized as incurred. Other costs, like those to accommodate displaced residents, lost revenue due to a portion of the project being

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temporarily unavailable for occupancy and legal costs, reduce earnings as they are incurred. Generally, insurance proceeds are recorded as increases to earnings as they are received. During the nine months ended September 30, 2011, the Company received approximately \$2.7 million in insurance proceeds which offset expenses of \$1.6 million that were recorded relating to this loss and are included in real estate taxes and insurance on the consolidated statements of operations.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

For further information including definitions for capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in each of the Company's and the Operating Partnership's Annual Reports on Form 10-K for the year ended December 31, 2010.

### **Forward-Looking Statements**

Forward-looking statements in this report are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, projections and assumptions made by management. While the Company's management believes the assumptions underlying its forward-looking statements are reasonable, such information is inherently subject to uncertainties and may involve certain risks, which could cause actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Many of these uncertainties and risks are difficult to predict and beyond management's control. Forward-looking statements are not guarantees of future performance, results or events. The forward-looking statements contained herein are made as of the date hereof and the Company undertakes no obligation to update or supplement these forward-looking statements. Factors that might cause such differences include, but are not limited to the following:

We intend to actively acquire and/or develop multifamily properties for rental operations as market conditions dictate. We may also acquire multifamily properties that are unoccupied or in the early stages of lease up. We may be unable to lease apartment properties on schedule, resulting in decreases in expected rental revenues and/or lower yields due to lower occupancy and rates as well as higher than expected concessions. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position or to complete a development property. Additionally, we expect that other real estate investors with capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development and acquisition efforts. This competition (or lack thereof) may increase (or depress) prices for multifamily properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. The total number of apartment units under development, costs of development and estimated completion dates are subject to uncertainties arising from changing economic conditions (such as the cost of labor and construction materials), competition and local government regulation;

Debt financing and other capital required by the Company may not be available or may only be available on adverse terms;

Labor and materials required for maintenance, repair, capital expenditure or development may be more expensive than anticipated;

Occupancy levels and market rents may be adversely affected by national and local economic and market conditions including slow or negative employment growth and household formation as well as the potential for geopolitical instability, all of which are beyond the Company's control;

Our residents may choose to leave our properties or not rent at all because owned housing has become a more attractive option for them due to, among other things, the availability of low interest mortgages, government programs and changes in social preferences; and

Additional factors as discussed in Part I of both the Company's and the Operating Partnership's Annual Reports on Form 10-K, particularly those under Item 1A. Risk Factors.

Forward-looking statements and related uncertainties are also included in the Notes to Consolidated Financial Statements in this report.

### **Overview**

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

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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.

EQR is the general partner of, and as of September 30, 2011 owned an approximate 95.6% ownership interest in ERPOP. All of the Company's property ownership, development and related business operations are conducted through the

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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.

The Company's corporate headquarters are located in Chicago, Illinois and the Company also operates property management offices in each of its markets. As of September 30, 2011, the Company had approximately 3,700 employees who provided real estate operations, leasing, legal, financial, accounting, acquisition, disposition, development and other support functions.

***Business Objectives and Operating Strategies***

The Company invests in apartment communities located in strategically targeted markets with the goal of maximizing our risk adjusted total return (operating income plus capital appreciation) on invested capital.

Our operating focus is on balancing occupancy and rental rates to maximize our revenue while exercising tight cost control to generate the highest possible return to our shareholders. Revenue is maximized by attracting qualified prospects to our properties, cost-effectively converting these prospects into new residents at the highest rent possible, keeping our residents satisfied and renewing their leases at yet higher rents. While we believe that it is our high-quality, well-located assets that bring our customers to us, it is the customer service provided by our on-site personnel that keeps them renting with us and recommending us to their friends.

We use technology to engage our customers in the way that they want to be engaged. Many of our residents utilize our web-based resident portal which allows them to sign their lease, review their account and make payments, provide feedback and make service requests on-line.

We seek to maximize capital appreciation of our properties by investing in markets that are characterized by conditions favorable to multifamily property appreciation. These markets generally feature one or more of the following:

High barriers to entry where, because of land scarcity or government regulation, it is difficult or costly to build new apartment properties, creating limits on new supply;

High single family home prices making our apartments a more economical housing choice;

Strong economic growth leading to household formation and job growth, which in turn leads to high demand for our apartments; and

An attractive quality of life leading to high demand and retention that allows us to more aggressively increase rents.

Acquisitions and developments may be financed from various sources of capital, which may include retained cash flow, issuance of additional equity and debt, sales of properties and joint venture agreements. In addition, the Company may acquire properties in transactions that include the issuance of limited partnership interests in the Operating Partnership ( OP Units ) as consideration for the acquired properties. Such transactions may, in certain circumstances, enable the sellers to defer, in whole or in part, the recognition of taxable income or gain that might otherwise result from the sales. The Company may acquire land parcels to hold and/or sell based on market opportunities. The Company may also seek to acquire properties by purchasing defaulted or distressed debt that encumbers desirable properties in the hope of obtaining title to property through foreclosure or deed-in-lieu of foreclosure proceedings. The Company has also, in the past, converted some of its properties and sold them as condominiums but is not currently active in this line of business.

The Company primarily sources the funds for new property acquisitions in its core markets with the proceeds from selling assets that are older or located in non-core markets. Since 2005, the Company has sold over 123,000 apartment units for an aggregate sales price of approximately \$9.9 billion, acquired over 38,000 apartment units in its core markets for approximately \$8.7 billion and began approximately \$2.4 billion of development projects. We are currently seeking to acquire and develop assets primarily in the following targeted metropolitan areas: Boston, New York, Washington DC, South Florida, Southern California, San Francisco and Seattle. We also have investments (in the aggregate about 19.6% of our NOI at September 30, 2011) in other markets including Denver, Atlanta, Phoenix, New England (excluding Boston), Orlando and Jacksonville but do not currently intend to acquire or develop new assets in these markets.

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As part of its strategy, the Company purchases completed and fully occupied apartment properties, partially

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completed or partially occupied properties or land on which apartment properties can be constructed. We intend to hold a diversified portfolio of assets across our target markets. As of September 30, 2011, no single metropolitan area accounted for more than 16.2% of our NOI, though no guarantee can be made that NOI concentration may not increase in the future.

We endeavor to attract and retain the best employees by providing them with the education, resources and opportunities to succeed. We provide many classroom and on-line training courses to assist our employees in interacting with prospects and residents as well as extensively train our customer service specialists in maintaining the equipment and appliances on our property sites. We actively promote from within and many senior corporate and property leaders have risen from entry level or junior positions. We monitor our employees' engagement by surveying them annually and have consistently received high engagement scores.

We have a commitment to sustainability and consider the environmental impacts of our business activities. We have a dedicated in-house team that initiates and applies sustainable practices in all aspects of our business, including transactions, property operations and property management activities. With its high density, multifamily housing is, by its nature, an environmentally friendly property type. Our recent acquisition and development activities have been primarily concentrated in pedestrian-friendly urban locations near public transportation. When developing and renovating our properties, we strive to reduce energy and water usage by investing in energy saving technology while positively impacting the experience of our residents and the value of our assets. We continue to implement a combination of irrigation, lighting and HVAC improvements at our properties that will reduce energy and water consumption.

***Current Environment***

We expect strong growth in full year same store revenue (anticipated increase of 5.0%) and full year NOI (anticipated increase of 7.7%) and are optimistic that the strength in fundamentals realized in 2010 and to date in 2011 will be sustained for the foreseeable future. Despite recent signs of weakness in the overall economy, our business continues to perform well and forward demand indicators such as rental applications and e-leads are better than the same time last year.

The Company continues to sell non-core assets and reduce its exposure to non-core markets as we believe these assets do not fit into our long term plans and we can sell them for prices that we believe are favorable. Through September 30, 2011, we have sold 45 consolidated properties consisting of 13,528 apartment units for \$1.38 billion. The majority of our anticipated \$1.4 billion in 2011 dispositions occurred in the first half of 2011 (\$1.17 billion for the first six months of 2011). The Company's decision to accelerate the timing and increase the volume of dispositions combined with limited opportunities to reinvest the cash proceeds and/or reinvestment of the cash proceeds in assets with lower cap rates (see definition below) is dilutive to our per share results despite our strong operating performance. The Company defines dilution from transactions as the lost NOI from sales proceeds that were not reinvested in other apartment properties or were reinvested in properties with a lower cap rate. The dispositions generated a significant amount of cash, which combined with the Company's new unsecured revolving credit facility, allowed us to defer an unsecured debt offering that was previously targeted for the third quarter of 2011. The Company does not expect to sell a material amount of assets in the fourth quarter of 2011 due to tax and reinvestment considerations.

Competition for the properties we are interested in acquiring is significant due to the overall improvement in market fundamentals. Based on our anticipated \$1.25 billion in 2011 acquisitions, a slightly greater share should occur during the latter half of the year and approximately one-third are expected to occur in the fourth quarter. We believe our access to capital, our ability to execute large, complex transactions and our ability to efficiently stabilize large scale lease up properties provide us with a competitive advantage. The Company acquired ten consolidated properties consisting of 2,529 apartment units for \$701.7 million, one commercial building for potential redevelopment for \$11.8 million, two land parcels for \$18.5 million and entered into a long-term ground lease on one land parcel during the nine months ended September 30, 2011.

We currently have access to multiple sources of capital including the equity markets as well as both the secured and unsecured debt markets. In July 2010, the Company completed a \$600.0 million unsecured ten year note offering with a coupon of 4.75% and an all-in effective interest rate of 5.09%. EQR also raised \$291.9 million in equity under its ATM Common Share offering program in 2010 and has raised an additional \$154.5 million under this program thus far in 2011. In July 2011, the Company replaced its then existing unsecured revolving credit facility which was due to mature in February 2012 with a new \$1.25 billion unsecured revolving credit facility maturing on July 13, 2014, subject to a one-year extension option exercisable by the Company. The Company believes that the new facility contains a diversified and strong bank group which increases its balance sheet flexibility going forward.



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We believe that cash and cash equivalents, securities readily convertible to cash, current availability on our revolving credit facility and disposition proceeds for 2011 will provide sufficient liquidity to meet our funding obligations relating to asset acquisitions, debt maturities and existing development projects through 2011. We expect that our remaining longer-term funding requirements will be met through some combination of new borrowings, equity issuances (including EQR's ATM Common Share offering program), property dispositions, joint ventures and cash generated from operations.

There is significant uncertainty surrounding the futures of Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs). Through their lender originator networks, Fannie Mae and Freddie Mac are significant lenders both to the Company and to buyers of the Company's properties. The two GSEs have a mandate to support multifamily housing through their financing activities. Any changes to their mandates or reductions in their size or the scale of their activities could have a significant impact on the Company and may, among other things, lead to lower values for our disposition assets and higher interest rates on our borrowings. Such changes may also provide an advantage to us by making the cost of financing single family home ownership more expensive and provide us a competitive advantage given the size of our balance sheet and the multiple sources of capital to which we have access.

We believe that the Company is well-positioned as of September 30, 2011 because our properties are geographically diverse and were approximately 95.2% occupied (95.6% on a same store basis), little new multifamily rental supply will be added to most of our markets over the next several years and the long-term demographic picture is positive. We believe our strong balance sheet and ample liquidity will allow us to fund our debt maturities and development costs in the near term, and should also allow us to take advantage of investment opportunities in the future. As economic conditions continue to improve, the short-term nature of our leases and the limited supply of new rental housing being constructed should allow us to realize revenue growth and improvement in our operating results.

The Company anticipates that growth in same store expenses comparing 2011 to 2010 will approximate an increase of 0.5% primarily due to modest increases in real estate tax rates and utility cost growth (same store expenses increased 0.9% for 2010 when compared with the same period in the prior year). This follows three consecutive years of excellent expense control (same store expenses declined 0.1% between 2009 and 2008 and grew 2.2% between 2008 and 2007 and 2.1% between 2007 and 2006). Effective expense controls have continued to date in 2011 as same store expenses declined 0.3% as compared to the same period in 2010.

The current environment information presented above is based on current expectations and is forward-looking.

## **Results of Operations**

In conjunction with our business objectives and operating strategy, the Company continued to invest in apartment properties located in strategically targeted markets during the nine months ended September 30, 2011 as follows:

Acquired \$662.2 million of apartment properties consisting of nine consolidated properties and 2,434 apartment units at a weighted average cap rate (see definition below) of 5.1% and two land parcels for \$18.5 million and entered into a long-term ground lease on one land parcel located in New York City, all of which we deem to be in our strategic targeted markets;

Acquired one unoccupied property in the San Francisco Bay Area in the third quarter of 2011 for \$39.5 million consisting of 95 apartment units that is expected to stabilize at a 6.3% yield on cost;

Acquired a 97,000 square foot commercial building adjacent to our Harbor Steps apartment property in downtown Seattle for \$11.8 million for potential redevelopment; and

Sold \$1.4 billion of consolidated apartment properties consisting of 45 properties and 13,528 apartment units at a weighted average cap rate of 6.5% generating an unlevered internal rate of return (IRR), inclusive of management costs, of 11.0% and one land parcel for \$22.8 million, the majority of which was in exit or less desirable markets.

The Company's primary financial measure for evaluating each of its apartment communities is net operating income (NOI). NOI represents rental income less property and maintenance expense, real estate tax and insurance expense and property management expense. The Company believes that NOI is helpful to investors as a supplemental measure of its operating performance because it is a direct measure of the actual operating

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results of the Company's apartment communities. The cap rate is generally the first year NOI yield (net of replacements) on the Company's investment.

Properties that the Company owned for all of both of the nine months ended September 30, 2011 and 2010 (the Nine-Month 2011 Same Store Properties), which represented 102,129 apartment units, and properties that the

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Company owned for all of both of the quarters ended September 30, 2011 and 2010 (the Third Quarter 2011 Same Store Properties), which represented 104,922 apartment units, impacted the Company's results of operations. Both the Nine-Month 2011 Same Store Properties and the Third Quarter 2011 Same Store Properties are discussed in the following paragraphs.

The Company's acquisition, disposition and completed development activities also impacted overall results of operations for the nine months and quarters ended September 30, 2011 and 2010. The impacts of these activities are discussed in greater detail in the following paragraphs.

**Comparison of the nine months ended September 30, 2011 to the nine months ended September 30, 2010**

For the nine months ended September 30, 2011, the Company reported diluted earnings per share/Unit of \$2.62 compared to \$0.30 per share/Unit in the same period of 2010. The difference is primarily due to higher gains from property sales in 2011 vs. 2010 and higher total property net operating income driven by the positive impact of the Company's same store and lease-up activity, partially offset by dilution from the Company's 2010 and 2011 transaction activity.

For the nine months ended September 30, 2011, income from continuing operations increased approximately \$80.6 million when compared to the nine months ended September 30, 2010. The increase in continuing operations is discussed below.

Revenues from the Nine-Month 2011 Same Store Properties increased \$58.8 million primarily as a result of an increase in average rental rates charged to residents and an increase in occupancy. Expenses from the Nine-Month 2011 Same Store Properties decreased \$1.2 million primarily due to a combination of increases and decreases in each category of operating expenses, including decreases in on-site payroll costs, leasing and advertising costs, insurance and repairs and maintenance expenses, partially offset by increases in property management costs, real estate taxes and utilities. The decrease in on-site payroll costs was offset by the increase in property management costs as a result of the creation of the Company's central business group, which moved certain administrative functions off-site. The following tables provide comparative same store results and statistics for the Nine-Month 2011 Same Store Properties:

September YTD 2011 vs. September YTD 2010

Same Store Results/Statistics

\$ in thousands (except for Average Rental Rate) 102,129 Same Store Apartment Units

| Description | Results      |            |            | Average Rental Rate (1) | Statistics |          |
|-------------|--------------|------------|------------|-------------------------|------------|----------|
|             | Revenues     | Expenses   | NOI        |                         | Occupancy  | Turnover |
| YTD 2011    | \$ 1,284,208 | \$ 467,944 | \$ 816,264 | \$ 1,468                | 95.3%      | 44.4%    |
| YTD 2010    | \$ 1,225,371 | \$ 469,151 | \$ 756,220 | \$ 1,407                | 94.9%      | 44.0%    |
| Change      | \$ 58,837    | \$ (1,207) | \$ 60,044  | \$ 61                   | 0.4%       | 0.4%     |
| Change      | 4.8%         | (0.3%)     | 7.9%       | 4.3%                    |            |          |

(1) Average rental rate is defined as total rental revenues divided by the weighted average occupied apartment units for the period. The following table provides comparative same store operating expenses for the Nine-Month 2011 Same Store Properties:

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September YTD 2011 vs. September YTD 2010

Same Store Operating Expenses

\$ in thousands 102,129 Same Store Apartment Units

|                                      | Actual<br>YTD 2011 | Actual<br>YTD 2010 | \$<br>Change | %<br>Change | % of Actual<br>YTD 2011<br>Operating<br>Expenses |
|--------------------------------------|--------------------|--------------------|--------------|-------------|--|
| Real estate taxes                    | \$ 127,155         | \$ 125,516         | \$ 1,639     | 1.3%        | 27.2%  |
| On-site payroll (1)                  | 109,904            | 112,705            | (2,801)      | (2.5%)      | 23.5%  |
| Utilities (2)                        | 73,831             | 72,297             | 1,534        | 2.1%        | 15.8%  |
| Repairs and maintenance (3)          | 67,958             | 68,653             | (695)        | (1.0%)      | 14.5%  |
| Property management costs (4)        | 51,882             | 49,015             | 2,867        | 5.8%        | 11.1%  |
| Insurance                            | 14,621             | 15,530             | (909)        | (5.9%)      | 3.1%   |
| Leasing and advertising              | 8,713              | 11,107             | (2,394)      | (21.6%)     | 1.9%   |
| Other on-site operating expenses (5) | 13,880             | 14,328             | (448)        | (3.1%)      | 2.9%   |
| Same store operating expenses        | \$ 467,944         | \$ 469,151         | \$ (1,207)   | (0.3%)      | 100.0%   |

- (1) On-site payroll Includes payroll and related expenses for on-site personnel including property managers, leasing consultants and maintenance staff.
- (2) Utilities Represents gross expenses prior to any recoveries under the Resident Utility Billing System ( RUBS ). Recoveries are reflected in rental income.
- (3) Repairs and maintenance Includes general maintenance costs, apartment unit turnover costs including interior painting, routine landscaping, security, exterminating, fire protection, snow removal, elevator, roof and parking lot repairs and other miscellaneous building repair costs.
- (4) Property management costs Includes payroll and related expenses for departments, or portions of departments, that directly support on-site management. These include such departments as regional and corporate property management, property accounting, human resources, training, marketing and revenue management, procurement, real estate tax, property legal services and information technology.
- (5) Other on-site operating expenses Includes administrative costs such as office supplies, telephone and data charges and association and business licensing fees.

The following table presents a reconciliation of operating income per the consolidated statements of operations to NOI for the Nine-Month 2011 Same Store Properties:

|                                  | Nine Months Ended September 30, |            |
|----------------------------------|---------------------------------|------------|
|                                  | 2011                            | 2010       |
|                                  | (Amounts in thousands)          |            |
| Operating income                 | \$ 414,159                      | \$ 301,887 |
| Adjustments:                     |                                 |            |
| Non-same store operating results | (108,921)                       | (31,164)   |
| Fee and asset management revenue | (6,682)                         | (7,596)    |
| Fee and asset management expense | 3,207                           | 4,242      |
| Depreciation                     | 482,039                         | 457,822    |
| General and administrative       | 32,462                          | 31,029     |
| Same store NOI                   | \$ 816,264                      | \$ 756,220 |

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For properties that the Company acquired prior to January 1, 2010 and expects to continue to own through December 31, 2011, the Company anticipates the following same store results for the full year ending December 31, 2011:

| 2011 Same Store Assumptions |       |
|-----------------------------|-------|
| Physical occupancy          | 95.2% |
| Revenue change              | 5.0%  |
| Expense change              | 0.5%  |
| NOI change                  | 7.7%  |

The Company anticipates consolidated rental acquisitions of \$1.25 billion and consolidated rental dispositions of

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\$1.4 billion and expects that acquisitions will have a 1.30% lower cap rate than dispositions for the full year ending December 31, 2011.

These 2011 assumptions are based on current expectations and are forward-looking.

Non-same store operating results increased approximately \$77.8 million and consist primarily of properties acquired in calendar years 2010 and 2011, as well as operations from the Company's completed development properties. Although the operations of both the non-same store assets and the same store assets have been positively impacted during the nine months ended September 30, 2011, the non-same store assets have contributed a greater percentage of total NOI to the Company's overall operating results primarily due to 2010 and 2011 acquisitions, increasing occupancy for properties in lease-up and a longer ownership period in 2011 than 2010. This increase primarily resulted from:

Development and other miscellaneous properties in lease-up of \$29.5 million;

Properties acquired in 2010 and 2011 of \$36.7 million; and

Newly stabilized development properties of \$2.8 million.

See also Note 13 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company's segment disclosures.

Fee and asset management revenues, net of fee and asset management expenses, increased approximately \$0.1 million or 3.6% primarily due to revenues earned on management of the Company's unconsolidated development joint ventures and lower expenses, partially offset by the unwinding of four institutional joint ventures during 2010.

Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company's properties as well as management fees paid to any third party management companies. These expenses increased approximately \$2.6 million or 4.4%. This increase is primarily attributable to an increase in payroll-related costs, which is largely a result of the creation of the Company's central business group, which moved certain administrative functions off-site, and increases in education/conference costs and legal and professional fees.

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, increased approximately \$24.2 million or 5.3% primarily as a result of additional depreciation expense on properties acquired in 2010 and 2011, development properties placed in service and capital expenditures for all properties owned, partially offset by a decrease in the amortization of in-place leases due to lower acquisition volume in 2011 and a decrease in the amortization of furniture, fixtures and equipment that were fully depreciated.

General and administrative expenses from continuing operations, which include corporate operating expenses, increased approximately \$1.4 million or 4.6% primarily due to an increase in payroll-related costs, which is largely a result of the acceleration of long-term compensation expense for retirement eligible employees. The Company anticipates that general and administrative expenses will approximate \$43.0 million for the year ending December 31, 2011. The above assumption is based on current expectations and is forward-looking.

Interest and other income from continuing operations increased approximately \$1.6 million or 31.0% primarily as a result of interest earned on cash and cash equivalents and investment securities due to larger overall cash balances during the nine months ended September 30, 2011 as compared to the same period in 2010, forfeited deposits for terminated disposition transactions and proceeds received from the Company's final royalty participation in LRO/Rainmaker, partially offset by insurance/litigation settlement proceeds that occurred during the nine months ended September 30, 2010 and did not reoccur during the nine months ended September 30, 2011.

Other expenses from continuing operations decreased approximately \$0.2 million or 2.0% primarily due to a decrease in property acquisition costs incurred in conjunction with the Company's lower acquisition volume in 2011, partially offset by an increase in the expensing of overhead (pursuit cost write-offs) as a result of a more active focus on sourcing new development opportunities.

Interest expense from continuing operations, including amortization of deferred financing costs, increased approximately \$11.1 million or 3.1% as a result of interest expense on the \$600.0 million of unsecured notes that closed in July 2010 and accrued interest on four forward starting swaps, partially offset by lower interest expense on mortgage notes payable due to lower balances during the nine months ended September 30, 2011 as compared to the same period in 2010. During the nine months ended September 30, 2011, the Company capitalized interest costs of

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approximately \$5.9 million as compared to \$10.2 million for the nine months ended September 30, 2010. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the nine months ended

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September 30, 2011 was 5.27% as compared to 5.14% for the nine months ended September 30, 2010. The Company anticipates that interest expense from continuing operations will approximate \$460.0 million to \$465.0 million for the year ending December 31, 2011. The above assumption is based on current expectations and is forward-looking.

Income and other tax expense from continuing operations increased \$0.4 million primarily due to Tennessee franchise tax refunds received during the nine months ended September 30, 2010 that did not reoccur during the nine months ended September 30, 2011. The Company anticipates that income and other tax expense will approximate \$1.0 million for the year ending December 31, 2011. The above assumption is based on current expectations and is forward-looking.

Loss from investments in unconsolidated entities decreased approximately \$0.7 million as compared to the nine months ended September 30, 2010 primarily due to the unwinding of four institutional joint ventures during 2010.

Net gain on sales of unconsolidated entities decreased approximately \$28.1 million primarily due to the gain on sale and revaluation of seven previously unconsolidated properties that were acquired from the Company's joint venture partner and the gain on sale for 27 unconsolidated properties that occurred during the nine months ended September 30, 2010 that did not reoccur during the nine months ended September 30, 2011.

Net gain on sales of land parcels increased approximately \$5.4 million due to the gain on sale of a land parcel located in suburban Washington D.C. during the nine months ended September 30, 2011 and a loss on sale of a land parcel during the same period in 2010.

Discontinued operations, net increased approximately \$649.5 million between the periods under comparison. This increase is primarily due to higher gains from property sales during the nine months ended September 30, 2011 compared to the same period in 2010, partially offset by properties sold in 2011 which reflect operations for none of or a partial period in 2011 in contrast to a full or partial period in 2010. See Note 11 in the Notes to Consolidated Financial Statements for further discussion.

***Comparison of the quarter ended September 30, 2011 to the quarter ended September 30, 2010***

For the quarter ended September 30, 2011, the Company reported diluted earnings per share/Unit of \$0.35 compared to \$0.09 per share/Unit in the same period of 2010. The difference is primarily due to higher gains from property sales in 2011 vs. 2010 and higher total property net operating income driven by the positive impact of the Company's same store and lease-up activity, partially offset by dilution from the Company's 2010 and 2011 transaction activity.

For the quarter ended September 30, 2011, income from continuing operations increased approximately \$35.8 million when compared to the quarter ended September 30, 2010. The increase in continuing operations is discussed below.

Revenues from the Third Quarter 2011 Same Store Properties increased \$23.8 million primarily as a result of an increase in average rental rates charged to residents and an increase in occupancy. Expenses from the Third Quarter 2011 Same Store Properties decreased \$0.2 million primarily due to decreases in on-site payroll costs, leasing and advertising costs and repairs and maintenance expenses, partially offset by increases in property management costs and real estate taxes. The following tables provide comparative same store results and statistics for the Third Quarter 2011 Same Store Properties:

## Third Quarter 2011 vs. Third Quarter 2010

## Same Store Results/Statistics

\$ in thousands (except for Average Rental Rate) 104,922 Same Store Apartment Units

| Description | Results    |            |            | Statistics              |           |          |
|-------------|------------|------------|------------|-------------------------|-----------|----------|
|             | Revenues   | Expenses   | NOI        | Average Rental Rate (1) | Occupancy | Turnover |
| Q3 2011     | \$ 457,308 | \$ 166,212 | \$ 291,096 | \$ 1,524                | 95.4%     | 17.7%    |
| Q3 2010     | \$ 433,508 | \$ 166,381 | \$ 267,127 | \$ 1,453                | 94.9%     | 17.8%    |



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|        |           |          |           |       |      |        |
|--------|-----------|----------|-----------|-------|------|--------|
| Change | \$ 23,800 | \$ (169) | \$ 23,969 | \$ 71 | 0.5% | (0.1%) |
| Change | 5.5%      | (0.1%)   | 9.0%      | 4.9%  |      |        |

(1) Average rental rate is defined as total rental revenues divided by the weighted average occupied apartment units for the period.

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The following table provides comparative same store operating expenses for the Third Quarter 2011 Same Store Properties:

Third Quarter 2011 vs. Third Quarter 2010

Same Store Operating Expenses

\$ in thousands 104,922 Same Store Apartment Units

|                                      | Actual<br>Q3 2011 | Actual<br>Q3 2010 | \$<br>Change | %<br>Change | % of Actual<br>Q3 2011<br>Operating<br>Expenses |
|--------------------------------------|-------------------|-------------------|--------------|-------------|---|
| Real estate taxes                    | \$ 46,887         | \$ 45,682         | \$ 1,205     | 2.6%        | 28.2%   |
| On-site payroll (1)                  | 38,871            | 39,512            | (641)        | (1.6%)      | 23.4%   |
| Utilities (2)                        | 25,398            | 25,063            | 335          | 1.3%        | 15.3%   |
| Repairs and maintenance (3)          | 24,185            | 24,608            | (423)        | (1.7%)      | 14.6%   |
| Property management costs (4)        | 18,475            | 17,340            | 1,135        | 6.5%        | 11.1%   |
| Insurance                            | 4,991             | 5,306             | (315)        | (5.9%)      | 3.0%  |
| Leasing and advertising              | 3,025             | 4,383             | (1,358)      | (31.0%)     | 1.8%  |
| Other on-site operating expenses (5) | 4,380             | 4,487             | (107)        | (2.4%)      | 2.6%  |
| Same store operating expenses        | \$ 166,212        | \$ 166,381        | \$ (169)     | (0.1%)      | 100.0%  |

- (1) On-site payroll Includes payroll and related expenses for on-site personnel including property managers, leasing consultants and maintenance staff.
- (2) Utilities Represents gross expenses prior to any recoveries under the Resident Utility Billing System ( RUBS ). Recoveries are reflected in rental income.
- (3) Repairs and maintenance Includes general maintenance costs, apartment unit turnover costs including interior painting, routine landscaping, security, exterminating, fire protection, snow removal, elevator, roof and parking lot repairs and other miscellaneous building repair costs.
- (4) Property management costs Includes payroll and related expenses for departments, or portions of departments, that directly support on-site management. These include such departments as regional and corporate property management, property accounting, human resources, training, marketing and revenue management, procurement, real estate tax, property legal services and information technology.
- (5) Other on-site operating expenses Includes administrative costs such as office supplies, telephone and data charges and association and business licensing fees.

The following table presents a reconciliation of operating income per the consolidated statements of operations to NOI for the Third Quarter 2011 Same Store Properties:

|                                  | Quarter Ended September 30, |            |
|----------------------------------|-----------------------------|------------|
|                                  | 2011                        | 2010       |
|                                  | (Amounts in thousands)      |            |
| Operating income                 | \$ 151,076                  | \$ 105,264 |
| Adjustments:                     |                             |            |
| Non-same store operating results | (32,975)                    | (5,227)    |
| Fee and asset management revenue | (2,928)                     | (2,128)    |
| Fee and asset management expense | 1,250                       | 679        |
| Depreciation                     | 164,552                     | 158,318    |
| General and administrative       | 10,121                      | 10,221     |
| Same store NOI                   | \$ 291,096                  | \$ 267,127 |

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Non-same store operating results increased approximately \$27.7 million and consist primarily of properties acquired in calendar years 2010 and 2011, as well as operations from the Company's completed development properties. Although the operations of both the non-same store assets and the same store assets have been positively impacted during the quarter ended September 30, 2011, the non-same store assets have contributed a greater percentage of total NOI to the Company's overall operating results primarily due to 2010 and 2011 acquisitions, increasing occupancy for properties in lease-up and a longer ownership period in 2011 than 2010. This increase primarily resulted from:

Development and other miscellaneous properties in lease-up of \$9.3 million;

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Properties acquired in 2010 and 2011 of \$11.4 million;

Newly stabilized development properties of \$0.8 million; and

Other miscellaneous properties of \$0.3 million.

See also Note 13 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company's segment disclosures.

Fee and asset management revenues, net of fee and asset management expenses, increased approximately \$0.2 million or 15.8% primarily due to revenues earned on management of the Company's unconsolidated development joint ventures, partially offset by the unwinding of four institutional joint ventures during 2010 and higher expenses.

Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company's properties as well as management fees paid to any third party management companies. These expenses increased approximately \$0.2 million or 1.2%. This increase is primarily attributable to an increase in payroll-related costs, which is largely a result of the creation of the Company's central business group, which moved certain administrative functions off-site.

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, increased approximately \$6.2 million or 3.9% primarily as a result of additional depreciation expense on properties acquired in 2011, partially offset by a decrease in the amortization of in-place leases due to lower acquisition volume in 2011 compared to 2010.

General and administrative expenses from continuing operations, which include corporate operating expenses, decreased approximately \$0.1 million or 1.0% primarily due to a decrease in tax compliance fees, partially offset by an increase in payroll-related costs, which is largely a result of the acceleration of long-term compensation expense for retirement eligible employees.

Interest and other income from continuing operations increased approximately \$5.1 million primarily as a result of proceeds received from the Company's final royalty participation in LRO/Rainmaker during the quarter ended September 30, 2011.

Other expenses from continuing operations decreased approximately \$1.0 million or 27.5% due to a decrease in property acquisition costs incurred in conjunction with the Company's lower acquisition volume in 2011 and a decrease in the expensing of overhead (pursuit cost write-offs) during the quarter ended September 30, 2011.

Interest expense from continuing operations, including amortization of deferred financing costs, decreased approximately \$5.5 million or 4.4% primarily due to lower interest expense on mortgage notes payable due to lower balances during the nine months ended September 30, 2011 as compared to the same period in 2010 and lower interest expense on the \$482.5 million of exchangeable senior notes that were redeemed on August 18, 2011, partially offset by increases in write-offs of unamortized loan costs. During the quarter ended September 30, 2011, the Company capitalized interest costs of approximately \$2.2 million as compared to \$2.3 million for the quarter ended September 30, 2010. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the quarter ended September 30, 2011 was 5.30% as compared to 5.15% for the quarter ended September 30, 2010.

Income and other tax expense from continuing operations was consistent between the periods under comparison.

Income from investments in unconsolidated entities decreased approximately \$0.2 million as compared to the quarter ended September 30, 2010 primarily due to the unwinding of four institutional joint ventures during 2010.

Net gain on sales of unconsolidated entities decreased approximately \$22.5 million primarily due to the gain on sale for 24 unconsolidated properties that occurred during the quarter ended September 30, 2010 and did not reoccur during the quarter ended September 30, 2011.

Net loss on sales of land parcels decreased approximately \$1.2 million due to the loss on sale of one land parcel during the quarter ended September 30, 2010 as compared to no land sales during the quarter ended September 30, 2011.

Discontinued operations, net increased approximately \$47.4 million between the periods under comparison. This increase is primarily due to higher gains from property sales during the quarter ended September 30, 2011 compared to the same period in 2010, partially offset by properties sold in 2011 which reflect operations for none of or a partial period in 2011



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in contrast to a full or partial period in 2010. See Note 11 in the Notes to Consolidated Financial Statements for further discussion.

**Liquidity and Capital Resources**

EQR issues public equity from time to time and does not have any indebtedness as all debt is incurred by the Operating Partnership.

As of January 1, 2011, the Company had approximately \$431.4 million of cash and cash equivalents, its restricted 1031 exchange proceeds totaled \$103.9 million and it had \$1.28 billion available under its then existing revolving credit facility (net of \$147.3 million which was restricted/dedicated to support letters of credit and \$75.0 million which had been committed by a now bankrupt financial institution and was not available for borrowing). After taking into effect the various transactions discussed in the following paragraphs and the net cash provided by operating activities, the Company's cash and cash equivalents balance at September 30, 2011 was approximately \$46.0 million, its restricted 1031 exchange proceeds totaled \$303.8 million and the amount available on its new revolving credit facility was \$1.14 billion (net of \$85.9 million which was restricted/dedicated to support letters of credit and net of \$26.0 million outstanding).

During the nine months ended September 30, 2011, the Company generated proceeds from various transactions, which included the following:

Disposed of 45 consolidated properties and one land parcel, receiving net proceeds of approximately \$1.4 billion;

Obtained \$152.9 million in new mortgage financing; and

Issued approximately 6.1 million Common Shares (including Common Shares issued under the ATM program – see further discussion below) and received net proceeds of \$253.4 million, which were contributed to the capital of the Operating Partnership in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis).

During the nine months ended September 30, 2011, the above proceeds were primarily utilized to:

Acquire 10 rental properties, a 97,000 square foot commercial building and three land parcels for approximately \$634.6 million;

Invest \$93.8 million primarily in development projects; and

Repay \$871.5 million of mortgage loans and \$575.6 million of unsecured notes, inclusive of the redemption of \$482.5 million of its 3.85% exchangeable unsecured notes with a final maturity of 2026 at par and no premium was paid.

In September 2009, EQR 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 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). EQR may, but shall have no obligation to, sell Common Shares through the ATM share offering program in amounts and at times to be determined by EQR. Actual sales will depend on a variety of factors to be determined by EQR from time to time, including (among others) market conditions, the trading price of EQR's Common Shares and determinations of the appropriate sources of funding for EQR. During the nine months ended September 30, 2011, EQR issued approximately 3.0 million Common Shares at an average price of \$50.84 per share for total consideration of approximately \$154.5 million through the ATM program. EQR has not issued any shares under this program since January 13, 2011. Through October 27, 2011, EQR has cumulatively issued approximately 12.7 million Common Shares at an average price of \$44.94 per share for total consideration of approximately \$570.1 million. Including its February 2011 prospectus supplement which added approximately 5.7 million Common Shares, EQR has 10.0 million Common Shares remaining available for issuance under the ATM program as of October 27, 2011.

On June 16, 2011, the shareholders of EQR approved the Company's 2011 Share Incentive Plan (the 2011 Plan ). The 2011 Plan reserved 12,980,741 Common Shares for issuance. In conjunction with the approval of the 2011 Plan, no further awards may be granted under the 2002

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Share Incentive Plan. The 2011 Plan expires on June 16, 2021.

Depending on its analysis of market prices, economic conditions and other opportunities for the investment of available capital, EQR may repurchase its Common Shares pursuant to its existing share repurchase program authorized by the Board of Trustees. As of October 27, 2011, EQR had authorization to repurchase \$464.6 million of its shares. No shares

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were repurchased during 2011. See Note 3 in the Notes to Consolidated Financial Statements for further discussion.

Depending on its analysis of prevailing market conditions, liquidity requirements, contractual restrictions and other factors, the Company may from time to time seek to repurchase and retire its outstanding debt in open market or privately negotiated transactions.

The Company's total debt summary and debt maturity schedules as of September 30, 2011 are as follows:

**Debt Summary as of September 30, 2011**

(Amounts in thousands)

|   | Amounts (1)         | % of Total    | Weighted<br>Average<br>Rates<br>(1) | Weighted<br>Average<br>Maturities<br>(years) |
|---|---------------------|---------------|-------------------------------------|--|
| Secured                                 | \$ 4,136,848        | 47.1%         | 4.83%                               | 8.2  |
| Unsecured                               | 4,640,323           | 52.9%         | 5.15%                               | 4.4  |
| <b>Total</b>                            | <b>\$ 8,777,171</b> | <b>100.0%</b> | <b>5.00%</b>                        | <b>6.1</b>                                   |
| Fixed Rate Debt:                        |                     |               |                                     |  |
| Secured Conventional                    | \$ 3,587,114        | 40.8%         | 5.57%                               | 7.1  |
| Unsecured Public/Private                | 3,806,478           | 43.4%         | 5.83%                               | 5.0  |
| <b>Fixed Rate Debt</b>                  | <b>7,393,592</b>    | <b>84.2%</b>  | <b>5.71%</b>                        | <b>6.0</b>                                   |
| Floating Rate Debt:                     |                     |               |                                     |  |
| Secured Conventional                    | 115,285             | 1.3%          | 3.07%                               | 1.0  |
| Secured Tax Exempt                      | 434,449             | 5.0%          | 0.27%                               | 20.1   |
| Unsecured Public/Private                | 807,845             | 9.2%          | 1.66%                               | 1.2  |
| Unsecured Revolving Credit Facility (2) | 26,000              | 0.3%          | 1.32%                               | 2.8  |
| <b>Floating Rate Debt</b>               | <b>1,383,579</b>    | <b>15.8%</b>  | <b>1.37%</b>                        | <b>6.8</b>                                   |
| <b>Total</b>                            | <b>\$ 8,777,171</b> | <b>100.0%</b> | <b>5.00%</b>                        | <b>6.1</b>                                   |

(1) Net of the effect of any derivative instruments. Weighted average rates are for the nine months ended September 30, 2011.

(2) On July 13, 2011, the Company replaced its then existing unsecured revolving credit facility with a new \$1.25 billion unsecured revolving credit facility maturing on July 13, 2014, subject to a one-year extension option exercisable by the Company. The interest rate on advances under the new credit facility will generally be LIBOR plus a spread (currently 1.15%) and the Company pays an annual facility fee of 0.2%. Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt.

Note: The Company capitalized interest of approximately \$5.9 million and \$10.2 million during the nine months ended September 30, 2011 and 2010, respectively. The Company capitalized interest of approximately \$2.2 million and \$2.3 million during the quarters ended September 30, 2011 and 2010, respectively.



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(Amounts in thousands)

| Year  | Fixed<br>Rate (1) | Floating<br>Rate (1) | Total        | % of Total | Weighted Average<br>Rates on<br>Fixed<br>Rate Debt<br>(1) | Weighted Average<br>Rates on<br>Total Debt<br>(1) |
|-------|-------------------|----------------------|--------------|------------|---|---|
| 2011  | \$ 5,474          | \$ 50,622            | \$ 56,096    | 0.6%       | 6.65%   | 4.02%   |
| 2012  | 625,590           | 536,887(2)           | 1,162,477    | 13.2%      | 6.04%   | 3.71%   |
| 2013  | 273,304           | 308,360              | 581,664      | 6.6%       | 6.71%   | 4.87%   |
| 2014  | 566,862           | 48,012(3)            | 614,874      | 7.0%       | 5.32%   | 5.07%   |
| 2015  | 419,433           |                      | 419,433      | 4.8%       | 6.31%   | 6.31%   |
| 2016  | 1,190,544         |                      | 1,190,544    | 13.6%      | 5.34%   | 5.34%   |
| 2017  | 1,355,835         | 456                  | 1,356,291    | 15.4%      | 5.87%   | 5.87%   |
| 2018  | 80,771            | 16,417               | 97,188       | 1.1%       | 5.72%   | 4.92%   |
| 2019  | 801,763           | 20,766               | 822,529      | 9.4%       | 5.49%   | 5.36%   |
| 2020  | 1,671,836         | 809                  | 1,672,645    | 19.1%      | 5.50%   | 5.50%   |
| 2021+ | 402,180           | 401,250              | 803,430      | 9.2%       | 5.91%   | 3.39%   |
| Total | \$ 7,393,592      | \$ 1,383,579         | \$ 8,777,171 | 100.0%     | 5.69%   | 5.04%   |

(1) Net of the effect of any derivative instruments. Weighted average rates are as of September 30, 2011.

(2) Effective April 5, 2011, the Company exercised the second of its two one-year extension options for its \$500.0 million term loan facility and as a result, the maturity date is now October 5, 2012.

(3) Includes \$26.0 million outstanding on the Company's unsecured revolving credit facility. As of September 30, 2011, there was approximately \$1.14 billion available on this facility.

The following table provides a summary of the Company's unsecured debt as of September 30, 2011:

**Unsecured Debt Summary as of September 30, 2011**

(Amounts in thousands)

|                                   | Coupon<br>Rate | Due<br>Date | Face<br>Amount | Unamortized<br>Premium/<br>(Discount) | Net<br>Balance |
|-----------------------------------|----------------|-------------|----------------|---------------------------------------|----------------|
| <b>Fixed Rate Notes:</b>          |                |             |                |                                       |                |
|                                   | 6.625%         | 03/15/12    | \$ 253,858     | \$ (92)                               | \$ 253,766     |
|                                   | 5.500%         | 10/01/12    | 222,133        | (219)                                 | 221,914        |
|                                   | 5.200%         | 04/01/13(1) | 400,000        | (177)                                 | 399,823        |
| Fair Value Derivative Adjustments |                | (1)         | (300,000)      |                                       | (300,000)      |
|                                   | 5.250%         | 09/15/14    | 500,000        | (182)                                 | 499,818        |
|                                   | 6.584%         | 04/13/15    | 300,000        | (386)                                 | 299,614        |
|                                   | 5.125%         | 03/15/16    | 500,000        | (238)                                 | 499,762        |
|                                   | 5.375%         | 08/01/16    | 400,000        | (897)                                 | 399,103        |
|                                   | 5.750%         | 06/15/17    | 650,000        | (2,924)                               | 647,076        |
|                                   | 7.125%         | 10/15/17    | 150,000        | (392)                                 | 149,608        |
|                                   | 4.750%         | 07/15/20    | 600,000        | (4,006)                               | 595,994        |
|                                   | 7.570%         | 08/15/26    | 140,000        |                                       | 140,000        |

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|                                   |             |                |                     |                   |                     |
|-----------------------------------|-------------|----------------|---------------------|-------------------|---------------------|
|                                   |             |                | 3,815,991           | (9,513)           | 3,806,478           |
| <b>Floating Rate Notes:</b>       |             |                |                     |                   |                     |
|                                   |             | 04/01/13(1)    | 300,000             |                   | 300,000             |
| Fair Value Derivative Adjustments |             | (1)            | 7,845               |                   | 7,845               |
| Term Loan Facility                | LIBOR+0.50% | 10/05/12(2)(3) | 500,000             |                   | 500,000             |
|                                   |             |                | 807,845             |                   | 807,845             |
| <b>Revolving Credit Facility:</b> | LIBOR+1.15% | 07/13/14(2)(4) | 26,000              |                   | 26,000              |
| <b>Total Unsecured Debt</b>       |             |                | <b>\$ 4,649,836</b> | <b>\$ (9,513)</b> | <b>\$ 4,640,323</b> |

(1) Fair value interest rate swaps convert \$300.0 million of the 5.200% notes due April 1, 2013 to a floating interest rate.

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- (2) Facilities are private. All other unsecured debt is public.
- (3) Effective April 5, 2011, the Company exercised the second of its two one-year extension options for its \$500.0 million term loan facility and as a result, the maturity date is now October 5, 2012.
- (4) On July 13, 2011, the Company replaced its then existing unsecured revolving credit facility with a new \$1.25 billion unsecured revolving credit facility maturing on July 13, 2014, subject to a one-year extension option exercisable by the Company. The interest rate on advances under the new credit facility will generally be LIBOR plus a spread (currently 1.15%) and the Company pays an annual facility fee of 0.2%. Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt. As of September 30, 2011, there was approximately \$1.14 billion available on the Company's unsecured revolving credit facility.

On August 18, 2011 (the "Redemption Date") the Operating Partnership redeemed all of its outstanding 3.85% exchangeable notes for \$482.5 million in cash, which was equal to 100% of the principal amount of such notes plus accrued and unpaid interest up to but excluding the Redemption Date (the "Redemption Amount"). The notes were redeemable at the option of the Operating Partnership at any time on or after the Redemption Date, and were also redeemable at the option of the holders on the Redemption Date for the Redemption Amount pursuant to a repurchase right set forth in the terms of the notes. In connection with the redemption and under certain additional conditions, the notes could be exchanged for an amount of cash based on the price of the Company's Common Shares, with the Operating Partnership having the option of delivering Common Shares instead of cash for the amount by which the exchange value exceeded the principal amount of the notes, if any. No note holder exercised its exchange rights.

An unlimited amount of equity and debt securities remains available for issuance by EQR and ERPOP under effective shelf registration statements filed with the SEC. Most recently, EQR and ERPOP filed a universal shelf registration statement for an unlimited amount of equity and debt securities that automatically became effective upon filing with the SEC in October 2010 and expires on October 14, 2013. However, as of October 27, 2011, issuances under the ATM share offering program are limited to 10.0 million additional shares. Per the terms of ERPOP's partnership agreement, EQR contributes the net proceeds of 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) or preference units (on a one-for-one preferred share per preference unit basis).

The Company's Consolidated Debt-to-Total Market Capitalization Ratio as of September 30, 2011 is presented in the following table. The Company calculates the equity component of its market capitalization as the sum of (i) the total outstanding Common Shares and assumed conversion of all Units at the equivalent market value of the closing price of the Company's Common Shares on the New York Stock Exchange and (ii) the liquidation value of all perpetual preferred shares outstanding.

**Equity Residential****Capital Structure as of September 30, 2011****(Amounts in thousands except for share/unit and per share amounts)**

|  |             |                      |               |               |
|--|-------------|----------------------|---------------|---------------|
| Secured Debt                               |             | \$ 4,136,848         | 47.1%         |               |
| Unsecured Debt                             |             | 4,640,323            | 52.9%         |               |
| <b>Total Debt</b>                          |             | <b>8,777,171</b>     | <b>100.0%</b> | <b>35.0%</b>  |
| Common Shares (includes Restricted Shares) | 296,620,833 |                      | 95.6%         |               |
| Units (includes OP Units and LTIP Units)   | 13,509,488  |                      | 4.4%          |               |
| Total Shares and Units                     | 310,130,321 |                      | 100.0%        |               |
| Common Share Price at September 30, 2011   | \$ 51.87    |                      |               |               |
|  |             | 16,086,460           | 98.8%         |               |
| Perpetual Preferred Equity (see below)     |             | 200,000              | 1.2%          |               |
| <b>Total Equity</b>                        |             | <b>16,286,460</b>    | <b>100.0%</b> | <b>65.0%</b>  |
| <b>Total Market Capitalization</b>         |             | <b>\$ 25,063,631</b> |               | <b>100.0%</b> |

**Table of Contents****Equity Residential****Perpetual Preferred Equity as of September 30, 2011**

(Amounts in thousands except for share and per share amounts)

| Series                   | Redemption Date | Outstanding Shares | Liquidation Value | Annual Dividend Per Share | Annual Dividend Amount | Weighted Average Rate |
|--------------------------|-----------------|--------------------|-------------------|---------------------------|------------------------|-----------------------|
| <b>Preferred Shares:</b> |                 |                    |                   |                           |                        |                       |
| 8.29% Series K           | 12/10/26        | 1,000,000          | \$ 50,000         | \$ 4.145                  | \$ 4,145               |                       |
| 6.48% Series N           | 6/19/08         | 600,000            | 150,000           | 16.20                     | 9,720                  |                       |

|                                  |  |           |            |  |           |       |
|----------------------------------|--|-----------|------------|--|-----------|-------|
| Total Perpetual Preferred Equity |  | 1,600,000 | \$ 200,000 |  | \$ 13,865 | 6.93% |
|----------------------------------|--|-----------|------------|--|-----------|-------|

The Operating Partnership's Consolidated Debt-to-Total Market Capitalization Ratio as of September 30, 2011 is presented in the following table. The Operating Partnership calculates the equity component of its market capitalization as the sum of (i) the total outstanding Units at the equivalent market value of the closing price of the Company's Common Shares on the New York Stock Exchange and (ii) the liquidation value of all perpetual preference units outstanding.

**ERP Operating Limited Partnership****Capital Structure as of September 30, 2011**

(Amounts in thousands except for unit and per unit amounts)

|  |  |             |                      |               |               |
|--|--|-------------|----------------------|---------------|---------------|
| Secured Debt                             |  |             | \$ 4,136,848         | 47.1%         |               |
| Unsecured Debt                           |  |             | 4,640,323            | 52.9%         |               |
| <b>Total Debt</b>                        |  |             | <b>8,777,171</b>     | <b>100.0%</b> | <b>35.0%</b>  |
| Total outstanding Units                  |  | 310,130,321 |                      |               |               |
| Common Share Price at September 30, 2011 |  | \$ 51.87    |                      |               |               |
|  |  |             | 16,086,460           | 98.8%         |               |
| Perpetual Preference Units (see below)   |  |             | 200,000              | 1.2%          |               |
| <b>Total Equity</b>                      |  |             | <b>16,286,460</b>    | <b>100.0%</b> | <b>65.0%</b>  |
| <b>Total Market Capitalization</b>       |  |             | <b>\$ 25,063,631</b> | <b>100.0%</b> | <b>100.0%</b> |

**ERP Operating Limited Partnership****Perpetual Preference Units as of September 30, 2011**

(Amounts in thousands except for unit and per unit amounts)

| Series                   | Redemption Date | Outstanding Units | Liquidation Value | Annual Dividend Per Unit | Annual Dividend Amount | Weighted Average Rate |
|--------------------------|-----------------|-------------------|-------------------|--------------------------|------------------------|-----------------------|
| <b>Preference Units:</b> |                 |                   |                   |                          |                        |                       |
| 8.29% Series K           | 12/10/26        | 1,000,000         | \$ 50,000         | \$ 4.145                 | \$ 4,145               |                       |

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|                |         |         |         |       |       |
|----------------|---------|---------|---------|-------|-------|
| 6.48% Series N | 6/19/08 | 600,000 | 150,000 | 16.20 | 9,720 |
|----------------|---------|---------|---------|-------|-------|

|                                  |           |            |           |       |
|----------------------------------|-----------|------------|-----------|-------|
| Total Perpetual Preference Units | 1,600,000 | \$ 200,000 | \$ 13,865 | 6.93% |
|----------------------------------|-----------|------------|-----------|-------|

The Company generally expects to meet its short-term liquidity requirements, including capital expenditures related to maintaining its existing properties and certain scheduled unsecured note and mortgage note repayments, through its working capital, net cash provided by operating activities and borrowings under the Company's revolving credit facility. Under normal operating conditions, the Company considers its cash provided by operating activities to be adequate to meet operating requirements and payments of distributions. However, there may be times when the Company experiences shortfalls in its coverage of distributions, which may cause the Company to consider reducing its distributions and/or using the proceeds from property dispositions or additional financing transactions to make up the difference. Should these shortfalls occur for lengthy periods of time or be material in nature, the Company's financial condition may be adversely affected and it may not be able to maintain its current distribution levels.

During the fourth quarter of 2010, the Company announced a new dividend policy which it believes will generate payouts more closely aligned with the actual annual operating results of the Company's core business and

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provide transparency to investors. The Company intends to pay an annual cash dividend equal to approximately 65% of Normalized FFO for the year. Subject to Board of Trustees approval, the Company anticipates the expected dividend payout will be \$1.57 to \$1.59 per share/Unit (\$0.3375 per share/Unit for each of the first three quarters with the balance for the fourth quarter) for the year ending December 31, 2011 to bring the total payment for the year to approximately 65% of Normalized FFO for the year. The above assumption is based on current expectations and is forward-looking. The new dividend policy will lead to a dividend reduction more quickly than in the past should operating results deteriorate and make it less likely that the Company will over distribute. The Company believes that its expected 2011 operating cash flow will be sufficient to cover capital expenditures and distributions.

The Company also expects to meet its long-term liquidity requirements, such as scheduled unsecured note and mortgage debt maturities, property acquisitions, financing of construction and development activities and capital improvements through the issuance of secured and unsecured debt and equity securities, including additional OP Units, and proceeds received from the disposition of certain properties and joint ventures. In addition, the Company has significant unencumbered properties available to secure additional mortgage borrowings in the event that the public capital markets are unavailable or the cost of alternative sources of capital is too high. The fair value of and cash flow from these unencumbered properties are in excess of the requirements the Company must maintain in order to comply with covenants under its unsecured notes and line of credit. Of the \$19.5 billion in investment in real estate on the Company's balance sheet at September 30, 2011, \$13.1 billion or 67.0% was unencumbered. However, there can be no assurances that these sources of capital will be available to the Company in the future on acceptable terms or otherwise.

ERPOP's credit ratings from Standard & Poor's (S&P), Moody's and Fitch for its outstanding senior debt are BBB+, Baa1 and BBB+, respectively. EQR's equity ratings from S&P, Moody's and Fitch for its outstanding preferred equity are BBB+, Baa2 and BBB-, respectively. During the fourth quarter of 2010, Fitch downgraded ERPOP's credit rating from A- to BBB+ and EQR's equity rating from BBB+ to BBB-, which did not have an effect on EQR's cost of funds. During the first quarter of 2011, Moody's raised its outlook for both EQR and ERPOP from negative outlook to stable outlook.

The Company's \$1.425 billion (net of \$75.0 million which had been committed by a now bankrupt financial institution and was not available for borrowing) long-term revolving credit facility was replaced with a new \$1.25 billion unsecured revolving credit facility maturing on July 13, 2014, subject to a one-year extension option exercisable by the Company. The interest rate on advances under the new credit facility will generally be LIBOR plus a spread (currently 1.15%) and the Company pays an annual facility fee of 0.2%. Both the spread and the facility fee are dependent on the credit rating of the Company's long-term debt. As of October 27, 2011, there was available borrowings of \$1.02 billion (net of \$85.9 million which was restricted/dedicated to support letters of credit and net of \$143.0 million outstanding) on the new revolving credit facility. This facility may, among other potential uses, be used to fund property acquisitions, costs for certain properties under development and short-term liquidity requirements.

In 2010, a portion of the parking garage collapsed at one of the Company's rental properties (Prospect Towers in Hackensack, New Jersey). The Company estimates that the costs related to such collapse (both expensed and capitalized), including providing for residents' interim needs, lost revenue and garage reconstruction, will be approximately \$11.0 million, after insurance reimbursements of \$12.0 million. Costs to rebuild the garage are capitalized as incurred. Other costs, like those to accommodate displaced residents, lost revenue due to a portion of the project being temporarily unavailable for occupancy and legal costs, reduce earnings as they are incurred. Generally, insurance proceeds are recorded as increases to earnings as they are received. During the nine months ended September 30, 2011, the Company received approximately \$2.7 million in insurance proceeds which offset expenses of \$1.6 million that were recorded relating to this loss and are included in real estate taxes and insurance on the consolidated statements of operations. In addition, the Company estimates that its lost revenues approximated \$0.7 million during the nine months ended September 30, 2011 as a result of lost occupancy in the high-rise tower following the collapse. Through October 27, 2011, the Company has cumulatively received approximately \$9.2 million in insurance proceeds which partially offsets expenses of \$7.1 million and the Company's estimate of its lost revenues, which approximated \$2.3 million. None of the amounts referenced above impact same store results.

See Note 14 in the Notes to Consolidated Financial Statements for discussion of the events which occurred subsequent to September 30, 2011.

***Capitalization of Fixed Assets and Improvements to Real Estate***

Our policy with respect to capital expenditures is generally to capitalize expenditures that improve the value of the property or extend the useful life of the component asset of the property. We track improvements to real estate in two major categories and several subcategories:

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Replacements (*inside the apartment unit*). These include:

flooring such as carpets, hardwood, vinyl, linoleum or tile;

appliances;

mechanical equipment such as individual furnace/air units, hot water heaters, etc;

furniture and fixtures such as kitchen/bath cabinets, light fixtures, ceiling fans, sinks, tubs, toilets, mirrors, countertops, etc;  
and

blinds/shades.

All replacements are depreciated over a five to ten-year estimated useful life. We expense as incurred all make-ready maintenance and turnover costs such as cleaning, interior painting of individual apartment units and the repair of any replacement item noted above.

Building improvements (*outside the apartment unit*). These include:

roof replacement and major repairs;

paving or major resurfacing of parking lots, curbs and sidewalks;

amenities and common areas such as pools, exterior sports and playground equipment, lobbies, clubhouses, laundry rooms, alarm and security systems and offices;

major building mechanical equipment systems;

interior and exterior structural repair and exterior painting and siding;

major landscaping and grounds improvement; and

vehicles and office and maintenance equipment.

All building improvements are depreciated over a five to ten-year estimated useful life. We capitalize building improvements and upgrades only if the item: (i) exceeds \$2,500 (selected projects must exceed \$10,000); (ii) extends the useful life of the asset; and (iii) improves the value of the asset.

For the nine months ended September 30, 2011, our actual improvements to real estate totaled approximately \$106.1 million. This includes the following (amounts in thousands except for apartment unit and per apartment unit amounts):

## Capital Expenditures to Real Estate

For the Nine Months Ended September 30, 2011

|                               | Total<br>Apartment<br>Units (1) | Replacements (2) | Avg. Per<br>Apartment<br>Unit | Building<br>Improvements | Avg. Per<br>Apartment<br>Unit | Total      | Avg. Per<br>Apartment<br>Unit |
|-------------------------------|---------------------------------|------------------|-------------------------------|--------------------------|-------------------------------|------------|-------------------------------|
| Same Store Properties (3)     | 102,129                         | \$ 53,872        | \$ 528                        | \$ 35,948                | \$ 352                        | \$ 89,820  | \$ 880                        |
| Non-Same Store Properties (4) | 11,981                          | 4,787            | 449                           | 9,388                    | 880                           | 14,175     | 1,329                         |
| Other (5)                     |                                 | 1,862            |                               | 213                      |                               | 2,075      |                               |
| Total                         | 114,110                         | \$ 60,521        |                               | \$ 45,549                |                               | \$ 106,070 |                               |

- (1) Total Apartment Units Excludes 4,901 military housing apartment units for which repairs and maintenance expenses and capital expenditures to real estate are self-funded and do not consolidate into the Company's results.
- (2) Replacements Includes new expenditures inside the apartment units such as appliances, mechanical equipment, fixtures and flooring, including carpeting. Replacements for same store properties also include \$29.2 million spent during the nine months ended September 30, 2011 on apartment unit renovations/rehabs (primarily kitchens and baths) on 4,160 apartment units (equating to about \$7,000 per apartment unit rehabbed) designed to reposition these assets for higher rental levels in their respective markets.
- (3) Same Store Properties Primarily includes all properties acquired or completed and stabilized prior to January 1, 2010, less properties subsequently sold.
- (4) Non-Same Store Properties Primarily includes all properties acquired during 2010 and 2011, plus any properties in lease-up and not stabilized as of January 1, 2010. Per apartment unit amounts are based on a weighted average of 10,666 apartment units.
- (5) Other Primarily includes expenditures for properties sold during the period.
- For 2011, the Company estimates that it will spend approximately \$1,200 per apartment unit of capital expenditures for its same store properties inclusive of apartment unit renovation/rehab costs, or \$850 per apartment unit excluding apartment unit renovation/rehab costs. For 2011, the Company estimates that it will spend \$41.0 million rehabbing 5,500 apartment units (equating to about \$7,500 per apartment unit rehabbed). The above assumptions are



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based on current expectations and are forward-looking.

During the nine months ended September 30, 2011, the Company's total non-real estate capital additions, such as computer software, computer equipment, and furniture and fixtures and leasehold improvements to the Company's property management offices and its corporate offices, were approximately \$4.9 million. The Company expects to fund approximately \$3.6 million in total additions to non-real estate property for the remainder of 2011. The above assumption is based on current expectations and is forward-looking.

Improvements to real estate and additions to non-real estate property are generally funded from net cash provided by operating activities and from investment cash flow.

### ***Derivative Instruments***

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to manage these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments.

The Company has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, the Company has not sustained a material loss from these instruments nor does it anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives it currently has in place.

See Note 9 in the Notes to Consolidated Financial Statements for additional discussion of derivative instruments at September 30, 2011.

### ***Other***

Total distributions paid in October 2011 amounted to \$107.1 million (excluding distributions on Partially Owned Properties), which included certain distributions declared during the third quarter ended September 30, 2011.

### **Off-Balance Sheet Arrangements and Contractual Obligations**

The Company admitted an 80% institutional partner to two separate entities/transactions (one in December 2010 and the other in August 2011), each owning a developable land parcel, in exchange for \$40.1 million in cash and retained a 20% equity interest in both of these entities. These land parcels are now unconsolidated. Total project costs are approximately \$232.8 million and construction will be predominantly funded with long-term, non-recourse secured loans from the partner. While the Company is the managing member of both of the joint ventures, is responsible for constructing both of the projects and has given certain construction cost overrun guarantees, all major decisions are made jointly, the large majority of funding is provided by the partner and the partner has significant involvement in and oversight of the ongoing projects. The Company's remaining funding obligations are currently estimated at approximately \$6.6 million. The Company's strategy with respect to these ventures was to reduce its financial risk related to the development of these properties. However, management does not believe that these investments have a materially different impact upon the Company's liquidity, cash flows, capital resources, credit or market risk than its other consolidated development activities.

As of September 30, 2011, the Company has four consolidated projects totaling 747 apartment units and two unconsolidated projects totaling 945 apartment units in various stages of development with estimated completion dates ranging through September 30, 2013, as well as other completed development projects that are in various stages of lease up or are stabilized. The development agreements currently in place are discussed in detail in Note 12 of the Company's Consolidated Financial Statements.

See also Notes 2 and 6 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company's investments in partially owned entities.

The Company's contractual obligations for the next five years and thereafter have not changed materially from the amounts and disclosures included in each of the Company's and the Operating Partnership's annual reports on Form 10-K, other than as it relates to scheduled debt maturities. See the updated debt maturity schedule included in Liquidity and Capital Resources for further discussion.

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### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or different presentation of our financial statements.

The Company has identified five significant accounting policies as critical accounting policies. These critical accounting policies are those that have the most impact on the reporting of our financial condition and those requiring significant judgments and estimates. With respect to these critical accounting policies, management believes that the application of judgments and estimates is consistently applied and produces financial information that fairly presents the results of operations for all periods presented. The five critical accounting policies are:

#### *Acquisition of Investment Properties*

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

#### *Impairment of Long-Lived Assets*

The Company periodically evaluates its long-lived assets, including its investments in real estate, for indicators of impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal and environmental concerns, as well as the Company's ability to hold and its intent with regard to each asset. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment loss is warranted.

#### *Depreciation of Investment in Real Estate*

The Company depreciates the building component of its investment in real estate over a 30-year estimated useful life, building improvements over a 5-year to 10-year estimated useful life and both the furniture, fixtures and equipment and replacements components over a 5-year to 10-year estimated useful life, all of which are judgmental determinations.

#### *Cost Capitalization*

See the *Capitalization of Fixed Assets and Improvements to Real Estate* section for a discussion of the Company's policy with respect to capitalization vs. expensing of fixed asset/repair and maintenance costs. In addition, the Company capitalizes an allocation of the payroll and associated costs of employees directly responsible for and who spend their time on the supervision of major capital and/or renovation projects. These costs are reflected on the balance sheet as an increase to depreciable property.

For all development projects, the Company uses its professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. The Company capitalizes interest, real estate taxes and insurance and payroll and associated costs for those individuals directly responsible for and who spend their time on development activities, with capitalization ceasing no later than 90 days following issuance of the certificate of occupancy. These costs are reflected on the balance sheet as construction-in-progress for each specific property. The Company expenses as incurred all payroll costs of on-site employees working directly at our properties, except as noted above on our development properties prior to certificate of occupancy issuance and on specific major renovations at selected properties when additional incremental employees are hired.

#### *Fair Value of Financial Instruments, Including Derivative Instruments*

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



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

**Funds From Operations and Normalized Funds From Operations**

For the nine months ended September 30, 2011, Funds From Operations ( FFO ) available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units increased \$64.4 million, or 13.2%, and \$57.1 million, or 11.5%, respectively, as compared to the nine months ended September 30, 2010.

For the quarter ended September 30, 2011, FFO available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units increased \$30.5 million, or 18.4%, and \$20.5 million, or 11.9%, respectively, as compared to the quarter ended September 30, 2010.

The following is the Company's and Operating Partnership's reconciliation of net income to FFO available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units for the nine months and quarters ended September 30, 2011 and 2010:

**Funds From Operations and Normalized Funds From Operations**

*(Amounts in thousands)*

|   | Nine Months Ended September 30, |            | Quarter Ended September 30, |            |
|---|---------------------------------|------------|-----------------------------|------------|
|   | 2011                            | 2010       | 2011                        | 2010       |
| Net income  | \$ 827,796                      | \$ 97,771  | \$ 112,977                  | \$ 29,826  |
| Adjustments:  |                                 |            |                             |            |
| Net (income) loss attributable to Noncontrolling Interests  |                                 |            |                             |            |
| Partially Owned Properties  | (418)                           | 623        | (387)                       | 188        |
| Depreciation  | 482,039                         | 457,822    | 164,552                     | 158,318    |
| Depreciation Non-real estate additions  | (4,202)                         | (4,842)    | (1,297)                     | (1,585)    |
| Depreciation Partially Owned and Unconsolidated Properties  | (2,263)                         | (849)      | (758)                       | (856)      |
| Net (gain) on sales of unconsolidated entities  |                                 | (28,101)   |                             | (22,544)   |
| Discontinued operations:  |                                 |            |                             |            |
| Depreciation  | 14,256                          | 43,706     | 901                         | 15,646     |
| Net (gain) on sales of discontinued operations  | (759,100)                       | (69,538)   | (76,864)                    | (9,285)    |
| Net incremental gain (loss) on sales of condominium units   | 2,050                           | 619        | 935                         | (12)       |
| Gain (loss) on sale of Equity Corporate Housing (ECH)   | 1,022                           |            | (2)                         |            |
| FFO (1) (3)   | 561,180                         | 497,211    | 200,057                     | 169,696    |
| Adjustments:  |                                 |            |                             |            |
| Asset impairment and valuation allowances   |                                 |            |                             |            |
| Property acquisition costs and write-off of pursuit costs (other expenses)  | 9,318                           | 9,513      | 2,528                       | 3,487      |
| Debt extinguishment (gains) losses, including prepayment penalties, preferred share/preference unit redemptions and non-cash convertible debt discounts | 9,250                           | 6,673      | 677                         | 1,854      |
| (Gains) losses on sales of non-operating assets, net of income and other tax expense (benefit)  | (6,554)                         | 577        | (1,025)                     | 1,189      |
| Other miscellaneous non-comparable items  | (7,762)                         | (5,192)    | (5,662)                     |            |
| Normalized FFO (2) (3)  | \$ 565,432                      | \$ 508,782 | \$ 196,575                  | \$ 176,226 |
| FFO (1) (3)   | \$ 561,180                      | \$ 497,211 | \$ 200,057                  | \$ 169,696 |
| Preferred distributions   | (10,399)                        | (10,855)   | (3,466)                     | (3,617)    |
| FFO available to Common Shares and Units / Units (1) (3) (4)  | \$ 550,781                      | \$ 486,356 | \$ 196,591                  | \$ 166,079 |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Normalized FFO (2) (3)  | \$ 565,432 | \$ 508,782 | \$ 196,575 | \$ 176,226 |
| Preferred distributions   | (10,399)   | (10,855)   | (3,466)    | (3,617)    |
| Normalized FFO available to Common Shares and Units / Units (2) (3) (4) | \$ 555,033 | \$ 497,927 | \$ 193,109 | \$ 172,609 |

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(1) *The National Association of Real Estate Investment Trusts ( NAREIT ) defines funds from operations ( FFO ) (April 2002 White Paper) as net income (computed in accordance with accounting principles generally accepted in the United States ( GAAP )), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. The April 2002 White Paper states that gain or loss on sales of property is excluded from FFO for previously depreciated operating properties only. Once the Company commences the conversion of apartment units to condominiums, it simultaneously discontinues depreciation of such property.*

(2) *Normalized funds from operations ( Normalized FFO ) begins with FFO and excludes:*

*the impact of any expenses relating to asset impairment and valuation allowances;*

*property acquisition and other transaction costs related to mergers and acquisitions and pursuit cost write-offs (other expenses);*

*gains and losses from early debt extinguishment, including prepayment penalties, preferred share/preference unit redemptions and the cost related to the implied option value of non-cash convertible debt discounts;*

*gains and losses on the sales of non-operating assets, including gains and losses from land parcel and condominium sales, net of the effect of income tax benefits or expenses; and*

*other miscellaneous non-comparable items.*

(3) *The Company believes that FFO and FFO available to Common Shares and Units / Units are helpful to investors as supplemental measures of the operating performance of a real estate company, because they are recognized measures of performance by the real estate industry and by excluding gains or losses related to dispositions of depreciable property and excluding real estate depreciation (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO and FFO available to Common Shares and Units / Units can help compare the operating performance of a company s real estate between periods or as compared to different companies. The company also believes that Normalized FFO and Normalized FFO available to Common Shares and Units / Units are helpful to investors as supplemental measures of the operating performance of a real estate company because they allow investors to compare the company s operating performance to its performance in prior reporting periods and to the operating performance of other real estate companies without the effect of items that by their nature are not comparable from period to period and tend to obscure the Company s actual operating results. FFO, FFO available to Common Shares and Units / Units, Normalized FFO and Normalized FFO available to Common Shares and Units / Units do not represent net income, net income available to Common Shares / Units or net cash flows from operating activities in accordance with GAAP. Therefore, FFO, FFO available to Common Shares and Units / Units, Normalized FFO and Normalized FFO available to Common Shares and Units / Units should not be exclusively considered as alternatives to net income, net income available to Common Shares / Units or net cash flows from operating activities as determined by GAAP or as a measure of liquidity. The Company s calculation of FFO, FFO available to Common Shares and Units / Units, Normalized FFO and Normalized FFO available to Common Shares and Units / Units may differ from other real estate companies due to, among other items, variations in cost capitalization policies for capital expenditures and, accordingly, may not be comparable to such other real estate companies.*

(4) *FFO available to Common Shares and Units / Units and Normalized FFO available to Common Shares and Units / Units are calculated on a basis consistent with net income available to Common Shares / Units and reflects adjustments to net income for preferred distributions and premiums on redemption of preferred shares/preference units in accordance with accounting principles generally accepted in the United States. The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units are collectively referred to as the Noncontrolling Interests Operating Partnership . Subject to certain restrictions, the Noncontrolling Interests Operating Partnership may exchange their OP Units for Common Shares on a*

*one-for-one basis.*

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's market risk has not changed materially from the amounts and information reported in Part II, Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*, to each of the Company's and the Operating Partnership's Annual Reports on Form 10-K for the year ended December 31, 2010. See the *Current Environment* section of Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations* relating to market risk and the current economic environment. See also Note 9 in the Notes to Consolidated Financial Statements for additional discussion of derivative and other fair value instruments.

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**Item 4. Controls and Procedures**

*Equity Residential*

**(a) Evaluation of Disclosure Controls and Procedures:**

Effective as of September 30, 2011, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**(b) Changes in Internal Control over Financial Reporting:**

There were no changes to the internal control over financial reporting of the Company identified in connection with the Company's evaluation referred to in Item 4(a) above that occurred during the third quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*ERP Operating Limited Partnership*

**(a) Evaluation of Disclosure Controls and Procedures:**

Effective as of September 30, 2011, the Operating Partnership carried out an evaluation, under the supervision and with the participation of the Operating Partnership's management, including the Chief Executive Officer and Chief Financial Officer of EQR, of the effectiveness of the Operating Partnership's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Operating Partnership in its Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**(b) Changes in Internal Control over Financial Reporting:**

There were no changes to the internal control over financial reporting of the Operating Partnership identified in connection with the Operating Partnership's evaluation referred to in Item 4(a) above that occurred during the third quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company and the Operating Partnership do not believe that there have been any material developments in the legal proceedings that were discussed in Part I, Item 3 of both the Company's and the Operating Partnership's Annual Reports on Form 10-K for the year ended December 31, 2010.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors that were discussed in Part I, Item 1A of both the Company's and the Operating Partnership's Annual Reports on Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) Unregistered Common Shares Issued in the Quarter Ended September 30, 2011 Equity Residential

During the quarter ended September 30, 2011, EQR issued 39,958 Common Shares in exchange for 39,958 OP Units held by various limited partners of the Operating Partnership. OP Units are generally exchangeable into Common Shares on a one-for-one basis or, at the option of the Operating Partnership, the cash equivalent thereof, at any time one year after the date of issuance. These shares were either registered under the Securities Act of 1933, as amended (the Securities Act), or issued in reliance on an exemption from registration under Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder, as these were transactions by an issuer not involving a public offering. In light of the manner of the sale and information obtained by EQR from the limited partners in connection with these transactions, EQR believes it may rely on these exemptions.

**Item 6. Exhibits** See the Exhibit Index

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**SIGNATURES**

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

EQUITY RESIDENTIAL

Date: November 4, 2011

By: /s/ MARK J. PARRELL  
**Mark J. Parrell**  
**Executive Vice President and**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

Date: November 4, 2011

By: /s/ IAN S. KAUFMAN  
**Ian S. Kaufman**  
**Senior Vice President and**  
**Chief Accounting Officer**  
**(Principal Accounting Officer)**

ERP OPERATING LIMITED PARTNERSHIP

BY: EQUITY RESIDENTIAL

ITS GENERAL PARTNER

Date: November 4, 2011

By: /s/ MARK J. PARRELL  
**Mark J. Parrell**  
**Executive Vice President and**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

Date: November 4, 2011

By: /s/ IAN S. KAUFMAN  
**Ian S. Kaufman**  
**Senior Vice President and**  
**Chief Accounting Officer**  
**(Principal Accounting Officer)**

**Table of Contents****EXHIBIT INDEX**

The exhibits listed below are filed as part of this report. References to exhibits or other filings under the caption "Location" indicate that the exhibit or other filing has been filed, that the indexed exhibit and the exhibit referred to are the same and that the exhibit referred to is incorporated by reference. The Commission file numbers for our Exchange Act filings referenced below are 1-12252 (Equity Residential) and 0-24920 (ERP Operating Limited Partnership).

| <b>Exhibit</b> | <b>Description</b>   | <b>Location</b>  |
|----------------|--|--|
| 10.1           | Revolving Credit Agreement dated as of July 13, 2011 among ERP Operating Limited Partnership, Bank of America, N.A., as Administrative Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Book Runners, Suntrust Bank, U.S. Bank National Association, and Wells Fargo Bank, National Association, as Documentation Agents, and Citibank, N.A., Deutsche Bank Securities Inc., and Morgan Stanley Senior Funding, Inc., as Co-Documentation Agents, and a syndicate of other banks (the "Credit Agreement"). | Included as Exhibit 10.1 to Equity Residential's and ERP Operating Limited Partnership's Form 8-K dated July 13, 2011, filed on July 14, 2011. |
| 10.2           | Guaranty of Payment made as of July 13, 2011 between Equity Residential and Bank of America, N.A., as administrative agent for the banks party to the Credit Agreement.  | Included as Exhibit 10.2 to Equity Residential's and ERP Operating Limited Partnership's Form 8-K dated July 13, 2011, filed on July 14, 2011. |
| 31.1           | Equity Residential Certification of David J. Neithercut, Chief Executive Officer.  | Attached herein.   |
| 31.2           | Equity Residential Certification of Mark J. Parrell, Chief Financial Officer.  | Attached herein.   |
| 31.3           | ERP Operating Limited Partnership Certification of David J. Neithercut, Chief Executive Officer of Registrant's General Partner.   | Attached herein.   |
| 31.4           | ERP Operating Limited Partnership Certification of Mark J. Parrell, Chief Financial Officer of Registrant's General Partner.   | Attached herein.   |
| 32.1           | Equity Residential Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of David J. Neithercut, Chief Executive Officer of the Company.   | Attached herein.   |
| 32.2           | Equity Residential Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Mark J. Parrell, Chief Financial Officer of the Company.   | Attached herein.   |
| 32.3           | ERP Operating Limited Partnership Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of David J. Neithercut, Chief Executive Officer of Registrant's General Partner.   | Attached herein.   |
| 32.4           | ERP Operating Limited Partnership Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Mark J. Parrell, Chief Financial Officer of Registrant's General Partner.   | Attached herein.   |
| 101            | XBRL (Extensible Business Reporting Language). The following materials from Equity Residential's and ERP Operating Limited Partnership's Quarterly Report on Form 10-Q for the period ended September 30, 2011, formatted in XBRL: (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, (iv) consolidated statement of changes in equity (Equity Residential), (v) consolidated statement of changes in capital (ERP Operating Limited Partnership) and (vi) notes to consolidated financial statements.  | Attached herein.   |