

EQUITY RESIDENTIAL  
Form 10-Q  
May 03, 2012

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

FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2012

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

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

Commission File Number: 1-12252 (Equity Residential)  
Commission File Number: 0-24920 (ERP Operating Limited Partnership)

EQUITY RESIDENTIAL  
ERP OPERATING LIMITED PARTNERSHIP  
(Exact Name of Registrant as Specified in Its Charter)

Maryland (Equity Residential) 13-3675988 (Equity Residential)  
Illinois (ERP Operating Limited Partnership) 36-3894853 (ERP Operating Limited Partnership)  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

Two North Riverside Plaza, Chicago, Illinois 60606 (312) 474-1300  
(Address of Principal Executive Offices) (Zip Code) (Registrant's Telephone Number, Including Area Code)

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

Equity Residential Yes  No  ERP Operating Limited Partnership Yes  No

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

Equity Residential Yes  No  ERP Operating Limited Partnership Yes  No

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

Equity Residential:  
Large accelerated filer  Accelerated filer

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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 April 26, 2012 was 300,624,108.

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## EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended March 31, 2012 of Equity Residential and ERP Operating Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “EQR” mean Equity Residential, a Maryland real estate investment trust (“REIT”), and references to “ERPOP” mean ERP Operating Limited Partnership, an Illinois limited partnership. References to the “Company,” “we,” “us” or “our” mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the “Operating Partnership” mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. The following chart illustrates the Company's and the Operating Partnership's corporate structure: EQR is the general partner of, and as of March 31, 2012 owned an approximate 95.7% ownership interest in, ERPOP. The remaining 4.3% interest is owned by limited partners. As the sole general partner of ERPOP, EQR has exclusive control of ERPOP's day-to-day management.

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

The Company believes that combining the reports on Form 10-Q of EQR and ERPOP into this single report provides the following benefits:

- enhances investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

Management operates the Company and the Operating Partnership as one business. The management of EQR consists of the same members as the management of ERPOP.

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

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

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Investment in real estate  |                   |                      |
| Land   | \$4,384,200       | \$4,367,816          |
| Depreciable property   | 15,606,315        | 15,554,740           |
| Projects under development   | 185,621           | 160,190              |
| Land held for development  | 360,955           | 325,200              |
| Investment in real estate  | 20,537,091        | 20,407,946           |
| Accumulated depreciation   | (4,658,994)       | (4,539,583)          |
| Investment in real estate, net   | 15,878,097        | 15,868,363           |
| Cash and cash equivalents  | 219,628           | 383,921              |
| Investments in unconsolidated entities   | 14,803            | 12,327               |
| Deposits – restricted  | 182,182           | 152,237              |
| Escrow deposits – mortgage   | 11,428            | 10,692               |
| Deferred financing costs, net  | 45,861            | 44,608               |
| Other assets   | 129,248           | 187,155              |
| Total assets   | \$16,481,247      | \$16,659,303         |
| <b>LIABILITIES AND EQUITY</b>  |                   |                      |
| Liabilities:   |                   |                      |
| Mortgage notes payable   | \$4,056,976       | \$4,111,487          |
| Notes, net   | 5,355,590         | 5,609,574            |
| Lines of credit  | —                 | —                    |
| Accounts payable and accrued expenses  | 77,055            | 35,206               |
| Accrued interest payable   | 79,489            | 88,121               |
| Other liabilities  | 261,448           | 291,289              |
| Security deposits  | 65,468            | 65,286               |
| Distributions payable  | 109,043           | 179,079              |
| Total liabilities  | 10,005,069        | 10,380,042           |
| Commitments and contingencies  |                   |                      |
| Redeemable Noncontrolling Interests – Operating Partnership  | 457,224           | 416,404              |
| Equity:  |                   |                      |
| Shareholders' equity:  |                   |                      |
| Preferred Shares of beneficial interest, \$0.01 par value;<br>100,000,000 shares authorized; 1,600,000 shares issued and outstanding as of<br>March 31, 2012 and December 31, 2011   | 200,000           | 200,000              |
| Common Shares of beneficial interest, \$0.01 par value;<br>1,000,000,000 shares authorized; 300,522,169 shares issued and outstanding as of<br>March 31, 2012 and 297,508,185 shares issued and outstanding as of<br>December 31, 2011 | 3,005             | 2,975                |
| Paid in capital  | 5,152,975         | 5,047,186            |

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|  |              |              |
|--|--------------|--------------|
| Retained earnings                      | 656,001      | 615,572      |
| Accumulated other comprehensive (loss) | (189,973     | ) (196,718 ) |
| Total shareholders' equity             | 5,822,008    | 5,669,015    |
| Noncontrolling Interests:              |              |              |
| Operating Partnership                  | 123,031      | 119,536      |
| Partially Owned Properties             | 73,915       | 74,306       |
| Total Noncontrolling Interests         | 196,946      | 193,842      |
| Total equity                           | 6,018,954    | 5,862,857    |
| Total liabilities and equity           | \$16,481,247 | \$16,659,303 |

See accompanying notes

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EQUITY RESIDENTIAL  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)

(Unaudited)

|   | Quarter Ended March 31, |             |
|---|-------------------------|-------------|
|   | 2012                    | 2011        |
| <b>REVENUES</b>   |                         |             |
| Rental income   | \$525,595               | \$464,550   |
| Fee and asset management  | 2,064                   | 1,806       |
| Total revenues  | 527,659                 | 466,356     |
| <b>EXPENSES</b>   |                         |             |
| Property and maintenance  | 112,379                 | 105,047     |
| Real estate taxes and insurance   | 55,987                  | 52,139      |
| Property management   | 23,409                  | 22,381      |
| Fee and asset management  | 1,307                   | 948         |
| Depreciation  | 174,737                 | 158,455     |
| General and administrative  | 13,688                  | 11,433      |
| Total expenses  | 381,507                 | 350,403     |
| Operating income  | 146,152                 | 115,953     |
| Interest and other income   | 172                     | 1,011       |
| Other expenses  | (7,067)                 | ) (2,160)   |
| Interest:   |                         |             |
| Expense incurred, net   | (118,703)               | ) (120,528) |
| Amortization of deferred financing costs                                | (2,974)                 | ) (3,005)   |
| Income (loss) before income and other taxes and discontinued operations | 17,580                  | ) (8,729)   |
| Income and other tax (expense) benefit                                  | (191)                   | ) (184)     |
| Income (loss) from continuing operations                                | 17,389                  | ) (8,913)   |
| Discontinued operations, net  | 134,778                 | 141,979     |
| Net income  | 152,167                 | 133,066     |
| Net (income) loss attributable to Noncontrolling Interests:             |                         |             |
| Operating Partnership   | (6,418)                 | ) (5,775)   |
| Partially Owned Properties  | (450)                   | ) 40        |
| Net income attributable to controlling interests                        | 145,299                 | 127,331     |
| Preferred distributions   | (3,466)                 | ) (3,466)   |
| Net income available to Common Shares                                   | \$141,833               | \$123,865   |
| <b>Earnings per share – basic:</b>                                      |                         |             |
| Income (loss) from continuing operations available to Common Shares     | \$0.04                  | ) \$(0.04)  |
| Net income available to Common Shares                                   | \$0.47                  | \$0.42      |
| Weighted average Common Shares outstanding                              | 298,805                 | 292,895     |
| <b>Earnings per share – diluted:</b>                                    |                         |             |
| Income (loss) from continuing operations available to Common Shares     | \$0.04                  | ) \$(0.04)  |
| Net income available to Common Shares                                   | \$0.47                  | \$0.42      |

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|   |          |          |
|---|----------|----------|
| Weighted average Common Shares outstanding          | 315,230  | 292,895  |
| Distributions declared per Common Share outstanding | \$0.3375 | \$0.3375 |

See accompanying notes

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

|   | Quarter Ended March 31, |            |   |
|---|-------------------------|------------|---|
|   | 2012                    | 2011       |   |
| Comprehensive income:   |                         |            |   |
| Net income  | \$ 152,167              | \$ 133,066 |   |
| Other comprehensive income:                                       |                         |            |   |
| Other comprehensive income – derivative instruments:              |                         |            |   |
| Unrealized holding gains arising during the period                | 3,218                   | 6,082      |   |
| Losses reclassified into earnings from other comprehensive income | 3,563                   | 956        |   |
| Other comprehensive (loss) income – other instruments:            |                         |            |   |
| Unrealized holding (losses) gains arising during the period       | (36                     | ) 146      |   |
| Other comprehensive income  | 6,745                   | 7,184      |   |
| Comprehensive income  | 158,912                 | 140,250    |   |
| Comprehensive (income) attributable to Noncontrolling Interests   | (6,868                  | ) (5,735   | ) |
| Comprehensive income attributable to controlling interests        | \$ 152,044              | \$ 134,515 |   |

See accompanying notes

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

|   | Quarter Ended March 31, |            |
|---|-------------------------|------------|
|   | 2012                    | 2011       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                         |            |
| Net income  | \$ 152,167              | \$ 133,066 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |            |
| Depreciation  | 175,108                 | 169,363    |
| Amortization of deferred financing costs  | 2,974                   | 3,074      |
| Amortization of discounts and premiums on debt                                    | (1,567                  | ) 373      |
| Amortization of deferred settlements on derivative instruments                    | 3,429                   | 822        |
| Write-off of pursuit costs  | 1,034                   | 1,683      |
| Distributions from unconsolidated entities – return on capital                    | 89                      | 41         |
| Net (gain) on sales of discontinued operations                                    | (132,956                | ) (123,754 |
| Unrealized (gain) on derivative instruments                                       | (1                      | ) —        |
| Compensation paid with Company Common Shares                                      | 8,968                   | 6,524      |
| Changes in assets and liabilities:  |                         |            |
| (Increase) decrease in deposits – restricted                                      | (2,768                  | ) 1,557    |
| Decrease in other assets  | 12,262                  | 5,771      |
| Increase in accounts payable and accrued expenses                                 | 41,616                  | 44,531     |