

ESSEX PORTFOLIO LP
Form 10-K
March 02, 2015

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

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2014

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: 1-13106 (Essex Property Trust, Inc.)

Commission file number: 333-44467-01 (Essex Portfolio, L.P.)

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

Maryland (Essex Property Trust, Inc.)	77-0369576 (Essex Property Trust, Inc.)
California (Essex Portfolio, L.P.)	77-0369575 (Essex Portfolio, L.P.)
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

925 East Meadow Drive
Palo Alto, California 94303
(Address of Principal Executive Offices including Zip Code)
(650) 494-3700
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.0001 par value (Essex Property Trust, Inc.)	New York Stock Exchange

7.125% Series H Cumulative Redeemable Preferred Stock (Essex Property Trust, Inc.)	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Essex Property Trust, Inc. Yes No

Essex Portfolio, L.P. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Essex Property Trust, Inc. Yes No

Essex Portfolio, L.P. Yes No

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.

Essex Property Trust, Inc. Yes No

Essex Portfolio, L.P. 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).

Essex Property Trust, Inc. Yes No

Essex Portfolio, L.P. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

Essex Property Trust, Inc.

Essex Portfolio, L.P.

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

Essex Property Trust, Inc.:

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

Essex Portfolio, L.P.:

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 Act).

Essex Property Trust, Inc. Yes No

Essex Portfolio, L.P. Yes No

As of June 30, 2014, the aggregate market value of the voting stock held by non-affiliates of Essex Property Trust, Inc. was \$11,430,740,862. The aggregate market value was computed with reference to the closing price on the New York Stock Exchange on such date. Shares of common stock held by executive officers, directors and holders of more than ten percent of the outstanding common stock have been excluded from this calculation because such persons may be deemed to be affiliates. This exclusion does not reflect a determination that such persons are affiliates for any other purposes. There is no public trading market for the common units of Essex Portfolio, L.P. As a result, the aggregate market value of the common units held by non-affiliates of Essex Portfolio, L.P., cannot be determined.

As of February 24, 2015, 65,125,801 shares of common stock (\$.0001 par value) of Essex Property Trust, Inc. were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

The following document is incorporated by reference in Part III of the Annual Report on Form 10-K: Proxy statement for the annual meeting of stockholders of Essex Property Trust, Inc. to be filed within 120 days of December 31, 2014.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2014 of Essex Property Trust, Inc. and Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to “ESS” mean Essex Property Trust, Inc., a Maryland corporation that operates as a self-administered and self-managed real estate investment trust (“REIT”), and references to “EPLP” mean Essex Portfolio, L.P. (the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, references to the “Company,” “Essex,” “we,” “us” or “our” mean collectively ESS EPLP and those entities/subsidiaries owned or controlled by ESS and/or EPLP. References to the “Operating Partnership” mean collectively EPLP and those entities/subsidiaries owned or controlled by EPLP.

ESS is the general partner of, and as of December 31, 2014 owned an approximate 96.7% ownership interest in EPLP. The remaining 3.3% interest is owned by limited partners. As the sole general partner of EPLP, ESS has exclusive control of EPLP's day-to-day management.

The Company is structured as an umbrella partnership REIT (“UPREIT”) and ESS contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, ESS receives a number of OP Units (see definition below) in the Operating Partnership equal to the number of shares of common stock 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 EPLP's partnership agreement, OP Units can be exchanged for ESS common stock on a one-for-one basis. The Company maintains a one-for-one relationship between the OP Units of the Operating Partnership issued to ESS and shares of common stock.

The Company believes that combining the reports on Form 10-K of ESS and EPLP 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 ESS consists of the same members as the management of EPLP.

All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and ESS has no material assets, other than its investment in EPLP. ESS's primary function is acting as the general partner of EPLP. As general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. ESS also issues equity from time to time and guarantees certain debt of EPLP, as disclosed in this report. 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 share of common stock 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 and proceeds received from disposition of certain properties and joint ventures.

The Company believes it is important to understand the few differences between ESS and EPLP in the context of how ESS and EPLP operate as a consolidated company. 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 consolidated financial statements and as noncontrolling interests in the Company's consolidated financial statements. The noncontrolling interests in the Operating Partnership's consolidated financial statements include the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in the Company's consolidated financial statements include (i) the same noncontrolling interests as presented in the Operating Partnership's consolidated financial statements and (ii) limited partner OP Unit holders of the Operating Partnership. The differences between

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stockholders' 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 shareholders' equity or partners' capital, earnings per share/unit; as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Part II, Item 9A. 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. 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.

ESSEX PROPERTY TRUST, INC.
 ESSEX PORTFOLIO, L.P.
 2014 ANNUAL REPORT ON FORM 10-K

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PART I

Forward Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are described in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in the section, “Forward Looking Statements.” Actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including Item in 1A, Risk Factors of this Form 10-K.

Item 1. Business

OVERVIEW

Essex Property Trust, Inc. (“Essex” or the “Company”) is a Maryland corporation that operates as a self-administered and self-managed real estate investment trust (“REIT”). The Company owns all of its interest in its real estate investments directly or indirectly through Essex Portfolio, L.P. (the “Operating Partnership” or “EPLP”). The Company is the sole general partner of the Operating Partnership and as of December 31, 2014 owns a 96.7% general partnership interest. In this report, the terms “Essex” or the “Company” also refer to Essex Property Trust, Inc., its Operating Partnership and those entities owned or controlled by the Operating Partnership.

The Company has elected to be treated as a REIT for federal income tax purposes, commencing with the year ended December 31, 1994 as the Company completed an initial public offering on June 13, 1994. In order to maintain compliance with REIT tax rules, the Company utilizes taxable REIT subsidiaries for various revenue generating or investment activities. All taxable REIT subsidiaries are consolidated by the Company.

The Company is engaged primarily in the ownership, operation, management, acquisition, development and redevelopment of predominantly apartment communities. As of December 31, 2014, the Company owned or held an interest in 239 communities, aggregating 57,455 units, located along the West Coast, as well as four commercial buildings (totaling approximately 325,200 square feet), and twelve active development projects with 2,920 units in various stages of development (collectively, the “Portfolio”).

The Company’s website address is <http://www.essex.com>. The Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the Proxy Statement for its Annual Meeting of Stockholders are available, free of charge, on its website as soon as practicable after the Company files the reports with the U.S. Securities and Exchange Commission (“SEC”).

BUSINESS STRATEGIES

The following is a discussion of the Company’s business strategies in regards to real estate investment and management.

Business Strategies

Research Driven Approach to Investments – The Company believes that successful real estate investment decisions and portfolio growth begin with extensive regional economic research and local market knowledge. The Company continually assesses markets where the Company operates, as well as markets where the Company considers future investment opportunities by evaluating the following:

Focus on markets in major metropolitan areas that have regional population in excess of one million;
Constraints on new supply driven by: (i) low availability of developable land sites where competing housing could be economically built; (ii) political growth barriers, such as protected land, urban growth boundaries, and potential lengthy and expensive development permit processes; and (iii) natural limitations to development, such as mountains or waterways;
Rental demand is enhanced by affordability of rents relative to costs of for-sale housing; and
Housing demand that is based on job growth, proximity to jobs, high median incomes and the quality of life including related commuting factors.

Recognizing that all real estate markets are cyclical, the Company regularly evaluates the results of its regional economic, and local market research, and adjusts the geographic focus of its portfolio accordingly. The Company seeks to increase its Portfolio allocation in markets projected to have the strongest local economies and to decrease such allocations in markets

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projected to have declining economic conditions. Likewise, the Company also seeks to increase its Portfolio allocation in markets that have attractive property valuations and to decrease such allocations in markets that have inflated valuations and low relative yields.

Property Operations – The Company manages its communities by focusing on activities that may generate above-average rental growth, tenant retention/satisfaction and long-term asset appreciation. The Company intends to achieve this by utilizing the strategies set forth below:

Property Management – Oversee delivery of and quality of the housing provided to our residents and manage the properties financial performance.

Capital Preservation – Asset Management is responsible for the planning, budgeting and completion of major capital improvement projects at the Company’s communities.

Business Planning and Control – Comprehensive business plans are implemented in conjunction with significant investment decisions. These plans include benchmarks for future financial performance, based on collaborative discussions between on-site managers and senior management.

Development and Redevelopment – The Company focuses on acquiring and developing apartment communities in supply constrained markets, and redeveloping its existing communities to improve the financial and physical aspects of the Company’s communities.

CURRENT BUSINESS ACTIVITIES

Merger with BRE Properties, Inc.

On April 1, 2014, Essex completed the merger with BRE Properties, Inc. (“BRE”). In connection with the closing of the merger, (1) BRE merged into a wholly owned subsidiary of Essex, and (2) each outstanding share of BRE common stock was converted into (i) 0.2971 shares (the “Stock Consideration”) of Essex common stock, and (ii) \$7.18 in cash, (the “Cash Consideration”), plus cash in lieu of fractional shares for total consideration of approximately \$4.3 billion. The Cash Consideration was adjusted as a result of the authorization and declaration of a special distribution to the stockholders of BRE of \$5.15 per share of BRE common stock payable to BRE stockholders of record as of the close of business on March 31, 2014 (the “Special Dividend”). The Special Dividend was payable as a result of the closing of the sale of certain interests in assets of BRE to certain parties, which closed on March 31, 2014. Pursuant to the terms of the merger agreement, the amounts payable as a Special Dividend reduced the Cash Consideration of \$12.33 payable by Essex in the merger to \$7.18 per share of BRE common stock.

Essex issued approximately 23.1 million shares of Essex common stock as Stock Consideration in the merger. For purchase accounting, the value of the common stock issued by Essex upon the consummation of the merger was determined based on the closing price of BRE’s common stock on the closing date of the merger. As a result of Essex being admitted to the S&P 500 on the same date as the closing of the merger, Essex’s common stock price experienced significantly higher than usual trading volume and the closing price of \$174 per share was significantly higher than its volume-weighted average trading price for the days before and after April 1, 2014. BRE’s common stock did not experience the same proportionate increase in common stock price leading up to April 1, 2014. As a result, given that a substantial component of the purchase price is an exchange of equity instruments, Essex used the closing price of BRE’s common stock on April 1, 2014 of \$61 per share, less the Cash Consideration, as the fair value of the equity consideration. After deducting the Special Dividend and the Cash Consideration per share, this resulted in a value of \$48.67 per share of BRE common stock which is the equivalent of approximately \$164 per share of Essex common stock issued.

Acquisitions of Real Estate

Acquisitions are an important component of the Company's business plan, and during 2014, the Company and its co-investments acquired ownership interests in seven communities comprising of 2,578 units for \$640.7 million. The following is a summary of 2014 acquisitions (\$ in millions):

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Property Name	Location	Units	Essex Ownership		Quarter in 2014	Purchase Price
			Percentage	Ownership		
The Avery	Los Angeles, CA	121	100	% EPLP	Q1 2014	\$35.0
Piedmont	Bellevue, WA	396	100	% EPLP	Q2 2014	76.8
Collins on Pine	Seattle, WA	76	100	% EPLP	Q2 2014	29.2
Paragon	Fremont, CA	301	100	% EPLP	Q3 2014	111.0
Apex	Milpitas, CA	366	100	% EPLP	Q3 2014	150.0
Ellington at Bellevue	Bellevue, WA	220	100	% EPLP	Q3 2014	58.7
Palm Valley (1)	San Jose, CA	1,098	50	% JV	Q4 2014	180.0
Total 2014		2,578				\$640.7

(1) The Palm Valley purchase price represents the Company's share of the property.

Dispositions of Real Estate

As part of its strategic plan to own quality real estate in supply-constrained markets, the Company continually evaluates all the communities and sells those which no longer meet its strategic criteria. The Company may use the capital generated from the dispositions to invest in higher-return communities or other real estate investments, or repay unsecured and line of credit debts. The Company believes that the sale of these communities will not have a material impact on its future results of operations or cash flows nor will their sale materially affect its ongoing operations. Generally, the Company seeks to have any impact of earnings dilution resulting from these dispositions offset by the positive impact of its acquisitions, development and redevelopment activities.

During 2014, the Company sold four apartment communities, Vista Capri, Coldwater Canyon, Mt. Sutro, and Pinnacle Town Center for a total of \$120.4 million, resulting in total gains of \$43.6 million.

During 2014, Essex Apartment Value Fund II, L.P. ("Fund II") sold Davey Glen for \$23.8 million and Alderwood Park for \$23.5 million. In connection with the sales, Fund II incurred a prepayment penalty on debt of which the Company's pro rata share was \$0.2 million. The total gains on the transactions in 2014 were \$23.3 million, of which the Company's share was \$6.6 million.

Development Pipeline

The Company defines development projects as new communities that are in various stages of active development, or are in the process of leasing activities prior to stabilization. As of December 31, 2014, the Company had two consolidated development projects and ten joint venture development projects comprised of 2,920 units for an estimated cost of \$1.5 billion, of which \$420.0 million remains to be expended.

The Company defines the predevelopment projects as proposed communities in negotiation or in the entitlement process with an expected high likelihood of becoming entitled development projects. As of December 31, 2014, the Company had various consolidated predevelopment projects. The Company may also acquire land for future development purposes or sale.

The following table sets forth information regarding the Company's development pipeline (\$ in millions):

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Development Pipeline	Location	Essex		As of	Estimated Project Cost ⁽¹⁾
		Ownership%	Units	12/31/2014 Incurred Project Cost	
Development Projects - Consolidated					
MB 360	San Francisco, CA	100	% 360	\$226	\$275
Radius	Redwood City, CA	100	% 264	163	172
Total - Consolidated Development Projects			624	389	447
Development Projects - Joint Venture					
Epic - Phase III	San Jose, CA	55	% 200	64	97
The Dylan	West Hollywood, CA	50	% 184	78	78
Mosso II	San Francisco, CA	55	% 282	143	150
Park 20	San Mateo, CA	55	% 197	74	77
One South Market	San Jose, CA	55	% 312	120	145
The Village	Walnut Creek, CA	50	% 49	60	89
Emme	Emeryville, CA	55	% 190	62	62
Owens	Pleasanton, CA	55	% 255	26	89
Hacienda	Pleasanton, CA	55	% 251	16	86
Century Towers	San Jose, CA	50	% 376	40	172
Total - Joint Venture Development Projects			2,296	683	1,045
Predevelopment Projects - Consolidated					
Other Projects	various	100	% —	45	45
Total - Predevelopment Projects			—	45	45
Grand Total - Development and Predevelopment Pipeline			2,920	\$1,117	\$1,537

(1) Includes incurred costs and estimated costs to complete these development projects. For predevelopment projects, only incurred costs are included in estimated costs.

Redevelopment Pipeline

The Company defines redevelopment pipeline as existing properties owned or recently acquired, which have been targeted for additional investment by the Company with the expectation of increased financial returns through property improvement. During redevelopment, apartment units may not be available for rent and, as a result, may have less than stabilized operations. As of December 31, 2014, the Company had ownership interests in three redevelopment communities aggregating 963 apartment units with estimated redevelopment costs of \$122.0 million, of which approximately \$96.4 million remains to be expended.

Long Term Debt

During 2014, the Company repaid \$24.1 million of principal outstanding on its secured mortgage debt at an average interest rate of 4.9%.

In April 2014, the Company issued \$400 million of 3.875% senior unsecured notes that mature in May 2024. The interest is payable semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2014 until the maturity date in May 2024. The Company used the net proceeds of this offering to repay indebtedness under the Company's \$1.0 billion unsecured line of credit facility and for other general corporate purposes. The carrying value of the 2024 Notes, net of discount was \$397.2 million as of December 31, 2014.

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In April 2014, the Company, assumed \$900.0 million aggregate principal amount of BRE's 5.500% senior notes due 2017; 5.200% senior notes due 2021; and 3.375% senior notes due 2023 (together "BRE Notes"). The carrying value of the BRE Notes, net of premium, was \$934.7 million as of December 31, 2014. Also, in connection with the Merger, the Company assumed approximately \$711.3 million of secured debt with remaining loan terms ranging from one to seven years and a weighted average interest rate of 5.6%.

Bank Debt

As of December 31, 2014, Fitch Ratings ("Fitch"), Moody's Investor Service, and Standard and Poor's ("S&P") credit agencies rated Essex Property Trust, Inc. and Essex Portfolio, L.P. BBB+/Stable, Baa2/Stable, and BBB/Stable, respectively.

In January 2014, the Company increased the capacity of the unsecured line of credit facility from \$600.0 million to \$1.0 billion and included an accordion feature pursuant to which the Company could expand to \$1.5 billion. This facility matures in December 2017 with one 18-month extension, exercisable at the Company's option. In January 2015, the facility maturity date was extended to December 31, 2018 with one 18-month extension, exercisable by the Company. The facility carries an interest rate based on its current credit ratings of LIBOR plus 0.95%.

In January 2014, the Company extended the \$25.0 million working capital unsecured line of credit for two additional years and reduced the pricing which carries an interest rate based on a tiered rate structure tied to Fitch and S&P ratings on the credit facility of LIBOR plus 0.95%.

In January 2014, the Company reduced the pricing on its \$350.0 million unsecured term loan by 15 basis points to LIBOR plus 1.05%. In December 2014, the Company repaid \$125.0 million outstanding on this term loan.

Equity Transactions

Essex issued approximately 23,067,446 shares of Essex common stock as Stock Consideration in the BRE merger. Excluding shares issued in connection with the BRE merger, during 2014, ESS issued 2,964,315 shares of common stock at an average share price of \$181.56 for proceeds of \$534.0 million, net of fees and commissions. During the first quarter of 2015 through February 24, 2015, ESS has issued 636,021 shares of common stock at an average price of \$224.76 for proceeds of \$142.0 million, net of fees and commissions. ESS contributed the net proceeds to the Operating Partnership and used the proceeds to fund external growth and for general corporate purposes.

Co-investments

The Company has entered into, and may continue in the future to enter into, joint ventures or partnerships (including limited liability companies) through which we own an indirect economic interest in less than 100% of the community or land owned directly by the joint venture or partnership. For each joint venture the Company holds a 50% to 55% non-controlling interest in the venture and will earn customary management fees and may earn development, asset property management fees and may also earn a promote interest.

The Company has also made, and may continue in the future to make, preferred equity investments in various multifamily development projects. The Company earns a preferred rate of return on these investments.

OFFICES AND EMPLOYEES

The Company is headquartered in Palo Alto, California, and has regional offices in Woodland Hills, California; Irvine, California; San Diego, California and Bellevue, Washington. As of December 31, 2014, the Company had 1,725 employees.

INSURANCE

The Company purchases general liability and all risk property, including loss of rent, insurance coverage for each of its communities. The Company also purchases limited earthquake, terrorism, environmental and flood insurance.

There are certain types of losses which may not be covered or could exceed coverage limits. The insurance programs are subject to deductibles and self-insured retentions in varying amounts. The Company utilizes a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI") to self-insure certain earthquake and all risk losses. As of December 31, 2014, PWI has cash and marketable securities of approximately \$57.6 million, and is consolidated in the Company's financial statements.

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All the communities are located in areas that are subject to earthquake activity. The Company evaluates its financial loss exposure to seismic events by using actuarial loss models developed by the insurance industry and property vulnerability based on structural evaluations of seismic consultants. The Company manages this exposure, where considered appropriate, desirable, and cost-effective, by upgrading properties to increase their resistance to forces caused by seismic events, by considering available funds and coverages provided by PWI and/or by purchasing seismic insurance. Since 2013, the Company accessed the commercial marketplace to purchase Earthquake insurance for certain properties.

In addition, the Company carries other types of insurance coverage related to a variety of risks and exposures, including cyber-attack.

Based on market conditions, the Company may change or potentially eliminate insurance coverages, or increase levels of self-insurance. Further, we cannot assure you that the company will not incur losses, which could be material, due to uninsured risks, deductibles and self-insured retentions, and/or losses in excess of coverage limits.

COMPETITION

There are numerous housing alternatives that compete with the Company's communities in attracting residents. These include other apartment communities, condominiums and single-family homes. If the demand for the Company's communities is reduced or if competitors develop and/or acquire competing housing, rental rates and occupancy may drop which may have a material adverse effect on the Company's financial condition and results of operations.

The Company faces competition from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of apartment communities. Some competitors are larger and have greater financial resources than the Company. This competition may result in increased costs of apartment communities the Company acquires and or develops.

WORKING CAPITAL

The Company believes that cash flows generated by its operations, existing cash and marketable securities balances, availability under existing lines of credit, access to capital markets and the ability to generate cash from the disposition of real estate are sufficient to meet all of its reasonably anticipated cash needs during 2015.

The timing, source and amounts of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates and other fluctuations in the capital markets environment, which can affect the Company's plans for acquisitions, dispositions, development and redevelopment activities.

ENVIRONMENTAL CONSIDERATIONS

See the discussion under the caption, "Risks Related to Real Estate Investments and Our Operations - The Company's Portfolio may have environmental liabilities" in Item 1A, Risk Factors, for information concerning the potential effect of environmental regulations on its operations, which discussion under the caption "The Company's Portfolio may have environmental liabilities" is incorporated by reference into this Item 1.

OTHER MATTERS

Certain Policies of the Company

The Company intends to continue to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940. The Company has in the past five years and may in the future (i) issue securities senior to its common stock, (ii) fund acquisition activities with borrowings under its line of credit and (iii) offer shares of common

stock and/or units of limited partnership interest in the Operating Partnership or affiliated partnerships as partial consideration for property acquisitions. The Company from time to time acquires partnership interests in partnerships and joint ventures, either directly or indirectly through subsidiaries of the Company, when such entities' underlying assets are real estate.

The Company invests primarily in apartment communities that are located in predominantly coastal markets within Southern California, the San Francisco Bay Area, and the Seattle metropolitan area. The Company currently intends to continue to invest in apartment communities in such regions. However, these practices may be reviewed and modified periodically by management.

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ITEM 1A: RISK FACTORS

For purposes of this section, the term “stockholders” means the holders of shares of Essex Property Trust, Inc.’s common stock and preferred stock. Set forth below are the risks that we believe are material to Essex Property Trust, Inc.’s stockholders and Essex Portfolio, L.P.’s unit holders. You should carefully consider the following factors in evaluating our company, our properties and our business.

Our business, operating results, cash flows and financial condition are subject to various risks and uncertainties, including, without limitation, those set forth below, any one of which could cause our actual operating results to vary materially from recent results or from our anticipated future results.

Risks Related to Real Investments and Our Operations

General real estate investment risks may adversely affect property income and values. Real estate investments are subject to a variety of risks. If the communities do not generate sufficient income to meet operating expenses, including debt service and capital expenditures, cash flow and the ability to make distributions to stockholders will be adversely affected. Income from the communities may be further adversely affected by, among other things, the following factors:

- the general economic climate;
- local economic conditions in which the communities are located, such as oversupply of housing or a reduction in demand for rental housing;
- the attractiveness of the communities to tenants;
- competition from other available housing;
- rent control or stabilization laws or other laws regulating housing; and
- the Company’s ability to provide for adequate maintenance and insurance.

As leases at the communities expire, tenants may enter into new leases on terms that are less favorable to the Company. Income and real estate values also may be adversely affected by such factors as applicable laws (e.g., the Americans with Disabilities Act of 1990 and tax laws). Real estate investments are relatively illiquid and, therefore, the Company’s ability to vary its portfolio promptly in response to changes in economic or other conditions may be quite limited.

Short-term leases expose us to the effects of declining market rents. Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

The Company may not realize the expected benefits of its merger with BRE because of transition difficulties and other challenges. As a result of its merger with BRE Properties, Inc., the Company will face various additional risks, including, among others, the following:

- the Company has incurred substantial expenses related to the merger;
- the Company may be unable to integrate BRE successfully and realize the anticipated synergies and other benefits of the merger or do so within the anticipated timeframe;
- properties acquired pursuant to the merger are subject to property value reassessments by taxing authorities, which may in turn lead to property tax increases that are higher than anticipated;
- the Company's future results will suffer if the Company does not effectively manage its expanded operations resulting from the merger; and
- joint ventures entered into in connection with the merger could be adversely affected by the Company’s lack of sole decision-making authority, its reliance on its joint venture partner’s financial condition and disputes between the Company and its joint venture partner.

Any of these risks could adversely affect the Company's business and financial results.

We may pursue acquisitions, dispositions, investments and joint ventures, which could adversely affect our results of operations. We may make acquisitions of and investments in businesses that offer complementary properties and

communities to augment our market coverage, or enhance our property offerings, such as our recent acquisition of BRE. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities, that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be successful. In addition,

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our original estimates and assumptions used in assessing any acquisition may be inaccurate, and we may not realize the expected financial or strategic benefits of any such acquisition. From time to time, we may also divest portions of our business that are no longer strategically important or exit minority investments, which could materially affect our FFO, cash flows and results of operations.

These transactions or any other acquisitions or dispositions involve risks and uncertainties. For example, the integration of acquired businesses may not be successful and could result in disruption to other parts of our business. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. There can be no assurance that all pre-acquisition property due diligence will have identified all material issues that might arise with respect to such acquired business and its properties.

Any acquisition may also cause us to assume liabilities and ongoing lawsuits, acquire goodwill and other non-amortizable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortization expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. In addition, if the businesses or properties that we acquire have a different pricing or cost structure than we do, such acquisitions may adversely affect our profitability and reduce our overall margin. Failure to manage and successfully integrate the acquisitions we make or to improve margins of the acquired businesses and products could materially harm our business, operating results and margins. Any dispositions we may make may also result in ongoing obligations to us following any such divestiture, for example as a result of any transition services or indemnities we agree to provide to the purchaser in any such transaction, which may result in additional expenses and may adversely affect our financial condition and results of operation.

Any future acquisitions we make may also require significant additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially affect our credit ratings and, in the case of equity or equity-linked financing, would be dilutive to our existing stockholders. We also assumed a significant amount of debt in connection with our acquisition of BRE, which is secured by the substantial majority of the properties acquired. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. As a result of the foregoing, we also may not be able to complete acquisitions or other strategic transactions in the future to the same extent as in the past, or at all. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations. All of the above factors apply to our acquisition of BRE.

National and regional economic environments can negatively impact the Company's operating results. During the recent past, a confluence of factors has resulted in job losses, turmoil and volatility in the capital markets, and caused a national and global recession. The Company's forecast for the national economy assumes growth of the gross domestic product of the national economy and the economies of the west coast states. In the event of another recession, the Company could incur reductions in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising and turnover expenses.

Inflation/Deflation may affect rental rates and operating expenses. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses.

Acquisitions of communities may fail to meet expectations. The Company intends to continue to acquire apartment communities. However, there are risks that acquisitions will fail to meet the Company's expectations. The Company's estimates of future income, expenses and the costs of improvements or redevelopment that are necessary to allow the Company to market an acquired apartment community as originally intended may prove to be inaccurate. The Company expects to finance future acquisitions, in whole or in part, under various forms of secured or unsecured financing or through the issuance of partnership units by the Operating Partnership or related partnerships or additional equity by the Company. The use of equity financing, rather than debt, for future developments or acquisitions could dilute the interest of the Company's existing stockholders. If the Company finances new acquisitions under existing lines of credit, there is a risk that, unless the Company obtains substitute financing, the Company may not be able to secure further lines of credit for new development or such lines of credit may be not

available on advantageous terms.

Development and redevelopment activities may be delayed, not completed, and/or not achieve expected results. The Company pursues development and redevelopment projects and these projects generally require various governmental and other approvals, which have no assurance of being received. The Company's development and redevelopment activities generally entail certain risks, including the following:

funds may be expended and management's time devoted to projects that may not be completed;

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• construction costs of a project may exceed original estimates possibly making the project economically unfeasible;
• projects may be delayed due to, without limitation, adverse weather conditions, labor or material shortage;
• occupancy rates and rents at a completed project may be less than anticipated; and
• expenses at completed development projects may be higher than anticipated.

These risks may reduce the funds available for distribution to the Company's stockholders. Further, the development and redevelopment of communities is also subject to the general risks associated with real estate investments. For further information regarding these risks, please see the risk factor titled "General real estate investment risks may adversely affect property income and values."

The geographic concentration of the Company's communities and fluctuations in local markets may adversely impact the Company's financial condition and operating results. The Company generated significant amounts of rental revenues for the year ended December 31, 2014, from the Company's communities concentrated in Southern California (Los Angeles, Orange, Santa Barbara, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area), and the Seattle metropolitan area. For the year ended December 31, 2014, 80% of the Company's rental revenues were generated from communities located in California. This geographic concentration could present risks if local property market performance falls below expectations. The economic condition of these markets could adversely affect underlying asset values and the occupancy, property revenues, and expenses of the Company's communities. The financial results of major local employers also may impact the cash flow and value of certain of the communities. This could have a negative impact on the Company's financial condition and operating results, which could affect the Company's ability to pay expected dividends to its stockholders and the Operating Partnership's ability to pay expected distributions to unit holders.