

EQUITY RESIDENTIAL
Form 10-Q
August 04, 2016
Table of Contents

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 JUNE 30, 2016

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

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ERP Operating Limited Partnership:

Large accelerated filer

Accelerated filer

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

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

Equity Residential Yes No ERP Operating Limited Partnership Yes No

The number of EQR Common Shares of Beneficial Interest, \$0.01 par value, outstanding on July 29, 2016 was 365,556,105.

Table of Contents

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended June 30, 2016 of Equity Residential and ERP Operating Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “EQR” mean Equity Residential, a Maryland real estate investment trust (“REIT”), and references to “ERPOP” mean ERP Operating Limited Partnership, an Illinois limited partnership. References to the “Company,” “we,” “us” or “our” mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the “Operating Partnership” mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. The following chart illustrates the Company's and the Operating Partnership's corporate structure:

EQR is the general partner of, and as of June 30, 2016 owned an approximate 96.1% ownership interest in, ERPOP. The remaining 3.9% 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 EQR contributes all net proceeds from its various equity offerings to ERPOP. In return for those contributions, EQR receives a number of OP Units (see definition below) in ERPOP 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 ERPOP, 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 ERPOP issued to EQR and the Common Shares.

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 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 EQR, which are contributed to

Table of Contents

the capital of ERPOP in exchange for additional partnership interests in ERPOP (“OP Units”) (on a one-for-one Common Share per OP Unit basis) or additional preference units in ERPOP (on a one-for-one preferred share per preference 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 and/or commercial paper program, the issuance of secured and unsecured debt and equity securities 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 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 ERPOP, EQR consolidates ERPOP for financial reporting purposes, and EQR essentially has no assets or liabilities other than its investment in ERPOP. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I.</u>	
<u>Item 1. Financial Statements of Equity Residential:</u>	
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	<u>2</u>
<u>Consolidated Statements of Operations and Comprehensive Income for the six months and quarters ended June 30, 2016 and 2015</u>	<u>3 to 4</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</u>	<u>5 to 7</u>
<u>Consolidated Statement of Changes in Equity for the six months ended June 30, 2016</u>	<u>8 to 9</u>
<u>Financial Statements of ERP Operating Limited Partnership:</u>	
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	<u>10</u>
<u>Consolidated Statements of Operations and Comprehensive Income for the six months and quarters ended June 30, 2016 and 2015</u>	<u>11 to 12</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</u>	<u>13 to 15</u>
<u>Consolidated Statement of Changes in Capital for the six months ended June 30, 2016</u>	<u>16 to 17</u>
<u>Notes to Consolidated Financial Statements of Equity Residential and ERP Operating Limited Partnership</u>	<u>18 to 43</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44 to 70</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>70 to 71</u>
<u>Item 4. Controls and Procedures</u>	<u>71 to 72</u>
<u>PART II.</u>	
<u>Item 1. Legal Proceedings</u>	<u>73</u>
<u>Item 1A. Risk Factors</u>	<u>73</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>73</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>73</u>

<u>Item 4. Mine Safety Disclosures</u>	<u>73</u>
<u>Item 5. Other Information</u>	<u>73</u>
<u>Item 6. Exhibits</u>	<u>73</u>

Table of Contents

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

	June 30, 2016	December 31, 2015
ASSETS		
Investment in real estate		
Land	\$5,835,195	\$5,864,046
Depreciable property	18,474,391	18,037,087
Projects under development	799,947	1,122,376
Land held for development	138,221	158,843
Investment in real estate	25,247,754	25,182,352
Accumulated depreciation	(5,119,342)	(4,905,406)
Investment in real estate, net	20,128,412	20,276,946
Real estate held for sale	—	2,181,135
Cash and cash equivalents	497,843	42,276
Investments in unconsolidated entities	65,952	68,101
Deposits – restricted	77,587	55,893
Escrow deposits – mortgage	61,711	56,946
Other assets	398,417	428,899
Total assets	\$21,229,922	\$23,110,196
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	\$4,147,999	\$4,685,134
Notes, net	4,362,995	5,848,956
Line of credit and commercial paper	—	387,276
Accounts payable and accrued expenses	186,629	187,124
Accrued interest payable	58,175	85,221
Other liabilities	333,551	366,387
Security deposits	64,242	77,582
Distributions payable	191,403	209,378
Total liabilities	9,344,994	11,847,058
Commitments and contingencies		
Redeemable Noncontrolling Interests – Operating Partnership	478,324	566,783
Equity:		
Shareholders' equity:		
Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized; 745,600 shares issued and outstanding as of June 30, 2016 and December 31, 2015	37,280	37,280
Common Shares of beneficial interest, \$0.01 par value; 1,000,000,000 shares authorized; 365,550,636 shares issued and outstanding as of June 30, 2016 and 364,755,444 shares issued and outstanding as of December 31, 2015	3,656	3,648
Paid in capital	8,718,365	8,572,365
Retained earnings	2,524,788	2,009,091

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Accumulated other comprehensive (loss)	(123,511)	(152,016)
Total shareholders' equity	11,160,578	10,470,368
Noncontrolling Interests:		
Operating Partnership	241,748	221,379
Partially Owned Properties	4,278	4,608
Total Noncontrolling Interests	246,026	225,987
Total equity	11,406,604	10,696,355
Total liabilities and equity	\$21,229,922	\$23,110,196

See accompanying notes

2

Table of ContentsEQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	\$1,211,104	\$1,341,114	\$594,939	\$676,508
Fee and asset management	3,133	4,369	215	2,604
Total revenues	1,214,237	1,345,483	595,154	679,112
EXPENSES				
Property and maintenance	205,472	242,565	96,307	118,005
Real estate taxes and insurance	157,611	169,551	77,415	83,119
Property management	44,486	44,557	20,991	21,792
General and administrative	35,013	35,421	18,296	15,659
Depreciation	349,012	388,803	176,127	194,282
Total expenses	791,594	880,897	389,136	432,857
Operating income	422,643	464,586	206,018	246,255
Interest and other income	59,583	6,650	56,525	6,481
Other expenses	(4,060)	(1,700)	(1,504)	(1,770)
Interest:				
Expense incurred, net	(299,964)	(219,648)	(86,472)	(110,866)
Amortization of deferred financing costs	(7,739)	(5,127)	(2,345)	(2,538)
Income before income and other taxes, (loss) income from investments in unconsolidated entities, net gain (loss) on sales of real estate properties and land parcels and discontinued operations	170,463	244,761	172,222	137,562
Income and other tax (expense) benefit	(763)	(369)	(413)	(326)
(Loss) income from investments in unconsolidated entities	(1,904)	15,429	(800)	12,466
Net gain on sales of real estate properties	3,780,835	228,753	57,356	148,802
Net gain (loss) on sales of land parcels	11,722	(1)	—	—
Income from continuing operations	3,960,353	488,573	228,365	298,504
Discontinued operations, net	(122)	269	35	114
Net income	3,960,231	488,842	228,400	298,618
Net (income) attributable to Noncontrolling Interests:				
Operating Partnership	(152,089)	(18,413)	(8,780)	(11,354)
Partially Owned Properties	(1,545)	(1,487)	(781)	(844)
Net income attributable to controlling interests	3,806,597	468,942	218,839	286,420
Preferred distributions	(1,545)	(1,724)	(772)	(833)
Premium on redemption of Preferred Shares	—	(2,789)	—	—
Net income available to Common Shares	\$3,805,052	\$464,429	\$218,067	\$285,587
Earnings per share – basic:				
Income from continuing operations available to Common Shares	\$10.43	\$1.28	\$0.60	\$0.79

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Net income available to Common Shares	\$10.43	\$1.28	\$0.60	\$0.79
Weighted average Common Shares outstanding	364,820	363,288	365,047	363,476
Earnings per share – diluted:				
Income from continuing operations available to Common Shares	\$10.36	\$1.27	\$0.59	\$0.78
Net income available to Common Shares	\$10.36	\$1.27	\$0.59	\$0.78
Weighted average Common Shares outstanding	382,012	380,346	382,065	380,491
Distributions declared per Common Share outstanding	\$9.0075	\$1.105	\$0.50375	\$0.5525

See accompanying notes

3

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	\$3,960,231	\$488,842	\$228,400	\$298,618
Other comprehensive income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(4,467)	(112)	(1,561)	11,676
Losses reclassified into earnings from other comprehensive income	32,922	8,911	4,268	4,573
Other comprehensive income (loss) – foreign currency:				
Currency translation adjustments arising during the period	50	(502)	(25)	(82)
Other comprehensive income	28,505	8,297	2,682	16,167
Comprehensive income	3,988,736	497,139	231,082	314,785
Comprehensive (income) attributable to Noncontrolling Interests	(154,734)	(20,219)	(9,664)	(12,817)
Comprehensive income attributable to controlling interests	\$3,834,002	\$476,920	\$221,418	\$301,968

See accompanying notes

4

Table of ContentsEQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June	
	30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,960,231	\$488,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	349,012	388,803
Amortization of deferred financing costs	7,739	5,127
Amortization of above/below market leases	1,708	1,691
Amortization of discounts and premiums on debt	(19,010)	(5,611)
Amortization of deferred settlements on derivative instruments	32,850	8,751
Write-off of pursuit costs	2,563	1,651
Loss (income) from investments in unconsolidated entities	1,904	(15,429)
Distributions from unconsolidated entities – return on capital	1,482	2,193
Net (gain) on sales of investment securities and other investments	(55,156)	(387)
Net (gain) on sales of real estate properties	(3,780,835)	(228,753)
Net (gain) loss on sales of land parcels	(11,722)	1
Net (gain) on sales of discontinued operations	(15)	—
Realized/unrealized loss on derivative instruments	—	51
Compensation paid with Company Common Shares	20,729	24,017
Changes in assets and liabilities:		
Decrease (increase) in deposits – restricted	9,121	(288)
(Increase) in mortgage deposits	(840)	(382)
Decrease (increase) in other assets	29,944	(4,553)
Increase in accounts payable and accrued expenses	7,837	22,350
(Decrease) in accrued interest payable	(27,046)	(2,409)
(Decrease) in other liabilities	(42,080)	(11,097)
(Decrease) increase in security deposits	(13,340)	479
Net cash provided by operating activities	475,076	675,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(160,680)	(136,995)
Investment in real estate – development/other	(312,853)	(324,343)
Capital expenditures to real estate	(74,450)	(81,962)
Non-real estate capital additions	(3,259)	(1,955)
Interest capitalized for real estate under development	(28,386)	(30,432)
Proceeds from disposition of real estate, net	6,415,181	379,863
Investments in unconsolidated entities	(1,829)	(4,786)
Distributions from unconsolidated entities – return of capital	524	26,147
Proceeds from sale of investment securities and other investments	68,528	387
(Increase) in deposits on real estate acquisitions and investments, net	(30,815)	(31,247)
Decrease (increase) in mortgage deposits	46	(226)
Net cash provided by (used for) investing activities	5,872,007	(205,549)

See accompanying notes

5

Table of Contents

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

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	\$(437)	\$(6,352)
Mortgage deposits	(3,971)	(4,169)
Mortgage notes payable, net:		
Lump sum payoffs	(556,499)	(121,488)
Scheduled principal repayments	(4,740)	(5,028)
Notes, net:		
Proceeds	—	746,391
Lump sum payoffs	(1,500,000)	(300,000)
Line of credit and commercial paper:		
Line of credit proceeds	246,000	3,553,000
Line of credit repayments	(246,000)	(3,886,000)
Commercial paper proceeds	1,324,784	2,266,924
Commercial paper repayments	(1,712,472)	(2,267,500)
(Payments on) settlement of derivative instruments	—	(13,938)
Proceeds from Employee Share Purchase Plan (ESPP)	2,023	2,610
Proceeds from exercise of options	26,141	33,984
Redemption of Preferred Shares	—	(9,820)
Premium on redemption of Preferred Shares	—	(2,789)
Payment of offering costs	—	(40)
Other financing activities, net	(33)	(33)
Contributions – Noncontrolling Interests – Operating Partnership		1
Distributions:		
Common Shares	(3,306,704)	(382,441)
Preferred Shares	(1,545)	(1,724)
Noncontrolling Interests – Operating Partnership	(130,383)	(15,062)
Noncontrolling Interests – Partially Owned Properties	(27,681)	(3,995)
Net cash (used for) financing activities	(5,891,516)	(417,469)
Net increase in cash and cash equivalents	455,567	52,029
Cash and cash equivalents, beginning of period	42,276	40,080
Cash and cash equivalents, end of period	\$497,843	\$92,109

See accompanying notes

6

Table of Contents

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

Six Months Ended
June 30,
2016 2015

SUPPLEMENTAL INFORMATION:

Cash paid for interest, net of amounts capitalized	\$313,480	\$218,965
Net cash paid for income and other taxes	\$1,166	\$895
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	\$43,400	\$—
Amortization of deferred financing costs:		
Other assets	\$1,527	\$1,527
Mortgage notes payable, net	\$2,617	\$1,607
Notes, net	\$3,595	\$1,993
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	\$(21,476)	\$(7,420)
Notes, net	\$2,054	\$1,233
Line of credit and commercial paper	\$412	\$576
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(72)	\$(160)
Accumulated other comprehensive income	\$32,922	\$8,911
Write-off of pursuit costs:		
Investment in real estate, net	\$2,072	\$1,260
Deposits – restricted	\$—	\$330
Other assets	\$390	\$61
Accounts payable and accrued expenses	\$101	\$—
Loss (income) from investments in unconsolidated entities:		
Investments in unconsolidated entities	\$1,122	\$(16,767)
Other liabilities	\$782	\$1,338
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	\$1,482	\$2,125
Other liabilities	\$—	\$68
Realized/unrealized loss on derivative instruments:		
Other assets	\$(8,390)	\$(3,873)
Notes, net	\$8,390	\$2,358
Other liabilities	\$4,467	\$1,678
Accumulated other comprehensive income	\$(4,467)	\$(112)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	\$(929)	\$(1,291)
Other liabilities	\$(900)	\$(3,495)
Debt financing costs:		
Mortgage notes payable, net	\$(437)	\$—
Notes, net	\$—	\$(6,352)
Other:		
Foreign currency translation adjustments	\$(50)	\$502

See accompanying notes

Table of ContentsEQUITY RESIDENTIAL
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2016
SHAREHOLDERS' EQUITY	
PREFERRED SHARES	
Balance, beginning of year	\$37,280
Balance, end of period	\$37,280
COMMON SHARES, \$0.01 PAR VALUE	
Balance, beginning of year	\$3,648
Exercise of share options	6
Share-based employee compensation expense:	
Restricted shares	2
Balance, end of period	\$3,656
PAID IN CAPITAL	
Balance, beginning of year	\$8,572,365
Common Share Issuance:	
Conversion of OP Units into Common Shares	271
Exercise of share options	26,135
Employee Share Purchase Plan (ESPP)	2,023
Share-based employee compensation expense:	
Restricted shares	9,625
Share options	2,733
ESPP discount	357
Supplemental Executive Retirement Plan (SERP)	801
Change in market value of Redeemable Noncontrolling Interests – Operating Partnership	99,190
Adjustment for Noncontrolling Interests ownership in Operating Partnership	4,865
Balance, end of period	\$8,718,365
RETAINED EARNINGS	
Balance, beginning of year	\$2,009,091
Net income attributable to controlling interests	3,806,597
Common Share distributions	(3,289,355)
Preferred Share distributions	(1,545)
Balance, end of period	\$2,524,788
ACCUMULATED OTHER COMPREHENSIVE (LOSS)	
Balance, beginning of year	\$(152,016)
Accumulated other comprehensive (loss) income – derivative instruments:	
Unrealized holding (losses) arising during the period	(4,467)
Losses reclassified into earnings from other comprehensive income	32,922
Accumulated other comprehensive income – foreign currency:	

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Currency translation adjustments arising during the period	50
Balance, end of period	\$(123,511)

See accompanying notes

8

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

(Amounts in thousands)

(Unaudited)

Six
Months
Ended
June 30,
2016

NONCONTROLLING INTERESTS

OPERATING PARTNERSHIP

Balance, beginning of year	\$221,379
Issuance of restricted units to Noncontrolling Interests	1
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(271)
Equity compensation associated with Noncontrolling Interests	13,903
Net income attributable to Noncontrolling Interests	152,089
Distributions to Noncontrolling Interests	(129,757)
Change in carrying value of Redeemable Noncontrolling Interests – Operating Partnership	(10,731)
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(4,865)
Balance, end of period	\$241,748

PARTIALLY OWNED PROPERTIES

Balance, beginning of year	\$4,608
Net income attributable to Noncontrolling Interests	1,545
Distributions to Noncontrolling Interests	(27,714)
Other	25,839
Balance, end of period	\$4,278

See accompanying notes

9

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Investment in real estate		
Land	\$5,835,195	\$5,864,046
Depreciable property	18,474,391	18,037,087
Projects under development	799,947	1,122,376
Land held for development	138,221	158,843
Investment in real estate	25,247,754	25,182,352
Accumulated depreciation	(5,119,342)	(4,905,406)
Investment in real estate, net	20,128,412	20,276,946
Real estate held for sale	—	2,181,135
Cash and cash equivalents	497,843	42,276
Investments in unconsolidated entities	65,952	68,101
Deposits – restricted	77,587	55,893
Escrow deposits – mortgage	61,711	56,946
Other assets	398,417	428,899
Total assets	\$21,229,922	\$23,110,196
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net	\$4,147,999	\$4,685,134
Notes, net	4,362,995	5,848,956
Line of credit and commercial paper	—	387,276
Accounts payable and accrued expenses	186,629	187,124
Accrued interest payable	58,175	85,221
Other liabilities	333,551	366,387
Security deposits	64,242	77,582
Distributions payable	191,403	209,378
Total liabilities	9,344,994	11,847,058
Commitments and contingencies		
Redeemable Limited Partners	478,324	566,783
Capital:		
Partners' Capital:		
Preference Units	37,280	37,280
General Partner	11,246,809	10,585,104
Limited Partners	241,748	221,379
Accumulated other comprehensive (loss)	(123,511)	(152,016)
Total partners' capital	11,402,326	10,691,747
Noncontrolling Interests – Partially Owned Properties	4,278	4,608
Total capital	11,406,604	10,696,355
Total liabilities and capital	\$21,229,922	\$23,110,196

See accompanying notes

10

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	\$1,211,104	\$1,341,114	\$594,939	\$676,508
Fee and asset management	3,133	4,369	215	2,604
Total revenues	1,214,237	1,345,483	595,154	679,112
EXPENSES				
Property and maintenance	205,472	242,565	96,307	118,005
Real estate taxes and insurance	157,611	169,551	77,415	83,119
Property management	44,486	44,557	20,991	21,792
General and administrative	35,013	35,421	18,296	15,659
Depreciation	349,012	388,803	176,127	194,282
Total expenses	791,594	880,897	389,136	432,857
Operating income	422,643	464,586	206,018	246,255
Interest and other income	59,583	6,650	56,525	6,481
Other expenses	(4,060)	(1,700)	(1,504)	(1,770)
Interest:				
Expense incurred, net	(299,964)	(219,648)	(86,472)	(110,866)
Amortization of deferred financing costs	(7,739)	(5,127)	(2,345)	(2,538)
Income before income and other taxes, (loss) income from investments in unconsolidated entities, net gain (loss) on sales of real estate properties and land parcels and discontinued operations	170,463	244,761	172,222	137,562
Income and other tax (expense) benefit	(763)	(369)	(413)	(326)
(Loss) income from investments in unconsolidated entities	(1,904)	15,429	(800)	12,466
Net gain on sales of real estate properties	3,780,835	228,753	57,356	148,802
Net gain (loss) on sales of land parcels	11,722	(1)	—	—
Income from continuing operations	3,960,353	488,573	228,365	298,504
Discontinued operations, net	(122)	269	35	114
Net income	3,960,231	488,842	228,400	298,618
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,545)	(1,487)	(781)	(844)
Net income attributable to controlling interests	\$3,958,686	\$487,355	\$227,619	\$297,774
ALLOCATION OF NET INCOME:				
Preference Units	\$1,545	\$1,724	\$772	\$833
Premium on redemption of Preference Units	\$—	\$2,789	\$—	\$—
General Partner	\$3,805,052	\$464,429	\$218,067	\$285,587
Limited Partners	152,089	18,413	8,780	11,354

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Net income available to Units	\$3,957,141	\$482,842	\$226,847	\$296,941
Earnings per Unit – basic:				
Income from continuing operations available to Units	\$10.43	\$1.28	\$0.60	\$0.79
Net income available to Units	\$10.43	\$1.28	\$0.60	\$0.79
Weighted average Units outstanding	378,612	376,880	378,934	377,063
Earnings per Unit – diluted:				
Income from continuing operations available to Units	\$10.36	\$1.27	\$0.59	\$0.78
Net income available to Units	\$10.36	\$1.27	\$0.59	\$0.78
Weighted average Units outstanding	382,012	380,346	382,065	380,491
Distributions declared per Unit outstanding	\$9.0075	\$1.105	\$0.50375	\$0.5525

See accompanying notes

11

Table of Contents

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

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	\$3,960,231	\$488,842	\$228,400	\$298,618
Other comprehensive income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(4,467)	(112)	(1,561)	11,676
Losses reclassified into earnings from other comprehensive income	32,922	8,911	4,268	4,573
Other comprehensive income (loss) – foreign currency:				
Currency translation adjustments arising during the period	50	(502)	(25)	(82)
Other comprehensive income	28,505	8,297	2,682	16,167
Comprehensive income	3,988,736	497,139	231,082	314,785
Comprehensive (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,545)	(1,487)	(781)	(844)
Comprehensive income attributable to controlling interests	\$3,987,191	\$495,652	\$230,301	\$313,941

See accompanying notes

12

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June	
	30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,960,231	\$488,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	349,012	388,803
Amortization of deferred financing costs	7,739	5,127
Amortization of above/below market leases	1,708	1,691
Amortization of discounts and premiums on debt	(19,010)	(5,611)
Amortization of deferred settlements on derivative instruments	32,850	8,751
Write-off of pursuit costs	2,563	1,651
Loss (income) from investments in unconsolidated entities	1,904	(15,429)
Distributions from unconsolidated entities – return on capital	1,482	2,193
Net (gain) on sales of investment securities and other investments	(55,156)	(387)
Net (gain) on sales of real estate properties	(3,780,835)	(228,753)
Net (gain) loss on sales of land parcels	(11,722)	1
Net (gain) on sales of discontinued operations	(15)	—
Realized/unrealized loss on derivative instruments	—	51
Compensation paid with Company Common Shares	20,729	24,017
Changes in assets and liabilities:		
Decrease (increase) in deposits – restricted	9,121	(288)
(Increase) in mortgage deposits	(840)	(382)
Decrease (increase) in other assets	29,944	(4,553)
Increase in accounts payable and accrued expenses	7,837	22,350
(Decrease) in accrued interest payable	(27,046)	(2,409)
(Decrease) in other liabilities	(42,080)	(11,097)
(Decrease) increase in security deposits	(13,340)	479
Net cash provided by operating activities	475,076	675,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(160,680)	(136,995)
Investment in real estate – development/other	(312,853)	(324,343)
Capital expenditures to real estate	(74,450)	(81,962)
Non-real estate capital additions	(3,259)	(1,955)
Interest capitalized for real estate under development	(28,386)	(30,432)
Proceeds from disposition of real estate, net	6,415,181	379,863
Investments in unconsolidated entities	(1,829)	(4,786)
Distributions from unconsolidated entities – return of capital	524	26,147
Proceeds from sale of investment securities and other investments	68,528	387
(Increase) in deposits on real estate acquisitions and investments, net	(30,815)	(31,247)
Decrease (increase) in mortgage deposits	46	(226)
Net cash provided by (used for) investing activities	5,872,007	(205,549)

See accompanying notes

13

Table of Contents

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

	Six Months Ended	
	June 30,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	\$(437)	\$(6,352)
Mortgage deposits	(3,971)	(4,169)
Mortgage notes payable, net:		
Lump sum payoffs	(556,499)	(121,488)
Scheduled principal repayments	(4,740)	(5,028)
Notes, net:		
Proceeds	—	746,391
Lump sum payoffs	(1,500,000)	(300,000)
Line of credit and commercial paper:		
Line of credit proceeds	246,000	3,553,000
Line of credit repayments	(246,000)	(3,886,000)
Commercial paper proceeds	1,324,784	2,266,924
Commercial paper repayments	(1,712,472)	(2,267,500)
(Payments on) settlement of derivative instruments	—	(13,938)
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	2,023	2,610
Proceeds from exercise of EQR options	26,141	33,984
Redemption of Preference Units	—	(9,820)
Premium on redemption of Preference Units	—	(2,789)
Payment of offering costs	—	(40)
Other financing activities, net	(33)	(33)
Contributions – Limited Partners	1	1
Distributions:		
OP Units – General Partner	(3,306,704)	(382,441)
Preference Units	(1,545)	(1,724)
OP Units – Limited Partners	(130,383)	(15,062)
Noncontrolling Interests – Partially Owned Properties	(27,681)	(3,995)
Net cash (used for) financing activities	(5,891,516)	(417,469)
Net increase in cash and cash equivalents	455,567	52,029
Cash and cash equivalents, beginning of period	42,276	40,080
Cash and cash equivalents, end of period	\$497,843	\$92,109

See accompanying notes

14

Table of Contents

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

	Six Months Ended June 30,	
	2016	2015
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	\$313,480	\$218,965
Net cash paid for income and other taxes	\$1,166	\$895
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	\$43,400	\$—
Amortization of deferred financing costs:		
Other assets	\$1,527	\$1,527
Mortgage notes payable, net	\$2,617	\$1,607
Notes, net	\$3,595	\$1,993
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	\$(21,476)	\$(7,420)
Notes, net	\$2,054	\$1,233
Line of credit and commercial paper	\$412	\$576
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(72)	\$(160)
Accumulated other comprehensive income	\$32,922	\$8,911
Write-off of pursuit costs:		
Investment in real estate, net	\$2,072	\$1,260
Deposits – restricted	\$—	\$330
Other assets	\$390	\$61
Accounts payable and accrued expenses	\$101	\$—
Loss (income) from investments in unconsolidated entities:		
Investments in unconsolidated entities	\$1,122	\$(16,767)
Other liabilities	\$782	\$1,338
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	\$1,482	\$2,125
Other liabilities	\$—	\$68
Realized/unrealized loss on derivative instruments:		
Other assets	\$(8,390)	\$(3,873)
Notes, net	\$8,390	\$2,358
Other liabilities	\$4,467	\$1,678
Accumulated other comprehensive income	\$(4,467)	\$(112)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	\$	