

ESSEX PROPERTY TRUST, INC.

Form 10-Q

April 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _____ to _____

Commission file number 001-13106 (Essex Property Trust, Inc.)

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)

1100 Park Place, Suite 200

San Mateo, California 94403

(Address of Principal Executive Offices, Including Zip Code)

(650) 655-7800

(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 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 every Interactive Data File required to be submitted 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 such files).

Essex Property Trust, Inc. Yes No Essex Portfolio, L.P. Yes No

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

Essex Property Trust, Inc.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

Essex Portfolio, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Essex Property Trust, Inc. Essex Portfolio, L.P.

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

Essex Property Trust, Inc. Yes No Essex Portfolio, L.P. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 65,716,550 shares of Common Stock (\$0.0001 par value) of Essex Property Trust, Inc. were outstanding as of April 23, 2019.

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the three month period ended March 31, 2019 of Essex Property Trust, Inc., a Maryland corporation, and Essex Portfolio, L.P., a Delaware limited partnership of which Essex Property Trust, Inc. is the sole general partner.

Unless stated otherwise or the context otherwise requires, references to the "Company," "we," "us" or "our" mean collectively Essex Property Trust, Inc. and those entities/subsidiaries owned or controlled by Essex Property Trust, Inc., including Essex Portfolio, L.P., and references to the "Operating Partnership," or "EPLP" mean Essex Portfolio, L.P. and those entities/subsidiaries owned or controlled by Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to "Essex" mean Essex Property Trust, Inc., not including any of its subsidiaries.

Essex operates as a self-administered and self-managed real estate investment trust ("REIT"), and is the sole general partner of the Operating Partnership. As the sole general partner of the Operating Partnership, Essex has exclusive control of the Operating Partnership's day-to-day management.

The Company is structured as an umbrella partnership REIT ("UPREIT") and Essex contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, Essex receives a number of Operating Partnership limited partnership units ("OP Units," and the holders of such OP Units, "Unitholders") equal to the number of shares of common stock it has issued in the equity offerings. Contributions of properties to the Company can be structured as tax-deferred transactions through the issuance of OP Units, which is one of the reasons why the Company is structured in the manner outlined above. Based on the terms of the Operating Partnership's partnership agreement, OP Units can be exchanged into Essex common stock on a one-for-one basis. The Company maintains a one-for-one relationship between the OP Units issued to Essex and shares of common stock.

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

- enhances investors' understanding of Essex 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 Essex and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

All of the Company's property ownership, development, and related business operations are conducted through the Operating Partnership and Essex has no material assets, other than its investment in the Operating Partnership. Essex's primary function is acting as the general partner of the Operating Partnership. As general partner with control of the Operating Partnership, Essex consolidates the Operating Partnership for financial reporting purposes. Therefore, the assets and liabilities of Essex and the Operating Partnership are the same on their respective financial statements. Essex also issues equity from time to time and guarantees certain debt of the Operating Partnership, 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 co-investments. 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 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 of capital include the Operating Partnership's working capital, net cash provided by operating activities, borrowings under its revolving credit facilities, the issuance of secured and

unsecured debt and equity securities and proceeds received from disposition of certain properties and co-investments.

The Company believes it is important to understand the few differences between Essex and the Operating Partnership in the context of how Essex and the Operating Partnership operate as a consolidated company. Stockholders' equity, partners' capital and noncontrolling interest are the main areas of difference between the condensed consolidated financial statements of Essex and those of the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners' capital in the Operating Partnership's condensed consolidated financial statements and as noncontrolling interest in Essex's condensed consolidated financial statements. The noncontrolling interest in the Operating Partnership's condensed consolidated financial statements include the interest of unaffiliated partners in various consolidated partnerships and co-investment partners. The noncontrolling interest in Essex's condensed consolidated financial statements include (i) the same noncontrolling interest as

presented in the Operating Partnership's condensed consolidated financial statements and (ii) OP Unit holders. The differences between stockholders' equity and partners' capital result from differences in the equity issued at Essex and Operating Partnership levels.

To help investors understand the significant differences between Essex and the Operating Partnership, this report on Form 10-Q provides separate consolidated financial statements for Essex and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of stockholders' equity or partners' capital, and earnings per share/unit, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report on Form 10-Q also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Essex and the Operating Partnership in order to establish that the requisite certifications have been made and that Essex and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. §1350.

In order to highlight the differences between Essex and the Operating Partnership, the separate sections in this report on Form 10-Q for Essex and the Operating Partnership specifically refer to Essex and the Operating Partnership. In the sections that combine disclosure of Essex 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 co-investments 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 Essex 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.

The information furnished in the accompanying unaudited condensed consolidated balance sheets, statements of income and comprehensive income, equity, capital, and cash flows of the Company and the Operating Partnership reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the aforementioned condensed consolidated financial statements for the interim periods and are normal and recurring in nature, except as otherwise noted.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to such unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2018.

ESSEX PROPERTY TRUST, INC.
 ESSEX PORTFOLIO, L.P.
 FORM 10-Q
 INDEX

PART I. FINANCIAL INFORMATION	Page No.
Item 1. Condensed Consolidated Financial Statements of Essex Property Trust, Inc. (Unaudited)	
<u>Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018</u>	<u>2</u>
<u>Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018</u>	<u>3</u>
<u>Condensed Consolidated Statement of Equity for the three months ended March 31, 2019 and 2018</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	<u>6</u>
Condensed Consolidated Financial Statements of Essex Portfolio, L.P. (Unaudited)	
<u>Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018</u>	<u>8</u>
<u>Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018</u>	<u>9</u>
<u>Condensed Consolidated Statement of Capital for the three months ended March 31, 2019 and 2018</u>	<u>10</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	<u>12</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>14</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	<u>41</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>43</u>
Item 1A. <u>Risk Factors</u>	<u>43</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>44</u>

Item 4. <u>Mine Safety Disclosures</u>	<u>44</u>
Item 5. <u>Other Information</u>	<u>44</u>
Item 6. <u>Exhibits</u>	<u>45</u>
<u>Signatures</u>	<u>46</u>

Part I – Financial Information

Item 1. Condensed Consolidated Financial Statements

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except parenthetical and share amounts)

ASSETS	March 31, 2019	December 31, 2018
Real estate:		
Rental properties:		
Land and land improvements	\$2,727,878	\$2,701,356
Buildings and improvements	10,844,322	10,664,745
	13,572,200	13,366,101
Less: accumulated depreciation	(3,329,743)	(3,209,548)
	10,242,457	10,156,553
Real estate under development	497,794	454,629
Co-investments	1,307,561	1,300,140
	12,047,812	11,911,322
Cash and cash equivalents-unrestricted	107,034	134,465
Cash and cash equivalents-restricted	17,092	16,930
Marketable securities	211,030	209,545
Notes and other receivables (includes related party receivables of \$10.5 million and \$11.1 million as of March 31, 2019 and December 31, 2018, respectively)	71,154	71,895
Operating lease right-of-use assets	76,996	—
Prepaid expenses and other assets	46,883	39,439
Total assets	\$12,578,001	\$12,383,596
LIABILITIES AND EQUITY		
Unsecured debt, net	\$4,293,973	\$3,799,316
Mortgage notes payable, net	1,441,828	1,806,626
Lines of credit	—	—
Accounts payable and accrued liabilities	180,571	127,086
Construction payable	60,087	59,345
Dividends payable	134,339	128,529
Operating lease liabilities	79,010	—
Other liabilities	33,829	33,375
Total liabilities	6,223,637	5,954,277
Commitments and contingencies		
Redeemable noncontrolling interest	37,169	35,475
Equity:		
Common stock; \$0.0001 par value, 670,000,000 shares authorized; 65,715,783 and 65,890,322 shares issued and outstanding, respectively	7	7
Additional paid-in capital	7,028,154	7,093,079
Distributions in excess of accumulated earnings	(822,087)	(812,796)
Accumulated other comprehensive loss, net	(14,817)	(13,217)