ESSEX PROPERTY TRUST INC
Form 10-Q
November 08, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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.
(Exact name of Registrant as Specified in its Charter)

Maryland	**77-0369576**
(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)

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. YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer an accelerated file, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes o No x

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:

23,352,112 shares of Common Stock as of November 1, 2006

ESSEX PROPERTY TRUST, INC.
FORM 10-Q
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Part I -- Financial Information

Item 1: Financial Statements (Unaudited)

"Essex" or the "Company" means Essex Property Trust, Inc., a real estate investment trust incorporated in the State of Maryland, or where the context otherwise requires, Essex Portfolio, L.P., a limited partnership (the "Operating Partnership") in which Essex Property Trust, Inc. is the sole general partner.

The information furnished in the accompanying unaudited consolidated balance sheets, statements of operations, stockholders' equity and comprehensive income and cash flows of the Company reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods.

The accompanying unaudited consolidated financial statements should be read in conjunction with the notes to such consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein. Additionally, these unaudited 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, 2005.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands, except per share amounts)

	September 30, 2006	December 31, 2005
Assets		
Real estate:		
Rental properties:		
Land and land improvements	$ 561,582	$ 551,132
Buildings and improvements	2,103,595	1,932,113
	2,665,177	2,483,245
Less accumulated depreciation	(457,220)	(398,476)
	2,207,957	2,084,769
Real estate under development	101,562	54,416
Investments	53,806	27,228
	2,363,325	2,166,413
Cash and cash equivalents-unrestricted	30,142	14,337
Cash and cash equivalents-restricted	14,999	13,937
Notes and other receivables from related parties	1,841	1,173
Notes and other receivables	17,043	5,237
Prepaid expenses and other assets	18,523	23,078
Deferred charges, net	13,617	15,115
Total assets	$ 2,459,490	$ 2,239,290
Liabilities and Stockholders' Equity		
Mortgage notes payable	$ 1,097,330	$ 1,104,918
Exchangeable bonds	225,000	225,000
Lines of credit	80,000	25,000
Accounts payable and accrued liabilities	49,414	32,982
Dividends payable	24,735	22,496
Other liabilities	14,459	12,520
Deferred gain	2,193	2,193
Total liabilities	1,493,131	1,425,109
Minority interests	227,761	233,214
Cumulative convertible preferred stock; $.0001 par value:		
4.875% Series G - 5,980,000 and 0 shares authorized,		
issued and outstanding, respectively	145,912	-
Stockholders' equity:		
Common stock, $.0001 par value, 655,682,178 authorized, 23,177,330 and 22,851,953 issued and outstanding, respectively	2	2
Cumulative redeemable preferred stock; $.0001 par value:		

7.8125% Series F - 1,000,000 shares authorized, issued and outstanding, liquidation value		25,000		25,000
Excess stock, $.0001 par value, 330,000,000 shares authorized and no shares issued and outstanding		-		-
Additional paid-in capital		662,043		632,646
Distributions in excess of accumulated earnings		(92,849)		(77,341)
Accumulated other comprehensive income (loss)		(1,510)		660
Total stockholders' equity		592,686		580,967
Commitments and contingencies				
Total liabilities and stockholders' equity	$	2,459,490	$	2,239,290

See accompanying notes to the unaudited consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARES
Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Rental and other property	$ 89,670	$ 81,881	$ 261,589	$ 239,819
Management and other fees from affiliates	1,872	1,601	3,526	9,108
	91,542	83,482	265,115	248,927
Expenses:				
Property operating, excluding real estate taxes	23,307	21,254	68,017	62,167
Real estate taxes	7,535	7,066	22,305	20,517
Depreciation and amortization	20,666	20,323	61,432	59,945
Interest	18,525	18,566	57,012	54,866
Amortization of deferred financing costs	778	451	1,971	1,490
General and administrative	5,289	4,560	15,190	13,574
Other expenses	-	1,400	1,770	2,900
	76,100	73,620	227,697	215,459
Earnings from operations	15,442	9,862	37,418	33,468
Gain on sale of real estate	-	-	-	6,391
Interest and other income	1,701	4,978	4,749	7,932
Equity income (loss) in co-investments	(368)	(98)	(1,184)	17,217
Minority interests	(5,212)	(4,918)	(14,899)	(16,719)
Income before discontinued operations and tax provision	11,563	9,824	26,084	48,289
Income tax provision	(150)	(1,185)	(325)	(2,386)
Income before discontinued operations	11,413	8,639	25,759	45,903
Income from discontinued operations (net of minority interests)	1,064	108	19,552	28,600
Net income	12,477	8,747	45,311	74,503
Dividends to preferred stockholders	(1,791)	(488)	(2,768)	(1,465)
	$ 10,686	$ 8,259	$ 42,543	$ 73,038

Net income available to common stockholders								
Per common share data:								
Basic:								
Income before discontinued operations available to common stockholders	$	0.41	$	0.36	$	1.00	$	1.93
Income from discontinued operations		0.05		-		0.85		1.24
Net income available to common stockholders	$	0.46	$	0.36	$	1.85	$	3.17
Weighted average number of common shares outstanding during the period		23,142,385		23,106,569		22,988,083		23,073,650
Diluted:								
Income before discontinued operations available to common stockholders	$	0.40	$	0.35	$	0.98	$	1.91
Income from discontinued operations		0.05		-		0.84		1.22
Net income available to common stockholders	$	0.45	$	0.35	$	1.82	$	3.13
Weighted average number of common shares outstanding during the period		23,677,569		23,411,959		23,353,791		23,364,039
Dividend per common share	$	0.84	$	0.81	$	2.52	$	2.43

See accompanying notes to the unaudited consolidated financial statements.

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ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and
Comprehensive Income for the nine months ended September 30, 2006
(Unaudited)
(Dollars and shares in thousands)

	Preferred stock		Common stock		Additional paid-in	Accumulated other comprehensive income	Distributions in excess of accumulated	
	Shares	Amount	Shares	Amount	capital	(loss)	earnings	Total
Balances at December 31, 2005	1,000	$ 25,000	22,851	$ 2	$ 632,646	$ 660	$ (77,341)	$ 580,967
Comprehensive income:								
Net income	-	-	-	-	-	-	45,311	45,311
Change in fair value of cash flow hedges	-	-	-	-	-	(2,170)	-	(2,170)
Comprehensive income								43,141
Issuance of common stock under:								
Stock-based compensation plans	-	-	72	-	4,198	-	-	4,198
Sale of common stock	-	-	254	-	27,225	-	-	27,225
Redemptions of minority interests, net	-	-	-	-	(2,026)	-	-	(2,026)
Dividends declared	-	-	-	-	-	-	(60,819)	(60,819)
Balances at September 30, 2006	1,000	$ 25,000	23,177	$ 2	$ 662,043	$ (1,510)	$ (92,849)	$ 592,686

See accompanying notes to the unaudited consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net cash provided by operating activities	$ 137,501	$ 106,652
Cash flows used in investing activities:		
Additions to real estate:		
Acquisitions and improvements to recent acquisitions	(161,998)	(30,968)
Redevelopment	(17,753)	(15,384)
Revenue generating capital expenditures	(1,746)	(146)
Non-revenue generating capital expenditures	(10,648)	(7,980)
Additions to real estate under development	(52,957)	(22,540)
Dispositions of real estate and investments	15,883	6,585
Changes in restricted cash and refundable deposits	5,162	6,228
Additions to notes receivable from related parties and other receivables	(15,279)	(3,278)
Repayments of notes receivable from related parties and other receivables	2,295	4,925
Net (contributions to) distributions from limited partnerships	(25,938)	43,341
Net cash used in investing activities	(262,979)	(19,217)
Cash flows from financing activities:		
Proceeds from mortgage notes payable and lines of credit	281,325	152,971
Repayment of mortgage notes payable and lines of credit	(233,442)	(154,813)
Additions to deferred charges	(472)	(1,167)
Issuance of preferred stock - Series G	145,912	-
Net proceeds from stock options exercised	3,136	4,143
Net sale of common stock	27,225	-
Distributions to minority interest partners	(17,482)	(17,353)
Redemption of minority interest limited partnership units	(6,360)	(5,463)
Common and preferred stock dividends paid	(58,559)	(57,032)
Net cash provided by (used in) financing activities	141,283	(78,714)
Net increase in cash and cash equivalents	15,805	8,721
Cash and cash equivalents at beginning of period	14,337	10,644
Cash and cash equivalents at end of period	$ 30,142	$ 19,365

Supplemental disclosure of cash flow information:				
Cash paid for interest, net of $2,413 and $647 capitalized in 2006 and 2005, respectively	$	52,386	$	54,245

See accompanying notes to the unaudited consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006 and 2005
(Unaudited)
(Dollars in thousands, except for per share and unit amounts)

(1) Organization and Basis of Presentation

The unaudited consolidated financial statements of the Company are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature. These unaudited 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, 2005.

All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. Certain prior year balances have been reclassified to conform to the current year presentation.

The unaudited consolidated financial statements for the nine months ended September 30, 2006 and 2005 include the accounts of the Company and Essex Portfolio, L.P. (the "Operating Partnership", which holds the operating assets of the Company). See below for a description of entities consolidated by the Operating Partnership. The Company is the sole general partner in the Operating Partnership, with a 90.4% general partnership interest as of September 30, 2006 and December 31, 2005.

As of September 30, 2006, the Company has ownership interests in 129 multifamily properties (containing 27,491 units), three office buildings (with approximately 166,340 square feet), two recreational vehicle parks (comprising 338 spaces) and one manufactured housing community (containing 157 sites), (collectively, the "Properties"). The Properties are located in Southern California (Los Angeles, Ventura, Orange, Riverside and San Diego counties), Northern California (the San Francisco Bay Area), Seattle, Washington and other regions (Portland, Oregon metropolitan area and Houston, Texas).

Fund Activities

Essex Apartment Value Fund, L.P. ("Fund I" and “Fund II”), are investment funds formed by the Company to add value through rental growth and asset appreciation, utilizing the Company's development, redevelopment and asset management capabilities. All of the assets in Fund I were sold during 2004 and 2005, and Fund I is in the process of liquidation.

Fund II has eight institutional investors, including the Company, with combined partner equity commitments of $265.9 million. Essex has committed $75.0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fund II expects to utilize leverage equal to approximately 65% of the estimated value of the underlying real estate. Fund II invests in apartment communities in the Company’s targeted West Coast markets with an emphasis on investment opportunities in Seattle and the San Francisco Bay Area. Subject to certain exceptions, Fund II has been Essex’s exclusive investment vehicle during 2005 and 2006. As of October 2006, management has fully committed the available capital and Fund II will not make any additional acquisitions. Consistent with Fund I, Essex records revenue for its asset management, property management, development and redevelopment services when earned, and promote income should Fund II exceed certain financial return benchmarks.

Variable Interest Entities

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 Revised (FIN 46R), "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*", the Company consolidates Essex Management Corporation (EMC), Essex Fidelity I Corporation (EFC), 17 Down REIT limited partnerships (comprising ten properties), an office building that is subject to loans made by the Company, and the multifamily improvements owned by a third party in which the Company owns the land underlying these improvements and from which the Company receives fees, including land lease, subordination, property management, and incentive fees. The Company consolidates these entities because it is deemed the primary beneficiary under FIN 46R. The Company's total assets and liabilities related to these variable interest entities (VIEs), net of intercompany eliminations, were approximately \$237.8 million and \$146.7 million, respectively, at September 30, 2006 and \$230.9 million and \$146.7 million, respectively, at December 31, 2005.

Interest holders in VIEs consolidated by the Company are allocated net income equal to the cash payments made to those interest holders for services rendered or distributions from cash flow. The remaining results of operations are generally allocated to the Company.

As of September 30, 2006 the Company was involved with two VIEs, of which it is not deemed to be the primary beneficiary. Total assets and liabilities of these entities were approximately $79.1 million and $58.5 million, respectively, at September 30, 2006. As of December 31, 2005, the Company was involved with three VIEs, of which it was not deemed to be the primary beneficiary, and total assets and liabilities of these entities were approximately $92.9 million and $72.5 million, respectively. The Company does not have a significant exposure to loss resulting from its involvement with these unconsolidated VIEs.

Stock-Based Compensation

We adopted the provisions of SFAS 123 revised effective January 1, 2006 using the modified prospective approach. Stock-based compensation expense for stock options under the fair value method totaled $439 and $270 for the three months ended September 30, 2006 and 2005, respectively, and $1.1 million and $519 for the nine months ended September 30, 2006 and 2005, respectively. The intrinsic value of the stock options exercised during the three months ended September 30, 2006 and 2005 totaled $1.0 million and $2.6 million, respectively, and $3.7 million and $3.9 million for the nine months ended September 30, 2006 and 2005, respectively. As of September 30, 2006, the intrinsic value of the stock options outstanding and fully vested totaled $41.9 million and $14.3 million, respectively. As of September 30, 2006, total unrecognized compensation cost related to unvested share-based compensation granted under the stock option plans totaled $3.4 million. The cost is expected to be recognized over a weighted-average period of 3 to 5 years for the stock option plans.

Stock-based compensation expense for Z and Z-1 Units (collectively, “Z Units”) under the fair value method totaled $231 and $38 for the three months ended September 30, 2006 and 2005, respectively. Stock-based compensation capitalized for stock options and the Z Units totaled $188 and $53 for the three months ended September 30, 2006 and 2005, respectively. As of September 30, 2006 the intrinsic value of the Z Units subject to conversion totaled $16.6 million. As of September 30, 2006, total unrecognized compensation cost related to Z Units subject to conversion in the future granted under the Z Units totaled $9.3 million. The cost is expected to be recognized over a weighted-average period of 5 to 15 years for the Z Units.

The Company’s stock-based compensation policies have not changed materially from information reported in Note 2(k), “Stock-Based Compensation,” and Note 14, “Stock-Based Compensation Plans,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005.

Accounting Estimates and Reclassifications

The preparation of consolidated financial statements, in accordance with U.S. generally accepted accounting principles, requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate properties, its investments in and advances to joint ventures and affiliates, its notes receivables and its qualification as a Real Estate Investment Trust (“REIT”). The Company bases its estimates on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could be different under different assumptions or conditions.

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation. Such reclassifications have no impact on reported earnings, cash flows, total assets, or total liabilities.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 revised, "*Share-Based Payment*". This statement is a revision of SFAS No. 123, *"Accounting for Stock-Based Compensation",* and supersedes APB No. 25, *"Accounting for Stock Issued to Employees"*. The Statement requires companies to recognize in the income statement the grant-date fair value of stock options and other equity based compensation issued to employees. We adopted the provisions of SFAS 123 revised effective January 1, 2006 using the modified prospective approach. The adoption of this Statement did not have a material impact on our financial position, results of operations or cash flows.

In June 2005, the FASB ratified the EITF's consensus on Issue No. 04-5 *"Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights."* This consensus establishes the presumption that general partners in a limited partnership control that limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. The consensus further establishes that the rights of the limited partners can overcome the presumption of control by the general partners, if the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. Whether the presumption of control is overcome is a matter of judgment based on the facts and circumstances, for which the consensus provides additional guidance. This consensus applies to limited partnerships or similar entities, such as limited liability companies that have governing provisions that are the functional equivalent of a limited partnership. This consensus was applicable to the Company for new or modified partnerships in 2005, and is otherwise applicable to existing partnerships effective January 1, 2006. The adoption of this consensus did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46R-6, "*Determining the Variability to Be Considered in Applying FASB Interpretation No. 46 (R).*" This FSP addresses certain implementation issues related to FIN 46R. Specifically, FSP FIN 46R-6 addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46R. The variability that is considered in applying FIN 46R affects the determination of (a) whether an entity is a variable interest entity (VIE), (b) which interests are "variable interests" in the entity, and (c) which party, if any, is the primary beneficiary of the VIE. That variability affects any calculation of expected losses and expected residual returns, if such a calculation is necessary. The Company is required to apply the guidance in this FSP prospectively to all entities (including newly created entities) and to all entities previously required to be analyzed under FIN 46R when a "reconsideration event" has occurred, effective July 1, 2006. The Company will evaluate the impact of this Staff Position at the time any such "reconsideration event" occurs, and for any new entities.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), "*Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement 109.*" FIN 48 increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in measuring income taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This Interpretation only allows a favorable tax position to be included in the calculation of tax liabilities and expenses if a company concludes that it is more likely than not that its adopted tax position will prevail if challenged by tax authorities. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are in the process of evaluating the impact of this Interpretation on our future consolidated financial position, results of operations and cash flows.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued to address diversity in practice in quantifying financial statement misstatements. Current practice allows for the evaluation of materiality on the basis of either (1) the error quantified as the amount by which the current year income statement was misstated ("rollover method") or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated ("iron curtain method"). The guidance provided in SAB 108 requires both methods to be used in evaluating materiality ("dual approach"). SAB No. 108 permits companies to initially apply its provisions either by (1) restating prior financial statements as if the dual approach had always been used or (2) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. We are in the process of evaluating the impact of this Interpretation on our future consolidated financial position, results of operations and cash flows.

(2) Significant Transactions

(a) Acquisitions

On September 13, 2006, the Company acquired Hillsdale Garden Apartments, a 697-unit community located in San Mateo, California for approximately $97.3 million. The property is subject to a ground lease with annual payments of

$46 that will expire in 2047.

During October 2006, the Company acquired Belmont Terrace, a 71-unit community located in Belmont, California for approximately $14.7 million in transaction structured as an UpREIT. The community was built in 1974 and consists of one four-story building located in the Belmont hills.

(b) Dispositions

Currently, the Company is in the process of a condo conversion of Peregrine Point, a taxable REIT subsidiary (TRS), in Issaquah, Washington. In April of 2006 the property was reclassified from a rental property to real estate under development held for sale. During the third quarter of 2006, the Company sold 28 of the 66 available condominiums, for a gain of $1.1 million, net of minority interest, taxes, and expenses.

(c) Equity

During the third quarter of 2006, the Company sold 5.98 million shares of 4.875% Series G Cumulative Convertible Preferred Stock for gross proceeds of $149.5 million. Holders may convert Series G Preferred Stock into shares of the Company's common stock subject to certain conditions. The conversion rate will initially be .1830 shares of common stock per the $25 per share liquidation preference, which is equivalent to an initial conversion price of approximately $136.62 per share of common stock. The conversion rate will be subject to adjustment upon the occurrence of specified events. On or after July 31, 2011, the Company may, under certain circumstances, cause some or all of the Series G Preferred Stock to be converted into that number of shares of common stock at the then prevailing conversion rate.

During the third quarter 2006, the Company issued and sold approximately 114,100 shares of common stock for $12.4 million, net of fees and commissions. The Company used the net proceeds from the Series G offering and stock sales to pay down outstanding borrowings under the Company's lines of credit, to fund the development pipeline and for general corporate purposes.

(d) The Essex Apartment Value Fund II ("Fund II")

Fund II acquired two communities in September of 2006. Renaissance Apartments, a 168-unit apartment community located in Los Angeles, California was acquired for approximately $46.3 million and Alderwood Park Apartments, a 96-unit apartment community located in Newark, California was acquired for approximately $13.4 million.

During the fourth quarter of 2006, management anticipates closing on a land parcel, entitled for 119-units, located in Chatsworth, California for a total estimated cost of approximately $39.4 million.

As of October 31, 2006, management has determined that Fund II is fully committed and closed for any future acquisitions or development.

(3) Investments

The Company has investments in a number of affiliates, which are accounted for under the equity method. The affiliates own and operate apartment communities. The following table details the Company's investments (dollars in thousands):

	September 30, 2006	December 31, 2005
Investments in joint ventures accounted for under the equity method of accounting:		
Limited partnership interest of 20.4% and general partner interest of 1% in Essex Apartment Value Fund, L.P (Fund I)	$ 582	$ 582
Limited partnership interest of 27.2% and general partner		

interest of 1% in Essex Apartment Value Fund II, L.P (Fund II)		45,918		19,340
Preferred limited partnership interests in Mountain Vista Apartments (A)		6,806		6,806
		53,306		26,728
Investments accounted for under the cost method of accounting:				
Series A Preferred Stock interest in Multifamily Technology Solutions, Inc.		500		500
Total investments	$	53,806	$	27,228

(A) The investment is held in an entity that includes an affiliate of The Marcus & Millichap Company ("TMMC"). TMMC's Chairman is also the Chairman of the Company.

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The combined summarized financial information of investments, which are accounted for under the equity method, is as follows (dollars in thousands).

	September 30, 2006	December 31, 2005
Balance sheets:		
Real estate and real estate under development	$ 545,602	$ 431,655
Other assets	20,699	18,655
Total assets	$ 566,301	$ 450,310
Mortgage notes payable	$ 302,739	$ 268,325
Other liabilities	62,437	83,979
Partners' equity	201,125	98,007
Total liabilities and partners' equity	$ 566,301	$ 450,311
Company's share of equity	$ 53,306	$ 26,728

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Statements of operations:				
Total property revenues	$ 10,887	$ 6,705	$ 30,631	$ 20,812
Total gain on the sales of real estate				