

ESSEX PROPERTY TRUST INC  
Form 10-K  
February 26, 2010

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

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FORM 10-K

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(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, 2009

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

Maryland  
(State or Other Jurisdiction of Incorporation or  
Organization)

77-0369576  
(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	New York Stock Exchange

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.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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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.

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). Yes  No

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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.

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):

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

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

As of June 30, 2009, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$1,662,116,047. 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.

As of February 24, 2010, 29,662,879 shares of common stock (\$.0001 par value) 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 held May 18, 2010.

Essex Property Trust, Inc.  
2009 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.” Our 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 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”). The Company is the sole general partner of the Operating Partnership and as of December 31, 2009 owns a 92.3% general partnership interest. In this report, the terms “we,” “us” and “our” refer to Essex Property Trust, its Operating Partnership and the Operating Partnership’s subsidiaries.

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.

We are engaged primarily in the ownership, operation, management, acquisition, development and redevelopment of predominantly apartment communities. As of December 31, 2009, we owned or held an interest in 133 apartment communities, aggregating 27,248 units, located along the West Coast, as well as five office buildings (totaling approximately 215,840 square feet), and four active development projects with 581 units in various stages of development (collectively, the “Portfolio”).

The Company’s website address is <http://www.essexpropertytrust.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 our website as soon as practicable after we file the reports with the Securities and Exchange Commission (“SEC”).

BUSINESS STRATEGIES

The following is a discussion of our business strategies in regards to real estate investment and management.

Business Strategies

Research Driven Approach – We believe that successful real estate investment decisions and portfolio growth begin with extensive regional economic research and local market knowledge.

Utilizing a proprietary research model that we have developed over the last two decades, we continually assess markets where we currently operate, as well as markets where we consider future investment opportunities by

evaluating the following:

- Markets in major metropolitan areas that have regional population primarily in excess of one million;
- Constraints on new supply driven by: (i) low availability of developable land sites where competing housing could be 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 compared to expensive for-sale housing; and
- Housing demand that is based on proximity to jobs, high quality of life and related commuting factors, as well as potential job growth.

Recognizing that all real estate markets are cyclical, we regularly evaluate the results of our regional economic, as well as our local market research, and adjust the geographic focus of our portfolio accordingly. We seek to increase our portfolio allocation in markets projected to have the strongest local economies and to decrease such allocations in markets 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.

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Property Operations – We manage our communities by focusing on strategies that will generate above-average rental growth, tenant retention/satisfaction and long-term asset appreciation. We intend to achieve this by utilizing the strategies set forth below:

- Property Management – The Chief Operating Officer, Senior Vice President of Operations, Divisional Managers, Regional Portfolio Managers and Area Managers are accountable for the performance and maintenance of the communities. They supervise, provide training for the on-site managers, review actual performance against budget, monitor market trends and prepare operating and capital budgets.
- Capital Preservation – The Capital and Maintenance department is responsible for the planning, budgeting and completion of major capital improvement projects at our communities.
- Business Planning and Control – Comprehensive business plans are implemented in conjunction with every investment decision. These plans include benchmarks for future financial performance, based on collaborative discussions between on-site managers and senior management.
- Development and Redevelopment – We focus on acquiring and developing apartment communities in supply constrained markets, and redeveloping our existing communities to improve the financial and physical aspects of our communities.

## CURRENT BUSINESS ACTIVITIES

### Acquisitions of Real Estate

Acquisitions are an important component of our business plan, and during 2009, we completed the acquisition of two communities totaling \$43.0 million.

- In December, the Company acquired Axis 2300 (formerly known as “DuPont Lofts”), a 115-unit condominium development project in Irvine, California for \$27.0 million. The project is 85 percent complete and will require an additional six months of construction and estimated remaining costs of development are \$9.1 million, consisting primarily of unit interior finishes. Following construction, the Company intends to operate the asset as an apartment community. All units feature 11-foot ceilings, custom finishes, a washer and dryer and a fireplace.
- Also during December, the Company acquired Regency at Encino, a 75-unit community located in Encino, California for \$16.0 million. The community features upgraded appliances and finishes in 51 of the units. The Company intends to renovate the additional 24 units upon normal resident turnover. All units feature 9-foot ceilings and a washer and dryer.

In November, the Company acquired a 3.6 acre site in Dublin, California for \$5.0 million. The land parcel is located adjacent to the Dublin Bay Area Rapid Transit station, and the Company intends to pursue entitlements on this land parcel for future development.

The 2010 acquisition plan targets the purchase of up to \$300 million of real estate.

### Dispositions of Real Estate

As part of our strategic plan to own quality real estate in supply-constrained markets the Company continually evaluates all the communities and sell those which no longer meet our strategic criteria. The Company may use the capital generated from the dispositions to invest in higher-return communities or other real estate investments, repurchase the Company’s common stock, or repay debts. The Company believes that the sale of these communities will not have a material impact on our future results of operations or cash flows nor will their sale materially affect our 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.

In 2009, in accordance with our strategic plan, the Company sold five apartment communities for gross proceeds of \$38.0 million for an aggregate gain of \$8.6 million.

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The 2010 disposition plan targets the sale of up to \$100 million of real estate.

## Development Pipeline

The Company defines development activities as new communities that are in various stages of active development, or the community is in lease-up and phases of the project are not completed. As of December 31, 2009, the Company had four development projects comprised of 581 units for an estimated cost of \$216.1 million, of which \$65.9 million remains to be expended.

The Joule Broadway project, a 295-unit development in Seattle, Washington had \$26.7 million in estimated costs remaining to be funded in 2010 and such costs will be funded by a construction loan that is variable based on LIBOR plus 155 basis points and matures in June 2011 with two one-year extension options, exercisable at the Company's option. The estimated remaining costs to be incurred totaling \$39.2 million for the other three active development projects including Fourth & U, Tasman Retail Pad and Garage, and Axis 2300 will be financed by the Company's lines of credit.

The following table sets forth information regarding the Company's consolidated development pipeline:

Development Pipeline	Location	Units	As of 12/31/09 (\$ in millions)		
			Incurred Project Cost	Estimated Remaining Cost	Estimated Project Cost(1)
Development Projects					
Fourth & U	Berkeley, CA	171	\$49.5	\$13.8	\$63.3
Joule Broadway	Seattle, WA	295	68.1	26.7	94.8
Tasman Retail Pad and Garage	Sunnyvale, CA	-	5.4	16.3	21.7
Axis 2300	Irvine, CA	115	27.2	9.1	36.3
		581	150.2	65.9	216.1
Predevelop					