EQUITY RESIDENTIAL
Form 10-Q
August 05, 2010
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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 JUNE 30, 2010

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

(Exact name of Registrant as Specified in Its Charter)

Maryland	**13-3675988**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
Two North Riverside Plaza, Chicago, Illinois	**60606**
(Address of Principal Executive Offices)	**(Zip Code)**

(312) 474-1300

(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. Yes x 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 x 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.

Large accelerated filer	x	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). Yes ¨ No x

The number of Common Shares of Beneficial Interest, $0.01 par value, outstanding on July 29, 2010 was 283,455,452.

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EQUITY RESIDENTIAL

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except for share amounts)

(Unaudited)

	June 30, 2010	December 31, 2009
ASSETS		
Investment in real estate		
Land	$ 4,003,177	$ 3,650,324
Depreciable property	14,686,447	13,893,521
Projects under development	473,280	668,979
Land held for development	251,219	252,320
Investment in real estate	19,414,123	18,465,144
Accumulated depreciation	(4,146,964)	(3,877,564)
Investment in real estate, net	15,267,159	14,587,580
Cash and cash equivalents	47,982	193,288
Investments in unconsolidated entities	2,889	6,995
Deposits restricted	108,654	352,008
Escrow deposits mortgage	17,995	17,292
Deferred financing costs, net	41,862	46,396
Other assets	138,731	213,956
Total assets	**$ 15,625,272**	**$ 15,417,515**
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 4,754,601	$ 4,783,446
Notes, net	4,584,800	4,609,124
Lines of credit	320,000	-
Accounts payable and accrued expenses	81,791	58,537
Accrued interest payable	97,273	101,849
Other liabilities	312,119	272,236
Security deposits	62,568	59,264
Distributions payable	102,520	100,266
Total liabilities	**10,315,672**	**9,984,722**
Commitments and contingencies		
Redeemable Noncontrolling Interests Operating Partnership	**313,735**	**258,280**
Equity:		
Shareholders equity:		
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized; 1,947,425 shares issued and outstanding as of June 30, 2010 and 1,950,925 shares issued and outstanding as of December 31, 2009	208,686	208,773

Common Shares of beneficial interest, $0.01 par value; 1,000,000,000 shares authorized; 283,442,674 shares issued and outstanding as of June 30, 2010 and 279,959,048 shares issued and outstanding as of December 31, 2009	2,834	2,800
Paid in capital	4,524,359	4,477,426
Retained earnings	220,965	353,659
Accumulated other comprehensive (loss) income	(79,666)	4,681
Total shareholders equity	4,877,178	5,047,339
Noncontrolling Interests:		
Operating Partnership	108,989	116,120
Partially Owned Properties	9,698	11,054
Total Noncontrolling Interests	118,687	127,174
Total equity	**4,995,865**	**5,174,513**
Total liabilities and equity	**$ 15,625,272**	**$ 15,417,515**

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009
REVENUES				
Rental income	$ 993,570	$ 957,533	$ 507,891	$ 477,921
Fee and asset management	5,468	5,275	3,046	2,412
Total revenues	999,038	962,808	510,937	480,333
EXPENSES				
Property and maintenance	251,971	241,386	125,454	116,711
Real estate taxes and insurance	114,482	103,845	56,957	51,357
Property management	41,147	37,732	20,467	18,718
Fee and asset management	3,660	3,985	1,646	1,982
Depreciation	326,965	284,952	174,794	143,296
General and administrative	20,811	20,595	10,090	10,201
Impairment	-	11,124	-	11,124
Total expenses	759,036	703,619	389,408	353,389
Operating income	240,002	259,189	121,529	126,944
Interest and other income	5,117	12,639	2,892	6,622
Other expenses	(6,026)	(306)	(1,643)	(14)
Interest:				
Expense incurred, net	(231,116)	(239,172)	(115,819)	(115,670)
Amortization of deferred financing costs	(5,516)	(6,214)	(2,319)	(3,252)
Income before income and other taxes, (loss) from investments in unconsolidated entities, net gain (loss) on sales of unconsolidated entities and discontinued operations	2,461	26,136	4,640	14,630
Income and other tax (expense) benefit	(20)	(2,387)	146	(259)
(Loss) from investments in unconsolidated entities	(923)	(2,221)	(459)	(2,026)
Net gain (loss) on sales of unconsolidated entities	5,557	2,759	5,079	(6)
Income from continuing operations	7,075	24,287	9,406	12,339
Discontinued operations, net	60,870	167,066	683	93,593
Net income	67,945	191,353	10,089	105,932
Net (income) loss attributable to Noncontrolling Interests:				
Operating Partnership	(2,936)	(10,420)	(313)	(5,729)
Preference Interests and Units	-	(7)	-	(3)
Partially Owned Properties	435	74	185	5
Net income attributable to controlling interests	65,444	181,000	9,961	100,205

Preferred distributions	(7,238)	(7,240)	(3,618)	(3,620)
Net income available to Common Shares	$ 58,206	$ 173,760	$ 6,343	$ 96,585
Earnings per share basic:				
Income from continuing operations available to Common Shares	$ -	$ 0.06	$ 0.02	$ 0.03
Net income available to Common Shares	$ 0.21	$ 0.64	$ 0.02	$ 0.35
Weighted average Common Shares outstanding	281,435	272,614	282,217	272,901
Earnings per share diluted:				
Income from continuing operations available to Common Shares	$ -	$ 0.06	$ 0.02	$ 0.03
Net income available to Common Shares	$ 0.21	$ 0.64	$ 0.02	$ 0.35
Weighted average Common Shares outstanding	298,244	289,152	299,642	289,338
Distributions declared per Common Share outstanding	$ 0.6750	$ 0.9650	$ 0.3375	$ 0.4825

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009
Comprehensive (loss) income:				
Net income	$ 67,945	$ 191,353	$ 10,089	$ 105,932
Other comprehensive (loss) income derivative instruments:				
Unrealized holding (losses) gains arising during the period	(85,746)	12,655	(72,243)	9,995
Losses reclassified into earnings from other comprehensive income	1,465	2,305	739	812
Other	-	449	-	-
Other comprehensive (loss) income other instruments:				
Unrealized holding (losses) gains arising during the period	(66)	3,111	93	1,203
(Gains) realized during the period	-	(4,943)	-	(4,943)
Comprehensive (loss) income	(16,402)	204,930	(61,322)	112,999
Comprehensive (income) attributable to Noncontrolling Interests	(2,501)	(10,353)	(128)	(5,727)
Comprehensive (loss) income attributable to controlling interests	$ (18,903)	$ 194,577	$ (61,450)	$ 107,272

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 67,945	$ 191,353
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	327,676	301,835
Amortization of deferred financing costs	5,516	6,252
Amortization of discounts on investment securities	-	(1,658)
Amortization of discounts and premiums on debt	1,123	2,541
Amortization of deferred settlements on derivative instruments	1,198	1,604
Impairment	-	11,124
Write-off of pursuit costs	2,062	162
Property acquisition costs	3,964	144
Loss from investments in unconsolidated entities	923	2,221
Distributions from unconsolidated entities return on capital	61	82
Net (gain) on sales of investment securities	-	(4,943)
Net (gain) on sales of unconsolidated entities	(5,557)	(2,759)
Net (gain) on sales of discontinued operations	(60,253)	(145,798)
(Gain) on debt extinguishments	-	(1,985)
Unrealized loss on derivative instruments	1	-
Compensation paid with Company Common Shares	10,926	9,533
Changes in assets and liabilities:		
(Increase) decrease in deposits restricted	(1,394)	1,801
(Increase) in other assets	(16,079)	(2,656)
Increase in accounts payable and accrued expenses	31,360	14,315
(Decrease) in accrued interest payable	(5,358)	(6,280)
(Decrease) in other liabilities	(6,166)	(8,958)
Increase (decrease) in security deposits	2,763	(2,320)
Net cash provided by operating activities	360,711	365,610
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate acquisitions	(684,594)	-
Investment in real estate development/other	(66,886)	(197,362)
Improvements to real estate	(59,182)	(59,120)
Additions to non-real estate property	(612)	(1,107)
Interest capitalized for real estate under development	(7,940)	(21,018)
Proceeds from disposition of real estate, net	105,072	347,519
Distributions from unconsolidated entities return of capital	1,303	2,585
Purchase of investment securities	-	(52,822)
Proceeds from sale of investment securities	25,000	181,692
Property acquisition costs	(3,964)	(144)
Decrease (increase) in deposits on real estate acquisitions, net	228,907	(29,309)
(Increase) decrease in mortgage deposits	(703)	2,188
Consolidation of previously unconsolidated properties	(26,854)	-

Acquisition of Noncontrolling Interests Partially Owned Properties	(152)	(9,220)
Net cash (used for) provided by investing activities	(490,605)	163,882

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan and bond acquisition costs	$ (2,193)	$ (8,851)
Mortgage notes payable:		
Proceeds	104,994	614,409
Restricted cash	58,474	21,699
Lump sum payoffs	(400,033)	(593,453)
Scheduled principal repayments	(8,323)	(9,666)
(Loss) on debt extinguishments	-	(35)
Notes, net:		
Lump sum payoffs	-	(505,849)
Gain on debt extinguishments	-	2,020
Lines of credit:		
Proceeds	3,679,125	-
Repayments	(3,359,125)	-
Proceeds from settlement of derivative instruments	-	11,251
Proceeds from sale of Common Shares	73,356	-
Proceeds from Employee Share Purchase Plan (ESPP)	3,546	3,960
Proceeds from exercise of options	43,809	128
Common Shares repurchased and retired	(1,887)	(1,124)
Payment of offering costs	(723)	(131)
Other financing activities, net	(33)	(8)
Contributions Noncontrolling Interests Partially Owned Properties	222	874
Contributions Noncontrolling Interests Operating Partnership	-	78
Distributions:		
Common Shares	(188,543)	(263,636)
Preferred Shares	(7,238)	(7,240)
Preference Interests and Units	-	(7)
Noncontrolling Interests Operating Partnership	(9,496)	(15,914)
Noncontrolling Interests Partially Owned Properties	(1,344)	(1,296)
Net cash (used for) financing activities	(15,412)	(752,791)
Net (decrease) in cash and cash equivalents	(145,306)	(223,299)
Cash and cash equivalents, beginning of period	193,288	890,794
Cash and cash equivalents, end of period	$ 47,982	$ 667,495

See accompanying notes

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2010	2009
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 229,507	$ 242,010
Net cash (received) paid for income and other taxes	$ (2,940)	$ 3,343
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	$ 169,428	$ -
Valuation of OP Units	$ 7,433	$ -
Mortgage loans (assumed) by purchaser	$ (39,999)	$ (4,387)
Amortization of deferred financing costs:		
Investment in real estate, net	$ (1,211)	$ (2,133)
Deferred financing costs, net	$ 6,727	$ 8,385
Amortization of discounts and premiums on debt:		
Investment in real estate, net	$ -	$ (3)
Mortgage notes payable	$ (3,130)	$ (3,091)
Notes, net	$ 4,253	$ 5,635
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$ (267)	$ (701)
Accumulated other comprehensive loss	$ 1,465	$ 2,305
Unrealized loss (gain) on derivative instruments:		
Other assets	$ 16,620	$ (7,894)
Mortgage notes payable	$ (13)	$ (1,806)
Notes, net	$ 7,023	$ (1,105)
Other liabilities	$ 62,117	$ (1,850)
Accumulated other comprehensive (loss) income	$ (85,746)	$ 12,655

Proceeds from settlement of derivative instruments:				
Other assets	$	-	$	11,251
Consolidation of previously unconsolidated properties:				
Investment in real estate, net	$	(105,065)	$	-
Investments in unconsolidated entities	$	7,376	$	-
Deposits restricted	$	(42,633)	$	-
Mortgage notes payable	$	112,631	$	-
Net other assets recorded	$	837	$	-
Other				
Receivable on sale of Common Shares	$	37,550	$	-
Transfer from notes, net to mortgage notes payable	$	35,600	$	-

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands)

(Unaudited)

SHAREHOLDERS EQUITY		Six Months Ended June 30, 2010
PREFERRED SHARES		
Balance, beginning of year	$	208,773
Conversion of 7.00% Series E Cumulative Convertible		(87)
Balance, end of period	$	208,686
COMMON SHARES, $0.01 PAR VALUE		
Balance, beginning of year	$	2,800
Conversion of OP Units into Common Shares		6
Issuance of Common Shares		10
Exercise of share options		15
Employee Share Purchase Plan (ESPP)		1
Share-based employee compensation expense:		
Restricted shares		2
Balance, end of period	$	2,834
PAID IN CAPITAL		
Balance, beginning of year	$	4,477,426
Common Share Issuance:		
Conversion of Preferred Shares into Common Shares		87
Conversion of OP Units into Common Shares		12,258
Issuance of Common Shares		35,796
Exercise of share options		43,794
Employee Share Purchase Plan (ESPP)		3,545
Share-based employee compensation expense:		
Restricted shares		5,224
Share options		4,213
ESPP discount		997
Common Shares repurchased and retired		(1,887)
Offering costs		(723)
Supplemental Executive Retirement Plan (SERP)		1,771
Acquisition of Noncontrolling Interests Partially Owned Properties		(104)
Change in market value of Redeemable Noncontrolling Interests Operating Partnership		(61,946)
Adjustment for Noncontrolling Interests ownership in Operating Partnership		3,908
Balance, end of period	$	4,524,359
RETAINED EARNINGS		
Balance, beginning of year	$	353,659
Net income attributable to controlling interests		65,444

Common Share distributions		(190,900)
Preferred Share distributions		(7,238)
Balance, end of period	$	220,965
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME		
Balance, beginning of year	$	4,681
Accumulated other comprehensive (loss) derivative instruments:		
Unrealized holding (losses) arising during the period		(85,746)
Losses reclassified into earnings from other comprehensive income		1,465
Accumulated other comprehensive (loss) other instruments:		
Unrealized holding (losses) arising during the period		(66)
Balance, end of period	$	(79,666)

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

(Amounts in thousands)

(Unaudited)

NONCONTROLLING INTERESTS	Six Months Ended June 30, 2010
OPERATING PARTNERSHIP	
Balance, beginning of year	$ 116,120
Issuance of OP Units to Noncontrolling Interests	7,433
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(12,264)
Equity compensation associated with Noncontrolling Interests	1,576
Net income attributable to Noncontrolling Interests	2,936
Distributions to Noncontrolling Interests	(9,395)
Change in carrying value of Redeemable Noncontrolling Interests Operating Partnership	6,491
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(3,908)
Balance, end of period	$ 108,989
PARTIALLY OWNED PROPERTIES	
Balance, beginning of year	$ 11,054
Net (loss) attributable to Noncontrolling Interests	(435)
Contributions by Noncontrolling Interests	222
Distributions to Noncontrolling Interests	(1,361)
Other	218
Balance, end of period	$ 9,698

See accompanying notes

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EQUITY RESIDENTIAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Equity Residential (EQR), a Maryland real estate investment trust (REIT) formed in March 1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. EQR has elected to be taxed as a REIT.

EQR is the general partner of, and as of June 30, 2010 owned an approximate 95.3% ownership interest in, ERP Operating Limited Partnership, an Illinois limited partnership (the Operating Partnership). The Company is structured as an umbrella partnership REIT (UPREIT) under which all property ownership and related business operations are conducted through the Operating Partnership and its subsidiaries. References to the Company include EQR, the Operating Partnership and those entities owned or controlled by the Operating Partnership and/or EQR.

As of June 30, 2010, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 492 properties located in 23 states and the District of Columbia consisting of 137,091 units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Units
Wholly Owned Properties	441	121,721
Partially Owned Properties:		
Consolidated	25	5,098
Unconsolidated	24	5,635
Military Housing	2	4,637
	492	137,091

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Act of 1933, as amended. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and certain reclassifications considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. Operating results for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

In preparation of the Company s financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009.

Income and Other Taxes

Due to the structure of the Company as a REIT and the nature of the operations of its operating properties, no provision for federal income taxes has been made at the EQR level. Historically, the Company has generally only incurred certain state and local income, excise and franchise taxes. The Company has elected Taxable REIT Subsidiary

(TRS) status for certain of its corporate subsidiaries, primarily those entities engaged in condominium conversion and corporate housing activities and as a result, these entities will incur both federal and state income taxes on any taxable income of such entities after consideration of any net operating losses.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company s deferred tax assets are generally the result of tax affected amortization of goodwill, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of June 30, 2010, the Company has recorded a deferred tax asset of approximately $42.5 million, which is fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

Other

In June 2009, the FASB issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which superseded all then-existing non-SEC accounting and reporting standards and became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by non-governmental entities. The Company adopted the codification as required, effective for the quarter ended September 30, 2009. The adoption of the codification has no impact on the Company s consolidated results of operations or financial position but changed the way we refer to accounting literature in our reports.

Effective January 1, 2010, in an effort to improve financial standards for transfers of financial assets, more stringent conditions for reporting a transfer of a portion of a financial asset as a sale (e.g. loan participations) are required, the concept of a qualifying special-purpose entity and special guidance for guaranteed mortgage securitizations are eliminated, other sale-accounting criteria is clarified and the initial measurement of a transferor s interest in transferred financial assets is changed. This does not have a material effect on the Company s consolidated results of operations or financial position.

Effective January 1, 2010, the analysis for identifying the primary beneficiary of a Variable Interest Entity (VIE) has been simplified by replacing the previous quantitative-based analysis with a framework that is based more on qualitative judgments. The analysis requires the primary beneficiary of a VIE to be identified as the party that both (a) has the power to direct the activities of a VIE that most significantly impact its economic performance and (b) has an obligation to absorb losses or a right to receive benefits that could potentially be significant to the VIE. For the Company, this includes only its development partnerships as the Company provides substantially all of the capital for these ventures (other than third party mortgage debt, if any). For the Company, these requirements affected only disclosures and had no impact on the Company s consolidated results of operations or financial position. See Note 6 for further discussion.

The Company is required to make certain disclosures regarding noncontrolling interests in consolidated limited-life subsidiaries. The Company is the controlling partner in various consolidated partnerships owning 25 properties and 5,098 units and various completed and uncompleted development properties having a noncontrolling interest book value of $9.7 million at June 30, 2010. Some of these partnership agreements contain provisions that require the partnerships to be liquidated through the sale of their assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute the proceeds of liquidation to the Noncontrolling Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of their assets warrant a distribution based on the partnership agreements. As of June 30, 2010, the Company estimates the value of Noncontrolling Interest distributions would have been approximately $54.8 million (Settlement Value) had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on June 30, 2010 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Noncontrolling Interests in the Company s Partially Owned Properties is subject to change. To the extent that the partnerships underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Noncontrolling Interests in these Partially Owned Properties.

Effective January 1, 2010, companies are required to separately disclose the amounts of significant transfers of assets and liabilities into and out of Level 1, Level 2 and Level 3 of the fair value hierarchy and the reasons for those transfers. Companies must also develop and disclose their policy for determining when transfers between levels are

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recognized. In addition, companies are required to provide fair value disclosures for each class rather than each major category of assets and liabilities. For fair value measurements using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3), companies are required to disclose the valuation technique and the inputs used in determining fair value for each class of assets and liabilities. This does not have a material effect on the Company s consolidated results of operations or financial position. See Note 11 for further discussion.

Effective January 1, 2011, companies will be required to separately disclose purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. The Company does not expect this will have a material effect on its consolidated results of operations or financial position.

Effective January 1, 2009, issuers of certain convertible debt instruments that may be settled in cash on conversion were required to separately account for the liability and equity components of the instrument in a manner that reflects each issuer s nonconvertible debt borrowing rate. As the Company is required to apply this retrospectively, the accounting for the Operating Partnership s $650.0 million ($482.5 million outstanding at June 30, 2010) 3.85% convertible unsecured notes that were issued in August 2006 and mature in August 2026 was affected. The Company recognized $9.3 million and $10.4 million in interest expense related to the stated coupon rate of 3.85% for the six months ended June 30, 2010 and 2009, respectively. The amount of the conversion option as of the date of issuance calculated by the Company using a 5.80% effective interest rate was $44.3 million and is being amortized to interest expense over the expected life of the convertible notes (through the first put date on August 18, 2011). Total amortization of the cash discount and conversion option discount on the unsecured notes resulted in a reduction to earnings of approximately $3.9 million and $5.0 million, respectively, or $0.01 per share and $0.02 per share, respectively, for the six months ended June 30, 2010 and 2009, and is anticipated to result in a reduction to earnings of approximately $7.8 million or $0.03 per share during the full year of 2010 assuming the Company does not repurchase any additional amounts of this debt. In addition, the Company decreased the January 1, 2009 balance of retained earnings by $27.0 million, decreased the January 1, 2009 balance of notes by $17.3 million and increased the January 1, 2009 balance of paid in capital by $44.3 million. The carrying amount of the conversion option remaining in paid in capital was $44.3 million at both June 30, 2010 and December 31, 2009. The unamortized cash and conversion option discounts totaled $8.9 million and $12.8 million at June 30, 2010 and December 31, 2009, respectively.

3. Equity and Redeemable Noncontrolling Interests

The following tables present the changes in the Company s issued and outstanding Common Shares and Units (which includes OP Units and Long-Term Incentive Plan (LTIP) Units) for the six months ended June 30, 2010:

	2010
Common Shares	
Common Shares outstanding at January 1,	279,959,048
Common Shares Issued:	
Conversion of Series E Preferred Shares	3,894
Conversion of OP Units	582,462
Issuance of Common Shares	1,057,304
Exercise of share options	1,559,067
Employee Share Purchase Plan (ESPP)	117,962
Restricted share grants, net	221,067
Common Shares Other:	
Repurchased and retired	(58,130)
Common Shares outstanding at June 30,	**283,442,674**
Units	
Units outstanding at January 1,	14,197,969
Issuance of LTIP Units	94,096
OP Units issued through acquisitions	189,700
Conversion of OP Units to Common Shares	(582,462)

Units outstanding at June 30,	**13,899,303**
Total Common Shares and Units outstanding at June 30,	**297,341,977**
Units Ownership Interest in Operating Partnership	4.7%

In September 2009, the Company announced the establishment of an At-The-Market (ATM) share offering program which would allow the Company to sell up to 17.0 million Common Shares from time to time over the next three years into the existing trading market at current market prices as well as through negotiated transactions. During the six months ended June 30, 2010, the Company issued approximately 1.1 million Common Shares at an average price of $33.87 per share for total consideration of approximately $35.8 million through the ATM program. The Company s most recent issuance under this program was on January 14, 2010. EQR has authorization to issue an additional 12.4 million of its shares as of June 30, 2010.

On March 31, 2010, the Operating Partnership issued 188,571 OP Units at a price of $39.15 per OP Unit for total valuation of $7.4 million as partial consideration for the acquisition of one rental property. As the value of the OP Units issued was agreed by contract to be $35.00 per OP Unit, the difference between the contracted value and fair value (the closing price of Common Shares on the closing date) was recorded as an increase to the purchase price.

During the six months ended June 30, 2010, the Company acquired all of its partner s interest in two partially owned properties consisting of 432 units and one partially owned development project for $198,000. One partially owned property buyout was funded through the issuance of 1,129 OP Units valued at $50,000. In conjunction with these transactions, the Company reduced paid in capital by $104,000.

During the six months ended June 30, 2010, the Company repurchased 58,130 of its Common Shares at an average price of $32.46 per share for total consideration of $1.9 million. These shares were retired subsequent to the repurchases. All of the shares repurchased during the six months ended June 30, 2010 were repurchased from employees at the then current market prices to cover the minimum statutory tax withholding obligations related to the vesting of employees restricted shares. EQR has authorization to repurchase an additional $464.6 million of its shares as of June 30, 2010.

The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of LTIP Units, are collectively referred to as the Noncontrolling Interests Operating Partnership . Subject to certain exceptions (including the book-up requirements of LTIP Units), the Noncontrolling Interests Operating Partnership may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Noncontrolling Interests Operating Partnership (including redeemable interests) is allocated based on the number of Noncontrolling Interests Operating Partnership Units in total in proportion to the number of Noncontrolling Interests Operating Partnership Units in total plus the number of EQR Common Shares. Net income is allocated to the Noncontrolling Interests Operating Partnership based on the weighted average ownership percentage during the period.

A portion of the Noncontrolling Interests Operating Partnership Units are classified as mezzanine equity as they do not meet the requirements for permanent equity classification. The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Noncontrolling Interests Operating Partnership Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Noncontrolling Interests Operating Partnership Units for cash, EQR is obligated to deliver Common Shares to the exchanging holder of the Noncontrolling Interests Operating Partnership Units. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Noncontrolling Interests Operating Partnership are differentiated and referred to as Redeemable Noncontrolling Interests Operating Partnership . Instruments that require settlement in registered shares can not be classified in permanent equity as it is not always completely within an issuer s control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Noncontrolling Interests Operating Partnership are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Noncontrolling Interests Operating Partnership Units that are classified in permanent equity at June 30, 2010 and December 31, 2009.

The carrying value of the Redeemable Noncontrolling Interests Operating Partnership is allocated based on the number of Redeemable Noncontrolling Interests Operating Partnership Units in proportion to the number of Noncontrolling Interests Operating Partnership Units in total. Such percentage of the total carrying value of Units which is ascribed to the Redeemable Noncontrolling Interests Operating Partnership is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2010, the Redeemable Noncontrolling Interests Operating Partnership have a redemption value of approximately $313.7 million, which represents the value of Common Shares that would be issued in exchange with the Redeemable Noncontrolling Interests Operating Partnership Units.

The following table presents the change in the redemption value of the Redeemable Noncontrolling Interests Operating Partnership for the six months ended June 30, 2010 (amounts in thousands):

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	2010
Balance at January 1,	$ 258,280
Change in market value	61,946
Change in carrying value	(6,491)
Balance at June 30,	$ 313,735

Net proceeds from the Company s Common Share and Preferred Share (see definition below) offerings are contributed by the Company to the Operating Partnership. In return for those contributions, EQR receives a number of OP Units in the Operating Partnership equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in the Operating Partnership equal in number and having the same terms as the Preferred Shares issued in the equity offering). As a result, the net offering proceeds from Common Shares and Preferred Shares are allocated between shareholders equity and Noncontrolling Interests Operating Partnership to account for the change in their respective percentage ownership of the underlying equity of the Operating Partnership.

The Company s declaration of trust authorizes the Company to issue up to 100,000,000 preferred shares of beneficial interest, $0.01 par value per share (the Preferred Shares), with specific rights, preferences and other attributes as the Board of Trustees may determine, which may include preferences, powers and rights that are senior to the rights of holders of the Company s Common Shares.

The following table presents the Company s issued and outstanding Preferred Shares as of June 30, 2010 and December 31, 2009:

				Amounts in thousands	
	Redemption Date (1) (2)	*Conversion Rate (2)*	*Annual Dividend per Share (3)*	*June 30, 2010*	*December 31, 2009*
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized:					
7.00% Series E Cumulative Convertible Preferred; liquidation value $25 per share; 324,966 and 328,466 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	11/1/98	1.1128	$ 1.75	$ 8,124	$ 8,211
7.00% Series H Cumulative Convertible Preferred; liquidation value $25 per share; 22,459 shares issued and outstanding at June 30, 2010 and December 31, 2009	6/30/98	1.4480	$ 1.75	562	562
8.29% Series K Cumulative Redeemable Preferred; liquidation value $50 per share; 1,000,000 shares issued and outstanding at June 30, 2010 and December 31, 2009	12/10/26	N/A	$ 4.145	50,000	50,000
6.48% Series N Cumulative Redeemable Preferred; liquidation value $250 per share; 600,000 shares issued and outstanding at June 30, 2010 and December 31, 2009 (4)	6/19/08	N/A	$16.20	150,000	150,000
				$ 208,686	$ 208,773

(1) On or after the redemption date, redeemable preferred shares (Series K and N) may be redeemed for cash at the option of the Company, in whole or in part, at a redemption price equal to the liquidation price per share, plus accrued and unpaid distributions, if any.

(2) On or after the redemption date, convertible preferred shares (Series E & H) may be redeemed under certain circumstances at the option of the Company for cash (in the case of Series E) or Common Shares (in the case of Series H), in whole or in part, at various redemption prices per share based upon the contractual conversion rate, plus accrued and unpaid distributions, if any.

(3) Dividends on all series of Preferred Shares are payable quarterly at various pay dates. The dividend listed for Series N is a Preferred Share rate and the equivalent Depositary Share annual dividend is $1.62 per share.

(4) The Series N Preferred Shares have a corresponding depositary share that consists of ten times the number of shares and one-tenth the liquidation value and dividend per share.

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4. Real Estate

The following table summarizes the carrying amounts for the Company s investment in real estate (at cost) as of June 30, 2010 and December 31, 2009 (amounts in thousands):

	June 30, 2010	December 31, 2009
Land	$ 4,003,177	$ 3,650,324
Depreciable property:		
Buildings and improvements	13,497,285	12,781,543
Furniture, fixtures and equipment	1,189,162	1,111,978
Projects under development:		
Land	79,204	106,716
Construction-in-progress	394,076	562,263
Land held for development:		
Land	192,542	181,430
Construction-in-progress	58,677	70,890
Investment in real estate	19,414,123	18,465,144
Accumulated depreciation	(4,146,964)	(3,877,564)
Investment in real estate, net	$ 15,267,159	$ 14,587,580

During the six months ended June 30, 2010, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Units	Purchase Price
Rental Properties	8	2,209	$ 849,351
Land Parcel (one)	-	-	12,000
Total	8	2,209	$ 861,351

During the six months ended June 30, 2010, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Units	Sales Price
Rental Properties:			
Consolidated	8	2,011	$ 145,940
Unconsolidated (1)	3	640	42,650
Condominium Conversion Properties	1	2	360
Total	12	2,653	$ 188,950

(1) The Company owned a 25% interest in these unconsolidated rental properties. Sales price listed is the gross sales price.

The Company recognized a net gain on sales of discontinued operations of approximately $60.3 million and a net gain on sales of unconsolidated entities of approximately $5.6 million on the above sales.

In addition to the properties discussed above, the Company acquired the 75% equity interest it did not previously own in seven unconsolidated properties containing 1,811 units with a real estate value of $105.1 million. See Note 6 for further discussion.

5. Commitments to Acquire/Dispose of Real Estate

In addition to the property that was subsequently acquired as discussed in Note 16, the Company had entered into separate agreements to acquire the following (purchase price in thousands):

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	Properties	Units	Purchase Price
Rental Properties	6	1,274	$ 334,188
Land Parcels (five)	-	-	51,700
Total	6	1,274	$ 385,888

In addition to the properties that were subsequently disposed of as discussed in Note 16, the Company had entered into separate agreements to dispose of the following (sales price in thousands):

	Properties	Units	Sales Price
Rental Properties	16	1,500	$ 146,000
Land Parcel (one)	-	-	4,000
Total	16	1,500	$ 150,000

The closings of these pending transactions are subject to certain conditions and restrictions, therefore, there can be no assurance that these transactions will be consummated or that the final terms will not differ in material respects from those summarized in the preceding paragraphs.

6. Investments in Partially Owned Entities

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated). The following tables summarize the Company s investments in partially owned entities as of June 30, 2010 (amounts in thousands except for project and unit amounts):

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	Consolidated					Unconsolidated
	Development Projects (VIEs)					
	Held for and/or Under Development	Completed, Not Stabilized (4)	Completed and Stabilized	Other	Total	Institutional Joint Ventures (5)
Total projects (1)	-	1	3	21	25	24
Total units (1)	-	163	1,139	3,796	5,098	5,635
Balance sheet informationat 6/30/10 (at 100%):						
ASSETS						
Investment in real estate	$ 389,507	$ 45,970	$ 344,461	$ 425,071	$ 1,205,009	$ 413,536
Accumulated depreciation	(740)	(1,321)	(11,020)	(119,588)	(132,669)	(133,066)
Investment in real estate, net	388,767	44,649	333,441	305,483	1,072,340	280,470
Cash and cash equivalents	2,222	704	5,988	14,458	23,372	15,726
Deposits restricted	1,550	2,318	748	8	4,624	35
Escrow deposits mortgage	-	-	65	2,626	2,691	-
Deferred financing costs, net	3,979	11	571	240	4,801	162
Other assets	426	5	196	246	873	398
Total assets	$ 396,944	$ 47,687	$ 341,009	$ 323,061	$ 1,108,701	$ 296,791
LIABILITIES AND EQUITY						
Mortgage notes payable	$ 146,534	$ 33,872	$ 240,436	$ 301,687	$ 722,529	$ 264,800
Accounts payable & accrued expenses	9,318	1,197	2,258	1,543	14,316	1,699
Accrued interest payable	1,295	-	478	1,676	3,449	1,593
Other liabilities	4,555	76	1,315	1,433	7,379	2,037
Security deposits	577	163	691	1,628	3,059	1,449
Total liabilities	162,279	35,308	245,178	307,967	750,732	271,578
Noncontrolling Interests Partially Owned Properties	8,944	1,076	3,501	(3,823)	9,698	-
Accumulated other comprehensive (loss)	(2,794)	-	-	-	(2,794)	-
Partner s equity	-	-	-	-	-	18,910
EQR equity	228,515	11,303	92,330	18,917	351,065	6,303
Total equity	234,665	12,379	95,831	15,094	357,969	25,213
Total liabilities and equity	$ 396,944	$ 47,687	$ 341,009	$ 323,061	$ 1,108,701	$ 296,791
Debt Secured (2):						
EQR Ownership (3)	$ 146,534	$ 33,872	$ 240,436	$ 220,218	$ 641,060	$ 66,200
Noncontrolling Ownership	-	-	-	81,469	81,469	198,600
Total (at 100%)	$ 146,534	$ 33,872	$ 240,436	$ 301,687	$ 722,529	$ 264,800

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	Consolidated					Unconsolidated
	Development Projects (VIEs)					
	Held for and/or Under Development	Completed, Not Stabilized (4)	Completed and Stabilized	Other	Total	Institutional Joint Ventures (5)
Operating information for the six monthsended 6/30/10 (at 100%):						
Operating revenue	$ 1,496	$ 1,026	$ 11,338	$ 27,779	$ 41,639	$ 34,756
Operating expenses	2,330	676	4,227	9,779	17,012	16,459
Net operating (loss) income	(834)	350	7,111	18,000	24,627	18,297
Depreciation	-	886	5,223	7,414	13,523	9,230
General and administrative/other	46	-	96	19	161	121
Operating (loss) income	(880)	(536)	1,792	10,567	10,943	8,946
Interest and other income	15	6	-	11	32	67
Other expenses	(401)	-	-	(451)	(852)	-
Interest:						
Expense incurred, net	(1,170)	(272)	(2,778)	(10,060)	(14,280)	(13,224)
Amortization of deferred financing costs	-	(64)	(323)	(111)	(498)	(525)
(Loss) before income and other taxes and discontinued operations	(2,436)	(866)	(1,309)	(44)	(4,655)	(4,736)
Income and other tax (expense) benefit	(33)	-	-	(24)	(57)	(127)
Net gain on sales of discontinued operations	720	-	-	-	720	9,983
Net (loss) income	$ (1,749)	$ (866)	$ (1,309)	$ (68)	$ (3,992)	$ 5,120

(1) Project and unit counts exclude all uncompleted development projects until those projects are substantially completed.
(2) All debt is non-recourse to the Company with the exception of $14.0 million in mortgage debt on various development projects.
(3) Represents the Company s current economic ownership interest.
(4) Projects included here are substantially complete. However, they may still require additional exterior and interior work for all units to be available for leasing.
(5) Unconsolidated debt maturities and rates are as follows: $121.0 million, December 1, 2010, 7.54%; and $143.8 million, March 1, 2011, 6.95%. On April 30, 2010, the Company acquired the 75% equity interest it did not previously own in seven of the unconsolidated properties containing 1,811 units in exchange for an approximate $30.0 million payment to its partner. In addition, the Company repaid the net $70.0 million mortgage loan, which was to mature on May 1, 2010, concurrent with closing using proceeds drawn from the Company s line of credit. On July 30, 2010, the Company sold the 25% equity interest it previously owned in 13 of the unconsolidated properties containing 2,624 units in exchange for an approximate $12.5 million payment from its partner and the related $121.0 million in non-recourse mortgage debt was extinguished by the partner at closing.

The Company is the controlling partner in various consolidated partnership properties and development properties having a noncontrolling interest book value of $9.7 million at June 30, 2010. The Company has identified its development partnerships as VIEs as the Company provides substantially all of the capital for these ventures (other than third party mortgage debt, if any) despite the fact that each partner legally owns 50% of each venture. The Company is the primary beneficiary as it exerts the most significant power over the ventures, absorbs the majority of the expected losses and has the right to receive a majority of the expected residual returns. The assets net of liabilities of the Company s VIEs are restricted in their use to the specific VIE to which they relate and are not available for general corporate use. The Company does not have any unconsolidated VIEs.

7. Deposits Restricted

The following table presents the Company s restricted deposits as of June 30, 2010 and December 31, 2009 (amounts in thousands):

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	June 30, 2010	December 31, 2009
Tax deferred (1031) exchange proceeds	$ 13,000	$ 244,257
Earnest money on pending acquisitions	8,350	6,000
Restricted deposits on debt (1)	33,683	49,565
Resident security and utility deposits	42,324	39,361
Other	11,297	12,825
Totals	$ 108,654	$ 352,008

(1) Primarily represents amounts held in escrow by the lender and released as draw requests are made on fully funded development mortgage loans.

8. Mortgage Notes Payable

As of June 30, 2010, the Company had outstanding mortgage debt of approximately $4.8 billion.

During the six months ended June 30, 2010 the Company:

- Repaid $408.4 million of mortgage loans;
- Obtained $105.0 million of new mortgage loan proceeds;
- Assumed $169.4 million of mortgage debt on three acquired properties;
- Was released from $40.0 million of mortgage debt assumed by the purchaser on two disposed properties; and
- Assumed $112.6 million of mortgage debt on seven previously unconsolidated properties and repaid the net $70.0 million mortgage loan (net of $42.6 million of cash collateral held by the lender) concurrent with closing using proceeds drawn from the Company s line of credit.

The Company recorded approximately $0.9 million and $1.4 million of write-offs of unamortized deferred financing costs during the six months ended June 30, 2010 and 2009, respectively, as additional interest related to debt extinguishment of mortgages.

As of June 30, 2010, the Company had $605.6 million of secured tax exempt debt of which $565.6 million is subject to third party credit enhancement.

As of June 30, 2010, scheduled maturities for the Company s outstanding mortgage indebtedness were at various dates through September 1, 2048. At June 30, 2010, the interest rate range on the Company s mortgage debt was 0.20% to 12.465%. During the six months ended June 30, 2010, the weighted average interest rate on the Company s mortgage debt was 4.86%.

9. Notes

As of June 30, 2010, the Company had outstanding unsecured notes of approximately $4.6 billion.

As of June 30, 2010, scheduled maturities for the Company s outstanding notes were at various dates through 2026. At June 30, 2010, the interest rate range on the Company s notes was 0.525% to 7.57%. During the six months ended June 30, 2010, the weighted average interest rate on the Company s notes was 5.10%.

10. Lines of Credit

The Operating Partnership has a $1.425 billion (net of $75.0 million which had been committed by a now bankrupt financial institution and is not available for borrowing) unsecured revolving credit facility maturing on February 28, 2012, with the ability to increase available borrowings by an additional $500.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. Advances under the credit facility bear interest at variable rates based upon LIBOR at various interest periods plus a spread (currently 0.50%) dependent upon the Operating Partnership s credit rating or based on bids received from the lending group. EQR has guaranteed the Operating Partnership s credit facility up to the maximum amount and for the full term of the facility.

As of June 30, 2010, the amount available on the credit facility was $1.02 billion (net of $86.1 million which was restricted/dedicated to support letters of credit, net of $320.0 million outstanding and net of the $75.0 million discussed above). During the six months ended June 30, 2010, the weighted average interest rate was 0.66%.

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11. Derivative and Other Fair Value Instruments

The valuation of financial instruments requires the Company to make estimates and judgments that affect the fair value of the instruments. The Company, where possible, bases the fair values of its financial instruments, including its derivative instruments, on listed market prices and third party quotes. Where these are not available, the Company bases its estimates on current instruments with similar terms and maturities or on other factors relevant to the financial instruments.

The carrying values of the Company s mortgage notes payable and unsecured notes (including its line of credit) were approximately $4.8 billion and $4.9 billion, respectively, at June 30, 2010. The fair values of the Company s mortgage notes payable and unsecured notes (including its line of credit) were approximately $4.8 billion and $5.2 billion, respectively, at June 30, 2010. The fair values of the Company s financial instruments (other than mortgage notes payable, unsecured notes, lines of credit, derivative instruments and investment securities) including cash and cash equivalents and other financial instruments, approximate their carrying or contract values.

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to limit these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments.

The following table summarizes the Company s consolidated derivative instruments at June 30, 2010 (dollar amounts are in thousands):

	Fair Value Hedges (1)	Forward Starting Swaps (2)	Development Cash Flow Hedges (3)
Current Notional Balance	$ 315,693	$ 900,000	$ 84,088
Lowest Possible Notional	$ 315,693	$ 900,000	$ 3,020
Highest Possible Notional	$ 317,694	$ 900,000	$ 91,343
Lowest Interest Rate	2.009%	4.005%	4.059%
Highest Interest Rate	4.800%	4.695%	4.059%
Earliest Maturity Date	2012	2020	2011
Latest Maturity Date	2013	2023	2011

(1) Fair Value Hedges Converts outstanding fixed rate debt to a floating interest rate.

(2) Forward Starting Swaps Designed to partially fix the interest rate in advance of a planned future debt issuance. These swaps have mandatory counterparty terminations from 2011 through 2014.

(3) Development Cash Flow Hedges Converts outstanding floating rate debt to a fixed interest rate.

The following tables provide the location of the Company s derivative instruments within the accompanying Consolidated Balance Sheets and their fair market values as of June 30, 2010 and December 31, 2009, respectively (amounts in thousands):

	Asset Derivatives		Liability Derivatives	
June 30, 2010	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest Rate Contracts:				
Fair Value Hedges	Other assets	$ 12,196	Other liabilities	$ -
Forward Starting Swaps	Other assets	-	Other liabilities	(62,900)
Development Cash Flow Hedges	Other assets	-	Other liabilities	(2,794)
Total		$ 12,196		$ (65,694)

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December 31, 2009	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments:				
Interest Rate Contracts:				
Fair Value Hedges	Other assets	$ 5,186	Other liabilities	$ -
Forward Starting Swaps	Other assets	23,630	Other liabilities	-
Development Cash Flow Hedges	Other assets	-	Other liabilities	(3,577)
Total		$ 28,816		$ (3,577)

The following tables provide a summary of the effect of fair value hedges on the Company s accompanying Consolidated Statements of Operations for the six months ended June 30, 2010 and 2009, respectively (amounts in thousands):

June 30, 2010 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	$ 7,009	Fixed rate debt	Interest expense	$ (7,009)
Total		$ 7,009			$ (7,009)

June 30, 2009 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	$ (2,911)	Fixed rate debt	Interest expense	$ 2,911
Total		$ (2,911)			$ 2,911

The following tables provide a summary of the effect of cash flow hedges on the Company s accompanying Consolidated Statements of Operations for the six months ended June 30, 2010 and 2009, respectively (amounts in thousands):

	Effective Portion			Ineffective Portion	
June 30, 2010 Type of Cash Flow Hedge	Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps/Treasury Locks	$ (86,530)	Interest expense	$ (1,465)	N/A	$ -

Development Interest Rate Swaps/Caps	784	Interest expense	-	N/A	-
Total	$ (85,746)		$ (1,465)		$ -

June 30, 2009 Type of Cash Flow Hedge	Effective Portion Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Ineffective Portion Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps/Treasury Locks	$ 10,803	Interest expense	$ (2,305)	N/A	$ -
Development Interest Rate Swaps/Caps	1,852	Interest expense	-	N/A	-
Total	$ 12,655		$ (2,305)		$ -

As of June 30, 2010 and December 31, 2009, there were approximately $80.1 million in deferred losses, net, included in accumulated other comprehensive loss and $4.2 million in deferred gains, net, included in accumulated other comprehensive income, respectively. Based on the estimated fair values of the net derivative instruments at June 30, 2010,

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the Company may recognize an estimated $6.0 million of accumulated other comprehensive loss as additional interest expense during the twelve months ending June 30, 2011.

The following table sets forth the maturity, amortized cost, gross unrealized gains and losses, book/fair value and interest and other income of the various investment securities held as of June 30, 2010 (amounts in thousands):

		Other Assets				
Security	Maturity	Amortized Cost	Unrealized Gains	Unrealized Losses	Book/ Fair Value	Interest and Other Income
Available-for-Sale						
FDIC-insured certificates of deposit	Less than one year	$ -	$ -	$ -	$ -	$ 61
Other	Between one and five years or N/A	675	397	-	1,072	-
Total		$ 675	$ 397	$ -	$ 1,072	$ 61

A three-level valuation hierarchy exists for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company s derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data) and are classified within Level 2 of the valuation hierarchy. In addition, employee holdings other than Common Shares within the supplemental executive retirement plan (the SERP) have a fair value of $47.5 million as of June 30, 2010 and are included in other assets and other liabilities on the consolidated balance sheet. These SERP investments are valued using quoted market prices for identical assets and are classified within Level 1 of the valuation hierarchy.

The Company s investment securities are valued using quoted market prices or readily available market interest rate data. The quoted market prices are classified within Level 1 of the valuation hierarchy and the market interest rate data are classified within Level 2 of the valuation hierarchy. Redeemable Noncontrolling Interests Operating Partnership are valued using the quoted market price of Common Shares and are classified within Level 2 of the valuation hierarchy.

The Company s real estate asset impairment charge recognized in the second quarter of 2009 was the result of an analysis of the parcel s estimated fair value (determined using internally developed models that were based on market assumptions and comparable sales data) (Level 3) compared to its current capitalized carrying value. The market assumptions used as inputs to the Company s fair value model include construction costs, leasing assumptions, growth rates, discount rates, terminal capitalization rates and development yields, along with the Company s current plans for each individual asset. The Company uses data on its existing portfolio of properties and its recent acquisition and development properties, as well as similar market data from third party sources, when available, in determining these inputs. The valuation technique used to measure fair value is consistent with how similar assets were measured in prior periods. See Note 16 for further discussion.

12. Earnings Per Share

The following tables set forth the computation of net income per share basic and net income per share diluted (amounts in thousands except per share amounts):

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	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009
Numerator for net income per share basic:				
Income from continuing operations	$ 7,075	$ 24,287	$ 9,406	$ 12,339
Allocation to Noncontrolling Interests Operating Partnership, net	(14)	(964)	(281)	(488)
Net loss attributable to Noncontrolling Interests Partially Owned Properties	435	74	185	5
Net income attributable to Preference Interests and Units	-	(7)	-	(3)
Preferred distributions	(7,238)	(7,240)	(3,618)	(3,620)
Income from continuing operations available to Common Shares,net of Noncontrolling Interests	258	16,150	5,692	8,233
Discontinued operations, net of Noncontrolling Interests	57,948	157,610	651	88,352
Numerator for net income per share basic	$ 58,206	$ 173,760	$ 6,343	$ 96,585
Numerator for net income per share diluted:				
Income from continuing operations	$ 7,075	$ 24,287	$ 9,406	$ 12,339
Net loss attributable to Noncontrolling Interests Partially Owned Properties	435	74	185	5
Net income attributable to Preference Interests and Units	-	(7)	-	(3)
Preferred distributions	(7,238)	(7,240)	(3,618)	(3,620)
Income from continuing operations available to Common Shares	272	17,114	5,973	8,721
Discontinued operations, net	60,870	167,066	683	93,593
Numerator for net income per share diluted	$ 61,142	$ 184,180	$ 6,656	$ 102,314
Denominator for net income per share basic and diluted:				
Denominator for net income per share basic	281,435	272,614	282,217	272,901
Effect of dilutive securities:				
OP Units	13,742	16,237	13,681	16,089
Long-term compensation award shares/units	3,067	301	3,744	348
Denominator for net income per share diluted	298,244	289,152	299,642	289,338
Net income per share basic	$ 0.207	$ 0.637	$ 0.022	$ 0.354
Net income per share diluted	$ 0.205	$ 0.637	$ 0.022	$ 0.354
Net income per share basic:				
Income from continuing operations available to Common Shares,net of Noncontrolling Interests	$ 0.001	$ 0.059	$ 0.020	$ 0.030
Discontinued operations, net of Noncontrolling Interests	0.206	0.578	0.002	0.324
Net income per share basic	$ 0.207	$ 0.637	$ 0.022	$ 0.354
Net income per share diluted:				
Income from continuing operations available to Common Shares	$ 0.001	$ 0.059	$ 0.020	$ 0.030
Discontinued operations, net	0.204	0.578	0.002	0.324

Net income per share diluted	$	0.205	$	0.637	$	0.022	$	0.354

Convertible preferred shares/units that could be converted into 397,306 and 405,791 weighted average Common Shares for the six months ended June 30, 2010 and 2009, respectively, and 397,004 and 405,555 weighted average Common Shares for the quarters ended June 30, 2010 and 2009, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. In addition, the effect of the Common Shares that could ultimately be issued upon the conversion/exchange of the Operating Partnership s $650.0 million ($482.5 million outstanding at June 30, 2010) exchangeable senior notes was not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

13. Discontinued Operations

The Company has presented separately as discontinued operations in all periods the results of operations for all consolidated assets disposed of, all operations related to condominium conversion properties effective upon their respective transfer into a TRS and all properties held for sale, if any.

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets during the six months and quarters ended June 30, 2010 and 2009 (amounts in thousands).

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	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009
REVENUES				
Rental income	$ 3,886	$ 67,839	$ 1,019	$ 31,225
Total revenues	3,886	67,839	1,019	31,225
EXPENSES (1)				
Property and maintenance	2,179	21,627	662	9,963
Real estate taxes and insurance	675	7,238	92	3,234
Depreciation	711	16,883	148	8,051
General and administrative	16	25	13	20
Total expenses	3,581	45,773	915	21,268
Discontinued operating income	305	22,066	104	9,957
Interest and other income	360	10	359	3
Interest (2):				
Expense incurred, net	(23)	(703)	(1)	(273)
Amortization of deferred financing costs	-	(38)	-	(3)
Income and other tax (expense) benefit	(25)	(67)	4	(18)
Discontinued operations	617	21,268	466	9,666
Net gain on sales of discontinued operations	60,253	145,798	217	83,927
Discontinued operations, net	$ 60,870	$ 167,066	$ 683	$ 93,593

(1) Includes expenses paid in the current period for properties sold or held for sale in prior periods related to the Company s period of ownership.

(2) Includes only interest expense specific to secured mortgage notes payable for properties sold and/or held for sale.

For the properties sold during the six months ended June 30, 2010 (excluding condominium conversion properties), the investment in real estate, net of accumulated depreciation, and the mortgage notes payable balances at December 31, 2009 were $85.3 million and $40.0 million, respectively.

The net real estate basis of the Company s condominium conversion properties owned by the TRS and included in discontinued operations (excludes the Company s halted conversions as they are now held for use), which were included in investment in real estate, net in the consolidated balance sheets, was $11.0 million and $11.8 million at June 30, 2010 and December 31, 2009, respectively.

14. Commitments and Contingencies

The Company, as an owner of real estate, is subject to various Federal, state and local environmental laws. Compliance by the Company with existing laws has not had a material adverse effect on the Company. However, the Company cannot predict the impact of new or changed laws or regulations on its current properties or on properties that it may acquire in the future.

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans With Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company s defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit or a possible loss or range of loss, and no amounts have been accrued at June 30, 2010. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

The Company does not believe there is any other litigation pending or threatened against it that, individually or in the aggregate, may reasonably be expected to have a material adverse effect on the Company.

The Company has established a reserve and recorded a corresponding reduction to its net gain on sales of discontinued operations related to potential liabilities associated with its condominium conversion activities. The reserve covers potential product liability related to each conversion. The Company periodically assesses the adequacy of the reserve and makes adjustments as necessary. During the six months ended June 30, 2010, the Company recorded additional reserves of approximately $0.7 million, paid approximately $1.2 million in claims and legal fees and released approximately $0.2 million of remaining reserves for settled claims. As a result, the Company had total reserves of approximately $6.0 million at June 30, 2010. While no assurances can be given, the Company does not believe that the ultimate resolution of these potential liabilities, if adversely determined, would have a material adverse effect on the Company.

As of June 30, 2010, the Company has five projects totaling 1,499 units in various stages of development with estimated completion dates ranging through September 30, 2012. Some of the projects are developed solely by the Company, while others are co-developed with various third party development partners. The development venture agreements with partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The partner is most often the general or managing partner of the development venture. The typical buy-sell arrangements contain appraisal rights and provisions that provide the right, but not the obligation, for the Company to acquire the partner s interest in the project at fair market value upon the expiration of a negotiated time period (typically two to five years after substantial completion of the project).

15. Reportable Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by senior management. Senior management decides how resources are allocated and assesses performance on a monthly basis.

The Company s primary business is owning, managing and operating multifamily residential properties, which includes the generation of rental and other related income through the leasing of apartment units to residents. Senior management evaluates the performance of each of our apartment communities individually and geographically, and both on a same store and non-same store basis; however, each of our apartment communities generally has similar economic characteristics, residents, products and services. The Company s operating segments have been aggregated by geography in a manner identical to that which is provided to its chief operating decision maker.

The Company s fee and asset management, development (including its partially owned properties), condominium conversion and corporate housing (Equity Corporate Housing or ECH) activities are immaterial and do not individually meet the threshold requirements of a reportable segment and as such, have been aggregated in the Other segment in the tables presented below.

All revenues are from external customers and there is no customer who contributed 10% or more of the Company s total revenues during the six months and quarters ended June 30, 2010 and 2009, respectively.

The primary financial measure for the Company s rental real estate segment is net operating income (NOI), which represents rental income less: 1) property and maintenance expense; 2) real estate taxes and insurance expense; and 3) property management expense (all as reflected in the accompanying consolidated statements of operations). The Company believes that NOI is helpful to investors as a supplemental measure of the operating performance of a real estate company because it is a direct measure of the actual operating results of the Company s apartment communities. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The following tables present NOI for each segment from our rental real estate specific to continuing operations for the six months and quarters ended June 30, 2010 and 2009, respectively, as well as total assets at June 30, 2010 (amounts in thousands):

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	Six Months Ended June 30, 2010					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 296,774	$ 184,355	$ 194,762	$ 216,019	$ -	$ 891,910
Non-same store/other (2) (3)	40,946	4,917	3,664	11,888	40,245	101,660
Total rental income	337,720	189,272	198,426	227,907	40,245	993,570
Operating expenses:						
Same store (1)	114,866	70,202	81,883	78,564	-	345,515
Non-same store/other (2) (3)	18,254	2,243	1,716	5,205	34,667	62,085
Total operating expenses	133,120	72,445	83,599	83,769	34,667	407,600
NOI:						
Same store (1)	181,908	114,153	112,879	137,455	-	546,395
Non-same store/other (2) (3)	22,692	2,674	1,948	6,683	5,578	39,575
Total NOI	$ 204,600	$ 116,827	$ 114,827	$ 144,138	$ 5,578	$ 585,970
Total assets	$ 5,965,873	$ 2,617,863	$ 2,710,889	$ 2,914,261	$ 1,416,386	$ 15,625,272

(1) Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2009, less properties subsequently sold, which represented 117,349 units.
(2) Non-same store primarily includes properties acquired after January 1, 2009, plus any properties in lease-up and not stabilized as of January 1, 2009.
(3) Other includes ECH, development, condominium conversion overhead of $0.3 million and other corporate operations. Also reflects a $4.8 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

	Six Months Ended June 30, 2009					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 297,877	$ 192,191	$ 197,614	$ 223,075	$ -	$ 910,757
Non-same store/other (2) (3)	3,079	782	1,999	8,159	32,757	46,776
Total rental income	300,956	192,973	199,613	231,234	32,757	957,533
Operating expenses:						
Same store (1)	112,782	67,989	82,846	76,643	-	340,260
Non-same store/other (2) (3)	2,932	901	657	4,656	33,557	42,703
Total operating expenses	115,714	68,890	83,503	81,299	33,557	382,963
NOI:						
Same store (1)	185,095	124,202	114,768	146,432	-	570,497
Non-same store/other (2) (3)	147	(119)	1,342	3,503	(800)	4,073
Total NOI	$ 185,242	$ 124,083	$ 116,110	$ 149,935	$ (800)	$ 574,570

(1) Same store primarily includes all properties acquired or completed and stabilized prior to January 1, 2009, less properties subsequently sold, which represented 117,349 units.
(2) Non-same store primarily includes properties acquired after January 1, 2009, plus any properties in lease-up and not stabilized as of January 1, 2009.
(3) Other includes ECH, development, condominium conversion overhead of $1.0 million and other corporate operations. Also reflects a $4.6 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

	Quarter Ended June 30, 2010					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 150,156	$ 92,744	$ 97,612	$ 108,292	$ -	$ 448,804
Non-same store/other (2) (3)	24,323	3,467	2,548	6,320	22,429	59,087
Total rental income	174,479	96,211	100,160	114,612	22,429	507,891
Operating expenses:						
Same store (1)	55,135	34,996	39,679	39,200	-	169,010
Non-same store/other (2) (3)	11,240	1,374	1,099	2,676	17,479	33,868
Total operating expenses	66,375	36,370	40,778	41,876	17,479	202,878
NOI:						
Same store (1)	95,021	57,748	57,933	69,092	-	279,794
Non-same store/other (2) (3)	13,083	2,093	1,449	3,644	4,950	25,219
Total NOI	$ 108,104	$ 59,841	$ 59,382	$ 72,736	$ 4,950	$ 305,013

(1) Same store primarily includes all properties acquired or completed and stabilized prior to April 1, 2009, less properties subsequently sold, which represented 117,349 units.

(2) Non-same store primarily includes properties acquired after April 1, 2009, plus any properties in lease-up and not stabilized as of April 1, 2009.

(3) Other includes ECH, development, condominium conversion overhead of $0.1 million and other corporate operations. Also reflects a $2.8 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

	Quarter Ended June 30, 2009					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 149,492	$ 95,704	$ 98,624	$ 110,641	$ -	$ 454,461
Non-same store/other (2) (3)	2,060	431	1,077	4,172	15,720	23,460
Total rental income	151,552	96,135	99,701	114,813	15,720	477,921
Operating expenses:						
Same store (1)	54,636	33,697	40,610	37,499	-	166,442
Non-same store/other (2) (3)	1,948	435	240	2,511	15,210	20,344
Total operating expenses	56,584	34,132	40,850	40,010	15,210	186,786
NOI:						
Same store (1)	94,856	62,007	58,014	73,142	-	288,019
Non-same store/other (2) (3)	112	(4)	837	1,661	510	3,116
Total NOI	$ 94,968	$ 62,003	$ 58,851	$ 74,803	$ 510	$ 291,135

(1) Same store primarily includes all properties acquired or completed and stabilized prior to April 1, 2009, less properties subsequently sold, which represented 117,349 units.
(2) Non-same store primarily includes properties acquired after April 1, 2009, plus any properties in lease-up and not stabilized as of April 1, 2009.

(3) Other includes ECH, development, condominium conversion overhead of $0.5 million and other corporate operations. Also reflects a $2.3 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

Note: Markets included in the above geographic segments are as follows:
(a) Northeast New England (excluding Boston), Boston, New York Metro, DC Northern Virginia and Suburban Maryland.
(b) Northwest Central Valley, Denver, Portland, San Francisco Bay Area and Seattle/Tacoma.
(c) Southeast Atlanta, Jacksonville, Orlando, South Florida, Tampa and Tulsa.
(d) Southwest Albuquerque, Inland Empire, Los Angeles, Orange County, Phoenix and San Diego.

The following table presents a reconciliation of NOI from our rental real estate specific to continuing operations for the six months and quarters ended June 30, 2010 and 2009, respectively (amounts in thousands):

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	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009
Rental income	$ 993,570	$ 957,533	$ 507,891	$ 477,921
Property and maintenance expense	(251,971)	(241,386)	(125,454)	(116,711)
Real estate taxes and insurance expense	(114,482)	(103,845)	(56,957)	(51,357)
Property management expense	(41,147)	(37,732)	(20,467)	(18,718)
Total operating expenses	(407,600)	(382,963)	(202,878)	(186,786)
Net operating income	$ 585,970	$ 574,570	$ 305,013	$ 291,135

16. Subsequent Events/Other

Subsequent Events

Subsequent to June 30, 2010, the Company:

- Acquired one apartment property consisting of 225 units for $55.0 million;
- Sold the 25% equity interest it previously owned in 13 of the unconsolidated properties containing 2,624 units in exchange for an approximate $12.5 million payment from its partner;
- Sold one consolidated apartment property consisting of 208 units for $8.6 million;
- Issued $600.0 million of unsecured notes maturing July 15, 2020 with a coupon of 4.75% and an all-in effective interest rate of approximately 5.09%;
- Repaid $61.5 million in mortgage loans on one property; and
- Experienced the collapse of a portion of the parking garage at one of its rental properties (Prospect Towers in Hackensack, New Jersey) and estimates that the costs (both expensed and capitalized), including providing for residents interim needs, lost revenue and garage reconstruction, will be approximately $12.0 million, after insurance reimbursements of $8.0 million.

Other

During the six months ended June 30, 2010 and 2009, the Company incurred charges of $6.0 million and $0.3 million, respectively, related to property acquisition costs, such as survey, title and legal fees, on the acquisition of operating properties ($4.0 million and $0.1 million, respectively) and related to the write-off of various pursuit and out-of-pocket costs for terminated acquisition, disposition (including halted condominium conversions) and development transactions ($2.0 million and $0.2 million, respectively). These costs are included in other expenses in the accompanying consolidated statements of operations.

During the six months ended June 30, 2010 and 2009, the Company received $5.2 million and $0.2 million, respectively, for the settlement of insurance/litigation claims, which are included in interest and other income in the accompanying consolidated statements of operations.

During the six months ended June 30, 2009, the Company recorded an approximate $11.1 million non-cash asset impairment charge on a parcel of land held for development. This charge was the result of an analysis of the parcel s estimated fair value (determined using internally developed models that were based on market assumptions and comparable sales data) compared to its current capitalized carrying value. The market assumptions used as inputs to the Company s fair value model include construction costs, leasing assumptions, growth rates, discount rates, terminal capitalization rates and development yields, along with the Company s current plans for each individual asset. The Company uses data on its existing portfolio of properties and its recent acquisition and development properties, as well as similar market data from third party sources, when available, in determining these inputs.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

For further information including definitions for capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Forward-Looking Statements

Forward-looking statements in this report are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, projections and assumptions made by management. While the Company s management believes the assumptions underlying its forward-looking statements are reasonable, such information is inherently subject to uncertainties and may involve certain risks, which could cause actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Many of these uncertainties and risks are difficult to predict and beyond management s control. Forward-looking statements are not guarantees of future performance, results or events. The forward-looking statements contained herein are made as of the date hereof and the Company undertakes no obligation to update or supplement these forward-looking statements. Factors that might cause such differences include, but are not limited to the following:

- We intend to actively acquire and/or develop multifamily properties for rental operations as market conditions dictate. We may underestimate the costs necessary to bring an acquired property up to standards established for its intended market position or to complete a development property. Additionally, we expect that other major real estate investors with significant capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development efforts. This competition may increase prices for multifamily properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. We expect to develop properties ourselves in addition to co-investing with our development partners. The total number of development units, costs of development and estimated completion dates are subject to uncertainties arising from changing economic conditions (such as the cost of labor and construction materials), competition and local government regulation;
- Debt financing and other capital required by the Company may not be available or may only be available on adverse terms;
- Labor and materials required for maintenance, repair, capital expenditure or development may be more expensive than anticipated;
- Occupancy levels and market rents may be adversely affected by national and local economic and market conditions including, without limitation, new construction and excess inventory of multifamily housing and single family housing, slow or negative employment growth, availability of low interest mortgages for single family home buyers and the potential for geopolitical instability, all of which are beyond the Company s control; and
- Additional factors as discussed in Part I of the Company s Annual Report on Form 10-K, particularly those under Item 1A. Risk Factors .

Forward-looking statements and related uncertainties are also included in the Notes to Consolidated Financial Statements in this report.

Overview

Equity Residential (EQR), a Maryland real estate investment trust (REIT) formed in March 1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. EQR has elected to be taxed as a REIT.

The Company is one of the largest publicly traded real estate companies and is the largest publicly traded owner of multifamily properties in the United States (based on the aggregate market value of its outstanding Common Shares, the number of apartment units wholly owned and total revenues earned). The Company s corporate headquarters are located in Chicago, Illinois and the Company also operates property management offices throughout the United States. As of June 30, 2010, the Company has approximately 4,200 employees who provide real estate operations, leasing, legal, financial, accounting, acquisition, disposition, development and other support functions.

EQR is the general partner of, and as of June 30, 2010 owned an approximate 95.3% ownership interest in, ERP Operating Limited Partnership, an Illinois limited partnership (the Operating Partnership). The Company is structured as an umbrella partnership REIT (UPREIT) under which all property ownership and related business operations are conducted through the Operating Partnership and its subsidiaries. References to the Company include EQR, the Operating Partnership and those entities owned or controlled by the Operating Partnership and/or EQR.

Business Objectives and Operating Strategies

The Company seeks to maximize current income, capital appreciation of each property and the total return for its shareholders. The Company s strategy for accomplishing these objectives includes:

- Leveraging our size and scale in four critical ways:
  - Investing in apartment communities located in strategically targeted markets to maximize our total risk-adjusted return on an enterprise level;
  - Meeting the needs of our residents by offering a wide array of product choices and a commitment to service;
  - Engaging, retaining and attracting the best employees by providing them with the education, resources and opportunities to succeed; and
  - Sharing resources and best practices in property management across the enterprise.
- Owning a highly diversified portfolio in our target markets. Target markets are defined by a combination of the following criteria:
  - High barrier-to-entry markets where because of land scarcity or government regulation it is difficult or costly to build new apartment complexes leading to low supply;
  - Markets with high single family housing prices making our apartments a more economical housing choice and allowing us to more readily increase rents;
  - Strong economic growth leading to high demand for apartments; and
  - Markets with an attractive quality of life leading to high demand and retention.
- Giving residents reasons to stay with the Company by providing a range of product choices available in our diversified portfolio and by enhancing their experience with us through meticulous customer service by our employees and by providing various value-added services.
- Being open and responsive to changes in the market in order to take advantage of investment opportunities that align with our long-term vision.

Acquisition, Development and Disposition Strategies

The Company anticipates that future property acquisitions, developments and dispositions will occur within the United States. Acquisitions and developments may be financed from various sources of capital, which may include retained cash flow, issuance of additional equity and debt securities, sales of properties, joint venture agreements and collateralized and uncollateralized borrowings. In addition, the Company may acquire properties in transactions that include the issuance of limited partnership interests in the Operating Partnership (OP Units) as consideration for the acquired properties. Such transactions may, in certain circumstances, enable the sellers to defer, in whole or in part, the recognition of taxable income or gain that might otherwise result from the sales. EQR may also acquire land parcels to hold and/or sell based on market opportunities. The Company may also seek to acquire properties by purchasing defaulted or distressed debt that encumbers desirable properties in